

Montreal Trust Company

1 PLACE VILLE MARIE, MONTREAL, QUEBEC

MAILING ADDRESS:
P.O. BOX 1900, STATION B
MONTREAL, QUEBEC
H3B 3L6

CABLE-TREALTRUST MTL
TELEX 07-26568 055-61286
TELEPHONE (514) 861-1681

RECORDATION NO. **8840** Filed & Recorded

May 27, 1977

MAY 31 1977-1 33 PM

INTERSTATE COMMERCE COMMISSION

The Secretary
Interstate Commerce Commission
Washington, D.C. 20423
U. S. A.

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CC Washington, D. C.

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I.C.C.
FEE OPERATION BR.

8840-A

Dear Sir:

Enclosed herewith for recordation pursuant to Section 20c of the Interstate Commerce Act and the rules of the Commission thereunder are two executed counterparts of the following documents:

1. Lease dated as of May 1, 1977, between The Royal Trust Company as Lessor and Canadian Pacific Limited as Lessee.
2. Assignment of Lease dated as of May 1, 1977, from The Royal Trust Company as Lessor-Assignor to Montreal Trust Company as Trustee-Assignee with the Consent to such Assignment of Lease dated as of May 1, 1977 and being attached thereto.
3. An Equipment Trust Agreement dated as of May 1, 1977 between Montreal Trust Company as Trustee and The Royal Trust Company as Owner-Lessor.

The addresses of the parties to the documents listed above are as follows:

The Royal Trust Company
(as Lessor-Assignor)
P.O. Box 7500
Station "A"
Toronto, Canada

Attention: Corporate Trust Department

Montreal Trust Company
(as Trustee-Assignee)
One Place Ville Marie
Montreal, Quebec H3B 4A8

Attention: Corporate Trust Office

Charles Peterson
Cambridge

The Secretary
Interstate Commerce Commission
May 27, 1977
Page 2

Canadian Pacific Limited
(as Lessee)
Windsor Station
Montreal, Quebec H3C 3E4
Canada

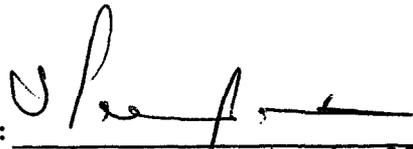
The equipment covered by the above-listed documents consists of two hundred thirty eight (238) 100-ton covered hopper cars AAR mechanical designation LO bearing the road numbers of Canadian Pacific Limited, CPI 385262 to CPI 385499, both inclusive, and also bearing the legend: "Owned by Montreal Trust Company, One Place Ville Marie, Montreal, H3B 4A8, Quebec, Canada, as Trustee under an Equipment Trust Agreement".

Enclosed is a cheque in the amount of \$110.00 for the required recordation fee. Please accept for recordation one executed copy of each of the enclosed documents, stamp the remaining copy in each case with your recordation numbers and return them to the delivering messenger along with your fee receipt addressed to the undersigned.

I am an authorized officer of Montreal Trust Company and have knowledge of the matters set forth herein.

Yours very truly,

MONTREAL TRUST COMPANY

By: 

Authorized Officer

Interstate Commerce Commission
Washington, D.C. 20423

5/31/77

OFFICE OF THE SECRETARY

Montreal Trust Company
1 Place Ville Marie P.O.Box 1900 Station B
Montreal, Quebec H3B 3L6

Dear Sir:

The enclosed document(s) was recorded pursuant to the provisions of Section 20(c) of the Interstate Commerce Act, 49 U.S.C. 20(c), on 5/31/77 at 1:35pm , and assigned recordation number(s) 8840, 8840-A, 8840-B

Sincerely yours,


Robert L. Oswald
Secretary

Enclosure(s)

SE-30
(5/76)

8840

RECORDATION NO. filed & Recorded

MAY 31 1977 -1 35 PM

INTERSTATE COMMERCE COMMISSION

LEASE

between

THE ROYAL TRUST COMPANY,
as Owner Trustee for
J. P. MORGAN INTERFUNDING CORP.

and

CANADIAN PACIFIC LIMITED

Dated as of May 1, 1977

LEASE dated as of May 1, 1977, between THE ROYAL TRUST COMPANY, a trust company incorporated by special charter granted under the laws of the Province of Quebec, Canada (hereinafter together with its successors and assigns, being called the Lessor), as Owner Trustee under a Trust Agreement (hereinafter called the Trust Agreement) dated as of the date hereof with J. P. MORGAN INTERFUNDING CORP., a Delaware corporation (hereinafter called the Beneficiary), and CANADIAN PACIFIC LIMITED, a corporation incorporated under the laws of Canada (hereinafter called the Lessee).

WHEREAS the Lessor has entered or will enter into a manufacturing agreement (hereinafter called the Manufacturing Agreement), with National Steel Car Corporation, Limited (hereinafter called the Manufacturer), pursuant to which the Lessor has agreed to purchase and take delivery of those units of railroad equipment described in Schedule I hereto (such railroad equipment being hereinafter sometimes called the Equipment); and

WHEREAS the Lessee agrees to lease from the Lessor all the units of the Equipment, or such lesser number of units as are delivered and accepted under the Manufacturing Agreement on or prior to December 20, 1977, at the rentals and for the terms and upon the conditions hereinafter provided (each such unit being hereinafter called a Unit); and

WHEREAS the Lessor will enter into an equipment trust agreement (hereinafter called the Equipment Trust Agreement), with Montreal Trust Company, a corporation organized under the laws of the Province of Quebec, Canada (hereinafter called the Trustee), pursuant to which equipment trust certificates (hereinafter called the Trust Certificates) will be sold to finance a portion of the purchase price of the Equipment, the Lessor will be obligated to make payments of principal and interest thereon out of the rentals received hereunder and security title to the Units and this Lease will be conveyed to the Trustee until the Lessor fulfills all its obligations under the Equipment Trust Agreement;

NOW, THEREFORE, in consideration of the premises and of the rentals to be paid and the covenants hereinafter

mentioned to be kept and performed by the Lessee, the Lessor hereby leases the Units to the Lessee upon the following terms and conditions, but subject and subordinate to all the rights and remedies of the Trustee under the Equipment Trust Agreement.

Section 1. Delivery and Acceptance of Units. The Lessor will cause each Unit accepted pursuant to the Manufacturing Agreement to be delivered to the Lessee at such point or points as may be mutually acceptable to the Lessor and the Lessee. Immediately upon such delivery, the Lessee will cause its authorized inspectors or representatives to inspect the same, and if it is found to be acceptable, to accept delivery thereof under this Lease and to execute and deliver to the Lessor a certificate of acceptance therefor in the form of Annex B to the Manufacturing Agreement (hereinafter called a Certificate of Acceptance), whereupon such Unit shall be deemed to have been delivered to and accepted by the Lessee under this Lease and shall be subject thereafter to all the terms and conditions of this Lease. Any Unit or Units excluded from the Equipment Trust Agreement pursuant to the Article therein concerning "Acquisition of Trust Equipment by Trustee" shall likewise be excluded from this Lease.

Section 2. Rentals. The Lessee agrees to pay to the Lessor in such coin or currency of the United States of America as, at the time payable, shall be legal tender for the payment of public and private debts, as rental for each Unit subject to this Lease, one interim rental payment on December 20, 1977, 32 consecutive semiannual payments payable in arrears on June 20 and December 20 of each year, commencing June 20, 1978, and 9 consecutive annual installments payable in arrears on December 20 in each year commencing December 20, 1994, through and including December 20, 2002. The interim rental payment shall be an amount for each Unit subject to this Lease equal to .02329% of the Purchase Price for such Unit for each day elapsed from and including the date such Unit is settled for under the Manufacturing Agreement to, but not including, December 20, 1977. The 32 semiannual rental payments shall each be in an amount equal to 3.476% of the Purchase Price for each Unit subject to this Lease; the first four annual rental payments shall each be in an amount equal to 7.176% of the Purchase Price for each Unit subject to this Lease; and the final five annual rental payments shall each be in an amount equal to 3.663% of the Purchase Price for each Unit subject to this Lease. Notwithstanding the preceding sentence, if the investment tax credit allowed under Section 38 of the Internal Revenue Code (or corresponding provisions of any

amendment to such Code) with respect to any Unit shall be increased to more than 10% or decreased to less than 10%, the annual or, in the case of such a decrease, the semiannual rental payments described in the preceding sentence with respect to such Unit shall be adjusted in a manner which, after taking into account such increased or decreased investment credit, will provide the Beneficiary the same after-tax return and as nearly as practicable the same after-tax cash flow as contemplated by the Beneficiary at the inception of this Lease. The Lessee agrees that it shall in any event pay (i) on each rental payment date rent in an amount at least equal to the amount of the aggregate of the principal of and interest on the Trust Certificates stated to be payable on such date in the Trust Certificates and the Equipment Trust Agreement, and (ii) on each rental payment date on which the Lessee is obligated to pay Casualty Value with respect to any Unit which shall have suffered a Casualty Occurrence an amount at least equal to the principal amount of the Trust Certificates to be prepaid on such date pursuant to Section 4.07 of the Equipment Trust Agreement by reason of such Casualty Occurrence; provided that the foregoing provisions of this sentence shall not be deemed to constitute a guaranty by the Lessee of the principal of or interest on the Trust Certificates.

All rental and other payments provided for in this Lease to be made to the Lessor shall be made to the Lessor by the deposit of immediately available funds to the account of the Lessor at the branch of such bank or trust company as shall be from time to time specified in writing by the Lessor.

If the date fixed for the payment of any rental shall be other than a Business Day such payment shall be due and payable on the next preceding Business Day. The term Business Days as used in this Lease shall mean calendar days, excluding Saturdays, Sundays and any other day on which banking institutions in New York, New York, or in Montreal or Toronto, Canada, are authorized or obligated to remain closed.

This Lease is a net lease and the Lessee shall not be entitled to any abatement of rent, reduction thereof or set-off against rent, including but not limited to, abatements, reductions or set-offs due or alleged to be due to, or by reason of, any past, present or future claims of the Lessee against the Lessor under this Lease or otherwise or against the Trustee or the Manufacturer; nor, except as otherwise expressly provided herein, shall this Lease terminate, or the respective obligations of the Lessor or the Lessee be otherwise affected, by reason of any defect in or damage to or loss of possession

or loss of use of or destruction of all or any of the Units from whatever cause, the prohibition of or other restriction against the Lessee's use of all or any of the Units, the interference with such use by any person or entity, the invalidity or unenforceability or lack of due authorization of this Lease or lack of right, power or authority of the Lessor to enter into this Lease or the Equipment Trust Agreement, or by reason of any failure by the Lessor to perform any of its obligations herein contained, or for any other cause whether similar or dissimilar to the foregoing, any present or future law to the contrary notwithstanding, it being the intention of the parties hereto that the rents and other amounts payable by the Lessee hereunder shall continue to be payable in all events in the manner and at the times herein provided unless the obligation to pay the same shall be terminated pursuant to the express provisions of this Lease.

Section 3. Term of Lease. The term of this Lease as to each Unit shall begin on the date of acceptance thereof by the Lessee pursuant to Section 1 hereof, and, subject to the provisions of Sections 6, 9, 15 and 16 hereof, shall terminate on December 20, 2002.

Notwithstanding anything to the contrary contained herein, all rights of Lessee under this Lease and in and to the Units, are subordinate, junior in rank and subject to the rights of the Trustee under the Equipment Trust Agreement.

Section 4. Identification Marks. The Lessee will cause each Unit to be kept numbered with the identifying number as set forth in Schedule I hereto and will cause to be, and will thereafter keep and maintain, plainly, distinctly, permanently and conspicuously marked on each side of such Unit, in letters not less than one inch in height, the following words: "OWNED BY MONTREAL TRUST COMPANY, 1 PLACE VILLE MARIE, MONTREAL H3B 4A8, QUEBEC, CANADA, AS TRUSTEE UNDER AN EQUIPMENT TRUST AGREEMENT", or other appropriate words designated by the Lessor or the Trustee, with appropriate changes thereof and additions thereto as from time to time may be required by law or reasonably requested by the Lessor in order to protect the interest of the Lessor and the Trustee in and to such Unit and the rights of the Lessor under this Lease and the Equipment Trust Agreement and of the Trustee under the Equipment Trust Agreement. The Lessee will replace promptly any such words which may be removed, defaced or destroyed. The Lessee will not change or permit the identifying number of any Unit to be changed except in accordance with a statement of new identifying numbers to be substituted therefor, which statement previously

shall have been filed with the Trustee and the Lessor by the Lessee and filed, recorded or deposited in all public offices where this Lease will have been filed, recorded or deposited.

Except as above provided the Lessee will not allow the name of any person, association or corporation to be placed on the Units as a designation that might be interpreted as a claim of ownership; provided, however, that the Lessee may cause the Units to be lettered with the names, initials or other insignia customarily used by the Lessee or any permitted sublessee on railroad equipment used by it of the same or similar type for convenience of identification of their right to use the Units.

Section 5. Taxes. The Lessee assumes responsibility for and agrees to pay, and agrees to protect, save, keep harmless and indemnify on an after-tax basis the Lessor, the Beneficiary, the Trustee and each holder of Trust Certificates (collectively, "the Indemnified Persons" and, individually, each "Indemnified Person") against all taxes, fees, withholdings and other governmental charges of any nature whatsoever including without limitation penalties and interest (herein "Taxes"), imposed on, incurred by or asserted against any Indemnified Person or the Units by any United States or foreign federal, state, local or provincial government or taxing authority in whole or in part on account of, or with respect to, this Lease or the Equipment Trust Agreement or any instrument or document referred to herein or therein and any of the transactions contemplated hereby or thereby or the manufacture, purchase, acceptance or rejection of the Units or any portion thereof or the ownership, delivery, non-delivery, leasing, re-leasing, subleasing, possession, use, operation, maintenance, repair, sale, return or other disposition of the Units or any portion thereof or any indebtedness with respect thereto or the rentals, receipts, earnings or gains arising therefrom; provided, however, that there shall be no indemnification hereunder for (i) any Taxes included in the Purchase Price of the Equipment, (ii) any Taxes imposed on or measured by any fees or compensation received by the Lessor or the Trustee, (iii) any Taxes imposed on the holders of the Trust Certificates, whether by withholding or otherwise, with respect to interest on, or any transfer of, the Trust Certificates, (iv) any Taxes imposed as a direct result of a voluntary transfer or other voluntary disposition of the Equipment (or any interest in the Equipment), or any amount payable under this Lease, by the Lessor or the Beneficiary, or any transfer or disposition of the Equipment (or any interest in the Equipment or in the Lease) resulting from the bankruptcy or other proceedings for the

relief of creditors in which the Lessor or the Beneficiary is the debtor, whether voluntary or involuntary, unless an Event of Default shall have occurred and be continuing, (v) any Taxes imposed as a result of the liquidation of the Beneficiary, (vi) any Taxes imposed as a direct result of a foreclosure upon the Equipment (or any interest in the Equipment) by a creditor of the Beneficiary arising out of events which are not related to transactions contemplated by this Lease or the Participation Agreement, unless an Event of Default shall have occurred and be continuing, (vii) United States Federal income taxes of the Beneficiary and income or franchise Taxes imposed on or measured by the net income of the Beneficiary by any jurisdiction up to the aggregate amount of the taxes which would be imposed by New York State and New York City if all the income and deductions arising from the transactions contemplated by the Lease were included in the New York State and New York City tax returns of the Beneficiary, (viii) any taxes fairly attributable to events or periods after the end of the original term of the Lease or any renewal thereof, (ix) Canadian income Taxes (other than withholding taxes) which become payable as a direct result of the Beneficiary conducting a trade or business in Canada or having a permanent establishment in Canada other than by reason of the transactions contemplated hereby, and (x) any Taxes which become payable by reason of a sale of the Equipment pursuant to Section 16(a) of this Lease, except to the extent indemnification is provided for therein.

All payments to be made by the Lessee under this Lease will be free of expense to the Lessor and the Trustee for collection or other charges and will be free of withholding or expense to the Lessor and the Trustee with respect to the amount of any Taxes which the Lessee has agreed to pay as herein provided, whether or not the Lessee shall be entitled to recover the amount of any such Tax or portion thereof from the Beneficiary to the extent provided in the Participation Agreement. Without limiting the foregoing, the Lessee shall pay all Taxes for which it assumes liability hereunder when such Taxes are due (or, if the Lessee does not have knowledge of a Tax when such Tax is due, within ten days after it has knowledge of such Tax) and will indemnify each Indemnified Person to the extent required by this Section 5 within 10 days after receipt of a written request by such Indemnified Person for indemnification specifying the amount to be paid, the basis on which such amount was determined and the nature of the Tax in question, provided, however, that if any Tax is being contested under the following paragraph, any payment by the Lessee shall be made at the time provided in such paragraph.

If any taxing authority shall assert liability for any Tax or propose an increase in the liability of any Indemnified Person for any such Tax (such assertion or such proposed increase being hereinafter called a "Claim"), indemnification for which would be required pursuant to this Section 5, the Indemnified Person will notify the Lessee within a reasonable time of such Claim in writing. If the Lessee delivers to such Indemnified Person written notice of its desire to contest such Claim within 30 days after receipt of notice from such Indemnified Person, such Claim will be contested in accordance with this paragraph. The contest and all preparations therefor shall be the sole responsibility of the Lessee and shall be conducted entirely at its expense. Such Indemnified Person will cooperate with any reasonable request made by the Lessee in connection therewith; provided, however, that such Indemnified Person shall not be required to take any action pursuant to this paragraph unless and until the Lessee shall have agreed to indemnify such Indemnified Person in a manner satisfactory to such Indemnified Person for any liability or loss which such Indemnified Person may incur as a result of contesting the validity of any Claim and shall have agreed to pay such Indemnified Person on demand all costs and expenses which such Indemnified Person may incur in connection with contesting such Claim (including fees and disbursements of counsel). If in any such contest the decision is made to pay the Tax and sue for a refund, the Lessee will provide in advance to such Indemnified Person interest-free sufficient funds to pay the Tax which is to be contested. Upon receipt by an Indemnified Person of a refund of any Tax paid or indemnified by the Lessee pursuant to this paragraph, such Indemnified Person shall pay to the Lessee forthwith the Tax and any interest paid to such Indemnified Person plus any Tax benefits realized by the Indemnified Person as a result of such payment.

The Lessee covenants and agrees to pay all amounts due under this Section 5 free of any Taxes or other charges. Notwithstanding the preceding paragraphs of this Section 5, the Lessee will not be required to gross up any payments of Canadian federal or provincial withholding Taxes except to the extent indemnification is provided for in the Participation Agreement.

Section 6. Payment for Casualty Occurrences; Insurance. In the event that any Unit shall be or become worn out, lost, stolen, destroyed or damaged beyond economic

repair, from any cause whatsoever, or taken or requisitioned by condemnation or otherwise (any such occurrence being hereinafter called a Casualty Occurrence) during the term of this Lease or until such Unit shall have been returned to the Lessor in the manner provided in Section 12 hereof, the Lessee shall, within 30 days after it shall have determined that such Unit has suffered a Casualty Occurrence, fully notify the Lessor and the Trustee with respect thereto. On the rental payment date next succeeding such notice (or, at the option of the Lessee, in the event such rental payment date shall occur within 15 days after such notice, on the next succeeding rental payment date) or within 60 days if such Unit is being returned under Section 12 hereof, the Lessee shall pay to the Lessor an amount equal to the rental for such Unit due on the date of such payment plus a sum equal to the Casualty Value (as hereinafter defined) of such Unit as of such rental payment date in accordance with the schedule in the next succeeding paragraph. Upon the making of such payment by the Lessee in respect of any Unit, the rental for such Unit shall cease to accrue as of the date of such payment and the term of this Lease as to such Unit shall terminate. The Lessor shall, upon request of the Lessee, after payment by the Lessee of a sum equal to the Casualty Value of any such Unit, execute and deliver to or upon the order of the Lessee a bill of sale (without warranties) for such Unit such as will transfer to the Lessee such title to such Unit as the Lessor and the Trustee derived from the Manufacturer free and clear of all liens, security interests and other encumbrances arising through the Lessor or the Trustee.

The Casualty Value of each Unit as of any rental payment date shall be equal to the percentage of the Purchase Price set forth opposite the applicable rental payment date in the following schedule:

<u>Rental Payment Date</u>	<u>Casualty Value</u>
December 20, 1977	79.2964%
June 20, 1978	81.3291
December 20, 1978	82.2740
June 20, 1979	82.8243
December 20, 1979	83.3621
June 20, 1980	83.7144
December 20, 1980	86.2593

<u>Rental Payment Date</u>	<u>Casualty Value</u>
June 20, 1981	86.1764
December 20, 1981	85.8252
June 20, 1982	85.2083
December 20, 1982	84.3515
June 20, 1983	83.2505
December 20, 1983	81.9684
June 20, 1984	80.6102
December 20, 1984	79.1943
June 20, 1985	77.7184
December 20, 1985	76.1799
June 20, 1986	74.5763
December 20, 1986	72.9046
June 20, 1987	71.1620
December 20, 1987	69.3455
June 20, 1988	67.4520
December 20, 1988	65.4782
June 20, 1989	63.4208
December 20, 1989	61.2761
June 20, 1990	59.0404
December 20, 1990	56.7546
June 20, 1991	54.4907
December 20, 1991	52.3401
June 20, 1992	50.2472
December 20, 1992	48.2618
June 20, 1993	46.3489
December 20, 1993	44.5662
June 20, 1994	46.3099
December 20, 1994	41.1469
June 20, 1995	42.8448
December 20, 1995	37.5776
June 20, 1996	39.1816
December 20, 1996	33.7849
June 20, 1997	35.2511
December 20, 1997	29.7119
June 20, 1998	31.0306
December 20, 1998	28.8519
June 20, 1999	30.2519
December 20, 1999	27.9509
June 20, 2000	29.1532
December 20, 2000	26.7975
June 20, 2001	27.9613
December 20, 2001	25.5661
June 20, 2002	26.6893
December 20, 2002	20.0000

The foregoing percentages have been computed without regard to recapture of Investment Tax Credit. Consequently the Casualty Value of any Unit suffering a Casualty Occurrence before the third, fifth and seventh anniversary of the date of delivery and acceptance of such Unit shall be increased by the applicable percentage of its Purchase Price set forth in the schedule below:

<u>Anniversary of Delivery and Acceptance</u>	<u>Percentage of Purchase Price per Unit</u>
Third	26.4404%
Fifth	17.6269
Seventh	8.8135

Notwithstanding the preceding provisions of this Section 6, if the investment tax credit allowable with respect to any Unit shall be increased to more than or decreased to less than 10%, the percentages set forth in the two preceding paragraphs of this Section 6 with respect to such Unit shall be adjusted in such manner (but will not in any event be reduced below the amount necessary to make any mandatory amortization payment in respect of the Trust Certificates occasioned by a Casualty Occurrence) as will provide the Beneficiary with the same after-tax return and as nearly as practicable the same after-tax cash flow as contemplated by the Beneficiary at the inception of this Lease.

Except as hereinabove in this Section 6 provided, the Lessee shall not be released from its obligations hereunder in the event of, and shall bear the risk of, any Casualty Occurrence to any Unit after delivery to and acceptance thereof by the Lessee hereunder.

The Lessee will, at all times while this Lease is in effect, at its own expense, cause to be carried and maintained insurance in respect of the Units at the time subject hereto, and public liability insurance, in amounts and against risks customarily insured against by railroad companies on similar equipment, and in any event in amounts and against risks comparable to those insured against by the Lessee on equipment owned by it and the benefits of any such insurance in respect of the Units shall be payable to the Lessor, the Trustee and the Lessee as their interests

may appear and will furnish appropriate evidence of such insurance coverage upon the reasonable request of the Lessor, provided that in lieu of all or a part of such insurance the Lessee may self insure to the same extent that it does with respect to other similar equipment owned by it, except that the Lessee shall maintain public liability insurance in respect of the Units of at least \$21,000,000 with a deductible of no more than \$8,000,000, but neither the Lessor nor the Trustee need be designated as named insureds in any such policy or policies unless the Lessee designates any other party as an additional named insured in such policy or policies, in which case the Lessee shall then name the Lessor and the Trustee as additional named insureds in such policy or policies. Any damages receivable from others, any salvage value recovered or paid by the Lessee, any condemnation payments and any net insurance proceeds received by the Lessor in respect of Units suffering a Casualty Occurrence (all hereinafter collectively referred to as Recoveries) shall be deducted from the amounts payable by the Lessee to the Lessor in respect of Casualty Occurrences pursuant to this Section 6 and the excess of such Recoveries, if any, shall belong to the Lessor. If the Lessor shall receive any such Recoveries after the Lessee shall have made payments pursuant to this Section 6 without deduction for such Recoveries, the Lessor shall pay such Recoveries to the Lessee up to an amount equal to the Casualty Value with respect to a Unit paid by the Lessee and any balance of such Recoveries shall remain the property of the Lessor.

All proceeds of insurance received by the Lessor in respect of insurance carried on any Unit or Units not suffering a Casualty Occurrence shall be paid to the Lessee upon proof satisfactory to the Lessor that any damage to such Unit in respect of which such proceeds were paid has been fully repaired.

Section 7. Annual Reports. On or before April 30 in each year, commencing with the year 1978, the Lessee will furnish to the Lessor and the Trustee, in such number of counterparts or copies as may reasonably be requested, an accurate statement signed by an authorized representative, (i) showing, as of the preceding December 31, the amount, description and numbers of all Units then leased hereunder and the amount, description and numbers of all Units that may have suffered a Casualty Occurrence, whether by accident or otherwise, during the preceding calendar year (or since

the date of this Lease in the case of the first such statement), and such other information regarding the condition and state of repair of the Units as the Lessor or the Trustee may reasonably request, (ii) identifying the Units then subject to this Lease and (iii) stating that, in the case of all Units repaired or repainted during the period covered by such statement, the markings required by Section 4 hereof and the Equipment Trust Agreement have been preserved or replaced. The Lessor shall have the right, by its agents, but shall be under no obligation, to inspect the Units and the records of the Lessee with respect thereto at any reasonable time during continuance of this Lease.

The Lessee agrees that it will furnish to the Lessor, the Trustee and to each holder of a Trust Certificate or Trust Certificates, in duplicate, (i) as soon as available, and in any event within 60 days after the close of the first, second and third quarterly accounting periods in each fiscal year of the Lessee, the balance sheet of the Lessee as of the end of such accounting period and the related income statement and statement of retained income of the Lessee for the portion of its fiscal year ended with the last day of such accounting period, all in reasonable detail as contained in the Lessee's Form 10-Q for such quarter filed by the Lessee with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended, (ii) as soon as available, and in any event within 120 days after the close of each fiscal year of the Lessee, the annual report of the Lessee and the Lessee's report on Form 10-K for such fiscal year filed by the Lessee with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended, including a balance sheet, income statement and statement of retained income of the Lessee for the preceding fiscal year, all in reasonable detail and certified by an independent public accountant, (iii) as soon as available, and in any event within 120 days after the end of each fiscal year, a certificate signed by the President, any Vice President or the Comptroller of the Lessee stating that a review of the activities of the Lessee during such year has been made under his supervision with a view to determining whether the Lessee has kept, observed, performed and fulfilled all of its covenants and obligations under this Lease and that to the best of his knowledge the Lessee during such year has kept, observed, performed and fulfilled each and every covenant and obligation contained herein, or, if an Event of Default under this Lease shall exist or if an event has occurred which, with the giving of

notice or the passage of time or both, would constitute such an Event of Default, specifying such Event of Default or such event and the nature and status thereof, and (iv) such additional information as the Lessor, the Trustee or any such holder may reasonably request concerning the Lessee in order to enable said party to determine whether the covenants, terms and provisions of this Lease have been complied with by the Lessee.

Within 60 days after the end of each calendar year, the Lessee will furnish in writing to the Beneficiary information relating to the use of the Equipment within and outside the United States during such calendar year and, upon request by the Beneficiary, such further information relating to the use of the Equipment (and each Unit thereof) within and outside the United States as may be reasonably requested by the Beneficiary.

Section 8. Disclaimer of Warranties; Compliance With Laws and Rules; Maintenance; Indemnification. The Lessee has selected the Manufacturer and determined the design and specifications of the Units. THE LESSOR MAKES NO WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE DESIGN, COMPLIANCE WITH SPECIFICATIONS, OR CONDITION OF, OR AS TO THE QUALITY OF THE MATERIAL, EQUIPMENT OR WORKMANSHIP IN, OR AS TO THE SUITABILITY, ADEQUACY, OPERATION, USE OR PERFORMANCE OF, THE UNITS DELIVERED TO THE LESSEE HEREUNDER, AND THE LESSOR MAKES NO WARRANTY OF MERCHANTABILITY OR FITNESS OF THE UNITS FOR ANY PARTICULAR PURPOSE, it being agreed that all such risks, as between the Lessor and the Lessee, are to be borne by the Lessee; but the Lessor hereby irrevocably appoints and constitutes the Lessee its agent and attorney-in-fact during the term of this Lease to assert and enforce from time to time, in the name of and for the account of the Lessor and/or the Lessee as their interests may appear, whatever claims and rights the Lessor may have against the Manufacturer of the Units or the manufacturers of the components thereof. The Lessor shall have no responsibility or liability under this Lease to the Lessee or any other person with respect to any of the following: (i) any liability, loss or damage caused or alleged to be caused directly or indirectly by any Units or by any inadequacy thereof or deficiency or defect therein or by any other circumstance in connection therewith; (ii) the use, operation or performance of any Units or any risks relating thereto; (iii) any interruption of service, loss of business or anticipatory profits or

consequential damages; or (iv) the delivery, operation, servicing, maintenance, repair, improvement or replacement of any Units. The Lessee's acceptance of delivery of the Units shall be conclusive evidence as between the Lessee, the Lessor and the Trustee, that all Units described in a Certificate of Acceptance are in all the foregoing respects satisfactory to the Lessee and the Lessee will not assert any claim of any nature whatsoever against the Lessor or the Trustee based on any of the foregoing matters.

The Lessor represents, warrants and covenants as follows:

(i) At the time of delivery of each Unit under this Lease, the Lessor shall have such title to such Unit as is derived from the Manufacturer and, if the Equipment Trust Agreement has been executed and delivered, the Trustee, unimpaired by any act or omission of the Lessor or the Trustee which will in any manner prevent the performance of this Lease in accordance with its terms and, in addition, such Unit shall be free and clear of all claims, liens, security interests and encumbrances, except those created or arising under the Manufacturing Agreement or the Equipment Trust Agreement, which may result from claims against the Lessor or the Trustee not arising out of the lease or ownership thereof which will prevent the performance of this Lease in accordance with its terms; and

(ii) So long as the Lessee shall not be in default under this Lease, the Lessor shall not do or cause to be done any act which interferes with any and all rights of the Lessee to peaceably and quietly hold, possess and use the Units in accordance with the terms of this Lease.

The Lessor covenants that any sale, assignment, transfer, mortgage or other disposition which it may make of this Lease or of any Unit, whether prior or subsequent to delivery to the Lessee, shall be expressly subject to the terms and provisions of this Lease, the Equipment Trust Agreement and the Assignment of Lease and Agreement (hereinafter called the Lease Assignment), pursuant to which this Lease is assigned to the Trustee.

The Lessor covenants and agrees not to alter,

amend or modify the Equipment Trust Agreement or the Lease Assignment, without the prior written consent of the Lessee.

The Lessee agrees, for the benefit of the Lessor and the Trustee, to comply in all respects with all laws of the jurisdictions in which operations involving any Unit subject to this Lease may extend, with the Interchange Rules of the Association of American Railroads, if applicable, and with all lawful rules of any legislative, executive, administrative or judicial body or officer exercising any power or jurisdiction over any such Unit, to the extent such laws and rules affect the operations or use of such Unit; and the Lessee shall and does hereby indemnify the Lessor and the Trustee and agrees to hold the Lessor and the Trustee harmless from and against any and all liability that may arise from any infringement or violation of any such laws or rules by the Lessor or the Lessee, or their employees, or any other person. In the event that such laws or rules require the alteration of the Units or in case any equipment or appliance on any such Unit shall be required to be changed or replaced, or in case any additional or other equipment or appliance is required to be installed on such Unit in order to comply with such laws, regulations, requirements and rules, the Lessee agrees, at its own expense, to make such alterations, changes, additions and replacements and to use, maintain and operate such Unit in full compliance with such laws, regulations, requirements and rules so long as such Unit is subject to this Lease; provided, however, that the Lessee may, in good faith, contest the validity or application of any such law or rule in any reasonable manner which does not, in the opinion of the Lessor or the Trustee, adversely affect the property or rights of the Lessor or the Trustee hereunder or under the Equipment Trust Agreement.

The Lessee agrees that, at its own cost and expense, it will maintain and keep each Unit which is subject to this Lease in good order and repair, reasonable wear and tear excepted, in accordance with the same practices and procedures followed by the Lessee with respect to other similar equipment owned by it.

The Lessee, at its own cost and expense, may from time to time make such additions, modifications and improvements to the Units during the term of this Lease as are readily removable without causing material damage to the Units (and do not adversely and materially affect the value of the Units). The additions, modifications and improvements

made by the Lessee under the preceding sentence shall be owned by the Lessee, except to the extent such additions, modifications or improvements are made in order to comply with the following paragraph.

Any and all parts installed on and additions and replacements made to any Unit (i) which are not readily removable without causing material damage to such Unit, (ii) the cost of which is included in the Purchase Price of such Unit, (iii) in the course of ordinary maintenance of the Units or (iv) which are required for the operation or use of such Unit by the interchange rules of the Association of American Railroads or by the regulations of the Interstate Commerce Commission, the Department of Transportation or any other applicable regulatory body, shall constitute accessions to such Unit and full ownership thereof free from any lien, charge, security interest or encumbrance (except for those created by the Equipment Trust Agreement) shall immediately be vested in the Lessor and the Trustee as their respective interests may appear in the Unit itself.

The Lessee agrees to indemnify and save harmless the Lessor, the Trustee and (to the extent the Lessor has indemnified or agreed to cause the Lessee to indemnify the Manufacturer under the Manufacturing Agreement) the Manufacturer against any charge or claim made against the Lessor, the Trustee or the Manufacturer, and against any expense, loss or liability (including, but not limited to, strict liability imposed by statute or rule of law, counsel fees and expenses, patent liabilities, penalties and interest, but excluding any expense, loss or liability referred to in Section 5 hereof or in Paragraph 7 of the Participation Agreement, as to which said provisions shall apply) which the Lessor or the Trustee or the Manufacturer may incur in any manner by reason of the issuance of the Trust Certificates or by reason of entering into or performing the Equipment Trust Agreement, this Lease, any of the instruments or agreements referred to therein or herein or contemplated thereby or hereby or the ownership of, or which may arise in any manner out of or as the result of the ordering, acquisition, purchase, leasing, use, operation, condition, construction, delivery, rejection, storage or return of, any Unit while subject to this Lease or until no longer in the possession of or stored by the Lessee, whichever is later, or for any other cause whatsoever, and to indemnify and save harmless the Lessor and the Trustee against any charge, claim, expense, loss or liability

(including but not limited to strict liability imposed by statute or rule of law and counsel fees and expenses) on account of any accident in connection with the delivery, operation, use, condition, possession or storage of any Unit resulting in damage to property or injury to or death of any person; provided, however, that the Lessee shall not be required to indemnify the Lessor or the Trustee or the Manufacturer under this paragraph in respect of any such charge, claim, expense, loss or liability which shall have been caused by the wilful act or gross negligence of the Lessor or the Trustee or the Manufacturer or of any agent of the Lessor or the Trustee or the Manufacturer, provided, further, however, that the Lessor and the Trustee will not be deemed grossly negligent as a result of any act or omission of the designer or Manufacturer of any Unit or as a result of any act or omission of the Lessee.

The indemnities arising under this Section 8 shall survive payment of all other obligations under this Lease and the termination of this Lease.

The Lessee agrees to prepare and deliver to the Lessor and the Trustee within a reasonable time prior to the required date of filing (or, to the extent permissible, file on behalf of the Lessor and the Trustee) any and all reports known by the Lessee to be required to be filed by the Lessor or the Trustee, or requested by the Lessor or the Trustee to be filed, with any federal, state, provincial or other regulatory authority by reason of the interest of the Trustee and the Lessor in the Units or the leasing of the Units to the Lessee.

Section 9. Default. If, during the continuance of this Lease, one or more of the following events (hereinafter sometimes called Events of Default) shall occur:

(A) default shall be made in the payment of any part of the rental provided in Section 2 and such default shall continue for five days; or

(B) the Lessee shall make or permit any unauthorized assignment or transfer of this Lease, enter into any amendment, modification or termination of the Lease without the prior written consent of the Trustee, or any unauthorized sublease or use of the Units or any thereof; or

(C) default shall be made in the observance or performance of any other of the covenants, conditions and agreements on the part of the Lessee contained herein or in the Consent (as defined in the Equipment Trust Agreement) and such default shall continue for 25 days after written notice to the Lessee specifying the default and demanding that the same be remedied; or

(D) any proceedings shall be commenced by or against the Lessee for any relief under any bankruptcy or insolvency laws, or laws relating to the relief of debtors, readjustments of indebtedness, reorganization, arrangements, compositions or extensions (other than a law which does not permit any readjustments of the obligations of the Lessee hereunder or under the Consent), and unless such proceedings shall have been dismissed, nullified, stayed or otherwise rendered ineffective (but then only so long as such stay shall continue in force or such ineffectiveness shall continue), and all the obligations of the Lessee under this Lease and the Consent shall not have been duly assumed in writing, pursuant to a court order or decree, by a trustee or trustees or receiver or receivers appointed (whether or not subject to ratification) for the Lessee or for the property of the Lessee in connection with any such proceedings in such manner that such obligations shall have the same status as obligations incurred by such a trustee or trustees or receiver or receivers, within 30 days after such appointment, if any, or 60 days after such proceedings shall have been commenced, whichever shall be earlier;

then, in any such case, the Lessor, at its option, may:

(a) proceed by appropriate court action or actions, either at law or in equity, to enforce performance by the Lessee of the applicable covenants of this Lease and of the Consent or to recover damages for the breach thereof; or

(b) by notice in writing to the Lessee terminate this Lease, whereupon all right of the Lessee to the use of the Units shall absolutely cease and determine as though this Lease had never been made, but the Lessee shall remain liable as hereinafter provided; and thereupon, the Lessor may by its agents enter upon the premises of the Lessee or other premises where any of the

Units may be and take possession of all or any of such Units and thenceforth hold, possess and enjoy the same free from any right of the Lessee, or its successors or assigns, to use the Units for any purposes whatever; but the Lessor shall, nevertheless, have the right to recover from the Lessee any and all amounts which under the terms of this Lease may then be due or which may have accrued to the date of such termination (computing the rental for any number of days less than a full rental period by multiplying the rental for such full period by a fraction of which the numerator is such number of days and the denominator is that total number of days in such full rental period) and also to recover forthwith from the Lessee (i) as liquidated damages for loss of the bargain and not as a penalty whichever of the following amounts the Lessor in its sole discretion shall specify: (x) a sum with respect to each Unit which represents the excess of (A) the present value at the time of such termination of the entire unpaid balance of all rentals for such Unit which would otherwise have accrued hereunder from the date of such termination to the end of the term of this Lease as to such Unit over (B) the then present value of the net rentals which the Lessor reasonably estimates to be obtainable for the lease of such Unit during such period, such present value to be computed in each case on a basis of 10% per annum discount compounded semi-annually from the respective dates upon which rentals would have been payable hereunder had this Lease not been terminated; or (y) an amount equal to the excess, if any, of the Casualty Value as of the rental payment date on or next preceding the date of termination over the net proceeds of the sale of the Equipment if sold, or if not sold at such time, the amount the Lessor reasonably estimates to be the sales value of such Unit at such time; (ii) any damages and expenses, including reasonable attorney's fees, in addition thereto which the Lessor shall have sustained by reason of the breach of any covenant or covenants of this Lease other than for the payment of rental. Notwithstanding anything to the contrary contained in this clause (b), it is understood and agreed that the damages payable by the Lessee pursuant to subclause (i) of this clause (b) shall be reduced, but not to an amount less than zero, by an amount equal to any net proceeds received by the Lessor upon the sale or the releasing of the Units to the extent that such net proceeds as actually received

exceed any amount estimated by the Lessor to be reasonably obtainable upon a sale or releasing, as the case may be, pursuant to the said subclause (i).

Anything in this Section 9 to the contrary notwithstanding, any default in the observance or performance of any covenant, condition or agreement on the part of the Lessee which results solely in the loss by the Lessor of, or the loss by the Lessor of the right to claim, or the disallowance with respect to the Lessor of, all or any portion of the deductions, credits or other benefits referred to in Paragraph 7 of the Participation Agreement, shall be, for all purposes of this Lease, deemed to be cured if the Lessee shall, pay to the Lessor the amounts determined as provided in said Paragraph 7.

The remedies in this Lease provided in favor of the Lessor shall not be deemed exclusive but shall be cumulative, and shall be in addition to all other remedies in its favor existing at law or in equity. The Lessee hereby waives any mandatory requirements of law, now or hereafter in effect, which might limit or modify the remedies herein provided, to the extent that such waiver is permitted by law. The Lessee hereby waives any and all existing or future claims to any offset against the rental payments due hereunder, and agrees to make rental payments regardless of any offset or claim which may be asserted by the Lessee or on its behalf.

The failure of the Lessor to exercise the rights granted it hereunder upon any occurrence of any of the contingencies set forth herein shall not constitute a waiver of any such right upon the continuation or recurrence of any such contingencies or similar contingencies.

Section 10. Return of Units Upon Default. If the Lease shall terminate pursuant to Section 9 hereof, the Lessee shall forthwith deliver possession of the Units to the Lessor. Each Unit returned to the Lessor pursuant to this Section 10 shall (i) be in the same operating order, repair and condition as when originally delivered to the Lessee, reasonable wear and tear excepted, (ii) have attached or affixed thereto any addition to, parts installed on or replacement of such Units considered an accession thereto under Section 8 hereof, and (iii) meet the standards then in effect under the Interchange Rules of the Association of American Railroads, if applicable. For the purpose of

delivering possession of any Unit or Units to the Lessor as above required, the Lessee shall at its own cost, expense and risk:

(a) forthwith and in the usual manner place such Units upon such storage tracks of the Lessee as the Lessor may reasonably designate;

(b) permit the Lessor to store such Units on such tracks at the risk of the Lessee until all such Units have been sold, leased or otherwise disposed of by the Lessor; and

(c) transport the same to any place on the tracks of the Lessee or any of its affiliates or to any connecting carrier for shipment, all as directed by the Lessor.

The assembling, delivery, storage and transporting of the Units as hereinbefore provided shall be at the expense and risk of the Lessee and are of the essence of this Lease, and upon application to any court of equity having jurisdiction in the premises the Lessor shall be entitled to a decree against the Lessee requiring specific performance of the covenants of the Lessee so as to cause the assembly, delivery, storage and transportation of the Units. During any storage period, the Lessee will permit the Lessor or any person designated by it, including the authorized representative or representatives of any prospective purchaser of any Unit, to inspect the same; provided, however, that the Lessee shall not be liable, except in the case of negligence of the Lessee or of its employees or agents, for any injury to, or the death of, any person exercising, either on behalf of the Lessor or any prospective purchaser, the rights of inspection granted under this sentence.

Without in any way limiting the obligation of the Lessee under the foregoing provisions of this Section 10, the Lessee hereby irrevocably appoints the Lessor as the agent and attorney of the Lessee, with full power and authority, at any time while the Lessee is obligated to deliver possession of any Unit to the Lessor, to demand and take possession of such Unit in the name and on behalf of the Lessee from whomsoever shall be at the time in possession of such Unit. In connection therewith the Lessee will supply the Lessor with such documents as the Lessor may reasonably request.

Section 11. Assignment; Possession and Use.

This Lease and the rentals and other sums due hereunder shall be assignable in whole or in part by the Lessor without the consent of the Lessee, but the Lessee shall be under no obligation to any assignee of the Lessor except upon written notice of such assignment from the Lessor. All the rights of the Lessor hereunder shall inure to the benefit of Lessor's assigns as if named herein as Lessor and to the holders of the Trust Certificates.

Without the prior written consent of the Lessor, the Lessee shall not assign or transfer its leasehold interest under this Lease in the Units or any of them (except to the extent that the provisions of any mortgage now or hereafter created on any of the lines of railroad of the Lessee may subject the Lessee's leasehold interest to the lien thereof); provided, that in the event of a transfer of the Beneficial Interest (as defined in the Participation Agreement) pursuant to the provisions of Paragraph 8 of the Participation Agreement, the Lessee may assign or transfer its leasehold interest in the Units to the transferee of such Beneficial Interest, but only upon and subject to the terms of this Lease and the Equipment Trust Agreement; provided, further, that the Lessee shall remain liable for all its obligations hereunder notwithstanding such assignment or transfer.

So long as the Lessee shall not be in default under this Lease, the Lessee shall be entitled to the possession of the Units and to the use thereof by it or by any affiliated or subsidiary corporation upon its or their lines of railroad or upon lines of railroad over which the Lessee or such other corporation has trackage or other operating rights or over which railroad equipment of the Lessee or any such other corporation is regularly operated pursuant to contract, and also to permit the use of the Units upon other railroads in the usual interchange of traffic (if such interchange is customary at the time), but only upon and subject to all the terms and conditions of this Lease and the Equipment Trust Agreement.

Nothing in this Section 11 shall be deemed to restrict the right of the Lessee (i) to assign or transfer its leasehold interest under this Lease in the Units or possession of the Units to any corporation incorporated under the laws of Canada (which shall have duly assumed the obligations of the Lessee hereunder) into or with which

the Lessee shall have become amalgamated, merged or consolidated or which shall have acquired the property of the Lessee as an entirety or substantially as an entirety; or (ii) to sublease any Unit to any subsidiary or affiliated corporations of the Lessee; provided, however, that the rights of such sublessee are made expressly subordinate to the rights and remedies of the Trustee under the Equipment Trust Agreement and the Lessor under this Lease and that notice of such assignment, transfer or sublease is given to the Lessor; provided, further, however, that the Lessee shall not in any event use or permit the use of the Units in such manner as would be inconsistent with the recovery of Canadian duty draw-back or would subject the Manufacturer to any claim for Canadian duty.

The Lessee, at its own expense, will as soon as possible cause to be duly discharged any lien, charge, security interest or other encumbrance (other than the lien of the Equipment Trust Agreement or any encumbrance resulting from claims against the Lessor not related to the ownership or leasing of the Units) which may at any time be imposed on or with respect to any Unit including any accession thereto or the interest of the Lessor, or the Lessee therein. The Lessee shall not, without the prior written consent of the Lessor, part with the possession or control of, or suffer or allow to pass out of its possession or control, any of the Units, except to the extent permitted by the provisions of this Section 11.

Section 12. Return of Units Upon Termination.

As soon as practicable on or after the expiration of the original or any extended term of this Lease as to any or all of the Units, the Lessee will (unless the Units shall have suffered a Casualty Occurrence), at its own cost and expense, at the request of the lessor, assemble such Units and deliver possession of such Units to the Lessor upon such storage tracks of the Lessee as the Lessor may reasonably designate and permit the Lessor to store such Units on such tracks for a period not exceeding three months and transport the same, at any time within such three-month period, to any reasonable place on the lines of railroad operated by the Lessee or to any connecting carrier for shipment, all as directed by the Lessor upon not less than 30 days' written notice to the Lessee; the movement and storage of the Units to be at the expense and risk of the Lessee. During any such storage period the Lessee will permit the Lessor or any person designated by it, including the authorized repre-

sentative or representatives of any prospective purchaser of any Unit, to inspect the same; provided, however, that the Lessee shall not be liable, except in the case of negligence of the Lessee or of its employees or agents, for any injury to, or the death of, any person exercising, either on behalf of the Lessor or any prospective purchaser, the rights of inspection granted under this sentence. The assembling, delivery, storage and transporting of the Units as hereinbefore provided are of the essence of this Lease, and upon application to any court of equity having jurisdiction in the premises, the Lessor shall be entitled to a decree against the Lessee requiring specific performance of the covenants of the Lessee so to assemble, deliver, store and transport the Units. If any Unit shall have suffered a Casualty Occurrence, the Lessee shall thereupon assume and hold the Lessor harmless from all liability arising in respect of any responsibility of ownership thereof. Each Unit returned to Lessor pursuant to this Section (other than a Unit which has suffered a Casualty Occurrence) shall (i) be in the same operating order, repair and condition as when originally delivered to the Lessee, reasonable wear and tear excepted, (ii) have attached or affixed thereto any addition to, parts installed on or replacement of such Units considered an accession thereto under Section 8 hereof and (iii) meet the standards then in effect under the interchange rules of the Association of American Railroads and the United States Federal Railroad Administration if applicable and the Canadian Transport Commission.

Section 13. Recording; Certain Expenses. Prior to the delivery and acceptance of any Unit, the Lessee will, at its own expense, cause this Lease, any assignments hereof, the Manufacturing Agreement and any assignment thereof by the Manufacturer to be filed and recorded with the Interstate Commerce Commission in accordance with Section 20c of the Interstate Commerce Act and deposited in the office of the Registrar General of Canada (notice of such deposit to be forthwith thereafter given in the Canada Gazette) pursuant to Section 86 of the Railway Act of Canada. The Lessee will, at its own expense, similarly file and record and deposit (and give the requisite notice of such deposit) the Equipment Trust Agreement and undertake the filing, recording, depositing (and giving of notice) required under the Equipment Trust Agreement and will further, at its own expense, from time to time, do and perform any other act and will execute, acknowledge, deliver, file, register, record and deposit (and will refile, reregister, rerecord

or redeposit) any and all further instruments required by law or reasonably requested by the Lessor or the Trustee, for the purpose of proper protection, to the satisfaction of the Lessor and the Trustee, of the Lessor's and the Trustee's respective interests in the Units, or for the purpose of carrying out the intention of this Lease and the Equipment Trust Agreement. The Lessee will promptly furnish to the Lessor and the Trustee evidence of all such filing, registering, recording, depositing (giving of notice), refiling, reregistering, rerecording and/or redepositing and an opinion or opinions of counsel with respect thereto satisfactory to the Lessor and the Trustee.

The Lessee will pay the reasonable fees and expenses of the Lessor in its capacity as Owner Trustee under the Trust Agreement, unless such fees and expenses are paid by some other person.

Section 14. Interest on Overdue Rentals. Anything to the contrary herein notwithstanding, any nonpayment of rentals and other obligations due hereunder shall result in the obligation on the part of the Lessee promptly to pay also an amount equal to interest at the Penalty Rate (as defined in the Equipment Trust Agreement) on the overdue rentals and other obligations for the period of time during which they are overdue.

Section 15. Termination. In the event that all of the Units shall have been excluded from this Lease as provided in Section 1 hereof, this Lease shall terminate and, except as otherwise expressly provided in this Lease, the rights and obligations hereunder of the parties hereto shall cease and determine as if this Lease had never been made.

Section 16. Right of First Refusal and Renewal and Purchase Options. (a) Provided that this Lease has not been earlier terminated and no Event of Default shall have occurred and be continuing hereunder, in the event the Lessee shall not have exercised any available renewal option provided for herein and the Lessor elects to sell any Units to third parties at the expiration of the original or any extended term of this Lease, the Lessee shall be given written notice of such intention prior to the expiration of such term. In the event that the Lessor shall receive, prior to removal of the Units at the end of such term of the Lease, a bona fide offer in writing from another party unrelated to the Lessee to purchase the Units and the Lessor elects to sell the Units

pursuant to such offer at the expiration of such term of this Lease, the Lessor shall give written notice to the Lessee of such offer. Such notice shall include the price and the terms and conditions of payment offered by the other party in writing to the Lessor. The Lessee shall have the sole right and option to purchase the Units for cash at the price at which the Units are proposed to be sold or under the other terms and conditions of payment offered by the other party, as hereinafter provided, except that the purchase price to the Lessee shall be increased by the grossed-up amount of any additional Canadian taxes payable by the Lessor upon such sale which would not be payable if the Units had been sold to the other party. Within 10 business days of receipt of notice from the Lessor, the Lessee shall exercise such purchase right by delivery to the Lessor of a written notice specifying a date of purchase, which date shall not be later than the later of (i) 15 days after the date of delivery of such notice by the Lessee to the Lessor or (ii) 90 days after the expiration of such term of this Lease. In the event that the Lessee shall have delivered a notice of its election to purchase the Units, this Lease (including the obligation to pay rent) shall be further extended upon the same terms and conditions set forth herein from the date such notice is delivered to the Lessor until the date of such purchase.

(b) Provided that this Lease has not been earlier terminated and no Event of Default shall have occurred and be continuing, the Lessee shall have the right on the date of the expiration of the original term and each renewal term hereunder to renew this Lease with respect to all, but not less than all, of the Equipment then covered by this Lease for a renewal term of five or more years as shall be specified in the notice from the Lessee to the Lessor pursuant to the first paragraph of Section 16(f). Notwithstanding the preceding sentence, the renewal term described therein, taken together with all preceding renewal terms, if any, shall not exceed 15 years. All the provisions of this Lease shall be applicable during such renewal term except that the rental during such renewal term shall be payable annually in arrears and shall be the Fair Market Rental Value of the Equipment (determined in accordance with Section 16(e)) as of the end of the immediately preceding prior term and the Casualty Values shall be determined in accordance with Section 16(e). The Lessee shall give to the Lessor written notice 180 days prior to the end of each such original term or renewal term, as the case may be, of its election to exercise the renewal

option provided for in this subsection.

(c) Provided that this Lease has not been earlier terminated and no Event of Default shall have occurred and be continuing hereunder, the Lessee shall have the right on the date of the expiration of each renewal term to purchase the Equipment at a price equal to the Fair Market Value thereof determined at the end of such term pursuant to Section 16(f). The Lessee shall give to the Lessor written notice at least 180 days prior to the end of such term of its election to exercise the purchase option provided for in this subsection. In the event of a purchase of the Equipment pursuant to this Section 16, the purchase price shall be paid on the date of purchase in immediately available funds against delivery of a bill of sale transferring and assigning to the Lessee all right, title and interest of the Lessor in and to the Equipment and containing a warranty against liens, claims or encumbrances of persons claiming by, through or under the Lessor (other than claims which the Lessee has assumed or is obligated to discharge under this Lease or the Participation Agreement). The Lessor shall not be required to make any representation or warranty as to the condition of the Equipment or any other matters.

(d) Provided that this Lease has not been earlier terminated and no Event of Default shall have occurred and be continuing, if on December 20, 1997, the projected indemnity payment (before any gross up) by the Lessee to the Lessor with respect to the Canadian income tax attributable to a "deemed disposition" of the Equipment under the Income Tax Act (Canada) exceeds \$200,000, the Lessee shall have the option to purchase the Equipment then subject to this Lease for an amount equal to the higher of the Fair Market Value (determined in accordance with Section 16(f)) or the Termination Value of the Equipment set forth in paragraph 8(a) of the Participation Agreement, plus in either case all amounts payable under the terms of this Lease on such date. In order for the Lessee to make a determination as to whether it wishes to exercise the option to purchase the Equipment pursuant to this subsection, the Lessee shall give the Beneficiary written notice, not later than December 20, 1996, that the Lessee wishes to have the Fair Market Value of the Equipment determined and the Beneficiary shall, upon written request of the Lessee, provide the Lessee with such information as it may reasonably request as to the application of Section 904 of the Code in each of the preceding three years plus the Beneficiary's estimate as to the application of said Section to each of 1997 and 1998.

(e) The Casualty Value as of the commencement of each renewal term shall be the Fair Market Value of the Equipment as of the end of the primary term or the next preceding renewal term, as the case may be (determined in accordance with Section 16(f)), and on each rent payment date during such renewal term shall decline or increase, as the case may be, on a straight-line basis to a value for the final rent payment date for such renewal term equal to the Fair Market Value of the Equipment as of the end of such renewal term (determined in accordance with Section 16(f)).

(f) Not less than 360 days prior to the expiration of the original term or any renewal term of this Lease (in the case of a purchase pursuant to subsection (b) hereof, not later than December 20, 1996), the Lessee may notify the Lessor in writing that the Lessee desires a determination of the Fair Market Value of the Equipment as of the end of such term, the Fair Market Rent Value of the Equipment for a permitted renewal term of five or more years as shall be specified in such notice and the Fair Market Value of the Equipment as of the end of the renewal term so specified.

Upon receiving such notice, the Lessor shall consult with the Lessee for the purposes of determining such Fair Market Values and Fair Market Rent Value of the Equipment, and any values agreed upon in writing shall constitute such Fair Market Values for the purposes of this Lease. If the lessor and the Lessee fail to agree upon such values within 60 days after the Lessee's notice pursuant to the first sentence of this subsection, the Lessee may request that such values be determined by a qualified independent Appraiser. Such Fair Market Values and such Fair Market Rental Value shall be determined on the basis of, and shall be equal in amount to the value which would obtain in an arm's-length transaction between an informed and willing buyer-user or lessee (other than a lessee currently in possession or a used equipment or scrap dealer) and an informed and willing seller or lessor under no compulsion to sell, and in making such determination, cost of removal from the location of current use shall not be a deduction from such value.

The term Appraiser shall mean such independent appraiser as the Lessor and the Lessee may mutually agree upon, or failing such agreement, a panel of three independent appraisers, one of whom shall be selected by the Lessor, the second by the Lessee and the third designated by the first two so selected. The Appraiser shall be instructed to make such determination within a period of 30 days following

appointment, and shall promptly communicate such determination in writing to the Lessor and the Lessee. The determination so made shall be conclusively binding upon both Lessor and Lessee.

The Lessee's request for a determination of the Fair Market Value and Fair Market Rental Value shall not obligate the Lessee to exercise any of the options provided in this Section 16. All costs and expenses of the Appraiser appointed pursuant to this Section shall be borne by the Lessee.

Section 17. Mileage Allowance; Subrogation; Further Assurance. Provided the Lessee is not in default hereunder, the Lessee shall be entitled to (i) all mileage allowances and other moneys payable by reason of the use of the Units, and any such mileage allowances or other moneys received by the Lessor shall be forthwith remitted to the Lessee, and (ii) the proceeds of any claim or right of the Lessor or the Lessee against third persons for injury, damage or loss with respect to any Unit or the use or operation thereof, including settlements pursuant to the rules of the Association of American Railroads, and the Lessee shall be subrogated to the extent of the Lessee's interest to all the Lessor's rights of recovery therefor against any other person, firm or corporation. The Lessor hereby authorizes the Lessee to make settlement of, receive payment and receipt for any and all such claims on behalf of the Lessor, and the Lessor agrees to execute and deliver from time to time such instruments and do such other acts and things as may be necessary or appropriate more fully to evidence the Lessee's authority and/or to vest in the Lessee such proceeds to the extent of the Lessee's interest therein or to effect such subrogation; and in the event of any loss, damage or destruction in respect of which the Lessee is entitled to proceeds or subrogation as aforesaid, the Lessor shall refrain from doing any act or executing any instrument which would prejudice the right of the Lessee to such proceeds or to such subrogation.

The Lessee covenants and agrees from time to time at its expense to do all acts and execute all such instruments of further assurance as it shall be reasonably requested by the Lessor to do or execute for the purpose of fully carrying out and effectuating this Lease and the intent hereof.

Section 18. Execution. Although this Lease is dated as of the date first above written, for convenience, the actual date or dates of execution hereof by the parties hereto is or are, respectively, the date or dates stated in the acknowledgments hereto annexed.

Section 19. Law Governing. The terms of this Lease and all rights and obligations hereunder shall be governed by the laws of the Province of Ontario, Canada; provided, however, that the parties shall be entitled to all rights conferred by Section 20c of the Interstate Commerce Act, the applicable recording laws of Canada and of the Provinces or Territories thereof and such additional rights arising out of the filing, recording or depositing hereof and of any assignment hereof or out of the marking on the Units as shall be conferred by the laws of the several jurisdictions in which this Agreement or any assignment hereof shall be filed, recorded or deposited or in which any Unit may be located.

Section 20. Notices. Any notice required or permitted to be given by either party hereto to the other shall be deemed to have been given when deposited in the United States or Canadian registered mails, first-class postage prepaid, addressed as follows:

If to the Lessor, Post Office Box 7500, Station "A" Toronto, Canada, Attention of Corporate Trust Department, with a copy to J. P. Morgan Interfunding Corp., 37 Wall Street, New York, N. Y. 10005, attention of Lease Administration;

If to the Lessee, Windsor Station, Room 245, Montreal, Quebec, Canada, H3C 3E4, Attention of Vice President--Finance and Accounting;

or addressed to either party at such other address as such party shall hereafter furnish to the other party in writing.

Section 21. Definitions. For all purposes of Sections 5 and 8 of this Lease, the term "Trustee" shall include each holder from time to time of any Trust Certificate or Trust Certificates.

Section 22. Severability. Any provision of this Lease which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the

extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

This Lease exclusively and completely states the rights of the Lessor and the Lessee with respect to the Units and supersedes all other agreements, oral or written with respect to the Units, other than the Participation Agreement dated as of the date hereof between the Lessee and the Beneficiary, the Equipment Trust Agreement and the Manufacturing Agreement. No variation or modification of this Lease and no waiver of any of its provisions or conditions shall be valid unless in writing and signed by duly authorized officers of the Lessor and the Lessee.

Section 23. Lessor Acting as Trustee. It is expressly understood and agreed by and between the parties hereto, anything herein to the contrary notwithstanding, that each of and all the representations, covenants, undertakings and agreements herein made on the part of the Lessor are made and intended not as personal representations, covenants, undertakings and agreements by The Royal Trust Company or for the purpose or with the intention of binding such trust company personally but are made and intended for the purpose of binding only the Estate as such term is used in the Owner Trust Agreement, and this Agreement is executed and delivered by such trust company not in its own right but solely in the exercise of the powers expressly conferred on it as trustee under the Owner Trust Agreement.

Section 24. Counterpart Execution. This Lease may be executed in several counterparts, but the counterpart delivered to the Trustee shall be deemed to be the original counterpart.

IN WITNESS WHEREOF, the Lessor and the Lessee, each pursuant to due corporate authority, have caused this instrument to be signed in their respective corporate names by duly authorized officers and their respective corporate seals to be hereunto affixed and duly attested, all as of the date first above written.

THE ROYAL TRUST COMPANY,
as Owner Trustee,

by


R. L. MACKENZIE, Manager Corp. Trust Dept.

by

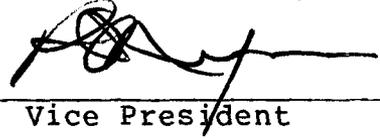

R. HAYMAN, Corp. Trust Officer

[CORPORATE SEAL]



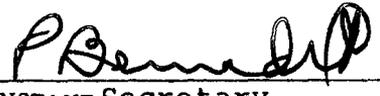
CANADIAN PACIFIC LIMITED,

by

A handwritten signature in black ink, appearing to be "A. J. ...", written over a horizontal line.

Vice President

by

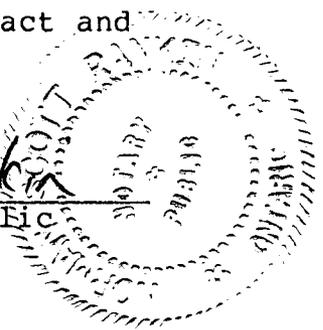
A handwritten signature in black ink, appearing to be "P. ...", written over a horizontal line.

ASSISTANT Secretary

PROVINCE OF ONTARIO,)
) ss.:
CITY OF TORONTO,)

On this 26th day of May 1977, before me personally appeared R.L. MACKENZIE and R. HAYMAN, to me personally known, who, being by me duly sworn, say that they are Manager Corp. Trust Dept. and Corp. Trust Dept. respectively, of THE ROYAL TRUST COMPANY, that one of the seals affixed to the foregoing instrument is the corporate seal of the said corporation, that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors, and they acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.

James Stokin
Notary Public



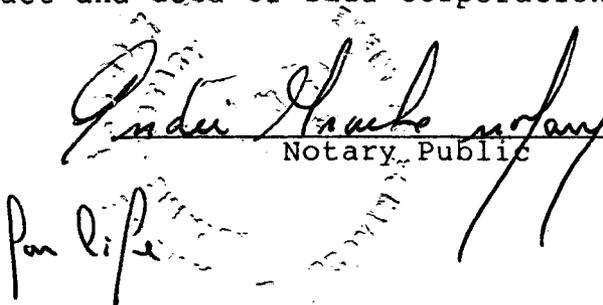
[NOTARIAL SEAL]

My commission expires:

PROVINCE OF QUEBEC,)
) ss.:
CITY OF MONTREAL,)

On this 27th day of MAY 1977, before me personally appeared PAUL A. NEPVEU and PAUL BERNARD, to me personally known, who, being by me duly sworn, say that they are a Vice President and Assistant Secretary, respectively, of CANADIAN PACIFIC LIMITED, that one of the seals affixed to the foregoing instrument is the corporate seal of the said corporation, that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors, and they acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.

André Hauck
Notary Public



[NOTARIAL SEAL]

My commission expires: is for life

SCHEDULE I

Lease

Basic Equipment

<u>Quantity</u>	<u>Type and Specifications</u>	<u>Identifying Numbers (both inclusive)</u>
238	100-Ton, Covered Hopper Cars	CPI 385262 to CPI 385499