

RECORDATION NO. 8953 Filed & Recorded

AUG 29 1977 - 1 25 PM GRAVATH, SWAINE & MOORE 7-2411059

ONE CHASE MANHATTAN PLAZA

MAURICE T. MOORE
 BRUCE BROMBERG
 ROSWELL L. GILPATRICK
 ALBERT R. CONNELLY
 FRANK H. DETWEILER
 GEORGE G. TYLER
 CHARLES R. LINTON
 WILLIAM B. MARSHALL
 RALPH L. MCAFEE
 ROYALL VICTOR
 ALLEN H. MERRILL
 HENRY W. DEKOSMIAN
 ALLEN F. MAULSBY
 STEWARD R. BROSS, JR.
 HENRY P. RIORDAN
 JOHN R. HUPPER
 SAMUEL C. BUTLER
 WILLIAM J. SCHRENK, JR.
 BENJAMIN F. CRANE
 FRANCIS F. RANDOLPH, JR.
 JOHN F. HUNT, JR.
 GEORGE J. GILLESPIE, III
 RICHARD S. SIMMONS
 WAYNE E. CHAPMAN
 THOMAS D. BARR

NEW YORK, N.Y. 10005

MANOVER 2-3000

INTERNATIONAL TELEX: 820976

TELETYPE: 710-581-0338

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INTERSTATE COMMERCE COMMISSION

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INTERSTATE COMMERCE COMMISSION

CARLYLE E. MAW
L. R. BRESLIN, JR.
HAROLD R. MEDINA, JR.
COUNSEL

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TELEPHONE: 265-81-54
TELEX: 290530

TERMINAL HOUSE
62, GROSVENOR GARDENS
LONDON, SW1W 0AU, ENGLAND
TELEPHONE: 01-730-5203
TELEX: 917840

RECORDABLE ADDRESSES
GRAVATH, N. Y.
GRAVATH, PARIS
GRAVATH, LONDON S.W.1

AUG 29 1977
Date
Fees \$ 160
CC Washington, D. C.

RECORDATION NO. 8953 Filed & Recorded

AUG 29 1977 - 1 25 PM

INTERSTATE COMMERCE COMMISSION
August 29, 1977

Dear Sir:

Herewith for recordation pursuant to Section 20c of the Interstate Commerce Act, on behalf of Peterson, Howell & Heather (Canada) Limited and Canadian National Railway Company, are counterparts of the following:

(1) Equipment Purchase Agreement dated as of August 16, 1977, between Canadian National Railway Company, as Seller, and Peterson, Howell & Heather (Canada) Limited, as Purchaser.

(2) Lease of Railroad Equipment dated as of June 1, 1977, between Peterson, Howell & Heather (Canada) Limited, as Lessor, and Canadian National Railway Company, as Lessee.

(3) Trust Indenture dated as of June 1, 1977, between Peterson, Howell & Heather (Canada) Limited, as Company, and The Royal Trust Company, as Trustee.

(4) First Supplemental Trust Indenture dated as of June 1, 1977, between Peterson, Howell & Heather (Canada) Limited, as Company, and The Royal Trust Company, as Trustee.

The addresses of the parties to the aforementioned agreements are:

Seller-Lessee:

Canadian National Railway Company
935 La Gauchetiere West
Montreal, Quebec H3C 3N4
Canada.

Aug 29 1 21 PM '77
T.C.C.
FEE OPERATION BR.

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Handwritten signatures and notes on the left margin.

Purchaser-Lessor-Company:

Peterson, Howell & Heather
 3 Place due Commerce
 Ile des Sours
 Montreal, Quebec H3E 1H7
 Canada.

Trustee:

The Royal Trust Company
 630 Dorchester Boulevard West
 Montreal, Quebec,
 Canada.

The equipment covered by the aforementioned agreements consists of 55 70-ton Flat Cars--Bulkhead bearing the road numbers of the Canadian National Railway Company CN-620443; 620446-620499, 9 70-ton Long Steel Hopper Cars bearing the road numbers of the Canadian National Railway Company CN-302591-302599; 7 Ohio Model DE-400 Locomotive Cranes 40/50 ton capacity bearing the road numbers of the Canadian National Railway Company CN-50470-50476, 1 Model 40 Ser. #40-400 Standard Burro Crane bearing the road number of the Canadian National Railway Company CN-50477, 1 Model 40 Burro Crane 12-1/2 ton capacity bearing the road number of the Canadian National Railway Company CN-50478 and 1 Model 4-100 Jordan Spreader Ditcher Snow Plow bearing the road number of the Canadian National Railway Company CN-50938, and also bearing the legend "Ownership subject to a security agreement filed under the Interstate Commerce Act, Section 20c".

Enclosed is our check for \$160 for the required recordation fee. Please accept for recordation one counterpart of each of the enclosed agreements, stamp the remaining counterparts with your recordation number and return them to the delivering messenger along with your fee receipt, addressed to the undersigned.

Very truly yours,



Kris F. Heinzelman

Robert L. Oswald, Esq., Secretary,
 Interstate Commerce Commission,
 Washington, D. C. 20423

Encls.

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Interstate Commerce Commission
Washington, D.C. 20423

8/29/77

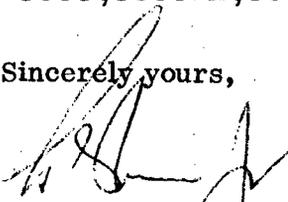
OFFICE OF THE SECRETARY

Kris F. Heinzelman
Cravath, Swaine & Moore
One Chase Manhattan Plaza
New York, N.Y. 10005

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 8/29/77 at 1:25pm, and assigned recordation number(s) 8953, 8953-A, 8953-B & 8953-C

Sincerely yours,


H.G. Homme, Jr.
Acting Secretary

Enclosure(s)

SE-30-T
(6/77)

RECORDATION NO. 8953-A Filed & Recorded

Film copy

AUG 29 1977-1 25 PM

INTERSTATE COMMERCE COMMISSION

LEASE OF RAILROAD EQUIPMENT

between

PETERSON, HOWELL & HEATHER (CANADA) LIMITED

and

CANADIAN NATIONAL RAILWAY COMPANY

Dated as of June 1, 1977

LEASE OF RAILROAD EQUIPMENT dated as of June 1, 1977, between PETERSON, HOWELL & HEATHER (CANADA) LIMITED (hereinafter called the "Lessor") and CANADIAN NATIONAL RAILWAY COMPANY (hereinafter called the "Lessee").

WHEREAS the Lessor proposes to acquire from the Lessee title to and ownership of all the units of railroad equipment described in Schedule A hereto (hereinafter called the "Units") pursuant to an Equipment Purchase Agreement dated August 16, 1977 (hereinafter called the "Equipment Purchase Agreement"), between the Lessee, as seller and the Lessor, as purchaser;

WHEREAS in order to finance the acquisition of the Units the Lessor proposes to issue and sell its 8-1/4% Secured Equipment Notes (hereinafter called the "Notes") under a Trust Indenture dated as of June 1, 1977, as supplemented by a First Supplemental Trust Indenture, dated as of June 1, 1977 (hereinafter called the "Trust Indenture"), between the Lessor and The Royal Trust Company, as Trustee (hereinafter called the "Trustee");

WHEREAS the Lessor proposes to assign all its right, title and interest in and to this Lease and the Units to the Trustee to secure the Notes pursuant to the Trust Indenture and the Lessee proposes to deliver to the Trustee a Consent and Agreement dated as of the date hereof (hereinafter called the "Consent"), acknowledging notice of and consenting to such assignment; and

WHEREAS the Lessee desires to lease all the Units at the rentals and for the terms and upon the conditions hereinafter provided.

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 terms and conditions set forth in the following articles:

1. Delivery and Acceptance of Units. The Lessor will cause the Units to be tendered to the Lessee at the point or points within Canada or the United States of America and on the date (hereinafter called the "Delivery

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Date") each Unit is delivered to the Lessor under the Equipment Purchase Agreement. Upon such tender, the Lessee will cause an authorized representative of the Lessee to inspect the same, and if each such Unit is found to be in good order, to accept delivery of each such Unit and execute and deliver to the Lessor a certificate of acceptance and delivery (hereinafter called the "Certificate of Acceptance"), whereupon each such Unit shall be deemed to have been delivered to and accepted by the Lessee and shall be subject thereafter to all the terms and conditions of this Lease.

2. Rentals. The Lessee agrees to pay the Lessor as rental for each Unit subject to this Lease thirty (30) consecutive semiannual payments, in arrears, payable on February 28 and August 30 of each year commencing February 28, 1978. Each such payment shall consist of an amount in United States dollars equal to 5.43725% of the Unit Cost set forth in Schedule A for each Unit subject to this Lease on the date of such payment.

All payments (including payments in respect of Casualty Occurrences as such term is hereinafter defined) provided for in this Lease to be made to the Lessor shall, until notice to the contrary is given by the Trustee, be paid to the Trustee at its office at 630 Dorchester Boulevard West, Montreal, Quebec, Canada.

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, abatement, reductions or setoffs 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; 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 whatsoever cause, the prohibition of or other restriction against use of all or any of the Units by the Lessee or any other person, the interference with such use by any person or entity, the invalidity or unenforceability or lack of due authorization of this Lease, or for any other cause whether similar or dissimilar to the foregoing, any present or future law to the

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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.

3. Term of Lease. The term of this Lease as to each Unit shall begin on the Delivery Date and, subject to the provisions of articles 6, 9.1, 10 and 12 hereof, shall terminate on August 30, 1992.

4. Identification Marks. The Lessee will cause each Unit to be kept numbered with the identifying number set forth in Schedule A hereto and will within two years after the acceptance of delivery of each Unit, mark each Unit and will thereafter keep and maintain, plainly, distinctly, permanently and conspicuously marked on each side of each Unit, in letters not less than three-eighths inch in height, the following words:

"PETERSON, HOWELL & HEATHER (CANADA) LIMITED, OWNER
THE ROYAL TRUST COMPANY, TRUSTEE, MORTGAGEE"

or other appropriate words designated by the Lessor, with appropriate changes therein and additions thereto as from time to time may be required by law in order to protect the interests of the Lessor and any secured party in each Unit and under this Lease. The Lessee will not change or permit to be changed the identifying number of any Unit except in accordance with a statement of new identifying numbers to be substituted therefor, which statement previously shall have been filed with the Lessor by the Lessee and filed, recorded or deposited at the Lessee's cost and expense 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 or initials or other insignia customarily used by the Lessee or any permitted sublessee on railroad equipment used by them of the same or a similar type for convenience of identification of their rights to use the Units as permitted under this Lease.

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5. Taxes. All payments to be made by the Lessee hereunder will be free of expense to the Lessor for collection or other charges and will be free of expense to the Lessor with respect to the amount of any Canadian Federal or provincial taxes or any United States Federal, state or local taxes (other than any Canadian Federal income taxes [or United States Federal income taxes in respect of which the Lessor receives credit against its Canadian Federal income tax liability] payable by the Lessor in consequence of the receipt of payments provided herein and other than the aggregate of all Canadian or United States local, provincial, state or city income taxes or franchise taxes measured by net income based on such receipts, up to the amount of any such taxes which would be payable to the province and city in which the Lessor has its principal place of business without apportionment to any other province, state or city, except any such tax which is in substitution for or relieves the Lessee from the payment of taxes which it would otherwise be obligated to pay or reimburse as herein provided), assessments, duties or license fees, and any charges, fines or penalties in connection therewith (all such expenses, taxes, assessments, duties, license fees, charges, fines and penalties being hereinafter called "Impositions"), hereafter levied or imposed upon or in connection with or measured by, this Lease or any sale, rental, use, payment, shipment, import, export, delivery or transfer of title under the terms hereof, all of which Impositions the Lessee assumes and agrees to pay on demand in addition to the payments to be made by it provided for herein. At the option of the Lessor, such payment of Impositions by the Lessee (including the filing of any returns, reports or other documents relating thereto) shall be made directly to the appropriate taxing authority. The Lessee will also pay promptly all Impositions which may be imposed upon any Unit or for the use or operation thereof or upon the earnings arising therefrom or upon the Lessor solely by reason of its ownership thereof and will keep at all times all and every part of such Unit free and clear of all Impositions which might in any way affect the title of the Lessor or result in a lien upon such Unit; provided, however, that the Lessee shall be under no obligation to pay any Imposition so long as it is contesting in good faith and with due diligence and by appropriate legal proceedings such Impositions and the nonpayment thereof does not, in the opinion of the Lessor, adversely affect the property or rights of the Lessor hereunder. The Lessor may require the Lessee to give security to the satisfaction of the Lessor for the due payment or discharge of any such Imposition in case it shall be

June

held to be valid. If any Impositions shall have been charged or levied against the Lessor directly and paid by the Lessor, the Lessee shall reimburse the Lessor on presentation of an invoice therefor.

In the event any reports with respect to Impositions are required to be made, the Lessee will either make such reports in such manner as to show the interests of the Lessor in such Units or notify the Lessor of such requirement and will make such reports in such manner as shall be satisfactory to the Lessor.

In the event that, during the continuance of this Lease, the Lessee becomes liable for the payment or reimbursement of any Impositions pursuant to this article 5, such liability shall continue, notwithstanding the expiration of this Lease, until all such Impositions are paid or reimbursed by the Lessee.

6. Payment for Casualty Occurrences. In the event that any Unit shall be or become lost, stolen, destroyed, irreparably damaged or damaged beyond economic repair, from any cause whatsoever or taken or requisitioned by condemnation, expropriation or otherwise for a period in excess of 90 days (such occurrences being hereinafter called "Casualty Occurrences") during the term of this Lease, the Lessee shall promptly, after it shall have determined that such Unit has suffered a Casualty Occurrence, fully inform the Lessor in regard thereto. The Lessee shall (a) within the then current taxation year of the Lessor, with the prior approval of Lessor, replace such Unit with another unit of railway equipment of the same or similar type or of another type which is acceptable to the Lessor, free and clear of all liens and encumbrances, with a remaining useful life at least as long as the Unit being replaced would have had but for the Casualty Occurrence and with a Fair Market Value not less than the greater of (x) the Fair Market Value of such Unit and (y) the Casualty Value, as hereinafter defined, of such Unit immediately prior to its suffering the Casualty Occurrence, and thereupon such replacement unit shall be the property of the Lessor and become part of the Units hereunder and be subject to all the terms and provisions hereof as if originally described in Schedule A (and appropriate conveyance of title thereto shall be effected) and in such event no rental payable hereunder with respect to such Unit as has suffered a Casualty Occurrence or such replacement unit shall abate, provided, however, that the Lessee shall reimburse the



Lessor for any loss, recapture or unavailability of capital cost allowance plus taxes due as a result of such reimbursement, or (b) upon 20 days' prior written notice to the Lessor, pay to the Lessor on the next succeeding rental payment date which is more than 20 days after notice is given of such Casualty Occurrence an amount equal to the Casualty Value of such Unit calculated as of such rental payment date plus the rental due on such date in respect of such Unit and only after making such payment the rental for such Unit shall cease to accrue and the term of this Lease as to such Unit shall terminate; provided, however, that the rights granted to the Lessee in clause (b) of this article 6 may not be exercised by the Lessee if both (i) the rental payment date on which payment of a sum equal to the Casualty Value of the Unit therein referred to would otherwise be payable is on or prior to the fifth anniversary of the date of commencement of the term of this Lease, and (ii) the aggregate of the sum otherwise payable on such date and all other such sums theretofore paid including amounts paid pursuant to clause (b) of this article 6 would equal or be greater than an amount equal to 1.2938% of the aggregate principal amount of the Notes originally issued under the Trust Indenture. 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, plus an amount equal to the accrued unpaid rental for such Unit, deliver to or upon the order of the Lessee a bill of sale (without recourse, representations or warranties) for such Unit executed by the Lessor and such other documents as may reasonably be required in order to transfer to the Lessee clear title to such Unit free and clear of all liens, security interests and other encumbrances.

The Fair Market Value of any Unit which shall have suffered a Casualty Occurrence or of any replacement unit 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 (other than (i) a lessee currently in possession or (ii) a used equipment dealer) and an informed and willing seller under no compulsion to sell and, in such determination, costs of removal from the location of current use shall not be a deduction from such value.

The Casualty Value of each Unit as of any rental

payment date shall be equal to the product of (x) the applicable percentage of Unit Cost set forth in the Schedule set out below opposite such rental payment date, multiplied by (y) the Unit Cost for said Unit as set forth in Schedule A hereto (or in case a replacement unit suffers a Casualty Occurrence, the original Unit Cost of the replaced unit).

<u>Rental Payment Date</u>	<u>Percentage of Unit Cost</u>
February 28, 1978	103.58
August 30, 1978	102.21
February 28, 1979	100.71
August 30, 1979	99.09
February 28, 1980	97.34
August 30, 1980	95.49
February 28, 1981	93.54
August 30, 1981	91.47
February 28, 1982	89.30
August 30, 1982	87.04
February 28, 1983	84.69
August 30, 1983	82.25
February 28, 1984	79.72
August 30, 1984	77.10
February 28, 1985	74.41
August 30, 1985	71.64
February 28, 1986	68.78
August 30, 1986	65.86
February 28, 1987	62.85
August 30, 1987	59.77
February 28, 1988	56.62
August 30, 1988	53.39
February 28, 1989	50.10
August 30, 1989	46.73
February 28, 1990	43.30
August 30, 1990	39.80
February 28, 1991	36.23
August 30, 1991	32.59
February 28, 1992	28.88
August 30, 1992	25.00

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The value of any replacement Unit shall be expressed in United States dollars and if the original cost of any replacement Unit shall have been expressed in Canadian dollars, such original cost shall be converted to United States dollars on the basis of the mean between the high and low noon buying rate for cable transfers in New York payable in Canadian dollars (as reported by the Federal Reserve Bank of New York) on the date of payment of the original cost of such replacement Unit to the builder or seller thereof.

The rights and remedies of the Lessor to enforce or recover any of the rentals which are due and payable prior to the replacement of or incurring of the obligation to pay the Casualty Value of any Unit shall not be affected by reason of the Casualty Occurrence with respect to such Unit.

7. Annual Reports. On or before April 1 in each year commencing with the year 1978, the Lessee will cause to be furnished to the Lessor in such number of counterparts or copies as may reasonably be requested an accurate statement signed by a responsible officer of the Lessee, as of the preceding December 31, (a) showing the amount, description and numbers of the Units then leased hereunder, the amount, description and number of all Units that may have suffered a Casualty Occurrence during the preceding 12 months (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 may reasonably request, (b) stating that, in the case of all Units replaced, repainted or repaired during the period covered by such statement, the markings required by article 4 hereof have been preserved or replaced, and (c) stating whether or not any Event of Default shall have occurred during the period covered by such statement and, if an Event of Default shall have occurred, whether or not the same is continuing and what steps the Lessee has taken or is taking to cure such Event of Default. The Lessor and the Trustee shall have the right at their sole cost and expense, by their authorized representatives, to inspect the Units and the Lessee's records with respect thereto, at all reasonable times to view the state and condition of the Units and to confirm to the Lessor and the Trustee the existence and proper maintenance thereof during the continuance of this Lease.

8. Disclaimer of Warranties; Lessor's Representation and Warranties; Compliance with Laws and Rules; Maintenance; Indemnification; Lessee's Representations and Warranties.

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8.1. The Lessor makes no warranty or representation, either express or implied, as to the design or 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 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 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 and for the account of the Lessor and/or the Lessee, as their interests may appear, and at the expense of the Lessee whatever warranty claims and rights the Lessor may have. 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 and the Lessor that all Units 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 based on any of the foregoing matters.

8.2. The Lessor represents and warrants 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 Lessee as seller of such Unit, unimpaired by any act or omission of the Lessor 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 and encumbrances, which may result from claims against the Lessor not arising out of the ownership thereof which will prevent the performance of this Lease in accordance with its terms;

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(ii) so long as the Lessee shall not be in default under this Lease, the Lessor shall not do (or suffer to be done by any person claiming through or against the Lessor and not against the Lessee or any sublessee) 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;

(iii) the Lessor is a corporation duly incorporated and validly existing, in good standing, under the laws of Canada, with adequate corporate power to enter into this Lease;

(iv) this Lease has been duly authorized, executed and delivered by the Lessor and constitutes a legal and valid agreement binding upon the Lessor and enforceable in accordance with its terms;

(v) the entering into and performance of this Lease will not result in any breach of, or constitute a default under, any indenture, mortgage, deed of trust, bank loan or credit agreement or other agreement or instrument to which the Lessor is a party or by which it may be bound or contravene any provision of law, statute, rule or regulation to which the Lessor is subject or any judgment, decree, franchise, order or permit applicable to the Lessor; and

(vi) there are no actions, suits or proceedings pending or, to the knowledge of the Lessor, threatened against the Lessor or its properties or affecting this Lease or the transaction contemplated hereby which could, if adversely determined, materially and adversely affect the carrying out of such transaction.

8.3 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 and of the Trust Indenture.

8.4. The Lessee agrees, for the benefit of the Lessor, to comply in all respects with all laws of the jurisdictions in which the Units may be operated, with all applicable interchange rules of the Association of American Railroads, and with all lawful rules of the Canadian Trans-

port Commission and the Interstate Commerce Commission and any other legislative, executive, administrative or judicial body exercising any power or jurisdiction over the Units and the Lessee shall and does hereby indemnify the Lessor and agrees to hold the Lessor 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 any sublessee, or their employees, or any other person. In the event that such laws or rules require 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 any 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 to make such alterations, changes, additions and replacements at its own expense; and the Lessee agrees at its own expense to use, maintain and operate such Unit in full compliance with such laws, regulations, requirements and rules so long as it is subject to this Lease; provided, however, that the Lessee may, in good faith, contest with due diligence by appropriate legal proceedings the validity or application of any such law or rule in any reasonable manner which does not, in the opinion of the Lessor, adversely affect the property rights of the Lessor hereunder.

8.5. The Lessee agrees that, at its own cost and expense, it will maintain and keep each Unit which is subject to this Lease in accordance with the standards in effect from time to time under the interchange rules of the Association of American Railroads (if applicable) and the Canadian Transport Commission in good order and repair, reasonable wear and tear excepted.

8.6. Any and all additions to any Unit and any and all parts installed on or replacements made to any Unit shall be considered accessions to such Unit (except such as are not required by laws or rules referred to in article 8.4 and can be removed without damage to, and without impairing the originally intended function or use of, such Unit, including without limitation, racks or partitions (hereinafter called "Temporary Alterations")), and ownership of such accessions (except as aforesaid) free of any lien, charge, security interest or encumbrance shall immediately be vested in the Lessor as its interest appears in the Unit itself. Upon termination of this Lease, the Lessee may, and, at the request of the Lessor, shall at the Lessee's sole cost and expense, remove the Temporary Alterations from the Units and

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will restore the Units to satisfactory operating condition and to their original physical condition at the time of delivery thereof to the Lessee hereunder, reasonable wear and tear excepted. Ownership of any Temporary Alterations not so removed by the Lessee shall pass to and vest in the Lessor.

8.7. The Lessee agrees to indemnify and save harmless the Lessor against any charge or claim made against the Lessor, and against any expense, loss or liability (including but not limited to counsel fees and expenses, patent liabilities, penalties and interest) which the Lessor may incur in any manner by reason of entering into or of the performance of this Lease or by reason of the ownership of any Unit, or which may arise in any manner out of or as the result of the ordering, acquisition, use, operation, condition, purchase, delivery, rejection, storage or return of any Unit under this Lease. The Lessee further agrees to indemnify and save harmless the Lessor against any charge, claim, expense, loss or liability on account of any accident in connection with the operation, use, condition, possession or storage of any Unit resulting in damage to property or injury to any person; provided, however, that the Lessee shall not be required to indemnify the Lessor under this paragraph for negligence on the part of the Lessor. The indemnities arising under this paragraph shall survive payment of all other obligations under this Lease or the termination of this Lease. Anything herein to the contrary notwithstanding, the Lessee shall not be obligated to indemnify under this paragraph in respect of any charge, claim, expense, loss or liability attributable to a Unit which, and to an event occurring after such Unit, shall have been assembled, delivered, stored and transported to the Lessor pursuant to article 9.2 or 13 hereof or after this Lease with respect to such Unit has otherwise terminated; provided, however, that such charge, claim, expense, loss or liability does not arise as a result of mechanical defects of such Unit which existed at the time such Unit was so returned or this Lease with respect to such Unit terminated.

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



8.9. The Lessee may self-insure with respect to physical damage to the Units and for public liability. If the Lessee does not choose to self-insure, then each insurance policy covering physical damage of any of the Units and each liability policy will name the Lessor as an additional insured and provide insurance regardless of any breach or violation of warranties, declarations or conditions contained in such policies and will provide for 30 days' prior written notice of the cancelation or material change in coverage. The Lessee will be liable for the payment of all insurance premiums, payable in respect of any such insurance. Evidence of any insurance carried, other than self-insurance, shall be delivered to the Lessor on or prior to the date of commencement of the term of this Lease and from time to time thereafter.

8.10. The Lessee will furnish to the Lessor, on the later of (i) 90 days after the end of each fiscal year, or (ii) within 10 days of the tabling in the House of Commons of Canada of its annual report, a statement of profit and loss and of surplus for each fiscal year, and a balance sheet as at the end of such year, all in reasonable detail and certified by a firm of independent chartered accountants.

8.11. The Lessee represents and warrants as follows:

(i) the Lessee is a railway company duly incorporated and validly existing, in good standing, under the laws of Canada, with adequate corporate power to enter into this Lease;

(ii) this Lease has been duly authorized, executed and delivered by the Lessee and constitutes a legal and valid agreement binding upon the Lessee and enforceable in accordance with its terms;

(iii) upon the due deposit of this Lease in the office of the Registrar General of Canada and upon the giving of notice of such deposit in the Canada Gazette in accordance with Section 86 of the Railway Act, R.S.C. 1970, c. R-2, no other act, filing, recording (or giving of notice) in respect of this Lease is necessary in order to protect the interests hereunder of the Lessor in and to the Units in Canada or any Province or Territory thereof against any and all subsequent purchasers or mortgagees from the Lessee and/or from creditors of the Lessee;

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(iv) no approval is required from any public regulatory body with respect to the entering into or performance of this Lease by the Lessee, or if any such approval is required, it has been properly obtained;

(v) the entering into and performance of this Lease will not result in any breach of, or constitute a default under any indenture, mortgage, deed of trust, bank loan or credit agreement or other agreement or instrument to which the Lessee is a party or by which it may be bound or contravene any provision of law, statute, rule or regulation to which the Lessee is subject or any judgment, decree, franchise, order or permit applicable to the Lessee; and

(vi) there are no actions, suits or proceedings pending or, to the knowledge of the Lessee, threatened against the Lessee or its properties or affecting this Lease or the transactions contemplated hereby which could, if adversely determined, materially and adversely affect the carrying out of such transactions.

8.12. Lessee covenants and agrees that nothing contained in the Trust Indenture shall render the Trustee liable to the Lessee under this Lease for the fulfillment of any obligations of the Lessor under this Lease.

9.1. Default and Enforcement. 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 article 2 hereof or any payment in respect of Casualty Occurrences and such default shall continue for a period of ten days;

(B) the Lessee shall make or permit any unauthorized assignment or transfer of this Lease, or sublease of any of the Units;

(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 and such default shall continue for 25 days after written notice from the Lessor specifying the default and demanding that the same be remedied; or

(D) any proceedings shall be commenced by or against the Lessee by way of a scheme of arrangement under the Railway Act, R.S.C. 1970, c.R-2 or for any relief under any bankruptcy or insolvency laws, or laws relating to the relief of debtors, readjustments of indebtedness, reorganizations, arrangements, compositions or extensions (other than a law which does not permit any readjustment of the obligations of the Lessee hereunder) 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), all the obligations of the Lessee under this Lease shall not have been duly assumed in writing, pursuant to a court order or judgment or decree, by a trustee or trustees or receiver or receivers appointed 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 proceeding 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 or to recover damages for the breach thereof; or

(b) by notice in writing to the Lessee terminate this Lease, whereupon all rights of the Lessee to the use of the Units shall absolutely cease and terminate 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 a right to recover from

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the Lessee any and all amounts which under the terms of this Lease may be then 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 rental period by a fraction of which the numerator is such number of days and the denominator is the total number of days in such full rental period) and also to recover forthwith from the Lessee (i) as damages for loss of the bargain and not as a penalty, a sum, with respect to each Unit, which represents the excess of (x) 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 (y) the then present value of the rentals which the Lessor reasonably estimates to be obtainable for the use of the Unit during such period, such present value to be computed in each case on a basis of a 6.75% per annum discount, compounded semi-annually from the respective dates upon which rentals would have been payable hereunder had this Lease not been terminated, (ii) any damages and expenses, including reasonable solicitors' 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, and (iii) a further amount, if any, which, after deduction of all taxes required to be paid by the Lessor in respect of the receipt thereof and in respect of the receipt of the amounts specified in subclause (i) and subclause (ii) of this clause (b) under the laws of Canada or any province or territory thereof, shall be equal to such sum as, in the reasonable opinion of the Lessor, will cause the Lessor's net return under this Lease to be equal to the net return that would have been available to the Lessor if it had been entitled to utilization of all or such portion of the deductions, credits and other benefits as are provided by the Income Tax Act (Canada) and Regulations thereunder, all as in effect on August 30, 1977, including without limitation the right to claim capital cost allowance with respect to the Units computed at a

rate of not less than 30% or 15% per annum, as the case may be, on a declining balance and to deduct interest expense incurred in connection with the financing of the Units and losses incurred in connection with this transaction against all its income from leasing sources, which deductions, credits and other benefits were lost, not claimed, not available for claim, disallowed or recaptured in respect of any Unit as a result of the termination of this Lease, the Lessee's loss of the right to use such Unit, any action or inaction by the Lessor or the sale or other disposition of the Lessor's interest in such Unit after the occurrence of an Event of Default. Notwithstanding anything to the contrary contained in this clause (b), it is understood and agreed that the Lessee shall receive a credit in respect of the amounts payable pursuant to subclause (i) of this clause (b) equal to any net proceeds received by the Lessor upon the sale or the leasing of the Units to the extent that such net proceeds that are actually received exceed the allowance for present value as therein determined.

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 the 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.

9.2. Return of Units upon Default. If this Lease shall terminate pursuant to article 9.1 hereof, the Lessee shall forthwith deliver possession of the Units to the Lessor. 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 place such Units upon such storage tracks of the Lessee as the Lessor reasonably may designate;

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

(C) at the direction of the Lessor, within 30 days after the receipt of any such direction, transport the same to any place on the lines of railroad operated by it or any of its affiliates or to any connecting carrier for shipment, specified by the Lessor in such direction.

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 having jurisdiction in the premises the Lessor shall be entitled to a court order, judgment or decree against the Lessee requiring specific performance of the covenants of the Lessee so to assemble, deliver, store and transport 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, lessee or user of any such 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, lessee or user, the rights of inspection granted under this sentence.

Without in any way limiting the obligation of the Lessee under the foregoing provisions of this article 9.2, the Lessee hereby irrevocably appoints the Lessor as its agent and attorney-in-fact, 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.

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10. Lessor's Election To Terminate. If at any time after the fifth anniversary of the Delivery Date and during the term of this Lease Her Majesty the Queen in right of Canada shall not be the owner of at least 50.1% of the shares of each class of common stock of the Lessee and each class of any other capital stock of the Lessee having ordinary voting power for the election of directors, then the Lessor may declare this Lease to be terminated by giving written notice to the Lessee and the Trustee, whereupon the Lessee shall become obligated to pay to the Lessor on the next succeeding rental payment date which is more than 15 days after such notice is given, an amount equal to the aggregate of the Casualty Value for all Units (calculated in accordance with article 6 as if a Casualty Occurrence had been suffered and the payment in respect thereof was to be made on such rental payment date) plus the rental due on such rental payment date in respect of all Units then subject to this Lease. Upon the making of such payment all rentals hereunder shall cease to accrue and the term of this Lease shall terminate, and the Lessor shall deliver to or upon the order of the Lessee a bill of sale (without recourse, representations or warranties) for all such Units executed by the Lessor and such other or others as may be required in order to transfer to the Lessee clear title to such Units free and clear of all liens, security interests and other encumbrances.

11. Assignment; Possession and Use. Subject to the provisions of article 8.3 hereof, this Lease shall be assignable in whole or in part by the Lessor to any corporation incorporated and resident in Canada or any province or territory thereof 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 (including, but not limited to the rights under articles 2, 5, 6, 9.1, 9.2 and 10) shall inure to the benefit of the Lessor's assigns. Whenever the Lessor is referred to in this Lease, it shall apply and refer to each assignee of the Lessor.

So long as (i) the Lessee shall not be in default under this Lease, (ii) the Lessee is complying with the provisions of the Consent and (iii) the Trustee is entitled to apply the Payments (as defined in the Consent) as therein provided, the Lessee shall be entitled to the possession and use of the Units in accordance with the terms of this Lease, but, except as otherwise expressly provided herein, the

Lessee shall not without the prior written consent of the Lessor 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). In addition, the Lessee, at its own expense, will promptly cause to be duly discharged any lien, charge, security interest or other encumbrance (other than an encumbrance resulting from claims against the Lessor not related to the ownership of the Units or 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) which may at any time be imposed on or with respect to any Unit including any accession thereto or the interests 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 the immediately succeeding paragraph hereof.

So long as (i) the Lessee shall not be in default under this Lease, (ii) the Lessee is complying with the provisions of the Consent and (iii) the Trustee is entitled to apply the Payments (as defined in the Consent) as therein provided, the Lessee shall be entitled to the possession of the Units and to the use thereof by it or 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 without in any way relieving the Lessee from any obligation or liability hereunder.

Nothing in this article 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 railway company 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

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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 such subsidiary or affiliated corporations of the Lessee as are at the time such sublease is executed domestic railroad companies or corporations incorporated under the the laws of Canada or any province thereof or any state of the United States of America or the District of Columbia; provided, however, that the rights of such sublessee are made expressly subordinate to the rights and remedies of the Lessor under this Lease and of the Trustee under the Trust Indenture. No such sublease shall relieve the Lessee of any liability or obligation hereunder which shall be and remain that of a principal and not a surety.

12. Purchase Option. Provided that this Lease has not been earlier terminated and the Lessee is not in default hereunder, the Lessee may, by written notice delivered to the Lessor not less than six months prior to the expiration of the term of this Lease irrevocably elect to purchase all, but not less than all, the Units then covered by this Lease at the end of the term of this Lease for a purchase price equal to an amount which bears the same ratio to U.S. \$1,259,668 that the sum of the Unit Costs of each Unit, as set forth in Schedule A hereto, subject to this Lease at the end of the term hereof bears to U.S. \$5,038,672.37, which the Lessor and the Lessee agree will be the fair market value of such Units at the end of such term.

In the event the Lessee elects to purchase the Units, upon payment of the purchase price, the Lessor shall upon request of the Lessee deliver to or upon the order of the Lessee a bill of sale (without recourse, representations or warranties) for such Units executed by the Lessor and such other documents as may reasonably be required in order to transfer to the Lessee title to such Units free and clear of all liens, security interests and other encumbrances created by or through the Lessor.

13. Return of Units upon Expiration of Term. As soon as practicable on or after the expiration of the term of this Lease, the Lessee will (unless the Units are sold to the Lessee or shall have suffered a Casualty Occurrence), at its own cost and expense, at the request of the Lessor, deliver possession of any 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 180 days and transport the same, at any time within such 180 day 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 representative or representatives of any prospective purchaser, lessee or user 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, lessee or user, 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 having jurisdiction in the premises, the Lessor shall be entitled to a judgment, order or decree against the Lessee requiring specific performance of the covenants of the Lessee so to assemble, deliver, store and transport the Units. Each Unit returned to the Lessor pursuant to this article shall (i) be in the same operating order, repair and condition as when originally delivered to the Lessee, reasonable wear and tear excepted and (ii) meet the standards then in effect under the interchange rules of the Association of American Railroads if applicable and the Canadian Transport Commission.

14. Income Taxes. The Lessor, as the owner of each Unit, shall, for each taxation year throughout which it is a corporation of the type described in paragraph 1100(16)(a) of the Income Tax Regulations (Canada), be entitled to deduct in computing its income capital cost allowance

(a) with respect to the aggregate Unit Cost to the Lessor of those Units of Equipment which are bulkhead flat cars and longitudinal steel hopper cars (i.e., U.S. \$1,829,672.34), computed at a rate of not less than 15% per annum on a declining balance basis, and

(b) with respect to the aggregate Unit Cost to the Lessor of those Units of Equipment which are cranes and a spreader ditcher (i.e., U.S. \$3,209,000.03), computed at a rate of not less than 30% per annum on a declining balance basis,

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from all its income from whatever source as provided by the Income Tax Act (Canada), the regulations thereunder, the corporate income tax statutes of any province or territory of Canada and the regulations thereunder, all as amended to the date hereof (hereinafter sometimes collectively referred to as the Act). The Lessor, as the owner of each Unit, shall, for each taxation year throughout which it does not qualify as a corporation of the type described in paragraph 1100 (16)(a) of the Income Tax Regulations (Canada), be entitled to deduct in computing its income capital cost allowance as set forth in clauses (a) and (b) of this article 14 from its net income from renting "leasing properties" (as provided in subsection 1100(15) of the Income Tax Regulations (Canada)) computed before deducting capital cost allowances.

If

(i) due to any amendment, change or repeal of the Act, in whole or in part, as in effect on August 30, 1977,

(ii) due to the inaccuracy of any representation herein or heretofore in writing made by the Lessee to the Lessor, or

(iii) due to a reassessment by any taxing authority having jurisdiction of the income of the Lessor on the basis that the Lessor is entitled to deduct in computing its income capital cost allowance in respect of any Unit of the Equipment at a rate less than that referred to in clause (a) or (b) of this article 14, as the case may be, for a reason other than is described in clause (i) or (ii) of this article 14,

the Lessor shall lose or shall not have the right to claim or shall suffer a disallowance of all or any portion of such capital cost allowance, its interest deduction or losses with respect to any Unit, the rental rate applicable to such Unit set forth in article 2 of this Lease shall, on and after the next succeeding rental payment date after written notice to the Lessee by the Lessor that such capital cost allowance, interest deduction or losses has not been claimed, or if claimed and then disallowed on and after the next succeeding rental date after payment of the tax attributable thereto, be increased by such amount for such Unit which, in the reasonable opinion of the Lessor, will cause the Lessor's

net return in respect of such Unit under this Lease to equal the net return that would have been available if the Lessor had been entitled to utilization of all or such portion of such capital cost allowance, interest deduction or losses which was not claimed or was disallowed and the Lessee shall forthwith pay to the Lessor the amount of any interest and/or penalty which may be assessed under the Act against the Lessor attributable to the loss of all or any portion of such capital cost allowance, interest deduction or losses, together with such additional amount as may be required to put the Lessor in the same after-tax position as if such interest and/or penalty had not been assessed; provided, however, that if the Lessor is disallowed capital cost allowance with respect to any Unit or Units by reason of a reassessment or reassessments described in clause (iii) of this article 14, the gross rent payable by the Lessee on all Units of the Equipment shall in no event exceed the product of 0.054855 multiplied by the aggregate of the Unit Cost set forth in Schedule A; provided further, however, that if written notice to the Lessee by the Lessor that such capital cost allowance, interest deduction or losses has not been claimed, or if claimed has been disallowed, shall be given after the expiration of the term of this Lease, then within 30 days after the giving of such notice the Lessee shall pay to the Lessor as supplemental rent hereunder such amount as in the reasonable opinion of the Lessor will cause the Lessor's net return in respect of such Unit under this Lease to equal the net return that would have been available if the Lessor had been entitled to utilization of all or such portion of such capital cost allowance, interest deduction or losses which was not claimed or was disallowed and the Lessee shall forthwith pay to the Lessor the amount of any interest and/or penalty, which may be assessed under the Act against the Lessor attributable to the loss of all or any portion of such capital cost allowance, interest deduction or losses together with such additional amount as may be required to put the Lessor in the same after-tax position as if such interest and/or penalty had not been assessed; provided further, however, that such rental rate shall not be so increased if the Lessor shall have lost, or shall not have, or shall have lost the right to claim, or if there shall have been disallowed with respect to the Lessor, all or any portion of such capital cost allowance, interest deduction

or losses with respect to such Unit as a direct result of the occurrence of any of the following events:

(i) a Casualty Occurrence with respect to such Unit, if the Lessee shall have paid to the Lessor the amounts stipulated under article 6 hereof;

(ii) transfer by the Lessor of legal title to such Unit, the disposition by the Lessor of any interest in such Unit or the reduction by the Lessor of its interest in the rentals from such Unit under this Lease (except, in each case, to the Trustee as provided in the Trust Indenture), unless, in each case, an Event of Default shall have occurred and be continuing;

(iii) the failure of the Lessor to claim such capital cost allowance, interest deductions or losses in its income tax return for the appropriate year or the failure of the Lessor to follow proper procedure in claiming such capital cost allowance; or

(iv) the failure of the Lessor to have sufficient income to benefit from the deduction of such capital cost allowance, interest expenses or losses.

The Lessee will pay as additional rentals under this Lease such additional amounts as are necessary in order that every net payment of the principal of and interest on any of the Notes to a holder thereof who is not a resident of Canada after deduction and withholding for any tax, assessment or governmental charge (including any hereafter enacted) of Canada or any political subdivision or taxing authority therein, imposed on such holder with respect to such payment or withheld on the making of the payment to such holder, will not be less than the amount provided in such Note to be then due and payable; provided, however, that the foregoing obligation to pay additional rentals shall not apply in respect of any tax, assessment or governmental charge which is

(A) imposed by reason of one or more of the following: (i) such holder (or settlor or beneficiary of, or a person holding a power over, an estate or trust administered by a fiduciary holder) being considered as engaging or having engaged in trade or business, or being or having been physically present, in Canada, or (ii) a relationship or former relationship between such

holder (or a settlor or beneficiary of, or a person holding a power over, an estate or trust administered by a fiduciary holder) and Canada including, without limitation, such person's status as a resident thereof; or

(B) an estate, inheritance, gift or personal property tax, or tax similar thereto.

In addition, the foregoing obligation shall not apply to any portion of any such payment of principal or interest to any person who is not the beneficial owner of a Note if such beneficial owner would not have been entitled to the payment of the additional interest provided for in this paragraph had such beneficial owner received such portion directly.

The Lessor agrees that if, in the opinion of its or the Lessee's independent tax counsel (herein referred to as Counsel), a bona fide claim to all or a portion of such capital cost allowance, interest deduction or losses on any Unit exists in respect of which the Lessee is required to pay increased rental and interest and/or penalty as aforesaid to the Lessor as above provided, the Lessor shall, upon request and at the expense of the Lessee, take all such legal or other appropriate action deemed reasonable by Counsel in order to sustain such claim. The Lessor may take such action prior to making payment of the amounts claimed pursuant to a notice of assessment or reassessment or may make such payment and then sue for a refund. In the latter event, if the final determination shall be adverse to the Lessor, the Lessee shall pay to the Lessor interest on the amount of the tax paid attributable to such capital cost allowance, interest deduction or losses assessed or reassessed, computed at the rate of 8-1/4% per annum from the date of payment of such tax to the date the Lessee shall reimburse the Lessor for such tax in accordance with the provisions of this article 14 on which the first adjusted rental payment is made in accordance with the provisions of this article 14.

The Lessor shall not be obligated to take any such legal or other appropriate action unless the Lessee shall first have indemnified the Lessor for all liabilities and expenses which may be entailed therein and shall have furnished the Lessor with such reasonable security therefor as may be requested.

The Lessee's agreement to pay any sums which may become payable pursuant to this article 14 shall survive the expiration or other termination of this Lease.

15. Mileage Allowance; Subrogation. 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 of 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.

16. Additional Covenant of the Lessee. 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.

17. Recording; Expenses. The Lessee, at its own expense, shall cause this Lease (a) to be duly deposited in the office of the Registrar General of Canada and will cause the required notice of such deposit forthwith thereafter to be published in the Canada Gazette in accordance with Section 86 of the Railway Act, R.S.C. 1970, c. R-2, and (b) to be filed and recorded with the Interstate Commerce Commission in accordance with Section 20c of the Interstate Commerce Act of the United States of America.

A handwritten signature in the bottom right corner of the page, appearing to be 'Paul'.

The Lessee will, from time to time and at its expense, do and perform any act and will execute, acknowledge and deliver any and all further instruments required by law or reasonably requested by the Lessor for the purpose of proper protection, to the satisfaction of the Lessor and its counsel, of the Lessor's interests hereunder in the Units, or for the purpose of carrying out the intention of this Lease. The Lessee will promptly furnish to the Lessor evidence of such execution, acknowledgement and delivery.

The Lessee will pay the reasonable costs and expenses involved in the preparation and printing of this Lease.

18. Interest on Overdue Rentals. Anything to the contrary herein contained 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 9-1/4% per annum of the amount of the overdue rentals for the period of time during which they are overdue.

19. 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 a Canadian Post Box, first-class postage prepaid, addressed as follows:

if to the Lessor, at 3 Place du Commerce, Nun's Island, Verdun, Quebec, Canada H3E 1H7, Attention of Treasurer;

if to the Lessee, at P.O. Box 8108, Montreal, Quebec, Canada, H3C 3N3, Attention of the Treasurer;

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

20. Severability; Effect and Modification of Lease. Any provision of this Lease which is prohibited or unenforceable in any jurisdiction, shall be, as to such jurisdiction, 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. 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 parties hereto.

21. Execution. This Lease may be executed in several counterparts, each of which so executed shall be deemed to be an original, and in such case such counterparts together shall constitute but one and the same instrument.

Although this Lease is dated as of June 1, 1977, for convenience, the actual date or dates of execution hereof by the parties hereto is or are, respectively, the dates stated in the acknowledgements hereto annexed.

22. Law Governing. This Lease shall be construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein.

IN WITNESS WHEREOF, the parties hereto, each pursuant to due corporate authority, have caused these presents to be signed in their respective corporate names by duly authorized officers and their respective corporate seals to be hereunto affixed, as of the date first above written.

PETERSON, HOWELL & HEATHER
(CANADA) LIMITED,

[Seal]

by

D. W. Smith
President or Vice President

Amanning
Assistant Secretary

June

CANADIAN NATIONAL RAILWAY
COMPANY,

Approved
as to ~~form~~ only by
AS
Attorney

J. B. Spicer

Vice President

by

W. L. ...

Secretary

[Seal]

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

On this *26th* day of *August* 1977, before me personally appeared *Richard R. Smith*, to me personally known, who, being by me duly sworn, says that he is a *Vice-President* of PETERSON, HOWELL & HEATHER (CANADA) LIMITED, that one of the seals affixed to the foregoing instrument is the corporate seal of said corporation and that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors and he acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.

Dance Whitney

Notary Public in and for the
Province of Quebec

to full life.

My Commission ~~expires~~ —

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

On this *26th* day of *August* 1977, before me personally appeared *J H Spicer*, to me personally known, who, being by me duly sworn, says that he is a Vice President of CANADIAN NATIONAL RAILWAY COMPANY, that one of the seals affixed to the foregoing instrument is the corporate seal of said corporation and that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors and he acknowledges that the execution of the foregoing instrument was the free act and deed of said corporation.

Eric Urquhart

Notary Public in and for the
Province of Quebec

My Commission expires

July 3, 1979

G. ERIC URQUHART
COMMISSIONER FOR OATHS
COMMISSAIRE À L'ASSERMENTATION
DISTRICT • MONTREAL

SCHEDULE A

DESCRIPTION OF THE EQUIPMENT

<u>Type of Equipment</u>	<u>Specifications</u>	<u>Unit Cost to Lessor*</u>	<u>Builder</u>	<u>Number of Units</u>	<u>Unit Numbers</u>
Flat Cars-- Bulkhead	70-ton	28,452.75	National Steel Car Corporation, Limited	55	CN-620443; 620446- 620499
Long Steel Hopper Cars	70-ton	29,419.01	National Steel Car Corporation, Limited	9	CN-302591- 302599
Locomotive Cranes 40/50 ton capacity	Ohio Model DE-400	372,714.29	Woodlings Canada Limited	7	CN-50470- 50476
Standard Burro Crane	Model 40 Ser.# 40-400	192,000.00	Woodlings Canada Limited	1	CN-50477
Burro Crane 12-1/2 ton capacity	Model 40	212,000.00	Woodlings Canada Limited	1	CN-50478
Jordan Spreader Ditcher Snow Plow	Model 4-100	196,000.00	Jackson International Corporation	1	CN-50938

* Expressed in U.S. dollars.

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