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RECORDATION NO. **21063** FILED

DEC 15 '97

9-59 AM

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December 4, 1997

Office of the Secretary
Surface Transportation Board
12th Street & Constitution Ave., N.W.
Washington, D.C. 20423-0001

RE: Lease of Locomotive Equipment
National Railway Equipment Co., Lessor
Grand Trunk Western Railroad, Inc., Lessee

Dear Secretary:

I have enclosed an original and one copy of the document described below to be recorded pursuant to Section 11303 of Title 49 of the U.S. Code.

This document is a lease of locomotive equipment and is a primary document dated October 23, 1997. The names and addresses of the parties to the documents are as follows:

Lessor: National Railway Equipment Co.
14400 So. Robey
P.O. Box 2270
Dixmoor, IL 60426

Lessee: CN Headquarters
935 De La Gauchetiere, West
Montreal, Quebec H3B 2M9

A description of the equipment covered by the document follows:

<u>Unit No.</u>	<u>Type</u>	<u>General Description</u>
869	SD	ROAD LOCOMOTIVE
870	SD	ROAD LOCOMOTIVE
872	SD	ROAD LOCOMOTIVE
878	SD	ROAD LOCOMOTIVE

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882	SD	ROAD LOCOMOTIVE
886	SD	ROAD LOCOMOTIVE
889	SD	ROAD LOCOMOTIVE
892	SD	ROAD LOCOMOTIVE

A fee of \$24.00 is enclosed. Please return the original after recordation to:

Richard F. Loritz
1100 Ravinia Place
Orland Park, IL 60462

A short summary of the document to appear in the index follows:

A lease of locomotive equipment identified as EIGHT (8) locomotives, type SD, Road Locomotives, with National Railway Equipment Co., as Lessor, and Grand Trunk Western Railroad, Inc., as Lessee.

Very truly yours,

NATIONAL RAILWAY EQUIPMENT CO.
an Illinois Corporation

BY: _____
RICHARD F. LORITZ

ITS: Attorney and Agent in Fact

RFL/tc

Enclosures

nrec#D04.97n

DEC 15 '97 9-59 AM

LOCOMOTIVE LEASE AGREEMENT

THIS LOCOMOTIVE LEASE AGREEMENT ("Lease"), entered into as of the 23rd day of October, 1997, between NATIONAL RAILWAY EQUIPMENT COMPANY, an Illinois corporation, ("LESSOR"), and GRAND TRUNK WESTERN RAILROAD INC., ("LESSEE").

LESSOR AND LESSEE HEREBY AGREE AS FOLLOWS:

1. **LEASE AND LEASED PROPERTY**

Lessee hereby leases from Lessor, the locomotive(s), ("Locomotives"), together with the parts, accessories, attachments and devices, if any, now or hereafter affixed thereto, as described in Schedule "A" attached to and made part hereof.

2. **TERM**

The term of this Lease for each Locomotive shall be the fixed term set forth in Schedule "A", commencing on November 1, 1997 ("Commencement Date"). Upon termination of the lease, Lessee shall effect prompt delivery of the Locomotive(s) to Lessor at Dixmoor, Illinois.

3. **RENTAL**

- A. The rental payable shall be the sum identified in Schedule "A" payable monthly in advance. Lessee shall operate such Locomotive(s) in conformity with its use of Locomotives it owns and leases. If the Commencement Date for any locomotive does not fall on the first day of the month, the first rental payment shall be prorated accordingly.
- B. Payments past due for more than five (5) days shall bear interest at the rate of eighteen percent (18%) per annum.
- C. All rentals shall be paid to Lessor at National Railway Equipment Company, 135 LaSalle, Dept 1473, Chicago, IL 60674 or at such other address as Lessor may direct in writing.

4. **TAXES**

Lessee shall pay all use, excise, ad valorem, stamp, documentary and similar taxes on or relating to this lease of the Locomotive(s), or the use, registration, rental, maintenance, possession or operation thereof, and shall file any returns required therefor, and shall hold Lessor harmless against any liability and expense (including reasonable attorney fees and costs) on account of Lessee's failure to do the same.

5. OWNERSHIP AND LESSOR'S INSPECTION

- A. The Locomotive(s) shall at all times remain the sole and exclusive property of the Lessor.
- B. Lessee may add such equipment to the Locomotives as it uses in its operations, including radios and radio display units, and may retain them at lease end.
- C. Lessor shall keep the Locomotive(s), at all times, free and clear from all claims, liens and encumbrances.
- D. This Lease is intended to be a true lease of the Locomotive(s) and is not and in no way shall be construed as creating a sale of the Locomotive(s) to Lessee.

6. DELIVERY/RETURN

Delivery of the Locomotive(s) shall be accepted by Lessee at Lessee's facility. Upon expiration or other termination of this Lease, Lessee shall return such Locomotive(s) to Lessor at Silvis, Illinois, in the same condition as when accepted, reasonable wear and tear excepted.

7. LESSEE'S INSPECTION/WARRANTY DISCLAIMER

- A.
 - i. Lessee hereby acknowledges that Lessee has had or will have the opportunity to inspect the Locomotive(s) prior to accepting delivery of same, and that acceptance of delivery of the Locomotive(s) by Lessee constitutes acknowledgment that they have been received in running order.
 - ii. Except as provided in Section 8, Lessor shall not be responsible for any repairs or maintenance of the Locomotive(s) during the term of this Lease.
- B. Delivery to and acceptance of the Locomotive(s) by, and execution of this agreement with respect thereto by Lessee shall constitute Lessee's acknowledgment that the locomotive(s) are of the manufacture, design and utility, quality and capacity selected by the Lessee, that Lessee is satisfied that the same is suitable for Lessee's purpose and that, except as otherwise provided in Section 8, LESSOR MAKES NO REPRESENTATION OR WARRANTY EXPRESS OR IMPLIED, WITH RESPECT TO THE CONDITION, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF THE LOCOMOTIVE(S), and Lessor hereby disclaims all such representation and warranties.

8. USE AND MAINTENANCE

Lessee agrees that:

- A. Lessee shall be responsible and pay for all registrations, certificates, and permits, and all other similar requirements of governmental authorities, whether required to be obtained in the name of the Lessor or Lessee.
- B. The Locomotive(s) shall be used and operated only by properly qualified, trained and registered personnel authorized by Lessee.
- C. Lessee shall comply with all applicable laws and regulations relating to the lease, possession, use and operation of the Locomotive(s).
- D. The Lessee shall use the Locomotives only in the manner for which designed and intended and so as to subject them only to ordinary wear and tear. Lessee will, at its sole expense, perform all repair and maintenance work, servicing, lubrication and inspection of the Locomotives in accordance with Lessee's existing maintenance practices. Lessor agrees to accept responsibility for
 - i. The catastrophic failure of the (a) turbocharger, (b) engine and (c) AR-10 alternator during the lease term.

9. INDEMNIFICATION

Lessee does hereby agree to defend, indemnify, protect and hold harmless Lessor and any assignees or successors of Lessor, and their respective employees and agents, from and against any and all losses, liabilities (including without limitation strict liability imposed by law), damages, injuries, claims, demands and expenses (including legal expenses) of whatsoever kind and nature, resulting from or arising out of the use, condition, operation or ownership of any Locomotive. This covenant of indemnity shall continue in full force and effect notwithstanding the termination of this lease or the termination of the lease of any Locomotive.

- A. Except as otherwise provided in Section 8, Lessee assumes and agrees to indemnify, protect and hold free and harmless Lessor, any assignee or successor of Lessor, and their respective employees or agents, irrespective of any responsibility for negligence, from any loss, damage, theft or destruction of any locomotive.
- B. In case of total destruction of any or all of the Locomotives, Lessee shall pay Lessor, per Locomotive, the

9. **INDEMNIFICATION-CONTINUED**

amount stated as Replacement Value in Schedule "A".
Daily lease rental shall continue on such locomotive(s)
until such time that Lessee has issued payment to Lessor
via bank check or bank wire transfer.

10. **ASSIGNMENT AND LIENS**

Lessor shall have the unconditional right to assign this lease,
in whole or in part. Lessee shall have no right to assign or
sub-lease this lease or any other of the Locomotive(s) or any
interest therein.

11. **DEFAULT**

A. Lessee shall be in default under this Lease upon the
happening of any of the following events or conditions
("Event of Default"):

- i. Default in the payment within five days of when due
of any installment of rental hereunder or of any
other obligation for the payment of money now or
hereafter owed by Lessee to Lessor.
- ii. Default in the timely performance of any other
liability, obligation, covenant or agreement
hereunder of Lessee after written notice to
Lessee and a reasonable time to cure.

12. **REMEDIES UPON DEFAULT**

A. Upon the occurrence of any Event of Default or at any
time hereafter, Lessor, in its sole discretion, may take
any one or more of the following actions with respect to
the Locomotive(s):

- i. Declare all unpaid amounts of rental to be
immediately due and payable.
- ii. Terminate the lease of any or all Locomotives by
written notice to Lessee.
- iii. Whether or not the lease is terminated, take
possession of any or all Locomotive(s) wherever
found, and for this purpose Lessor may at Lessor's
option enter upon the premises where such
Locomotive(s) are located and take immediate
possession of and remove the same, all without

12. REMEDIES UPON DEFAULT (CONTINUED)

liability to Lessee for damage to property or otherwise for actions taken in a commercially reasonable manner.

- iv. Require that Lessee shall, upon written demand by Lessor and at Lessee's expense, promptly make available to Lessor at Lessee's expense, any or all Locomotives at a places designated by Lessor which is reasonably convenient to both parties.
 - v. Proceed by appropriate action either at law or in equity to enforce performance by Lessee of the applicable covenants of this Lease or to recover damages for the breach thereof or to rescind the lease hereunder of any or all Locomotive(s).
 - vi. Exercise any and all rights and remedies available to Lessor under any applicable law. In addition, Lessee shall be charged with and shall pay to Lessor all reasonable costs and expenses of Lessor incurred as a result of each Event of Default by Lessee.
- B. None of the rights and remedies under or referred to in this Paragraph 12 is intended to be exclusive, but each such right or remedy shall as to each Locomotive be cumulative and may be availed of separately or concurrently with or in addition to any other right or remedy provided or referred to herein or otherwise available to Lessor at law or in equity. Any repossession or subsequent sale or lease by Lessor of any Locomotive(s) shall not bar an action against Lessee for a deficiency. To the extent permitted by applicable law, LESSEE WAIVES ANY AND ALL RIGHTS TO NOTICE AND TO A JUDICIAL HEARING WITH RESPECT TO THE REPOSSESSION OF EQUIPMENT BY LESSOR IN A COMMERCIALY REASONABLE MANNER AS A RESULT OF ANY EVENT OF DEFAULT HEREUNDER BY LESSEE.
- C. Without limitation of any rights of Lessor otherwise existing or otherwise available to Lessor, it is expressly covenanted and agreed by the parties hereto that in the event of any assignment by operation of law of this Lease or of a bankruptcy of Lessee within the meaning of the Federal Bankruptcy Act, then Lessor may, at Lessor's election, terminate this Lease.

13. RECORDATION OR LESSOR'S INTEREST

Lessee agrees to execute all recording documents requested by Lessor to show Lessor's interest in the locomotive(s). Lessee further authorizes Lessor to execute and file financial statements or other documents evidencing Lessor's interest in the locomotive(s) without Lessee's signature.

14. MISCELLANEOUS

- A. This Lease and all rights and obligations hereunder shall be governed by and construed in accordance with the laws of the State of Illinois.
- B. Neither this Lease nor any schedule shall be amended, and no provision hereof or of any Schedule shall be waived or varied unless by a writing signed by the parties.
- C. No delay or omission by Lessor in exercising any right hereunder shall operate as a waiver of such right or any other right. A waiver by Lessor of any Event of Default by Lessee shall not be construed as a waiver of any future occasion.
- D. In case any provision (or portions thereof) in this Lease shall be held to be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions (or portions thereof) hereby shall not in any way be affected or impaired thereby.
- E. This Lease shall be binding upon and inure to the benefit of Lessor and Lessee and their respective successors.
- F. All notices permitted or required to be given pursuant to this Lease shall be mailed by Certified or Registered Mail, Return Receipt Requested to the parties at the following addresses or at such other addresses as each party may notify the other.

If to Lessor: National Railway Equipment Co.
 P.O. Box 2270
 Dixmoor, IL 60426

If to Lessee: Mr. Clark Carson
 Manager Motive Power Control
 CN Headquarters
 935 De La Gauchetiere, West
 Montreal, Quebec H3B 2M9

WITNESS WHEREOF, the parties have executed this Lease the day and year first mentioned above.

LESSOR:

NATIONAL RAILWAY EQUIPMENT CO.

BY: 

NAME: Patrick C. Frangella

TITLE: Vice President

ATTEST:

BY: 

NAME: Jerry J. Massie

TITLE: Corporate Controller

(Corporate Seal)

LESSEE:

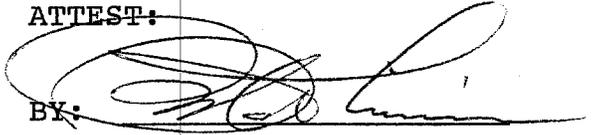
GRAND TRUNK WESTERN
RAILROAD, INC.

BY: 

NAME: Clarke Carson

TITLE: System Director Fleet Planning

ATTEST:

BY: 

NAME: J.P. Mathieson

TITLE: Chief Operations Planning

(Corporate Seal)

SCHEDULE "A"

Attached to and incorporated into the Lease dated the 23rd day of October, 1997, by and between NATIONAL RAILWAY EQUIPMENT COMPANY (LESSOR) and GRAND TRUNK WESTERN RAILROAD INC. (LESSEE).

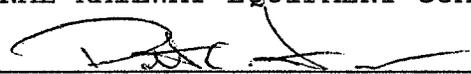
Type and General Description of Locomotive Unit, Marks and Numbers:

<u>UNIT NO.</u>	<u>TYPE</u>	<u>GENERAL DESCRIPTION</u>
869	SD	Road Locomotive
870	SD	Road Locomotive
872	SD	Road Locomotive
878	SD	Road Locomotive
882	SD	Road Locomotive
886	SD	Road Locomotive
889	SD	Road Locomotive
892	SD	Road Locomotive

<u>REPLACEMENT VALUE</u>	<u>TERM</u>	<u>LEASE RATE PER LOCOMOTIVE</u>	
		<u>MONTHLY</u>	<u>DAILY</u>
\$XXX,XXX.XX	365 days		\$ XXX.XX

COMMENCEMENT DATE: The commencement date of each locomotive shall be APRIL 1, 1997

LESSOR: NATIONAL RAILWAY EQUIPMENT COMPANY

BY: 

TITLE: Vice President

LESSEE: GRAND TRUNK WESTERN RAILROAD INC.

BY: _____

TITLE: _____