



Canadian Rail Summit

Rail Infrastructure Workshop

Genesee & Wyoming Canada Inc.
May 13, 2016

Presented by: André Lapalme, Vice-President Engineering, GWCI



Table of Contents

1. Overview: Genesee & Wyoming Inc. and Genesee & Wyoming Canada Inc.
2. Background: Canadian Short Line Rail Sector
3. The Issue: The Costs of Regulatory Compliance are Increasing
4. The Need: Capital Investments Enable Competitiveness
5. The Challenge: There are Few Funding Programs Available to Short Lines in Canada
6. The Opportunity: Applying the Best, Most Relevant Funding Models in Canada
7. Recommendations

1. Overview: Genesee & Wyoming Inc. and Genesee & Wyoming Canada Inc.

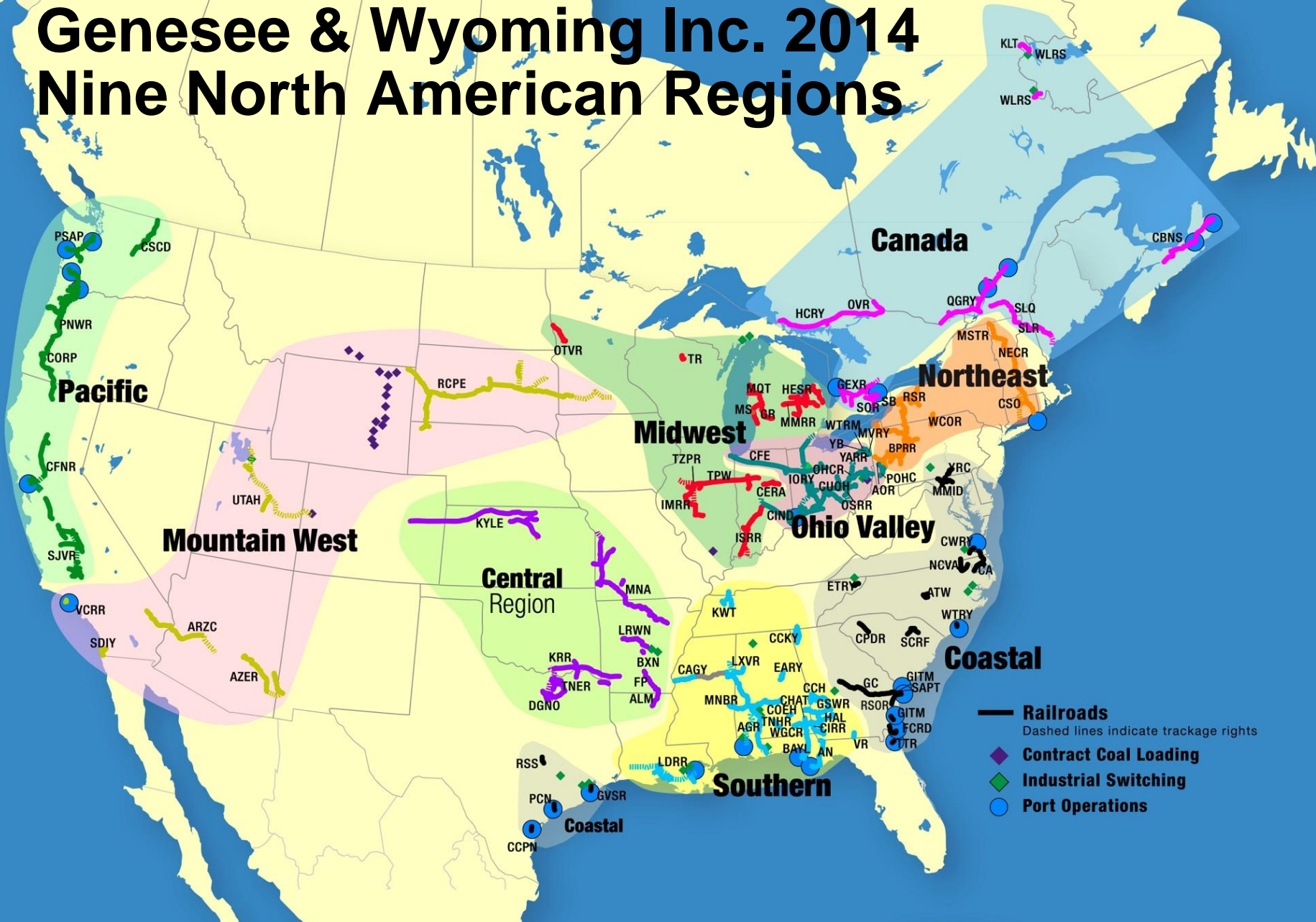


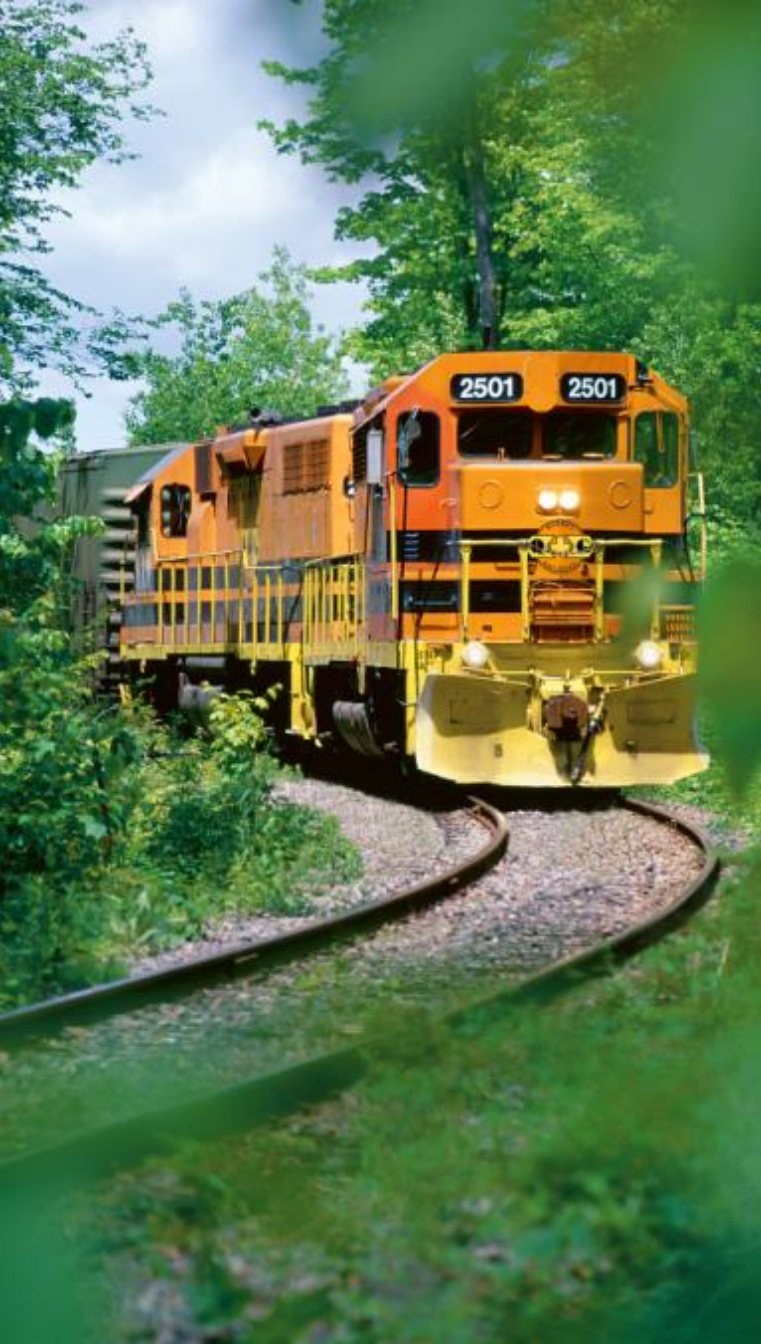


Overview

- **Railroads:** 120 worldwide with ~26,000 track kilometers (70% North America / 20% Australia / 10% Europe)
- **People:** 7,500 worldwide
- **Equipment:** >1,300 locomotives
- **Annual Carloads:** ~3.0 million
- **Track Record of Acquisitions:** Added >100 railroads since 2000

Genesee & Wyoming Inc. 2014 Nine North American Regions





Canadian Overview

- **Railroads:** 10 with ~2,200 track kilometers (1,400 miles) (90% Canada / 10% United States boarder)
- **People:** Approximately 500 in Canada
- **Equipment:** > 88 locomotives
- **Annual Carloads:** ~ 150,000
- **Track Record of Acquisitions:** Added > 6 railroads since 2012

Canadian Assets



➤ **Track:** ~ 2,200 kilometers (1,400 miles)

➤ **Bridges:** ~ 600

➤ **Culverts:** ~ 3500

➤ **Crossings:** 1985 in total

➤ Farm Crossings : 747

➤ Private Crossings : 282

➤ Public Crossings : 956



Regulatory Compliance



- Short Lines must follow and comply to the same regulation as the Class 1's railways for track, bridges, and S&C (Transport Canada, FRA, MTQ)
- Hard and electronic copies of each inspection carried out must be kept in the company's offices and files.
- Implementation of the Ensco System has been put in place since March 2016.

Regulatory Compliance (cont.)

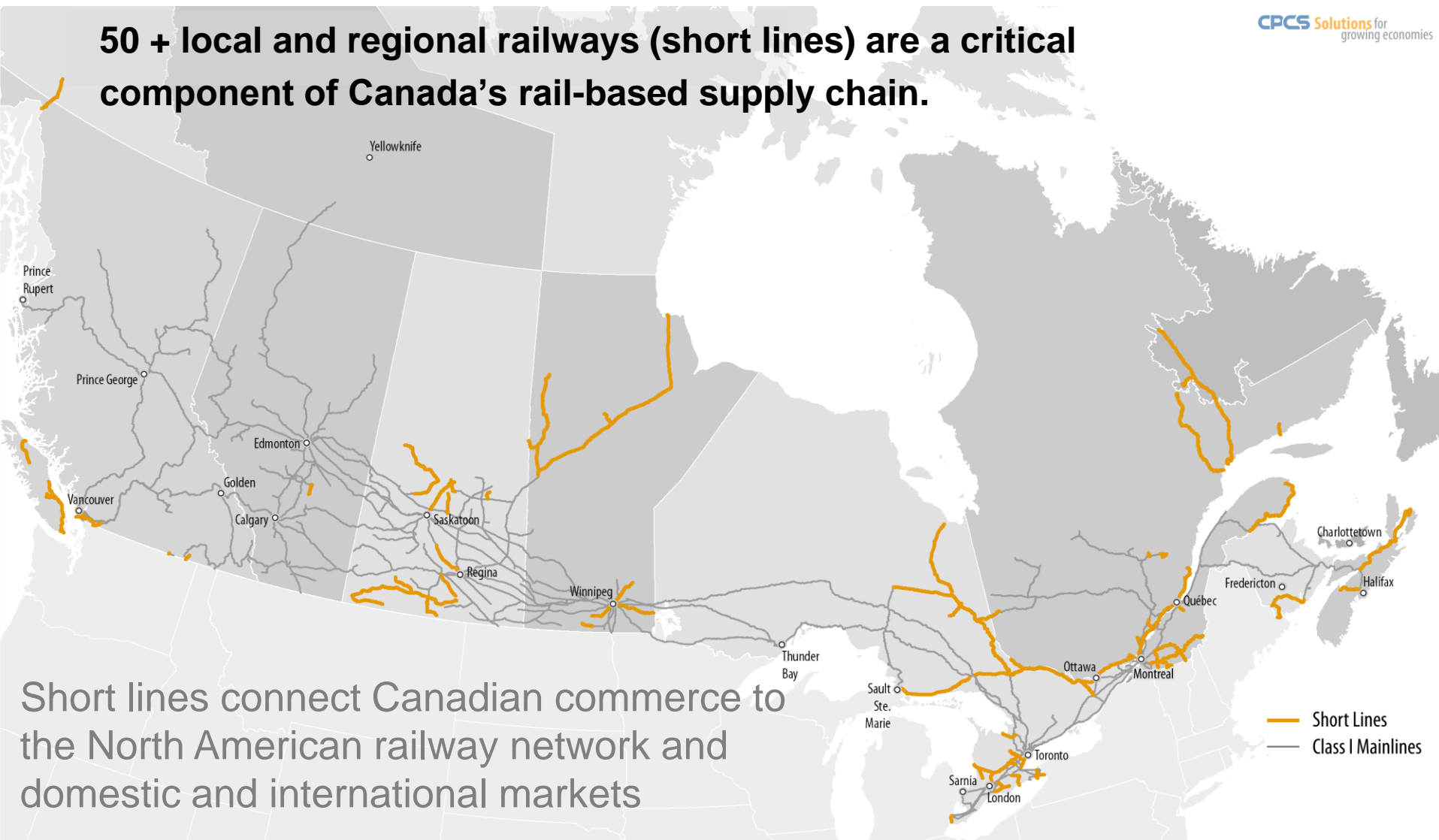


- We have some of the rail industry's most well-trained and conscientious track inspectors, who properly identify defects and ensure remedial action is taken.
- In 2015, there was a 38% reduction in reportable track caused derailments on G&W railroads.
- Furthermore, for the first four months of 2016, reportable track caused derailments are down 62% versus the first four months in 2015.

2. Background: Canadian Short Line Rail Sector



50 + local and regional railways (short lines) are a critical component of Canada's rail-based supply chain.



Short lines connect Canadian commerce to the North American railway network and domestic and international markets

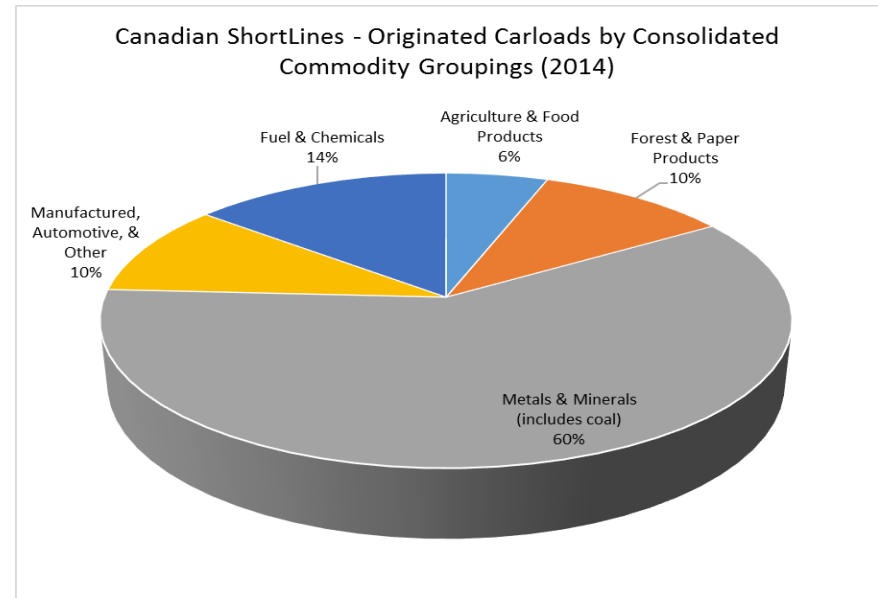
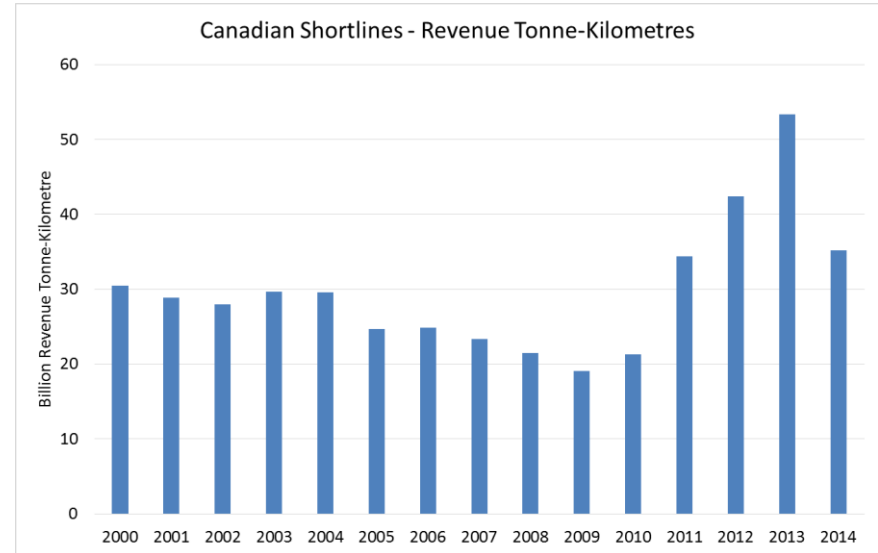
— Short Lines
— Class I Mainlines

Source: CPCS GIS database of North American railways

Profile of Canadian Short Line Sector

- 21% of Canada's rail network (track kilometres)
- \$923 million in annual revenues, or 6% of total Canadian rail sector revenues
- Short lines carry over 113 (Mt) of freight, accounting for almost one in five car loads originating on Canadian railways
- More than 2,500 direct jobs

* Profile based on Railway Association of Canada short line member railways



Source: Railway Association of Canada , 2016

3. The Issue: The Costs of Regulatory Compliance are Increasing



Federal Grade Crossing Regulations

- Crossing protection improvements estimated to be between \$10k-\$300k depending on a range of factors.

Liability Coverage Requirements

- Increase in premiums by more than 100%, in some cases by as much as \$125k -\$2M per year and possible revenue loss.

Safety Management System (SMS) Regulations

- Some short lines require additional full time staff for SMS, costing an additional \$100-200k per year, plus additional overhead costs.

Grade Crossings Regulations Transport Canada

Grade crossing safety Improvement

- GWCI has nearly 1985 grade crossings on its properties.
- As per the new Grade Crossings Regulations issued by Transport Canada on November 2014 :
 - 7 year time frame to bring existing crossings into compliance with new Grade Crossing Regulations ("GCR").
- Shortline Railways don't have the resources in-house to initiate the required data collection and information sharing with roadway authorities.
- Funding from the Government and support from the RAC is required to achieve the compliance requirement of the new regulations.

4. The Need: Capital Investments Enable Competitiveness

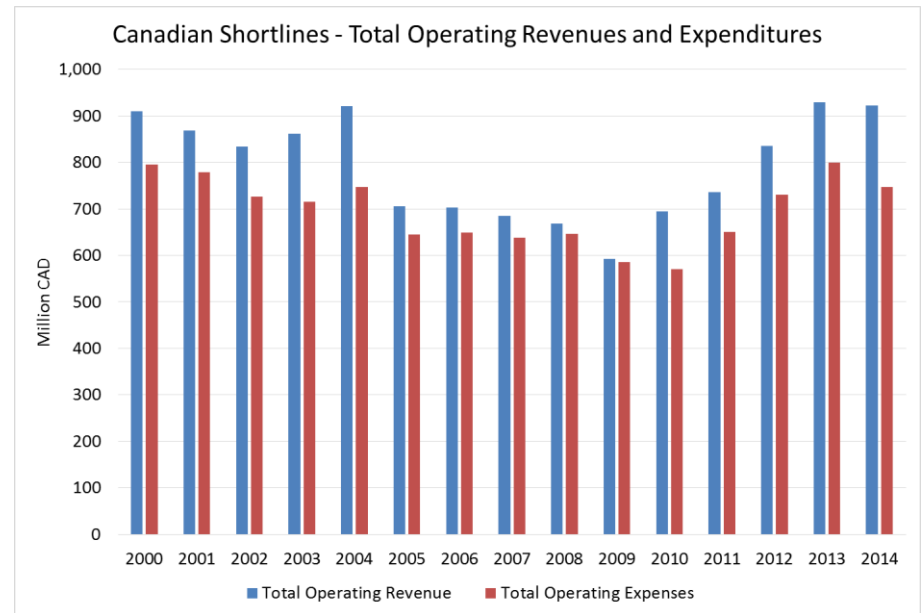


Short Line Capital Investment Constrained by Earnings

- Short line operating ratios average about 88% (compared to low 60% range for Class 1).
- Typical capital maintenance and rehabilitation expenses to “hold the rail”: \$200k to over \$5 million per short line per year.

In most cases, capacity expansion projects are beyond the financial capacity of short lines

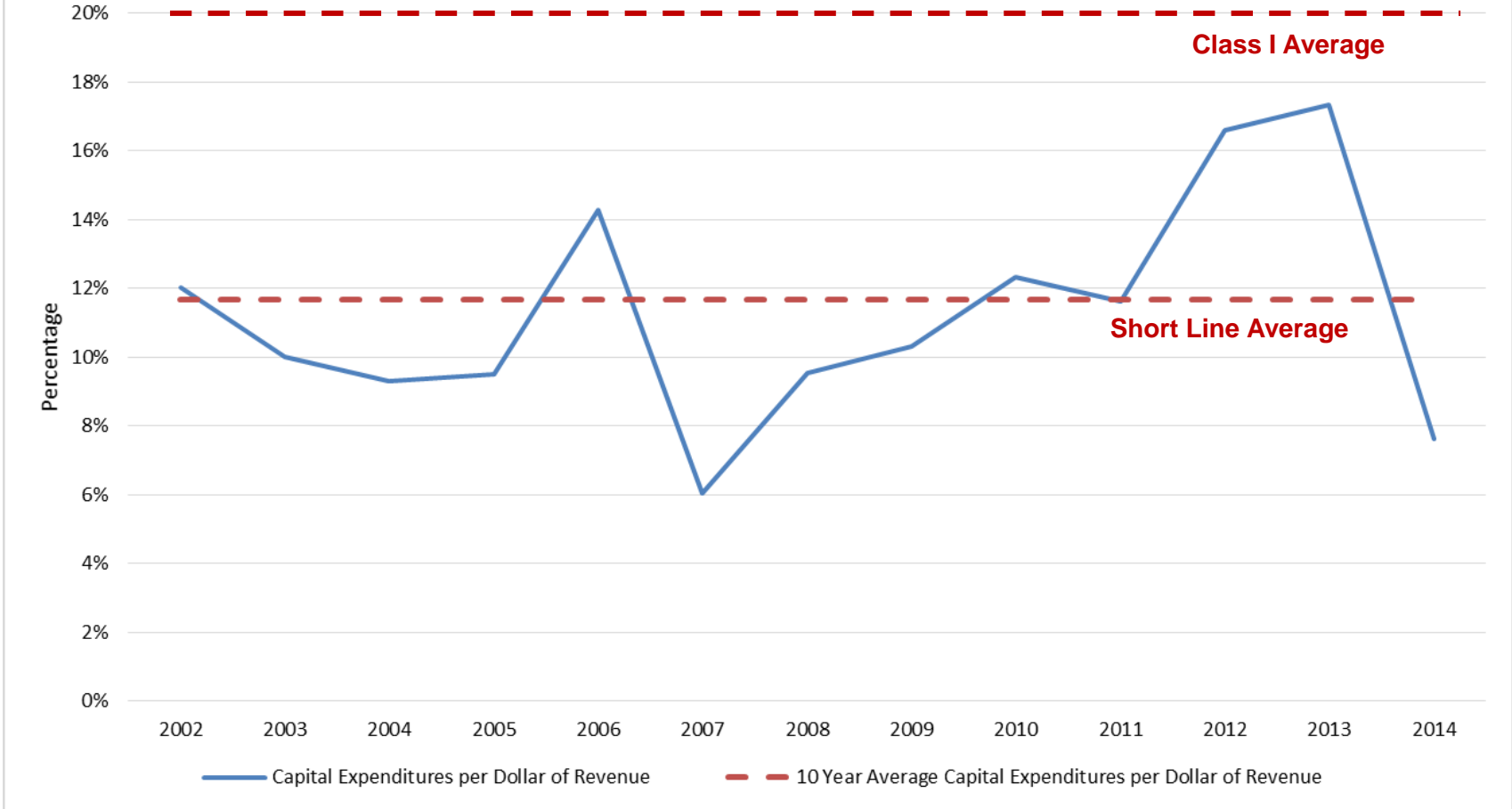
- Many short lines operating on light rail
- Trend has been to lower train speeds on lighter rail (in some cases, to 10 miles per hour)



Excluding depreciation Source: RAC

Bottom line: with narrow margins, a limited ability to raise capital, and increasing cost pressures associated with regulatory compliance, short lines require funding support to maintain and upgrade their network.

Capital Expenditures as a Percentage of Total Revenues Canadian owned Short Lines, 2002-2014



Source: Railway Association of Canada, 2016

5. The Challenge: There are Few Funding Programs Available to Short Lines in Canada



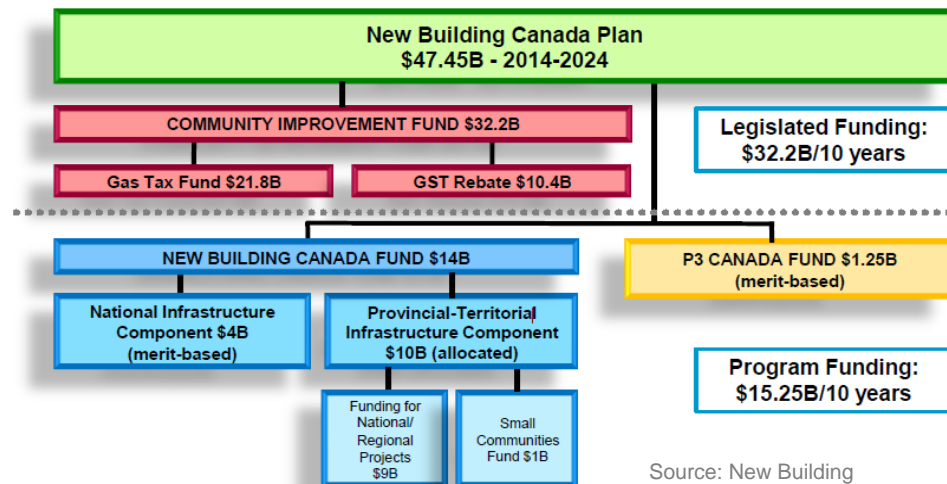
Most short lines can't access funding under New Building Canada Fund programs, despite their eligibility.

- Municipalities, provinces and territories that select projects tend to prioritize their own assets including highways and major roads, public transit, etc.
- To date, no money has been directed to short lines.

Few Provincial Short Line Funding Programs in Place

- Saskatchewan Short line Railway Sustainability Program (SRSP)
 - Only \$7.6 million paid out under program since 2008 but funding per project/short line typically under \$60,000.

There are no municipal short line funding programs in Canada.



Source: New Building Canada Plan

6. The Opportunity: Applying the Best, Most Relevant Funding Models in Canada

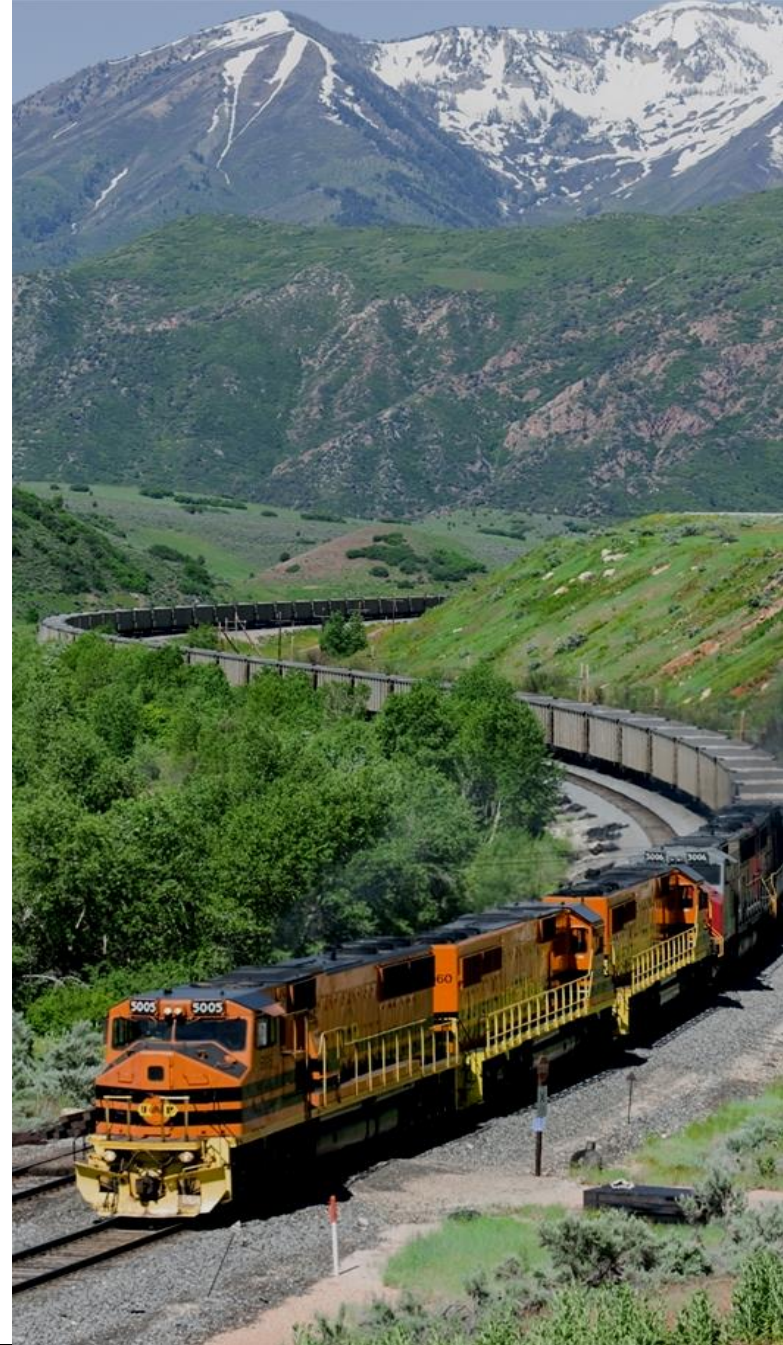


Funding Support Opportunity to Focus on Greatest Needs of Canadian Short Lines

- Maintain, safe, efficient, and reliable service.
- Rehabilitation or replacement of critical components of short line networks (e.g. bridges).
- Meet all regulatory obligations, including new Federal Grade Crossings Regulations.
- Increase capacity (eventually to 286,000 lb rail), and operating speeds to improve supply chain fluidity, efficiency.

Funding Support to be Geared to Short Line Realities

- Short lines don't have the financial capacity or access to private capital enjoyed by Class 1 railways.
- Capital investment needs per project are low relative to Class 1 railway capital investment projects.



7. Recommendations



Dedicated federal short line rail grant funding program

- Eligible projects to include capital projects to:
 - i) meet new federal regulations (e.g. grade crossing protections),
 - ii) improvements to existing infrastructure (e.g. increasing capacity of track, rehabilitating/replacing bridges, improving switches, etc.)
 - iii) new construction, where this has demonstrable sustained economic benefits (e.g. industrial access, modal switch, etc.)

Dedicated federal short line rail grant funding program

- Funding envelope in the order of \$300M over 7 years.
 - All short lines (federally and provincially regulated) to be eligible to apply for grant funding directly (without government sponsor/applicant).
 - Application process to be streamlined, with clear requirements, timelines, to minimize cost and time of application.
- Provinces should also be encouraged to develop their own dedicated short line rail funding programs, as in US states (ex. NHDOT Grant for rail improvement)

Tax credit program for capital investment in infrastructure (similar to US federal tax credit program)

- Tax credit to be based on 50% of capital investment on track maintenance and improvement of existing infrastructure.



Genesee & Wyoming Canada Inc.