

Guelph Junction Railway Company

Business Plan

2015-2017

June 15, 2015



Guelph Junction Railway Company

c/o City Hall,
1 Carden Street, Second Floor
Guelph, Ontario, Canada N1H 3A1
Tel: (519) 836-4848 Fax: (519) 837-5636

Executive Summary

The Guelph Junction Railway (GJR) will operate with conservative fiscal principles, continue with the recapitalization of infrastructure and pursue long range strategic growth objectives over the duration of this business plan.

The GJR will operate in a sage and responsible manner and in accordance with the requirements of the Shareholder Declaration and Federal Transportation Regulations.

The GJR will be congruent with and complementary with the strategic objectives of the City of Guelph. The GJR seeks to work collaboratively with our Shareholder and our customers to build a robust system that ensures fiscal and service sustainability, is attractive for business and provides a safe and environmentally compatible impact to the City of Guelph.

GJR Operations

The Guelph Junction Railway (GJR) operates on 24 miles (39 Km) of track running from Guelph Junction near Campbellville to the City of Guelph's Northwest Industrial Park. The GJR connects with the Canadian Pacific Railway in the south and with the Canadian National Railway in the north. The GJR is a true dual access railway and many local rail serviced industries take advantage of this to secure competitive pricing for trans-national railway movements. Dual access capability also ensures direct access to all North American Class 1 railways and their respective markets.

The GJR differentiates itself on service with a weekday regular service and Saturday/Sunday/holiday switching service or rush delivery service by appointment. Freight movement services are provided through a contract with the Ontario Southland Railway, a local Canadian owned service provider. Customer satisfaction with service is continually monitored and remains at a high level.

GJR rail traffic is diversified reflecting the variety of local industrial activity. Normal traffic is composed of grain, plastics, chemicals, lumber, aggregates and other industrial products. The GJR management is conscious of the changing patterns in industrial manufacturing and the ongoing challenge to continually seek out new business opportunities.

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External Economic Effects

The GJR continues to benefit from a slow positive increase to our economy. Our major customers continue to invest in their business and the railway is seeing the result of that investment in the growth of the number of railcars transported over the GJR. (3.4% in 2014, 3.3% in 2013)) The railway industry as a whole continues to see record growth and profitability across North America. Rail is considered more efficient over long hauls and is consequently becoming more attractive versus the trucking alternative for linking supply chains. Short line business partners like the GJR provide the local link for that long distance delivery and the railway expects to see similar growth over this business plan as in the past two years.

In an effort to further improve efficiency and margins, Class 1 railroads are moving to larger rail cars with heavier load capacities of 286,000 pounds (130,000 kg). To accommodate this increase in business volume, North American railroads are expected to invest approximately \$29B in capital and infrastructure in 2015. The GJR is developing the capability to handle the new larger railcars.

Infrastructure

In 2015, the GJR has begun a track improvement program that has involved tie replacement and rail geometry inspection. The goal is to move the classification of our track from Class 1 to Class 2 with the result being greater operational efficiencies and lower carrier costs in the future. The railway will be in a better position to handle the expected growth in car volume and all modern, standard sized freight cars.

In 2014, the wooden trestle over the Eramosa River began to show increased signs of wear and potential for failure. A combination of the increased volume of trains over the bridge, the severe winter weather of the last two years and an old vandalism incident (fire) had impacted its structural integrity. Repairs were undertaken and the bridge underwent a subsequent safety inspection that certified it safe. A plan has been established that will rebuild the bottom portion of the bridge in 2015 and complete the top portion in 2016. This will enable the bridge to handle the increased rail traffic that currently exists, future projected traffic increases and provide the ability to accommodate modern freight cars without any weight restrictions. The rebuilt bridge

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will also include the provision to support a pedestrian track which will allow for a future continuation of the trail networks that exist on both sides of the Eramosa River.

Operational Objectives

The railway governs itself with the following operational objectives:

1. Maintenance of existing asset value through continuous improvements and upgrades of current track, lands, structures and equipment. This objective includes investments needed to comply with all Federal and Provincial safety and operational standards as well as capital investments required to meet existing or increased capacity.
2. Railway operations, growth and business development shall be undertaken so as to be supportive and congruent with the City's strategic objectives and in the best interests of the community the railway serves.
3. Investigate and develop new revenue opportunities which would include but not be limited to:
 - a. Growth of the railway's capacity to meet customer demands.
 - i. Increased utilization of company lands by third parties interested in moving goods by rail.
 - ii. Promotion of properties adjacent to current GJR right of way with the objective of developing future customer potential.
 - b. Expansion of the railway's capacity to attract new customers.
 - i. Close co-operation with Canadian Pacific and Canadian National railways to ensure rapid and consistent service to current and future customers
 - ii. Increasing the trackage capacity of the GJR through capital improvements, acquisitions and/or operating partnerships

The railway will monitor these objectives through the following performance measures:

1. Maintenance of safety and regulatory standards as measured by positive results from regulatory audits and inspections and a zero tolerance for accidents.
2. Maintenance of a positive cash flow.
3. Maintenance or growth of annual railcar traffic counts.
4. Identification and implementation of environmental opportunities and community support initiatives.

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