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March 17, 2011

Our Goal:

Is to persuade Canadian National, or by other means, if necessary, to assure:

1. Wisconsin Central level service and competition for market share for traffic that originates and/or terminates on lines of the former WC System; and
2. A transparent plan, executed in due course, to mitigate the impact of increasing Prince Rupert traffic and to provide ample capacity for increasing traffic that originates and/or terminates on lines of the former WC System.

Mr. Tellier's Plan for the WC System:

Former Canadian National CEO Paul Tellier's Plan was to preserve the “local characteristics” of the Wisconsin Central System by Canadian National's operation of the WC System as a separate and distinct business unit within Canadian National.

Mr. Tellier's Plan was based on an appreciation of the business culture of his own Class I railroad and his many years of experience with the operations and reputation of the Wisconsin Central System – which he regarded as a model of successful regional/short line railroading.

What was WC's most distinctive “local characteristic”? WC aggressively competed for and built market share and line density in its service territory, competing primarily against truckload motor carriers, for freight not captive to rail. WC actively competed for: (1) a broad range of commodities; (2) rail and truck traffic; and (3) long and short haul freight. And, WC emphasized customer-oriented, first and last mile, retail single car rail and intermodal service.

Why is Mr. Tellier's Plan So Important for Success of the Former WC Lines?

Mr. Burkhardt, founder and former CEO of the WC System provides the answer. Speaking to the WisDOT Annual Freight Railroad Conference, November 19, 2008, he described a skew in the North American railroad industry between Class Is and regional railways and short lines. He characterized the Class Is as having “restructured into plain vanilla, high volume trunk line operations,” with “scant interest in running distribution networks” and light density lines. In contrast, he characterized successful regional/short lines as concentrating “management efforts on rebuilding single-car networks and containerization,” “focused on customers' requirements (service and price)” and keeping “unremitting pressure on costs”.

Memorandum

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Thus, Mr. Tellier's Plan for preserving the local characteristics of the WC System is based on preserving the organizational structure and management focus on which the WC System's success was founded.

What Structural Characteristics for Success of the Former WC System Are Likely Inherent in Mr. Tellier's Plan?

Inherent in Mr. Tellier's Plan is that lines of the former WC System operate under a structure providing final (virtual owner-equivalent) management authority to a WC business unit within Canadian National (excepting specified conditions for, and CN control of, operation and investment in the Superior-Chicago main line and essential shared facilities). The structure and final management authority would likely include, *e.g.*:

1. Assignment of an initial car fleet and power comparable in quality and proportional in numbers to that operated by the former WC System in 2001;
2. Operational authority at all levels, including maintenance and capital investment, and for all business functions and relationships for WC System lines, subject to the specified main line and shared facilities conditions;
3. Pricing and other marketing authority to and from Canadian National stations and gateways, for traffic originating and/or terminating on WC lines;
4. Financial accounting and accountability as a separate and distinct business unit, but including investment in maintenance and capital replacements to restore transportation equipment, track and other facilities to WC 2001 levels and quality, consistent with a short and long term business plan for restoration of such traffic levels; and
5. Establishment of a capable and experienced leadership and employee team with authority and incentives consistent with the stated objectives of the business unit.

We believe a good faith commitment to implementing Mr. Tellier's Plan will not only enhance rail service and competition in WC System territory but will also: (a) enhance the value of the WC System property for Canadian National and its shareholders; and (b) avoid the potential for public sector intervention on less favorable terms.