

CTRF 44th Annual Conference

“Competitive Access in a Volatile Environment”
~ An Analyst’s Perspective ~

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This report is priced as of market close May 20, 2009 EST.

All values in Canadian (U.S.) dollars unless otherwise noted.

For Required Conflicts Disclosures, please see page 32.



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Freight Transportation Coverage Universe

Company	Symbol	Investment Rating	Risk Rating	Current Price	12M Target	Est. Return
Railroads						
Burlington Northern Santa Fe	BNI	Underperform	Average Risk	US\$69.58	US\$71.00	4%
Canadian National Railway	CNR	Sector Perform	Average Risk	C\$47.42	C\$52.00	12%
Canadian Pacific Railway	CP	Sector Perform	Average Risk	C\$43.90	C\$42.00	-2%
CSX Corp	CSX	Outperform	Average Risk	US\$29.36	US\$43.00	50%
Norfolk Southern	NSC	Outperform	Average Risk	US\$36.67	US\$53.00	48%
Union Pacific	UNP	Sector Perform	Average Risk	US\$48.50	US\$56.00	18%
Trucks						
Contrans Income Fund	CSS.un	Outperform	Above Average Risk	\$5.20	\$6.00	33%
TransForce Inc.	TFI	Outperform	Above Average Risk	\$5.17	\$5.25	9%
Trimac Income Fund	TMA.un	Outperform	Above Average Risk	\$3.10	\$5.00	77%
Other Freight Services						
BFI Canada Income Fund	BFC	Outperform	Average Risk	\$12.15	\$15.00	32%
Cargojet Income Fund	CJT.un	Outperform	Above Average Risk	\$4.10	\$7.50	94%
Livingston Intl Income Fund	LIV.un	Outperform	Above Average Risk	\$4.13	\$5.50	38%
Westshore Terminals Inc. Fund	WTE.un	Outperform	Above Average Risk	\$11.26	\$13.00	25%

Source: RBC CM Research; *BNI, CSX, NSC, UNP are in US\$

Agenda

- “A Volatile Environment”
 - A view on the current state of the economy and how that is impacting volumes
 - Some glimmers of hope - economic indicators pointing to better times
- Railroad Industry Investment Thesis
 - The railroad industry from an investor’s perspective
- Competitive Access and the Trend Toward Increased Regulation
 - How investors view regulatory risk
- Risks of Increased Regulation
- Conclusions

A Volatile Environment

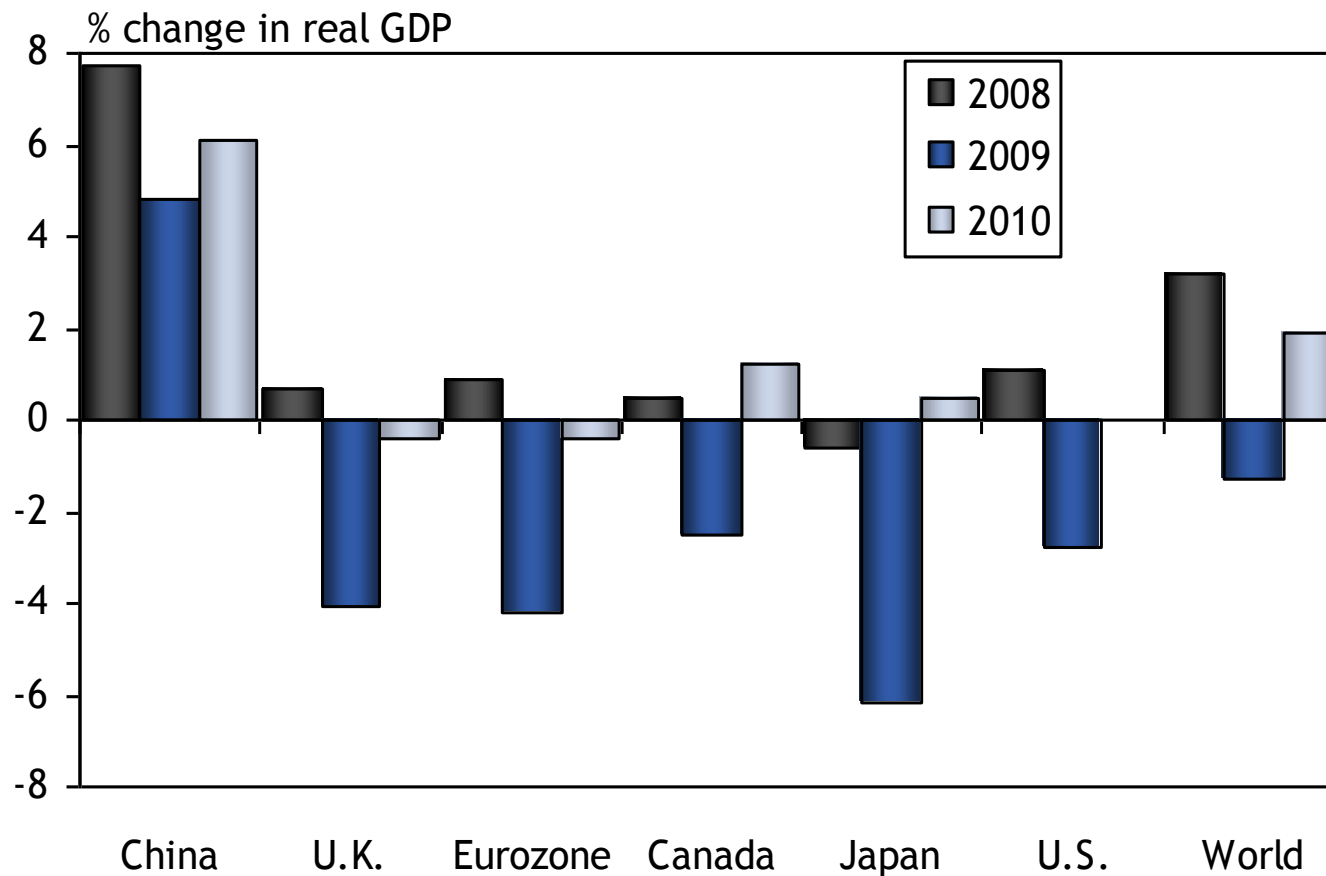
A Look at the Economy



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2009: The year of the great growth slump

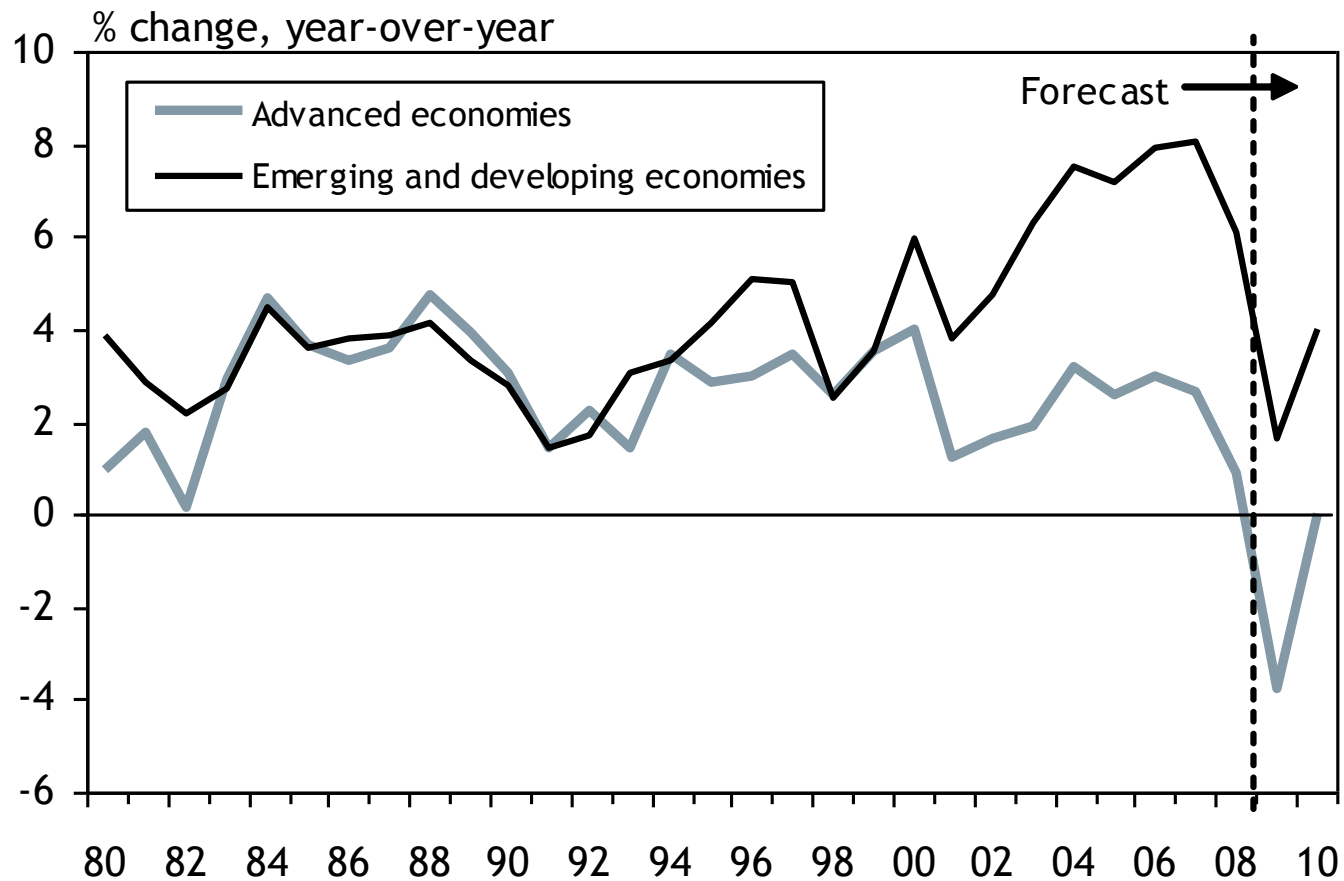
World outlook



Source: International Monetary Fund, RBC Economics Research

Synchronized slowdown

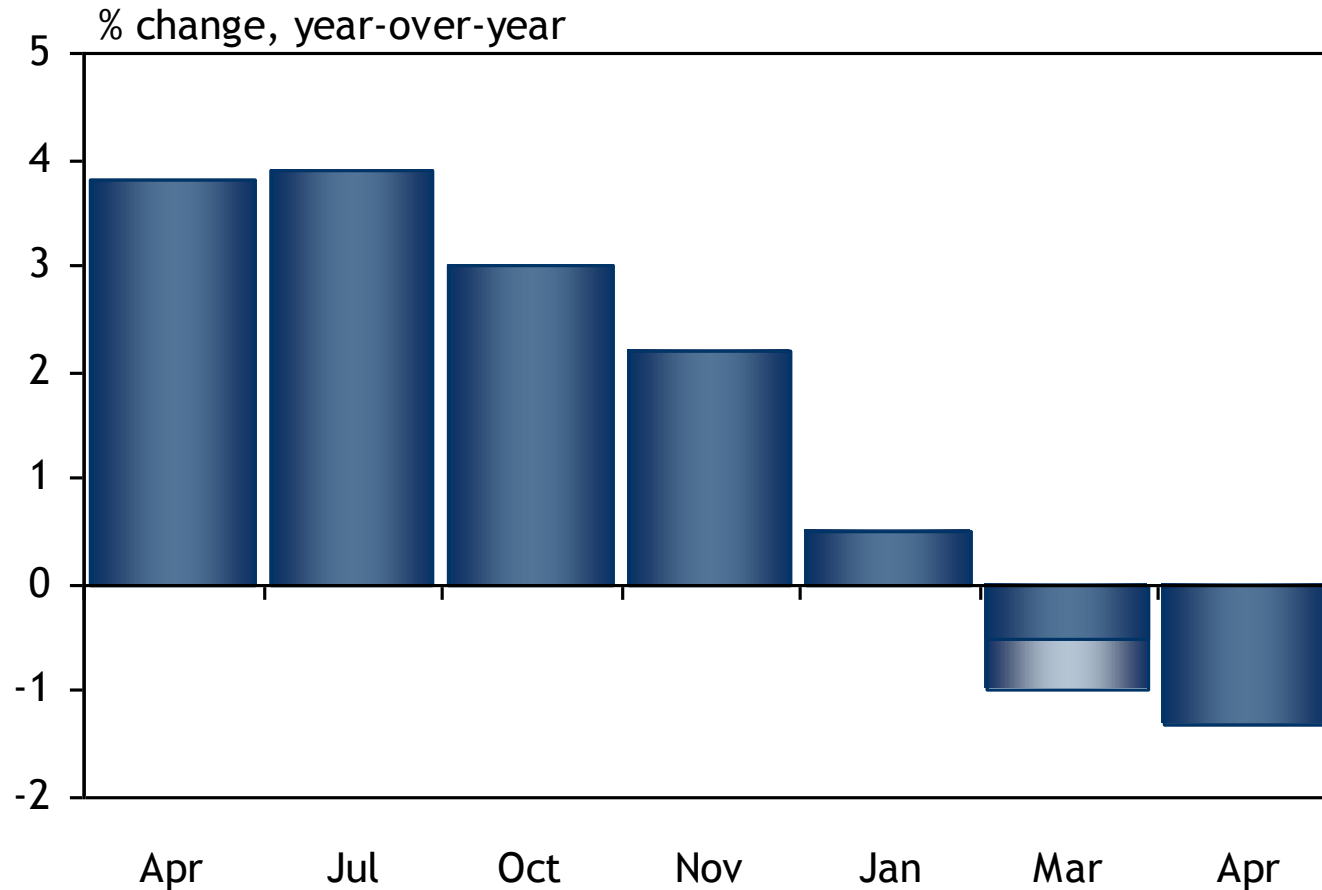
Real GDP growth



Source: International Monetary Fund, RBC Economics Research

Growth forecasts chopped again in April

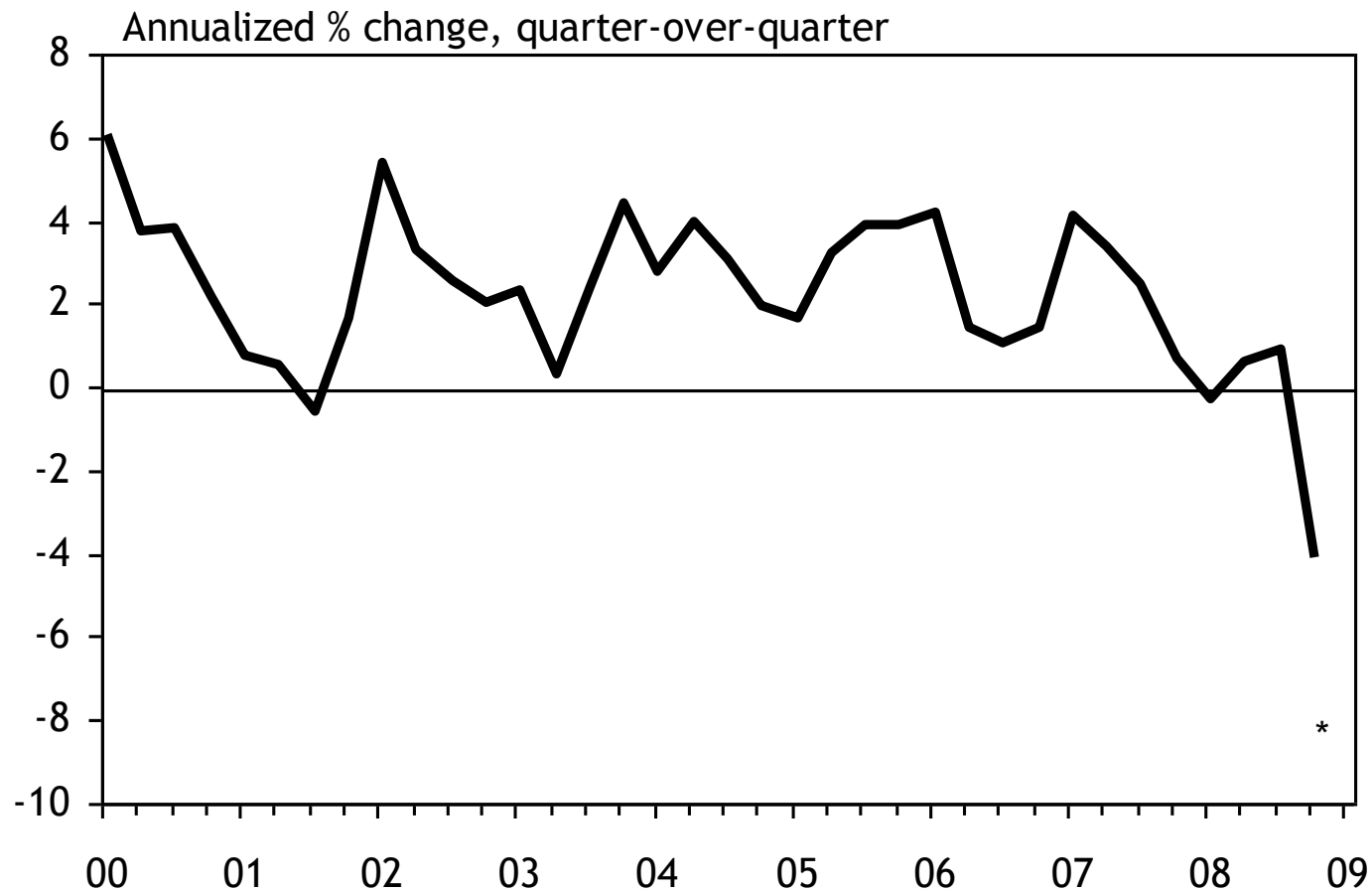
IMF world forecasts



Source: International Monetary Fund, RBC Economics Research

Poor start to 2009 in Canada

Canadian GDP growth

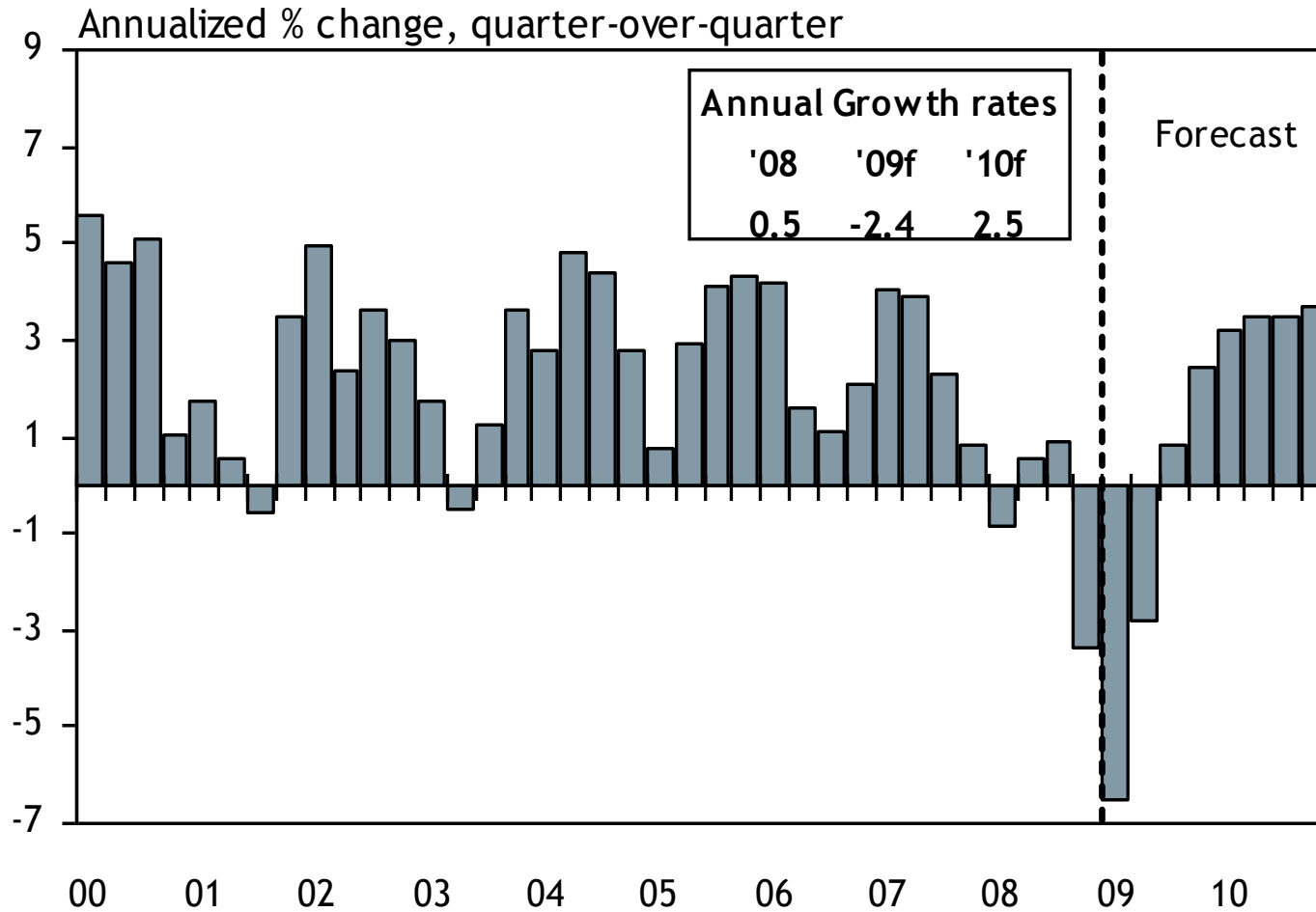


*Jan/Feb versus Q4

Source: Statistics Canada, RBC Economics Research

The worst quarter on record

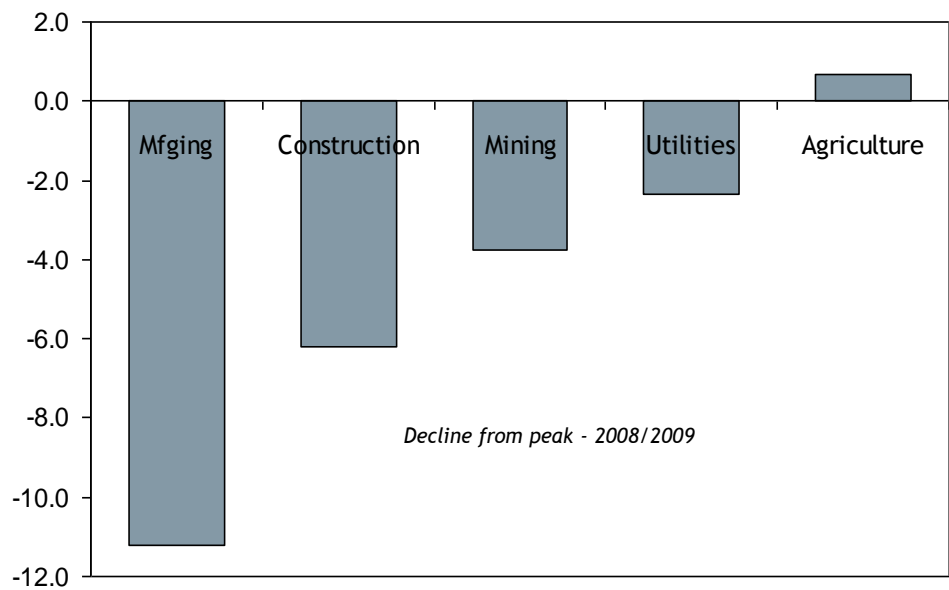
Canada's real GDP Growth



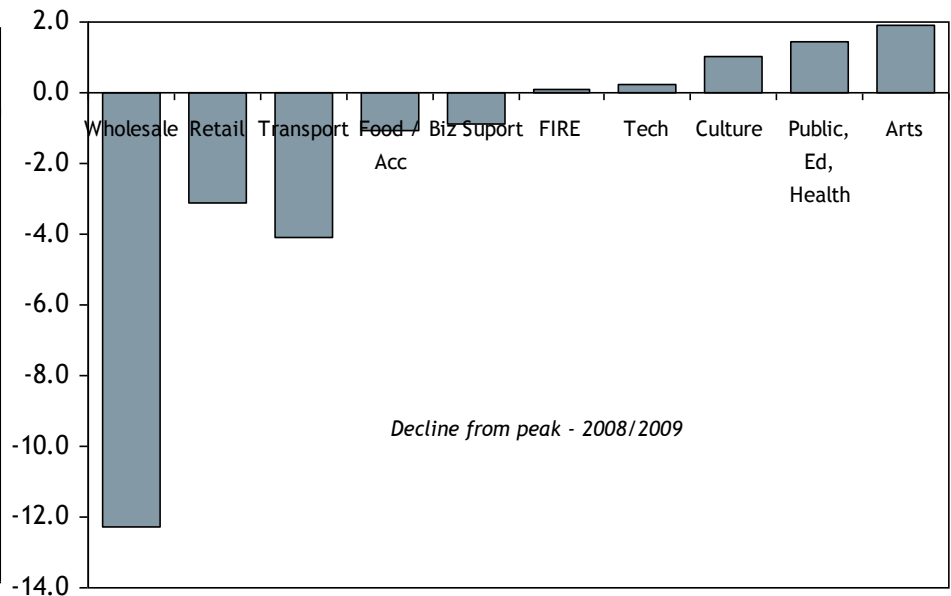
Source: Statistics Canada, RBC Economics Research

Goods / distribution industries shouldering the load

Goods-sector industries



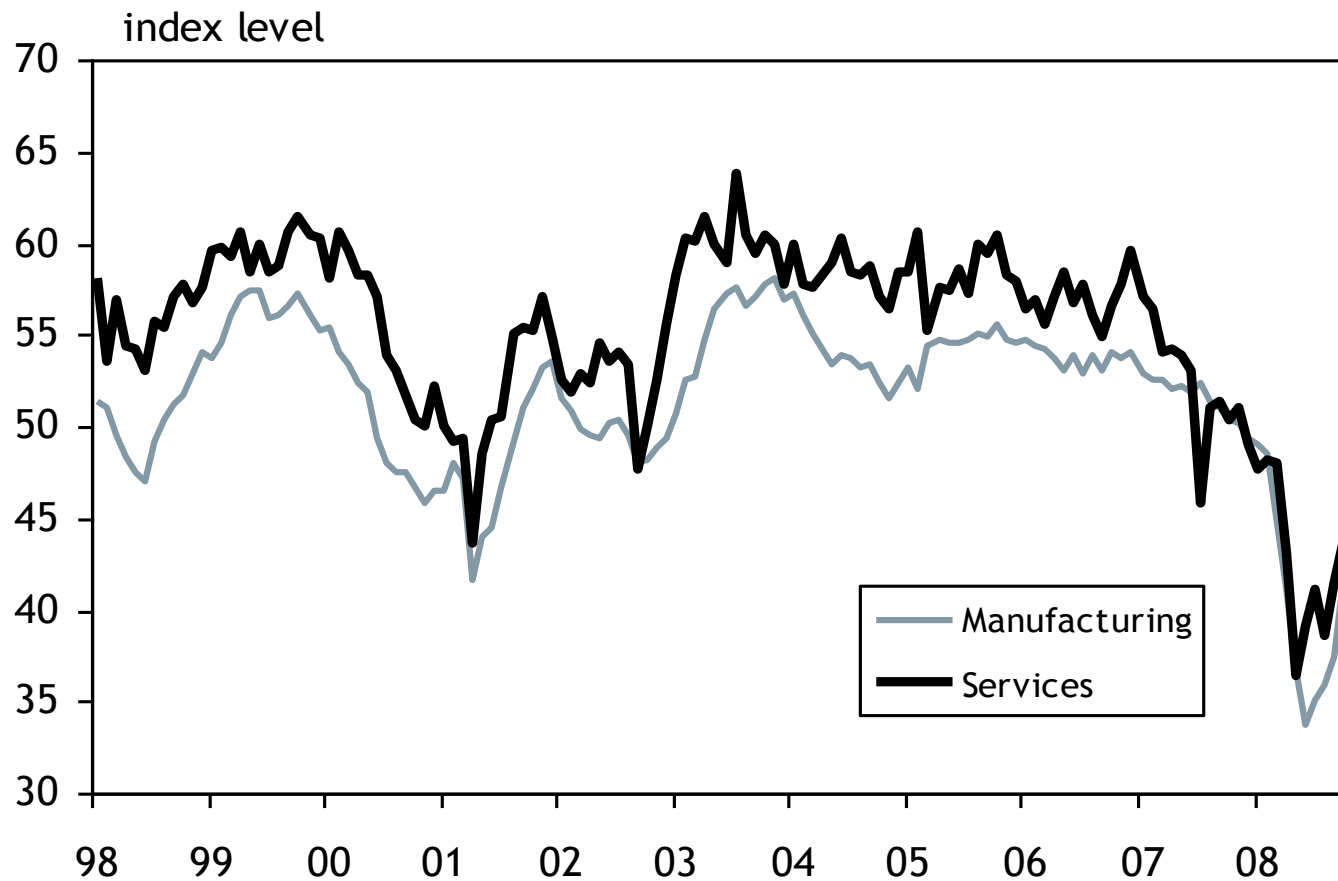
Service-sector industries



Source: RBC Economics Research

Is the worst of the global recession behind us?

Global ISM indices



Source: JP Morgan, RBC Economics Research

Railroad Industry

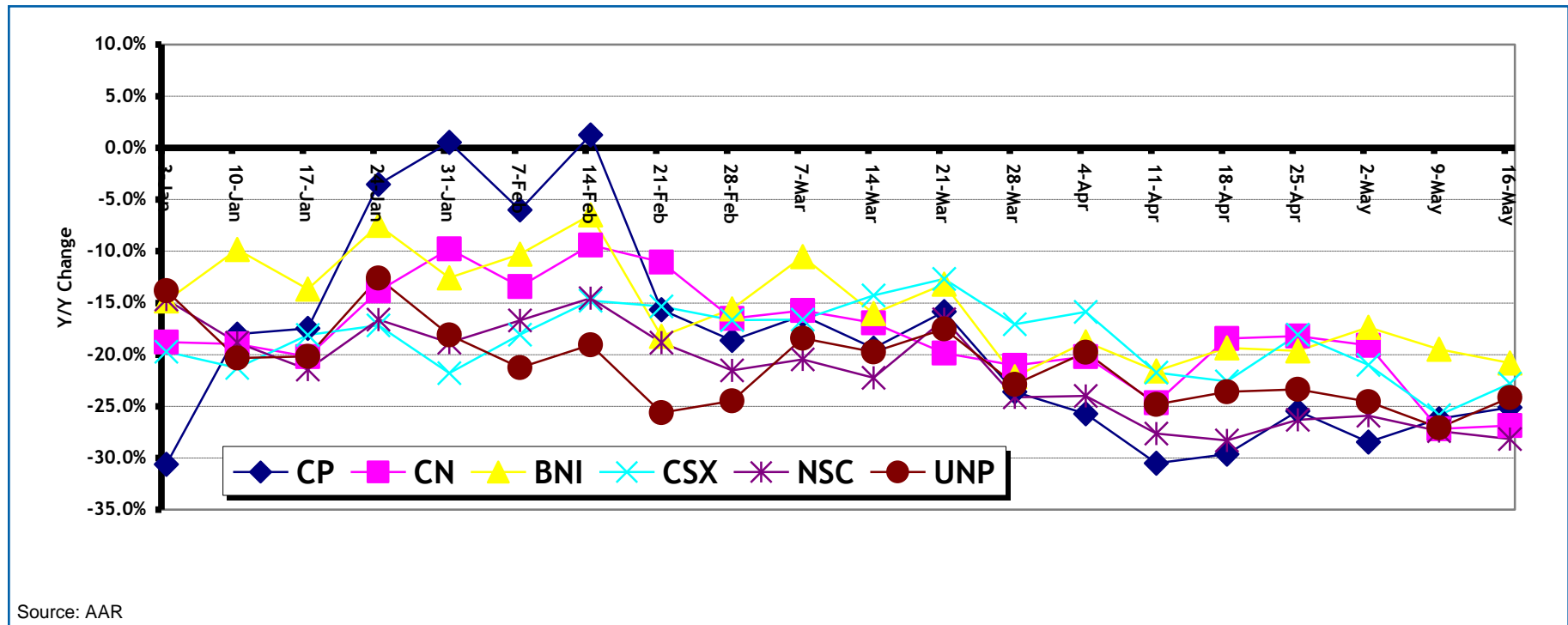
The Investor's View on the Railroad Industry



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The Recession's Impact on Railroad Volumes

Year-Over-Year Change in Volumes (YTD)



- Group average down 23% QTD
- Outperformers in Q2 so far: BNI (down 19.6%), CSX (down 21.2%) and CNR (down 22.1%)
- CP (down 27.3%) is significantly underperforming - expect a negative mix effect as well

The Recession's Impact on Railroad Volumes

Total Canadian Class I Railroads - Y/Y Volumes			Total US Class I Railroads - Y/Y Volumes			Total Class I Railroads - Y/Y Volumes		
	Weekly	YTD		Weekly	YTD		Weekly	YTD
Grain	-17.0%	-5.8%	Grain	-21.9%	-22.2%	Grain	-26.8%	-20.2%
Metallic Ores	-77.7%	-31.2%	Metallic Ores	-72.3%	-52.3%	Metallic Ores	-75.8%	-37.8%
Coal	-21.0%	-13.9%	Coal	-18.8%	-9.7%	Coal	-18.9%	-10.0%
Crushed Stone, Sand & Gravel	-38.2%	-28.6%	Crushed Stone, Sand & Gravel	-28.1%	-21.8%	Crushed Stone, Sand & Gravel	-29.2%	-22.4%
Primary Forest Products	-24.8%	-18.3%	Primary Forest Products	-33.3%	-32.7%	Primary Forest Products	-29.1%	-26.0%
Lumber & Wood Products	-30.4%	-30.5%	Lumber & Wood Products	-42.8%	-38.0%	Lumber & Wood Products	-38.8%	-35.5%
Pulp, Paper & Allied Products	-32.9%	-23.6%	Pulp, Paper & Allied Products	-25.1%	-22.1%	Pulp, Paper & Allied Products	-27.7%	-22.6%
Chemicals	-20.3%	-23.0%	Chemicals	-21.4%	-19.8%	Chemicals	-21.1%	-20.8%
Metals & Products	-46.5%	-42.1%	Metals & Products	-59.8%	-52.4%	Metals & Products	-57.6%	-50.7%
Motor Vehicles & Equipment	-35.9%	-39.4%	Motor Vehicles & Equipment	-46.5%	-48.5%	Motor Vehicles & Equipment	-44.4%	-46.7%
Total (ex-intermodal)	-30.6%	-20.6%	Total (ex-intermodal)	-25.9%	-20.1%	Total (ex-intermodal)	-26.8%	-20.2%
Intermodal	-17.9%	-14.6%	Intermodal	-20.5%	-17.6%	Intermodal	-20.1%	-17.1%
Total	-26.2%	-18.5%	Total	-23.8%	-19.1%	Total	-24.2%	-19.0%

Source: AAR

The Recession's Impact on Railroad Volumes

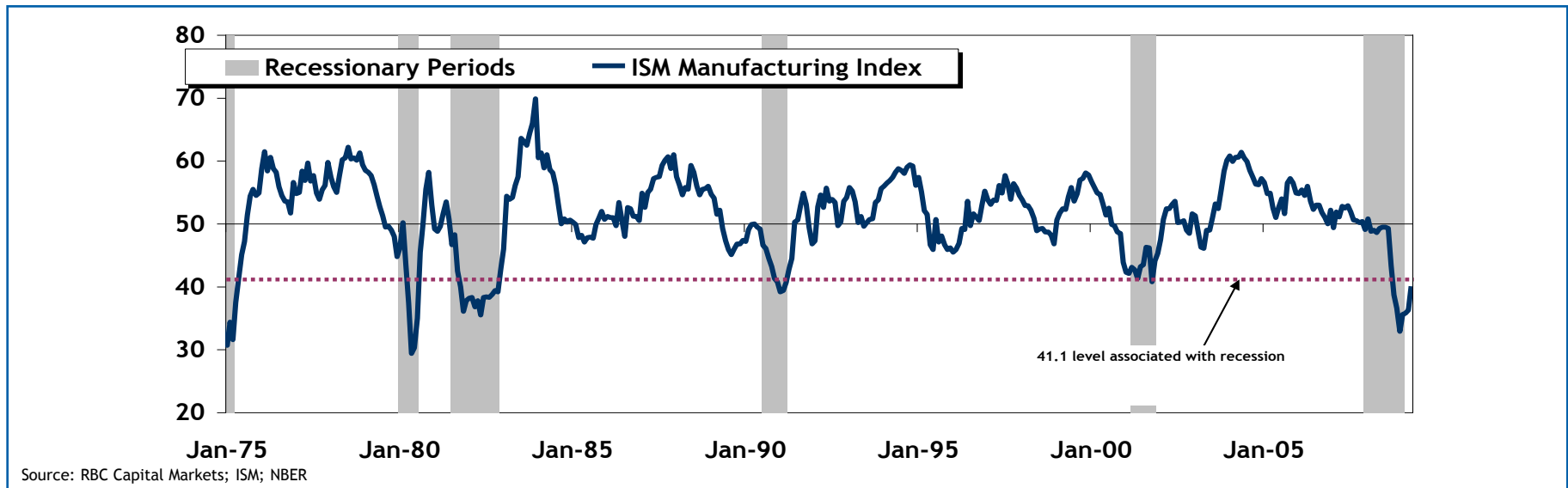
BNI - Y/Y Volumes				CNR - Y/Y Volumes				CP - Y/Y Volumes			
	Weekly	YTD	Rev. Weight 2008		Weekly	YTD	Rev. Weight 2008		Weekly	YTD	Rev. Weight 2008
Grain	-23.4%	-24.6%	20%	Grain	-28.5%	-14.0%	18%	Grain	-5.7%	1.7%	31%
Metallic Ores	-77.9%	-56.5%		Metallic Ores	-80.2%	-31.3%		Metallic Ores	-36.0%	-29.0%	
Coal	-6.4%	-2.1%	23%	Coal	-5.2%	-8.5%	6%	Coal	-35.2%	-19.7%	13%
Crushed Stone, Sand & Gravel	-25.4%	-22.0%		Crushed Stone, Sand & Gravel	-42.6%	-33.4%		Crushed Stone, Sand & Gravel	-15.9%	-2.2%	
Primary Forest Products	-46.7%	-38.9%	6%	Primary Forest Products	-23.5%	-16.8%	19%	Primary Forest Products	-74.1%	-55.6%	5%
Lumber & Wood Products	-37.1%	-39.7%		Lumber & Wood Products	-30.8%	-30.4%		Lumber & Wood Products	-27.6%	-31.1%	
Pulp, Paper & Allied Products	-31.7%	-25.3%		Pulp, Paper & Allied Products	-34.1%	-22.2%		Pulp, Paper & Allied Products	-27.5%	-28.9%	
Chemicals	-25.5%	-21.5%	7%	Chemicals	-15.9%	-18.9%	18%	Chemicals	-28.6%	-30.6%	16%
Metals & Products	-59.1%	-47.7%	8%	Metals & Products	-36.8%	-39.4%	12%	Metals & Products	-65.0%	-48.3%	
Motor Vehicles & Equipment	-49.1%	-45.7%	3%	Motor Vehicles & Equipment	-16.0%	-37.5%	6%	Motor Vehicles & Equipment	-58.5%	-42.2%	7%
Total (ex-intermodal)	-19.9%	-14.9%	68%	Total (ex-intermodal)	-32.4%	-21.2%	79%	Total (ex-intermodal)	-27.1%	-19.2%	71%
Intermodal	-21.8%	-16.0%	32%	Intermodal	-13.8%	-10.5%	21%	Intermodal	-22.4%	-19.1%	29%
Total	-20.8%	-15.4%		Total	-26.9%	-18.1%		Total	-25.1%	-19.1%	

CSX - Y/Y Volumes				NSC - Y/Y Volumes				UNP - Y/Y Volumes			
	Weekly	YTD	Rev. Weight 2008		Weekly	YTD	Rev. Weight 2008		Weekly	YTD	Rev. Weight 2008
Grain	-20.9%	-11.4%	13%	Grain	-29.0%	-15.1%	12%	Grain	-15.3%	-27.2%	21%
Metallic Ores	-48.5%	-28.2%		Metallic Ores	-83.0%	-68.8%		Metallic Ores	-69.1%	-54.3%	
Coal	-24.4%	-11.2%	30%	Coal	-31.8%	-15.2%	29%	Coal	-17.7%	-12.8%	22%
Crushed Stone, Sand & Gravel	-23.9%	-30.3%		Crushed Stone, Sand & Gravel	-9.3%	-7.8%		Crushed Stone, Sand & Gravel	-40.6%	-23.3%	
Primary Forest Products	-40.9%	-31.1%	7%	Primary Forest Products	-17.1%	-29.8%	8%	Primary Forest Products	-54.0%	-49.1%	6%
Lumber & Wood Products	-38.6%	-36.5%		Lumber & Wood Products	-46.4%	-34.1%		Lumber & Wood Products	-47.5%	-39.4%	
Pulp, Paper & Allied Products	-28.6%	-20.7%		Pulp, Paper & Allied Products	-17.2%	-20.8%		Pulp, Paper & Allied Products	-26.2%	-23.9%	
Chemicals	-13.0%	-16.8%	13%	Chemicals	-18.5%	-22.3%	12%	Chemicals	-26.9%	-19.9%	13%
Metals & Products	-59.3%	-53.4%	7%	Metals & Products	-56.7%	-54.2%	12%	Metals & Products	-66.3%	-51.6%	
Motor Vehicles & Equipment	-42.1%	-49.1%	8%	Motor Vehicles & Equipment	-50.4%	-47.0%	8%	Motor Vehicles & Equipment	-45.1%	-50.4%	8%
Total (ex-intermodal)	-25.8%	-20.9%	87%	Total (ex-intermodal)	-33.1%	-24.3%	81%	Total (ex-intermodal)	-26.0%	-20.9%	82%
Intermodal	-15.6%	-12.9%	13%	Intermodal	-21.0%	-18.3%	19%	Intermodal	-21.2%	-21.6%	18%
Total	-22.8%	-18.6%		Total	-28.2%	-21.8%		Total	-24.1%	-21.2%	

Source: AAR

A Ray of Hope?

ISM Manufacturing Index vs. Historical Recessionary Periods

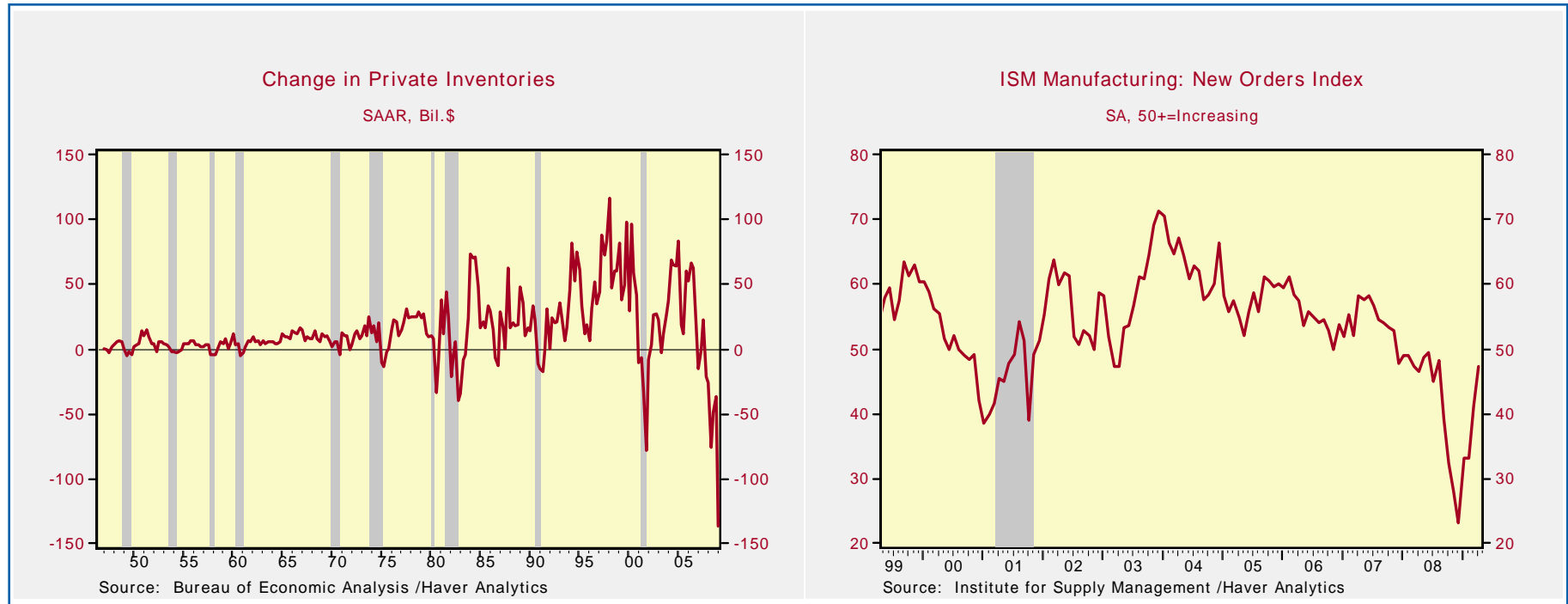


- The ISM leads turning points in GDP growth by one to two quarters
 - ISM bottomed in Dec-09 at 32.9 ... suggesting GDP will be at its worst in Q2/09
- The ISM has been a reliable guide in predicting the end of a recession
 - In every recession (but one) since 1948, recession occurred when the ISM < 41
 - GDP growth turned positive one quarter after the ISM broke above 41
 - Current is 40.1 (May reading)
 - June break above 41 would suggest economic recovery in Q4/09

Leading Indicators Pointing to Better Times

Inventory Draw Down and New Orders

ISM Manufacturing Index vs. Historical Recessionary Periods



- Inventory drawdown US\$137B in Q1 – Never Bigger

A Case for a V-shape

Investment Thesis – Railroad Industry

Growing and sustainable long-term demand



- Secular shift in demand for railroad transportation services
- Driven by Asian trade
- Rails enjoy competitive advantages at the ports

Gaining market share from trucks



- Increasing fuel cost advantage over trucks in rising fuel price environment
- Trucks hit by highway congestion, border delays, labour shortage and overall rising operating costs

Capacity to remain tight on high barriers to entry



- Network expansion limited given: (i) significant upfront capital investment; (ii) local resident opposition; and (iii) scarcity of “real estate”

Oligopoly



- Competition is limited (new entrants unlikely)
- Monopolies in certain markets
- Competitors are rational

Solid pricing



- High barriers to entry, solid demand, limited and sophisticated competitors all lead to pricing power
- Contract renewals are being renegotiated with higher pricing (4%-6% ex fuel S/C) – even during weak economic conditions

Competitive Access and the Trend Toward Increased Regulation

How investors view regulatory risk



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Regulation – A Key Investor Focus

- Regulation is front and centre in the minds of investors today
 - Recent trip to Washington D.C. revealed significant activity

- New (and potential) legislation
 - Railroad Antitrust Enforcement Act 2009 (Senate and House)
 - Passed Senate Judiciary committee on March 5
 - Not a significant concern according to the railroad industry
 - Railroad Competition and Service Improvement Act (“ReReg” Bill)
 - Not yet introduced into current Congress
 - Prior sponsor was Senator John D. Rockefeller IV
 - Significant resistance from railroad industry
 - Competitive access expected to be a key component

- STB pendulum swinging in favour of shippers
 - Recent decision in favour of Basin Electric Power and Western Fuels versus BNSF
 - Awarded US\$345MM in reparations (biggest ruling in history of STB)

Competitive Access - Background

- Staggers Act (1980) a resounding success by every measure
 - Freight rates are 60% lower
 - Customer service has improved
 - Railroad industry is more secure as the railroad companies are more efficient and profitable
 - Bottom line: Deregulation is working
- Semi-regulation is alive and well
 - Recent decision in favour of Basin Electric Power and Western Fuels versus BNSF
 - Awarded \$345MM in reparations – the biggest ruling in history of STB
 - Streamlining has occurred to reduce the cost and time of rate rulings
- But rate increases since '04 have prompted a shipper outcry
 - New regulations in Canada introduced (Interswitching, competitive line rates, running rights and FOA)
 - Significant new legislation proposed or imminent in the U.S.
 - Freight rates have become highly political

Competitive Access – Is it Necessary?

- Key question is: What is the goal of Competitive Access?
 - Competitive access already exists currently through coproduction agreements, which focus on:
 - Improved service
 - Lower costs
 - Because these are market neutral – Competitive Access must be seeking to address something more than these advantages ... pricing?
 - If lower rates is the goal, the question then becomes – are the rates too high due to abuse of monopolistic power
 - If it is due to the abuse of monopoly power, then avenues exist for shippers to seek redress through the regulators
 - If it is not excessive, then lower rates should be pursued through negotiated pricing between railroad and shipper – not through regulation
 - Key point: avenues already exist, through the CTA and STB to rule on egregious freight rates – in our view, the goal of Competitive Access must have something more in mind

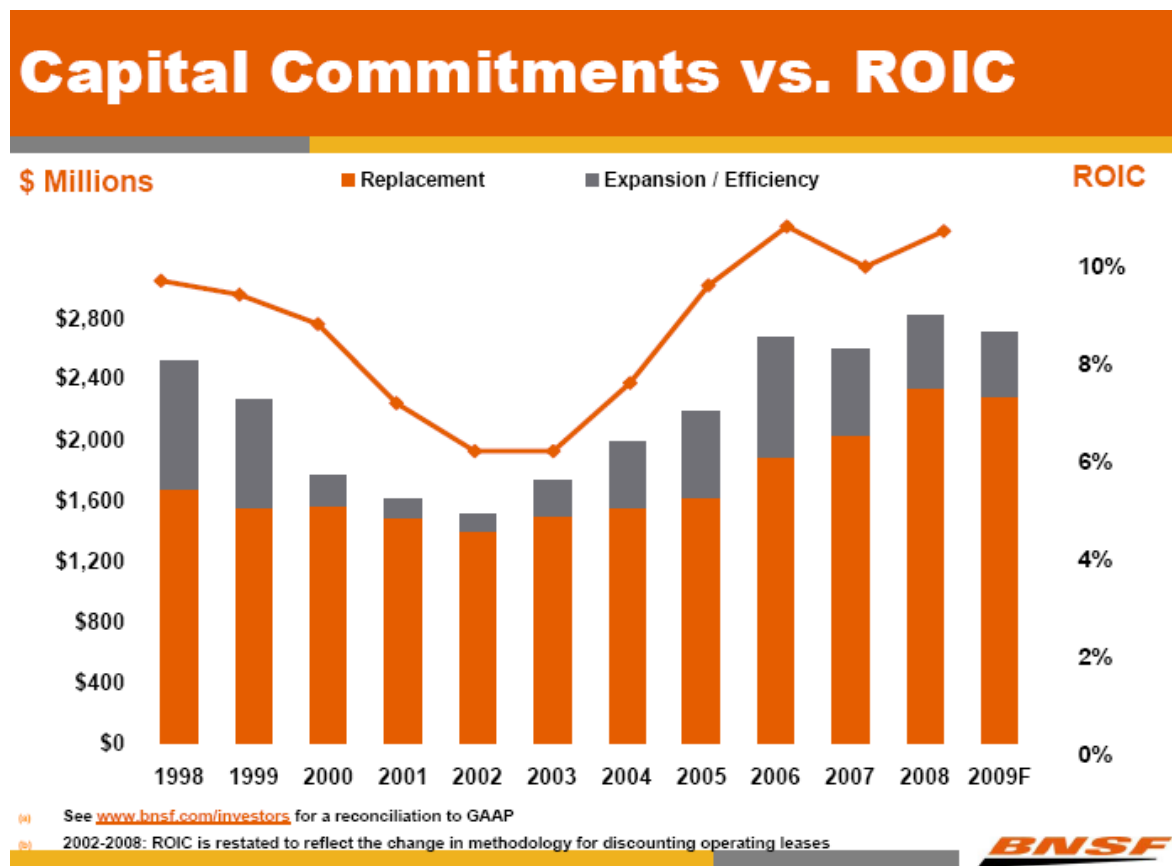
Risks of Increased Regulation



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Competitive Access – Risks are Significant

- Lowering rates means lowering returns
- Implications on capital spending
 - History has shown that capex and returns are correlated



Source: BNSF

Competitive Access – Risks are Significant

- Jurisdiction confusion
 - U.S. Antitrust legislation widens the regulatory scope
 - District judges
 - Department of Justice
 - Once again, it begs the question of the reasonableness of rates
 - In our view this should be determined through a transparent and uniform test – not subject to the variances of several adjudicators

Conclusions

- Financial markets abhor uncertainty
 - Increased legislation / regulation increases financial uncertainty
 - Cost of capital will increase – which will impact capital spending
 - Long term services levels will be put into jeopardy
 - In our view, need to focus on the issue of market power and deal with it through existing mechanisms
 - Staggers fixed a broken system – reregulation is regressive

Questions?



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Appendix

Company Profiles








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Class 1 Benchmarking Table

Metric	 CANADIAN PACIFIC RAILWAY	 BNSF RAILWAY	 CSX	 NS	 UNION PACIFIC	
Valuation						
Share price	C\$47.42	C\$43.90	US\$69.58	US\$29.36	US\$36.67	US\$48.50
Market capitalization (\$MM)	22,046	7,077	23,789	11,571	13,608	24,473
Enterprise value	30,060	11,360	32,595	18,749	19,659	32,202
2009E price-to-earnings	12.8 x	13.7 x	13.3 x	9.6 x	9.3 x	12.1 x
2008 FCF per share	\$2.65	\$2.36	\$5.41	\$2.98	\$3.12	\$2.59
2008 FCF yield	5.6%	5.4%	7.8%	10.2%	8.5%	5.3%
Financial Statistics						
Total revenue - 2008 (\$MM)	\$8,482	\$4,932	\$18,018	\$11,255	\$10,661	\$17,970
Revenue growth - y/y						
2008	7.4%	4.8%	14.0%	12.2%	13.0%	10.4%
2007	-0.4%	2.7%	5.5%	4.9%	0.3%	4.5%
2006	9.5%	4.4%	15.4%	11.0%	10.8%	14.7%
Operating EPS - 2008 (diluted)	\$3.70	\$4.06	\$6.33	\$3.51	\$4.54	\$4.48
EPS growth - y/y						
2008	9.1%	-6.0%	20.9%	30.1%	21.7%	27.8%
2007	0.3%	9.5%	4.6%	21.5%	2.8%	19.7%
2006	22.4%	19.7%	21.3%	31.3%	26.0%	66.2%
Free cash flow before dividends - 2008 (\$MM)	\$1,230	\$381	\$1,851	\$1,176	\$1,157	\$1,306
Operating ratio						
2008	65.9%	78.6%	76.6%	75.4%	71.0%	77.3%
2007	63.6%	75.3%	76.8%	77.7%	72.6%	79.3%
2006	61.8%	75.4%	76.0%	79.5%	72.4%	81.6%

Source: Company reports, RBC CM. All figures for Canadian railroads in C\$ and all figures for U.S. railroads in US\$.

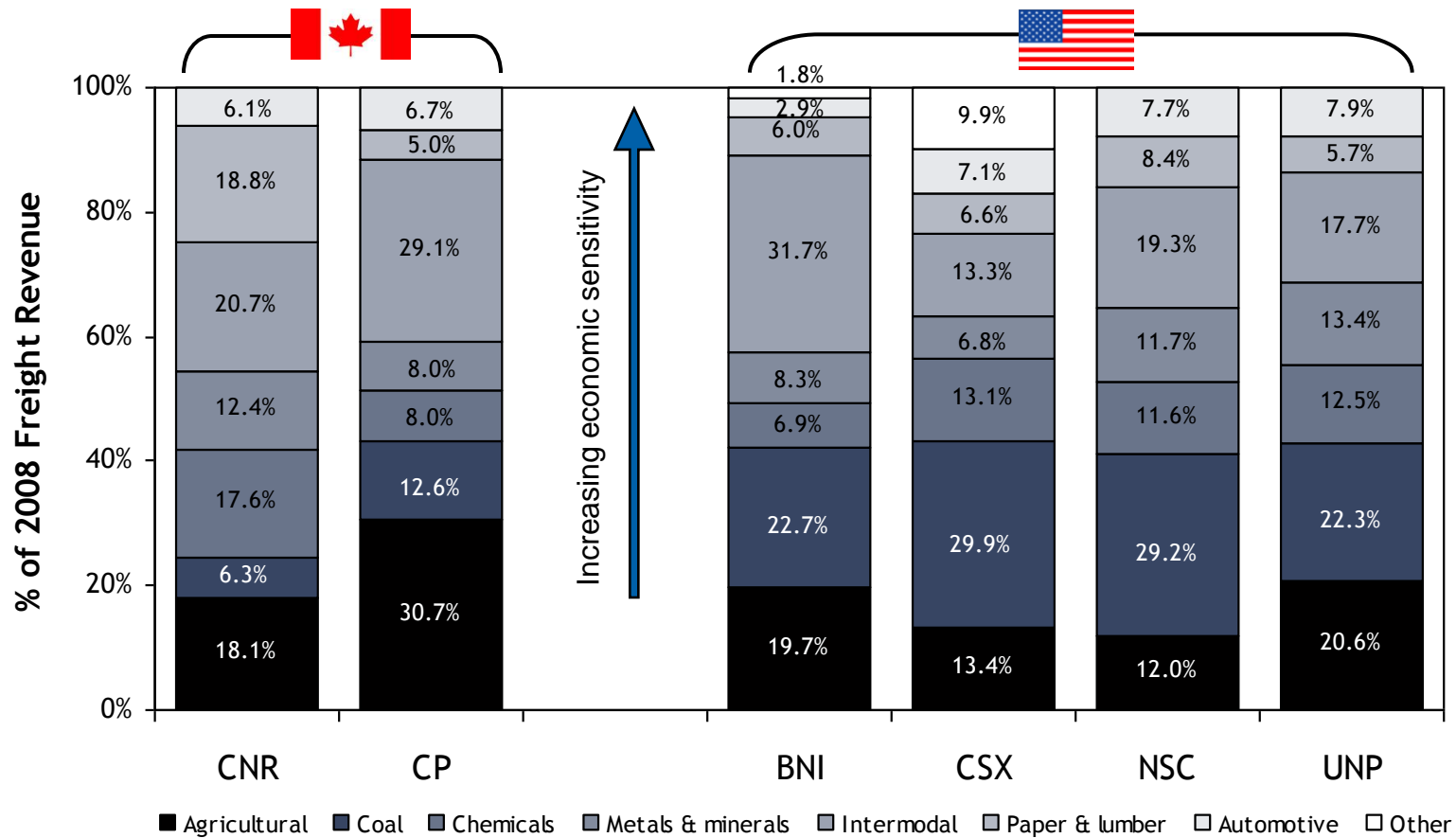
Class 1 Benchmarking Table (cont'd)

Metric	 CANADIAN PACIFIC RAILWAY	 BNSF RAILWAY	 CSX	 NS	 UNION PACIFIC	
Capital Structure						
Leverage ratios (as at Q1/09)						
Net debt / total capitalization	42.4%	39.7%	43.6%	46.7%	38.4%	33.1%
Net debt / enterprise value	26.7%	37.7%	27.0%	38.3%	30.8%	24.0%
Net debt / LTM EBITDA	2.2 x	2.8 x	1.7 x	2.0 x	1.6 x	1.4 x
Debt maturities (as at Q4/08)						
2009	506	44	256	319	484	720
2010	95	298	271	106	344	465
2011	1,248	298	271	605	342	555
Return on equity LTM	19.2%	9.9%	17.2%	15.9%	16.3%	14.4%
Operational Statistics for 2008						
Total route miles	20,961	15,533	32,000	21,000	21,000	32,205
Average employees	22,695	15,935	40,729	34,363	135	0
Diesel fuel consumed (U.S. gallons)	380 MM	289 MM	1,415 MM	545 MM	0 MM	0 MM
Revenue ton miles (MM)	177,951	124,532	664,384	247,800	28,300	76,178

Source: Company reports, RBC CM. All figures for Canadian railroads in C\$ and all figures for U.S. railroads in US\$.

Comparative Analysis – Product Lines

2008 Revenue Mix Comparison - Class 1 Railroad



Source: Company reports

Required Disclosures

Conflicts Disclosures

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