

FOXY and Northwoods Rail Service



General Outlook since Start-Up
and Moving Forward

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Two New Railroads



Fox Valley & Lake Superior Rail System, L.L.C. (FOXY)



Agawa Canyon Railroad, ULC (ACR)



Overview



Watco views the FOXY as a long-term investment, similar to our focus on the WSOR. We intend to work with customers to grow their volumes organically, add new business and invest in the network to deliver these opportunities. The FOXY maintains our network at a high level in order to deliver and exceed service expectations.

The up-front purchase price and first year capital costs will be returned over a long-term.

- Carloads in 2022 near expectations. Acquisition rationale focused on the ability to grow carload volumes across the system over time, particularly in industrial centric areas of Green Bay and Appleton.
- Ability to drive carload growth requires additional labor and crews to provide service to our customers. Non-contiguous nature of our lines makes it more difficult to use fungible labor and crews across the rail system.
- Labor costs in 2022 “over budget” significantly and expect to remain high going forward in order to deliver exceptional service to customers and meet growth expectations.
- Locomotive Fuel costs in 2022 “over budget” significantly. Price per gallon rose \$1.70 during 2022 versus before purchase of the lines.

Focus on Growth



- Priority #1: Focus on building traffic density on active routes
 - Conversion of more pulpwood, woodchips, and aggregate to rail in Northwoods
 - Pursue grant assistance for Fox Valley Swing Bridges to maintain bridge ratings and rail service to three of our subdivisions.
- Priority #2: Business case to expand service offerings to OOS line segments
 - Identify traffic movement potentials revenue and carload commitments
 - Evaluation of line segments that have highest revenue to cost ratio and look to create and maintain line of sight on those corridors
 - Ashland: Park Falls to Mellen
 - Bradley West: Prentice to Tony
 - Bradley East: Rhinelander to Goodman
 - Avoid spending capital on OOS line segments, but keep door open to reactivation in the future (Hwy 17 in Rhinelander)
- Priority #3: Evaluate business potential on other OOS line segments to determine if re-evaluation and justification for reactivation is warranted

Growth Challenges in Primary Markets



- Northwoods traffic growth relies on growth of the mineral and forest products categories
- Forest Products
 - Very fragmented supply chain (loggers, truckers, mills) makes it difficult to change business practices
 - Lackluster interest in converting volumes to rail or exploring the potential from customers
 - Limited equipment availability (log cars, woodchip hoppers) and rail scales
 - Challenges in paper markets and uncertainty of Rapids Mill makes difficult to invest long term
 - Mills converting away from coal
- Minerals
 - Infrastructure investment needed to support movements and length of hauls are generally short which is difficult for multi-railroad hauls
 - Lack of direct access to waterways (Ashland inactive and unreachable)
 - Mining projects in region could be years or decades away and volumes are uncertain with amount of processing

Projects in the Past Year and Half



- Successful winter startup
- Fix-up
 - Partnership with 3M on Wausau service and bridges
 - Main Wausau bridge
 - Grant application for Swing Bridges in Fox Valley
- Cleanup
 - Lots of issues with undocumented leases
 - Park Falls Depot
 - Issues with the deeds and property ownership
 - ITA's are missing
 - Medford Sub embargo
- Growth
 - Expanded customer in Merrill
 - Resumption of pulpwood movement (since halted)
 - Mining development discussions



Initial Assessment of OOS Line Segments

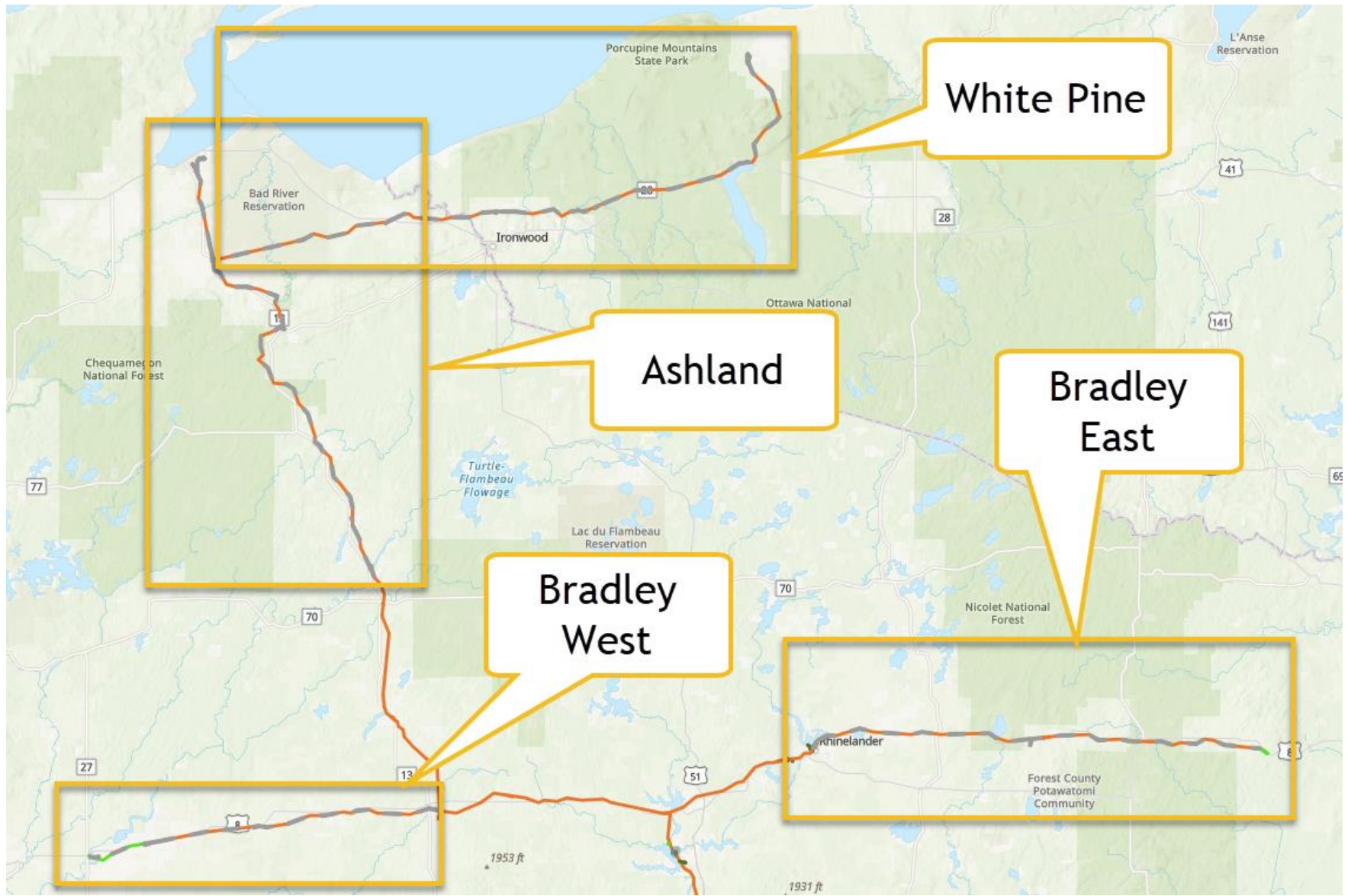


Disclaimer



- All dollar figures are based off FOXY internal preliminary estimates
 - Based on similar rehab type projects in region
 - Assumptions made on condition that rebuild could be accomplished without substantial reconstruction
 - Only the known washouts/bridge outages at time were priced into the estimates developed in May 2022
 - No contingencies or inflation are priced into the estimates
- Not all trackage has been inspected due to inaccessibility and vegetation overgrowth
- Estimates can only be used for discussion purposes and not actual costs for reactivating the lines in question. No engineering & design has been completed.

FOXY Out-of-Service Lines

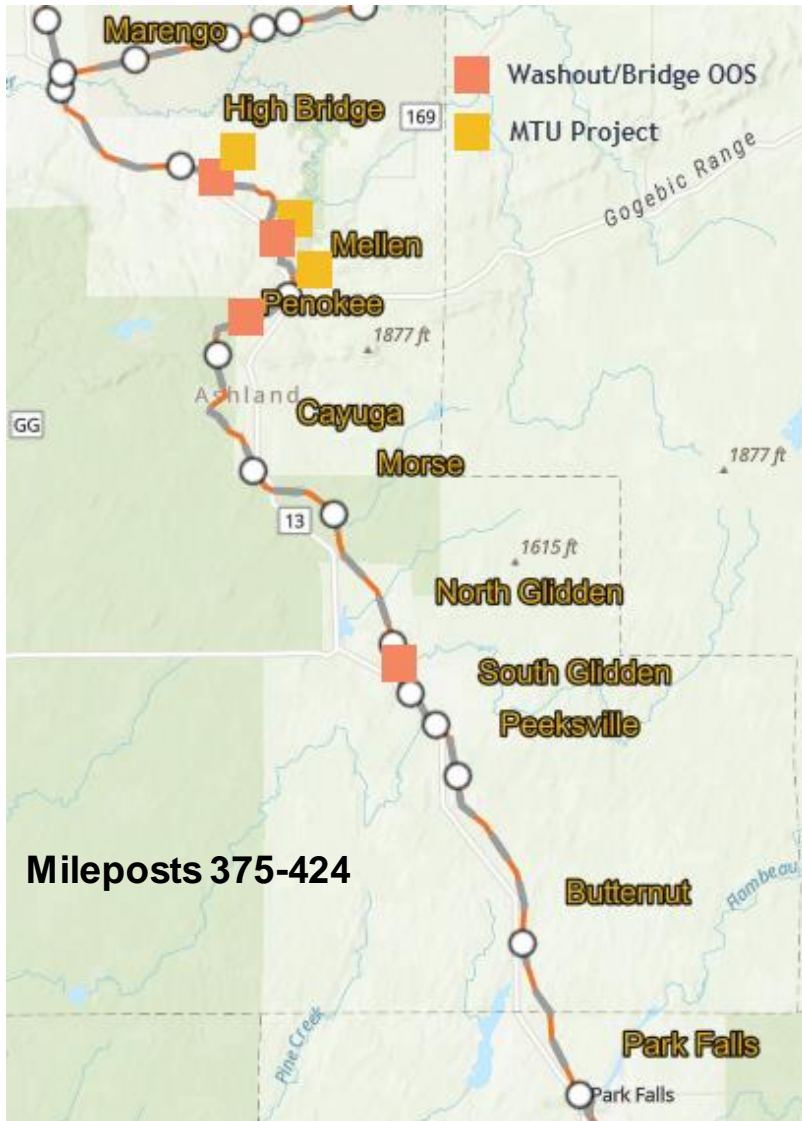


White Pine Subdivision



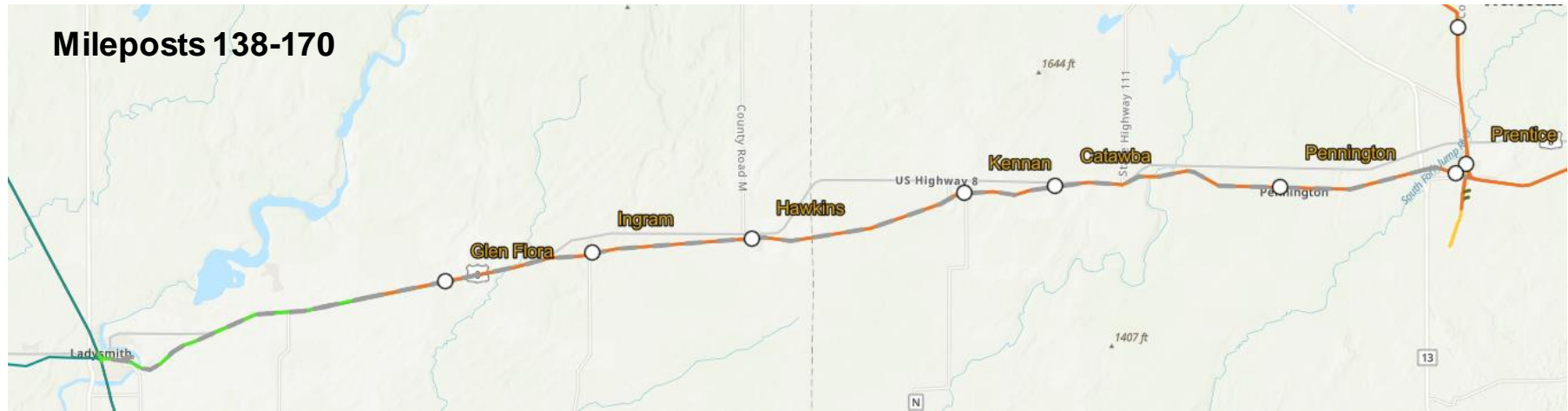
- Evaluated reactivation between Marengo Jct., WI and White Pine, MI
- Estimated \$30.7M Rehab
 - 77 Miles Track Rehab
 - 26 Bridges and Structures
 - 39 Grade Crossings
- Washout at MP 316 discovered after estimate and assuming no major issues with the two large trestles east of Marengo Jct.
- Line is extensively overgrown and currently impassible for a hi-rail inspection
- Line is only equipped with 80 lb. jointed rail which is very light and likely would require a rail replacement as well at \$40.5M.

Ashland Subdivision



- Evaluated reactivation between Park Falls and Marengo Jct.
- Estimated \$23.5M Rehab
 - 49 Miles Track Rehab
 - 28 Bridges and Structures
 - 47 Grade Crossings
 - Four known washouts and bridges that out-of-service
 - Majority of extensive damage is north of Mellen
- MTU Senior Design Projects Fall 2022
 - Transload Site in Mellen
 - Bridge Replacement and Embankment Repair between Mellen and High Bridge
- Park Falls to Mellen Corridor
 - More thorough evaluation in 2023
 - Line hi-railed to South Glidden summer 2022

Bradley Subdivision West

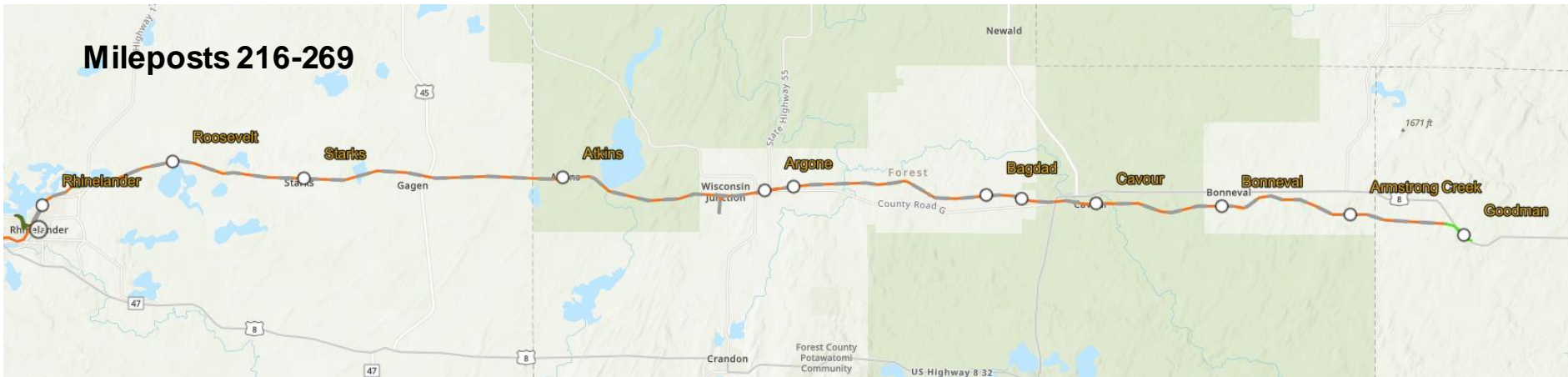


- No reactivation of the line between Prentice and Tony has been evaluated
- Track is in good condition with a few small washouts, but no major items
 - Track has been hi-railed between Prentice and Tony
 - No evaluation of the bridges and culverts has been done
- Only siding is at Hawkins and there is no road access alongside
- CN retained ownership to the Rusk County transload site in Tony, would need to lease or buy track from CN to access site

Bradley Subdivision East



Mileposts 216-269



- Evaluated reactivation between Rhinelander and Goodman
- Estimated \$13.5M Rehab
 - 53 Miles of Track Rehab
 - 7 Bridges and Structures
 - 44 Grade Crossings
 - Trackage and crossings have been removed (extent unknown)
- Brush cutting project underway in 2023 to create line of sight and be able to weed spray corridor
- Sidings in Argone Jct., Argone, Bagdad, Laona Jct., Cavour, and Armstrong Creek would require various states of repair to support traffic

Moving Forward...



- Focus on developing and maintaining business on existing trackage
- Evaluate the line segments further that have minimal damage
- Intensify efforts to pin down traffic potentials with customers
- Any grant application will have a Benefit Cost Analysis (BCA), so we need to have traffic to apply for government funds
- Questions?