

Railroad Update
to
Prineville City Council
June 28, 2011

- 1.) Cost control – the railroad continues to watch expenses and spend dollars only where absolutely necessary to maintain a safe and reliable operation. Some unexpected repairs negatively impacted the budget during the 3rd Quarter – repairs to the hyrail pickup due to heavy wear to the rail gear and repairing damage to the Bus Evans road crossing signal caused by a lightning strike over a year ago that we could no longer keep patching together.
- 2.) May saw record carloadings in recent times – 118 loads for the month. June will be down due to lack of woodchips account wet woods conditions not allowing for timber harvest. Schwab tires have been unusually strong and will taper off into the summer. Longview Fibre is planning on sourcing chips from the region again and we expect 10 – 15 carloads per month from them as soon as logs are available.

We have received a carload of inbound sheetrock for Parr Lumber and expect that to become regular business as they increase their market share in the region.

- 3.) Dinner train equipment – a tourist train operator located near Tacoma, WA inspected the equipment recently and is expected to make an offer in the near future. It is anticipated that the appraised value of \$40 – 50k can be obtained in this deal.
- 4.) Freight Depot is slow. Matt is spending considerable time working on the Connect Oregon III project and billing off his time to the project helping to offset expenses.
- 5.) Industrial Development – HM3 continues to move forward slowly with plans for a biomass fuel processing plant in Prineville. Current timeline calls for groundbreaking about one year from now.

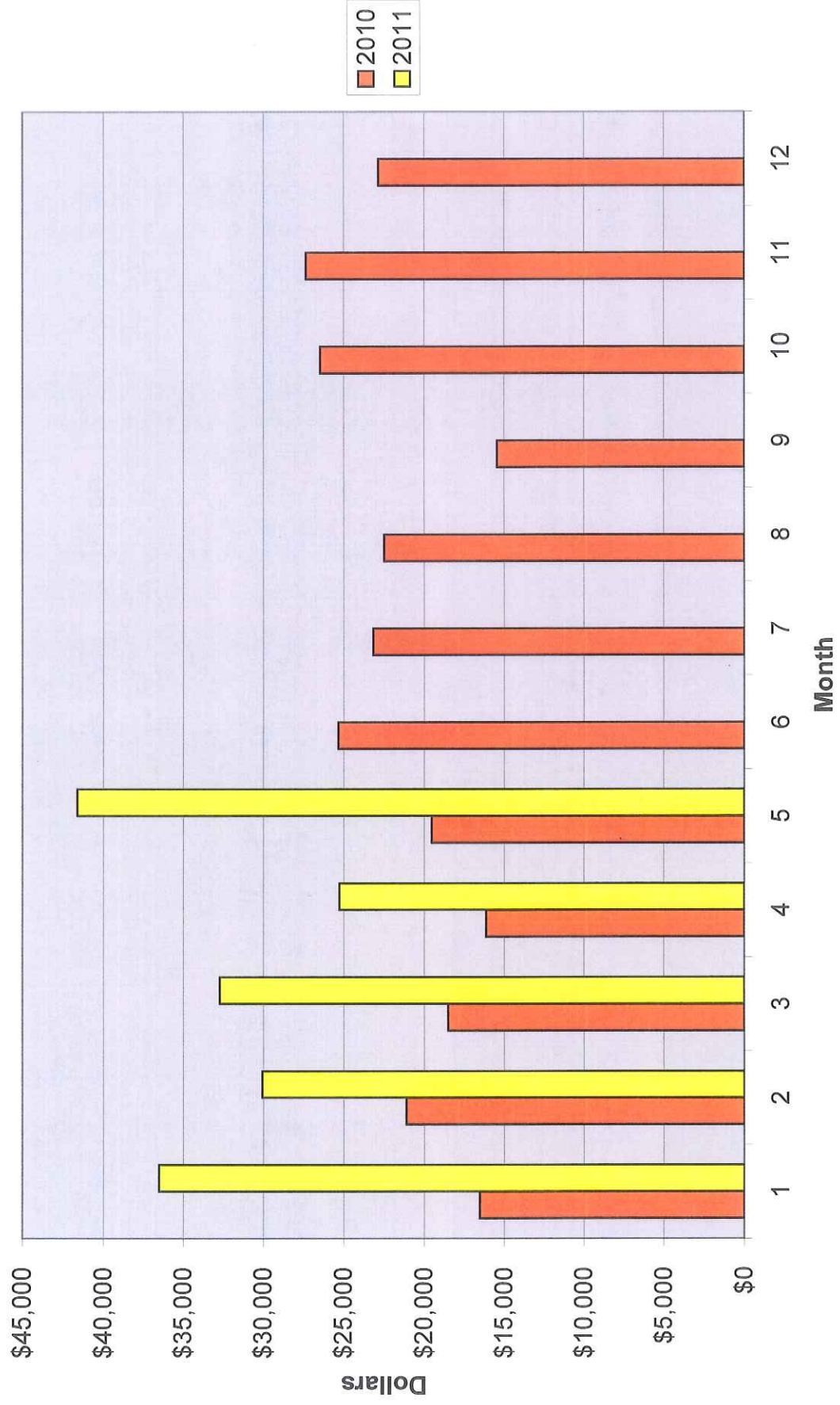
Have recently had positive meetings with potential users of the Junction bulk transfer facility. Interest in the facility is growing as it takes shape.

- 6.) Grants – CO III project is moving forward at approximately 8% completion.

Legislature is considering funding a Connect Oregon 4 program at \$40 million. We are lobbying for this program and will submit an application if the program is available.

- 7.) Right of Way leases – Generated approximately \$15k in ROW lease revenue for FY 10-11. Short of \$20k goal but improving.
- 8.) Year end finances – with growing freight revenues, reduced operating expenses and offsets from working on the Connect Oregon grant project the Railway is positioned to finish FY 10-11 at break even.

REVENUE YEAR OVER YEAR



	CARLOADS REVENUE		CARLOADS REVENUE	
	2010	2010	2011	2011
JAN	46	\$16,521	90	\$36,523
FEB	64	\$21,090	75	\$30,064
MAR	54	\$18,489	86	\$32,713
APR	47	\$16,122	71	\$25,276
MAY	54	\$19,515	118	\$41,635
JUN	75	\$25,344		
JUL	71	\$23,154		
AUG	64	\$22,467		
SEP	43	\$15,446		
OCT	69	\$26,464		
NOV	75	\$27,358		
DEC	63	\$22,838		

725 \$ 254,808

440 \$ 166,211