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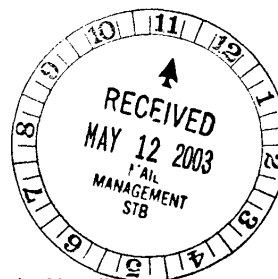
G O L D E N



S U N S E T

FILED

MAY 12 2003



May 8, 2003

Secretary
Surface Transportation Board
1925 K Street, NW
Washington, DC 20423-0001

RE: Notice of Exemption by Sierra Railroad Company and Yolo Shortline
Railroad Company; FD 34351

Dear Sir or Madam:

The following are enclosed:

1. An original and 10 copies of the Notice of Exemption by Sierra Railroad Company and Yolo Shortline Railroad Company;
2. A 3.5 inch floppy disk containing the Notice of Exemption in WordPerfect 5.1 format.
3. A check in the amount of \$1,300 for the filing fee.

Please contact me if you have any questions regarding this filing.

Thank you

Sincerely,

Torgny Nilsson
Chief Legal Officer
Sierra Railroad Company

ENTERED
Office of Proceedings

MAY 12 2003

Part of
Public Record

FEE RECEIVED

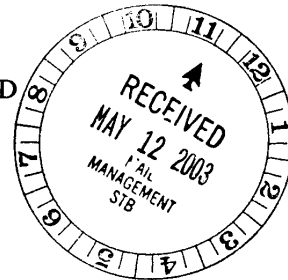
MAY 12 2003

SURFACE
TRANSPORTATION BOARD

BEFORE THE SURFACE TRANSPORTATION BOARD

Finance Docket No. FD 34351

NOTICE OF EXEMPTION



NOTICE BY SIERRA RAILROAD COMPANY AND YOLO SHORTLINE RAILROAD
COMPANY FOR EXEMPTION UNDER 49 C.F.R. § 1180.2(d) OF MERGER OF SIERRA
RAILROAD COMPANY AND YOLO SHORTLINE RAILROAD COMPANY

Michael G. Hart, President
SIERRA RAILROAD COMPANY
220 Sierra Avenue
Oakdale, California 95361
(209) 848-2100

David Magaw, President
YOLO SHORTLINE RAILROAD COMPANY
341 Industrial Way
Woodland, California 95776
(530) 666-9646

ENTERED
Office of Proceedings

MAY 13 2003

Part of
Public Record

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MAY 12 2003

SURFACE
TRANSPORTATION BOARD

FILED

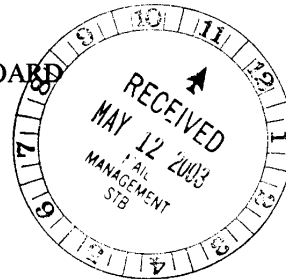
MAY 12 2003

SRYS 1

BEFORE THE SURFACE TRANSPORTATION BOARD

Finance Docket No. FD 34351

NOTICE OF EXEMPTION



NOTICE BY SIERRA RAILROAD COMPANY AND YOLO SHORTLINE RAILROAD
COMPANY FOR EXEMPTION UNDER 49 C.F.R. § 1180.2(d) OF MERGER OF SIERRA
RAILROAD COMPANY AND YOLO SHORTLINE RAILROAD COMPANY

Supporting Information Under 49 C.F.R. § 1180.6

INTRODUCTION

Sierra Railroad Company ("SRC") and Yolo Shortline Railroad Company ("YSL") hereby file this joint application under 49 U.S.C. § 11323 and Railroad Consolidation Procedures of the Surface Transportation Board (the "Board" or "STB"), 49 C.F.R. § 1180, for approval of a proposed merger (the "Merger") by which SRC and YSL would combine their rail operations.

The Merger will not connect the two railroads, will not connect any railroads in their corporate families, is not part of a series of anticipated transactions that would connect the two railroads or any railroads in their corporate families, and will not involve any Class I carrier.

SUMMARY OF PROPOSED TRANSACTION (49 C.F.R. § 1180.6(a)(1)(i))

SRC and YSL have for at least five years discussed merging the two railroads. The two railroads are similar in size, relatively close geographically, and have regularly shared crews, equipment, marketing efforts and expertise. SRC and YSL believe that the proposed Merger would produce a single company that is stronger and more diverse, and has better access to business opportunities and capital, than the two separate companies. SRC and YSL also believe that the proposed Merger will generate substantial opportunities for cost savings, particularly in the areas of insurance and equipment. The proposed Merger is anticipated to ensure the continued provision of

rail services to the current and prospective customers of SRC and YSL.

The Boards of Directors of SRC and YSL have each unanimously approved a draft Plan and Agreement of Reorganization (the "Agreement"), a true and correct copy of which draft is attached as Exhibit 2 hereto. The Agreement provides that if the Merger is approved by the holders of at least ninety percent (90%) of the outstanding shares of SRC and of YSL's parent company, Midland Railroad Enterprises Corporation ("MREC"), SRC will become the owner of all of the stock of YSL and SRC. The shareholders in the formerly separate SRC and YSL will receive new stock in the reorganized SRC.

PROPOSED TIME SCHEDULE (49 C.F.R. § 1180.6(a)(1)(ii))

SRC and YSL intend to complete their Merger as quickly as possible after the Board publishes a notice of exemption of the Merger. SRC and YSL expect to complete their Merger by June 30, 2003.

PURPOSE TO BE ACCOMPLISHED (49 C.F.R. § 1180.6(a)(1)(iii))

The Merger is intended to integrate the rail operations of SRC with those of YSL, both Class III carriers. The Merger is intended to allow SRC and YSL to combine their resources, to expand their business opportunities through the formation of new subsidiaries, and to develop other railroad and transportation related businesses such as a track maintenance and repair business. The Merger is also intended to allow SRC and YSL to share employees and equipment while retaining existing employees and management, placing the merged company in a better and more competitive position and ensuring its continued provision of rail services to its current and prospective customers. SRC and YSL understand that a similar organizational structure is currently used by a number of other shortline railroads in the United States to manage their operations.

STATES IN WHICH PROPERTY IS SITUATED (49 C.F.R. § 1180.6(a)(5))

SRC and YSL own rail property in California over which they conduct railroad operations. Neither SRC nor YSL owns any rail property in any other state.

MAP (49 C.F.R. § 1180.6(a)(6))

Exhibit 1 hereto consists of a general overview map of SRC's system and YSL's system and a Sacramento area detail map of YSL's system.

AGREEMENT (49 C.F.R. § 1180.6(a)(7)(ii))

A true and correct copy of the Plan and Agreement of Reorganization approved by each of the Boards of Directors of SRC and YSL is attached as Exhibit 2 hereto.

LABOR PROTECTION TO BE IMPOSED (49 C.F.R. § 1180.4(g)(I))

SRC and YSL do not anticipate that the proposed Merger will result in any lay-offs or other reductions of personnel. SRC and YSL anticipate that their current employees will be unaffected by the proposed Merger and that the combined company will, after the merger, employ more personnel than the two separate companies currently employ.

PRAYER FOR RELIEF

Wherefore, Applicants SRC and YSL pray that the Board publishes a notice of exemption of the Merger.

SIGNATURES, OATHS AND CERTIFICATIONS OF APPLICANTS' EXECUTIVE OFFICERS (49 C.F.R. § 1180.4(g)(1))

SIERRA RAILROAD COMPANY

I, Michael G. Hart, declare under penalty of perjury under the laws of the United States that I am the President of the Sierra Railroad Company, an applicant herein; that I am one of the executive officers duly authorized to sign, to verify, and to file this Application on behalf of the foregoing; that I have knowledge of the matters contained in this Application to the extent that they relate to the foregoing; and that the statements in this Application are true and correct to the best of my knowledge and belief. Executed this 6th day of May 2003.

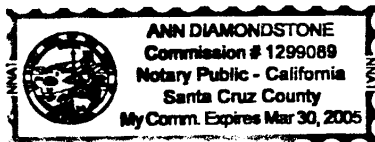

Michael G. Hart

CALIFORNIA ALL-PURPOSE ACKNOWLEDGMENT

No. 5907

State of California
 County of Yolo
 On 5-7-03 before me, Ann Diamondstone
DATE NAME, TITLE OF OFFICER - E.G., "JANE DOE, NOTARY PUBLIC"
 personally appeared Michael G. Hart
NAME(S) OF SIGNER(S)

☒ personally known to me - **OR** - ☐ proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.



WITNESS my hand and official seal.

Ann Diamondstone
SIGNATURE OF NOTARY

OPTIONAL

Though the data below is not required by law, it may prove valuable to persons relying on the document and could prevent fraudulent reattachment of this form.

CAPACITY CLAIMED BY SIGNER

- ☐ INDIVIDUAL
☐ CORPORATE OFFICER

TITLE(S)

- ☐ PARTNER(S) ☐ LIMITED
☐ GENERAL
☐ ATTORNEY-IN-FACT
☐ TRUSTEE(S)
☐ GUARDIAN/CONSERVATOR
☐ OTHER: _____

SIGNER IS REPRESENTING:
NAME OF PERSON(S) OR ENTITY(IES)

DESCRIPTION OF ATTACHED DOCUMENT

TITLE OR TYPE OF DOCUMENT

NUMBER OF PAGES

DATE OF DOCUMENT

SIGNER(S) OTHER THAN NAMED ABOVE

I, Angela Hart, hereby certify that I am Corporate Secretary of Sierra Railroad Company, an applicant herein, and that Michael G. Hart, President of Sierra Railroad Company, is duly authorized to sign, to verify, and to file this Application on behalf of Sierra Railroad Company. Executed this 7th day of May 2003.

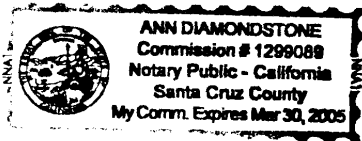

Angela Hart
Corporate Secretary
Sierra Railroad Company

CALIFORNIA ALL-PURPOSE ACKNOWLEDGMENT

No. 5907

State of California
 County of yolo
 On 5-7-03 before me, Ann Diamondstone
DATE NAME, TITLE OF OFFICER - E.G., "JANE DOE, NOTARY PUBLIC"
 personally appeared Angela Hart
NAME(S) OF SIGNER(S)

☒ personally known to me - **OR** - ☐ proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.



WITNESS my hand and official seal.

[Signature]
SIGNATURE OF NOTARY

OPTIONAL

Though the data below is not required by law, it may prove valuable to persons relying on the document and could prevent fraudulent reattachment of this form.

CAPACITY CLAIMED BY SIGNER

- ☐ INDIVIDUAL
☐ CORPORATE OFFICER

TITLE(S)

- ☐ PARTNER(S) ☐ LIMITED
☐ GENERAL
☐ ATTORNEY-IN-FACT
☐ TRUSTEE(S)
☐ GUARDIAN/CONSERVATOR
☐ OTHER: _____

SIGNER IS REPRESENTING:
NAME OF PERSON(S) OR ENTITY(IES)

DESCRIPTION OF ATTACHED DOCUMENT

TITLE OR TYPE OF DOCUMENT

NUMBER OF PAGES

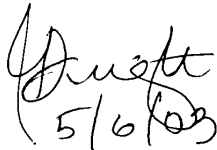
DATE OF DOCUMENT

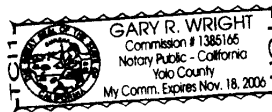
SIGNER(S) OTHER THAN NAMED ABOVE

YOLO SHORTLINE RAILROAD COMPANY

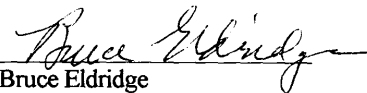
I, David Magaw, declare under penalty of perjury under the laws of the United States that I am the President of the Yolo Shortline Railroad Company, an applicant herein; that I am one of the executive officers duly authorized to sign, to verify, and to file this Application on behalf of the foregoing; that I have knowledge of the matters contained in this Application to the extent that they relate to the foregoing; and that the statements in this Application are true and correct to the best of my knowledge and belief. Executed on this 6th day of May 2003.


David Magaw

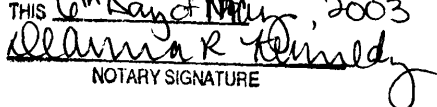

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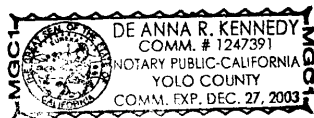


I, Bruce Eldridge, hereby certify that I am Corporate Secretary of Yolo Shortline Railroad Company, an applicant herein, and that David Magaw, President of Yolo Shortline Railroad Company, is duly authorized to sign, to verify, and to file this Application on behalf of Yolo Shortline Railroad Company. Executed this 6th day of May 2003.


Bruce Eldridge
Corporate Secretary

Yolo Shortline Railroad Company

SUBSCRIBED AND SWORN TO BEFORE ME
THIS 6th day of May, 2003

NOTARY SIGNATURE



CERTIFICATE OF SERVICE

I certify that I have served a conformed copy of the foregoing Notice in Finance Docket No. FD 34351, and conformed copies of all verified statements, appendices, and exhibits in support of the Notice, by first class mail upon all persons required to be served as set forth in 49 C.F.R. § 1180.4(c)(5), namely:

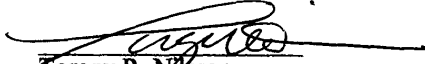
(I) The Governor (or Executive Officer), the Public Service Commission, and Department of Transportation of each State in which any part of the real properties of Applicant carriers involved in the proposed merger are situated;

(ii) The Secretary of the United States Department of Transportation (Docket Clerk, Office of Chief Counsel, Federal Railroad Administration, Room 5101, 400 Seventh Street, S.W., Washington, D.C. 20590);

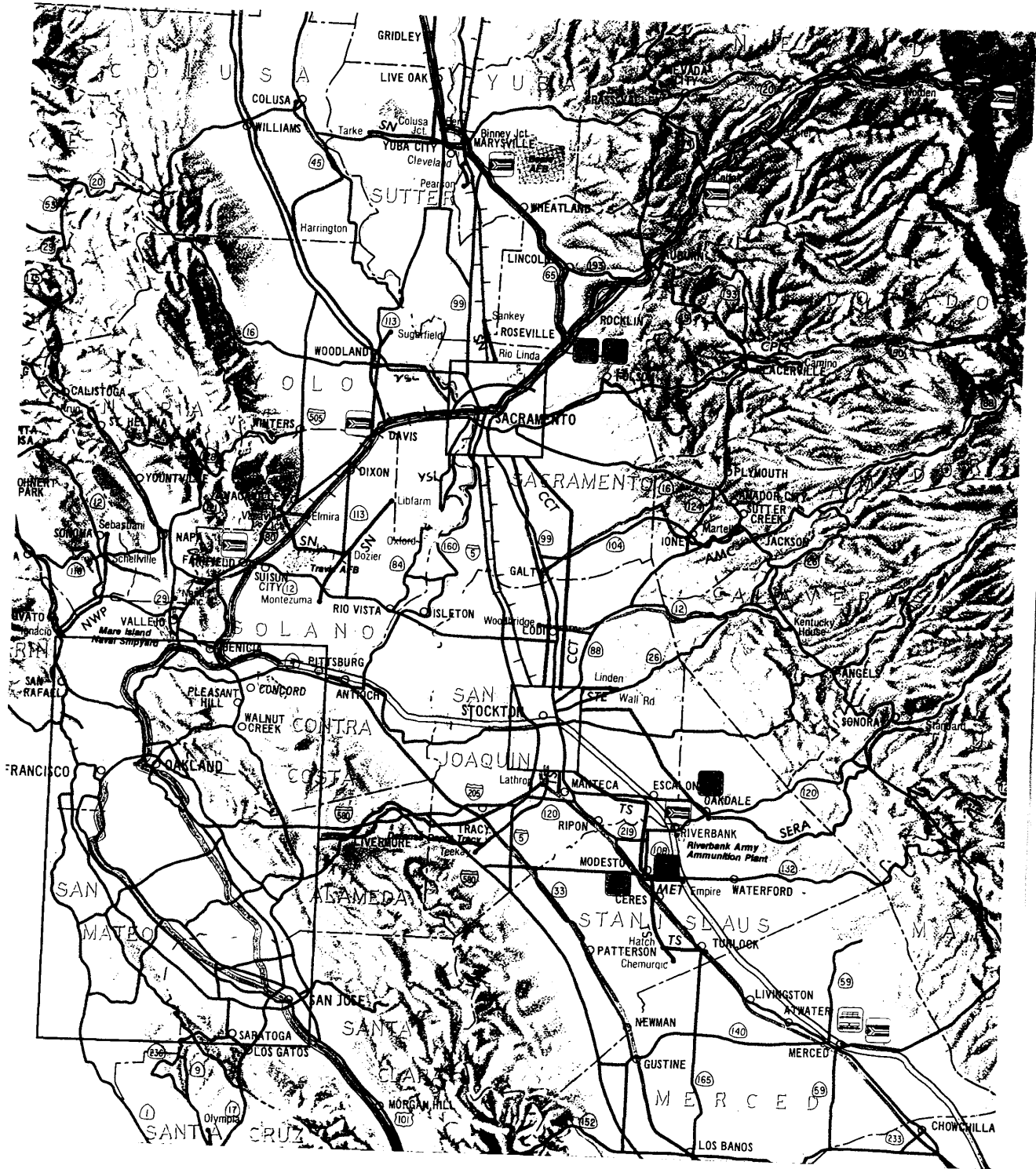
(iii) The Attorney General of the United States; and

(iv) The Federal Trade Commission;

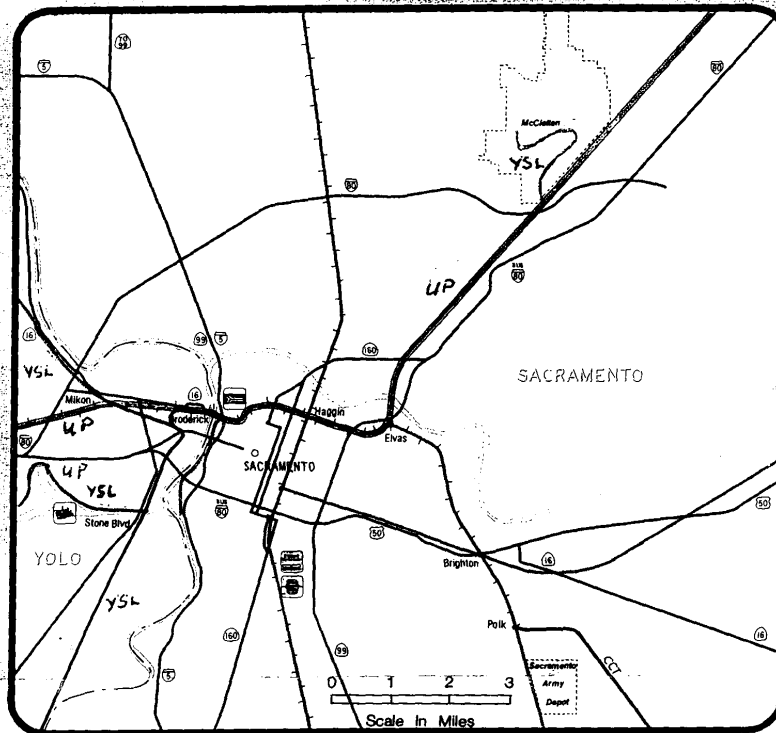
Dated at Woodland, California, this 8th day of May 2003.


Torgny R. Nilsson

1



SACRAMENTO



2

PLAN AND AGREEMENT OF REORGANIZATION

This Plan and Agreement of Reorganization ("Agreement") is entered into on this ____ day of May 2003, by and between **SIERRA RAILROAD COMPANY**, a California corporation ("SRC"), and **MIDLAND RAILROAD ENTERPRISES CORPORATION**, a California corporation ("MREC").

RECITALS

1. **WHEREAS**, MREC and SRC desire to carry out a reorganization under Section 368(a)(1)(B) of the Internal Revenue Code of 1986, as amended, whereby SRC will acquire up to one-hundred percent (100%) of MREC's outstanding common stock (the "MREC Stock"), and up to one-hundred percent (100%) of its own outstanding common stock ("Original SRC Stock"), in exchange for new post-reorganization shares of SRC's common stock (the "New SRC Stock");
2. **WHEREAS**, MREC and SRC desire that SRC will cease to be a common carrier and will be reorganized as a holding company for all of MREC's and SRC's businesses and subsidiaries;
3. **WHEREAS**, MREC and SRC desire that MREC become a wholly-owned subsidiary of SRC, be renamed "Midland Rail", and carry out all of MREC's and SRC's non-carrier railroad services including, but not limited to, railcar construction and maintenance of way construction;
4. **WHEREAS**, MREC and SRC desire that MREC's wholly-owned subsidiary, the Yolo Shortline, become a wholly-owned subsidiary of SRC, be renamed "Sierra Transportation Company", and will carry out all of MREC's and SRC's existing freight railroad operations, including actual transportation work, as a common carrier;
5. **WHEREAS**, MREC and SRC desire that SRC's wholly-owned subsidiary, Sierra Railroad Golden Sunset Corporation, remain a wholly-owned subsidiary of SRC, be renamed "Sierra Entertainment", and carry out all of MREC's and SRC's passenger and entertainment services, including but not limited to the Wild Berry Express, the Golden Sunset Dinner Train, and film related activities;
6. **WHEREAS**, Michael Hart will as part of this reorganization assign to SRC all the rights, title, and interest to and in the Disney dinner train concept and the PowerTrain concept—which the parties intend will be developed and pursued by companies to be formed following the reorganization—retaining for himself only the right to certain after-tax profits generated as a result of the development of those concepts;

7. **WHEREAS**, SRC, as a holding company, will develop and fund railroad, transportation, entertainment, and other projects for the growth and benefit of its subsidiaries and the organization as a whole; and
8. **WHEREAS**, MREC and SRC desire that SRC's Board of Directors following the reorganization consist of nine (9) persons, with up to three (3) of the initial directors to be elected by the shareholders of MREC (the "MREC Shareholders") prior to the Closing Date, defined in Section 9 of this Agreement, up to three (3) of the initial directors to be elected by the pre-reorganization shareholders of SRC (the "SRC Shareholders") prior to the Closing Date, and any remaining initial directors to be appointed by the elected directors following the reorganization. Directors of SRC shall, following the resignation, removal, or termination of any or all of the initial directors, be elected or appointed as set forth in SRC's By-Laws following the reorganization.

NOW THEREFORE, THE PARTIES TO THIS AGREEMENT MUTUALLY AGREE AS FOLLOWS:

AGREEMENT

1. **Transfer of MREC Stock.** The MREC Shareholders shall transfer, assign, convey, and deliver to SRC, on or before the Closing Date, certificates representing one hundred percent (100%) of the MREC Stock or such lesser percentage of the MREC Stock (but in no event less than ninety percent (90%)) as shall be acceptable to SRC. The transfer of the MREC Stock shall be free and clear of all liens, mortgages, pledges, encumbrances, and charges whether disclosed or undisclosed.
2. **Transfer of Original SRC Stock.** The SRC Shareholders shall transfer, assign, convey, and deliver to SRC, on or before the Closing Date, certificates representing one hundred percent (100%) of the Original SRC Stock or such lesser percentage of the Original SRC Stock (but in no event less than ninety percent (90%)) as shall be acceptable to SRC. The transfer of the Original SRC Stock shall be free and clear of all liens, mortgages, pledges, encumbrances, and charges whether disclosed or undisclosed.
3. **Issuance of New SRC Stock to MREC Shareholders.**
 - 3.1. As consideration for the transfer, assignment, conveyance, and delivery of the MREC Stock under this Agreement, SRC shall, on or before the Closing Date, issue to the MREC Shareholders, except Michael and Angela Hart other than as set forth in Section 5 of this Agreement, and except David and Jane Magaw other than as set forth in Section 6 of this Agreement, pro-rata, in accordance with each MREC Shareholder's percentage ownership of MREC immediately prior to the Closing Date, certificates for ten percent (10%) of all New SRC Stock existing immediately following the Closing Date, consisting of approximately one-hundred thousand (100,000) shares of stock minus any Treasury Stock not issued to

MREC Shareholders as a result of the exercise of MREC Warrants and Options as defined in Section 3.2 of this Agreement. The approximate number of shares of New SRC Stock to be received by each of the MREC Shareholders is set forth in Exhibit "A" hereto, and incorporated herein by this reference, with the exact number being determined following the deadline for the exercise of any MREC Warrants and Options as set forth in Section 3.2 of this Agreement.

- 3.2. MREC Shareholders who have warrants and/or options to purchase MREC Stock ("MREC Warrants and Options") shall have thirty (30) days after the date of notice to them to exercise any such MREC Warrants and Options. Any MREC Warrants and Options not exercised within thirty (30) days after such notice shall be null and void as of that date. All MREC Warrants and Options exercised within thirty (30) days of such notice shall be exchanged pursuant to Section 3.1 of this Agreement.
- 3.3. Michael Hart shall, on or before the Closing Date, transfer, assign, convey, and deliver to SRC all of his MREC Stock, MREC Warrants and Options, and other good and valuable consideration, including but not limited to that set forth in Section 5 of this Agreement, in return for New SRC Stock issued pursuant to Section 5 of this Agreement.
- 3.4. David and Jane Magaw shall, on or before the Closing Date, transfer, assign, convey, and deliver to SRC all of their MREC Stock (except 2,213 shares of MREC Stock purchased by them after April 1, 2003 which shall be treated pursuant to Section 3.1 of this Agreement), any MREC Warrants and Options, and other good and valuable consideration, including but not limited to that set forth in Section 6 of this Agreement, in return for New SRC Stock issued pursuant to Section 6 of this Agreement.

4. Issuance of New SRC Stock to SRC Shareholders.

- 4.1. As consideration for the transfer, assignment, conveyance, and delivery of the Original SRC Stock under this Agreement, SRC shall, on or before the Closing Date, issue to the SRC Shareholders, except Michael and Angela Hart other than as set forth in Section 5 of this Agreement, pro-rata, in accordance with each SRC Shareholder's percentage ownership of SRC immediately prior to the Closing Date, certificates ten percent (10%) of all New SRC Stock existing immediately following the Closing Date, consisting of approximately one-hundred thousand (100,000) shares of stock minus any Treasury Stock not issued to SRC Shareholders as a result of the exercise of Original SRC Warrants and Options as defined in Section 4.2 of this Agreement. The approximate number of shares of New SRC Stock to be received by each of the SRC Shareholders is set forth in Exhibit "B" hereto, and incorporated herein by this reference, with the exact

number being determined following the deadline for the exercise of any Original SRC Warrants and Options as set forth in Section 4.2 of this Agreement.

- 4.2. SRC Shareholders who have warrants and/or options to purchase Original SRC Stock ("Original SRC Warrants and Options") shall have thirty (30) days after the date of notice to them to exercise any such Original SRC Warrants and Options. Any Original SRC Warrants and Options not exercised within thirty (30) days after such notice shall be null and void as of that date. All Original SRC Warrants and Options exercised within thirty (30) days of such notice shall be exchanged pursuant to Section 4.1 of this Agreement.
- 4.3. Michael and Angela Hart shall, on or before the Closing Date, transfer, assign, convey, and deliver to SRC all of their Original SRC Stock, any Original SRC Warrants and Options, and other good and valuable consideration, including but not limited to that set forth in Section 5 of this Agreement, in return for New SRC Stock issued pursuant to Section 5 of this Agreement.
5. **Issuance of New SRC Stock to Michael and Angela Hart.** As consideration for Michael and Angela Hart's transfer, assignment, conveyance, and delivery to SRC of their MREC Stock, MREC Warrants and Options, Original SRC Stock, Original SRC Warrants and Options, if any, and other good and valuable consideration as provided in Sections 3 and 4 of, and Exhibit "C" to, this Agreement, SRC shall, on or before the Closing Date, issue to Michael and Angela Hart certificates for six-hundred thousand (600,000) shares of New SRC Stock, representing sixty percent (60%) of the outstanding New SRC Stock existing immediately following the Closing Date.
6. **Issuance of New SRC Stock to David and Jane Magaw.** As consideration for David and Jane Magaw's transfer, assignment, conveyance, and delivery to SRC of their MREC Stock, MREC Warrants and Options, and other good and valuable consideration as in Section 3 of, and Exhibit "D" to, this Agreement—but excepting 2,213 shares of MREC Stock purchased by them after April 1, 2003 which shall be exchanged as part of the ten percent (10%) of New SRC Stock exchanged as set forth in Section 3.1 of this Agreement—SRC shall, on or before the Closing Date, issue to David and Jane Magaw certificates for two-hundred thousand (200,000) shares of New SRC Stock, representing twenty percent (20%) of the outstanding New SRC Stock existing immediately following the Closing Date.
7. **Conditions for The Issuance of New SRC Stock:**
 - 7.1. The issuance of New SRC Stock shall be free and clear of all liens, mortgages, pledges, encumbrances, and charges whether disclosed or undisclosed.
 - 7.2. None of the New SRC Stock issued to the MREC Shareholders or to the SRC Shareholders, nor any of the MREC Stock or Original SRC Stock transferred to

SRC under this Agreement, shall following the reorganization be registered under federal securities laws but, rather, shall be issued pursuant to an exemption therefrom and shall be considered “restricted stock” within the meaning of Rule 144 promulgated under the Securities Act of 1933, as amended (the “Act”). All New SRC Stock shall bear a legend on the back worded substantially as follows:

“The shares represented by this certificate have not been registered under any state or federal securities law, including the Securities Act of 1933 (the “Act”), and are “restricted securities” as that term is defined in Rule 144 under the Act. The shares have been acquired for investment and may not be offered for sale, sold, or otherwise transferred except pursuant to an effective registration statement under the Act, or pursuant to an exemption from registration under the Act, the availability of which is to be established to the satisfaction of the Company.”

“Sale or transfer of the shares is subject to the restrictions in the By-Laws.”

“The Common shares of the Company are subject, in all respects, to the prior rights of the holders of Preferred shares as provided in the Articles of Incorporation.”

“The Company will furnish to any shareholder, upon request and without charge, a full statement of the designation, relative rights, preferences, and limitations of each class of shares, and series of shares, authorized to be issued.”

- 7.3. The respective transfer agents of SRC and MREC shall annotate their records to reflect the restrictions on transfer embodied in the legend set forth above. SRC, the MREC Shareholders, and the SRC Shareholders shall not be required to register any New SRC Stock under the Act. MREC and the MREC Shareholders shall not be required to register any MREC Stock under the Act. SRC and the SRC Shareholders shall not be required to register any Original SRC Stock under the Act.
- 7.4. Each MREC Shareholder and each SRC Shareholder acquiring New SRC Stock shall on or before the Closing Date deliver to SRC an agreement confirming that all New SRC Stock received by them will be acquired for investment and not with a view to, or for sale in connection with, any distribution thereof and agreeing not to transfer any of the New SRC Stock for a period of two years from the Closing Date, except to those persons approved by legal counsel for SRC as falling within

an exemption from registration under the Act and any applicable state securities laws, which transfers do not constitute a public distribution of securities and in which the transferees execute an investment letter in form and substance satisfactory to counsel for SRC. Each such shareholder will also be required to transfer to SRC, on or before the Closing Date, his or her respective MREC Shares and/or Original SRC Shares, free and clear of all liens, mortgages, pledges, encumbrances, and changes, whether disclosed or undisclosed.

8. Provisions for MREC and SRC Shareholders Who do not Exchange Their Stock:

8.1. If certificates representing at least ninety percent (90%) of MREC Stock, and at least ninety percent (90%) of Original SRC Stock, are transferred, assigned, conveyed, and delivered to SRC, on or before the Closing Date, the board of directors of SRC shall following the reorganization do one of the following at its sole option:

8.1.1. Deem and declare all non-exchanged MREC Stock and Original SRC Stock to be exchanged for New SRC Stock pursuant to Sections 3.1 or 4.1 of this Agreement, as applicable; or

8.1.2. Repurchase all non-exchanged MREC Stock and Original SRC Stock at its book value as of January 1, 2003 and then cancel any such MREC Stock and Original SRC Stock following repurchase.

8.2. All unexercised MREC Warrants and Options, and all unexercised Original SRC Warrants and Options, if any, will become null and void thirty (30) days after the notice set forth in Sections 3.2 and 4.2, respectively, of this Agreement.

9. **Closing Date.** The closing of this Agreement and the exchange of MREC Stock, MREC Warrants and Options, Original SRC Stock, and Original SRC Warrants and Options, if any, for New SRC Stock (the "Closing Date") shall take place forty-five (45) days after the date of this Agreement unless MREC and SRC mutually agree to a later date. For accounting and tax purposes, however, the Closing Date shall be deemed to be January 1, 2003, the beginning of the fiscal year for MREC and SRC.

10. **Deliveries by MREC Shareholders on or before the Closing Date.** The MREC Shareholders shall on or before the Closing Date deliver to SRC:

10.1. Certificates representing all shares, or an amount of shares acceptable to SRC (but in no event less than ninety percent (90%)), of MREC Stock as described in Section 1 of this Agreement, each share endorsed on the back by the registered owner thereof; and

- 10.2. An agreement, from each MREC Shareholder surrendering their MREC Stock, to a restriction on the transfer of New SRC Stock as described in Sections 7.2 and 7.4 of this Agreement.
- 11. **Deliveries by SRC Shareholders on or before the Closing Date.** The SRC Shareholders shall on or before the Closing Date obtain and deliver to SRC:
 - 11.1. Certificates representing all shares, or an amount of shares acceptable to SRC (but in no event less than ninety percent (90%)), of Original SRC Stock as described in Section 2 of this Agreement, each share endorsed on the back by the registered owner thereof; and
 - 11.2. An agreement, from each Original SRC Shareholder surrendering their Original SRC Stock, to a restriction on the transfer of New SRC Stock as described in Sections 7.2 and 7.4 of this Agreement.
- 12. **Deliveries by MREC on or before the Closing Date.**
 - 12.1. MREC shall on or before the Closing Date deliver to SRC a consent, by MREC's board of directors, authorizing MREC to take the necessary steps to accomplish the closing of the transaction described by this Agreement; and
 - 12.2. MREC shall obtain and deliver to SRC the names of up to three (3) persons elected prior to the Closing Date by the MREC Shareholders to act as up to three (3) of the nine (9) directors of SRC immediately following the Closing Date. The election of these persons to act as directors of SRC shall not take effect until the Closing Date. Any directors not elected by the Closing Date shall be appointed after the Closing Date by those directors elected by the Closing Date.
- 13. **Deliveries by SRC on or before the Closing Date.**
 - 13.1. SRC shall on or before the Closing Date obtain and make available to MREC:
 - 13.1.1. A consent, by SRC's board of directors, authorizing SRC to take the necessary steps to accomplish the closing of the transaction described by this Agreement;
 - 13.1.2. The names of up to three (3) persons elected prior to the Closing Date by the SRC Shareholders to act as up to three (3) of the nine (9) directors of SRC immediately following the Closing Date. The election of these persons to act as directors of SRC shall not take effect until the Closing Date. Any directors not elected by the Closing Date shall be appointed after the Closing Date by those directors elected by the Closing Date; and

- 13.1.3. A consent, by SRC's board of directors to the election—effective upon the Closing Date—of the up to three (3) persons elected prior to the Closing Date by the MREC Shareholders, and of the up to three (3) persons elected prior to the Closing Date by the SRC Shareholders, to act as directors of SRC immediately following the Closing Date.
- 13.2. SRC shall on or before the Closing Date deliver to the MREC Shareholders: certificates representing New SRC Stock, in the names of the appropriate MREC Shareholders, each in the appropriate denomination, as described in Section 3 of this Agreement.
- 13.3. SRC shall on or before the Closing Date deliver to the SRC Shareholders: certificates representing New SRC Stock, in the names of the appropriate SRC Shareholders, each in the appropriate denomination, as described in Section 4 of this Agreement.
- 13.4. SRC shall on or before the Closing Date deliver the following to the persons elected by the MREC Shareholders and the SRC Shareholders, as set forth in Sections 12.2, 13.1.2, and 13.1.3 of this Agreement, to act as initial directors of SRC following the Closing Date:
- 13.4.1. All of SRC's corporate records; and
- 13.4.2. All necessary executed bank forms for SRC's bank accounts reflecting a change in SRC's management and a change in the signatories on said bank accounts.
14. **MREC's Covenants, Representations, and Warranties.** Subject to the Schedule of Exceptions, attached as Exhibit "E" hereto, and incorporated herein by this reference, which schedule shall be acceptable to SRC, MREC represents and warrants as follows:
- 14.1. **Organization and Standing of MREC.** MREC is a corporation duly organized, validly existing, and in good standing under the laws of the State of California. MREC's books and records are complete and correct, have been maintained consistent with good business practices, and accurately reflect in all material respects the transactions to which they relate. Copies of MREC's Articles of Incorporation, including any amendments, certified by the proper California officials, and copies of MREC's Bylaws, including any amendments, together with all minutes of shareholders' and board of directors' meetings, certified by MREC's Secretary, will be delivered to SRC prior to the Closing Date and will be complete and correct as of the date of delivery of said documents. The same shall be subject to the review and approval of counsel for SRC.

- 14.2. **Subsidiaries and Ownership of Securities.** MREC has, as of the date of this Agreement, one subsidiary, the Yolo Shortline Railroad Company, which is wholly owned by MREC. There is no outstanding stock of Yolo Shortline Railroad other than that owned by MREC.
- 14.3. **Absence of Undisclosed Liabilities.** Except to the extent reflected in this Agreement or in MREC's unaudited balance sheet, MREC has no actual knowledge of any liabilities of any nature, whether accrued, absolute, contingent, or otherwise including, without limitation, annual franchise taxes or other corporate charges in the normal course of business.
- 14.4. **Title to Properties.** MREC has good and marketable title to all of its properties and assets, real and personal, tangible and intangible, none of which is subject to any security interest, mortgage, pledge, lien, encumbrance, or charge except for liens, if any, shown on MREC's financial statements.
- 14.5. **Litigation.** Except as disclosed in this Agreement, there is no litigation or proceeding pending, or to MREC's knowledge threatened against, or relating to, MREC, its properties, or business, nor does MREC know or have reasonable grounds to know of any basis for any such action, or of any governmental investigation relative to MREC, its properties, or business except as disclosed in the Schedule of Exceptions attached as Exhibit "E" hereto. MREC is not, and on the Closing Date will not be, in default under or with respect to any judgment, order, writ, injunction or decree of any court or of any federal, state, municipal or other governmental authority, department, commission, board, agency or other instrumentality and MREC has, and on the Closing Date will have, complied in all material respects with all laws, rules, regulations, and orders applicable to it and to its business, if any.
- 14.6. **Contracts for Capital Expenditures.** MREC is not a party to any contract, nor is MREC a party to any written or oral commitment, for capital expenditures. MREC has in all material respects performed all obligations required to be performed by it to date and is not in default in any material respect under any agreements or other documents to which it is a party.
- 14.7. **Taxes.** MREC has filed in correct form, or has received proper extensions to file, all federal and state income tax returns due with respect to all periods through the end of its last fiscal year, and all real and personal property tax schedules, franchise, sales or use tax returns, and all federal and state employment and withholding tax returns that are required to be filed, and has paid all taxes as shown on the said returns and all assessments received by it to the extent that such taxes and assessments have become due. The Internal Revenue Service has not examined any income tax returns of MREC.

- 14.8. **Authority to Execute Agreement.** MREC's Board of Directors, pursuant to the power and authority legally vested in it, has duly authorized the execution and delivery by MREC of this Agreement, and has duly authorized each of the transactions contemplated by this Agreement. MREC has the power and authority to execute and deliver this Agreement, to consummate the transactions contemplated by this Agreement, and to take all other actions required to be taken by it pursuant to the provisions of this Agreement. MREC has taken all actions required by law, its Articles of Incorporation, as amended, its Bylaws, as amended, or otherwise to authorize the execution and delivery of this Agreement. This Agreement is valid and binding upon MREC and the MREC Shareholders in accordance with its terms. Neither the execution nor delivery of this Agreement, nor the consummation of the transactions contemplated by this Agreement, will constitute a violation or breach of MREC's Articles of Incorporation, as amended, of its Bylaws, as amended, or of any agreement, stipulation, order, writ, injunction, decree, law, rule, or regulation applicable to MREC.
- 14.9. **Finder's Fees.** MREC and the MREC Shareholders are not, and on the Closing Date will not be, liable or obligated to pay any finder's, agent's, or broker's fee arising out of or in connection with this Agreement or the transactions contemplated by this Agreement.
15. **SRC's Covenants, Representations, and Warranties.** Subject to the Schedule of Exceptions, attached as Exhibit "E" hereto, which schedule shall be acceptable to MREC, SRC represents and warrants as follows:
- 15.1. **Organization and Standing of SRC.** SRC is a corporation duly organized, validly existing, and in good standing under the laws of the State of California. SRC's books and records are complete and correct, have been maintained consistent with good business practices, and accurately reflect in all material respects the transactions to which they relate. Copies of SRC's Articles of Incorporation, including any amendments, certified by the proper California officials, and copies of SRC's Bylaws, including any amendments, together with all minutes of shareholders' and directors' meetings, certified by SRC's Secretary, will, subject to availability, be delivered to MREC prior to the Closing Date and shall be complete and correct as of the date of delivery of said documents. The same shall, subject to availability, be subject to the review and approval of counsel for MREC.
- 15.2. **Subsidiaries and Ownership of Securities.** SRC has, as of the date of this Agreement, one subsidiary, the SRC Railroad Golden Sunset Corporation, which is wholly owned by SRC. There is no outstanding stock of the SRC Railroad Golden Sunset Corporation other than that owned by SRC.

- 15.3. **Absence of Undisclosed Liabilities.** Except to the extent reflected in this Agreement or in SRC's unaudited balance sheet, SRC has no actual knowledge of any liabilities of any nature, whether accrued, absolute, contingent, or otherwise including, without limitation, annual franchise taxes or other corporate charges in the normal course of business.
- 15.4. **Title to Properties.** SRC has good and marketable title to all of its properties and assets, real and personal, tangible and intangible, none of which is subject to any security interest, mortgage, pledge, lien, encumbrance, or charge except for liens, if any, shown on SRC's financial statements.
- 15.5. **Litigation.** Except as disclosed in this Agreement, there is no litigation or proceeding pending, or to SRC's knowledge threatened against, or relating to, SRC, its properties, or business, nor does SRC know or have reasonable grounds to know of any basis for any such action, or of any governmental investigation relative to SRC, its properties, or business except as disclosed in the Schedule of Exceptions attached as Exhibit "E" hereto. SRC is not, and on the Closing Date will not be, in default under or with respect to any judgment, order, writ, injunction or decree of any court or of any federal, state, municipal or other governmental authority, department, commission, board, agency or other instrumentality and SRC has, and on the Closing Date will have, complied in all material respects with all laws, rules, regulations, and orders applicable to it and to its business, if any.
- 15.6. **Contracts for Capital Expenditures.** SRC is not a party to any contract, nor is SRC a party to any written or oral commitment, for capital expenditures. SRC has in all material respects performed all obligations required to be performed by it to date and is not in default in any material respect under any agreements or other documents to which it is a party.
- 15.7. **Taxes.** SRC has filed in correct form, or has received proper extensions to file, all federal and state income tax returns due with respect to all periods through the end of its last fiscal year, and all real and personal property tax schedules, franchise, sales or use tax returns, and all federal and state employment and withholding tax returns that are required to be filed, and has paid all taxes as shown on the said returns and all assessments received by it to the extent that such taxes and assessments have become due. The Internal Revenue Service has not examined any income tax returns of SRC.
- 15.8. **Authority to Execute Agreement.** SRC's Board of Directors, pursuant to the power and authority legally vested in it, has duly authorized the execution and delivery by SRC of this Agreement and of the New SRC Stock, and has duly authorized each of the transactions contemplated by this Agreement. SRC has the

power and authority to execute and deliver this Agreement, to consummate the transactions contemplated by this Agreement, and to take all other actions required to be taken by it pursuant to the provisions of this Agreement. SRC has taken all actions required by law, its Articles of Incorporation, as amended, its Bylaws, as amended, or otherwise to authorize the execution and delivery of this Agreement and of the New SRC Stock. This Agreement is valid and binding upon SRC and the SRC Shareholders in accordance with its terms. Neither the execution and delivery of this Agreement or the New SRC Stock, nor the consummation of the transactions contemplated by this Agreement, will constitute a violation or breach of SRC's Articles of Incorporation, as amended, of its Bylaws, as amended, or of any agreement, stipulation, order, writ, injunction, decree, law, rule, or regulation applicable to SRC. Upon issuance, the New SRC Stock shall be validly issued, fully paid, and non-assessable.

- 15.9. **Finder's Fee.** SRC and the SRC Shareholders are not, and on the Closing Date will not be, liable or obligated to pay any finder's, agent's, or broker's fee arising out of or in connection with this Agreement or the transactions contemplated by this Agreement.
- 15.10. **Known Long-Term Liabilities.** SRC will, following the reorganization, retain all its existing liabilities. SRC will also assume all of MREC's liabilities. These liabilities include the long-term liabilities shown in Exhibit "F" hereto. SRC and MREC hereby acknowledge and agree to the amounts and terms of these liabilities, which liabilities will continue to be paid by SRC following the reorganization in conformity with all terms applicable to such liabilities.

16. Access and Information.

- 16.1. Subject to the protections provided by Section 23 of this Agreement, MREC shall give to SRC, to the SRC Shareholders, and to SRC's counsel, accountants, and other representatives full access during normal business hours throughout the period prior to the Closing Date, to all of MREC's properties, books, contracts, commitments, and records, including information concerning MREC's products and customer base, and any patents held by, or assigned to, MREC, and shall furnish to SRC during such period all such information concerning MREC's affairs as these persons and entities reasonably may request.
- 16.2. Subject to the protections provided by Section 23 of this Agreement, SRC shall give to MREC, to the MREC Shareholders, and to MREC's counsel, accountants, and other representatives full access during normal business hours throughout the period prior to the Closing Date, to all of SRC's properties, books, contracts, commitments, and records, including information concerning SRC's products and customer base, and any patents held by, or assigned to, SRC, and shall furnish to

MREC during such period all such information concerning SRC's affairs as these persons and entities reasonably may request.

17. **MREC's Conduct of Business Pending Closing Date.** MREC covenants that pending the Closing Date:

- 17.1. MREC's business will be conducted only in the ordinary course.
- 17.2. No change will be made to MREC's Articles of Incorporation or Bylaws and, except as described in Section 3 of this Agreement, no change will be made in MREC's issued shares of stock, unless pre-approved in writing by SRC.
- 17.3. No contract or commitment will be entered into by or on behalf of MREC, and no indebtedness will be otherwise incurred by or on behalf of MREC, following the date of this Agreement except as designed to further the mutual interests of the parties to this Agreement or as otherwise pre-approved in writing by SRC.
- 17.4. No dividends shall be declared, no stock options shall be granted, no increases – other than normal increases – in compensation to employees, including officers, shall be declared, and no new employment agreements shall be entered into with officers or directors of MREC, except as may be pre-approved in writing by SRC.

18. **SRC's Conduct of Business Pending Closing Date.** SRC covenants that, pending the Closing Date:

- 18.1. SRC's business will be conducted only in the ordinary course.
- 18.2. No change will be made to SRC's Articles of Incorporation or Bylaws and, except as described in Section 4 of this Agreement, no change will be made in SRC's issued shares of stock, unless pre-approved in writing by MREC.
- 18.3. No contract or commitment will be entered into by or on behalf of SRC, and no indebtedness will be otherwise incurred by or on behalf of SRC, following the date of this Agreement except as designed to further the mutual interests of the parties to this Agreement or as otherwise pre-approved in writing by MREC.
- 18.4. No dividends shall be declared, no stock options shall be granted, no increases – other than normal increases – in compensation to employees, including officers, shall be declared, and no new employment agreements shall be entered into with officers or directors of SRC, except as may be pre-approved in writing by MREC.

19. **Conditions Precedent to Closing.** All obligations of SRC, MREC, the MREC Shareholders, and the SRC Shareholders under this Agreement are subject to the

fulfillment, on or before the Closing Date, of all conditions set forth in this Agreement including, but not limited to, receipt by the appropriate parties of all deliveries required by this Agreement, including Sections 10 through 13 of this Agreement, and fulfillment prior to the Closing Date of each of the following conditions:

- 19.1. MREC's and SRC's representations, warranties, and covenants contained in this Agreement shall be true at the time of the Closing Date as though such representations, warranties and covenants were made at such time.
 - 19.2. MREC and SRC shall have performed and complied with all agreements and conditions required to be performed or complied with by each pursuant to this Agreement on or before the Closing Date.
 - 19.3. Each party shall have satisfied itself that the business of the other party has, since the date of this Agreement, been conducted in the ordinary course. In addition, each party shall have satisfied itself that the other party has not, since the date of this Agreement, made any withdrawals of cash or other assets, or incurred any indebtedness—except with respect to services rendered or expenses incurred in connection with the closing of this Agreement—unless any such withdrawals or indebtednesses were either authorized by the terms of this Agreement or were subsequently consented to in writing by both parties.
20. **Indemnification.** SRC and MREC hereby agree to indemnify each other party against any liability to any broker or finder to which that party may become obligated related to the anticipated reorganization that is the subject of this Agreement.
 21. **Approval by MREC Shareholders and SRC Shareholders.** The exchange of MREC Stock and Original SRC Stock for New SRC Stock as set forth in this Agreement shall be approved by at least eighty percent (80%) of the MREC Shareholders and the SRC Shareholders. MREC and SRC hereby represent that they have documented approval by at least eighty percent (80%) of their respective shareholders to the exchange set forth in this Agreement.
 22. **Termination.** This Agreement may be terminated prior to the Closing Date, and the contemplated transactions abandoned without liability to either party:
 - 22.1. By mutual consent of the parties; or
 - 22.2. By SRC if, in its sole opinion, or that of its counsel:
 - 22.2.1. An unacceptable percentage of MREC Stock and/or Original SRC Stock has been transferred, assigned, conveyed, and delivered to SRC as set forth in Sections 1 and 2 of this Agreement; or

- 22.2.2. The exchange set forth in this Agreement does not qualify for exemption from registration under applicable federal and/or state securities laws; or
- 22.2.3. Qualification, if obtainable, cannot be accomplished without unreasonable expense or effort.
23. **Confidentiality.** The parties understand and agree that the information disclosed by them pursuant to this Agreement, and any information obtained as a result of any such disclosures, constitute proprietary and confidential information. Each party agrees to hold such information in confidence and to not reveal any such information to any person who is not a party to this Agreement, or an officer, director or key employee thereof, and to not use the such information for any purpose other than to assist the parties' due diligence inquiries prior to the Closing Date. Upon any party's request, any person selected to receive any proprietary or confidential information shall, prior to receiving any such information, execute a confidentiality agreement acceptable to the disclosing party.
24. **Nature and Survival of Representations.** All statements contained in any certificate or other instrument delivered by or on behalf of MREC or SRC pursuant to this Agreement, or in connection with the transactions contemplated by this Agreement, shall be deemed to constitute representations and warranties by the party making such statements and shall survive for a period of twenty-four (24) months after the Closing Date.
25. **Binding Agreement.**
- 25.1. This Agreement shall become binding upon the parties when, but only when, it shall have been signed on behalf of all parties.
- 25.2. Subject to the condition stated in Subsection 25.1 of this Agreement, this Agreement shall be binding upon, and inure to the benefit of, the respective parties and their legal representatives, successors, and assigns. This Agreement, in all of its particulars, shall be enforceable by legal action for the recovery of damages or by way of specific performance. The terms and conditions of this Agreement shall remain in full force and effect after the Closing Date and shall not be deemed to be merged into any documents conveyed and delivered at the time of the Closing Date. In the event that any person is required to initiate any action at law or in equity for the enforcement of this Agreement, the prevailing party in such litigation shall be entitled to recover, from the other party, all of its reasonable costs incurred in said litigation, including its reasonable attorneys' fees.
26. **Construction.** This Agreement is intended to be performed in the State of California and shall be construed and enforced in accordance with the laws of that State.

27. **Notices.** All notices, requests, demands, and other communications under this Agreement shall be in writing and shall be deemed to have been duly given if delivered or mailed, first class, postage prepaid, as follows:

If to MREC:

David Magaw
Midland Railroad Enterprises Corporation
341 Industrial Way
Woodland, California 95776

If to SRC:

Michael Hart
Sierra Railroad Company
551 Sierra Avenue
Oakdale, California 95361

28. **Counterparts.** This Agreement may be executed in two or more counterparts, may be executed via facsimile transmission, and all signatures need not appear on the same signature page of the document. Each counterpart shall be deemed an original, but all such counterparts together shall constitute one and the same instrument.
29. **Enforceability.** If any provision, paragraph, section, clause, or sentence of this Agreement is illegal, void, invalid, or otherwise prohibited or unenforceable by a court or other authority with jurisdiction thereof, the remaining provisions, paragraphs, sections, clauses, and sentences shall be severable and shall remain in full force and effect. Any such prohibition or unenforceability in any jurisdiction shall not prohibit or render unenforceable any such provision in any other jurisdiction. To the extent permitted by applicable law, the parties to this Agreement hereby waive any provision of law that renders any provision of this Agreement prohibited or unenforceable in any respect.
30. **No Representations.** The parties agree and represent that they are entering into this Agreement without reliance on any statement, representation or promise of any other party, except as expressly set forth in this Agreement. The parties agree and intend the terms of this Agreement to be a binding contract. This Agreement, including the exhibits to this Agreement, contains the entire agreement between the parties respecting all matters that are the subject of this Agreement. All prior negotiations and understandings, verbal or written, between the parties are hereby superseded by this Agreement. This Agreement may not be amended, altered, modified or changed in any way, and no provision in this Agreement may be waived, except by a further written agreement signed by the parties or their counsel.

31. **Further Documents.** The parties agree to execute any and all further documents that are necessary, convenient, or required to carry out the terms or intent of this Agreement.
32. **Construction.** For purposes of construction, this Agreement shall be deemed to have been drafted by all parties, and no ambiguity shall be resolved against any party by virtue of his, her, or its participation in the drafting of the Agreement.
33. **Power to Execute.** The parties agree and represent that they have read this Agreement in its entirety, reviewed it with their respective counsel, and understand its contents. Each of the persons executing this Agreement warrants that he or she has the right and power to enter into this Agreement on behalf of the party for whom he or she is representing that he or she is executing this Agreement.

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the date first above written.

MIDLAND RAILROAD ENTERPRISES CORPORATION

By: _____
David Magaw, President

By: _____
Bruce Eldridge, Secretary

SIERRA RAILROAD COMPANY

By: _____
Mike Hart, President

By: _____
Angie Hart, Secretary