



Rob McKenna

ATTORNEY GENERAL OF WASHINGTON

Transportation & Public Construction Division
PO Box 40113 • Olympia WA 98504-0113 • (360) 753-6126

February 10, 2005

2/3265

FIRST CLASS MAIL

The Honorable Vernon A. Williams
Secretary
Surface Transportation Board
1925 K Street NW, Suite 715
Washington DC 20423-0001

**Re: Finance Docket No. 34609, State of Washington, Department of
Transportation – Acquisition Exemption – Palouse River and
Coulee City Railroad, Inc.**

Dear Secretary Williams:

Attached for filing are the original and ten copies of a Motion to Dismiss Notice of Exemption for Want of Jurisdiction in the above-referenced matter. The filing consists of the Motion (8 pages) and an Appendix (130 pages).

The State of Washington, Department of Transportation (“WSDOT”) hereby requests dismissal of the tendered filing on grounds that WSDOT is an agency of the State of Washington and WSDOT is acquiring the physical assets of the involved rail lines in order to preserve rail service for the public in eastern Washington. WSDOT is not acquiring the assets to become a rail carrier. WSDOT requests waiver of filing fees, if any, under 49 CRF§1002-2(e)(i) as an agency of the State of Washington.

I have also enclosed an extra copy of the Motion (without attachments) to verify service. Please time and date stamp the extra copy of the Motion and return it in the enclosed, self-addressed, stamped envelope.

If you have any questions, please contact me at (360) 586-0641.

Sincerely yours,

Mark S. Lyon
Assistant Attorney General

MSL:sr
Enclosures
cc: Craig Richey, PRCC
Ken Uzanski, WSDOT

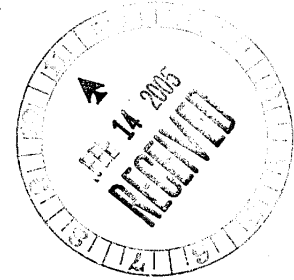
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BEFORE THE
SURFACE TRANSPORTATION BOARD

FINANCE DOCKET NO. 34609

STATE OF WASHINGTON, DEPARTMENT OF TRANSPORTATION
- ACQUISITION EXEMPTION -
PALOUSE RIVER AND COULEE CITY RAILROAD, INC.

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MOTION TO DISMISS NOTICE OF EXEMPTION
FOR WANT OF JURISDICTION

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MARK S. LYON, WSBA # 12169
Assistant Attorney General
Office of the Attorney General
905 Plum street SE
Building 3
PO Box 40113
Olympia, Washington 98504-0113
Telephone: (360) 586-0641

Attorney for: STATE OF
WASHINGTON, DEPARTMENT
OF TRANSPORTATION

Dated: February 10, 2005

I. PARTIES AND MOTION

The State of Washington, Department of Transportation (WSDOT), a noncarrier, requests that the Surface Transportation Board (STB) dismiss a previously filed verified notice of exemption under 49 CFR 1150.31 to acquire from Palouse River and Coulee City Railroad, Inc. (PRCC) certain physical assets of seven rail lines and the underlying rights-of-way.¹ Under the transaction, WSDOT does not acquire any rights or obligations as a common carrier. WSDOT asks the STB for a declaratory order declining jurisdiction and dismissing this matter.

In support of this motion, WSDOT submits the following documents²:

1. Washington State Department of Transportation, Purchase and Rehabilitation of the Palouse River and Coulee City Railroad Track – Assessment of Economic and Community Benefits (Executive Summary) (May 2004) [Appendix pages 1 to 7]³
2. Lease Agreement between State of Washington, Department of Transportation and Palouse River and Coulee City Railroad, Inc. (Agreement No. RR-00328) and attachments thereto. [Appendix pages 8 to 54]
3. Purchase and Sale Agreement between Washington State Department of Transportation and Palouse River and Coulee City Railroad, Inc. (Agreement No.: RR-

¹ As indicated at the time of filing, the verified notice was filed as a means of obtaining a ruling from the Board as to jurisdiction over the transaction. In the unexpected event that the STB finds jurisdiction and/or determines that the transaction does not qualify for the class exemption under 49 CFR §1150.31, WSDOT requests the Board grant a permanent exemption under 49 U.S.C. §10502.

² These documents have been attached hereto as an Appendix. For ease of reference, the documents in the Appendix have been numbered sequentially and will be cited by reference to document and sequential page number (e.g. "Lease, App. ____").

³ The Executive Summary is a portion of a larger report. The full report can be found online at www.wsdot.wa.gov/Projects/PCC_Acquisition/.

00327) and attachments thereto. [Appendix pages 55 to 130]

II. FACTS RELEVANT TO MOTION

(a) Procedural History. On October 29, 2004, WSDOT, a noncarrier, filed a verified notice of exemption under 49 CFR §1150.31 to acquire from PRCC certain physical assets of seven rail lines and the underlying rights-of-way, totaling approximately 188 miles in the State of Washington. The rail lines are as follows: (1) the Hooper Jct.-Winona line, between milepost 26.6 at Hooper Junction and milepost 52.3 at Winona; (2) the Thornton-Winona line, between milepost 0.0 at Winona and milepost 31.7 at Thornton; (3) the Winona-Endicott line, between milepost 52.3 at Winona and milepost 57.9 at Endicott; (4) the Endicott-Colfax line, between milepost 57.9 at Endicott and milepost 77.7 at Colfax; (5) the Colfax-Moscow line (a) between milepost 0.0 at Colfax and milepost 18.7 at Pullman, and (b) between milepost 75.9 at Pullman and milepost 84.05 at the Washington-Idaho State line; (6) the WIM line, between milepost 0.0 at Palouse and milepost 3.85 at the Washington-Idaho State line; and (7) the P&L line, between milepost 1.0 at Marshall and milepost 75.9 at Pullman.⁴

At the time of filing of the verified notice, WSDOT and PRCC were in the process of finalizing a purchase and sale agreement whereby: (1) WSDOT acquired PRCC's right, title and interest in certain tracks, track materials and the underlying

⁴ A precise description is contained in the quitclaim deed attached to the purchase and sale agreement. App. 75-89.

rights-of-way of seven rail lines; and (2) PRCC retains a permanent, exclusive rail freight easement to provide rail freight service over the lines. WSDOT did not acquire any rights to act as a common carrier from PRCC and will not be providing rail freight service over the lines. Concurrently, WSDOT entered into a lease with PRCC under which PRCC will continue to provide rail service over the right of way acquired by WSDOT using PRCC's exclusive, permanent easement to provide rail freight service.

Notice was served and published in the Federal Register on December 9, 2004 (69 FR 71469-01), indicating that the parties intended to consummate the transaction on or around November 5, 2004. The transaction in fact closed on that date. The published notice referenced WSDOT's intention to file a motion to dismiss the notice of exemption in this proceeding and indicated jurisdiction would be addressed in a subsequent Board decision once this motion to dismiss was filed.

(b) History of the Transaction. The PRCC is a regional railroad comprised of three separated rail lines that are operated together. PRCC is owned by WATCO, a short-line railroad holding company based in Pittsburg, Kansas.⁵ In March 2004 WATCO submitted a letter to the Governor of the State of Washington stating its intention to begin operational embargoes and the filing of a formal abandonment plan for some PCC segments, effective June 1, 2004, unless agreement was reached with WSDOT to proceed with acquisition and

⁵ Watco Companies, Inc. (WATCO), a non-carrier, controls through stock ownership and management ten Class III rail carriers, including PRCC and Great Northwest Railroad, Inc. (GNR). *Watco Companies, Inc. – Continuance in Control Exemption – Mission Mountain Railroad, Inc.*, (not published), served January 19, 2005; *See Watco Companies, Inc. – Continuance in Control Exemption – Great Northwest Railroad, Inc.*, 69 FR 13121 (March 19, 2004).

rehabilitation. WATCO proposed to abandon key portions of the rail line under its ownership. App. 4.

Under RCW 47.76.240 and RCW 47.76.250 the State of Washington and WSDOT are authorized to acquire property and expend funds for the purpose of rebuilding, rehabilitating or improving rail lines. Following a conclusion that state financial assistance was in the public interest, WSDOT and PRCC entered into negotiations for the Sale and Lease agreements to facilitate rehabilitation of the rail lines and maintain the economic viability of the rail system. App. 6; 57. The Washington legislature provided funding for the acquisition in March 2004 and WSDOT anticipates expenditure of substantial funds over the next eight years to rehabilitate the rail lines. App. 6.

(c) Terms of the Sale Agreement and Operations Lease. The transaction between WSDOT and PRCC is contained in a Purchase and Sale Agreement (hereafter, "Sale") and a Lease Agreement (hereafter, "Lease") and the attachments to those documents. The Sale and Lease were negotiated together and expressly refer to each other. The transfer of certain PRCC property to WSDOT is specifically contingent on the retention of the freight easement and the Lease preserving PRCC operating rights. App. 63.

Under the terms of the Sale and attached quitclaim deed, PRCC conveys right, title and interest in certain tracks, track materials and the underlying rights-of way but retains a "Permanent Freight Railroad Operating Easement" for "the purpose of providing common and contract carrier rail freight service to all freight customers on the Rail Lines,

including the right to operate trains, locomotives, railcars and rail equipment.”⁶ App. 58; 60; 92; 113. Under the Lease PRCC (or its successors or assignees) “shall have and hereby assumes all duties and obligations with relation to the use, repair, maintenance, existence, and operation of the Leased Property for Lessee’s [PRCC] purposes . . .”⁷

App. 14. The Lease is for a period of 15 years, with provisions for three extensions of 10 years each. App. 14.

Both the Sale and Lease specifically provide that any transfer, abandonment or discontinuance of rail service over any of the rail lines is subject to the authority and approval of the STB. App. 21; 22-23; 66-67; 115-116. While the Lease is in effect, PRCC will not seek to abandon or discontinue rail service over any portion of the rail lines without written approval of WSDOT. App. 22-23.

III. STB DOES NOT HAVE JURISDICTION OVER THIS TRANSACTION AND SHOULD DISMISS THE NOTICE OF EXEMPTION

The agreement between WSDOT and PRCC does not transfer any common carrier rights or obligations. Both parties agree that PRCC retains the common carrier obligation and that it cannot stop offering service on the lines acquired by WSDOT without STB permission. For this reason, STB approval for WSDOT’s purchase and Lease is not required by WSDOT and the case should be dismissed.

The acquisition of an active rail line and the common carrier obligation that goes

⁶ At the time of execution, the parties envisioned that PRCC would likely assign the retained Freight Easement to GNR, its sister WATCO railroad operator, and included documents describing this anticipated transfer as attachments to the Sale agreement. App. 57; 60-61. See “Permanent Freight Railroad Operating Agreement” and “Assignment and Assumption Agreement.” App. 112-116; 117-119.

⁷ The Lease provides that “subject to applicable Surface Transportation Board approval” PRCC may assign its lease and easement to GNR, its sister WATCO railroad operator, without further approval of WSDOT. Other assignment of operating rights requires written permission of WSDOT, provided WSDOT “will not unreasonably withhold its consent . . .” App. 21.

with it ordinarily requires STB approval under 49 U.S.C. §10901, if the acquiring entity is a noncarrier, including a state. *See Common Carrier Status of States, State Agencies*, 363 I.C.C. 132, 133 (1980), *aff'd sub nom., Simmons v. ICC*, 697 F.2d 326 (D.C. Cir. 1982). The STB's authorization is not required, however, when the common carrier rights and obligations that attach to the line will not be transferred. *State of Maine, Department of Transportation – Acquisition and Operation Exemption – Maine Central Railroad Company*, 8 I.C.C.2d 835, 836-837 (1991). *See Metro Regional Transit Authority – Acquisition Exemption—Certain Assets of Akron Barberton Cluster Railway Co.*, STB Finance Docket No.34338 (STB served July 11, 2003); *State of Vermont—Acquisition Exemption—Certain Assets of Newport and Richford Railroad Company, Northern Vermont Railroad Co. and Canadian American Railroad Co.*, STB Finance Docket No. 34294 (STB served May 22, 2003).

In *State of Maine*, the ICC held that it lacked jurisdiction where a right-of-way acquisition and lease/operating agreement between a state and an operator did not transfer any common carrier rights to the state, did not impair the operator's rights and obligations to continue to operate the rail line, and any end of operations or abandonment of the freight easement rights by the operator remained subject to ICC approval. The ICC dismissed the petition for exemption under former 49 U.S.C. § 10505 (now 49 U.S.C. § 10502) as unnecessary.

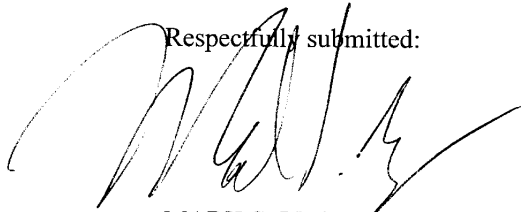
Like the *State of Maine* case, nothing in the transfer of underlying assets to WSDOT will impair PRCC from meeting its common carrier obligations. The retained permanent and unconditional freight easement ensures PRCC (and its successors and assigns as approved by the STB) the full right and necessary access to operate the line.

PRCC has both the intent and ability to continue to assume and exercise its common carrier rights and obligations.

WSDOT has acquired no common carrier rights. PRCC *did not transfer* the right to operate as a rail carrier on the lines in question. This right was reserved at the time of sale in the form of a permanent, exclusive rail freight easement. Moreover, the sale was contingent upon execution of the operating lease between WSDOT and PRCC under which it is PRCC (or its successors and assigns) that will continue to operate and act as the common carrier. WSDOT did not acquire any contractual rights to interfere with PRCC's operations as long as PRCC continues to meet its rail common carrier obligations.

Therefore, STB lacks jurisdiction over this transaction and the previous Notice of Exemption should be dismissed.

Respectfully submitted:

A handwritten signature in black ink, appearing to read 'M. Lyon', is written over the text 'Respectfully submitted:'.

MARK S. LYON, WSBA # 12169
Assistant Attorney General
Office of the Attorney General
905 Plum street SE
Building 3
PO Box 40113
Olympia, Washington 98504-0113
Telephone: (360) 586-0641

Attorney for: STATE OF
WASHINGTON, DEPARTMENT
OF TRANSPORTATION



BEFORE THE
SURFACE TRANSPORTATION BOARD

FINANCE DOCKET NO. 34609

STATE OF WASHINGTON, DEPARTMENT OF TRANSPORTATION
– ACQUISITION EXEMPTION –
PALOUSE RIVER AND COULEE CITY RAILROAD, INC.

DECLARATION OF MAILING

ENTERED
Office of Proceedings
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I, SHARON RANDOLPH, hereby certify that on the 11th day of February, 2005 I caused to be placed in the United State mail, postage prepaid, the original and ten copies of the Department of Transportation's Motion to Dismiss, with copies of all accompanying documents, as well as the original of the transmittal letter and this Declaration of Mailing to the Surface Transportation Board, as follows:

The Honorable Vernon A. Williams, Secretary
Surface Transportation Board
1925 K Street NW, Suite 715
Washington DC 20423-0001

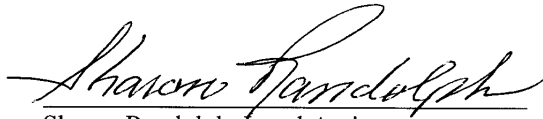
and,

On the 11th day of February, 2005 I caused to be placed in the United State mail, postage prepaid, a copy of the Department of Transportation's Motion to Dismiss, with copies of all accompanying documents, as well as a copy of the transmittal letter to the Surface Transportation Board, to:

Ken Uznanski
Department of Transportation
PO Box 47387
Olympia WA 98504-7387

Craig Richey
General Counsel
Watco Companies, Inc.
315 W 3rd Street
Pittsburg KS 66762

I declare under the penalty of perjury under the laws of the State of Washington,
that the above is true and correct.


Sharon Randolph, Legal Assist

Purchase and Rehabilitation of the Palouse River and Coulee City Railroad Track



Washington State
Department of Transportation

Assessment of Economic
and Community Benefits

May 2004



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Purchase and Rehabilitation of the Palouse River and Coulee City Railroad Track: Assessment of Economic and Community Benefits

Executive Summary

Introduction and Background

This report summarizes the research, investigation, and policy analysis conducted to assess the feasibility of and options for continuing operations of the Palouse River and Coulee City Railroad (PCC) line, given the availability of state freight rail funding assistance. The PCC is the state's second longest rail system, encompassing 410 track miles: 370 miles in Washington and 40 miles in Oregon and Idaho. It provides primary freight rail service for Grant, Lincoln, southern Spokane, Whitman, Walla Walla, and Columbia Counties, and is the only rail outlet for Latah County, Idaho and northern Umatilla County, Oregon. As such, the PCC is an important commercial corridor in eastern Washington, transporting nearly a million tons of cargo each year. Approximately 80 percent of the PCC's business is agriculture-related; it provides transportation to market for 20 percent of the state's wheat crop, 67 percent of its lentil crop, as well as a mix of other products and equipment.

PCC Management and Ownership. The PCC is a regional rail line comprised of three separate railroads operated together by WATCO, a short-line railroad holding company based in Pittsburg, Kansas. The railroad is comprised of three lines: the "Central Washington" or CW line from Cheney to Coulee City; the Whitman County lines east of Hooper to Pullman and north to Marshall, including the "Pleasant Valley" or PV branch to Thornton; and the Blue Mountain Railroad lines east of Wallula to Dayton and Weston, Oregon via Walla Walla.

Ownership of the rail lines is likewise complex: WATCO owns the right of way for the PCC's northern lines in Grant, Lincoln,

"It is very important to keep and maintain a viable rail transportation system in eastern Washington and the state as a whole. I have seen rail service go by the wayside when the Burlington Northern pulled up the tracks that serviced Waverly and south. Since then our grain has had to be hauled over the highway system to either the Snake River terminals or to Fairfield Grain Growers unit train facility."

- *Whitman County farmer*

Spokane, and Whitman Counties, comprising the CW, Whitman County, and PV lines; portions of the PCC's southern lines in Walla Walla and Columbia Counties, known as the Blue Mountain Railroad, are owned by the Port of Columbia County; other portions of the Blue Mountain line are leased from the Union Pacific Railroad (UP) and UP and the Port began negotiations in 2003 for UP to donate these leased portions to the Port; and a smaller segment of the Blue Mountain line is owned by the UP and the Oregon Department of Transportation. The UP portion in Washington may also be donated to the Port.

The Current Situation: Deferred Maintenance Needs, Unfavorable Economics, and WATCO's Business Decision.

In the years since the PCC has been operating as a regional rail system, the deferred track maintenance situation which was inherited from the mainline railroads—the BNSF and UP—has worsened. Not only had the inherited maintenance backlog not been addressed, the financial performance of the line led WATCO to fund at best half the level of annual maintenance considered necessary within the industry: \$3,100 per track-mile expended versus industry standards of \$6,000 to \$8,000. There are also other disincentives and alternatives to investing in the railroad's infrastructure: the economics of the current scrap market for steel make abandonment and scrapping of rail tracks a more attractive business proposition than continuing to operate a marginally profitable rail line.

Given this situation, in March 2004 WATCO submitted a letter to the Governor stating its intention to begin operational embargoes and the filing of a formal abandonment plan for some PCC segments, effective June 1, 2004, unless agreement is reached with WSDOT to proceed with acquisition and rehabilitation. WATCO proposed to abandon key portions of the rail line under its ownership. Assuming that all of the proposed abandonments were granted, the PCC system would be halved, shrinking from 410 miles to about 200 miles, with an estimated 45 percent reduction in loads carried, or about 4,000 carloads per year.

Economic Impacts and Community Perspectives

The PCC is an important contributor to eastern Washington's economy, and is a potential catalyst for future economic development in the regions it serves. Loss of the rail line would have direct and indirect impacts including:

- Economic impacts on the approximately 70 shippers that use the PCC, shipping goods worth more than \$160 million per year;
- Loss of approximately 30 PCC employee jobs;
- Potential closure of the Green Giant asparagus canning facility in Dayton, which employs 60 people year round and 1,100 seasonally;
- Potential closure of the new feed mill in Creston, which employs 60 people;
- Job losses at the various fuel and chemical loading/unloading facilities along the PCC;
- Closure of the grain elevator in Coulee City and with it the last major private employer in the town;
- Employment impacts on workers at the Airway Heights Industrial Park in Spokane County, whose 350 jobs will become dependent on the PCC after completion of the 2005-07 Geiger Spur project; and
- The loss of potential new investments in the area that are under discussion.

"The NW Council of Governments supports the state acquisition of the railroad track from Coulee City to Cheney. The costs of allowing the rail line to be scrapped are simply too high, as are the risks to our area's economic base."

- Northwest Council of
Governments, Soap Lake

Community Support for the Line Is Very Strong.

Communities served by the PCC overwhelmingly feel that the PCC is essential to the local economy and that it must be preserved. Community leaders have expressed concern that the loss of the railroad would be harmful to their economies—current and future—and there is a high level of support for WSDOT's proposed approach to the problem. Regional leaders note that the PCC is critical to getting grain to markets; its loss would mean shippers would have no way to move grain during periods when highway load restrictions are in effect. The PCC also creates a more competitive market position, generating better prices through competition, and mitigates the negative impacts of adding significant truck traffic to the highway system.

Legislative Funding and WSDOT's Proposal to Acquire and Rehabilitate the Railroad Right of Way

The legislature's 2003 Transportation Funding Package allocated \$33.5 million for PCC-related projects. WSDOT's subsequent analysis shows that PCC operations could be viable beyond the 10-year planning horizon required by RCW 47.76, provided that the PCC's maintenance backlog could be addressed through public funding. WSDOT also concluded that the legislature's funding is adequate to rehabilitate the PCC, and that the state's investment will potentially return about twice as much in public benefits as each dollar invested.

Because state law allows for rehabilitation grants when the public owns the right of way, if WSDOT were to acquire the PCC's privately-owned track and underlying land, the state could rehabilitate its own right of way, leasing out operation of the repaired lines to a private operator. Rather than taking rent from the operator, the state's proposed agreement would be tightly drawn to require the operator to provide stepped up maintenance to preserve the rehabilitated track at its new level of utility.

WSDOT's proposed plan is to purchase the PCC's private right of way (tracks plus underlying land and easements) from WATCO for \$7.998 million. The acquisition would include the PCC's right of way in Grant, Lincoln, Spokane, and Whitman Counties. WSDOT would also rehabilitate the northern and southern PCC lines at a cost of \$21.089 million and \$5.313 million, respectively.

An advisory group would be formed to provide input to WSDOT on the operating and maintenance performance of the PCC. The advisory group is proposed to consist of two representatives from each of the three major segments of the PCC, plus WSDOT. Each rail segment would have a public sector representative, either from a port district or from a county commission, as well as a representative from the shipper community.

Benefit and Risk Assessment

RCW 47.76 requires that freight rail investments provide a net benefit to the state. Using the required planning methodology, the proposed PCC project has a benefit/cost calculation of 1.86, which meets the statutory test.

In addition to the business and employment benefits discussed earlier, the investment in the PCC is likely to generate a number of additional community benefits, including environmental and indirect economic benefits. These include annual discounted shipper savings of \$1.8 to \$2.3 million; protection against future fuel cost increases; and avoided highway wear and tear.

Potential risk factors for the project include: main line rail connection risk associated with service delivery problems that can be experienced by the major railroads; declines in agriculture and associated declines in demand for rail; operator risk associated with the competence and potential longevity of the lease operator; liability from typical railroad environmental hazards; road/rail grade crossing problems and risks; and heightened public expectations regarding WSDOT's role in making rail crossing improvements and in managing railroad land lease issues.

Conclusion

WSDOT's investigations and analyses show that the PCC track purchase and rehabilitation project is viable, meets the requirements of the Revised Code of Washington, provides economic and community benefits, and is strongly supported by eastern Washington communities. While the project involves some risk to the state, these risks are reasonable and manageable, given counterbalancing benefits to the eastern Washington communities served by the line. Critical next steps are the development of an acceptable operating lease, establishment of a business plan for operating the railroad, and formation of a PCC advisory group to assist WSDOT in overseeing management of the PCC's assets and operations.

The position of the Secretary of Transportation is to move forward to acquire and lease back the PCC railroad track, subject to the conclusion of mutually agreeable terms for the purchase and operating lease.

"I am strongly in favor of acquiring the PR&CC Railroad. It is of utmost importance to the area. The area would be economically devastated without it. It is unique and it is a survivor of a way of life. It connects two very important regions of our state. It is the last heartbeat of a local transportation system."

- *Whitman County citizen*

COPY

LEASE AGREEMENT

between

**STATE OF WASHINGTON
DEPARTMENT OF TRANSPORTATION**

and

**PALOUSE RIVER AND
COULEE CITY RAILROAD, INC.**

Agreement No. RR-00328

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LEASE AGREEMENT

THIS LEASE AGREEMENT (the "Lease", "Lease Agreement" or "Agreement"), dated this 5th day of November, 2004, by and between the STATE OF WASHINGTON, DEPARTMENT OF TRANSPORTATION, an agency of the state of Washington ("Lessor") and the PALOUSE RIVER AND COULEE CITY RAILROAD, INC., a Washington corporation, or its potential assignee, the GREAT NORTHWEST RAILROAD, INC., an Idaho corporation, as applicable, ("Lessee").

RECITALS

WHEREAS Lessor has acquired certain property located in the state of Washington which is used for railroad transportation service to the public;

WHEREAS Lessor is agreeable to lease to Lessee the aforesaid property for Lessee's provision of railroad freight transportation service to the public upon the terms and conditions herein contained; and

WHEREAS pursuant to Chapter 47.76 Revised Code of Washington, Lessor is authorized to participate in such an undertaking.

NOW, THEREFORE, in consideration of the terms and conditions set forth herein, the parties agree to the following:

TERMS AND CONDITIONS

Section 1. Definitions.

1.1 GRNW: the Great Northwest Railroad, Inc., an Idaho corporation.

1.2 Gross Revenue(s): means freight revenue (net of rebates to customers), switching revenue, demurrage revenue (net of car hire charges) and storage line revenue with all revenue being net of charges incurred for late payments by customers and write-offs for uncollectible accounts that are derived solely from the rail operations conducted on the Leased Property.

1.3 Hazardous Material, Hazardous Waste, Hazardous Substance: means (i) any substance, product, waste or other material of any nature whatsoever which is or becomes listed, regulated, or addressed pursuant to the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. Section 9601, et seq., the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq.; the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901 et seq., the Toxic Substances Control Act, 15 U.S.C. Section 2601 et seq., the Clean Water Act, 33 U.S.C. Section 1251 et seq., the Clean Air Act, 42 U.S.C. Section 7401 et seq., the Washington Model Toxics Control Act, Chapter 70.105D RCW, the Washington Hazardous Waste Management Act, Chapter 70.105 RCW, the Washington Clean Air Act, Chapter 70.94 RCW and the Washington Water Pollution Control Act, Chapter 90.48 RCW, all as amended or as may be amended, or any other federal, state or local statute, law, ordinance, resolution, code,

rule, regulation, order or decree regulating, relating to, or imposing liability or standards of conduct concerning, any hazardous, toxic or dangerous waste, substance or material, as now or at any time hereafter in effect, (ii) any substance, product, waste or other material of any nature whatsoever which may give rise to liability under any of the above statutes, (iii) petroleum or crude oil or products thereof other than petroleum and petroleum products which are contained within regularly operated motor vehicles, locomotives, equipment and properly permitted, if applicable, above ground storage tanks or containers, (iv) asbestos and (v) radioactive wastes and substances.

1.4 Lease, Lease Agreement, or Agreement: means the Terms and Conditions and all Attachments, Schedules, and Exhibits attached hereto and incorporated herein.

1.5 Normalized Maintenance: means maintenance expenses which are estimated on a "normalized" basis, or the average annual expenditure required, as set forth in the Annual Operating Plan, to maintain the track at a desired level of operation and includes annual maintenance and an allowance for cyclical/programmed maintenance. This includes annual expenses for such items as spot track repairs, track inspection, weed control, and snow removal, plus an allowance for the items worked upon at a longer, cyclic basis. This longer cyclic work (sometimes called programmed work) includes such items as cross tie renewals, surfacing & lining, road crossing repairs, ditching, and bridge maintenance.

The following is a non-exclusive list of the activities included in the two categories of maintenance:

1.5.1 Annual maintenance includes:

- Track inspections
- Weed control
- Brush cutting
- Snow removal
- Spot track repairs (emergency tie replacements, signal repairs, bolt tightening; track leveling; crossing repair, emergency rail replacement)
- Emergency storm/flood repairs

1.5.2 Cyclical/programmed maintenance includes:

- Cross tie/ switch tie replacements
- Turnout repairs or replacement
- Bridge repairs or replacement
- Rail replacements
- Grade crossing repairs or replacement
- Ballast placement, tamping, and lining
- Sign Replacements
- Reconstruction of passing, setout, & yard switching tracks
- Ditch maintenance

1.6 Slow Order(s): means the formal issuance of an instruction to train crews that they must operate their train at less than the speed otherwise authorized by the

applicable federal class of track over specific areas delineated by mileposts.1.7 PCC: the Palouse River and Coulee City Railroad, Inc., or its potential assignee, the Great Northwest Railroad, Inc., as applicable.

Section 2. Leased Property.

2.1 The Leased Property consists of the following rail lines owned by Lessor in the state of Washington consisting of the office building and portion of locomotive building located in Rosalia, WA and all of the right of way interest and rail lines of Lessor located on the Leased Property, to wit:

2.1.1 The Hooper Jct.-Winona line located between Milepost 26.6, at Hooper Junction, and Milepost 52.3, at Winona;

2.1.2 The Thornton-Winona line located between Milepost 0.0, at Winona, and Milepost 31.7, at Thornton;

2.1.3 The Winona-Endicott line located between Milepost 52.3 at Winona, and Milepost 57.9, at Endicott;

2.1.4 The Endicott-Colfax line located between Milepost 57.9, at Endicott, and Milepost 77.7, at Colfax;

2.1.5 The Colfax-Moscow line located (a) between Milepost 0.0, at Colfax, and Milepost 18.7, at Pullman, and (b) between Milepost 75.9, at Pullman, and Milepost 84.05, at the Washington-Idaho State Line;

2.1.6 The WIM line located between Milepost 0.0, at Palouse, and Milepost 3.85, at the Washington-Idaho State Line;

2.1.7 The P&L line located between Milepost 1.0, at Marshall, and Milepost 75.9, at Pullman;

and as more particularly described in Attachment 1 hereto, which is incorporated herein by reference, and all improvements or fixtures affixed thereto, including, without limitation, bridge timber inventory not presently used in an existing structure, tracks, rails, ties, ballast, other track materials, switches, crossings, bridges, bridge abutments, culverts, buildings, crossing protection devices, communication lines and poles and radio masts and those items of personal property listed on Schedule 2.1, all being located within the state of Washington; however, specifically excluding all items of personal property not identified above in this section or on Schedule 2.1 that are not affixed to the Leased Property, including, without limitation, railroad rolling stock, locomotives, motor vehicles and equipment, machinery, office and computer equipment, radios, furniture, tools, inventories, materials and supplies owned by Lessor and located on the Leased Property. Notwithstanding the foregoing, the Leased Property shall not include any property which was not included in the Rail Property conveyed by Palouse River and Coulee City Railroad, Inc. to the state of Washington, Department of Transportation in the Purchase and Sale

Agreement dated October 29, 2004, such conveyance being a condition precedent to Lessor's obligations under this Lease Agreement.

2.2 Lessee shall take the Leased Property subject to: (a) reservations or exceptions of record of minerals or mineral rights; public utility easements and easements and rights of way, howsoever created, for crossings, roads, streets, and highways; (b) existing and future building, zoning, subdivision and other applicable federal, state, county, municipal and local laws, ordinances and regulations; (c) encroachments or other conditions that may be revealed by a survey, title search or inspection of the Leased Property; and (d) all existing ways, alleys, party walls, privileges, rights, appurtenances, and servitudes, however created.

Section 3. Term and Conditions.

3.1 The term of this Lease Agreement shall commence as of the date first written above (the "Commencement Date") and shall be for an initial term of fifteen (15) years subject to three (3) renewal periods of ten (10) years each, with each renewal period beginning on the expiration of the preceding term. Renewal will be automatic unless Lessee gives Lessor notice of intent not to renew, no fewer than six (6) months prior to the end of the term or unless the Lease is sooner terminated as hereinafter provided.

3.2 As between the parties hereto, irrespective of law or custom, during the term of this Lease Agreement or any renewal or extension hereof, Lessee shall have and hereby assumes all duties and obligations with relation to the use, repair, maintenance, existence, and operation of the Leased Property for Lessee's purposes, including all improvements and fixtures hereafter located thereon, except matters, responsibilities and obligations assumed by Lessor as provided for in this Lease Agreement and rehabilitation projects by the Lessor. Lessee shall forever protect, indemnify and hold harmless Lessor from and against any expense, cost, liability, or obligation whatsoever, which arises from or is connected with the Leased Property during the term of this Lease Agreement, including all improvements or fixtures hereafter located thereon, except those duties, matters, responsibilities and obligations expressly assumed by Lessor in this Lease Agreement, or to the extent caused by Lessor's willful or negligent act or omission, violation of law or breach of Agreement during the term of this Lease or during or as a result of rehabilitation work performed by or at the request of Lessor by a third party contractor during the term of this Lease Agreement or any extension hereof.

Section 4. Lease Payments.

The parties agree that from the Commencement Date of this Lease Agreement through December 31, 2004, Lessee will owe no lease payments to Lessor. From and after January 1, 2005, Lessor agrees to accept and Lessee agrees to pay an annual lease payment for the use and occupancy of the Leased Property during the term of this Lease Agreement or any renewal or extension hereof based upon the Gross Revenues derived solely from the rail operations conducted on the Leased Property as follows:

4.1 If the annual Gross Revenues generated from rail operations by Lessee solely upon the Leased Property during a calendar year is equal to or less than \$4,999,999, then Lessee

shall pay to Lessor \$0.00 as a lease payment.

4.2 If the annual Gross Revenues generated from rail operations by Lessee solely upon the Leased Property during a calendar year is greater than \$4,999,999 but less than or equal to \$5,999,999, then Lessee shall pay to Lessor as a lease payment the sum equal to 5% of the amount that the Gross Revenues exceeded \$4,999,999.

4.3. If the annual Gross Revenues generated from rail operations by Lessee, solely upon the Leased Property is greater than \$5,999,999, then Lessee shall pay to Lessor as a lease payment \$50,000 (which is the sum equal to 5% of the amount that Gross Revenues exceeded \$4,999,999 but were less than or equal to \$5,999,999), plus an additional lease payment in an amount equal to the sum of 10% of the amount that Gross Revenues exceeded \$5,999,999.

4.4 Lease payments, if any, shall be paid by Lessee to Lessor on an annual basis in arrears. Payment of any lease payments due and owing shall be made no later than March 31st of the year following the year in which the lease payment became due and owing. Regardless of whether any actual lease payment is due and owing, prior to March 31st of the year following a calendar year during the term of this Lease Agreement, Lessee shall submit to Lessor by the applicable March 31st date, a summary showing the computation of Gross Revenues generated from rail operations by Lessee solely upon the Leased Property for the prior year and the resulting lease payment owed, if any.

Section 5. Business and Operating Plans.

5.1 Business Plan. Lessee shall prepare and submit to Lessor annually a Business Plan for the Leased Property. The purpose of the Business Plan shall be to describe the then current physical, operational, and financial status of the Leased Property; the plans to maintain, improve, or change such status in the coming calendar year; and over the coming five calendar years. Specifically, the Business Plan shall contain:

5.1.1 An Annual Operating Plan, which shall be comprised of three subsections:

5.1.1.1 Current Status Report, detailing the physical, operational, and financial status of the Leased Property.

5.1.1.2 Annual Service Plan, detailing proposed train service, marketing efforts, new business development efforts, and financial performance expectations of the railroad, based on expected and actual traffic flows or deviations thereto. This subsection shall include the traffic volume by commodity in the aggregate, unless at some point in the future the Lessor can guarantee the privacy of confidential customer information, at which time the Annual Plan shall report traffic volume by customer.

5.1.1.3 Annual Maintenance Plan, describing the current condition of the

track, Normalized Maintenance plans, capital improvement plans, and sections of the line that are at risk for embargo or being removed from service due to operating or market conditions. In this section Lessee shall propose any section of line that Lessor should consider for abandonment. Lessee agrees to consult with Lessor during Lessee's development of the maintenance of way portion of the Business Plan and to consider Lessor's input relative to said plan. Lessor shall bear its own costs in consulting with Lessee on the development of the maintenance of way portion of the Business Plan.

5.1.2 Long Term Plan, which shall contain a pro forma for customer traffic, operational, and maintenance expectations for at least the next five years and longer if appropriate.

5.2 The Business Plan shall be based on a calendar year, and the first plan shall be submitted to Lessor by December 15, 2004, for calendar year 2005. Lessee shall submit subsequent plans by November 1 of each subsequent year.

5.3 Lessor and Lessee agree to work together to develop the Annual Operating Plan, understanding that the plan due on Dec. 15, 2004, will have limited time for input. Lessor shall review and comment on the Business Plan within 30 days of receipt from Lessee (15 days for the 2005 plan).

5.4 During any calendar year during the term of this Lease, based upon new developments including but not limited to national, regional, or local economic conditions, marketing efforts, new business development efforts, and expected or actual traffic flows or deviations thereto on the Leased Property, or any portion thereof, Lessee may submit to Lessor a proposed Amended Annual Operating Plan(s) for the remainder of any calendar year. Lessor shall review and provide any comments it may have to Lessee within ten (10) business days from the date that a proposed Amended Annual Operating Plan is provided to it by Lessee. Following said ten (10) day period within which Lessor may provide comment, Lessee shall then provide to Lessor a final version of an Amended Annual Operating Plan which shall become effective upon receipt by Lessor and replace the then current calendar year's Annual Operating Plan or prior amended plan for the remainder of that calendar year.

5.5 Lessee shall bear all costs of submitting all Business Plans.

Section 6. Utilities.

6.1 Lessee, at no cost or expense to Lessor, shall arrange for, obtain and pay all bills, charges and assessments in connection with any heat, water, electricity, sewer and other utility services required for Lessee's use of the Leased Property.

Section 7. Taxes and Assessments.

7.1 Lessor shall be liable for and pay all real property ad valorem taxes and special assessments which may be levied, assessed or imposed upon the real property during the term of this Lease Agreement. Lessee shall be liable for and pay all leasehold excise taxes which may be levied, assessed or imposed upon the leasehold interest and any public utility tax obligation.

Section 8. Third Party Agreement, Easements and Licenses.

8.1 Lessee agrees to perform and be bound by all the terms, conditions and obligations of third party agreements, easements and licenses involving the Leased Property, which may be in existence now and in the future. If an assignment has occurred at the time this Lease Agreement is executed, a copy of the Assignment Agreement between PCC and GRNW shall be attached hereto as Exhibit 8.1.

8.2 During the term of this Agreement and any renewal periods, Lessee will retain the right to negotiate and evaluate whether to enter into and terminate agreements, easements and licenses with third parties. Prior to terminating or entering into any new agreements Lessee shall present the proposed action to be taken in writing to the Lessor or its appointed representative. Lessor shall have 15 days from the date of receipt of such notice from Lessee to approve or disapprove of the proposed agreement. If Lessor fails to respond within said 15 day period, Lessor will be deemed to have approved the proposed action to be taken by Lessee and Lessee may rely upon the same and proceed as set forth in its notice to Lessor. Lessee agrees to protect the interests of Lessor in all such agreements, including but not limited to the provisions of hazardous material storage and handling. A schedule of contracts generating reoccurring rentals or payments pertaining to the Leased Premise, if any, shall be attached to the Lease Agreement as Schedule 8.2.

8.3 The Lessor and the Lessee agree that all preparation fees and annual rentals associated with licenses, easements, and leases to third parties shall be retained by Lessee.

Section 9. Normalized Maintenance.

9.1 During the term of this Lease, Lessee shall be responsible for payment of Normalized Maintenance expenses and the performance of annual maintenance activities and cyclical programmed maintenance activities as defined in Section 1.5, which shall be described in the Annual Operating Plan. Lessor and Lessee shall work together to close grade crossings that are not needed or not practical for safe railroad and vehicular traffic.

Section 10. Interchange Agreement.

10.1 PCC retains and may assign to GRNW, if it elects to transfer its Freight Easement as defined in the Purchase and Sale Agreement dated October 29, 2004 by and between PCC and Lessor, any and all existing interchange agreements with the connecting railroads that connect with the Leased Property. If required, Lessee will execute additional interchange agreements which shall govern the interchange of traffic between the Lessee and the connecting railroads

during the term of the Lease.

Section 11. Use.

11.1 Lessee will use the Leased Property only for freight railroad purposes and freight purposes ancillary thereto, including but not limited to Lessee sponsored business car trips, unless Lessee obtains the written consent of Lessor to use the Leased Property or any portion of it for any other purpose.

11.2 Lessee's management and operation of the Leased Property shall comply with the provisions of the Federal Safety Appliance Act, as amended, and subject to federal preemption, as applicable, all applicable other federal, state and local laws, ordinances, regulations, rules and other requirements, whether or not governmental, respecting the operation, condition, inspection and safety of trains, locomotives, cars and equipment while such trains, locomotives, cars and equipment are being operated on the Leased Property, and otherwise regulating or affecting the Leased Property. Lessee shall have an employee dedicated to making a good faith effort to market increased railcar traffic over and on the Leased Property during the term of this Lease Agreement pursuant to the terms and provisions of the Business Plan or as otherwise mutually agreed to by the parties.

Section 12. Rehabilitation and Normalized Maintenance.

12.1 Lessor shall control rehabilitation work funded by the state of Washington ("State Funded Rehabilitation Works") to be performed on the Leased Property during the term of this Lease. Lessor agrees to allow Lessee to participate in the planning and execution of the State Funded Rehabilitation Work. Lessor agrees to perform the State Funded Rehabilitation Work in a manner that does not unreasonably impede Lessee's operation of railcar traffic on the Leased Property. Lessor and Lessee shall each designate a project manager for any State Funded Rehabilitation Work, and both parties agree to seek amicable solutions to any dispute arising in connection with State Funded Rehabilitation Work. The parties contemplate that Lessee will bid on contracts for State Funded Rehabilitation Work to be awarded by Lessor pursuant to the bidding laws of the state of Washington.

12.1.1 Nothing in this Lease shall restrict Lessee from providing funds or seeking funds from other third parties or government agencies to facilitate rehabilitation projects in addition to any State Funded Rehabilitation Work ("Lessee Rehabilitation Projects") so long as the other terms and conditions of this Lease are satisfied. Lessee will notify Lessor of any planned Lessee Rehabilitation Projects. Lessee shall control the Lessee Rehabilitation Projects to be performed on the Leased Property during the term of this Lease.

12.1.2.1 Lessee agrees to cooperate with Lessor on the generation and use of federal tax credits signed into law as part of US House Bill HR 4520.

12.2 Lessee agrees that it will at all times during the continuance of this Lease Agreement keep and maintain all buildings, structures and appurtenances of the Leased Property,

including facilities added to the property, in a reasonably safe condition for the use intended. Subject to approval of Lessor, Lessee may remove those buildings, structures and appurtenances that are no longer essential to the operation of the Leased Property, which consent shall not be unreasonably withheld.

12.3 Lessee agrees to maintain the Leased Property in its current FRA track classification (i.e. Excepted, Class I, Class II), subject to the Annual Operating Plan, until Lessor performs rehabilitation work. Notwithstanding this section, and in all cases, the Annual Operating Plan shall govern the maintenance level and plan for the Leased Property.

12.3.1 Lessee further agrees that, after Lessor has completed State Funded Rehabilitation Work to a portion of the Leased Property, Lessee will maintain the track facilities for that portion of Leased Property improved by the State Funded Rehabilitation Work to the level of post-rehabilitation utility. This shall be accomplished through Normalized Maintenance of the Leased Property as defined in section 1.5 at the sole cost and expense of the Lessee.

12.4 Lessee will provide written reports to Lessor by March 31st of each year detailing all maintenance work activities performed during the prior calendar year.

12.5 Within ten days following the execution of this Lease, Lessee shall provide to Lessor a current timetable and list of Slow Orders, both temporary and permanent, for the rail lines contained on the Leased Property.

12.5.1 Within 10 working days of the end of each calendar quarter, Lessee shall provide Lessor with the list of Slow Orders in effect at the end of that previous calendar quarter.

12.5.2 It is the Lessee's responsibility to perform such Normalized Maintenance on track where State Funded Rehabilitation Work has not been completed that the quantity, extent, and degree of restriction imposed by Slow Orders does not increase year to year prior to rehabilitation.

12.5.3 It is the Lessee's responsibility to perform such Normalized Maintenance on track where State Funded Rehabilitation Work has not been completed that no Slow Orders due to track defect may be in effect for more than two consecutive calendar quarters.

12.5.3.1 Exception: Lessor and Lessee shall agree on dealing with Slow Orders resulting from track defects caused by acts of nature such as storms, floods, landslides, and earthquakes.

12.6 All improvements shall become the property of Lessor upon installation, unless otherwise agreed to by and between the parties in writing.

Section 13. Inspection.

13.1 The Lessee shall allow an annual joint inspection of the Leased Property by representatives of the Lessor upon reasonable advance notice. Appropriate representatives from both Lessor and Lessee shall participate in and cooperate with the annual joint inspection. Lessor may perform more frequent inspections of the Leased Property at its election at any time during the term of the Lease Agreement so long as the following conditions are met: (1) Lessor provides reasonable advance notice to Lessee; (2) Lessor complies with all safety requirements of Lessee or as required by law applicable to the Leased Property; (3) Lessor obtains the appropriate authorizations from Lessee to be on the designated portions of the Leased Property, such as track warrants; (4) Lessee will be allowed to participate in any inspection; and (5) the inspections are planned and coordinated with Lessee to minimize any interference with Lessee operations on the Leased Property.

Section 14. No Warranties or Covenants.

14.1 The Leased Property is leased from Lessor to Lessee "AS IS, WHERE IS" without warranty of title or for quiet enjoyment, and subject to all outstanding and superior rights and interests reserved unto Palouse and Coulee City Railroad, Inc.'s predecessors in interest, their successors, licensees and assigns, including, without limitation, (i) any easements in, under and across all of the Rail Property for the purpose of installing, constructing, maintaining, repairing, operating and/or relocating any new or existing communication or fiber optic facilities, as well as signal equipment necessary for a predecessors mainline signal operations, together with the right of ingress and egress thereto; (ii) any mineral rights of every kind and character now known to exist or hereafter discovered in and underlying the Rail Property, including oil and gas rights thereto, together with the sole, exclusive and perpetual right to explore for, remove and dispose of, said minerals by any means or methods suitable to such predecessor in interest, its successors and assigns, but without entering upon or using the surface of the Rail Property, and in such manner as not to damage the Rail Property or to interfere with the use thereof as a railroad; (iii) any coal, oil, gas, casing-head gas and all ores and minerals of every kind and nature, including sand and gravel underlying the surface of the Rail Property, together with the full right, privilege and license at any and all times to explore, or drill for and to protect, conserve, mine, take, remove and market any and all such products in any manner which will not damage structures on the surface of the Rail Property, together with the right of access at all times to exercise these rights; (iv) all water rights, and the exclusive right to develop and take water by any means, and to all appropriations, priorities, permits and certificates which are appurtenant to, associated with, used upon, flowing over, under, or lying on, in or under the Rail Property, and an exclusive, permanent easement to construct, install, operate, replace, rework, reconstruct, rehabilitate and maintain any and all water diversion, production and transportation structures, equipment, improvements and piping and to construct, install, operate and maintain water pumps and hydroelectric generation equipment necessary, convenient or related to the production, transportation or delivery of water from, on, under or across the Rail Property, together with the right of access at all times to exercise these rights, provided that all activities in the exercise of these rights shall be performed in a manner which will not damage structures on the surface of the Rail Property; (v) exclusive and/or non-exclusive, permanent

easements for construction, reconstruction, maintenance, use and/or operation of one or more pipelines or fiber optic communication lines, together with related facilities and appurtenances in, under, across, along and through all or any portion of the Rail Property, including the right to enter and disturb the surface, and occupy the Rail Property for purposes of constructing, reconstructing, maintaining, using and/or operating one or more pipelines or fiber optics communication lines, facilities and appurtenances in, under, across, along and through all or any portion of the Rail Property, provided that notice in advance of any such entry must be given, and such entry and occupancy shall be done in a manner which does not materially interfere with the use and occupancy of the Rail Property; and (vi) air rights over that portion of the Rail Property, if any, at or near Fairchild, Washington, for the purpose of operating, maintaining and, as necessary, reconstructing main line railroad and any related facilities or structures over the Rail Property at or near this location. Lessee has conducted to its satisfaction an independent investigation and verification of the Leased Property, its assets, properties, and prospects. In making its determination to proceed with this Lease Agreement, Lessee has relied on the results of its own independent investigation and verification. If a pre-existing Hazardous Waste or Hazardous Substance is discovered, the indemnification provisions of the Purchase and Sale Agreement between State of Washington Department of Transportation and the Palouse River & Coulee City Railroad, Inc. shall govern as to environmental conditions in existence prior to the Closing Date of that agreement, and liability not covered by those provisions shall be determined according to applicable law.

Section 15. Assignment.

15.1 Subject to applicable Surface Transportation Board approval, this Lease Agreement may be freely assigned by Lessee to the Great Northwest Railroad, Inc. without the consent of Lessor. Any other assignment of this Lease Agreement may occur only with the written consent of Lessor, signed by an authorized official. To obtain Lessor's consent to such an assignment, Lessee will provide written notice to Lessor of its desire to assign this Agreement, including a letter signed by an authorized officer of the intended assignee stating that the assignee agrees to such assignment and agrees to be bound by all the terms of such assignment and the approvals and evidences required by this Agreement. This Agreement will be binding upon and inure to the benefit of successors and assigns of Lessor and successors and permitted assigns of Lessee. Lessor agrees that it will not unreasonably withhold its consent to the assignment of this Agreement, and will within thirty (30) days issue its written consent or provide in writing its reason for not giving consent to the assignment.

Section 16. Liability.

16.1 Lessee hereby acknowledges that all activities arising out of or in any way connected with its use of the Leased Property are solely for its benefit and Lessee hereby releases Lessor, its successors and assigns, officers, agents, and employees from all liability (except to the extent caused by the intentional or negligent acts or omissions, violations of law or breach of contract by Lessor, which shall result in no liability by Lessee), whether arising from suits, actions, causes of action, claims or demands of any character whatsoever.

16.2 To the extent that Lessee owes Lessor a duty of indemnity under this Agreement, Lessee shall indemnify, protect, defend and hold harmless Lessor, its successors and assigns, its offices, agents and employees, from and against all liability, cost, claims, suits, causes, causes of action, judgments or any expense whatsoever (including attorney fees and costs of defense) for any personal injury or property damage, however and to whomever caused, arising out of or in connection with its use of the Leased Property by anyone other than Lessor during the term of the Lease Agreement; provided, however, that Lessee's indemnity obligations under this Section 16.2 and Sections 17 and 24 hereof will be limited, if applicable, by any legal or statutory cap limiting Lessor's legal or equitable liability to any party for which Lessee would owe Lessor a duty of indemnity hereunder.

Section 17. Insurance.

17.1 Lessee, at Lessee's cost and expense, to comply with its indemnity obligations under Section 16.2, shall procure or cause to be procured and maintain or cause to be maintained, during the continuance of this Lease, railroad operating and liability insurance covering liability assumed by Lessee under this Lease with a limit of not less than Twenty Five Million Dollars (\$25,000,000) single limit for personal injury per occurrence and single limit for property of Five Million Dollars (\$5,000,000) for damage per occurrence, such limits to be reviewed by Lessor every five (5) years during the term of this Lease or any extensions of it. At five (5) year intervals, Lessor and Lessee shall meet and confer in good faith to determine whether modifications should be made to the insurance requirement. Lessee shall furnish to Lessor certificates of insurance evidencing the above coverage in the form of a policy (or policies) at the time of execution of this Lease. Such insurance shall contain a contractual liability endorsement which will cover the obligations assumed under this Lease and an endorsement naming Lessor as "additional insured." In addition, such insurance shall contain notification provisions under which the insurance company agrees to give thirty (30) days' written notice to the Lessor of any change in or cancellation of the policy. These endorsements and notice provisions shall be stated on the certificate of insurance provided to Lessor.

Section 18. STB Approvals.

18.1 Prior to initiation of rail freight service, Lessee hereby warrants and represents to Lessor that Lessee has secured all necessary orders or approval, if any, from the Surface Transportation Board (STB) and all other appropriate governmental or regulatory authorities orders approving or authorizing Lessee to enter into this Lease and to conduct railroad operations on the Leased Property according to the terms and provisions hereof, or exempting Lessee from the requirement of obtaining such approval and authorization. The parties understand and agree that the entry of an order of the STB approving and authorizing or exempting this transaction and the railroad operations of Lessee according to the terms and conditions hereof is a condition precedent to the obligations of either party hereunder.

18.2 Lessee will not seek authority to abandon or discontinue rail service over any portion of the Leased Property from the Surface Transportation Board or other governmental or regulatory authority without the prior written approval of the Lessor, unless this Agreement is

terminated or Lessee has cause to terminate this Agreement pursuant to the termination provisions of this Agreement.

18.3 Lessee's actions and plans pertaining to embargos or service interruptions shall be governed by the Annual Operating Plan or any amendment thereto.

Section 19. Termination.

19.1 Grounds for Termination.

19.1.1 Termination by Election - Lessor and Lessee shall not have the right to terminate the Lease by election except as provided herein or upon mutual consent.

19.1.2 Termination by Breach - So long as Lessee is not in breach of any material terms and conditions of this Lease and Lessee continues to provide rail service on the Leased Property, unless otherwise agreed to by and between the parties, Lessor shall not have a right to terminate this lease prior to its natural expiration (whether of the initial term or any renewal or extension hereof) except as otherwise provided in this Section 19. However, in the event that Lessee does breach a material term and condition of this lease or ceases to provide rail service on any portion by embargo, abandonment or otherwise, except as otherwise allowed under this Agreement, without Lessor's consent, Lessor shall give written notice of that fact in accordance with Section 20. If within sixty (60) days of receipt of such notice, Lessee has not cured such breach, or if Lessee has not taken all reasonable steps toward effecting such cure, and Lessee has not reinstated rail service, then Lessor shall have the right, but not the obligation, to take possession of the Leased Property, and this Agreement will terminate.

19.2 Lessee, upon termination of this Lease, shall have six (6) months to remove all personal property and improvements placed by it on the Leased Property, except those improvements that Lessor paid for and desires to retain on the Property, which shall become the property of the Lessor. If Lessee fails to so remove within the time allotted, Lessor may take possession of any remaining personal property or, Lessor may remove any remaining personal property at the expense of Lessee, subject to offset by any net salvage proceeds received by Lessor. Lessee's obligation to pay costs of removal shall survive termination of this Lease.

19.3 Termination of the Lease by Lessee which results in cessation of operations shall result in an obligation of Lessee to reasonably make available operating data (including, but not limited to car tracing, shipper identification and rates, and accounting records) to Lessor or Lessor's designee at Lessor's expense.

19.4 Termination of the Lease shall not release any party hereto from any obligation under this Lease arising prior to termination.

Section 20. Notices.

20.1 All notices, demands, requests or other communications which may be or are

required to be given, served or sent by either party to the other pursuant to this Agreement shall be in writing and shall be deemed to have been properly given or sent:

If intended for Lessee, by mailing by registered or certified mail, return receipt requested, with postage prepaid, or by reputable overnight courier, addressed to Lessee at:

Palouse River and Coulee City Railroad, Inc.
315 West 3rd Street
Pittsburg, Kansas 66762
Attn: EVP – Strategic Development

With Copy to:

Palouse River and Coulee City Railroad, Inc.
315 West 3rd Street
Pittsburg, Kansas 66762
Attn: General Counsel

If intended for Lessor, by mailing by registered or certified mail, return receipt requested, with postage prepaid, or by reputable overnight courier, addressed to Lessee at:

Washington State Department of Transportation
Manager, Rail Office
PO Box 47387
Olympia, WA 98504-7387
Ph. (360) 705-7921

Each notice, demand, request or communication which shall be mailed by registered or certified mail to either party in the manner aforesaid shall be deemed sufficiently given, served or sent for all purposes at the time such notice, demand, request or communication shall be either received by the addressee or refused by the addressee upon presentation. Either party may change the name of the recipient of any notice, or his or her address, at any time by complying with the foregoing procedure.

Section 21. Events Constituting Default.

21.1 Any of the following events shall constitute a Lessee default hereunder:

21.1.1 The non-performance by Lessee of Section 5 "Business and Operating Plans" or Section 12 "Rehabilitation and Normalized Maintenance", or any other material term, covenant or condition of this Lease which is not cured within sixty (60) days after written notice of it from Lessor.

21.1.2 Any affirmative act of insolvency by Lessee, or the filing by Lessee of any petition under any bankruptcy, reorganization, insolvency, or moratorium law, or any law for the relief of, or relating to, debtors.

21.1.3 The filing of any involuntary petition under any bankruptcy statute against Lessee, or the appointment of any receiver or trustee to take possession of the property of the Lessee.

21.1.4 The suspension or revocation of Lessee's federal, state or local regulatory authority to operate rail freight service on the line.

21.1.5 Lessee's committing waste or allowing the attachment of any lien on the Leased Property which is not cured within ninety (90) days; provided, however, if Lessee in good faith contests a lien, it shall have such additional time to cure as is reasonable under the circumstances.

Section 22. Rights on Default.

22.1 On the occurrence of any of the events of default listed in Section 21.1, Lessor may terminate the Lease by written notice to Lessee and, in addition, take any other action or exercise any remedy available to Lessor at law or equity.

Section 23. Obligations of Lessee Upon Termination.

23.1 In case of termination by Lessor or Lessee pursuant to Sections 19 or 22, such termination shall be according to the provisions of Sections 19 hereof.

Section 24. Amendment.

24.1 No term or provision of this Lease may be changed, waived, discharged or terminated except by an instrument in writing signed by both parties hereto.

Section 25. Hazardous Materials.

25.1 At no time during the term of this Lease shall Lessee without the prior written consent of Lessor maintain, treat, dispose of, store or have on the Leased Property, or permit any other party to have, maintain, treat, dispose of, or store on the Leased Property, anything which is classified by federal, state or local authorities as a Hazardous Substance or Hazardous Waste or which requires a permit for the storage, treatment, disposal, handling or maintenance of it from any government authority. This excludes (1) transport or storage of materials by or on rail as long as said transport or storage complies with the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, *et seq.* and (2) petroleum products, lubricants, antifreeze and such other materials that may be normally consumed in the daily operations of a railroad.

25.2 Lessee further agrees to indemnify and hold Lessor harmless from all costs,

expenses, liabilities, demands, claims, causes of action at law or in equity whatsoever arising from its, or any of its contractors, treatment, disposal, storage, maintenance or handling of any Hazardous Material or Hazardous Waste on the premises during the term of this Lease Agreement, including, but not limited to, the cost of clean-up, environmental damage assessments, defense and reasonable attorney's fees. Lessor agrees to cooperate in the prosecution and collection of all costs, expenses, liabilities, demands, and claims, associated with any treatment, disposal, storage, maintenance or handling of any Hazardous Material or Hazardous Waste on the premises, including, but not limited to, the cost of clean-up, environmental assessments, defense and reasonable attorney's fees, prior to occupancy by Lessee, against any identified responsible party. The parties acknowledge that the inclusion of this indemnification and hold harmless provisions shall in no manner whatsoever evidence a waiver, consent or permission by Lessor for Lessee to violate the provision of Section 24.1.

Section 26. Antidiscrimination.

26.1 To the extent applicable, Lessee shall comply with the regulations for compliance with Title VI of the Civil Rights Act of 1964 (42 U.S.C. Section 2000d, et. seq) and 23 CFR Section 710.405(b).

Section 27. Entire Agreement.

27.1 This Lease Agreement constitutes the entire agreement between the Lessee and Lessor and no other representation, warranties or agreements, either oral or written will be binding upon the Lessee and Lessor.

Section 28. Governing Law.

28.1 This Lease Agreement shall be governed and construed in accordance with the laws of the state of Washington. Venue of any action hereunder shall be in Thurston County Superior Court, Washington.

Section 29. Compliance With Applicable Laws.

29.1 The Lessee, subject to federal preemption, as applicable, shall comply with all statutes, laws and ordinances of all federal, state and local governments or other governmental authorities, regulatory authorities and commissions, foreseen and unforeseen, ordinary as well as extraordinary, for the entire period of the Lease Agreement.

Section 30. Warranty of Signature.

30.1 Lessor warrants to Lessee that the person executing this Lease Agreement for Lessor is fully authorized to sign this Lease Agreement for Lessor and to bind Lessor to the terms of this Lease Agreement. Lessee warrants to Lessor that the person executing this Lease Agreement for Lessee is fully authorized to sign this Lease Agreement for Lessee and to bind Lessee to the terms of this Lease Agreement.

Section 31. Disputes.

31.1 Any disputes relative to obligations, remedies, or performance of this Agreement shall be resolved by neutral binding arbitration under the rules and regulations (but not the administration unless otherwise agreed) of the American Arbitration Association ("AAA").

31.2 Subject to written agreement to the contrary, arbitration shall be held in accordance with the Commercial Rules of the AAA in effect at the time of the arbitration; provided however, that to the extent that the AAA Rules are inconsistent with the terms of this Lease Agreement or other terms of this Lease Agreement are more specific than the AAA Rules, the terms of this Lease Agreement will govern. Unless otherwise agreed in writing, discovery and motion practice shall be permitted, and the Federal Rules Civil Procedures and Federal Rules of Evidence shall govern all such motion practice and discovery, the exchange of exhibits, witness lists and workpapers, and the presentation of evidence by expert witnesses.

31.3 The question or controversy shall be submitted for arbitration to a single competent, disinterested arbitrator, if the parties are able to agree upon such single arbitrator within 30 days after the party requesting arbitration notifies the other party of such request. If a single arbitrator cannot be agreed upon within such 30-day period, a board of three arbitrators shall be used. The party initiating the arbitration shall state in writing the question(s) to be submitted for decision and nominate a person to act as its party-appointed arbitrator. The receiving party shall appoint its party-appointed arbitrator within 30 days of receipt of such notice and also provide any notice of claims or defenses it wishes to have adjudicated. Thereafter, the first and second arbitrators shall select a third arbitrator, but if the arbitrators shall be unable to agree upon such a third arbitrator within a period of 30 days from the day of appointment of the second arbitrator, the third arbitrator shall be appointed by the AAA or other neutral entity or process if mutually agreed upon in writing.

31.4 Upon selection of the board or appointment of the single arbitrator shall proceed with diligence to inquire into the questions or controversies. A hearing shall be held within 180 days of appointment of the board or single arbitrator, and the arbitrator or board shall state its decision and award, in writing, within 30 days of the final submission by the parties, which decision and award, when delivered to both parties, shall be final and binding. Judgment may be entered upon such decision and award in any court of competent jurisdiction.

31.5 Each party shall bear its own expenses incurred in connection with arbitration under this Section, including any expenses associated with its appointed arbitrator in the case of arbitration before a three-member panel. The parties shall share equally the expenses associated with the services of the single, disinterested arbitrator in the case of a one-member panel and/or the third neutral member of the three-member panel, as the case may be.

Section 32. Consequential Damages

32.1 UNDER NO CIRCUMSTANCES SHALL LESSOR OR LESSEE HAVE ANY LIABILITY TO THE OTHER PARTY, THEIR EMPLOYEES, AGENTS AND REPRESENTATIVES, FOR ANY CONSEQUENTIAL, INCIDENTAL, OR OTHER INDIRECT LOSS OR DAMAGES, PUNITIVE, OR EXEMPLARY DAMAGES OR COSTS HOWSOEVER CAUSED.

Section 33. Headings.

33.1 The headings in this Lease Agreement are for ease of reference only and shall not

be used to construe or interpret the provisions of this Lease Agreement.

Section 34. Attorney's Fees.

34.1 Should it become necessary for Lessor or Lessee to engage in arbitration or other legal proceedings as may be necessary for the purpose of enforcing this Lease Agreement for the purpose of recovering damages or otherwise, each party, except as otherwise provided in Section 31 above shall be responsible for its own costs, attorneys' fees and any other reasonable expenses incurred in connection with those legal proceedings.

Section 35. Counterparts.

35.1 This Lease may be executed in several counterparts, each of which shall be deemed to be an original having identical legal effect.

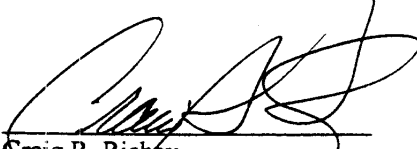
Section 36. First Right to Purchase.

36.1 Lessor hereby grants to Lessee a first right to purchase the Rail Property. Lessor shall not sell, assign or otherwise transfer its interest in the Rail Property without first giving written notice to Lessee of Lessor's intention to sell or assign its interest and the consideration that has been offered. The Lessee shall have ninety (90) days following its actual receipt of the written notice to exercise its first right to purchase the Rail Property on the same terms and for the same consideration as set forth in the notice from Lessor. If Lessee does not elect to purchase the Rail Property from Lessor, Lessor may sell or assign its interest to the third party identified in the written notice, provided that such sale is completed on the same terms and for the consideration as stated in the written notice to Lessee.

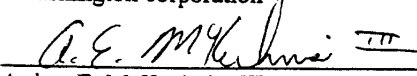
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IN WITNESS WHEREOF, said parties hereto cause this Lease to be duly executed under seal by their duly authorized representatives:

Attest:

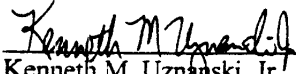

Craig R. Richey
General Counsel and Asst. Secretary
Date: 11-5-04

PALOUSE RIVER AND COULEE CITY RAILROAD,
INC., a Washington corporation


Arthur E. McKechnie, III
Executive Vice President and Asst. Secretary

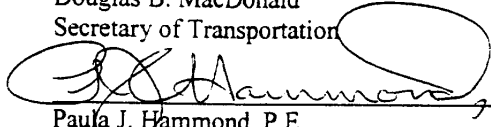
Date: 11-5-04

Attest:

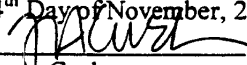

Kenneth M. Uznanski, Jr.
Manager, Rail Office
Date: November 5, 2004

WASHINGTON STATE DEPARTMENT OF
TRANSPORTATION,
an agency of the state of Washington

Douglas B. MacDonald
Secretary of Transportation


Paula J. Hammond, P.E.
Chief of Staff

Date: 11/5/04

APPROVED AS TO FORM
Christine O. Gregoire
Attorney General
This 4th Day of November, 2004
By: 
Jeanne A. Cushman
Assistant Attorney General

ATTACHMENT 1

Copy

Washington

AFTER RECORDING RETURN TO:

Name:

Ken Uznanski, Manager, Rail Office

Address:

Washington State Department of Transportation
Attn: Rail Office
PO Box 47387
Olympia, WA 98504-7316

QUITCLAIM DEED

PALOUSE RIVER AND COULEE CITY RAILROAD, INC., a Washington corporation, and as successor in interest to BLUE MOUNTAIN RAILROAD, INC., Grantor, in consideration of the sum of Ten Dollars (\$10.00), and other valuable consideration to it duly paid, the receipt whereof is hereby acknowledged, hereby conveys and quitclaims to STATE OF WASHINGTON, DEPARTMENT OF TRANSPORTATION, an agency of the state of Washington, Grantee, whose address is PO Box 47387, Olympia, WA 98504-7316, and unto its successors and assigns forever, that portion of Grantor's right, title, interest, estate, claim and demand, both at law and in equity, of, in, and to the rail lines, real estate and right of way (hereinafter the "Property") of Grantor's lying: (i) the Hooper Jct.-Winona line located between Milepost 26.6, at Hooper Junction, and Milepost 52.3, at Winona; (ii) the Thornton-Winona line located between Milepost 0.0, at Winona, and Milepost 31.7, at Thornton; (iii) the Winona-Endicott line located between Milepost 52.3 at Winona, and Milepost 57.9, at Endicott; (iv) the Endicott-Colfax line located between Milepost 57.9, at Endicott, and Milepost 77.7, at Colfax; (v) the Colfax-Moscow line located (a) between Milepost 0.0, at Colfax, and Milepost 18.7, at Pullman, and (b) between Milepost 75.9, at Pullman, and Milepost 84.05, at the Washington-Idaho State Line; (vi) the WIM line located between Milepost 0.0, at Palouse, and Milepost 3.85, at the Washington-Idaho State Line; and (vii) the P&L line located between Milepost 1.0, at Marshall, and Milepost 75.9, at Pullman, all lying within the state of Washington and as more particularly described in **Exhibit 1**, hereto attached and hereby made apart hereof (hereinafter the "Rail Property").

SUBJECT, however, to all existing interests, including but not limited to all reservations, rights-of-way, easements and other encumbrances, of record or otherwise.

EXCEPTING AND RESERVING the retained interests, if any, of Seller's predecessors in title, as specified in more detail in their Quitclaim Deeds to Seller, including but not limited to those interests reserved unto Seller's predecessors in interest, their successor, licensee and assigns, as follows: (i) any easements in, under and across all of the Rail Property for the purpose of installing, constructing, maintaining, repairing, operating and/or relocating any new or existing communication or fiber optic facilities, as well as signal equipment necessary for a predecessors mainline signal operations, together with the right of ingress and egress thereto; (ii) any mineral rights of every kind and character now known to exist or hereafter discovered in and underlying the Rail Property, including oil and gas rights thereto, together with the sole, exclusive and perpetual right to explore for, remove and dispose of, said minerals by any means or methods suitable to such predecessor in interest, its successors and assigns, but without entering upon or using the surface of the Rail Property, and in such manner as not to damage the Rail Property or to interfere with the use thereof as a railroad; (iii) any coal, oil, gas, casing-head gas and all ores and minerals of every kind and nature, including sand and gravel underlying the surface of the Rail Property, together with the full right, privilege and license at any and all times to explore, or drill for and to protect, conserve, mine, take, remove and market any and all such products in any manner which will not damage structures on the surface of the Rail Property, together with the right of access at all times to exercise these rights; (iv) all water rights, and the exclusive right to develop and take water by any means, and to all appropriations, priorities, permits and certificates which are appurtenant to, associated with, used upon, flowing over, under, or lying on, in or under the Rail Property, and an exclusive, permanent easement to construct, install, operate, replace, rework, reconstruct, rehabilitate and maintain any and all water diversion, production and transportation structures, equipment, improvements and piping and to construct, install, operate and maintain water pumps and hydroelectric generation equipment necessary, convenient or related to the production, transportation or delivery of water from, on , under or across the Rail Property, together with the right of access at all times to exercise these rights, provided that all activities in the exercise of these rights shall be performed in a manner which will not damage structures on the surface of the Rail Property; (v) exclusive and/or non-exclusive, permanent easements for construction, reconstruction, maintenance, use and/or operation of one or more pipelines or fiber optic communication lines, together with related facilities and appurtenances in, under, across, along and through all or any portion of the Rail Property, including the right to enter and disturb the surface, and occupy the Rail Property for purposes of constructing, reconstructing, maintaining, using and/or operating one or more pipelines or fiber optics communication lines, facilities and appurtenances in, under, across, along and through all or any portion of the Rail Property, provided that notice in advance of any such entry must be given, and such entry and occupancy shall be done in a manner which does not materially interfere with the use and occupancy of the Rail Property; and (vi) air rights over that portion of the Rail Property, if any, at or near Fairchild, Washington, for the purpose of operating, maintaining and, as necessary, reconstructing main line railroad and any related facilities or structures over the Rail Property at or near this location.

TOGETHER with all and singular the hereditaments and appurtenances thereunto belonging; TO HAVE AND TO HOLD, subject to the aforesaid provisions, the Property unto the said Grantee and unto its successors and assigns.

PALOUSE RIVER AND COULEE
CITY RAILROAD, INC.

By: _____
Name: _____
Title: _____

ACKNOWLEDGMENT

STATE OF)
) ss.
COUNTY OF)

On this _____ day of _____, 2004, before me, a Notary Public in and for said County and State, personally appeared _____ and _____ who are the _____, and the Secretary, respectively, of PALOUSE RIVER AND COULEE CITY RAILROAD, INC., a Washington corporation, and who are personally known to me (or proved to me, on the basis of satisfactory evidence) to be the persons whose names are subscribed to in the within instrument, and acknowledged to me that they executed the same in their authorized capacities, and that by their signatures on the instrument the persons, or the entity upon behalf of which the persons acted, executed the instrument.

WITNESS my hand and official seal.

Notary Public

(Seal)

Except as otherwise provided in the Purchase and Sale Agreement entered into by and between the parties and dated October 29, 2004 and specifically excluding Grantor's retained right to the rail freight easement over and on the Rail Property, all right, title, and interest in and to that portion of the right of way, trackage and appurtenances of the Palouse River and Coulee City Railroad, as now constructed and operated, as described in that certain Deed dated November 20, 1992, recorded October 31, 1996 under Auditor's File No. 422403 (Micro Film No. 589331), records of Whitman County, Washington, recorded November 4, 1996 under Auditor's File No. 243602, records of Adams County, Washington; and that certain Deed dated September 3, 1996, recorded September 11, 1996 under Auditor's File No. 4034511, records of Spokane County, Washington, recorded September 13, 1996 under Micro Film No. 588280, records of Whitman County, Washington; and more particularly described as follows:

UNION PACIFIC RAILROAD COMPANY

Hooper Jct. to Winona

Adams County

Township 15 North, Range 37 East, WM
Sections 27, 34

EXCEPT that portion in Section 34 (Hooper Junction) – from the west line of the Northwest quarter of Section 34 to the north line of the Northwest quarter of Section 34, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exception for the purpose of maintenance and operation of said rail corridor.

Whitman County:

Township 15 North, Range 37 East, WM
Sections 24, 25, 26, 27

EXCEPT that portion in Section 26 (Hooper) – from the west line of said Section 26 to the east line of said Section 26, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exception for the purpose of maintenance and operation of said rail corridor.

Township 15 North, Range 38 East, WM
Sections 19, 20, 21, 22, 23, 24, 25, 26, 27

Township 15 North, Range 39 East, WM
Sections 2, 3, 9, 10, 11, 16, 17, 19, 20

EXCEPT that portion in Section 2 (La Crosse) – from the West line of Section 2 to the North line of Section 2, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.
EXCEPT that portion in Section 3 (La Crosse) – from the South line of Section 3 to the East line of Section 3, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.
EXCEPT that portion in Sections 10 (La Crosse) – from the west line of Section 10 to the North line of Section 10, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

EXCEPT that portion in Section 20 (Pampa) – from the west line of said Section 20 to the north line of said Section 20, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exceptions for the purpose of maintenance and operation of said rail corridor.

Township 16 North, Range 39 East, WM
Sections 1, 12, 13, 24, 25, 35, 36

Township 16 North, Range 40 East, WM
Section 6

EXCEPT that portion in Section 6 (Sutton) – from the west line of Section 6 to the north line of Section 6, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exception for the purpose of maintenance and operation of said rail corridor.

Township 17 North, Range 39 East, WM
Sections 25, 36

Township 17 North, Range 40 East, WM
Sections 20, 29, 30

Thornton to Winona

Whitman County:

Township 19 North, Range 43 East, WM
Sections 19, 20, 21, 28

That portion of the West half of section 27, Township 19 North, Range 43 East, WM, that lies between the West line of said West half and a straight line drawn at right angles to a point in the centerline of main track of said rail line that is 2133 feet, more or less, distant East, measured along said centerline, from the said West line.

EXCEPT that portion in Section 21 (Thornton) – from Station 1791+42 to the south line of Section 21, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.
EXCEPT that portion in Section 28 (Thornton) – from the north line of Section 28 to Station 1817+18, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exceptions for the purpose of maintenance and operation of said rail corridor.

Township 19 North, Range 42 East, WM
Sections 23, 24, 26, 27, 28, 29, 30, 31

EXCEPT that portion in Section 26 (Sunset) – from Station 1328+39 to Station 1346+27.5, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

EXCEPT that portion in Section 30 (Juno) – from the South line of the Northeast quarter of the Northwest quarter, northeasterly and southeasterly to the South line of the Northwest quarter of the Northeast quarter, on the North side only, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

EXCEPT that portion in Section 31 (St. John) – from the south line of the Southwest quarter of the Southwest quarter of Section 31, northwesterly to the west line of the Southwest quarter of the Southwest quarter of Section 31, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exceptions for the purpose of maintenance and operation of said rail corridor.

Township 19 North, Range 41 East, WM
Sections 25, 36

EXCEPT that portion in Section 36 (St. John) – from Station 974+20.3 to the south line of Section 36, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exception for the purpose of maintenance and operation of said rail corridor.

Township 18 North, Range 42 East, WM
Sections 6

EXCEPT that portion in Section 6 (St. John) – from the West line of the Northwest quarter of the Northwest quarter of Section 6, southeasterly and southwesterly to the West line of the Southwest quarter of the Northwest quarter of Section, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exception for the purpose of maintenance and operation of said rail corridor.

Township 18 North, Range 41 East, WM
Sections 1, 2, 10, 11, 15, 16, 20, 21, 29, 31, 32

EXCEPT that portion in Section 1 (St. John) – from the North line of the Northeast quarter of the Northeast quarter of Section 1 to the East line of the Northeast quarter of the Northeast quarter of Section 1, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

EXCEPT that portion in Section 1 (St. John) – from the East line of the Southeast quarter of the Northeast quarter of Section 1 to the West line of the Southwest quarter of the Northeast quarter of Section 1, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

EXCEPT that portion in Section 29 (Willada) – from the north line of Section 29 to Station 592+56.7, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exceptions for the purpose of maintenance and operation of said rail corridor.

Township 18 North, Range 40 East, WM
Sections 35, 36

Township 17 North, Range 40 East, WM
Sections 2, 3, 4, 5, 8, 17, 20

EXCEPT that portion in Section 20 (Winona) – from the North line of the south half of Section 20 to the South line of Section 20, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exception for the purpose of maintenance and operation of said rail corridor.

Winona to Endicott

Whitman County:

Township 17 North, Range 40 East, WM
Sections 21, 22, 25, 26, 27, 28, 29

EXCEPT that portion in Section 29 (Winona) – from Station 1861+35 to Station 1871+80, on the Southerly side only, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exception for the purpose of maintenance and operation of said rail corridor.

Township 17 North, Range 41 East, WM
Sections 30, 31

EXCEPT that portion in Section 31 (Endicott) – from the south line of 2nd Street in Endicott, to the north line of 5th Street in Endicott, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exception for the purpose of maintenance and operation of said rail corridor.

Endicott to Colfax

Whitman County:

Township 17 North, Range 41 East, WM
Sections 25, 26, 31, 32, 33, 34, 35

Township 17 North, Range 42 East, WM
Sections 29, 30, 32, 33, 34

EXCEPT that portion in Section 29 (Thera) – from the West line of Section 29 to Station 2542+68.5 to, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.
EXCEPT that portion in Sections 30 (Thera) – from Station 2531+16.4 to the East line of Section 30, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.
EXCEPT that portion in Section 34 (Diamond) – from Station 2711+77 to Station 2741+10 as it passes through the Southeast quarter of the Southeast quarter of said Section 34, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exceptions for the purpose of maintenance and operation of said rail corridor.

Township 16 North, Range 42 East, WM
Sections 1, 2, 3

EXCEPT that portion in Section 2 (Diamond) – from Station 2711+77 to Station 2741+10, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exception for the purpose of maintenance and operation of said rail corridor.

Township 16 North, Range 43 East, WM
Sections 6, 7, 9, 10, 11, 14, 15, 16, 17, 18, 20

EXCEPT portions in Sections 11 & 14 (Colfax) – bounded on the west by the west line of Section 11; bounded on the south by the south line of North Street; and bounded on the northeast by a straight line drawn at right angles to a point in the centerline of the main track that is 1340 feet, more or less, distant north, measured along said centerline, from the south line of the SW ¼ of the NE ¼ of Section 11; lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

EXCEPT that portion in Section 18 (Mockonema) – from the north line of the southeast quarter of Section 18 to the east line of the said southeast quarter of Section 18, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exceptions for the purpose of maintenance and operation of said rail corridor.

Colfax to Moscow Line

Whitman County:

Colfax to Pullman:

Township 16 North, Range 43 East, WM
Sections 13, 14, 24

Township 16 North, Range 44 East, WM
Sections 17, 19, 20, 28, 29, 33

EXCEPT that portion in Section 28 (Parvin) – from Station 613+39 southeasterly to Station 631, on the northeasterly side only, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

EXCEPT that portion in Section 33 (Shawnee) – from Station 715+10.7 to the south line of Section 33, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exceptions for the purpose of maintenance and operation of said rail corridor.

Township 15 North, Range 44 East, WM
Sections 3, 4, 10, 15, 22, 23, 25, 26, 36

EXCEPT that portion in Section 4 (Shawnee) – from the north line of Section 4 to Station 736+10, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

EXCEPT that portion in Section 15 (Albion) – from the west line of the northeast quarter in Section 15 to the south line of said northeast quarter in Section 15, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exceptions for the purpose of maintenance and operation of said rail corridor.

Township 15 North, Range 45 East, WM
Section 31

Township 14 North, Range 45 East, WM
Sections 5, 6

EXCEPT that portion of Section 5 lying within the Bill Chipman Trail as conveyed to Whitman County.

EXCEPT that portion in Sections 5 & 6 (Pullman) [former UPRR] – from Station 985+89.8 in Government Lot 2 in Section 6 southeasterly to Station 1060+65.6 in the southeast quarter of the southeast quarter of Section 5, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exception for the purpose of maintenance and operation of said rail corridor.

Washington, Idaho and Montana Railway Company (WIM)

Palouse to State Line

Whitman County:

Township 16 North, Range 45 East, WM
Section 1

EXCEPT that portion in Section 1 (Palouse) – from the South line of Whitman Street in Government Lot 11 to the East line of said Section 1, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

Township 16 North, Range 46 East, WM
Sections 5, 6

EXCEPT that portion in Section 6 (Palouse) – from the West line of Section 6 to the East line of Government Lot 3 in Section 6, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exception for the purpose of maintenance and operation of said rail corridor.

Burlington Northern Railroad

Marshall to Pullman

Spokane County:

Township 24 North, Range 42 East, WM
Sections 22, 27, 34

Township 23 North, Range 42 East, WM
Sections 2, 3, 11, 12, 13

Township 23 North, Range 43 East, WM
Sections 18, 19, 20, 28, 29, 33
EXCEPT that portion in Section 33 (Spangle) – Station 590+37 to the south line of said Section 33, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exception for the purpose of maintenance and operation of said rail corridor.

Township 22 North, Range 43 East, WM
Sections 4, 9, 16, 21, 27, 28, 34
EXCEPT that portion of Section 4 (Spangle) – from the north line of Section 4 to Station 607+03, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exception for the purpose of maintenance and operation of said rail corridor.

Township 21 North, Range 43 East, WM
Sections 3, 4, 9, 16, 21, 22, 27, 34

Whitman County:

Township 20 North, Range 43 East, WM
Sections 2, 10, 11, 14, 15, 23, 25, 26, 36

Also,

That portion of the Northeast quarter of Section 15, described as follows:

Beginning at the most Easterly corner of Lot 18, Block 10 of the Original Town of Rosalia, Washington; thence Southeasterly along the Southeasterly extension of the Northerly line of said Lot 18 a distance of 275.0 feet to a point being 25.0 feet Northwesterly, as measured at right angles from said Main Track centerline; thence Northeasterly parallel with said Main Track centerline to the intersection with a line drawn at right angles to said Main Track centerline at a point distant 1,042.0 feet Southwesterly of the North line of said Section 15, as measured along said Main Track centerline; thence Southeasterly at right angles to said Main Track centerline 75.0 feet; thence Southwesterly along a line drawn parallel with and distant 50.0 feet Southeasterly, as measured at right angles from said Main Track centerline 960 feet, more or less, to the Westerly extension of the Southerly line of Sixth Street 360 feet, more or less, to the most Southerly corner of Lot 1, Block 10 of the Original Town of Rosalia; thence Northeasterly along the Easterly line of said Block 10 a distance of 900.0 feet to the Point of Beginning. EXCEPT that portion bounded as follows; on the South by North line of Fifth Street; on the East by a line ten feet westerly of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document; on the North by the North line of Lot 18 Block 10 of the Original Town of Rosalia extended Easterly; on the West by the East line of Block 10 of the Original Town of Rosalia.

Township 20 North, Range 44 East, WM
Sections 31, 32

EXCEPT that portion in Section 31 (McCoy) – from Station 1680 to Station 1695, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exception for the purpose of maintenance and operation of said rail corridor.

Township 19 North, Range 44 East, WM
Sections 5, 8, 9, 15, 16, 22, 23, 24, 25, 26

EXCEPT that portion in Section 22 (Oakesdale) – from Station 1970 to the East line of Section 22, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

EXCEPT that portion in Section 23 (Oakesdale) – from the West line of Section 23 to Station 2005, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exceptions for the purpose of maintenance and operation of said rail corridor.

Township 19 North, Range 45 East, WM
Sections 30, 31, 32

Township 18 North, Range 45 East, WM
Sections 5, 8, 9, 17, 20, 28, 29, 33

EXCEPT that portion in Section 5 (Belmont) – from the north line of Section 5 southeasterly to Station 2277+63, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.
EXCEPT that portion in Section 20 (Eden) – from Station 2484+56.4 to the South line of Section 20, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.
EXCEPT that portion in Section 29 (Eden) – from the North line of Section 29 to Station 2502+22, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.
EXCEPT that portion in Section 33 (Garfield) – from Station 2600 to the south line of said Section 33, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exceptions for the purpose of maintenance and operation of said rail corridor.

Township 17 North, Range 45 East, WM
Sections 3, 4, 10, 15, 22, 26, 27, 35, 36

EXCEPT that portion in Section 4 (Garfield) – from the north line of said Section 4 southerly to Station 2666+58, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exception for the purpose of maintenance and operation of said rail corridor.

Township 16 North, Range 45 East, WM

Sections 1, 12, 13, 22, 23, 24, 26, 27, 34, 35, 36

EXCEPT that portion in Section 1 (Palouse) [former BN line] – from the South line of the Palouse River in Government Lot 11 to the East line of Government 10, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

EXCEPT that portions in Sections 26, 27, 34, & 35 (Fallon) – from Station 3452+10 to Station 3477+21.1, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exceptions for the purpose of maintenance and operation of said rail corridor.

Township 15 North, Range 45 East, WM

Sections 1, 11, 12, 14, 15, 21, 22, 28, 29, 32

EXCEPT that portion in Section 14 (Whelan) – from Station 3710 to the West line of Section 14, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document

EXCEPT that portion in Section 15 (Whelan) – from the East line of Section 15 to Station 3740, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

EXCEPT that in Section 32 (Pullman) – from Station 3960 to the South line of Section 32, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exceptions for the purpose of maintenance and operation of said rail corridor.

Township 14 North, Range 45 East, WM

Section 1, 2, 5, 8, 9, 10, 11,

EXCEPT that portion in Section 5 (Pullman) [former BN line] – from the north line of Section 5 to Station 4025, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exception for the purpose of maintenance and operation of said rail corridor.

Township 15 North, Range 46 East, WM

Sections 5, 6

SCHEDULE 2.1

NONE

Schedule 8.2

Revenue Leases for property located within the Rail Property
and on the excluded properties contiguous thereto.

AUDIT NO.	TYPE	MP	LESSEE	TERM	LOCATION
NP 56834	LD LS	81.00	ALMIRA FARMERS WAREHOUSE COMPANY	ANNUAL	GOVAN
NP 57271	LD LS	97.00	ALMIRA FARMERS WAREHOUSE COMPANY	ANNUAL	HARTLINE
NP 77328	LD LS	91.00	ALMIRA FARMERS WAREHOUSE COMPANY	ANNUAL	HANSON
56360	LD LS	88.00	ALMIRA FARMERS WAREHOUSE COMPANY	ANNUAL	ALMIRA
240259	LD LS	76.00	ANDERSON LUMBER	ANNUAL	PULLMAN
528046	LD LS	43.00	AUVIL - WARNER COMPANY	ANNUAL	BELMONT
65164	LD LS	43.00	AUVIL-WARNER COMPANY (ROY AUVIL)	ANNUAL	BELMONT
525336	LD LS	47.00	BNP LENTIL COMPANY	ANNUAL	EDEN
525285	LD LS	49.00	BRUCE NELSON	ANNUAL	GARFIELD
248389	LD LS	109.00	CENTRAL WASHINGTON GRAIN GROWERS, INC.	ANNUAL	COULEE CITY
89904	LD LS	97.00	CENTRAL WASHINGTON GRAIN GROWERS, INC.	ANNUAL	HARTLINE
NP 58912	ITA	88.00	CENTRAL WASHINGTON GRAIN GROWERS, INC.	ANNUAL	ALMIRA
500723	LD LS	64.00	CENTRAL WASHINGTON GRAIN GROWERS, INC.	ANNUAL	CRESTON
525365	LD LS	81.00	CENTRAL WASHINGTON GRAIN GROWERS, INC.	ANNUAL	GOVAN
239784	LD LS	87.00	CENTRAL WASHINGTON GRAIN GROWERS, INC.	ANNUAL	ALMIRA
231893	WL	106.00	CENTURYTEL	ANNUAL	ODAIR
215147	LD LS	11.00	242	ANNUAL	SPANGLE
500796	LD LS	11.00	242	ANNUAL	SPANGLE
242180	P/L	58.00	CITY OF PALOUSE	ANNUAL	PALOUSE
525229	W/L	76.00	CITY OF PULLMAN	ANNUAL	PULLMAN
227358	W/L	76.00	CITY OF PULLMAN	ANNUAL	PULLMAN
201257	W/L	76.00	CITY OF PULLMAN	ANNUAL	PULLMAN
248763	PARK	76.00	SERVICE	ANNUAL	PULLMAN
246959	PL	76.00	CITY OF PULLMAN, DEPT. OF PUBLIC WORKS	ANNUAL	PULLMAN
246958	TRAIL	76.00	CITY OF PULLMAN, DEPT. OF PUBLIC WORKS	ANNUAL	PULLMAN
525250	STO	37.00	CO-AG PRODUCERS	ANNUAL	OKESDALE
201096	LD LS	32.00	CO-AG PRODUCERS	ANNUAL	MCCOY
226475	RDW	11.00	CO-AG PRODUCERS	ANNUAL	SPANGLE
525308	ELEV	19.00	CO-AG PRODUCERS	ANNUAL	PLAZA
525282	LD LS	37.00	CO-AG PRODUCERS	ANNUAL	OKESDALE
NP 60785	LD LS	25.00	INC.	ANNUAL	ROSALIA
23941	LD LS	37.00	CROW FARMS, INC.	ANNUAL	OKESDALE
400155	LD LS	76.00	DAN ANTONI	ANNUAL	PULLMAN
205519	LD LS	34.00	DAVENPORT UNION WAREHOUSE COMPANY	ANNUAL	MONDOVI

244314	LD LS	34.00	DAVENPORT UNION WAREHOUSE COMPANY	ANNUAL	MONDOVI
245416	LD LS	76.00	DAVID THARP DBA IMPORTED CAR SERVICE	ANNUAL	JUNCTION
248105	LD LS	49.00	EDGAR JOHNSON	ANNUAL	GARFIELD
78960	LD LS	26.00	EDWALL CHEMICAL CO.	ANNUAL	REARDAN
249796	LD LS	76.00	EVERGREEN TIRE	ANNUAL	PULLMAN
82926	LD LS	43.00	FISHER ELEVATOR c/o DOUG FISHER	ANNUAL	BELMONT
NP 83403	LD LS	43.00	FISHERS ELEVATOR C/O DOUG FISHER	ANNUAL	BELMONT
525136	STO	37.00	GAIL AND CHRISTY PARSONS	ANNUAL	OAKESDALE
225250	LD LS	58.00	HARLOWE FARMS INC.	ANNUAL	PALOUSE
500355	LD LS	108.00	ISAAC BROTHERS	ANNUAL	COULEE CITY
233612	LD LS	76.00	CORPORATION	ANNUAL	PULLMAN
NP 87498	LD LS	32.00	JAMES WOODWARD	ANNUAL	MCCOY
400171	LD LS	49.00	JERRY ROBINSON	3 YEAR	GARFIELD
203753	LD LS	37.00	JERRY SMART DBA ELLI'N JAY FARMS, INC.	ANNUAL	OAKESDALE
210925	LD LS	37.00	JERRY SMART DBA ELLI'N JAY FARMS, INC.	ANNUAL	OAKESDALE
214269	LD LS	41.00	JERRY W. NEWCOMB	ANNUAL	DAVENPORT
203571	LD LS	109.00	JIM JESS IMPLEMENTS	ANNUAL	COULEE CITY
400104	STO	49.00	JOHNSON SEED (Use to be Anvil-Warner)	ANNUAL	GARFIELD
212445	LD LS	73.00	JONES TRUCK & IMPLEMENT	ANNUAL	PULLMAN
217711	LD LS	73.00	LACEY CONSTRUCTION	ANNUAL	PULLMAN
A3304	SIGN	26.00	LAMAR ADVERTISING COMPANY	ANNUAL	REARDAN
A3303	SIGN	41.00	LAMAR ADVERTISING COMPANY	ANNUAL	DAVENPORT
500320	AG	74.00	LANCE E. TOWER	ANNUAL	WILBUR
243420	LD LS	9.00	LATAH CITY GRAIN	ANNUAL	KENNEDY FORD
NP 86169	LD LS	25.00	LESLIE L. REED	ANNUAL	ROSALIA
NP 50656	LD LS	26.00	LINCOLN MUTUAL SERVICE #2	ANNUAL	REARDON
NP 90250	LD LS	58.00	LOLA WALL	ANNUAL	PALOUSE
NP 86913	LD LS	26.00	LOYD MCLAIN	ANNUAL	REARDAN
NP 83681	LD LS	76.00	M.C. WISE	ANNUAL	JUNCTION
211376	LD LS	37.00	MCGREGOR COMPANY	ANNUAL	OAKESDALE
93212	LD LS	73.00	MCGREGOR COMPANY	ANNUAL	PULLMAN
236697	LD LS	73.00	MCGREGOR COMPANY	ANNUAL	PULLMAN
NP 93282	LD LS	37.00	MCGREGOR COMPANY	ANNUAL	OAKESDALE
220496	LD LS	37.00	MCGREGOR COMPANY	ANNUAL	OAKESDALE
84176	LD LS	59.00	MCGREGOR COMPANY	ANNUAL	PALOUSE
237815	STO	37.00	MCGREGOR COMPANY	ANNUAL	OAKESDALE

NP 76070	AG	41.00	WILLIAMSON	ANNUAL	DAVENPORT
230893	LD LS	76.00	RENTALS	ANNUAL	PULLMAN
TL-321	TK/LS	37.30	OAKESDALE FARM N SUPPLY, INC.	ANNUAL	OAKESDALE
NP 55496	LD LS	42.00	ODESSA UNION WAREHOUSE	ANNUAL	DAVENPORT
NP 71687	LD LS	42.00	ODESSA UNION WAREHOUSE COOP.	ANNUAL	ROCKLYN
NP 101246	ELEV	12.00	ODESSA UNION WHSE.	ANNUAL	LINCOLN
100739	LD LS	42.00	ODESSA UNION WHSE.	ANNUAL	DAVENPORT
74201	STO	59.00	PALOUSE GRAIN GROWERS, INC.	ANNUAL	PALOUSE
241715	LD LS	59.00	PALOUSE GRAIN GROWERS, INC.	YEARS	PALOUSE
220339	STO	25.00	PORTA PRODUCTS & MACHINE CO., INC.	ANNUAL	ROSALIA
525348	LD LS	9.00	POTLATCH GRAIN & SEED	ANNUAL	KENNEDY FORD
95154	WL	102.00	PUB #1 OF GRANT COUNTY	ANNUAL	COULEE CITY
220354	LD LS	76.00	R.O. PYLE ROOFING & INSULATION	ANNUAL	PULLMAN
83638	LD LS	109.00	RALPH WEBLEY C/O JEANNINE MCKINNEY	ANNUAL	COULEE CITY
61859	LD LS	26.00	REARDAN GRAIN GROWERS	ANNUAL	REARDAN
NP 54598	LD LS	21.00	REARDAN GRAIN GROWERS, INC.	ANNUAL	HITE
NP 54599	LD LS	21.00	REARDAN GRAIN GROWERS, INC.	ANNUAL	HITE
NP 60721	LD LS	21.00	REARDAN GRAIN GROWERS, INC.	ANNUAL	HITE
525186	STO	38.00	RMK FARMS INC.	ANNUAL	OAKESDALE
237973	LD LS	49.00	ROGER D. MILLION	ANNUAL	GARFIELD
212949	LD LS	27.00	ROSALIA PRODUCERS, INC.	ANNUAL	ROSALIA
60717	LD LS	65.00	GROWERS, INC.)	ANNUAL	FALLON
52380	LD LS	65.00	GROWERS, INC.)	ANNUAL	FALLON
NP 75929	LD LS	81.00	SHEFFELS CO.	ANNUAL	GOVAN
247292	STO	20.00	SPOKANE SEED CO.	ANNUAL	PLAZA
NP 74693	LD LS	20.00	SPOKANE SEED CO.	ANNUAL	PLAZA
58104	LD LS	70.00	STEVE & KEVIN MADER, GP	ANNUAL	WHELAN
206115	LD LS	49.00	THE MCGREGOR CO.	ANNUAL	GARFIELD
229764	LD LS	49.70	TOM & LELA STYER	YRS	GARFIELD
NP 43540	LD LS	37.70	TOWN CLERK, TOWN OF OAKESDALE	ANNUAL	OAKESDALE
525065	PL	37.70	TOWN OF OAKESDALE	ANNUAL	OAKESDALE
229350	PL	37.70	TOWN OF OAKESDALE	ANNUAL	OAKESDALE
229961	PL	37.70	TOWN OF OAKESDALE	ANNUAL	OAKESDALE
202472	PL	27.00	TOWN OF REARDON, CITY HALL	ANNUAL	REARDON
NP 80867	LD LS	11.00	TOWN OF SPANGLE, TOWN HALL	ANNUAL	SPANGLE
NP 95962	RD	11.00	TOWN OF SPANGLE, TOWN HALL	ANNUAL	SPANGLE

AUDIT NO.	TYPE	MP	LESSOR	LESSEE	TERM	LOCATION
	LS PARKG	18.00	AITKEN, SCHAUBLE, PATRICK, NEILL & RUFF	PERPETUAL	PULLMAN	
143163	LS STG	72.00	ALMOTA ELEVATOR COMPANY, INC.	PERPETUAL	COLFAX	
PLD 538	AG LEASE	72.00	BILL LARSEN	PERPETUAL	DIAMOND	
A00001	INDUS LS	77.00	BUSCH DISTRIBUTORS, INC.	ANNUAL	COLFAX	
A12652	ENCR P/L	77.00	CITY OF COLFAX	YEARS	COLFAX	
113510	ENCR P/L	77.00	CITY OF COLFAX	YRS.	COLFAX	
53846	ENCR P/L	77.00	CITY OF COLFAX	YRS.	COLFAX	
A106156	ENCR P/L	19.00	CITY OF PULLMAN	10 YEARS	PULLMAN	
143081	PARKING	18.00	CITY OF PULLMAN	PERPETUAL	PULLMAN	
PLD 182	LS BEAUT	18.00	CITY OF PULLMAN	PERPETUAL	PULLMAN	
A102983	PARKING	77.00	COLFAX SCHOOL DISTRICT NO. 300	PERPETUAL	COLFAX	
83078	AG LEASE	73.00	DAND, HARDER	PERPETUAL	COLFAX	
156488	AG LEASE	56.00	DAVID C. JOHNSON	PERPETUAL	SUTTON	
145748	LS STG	68.00	DIAMOND DISTRIBUTING CO.	PERPETUAL	DIAMOND	
161126	AG LEASE	68.00	DONALD W. STEIGER	PERPETUAL	DIAMOND	
A99319	AG LEASE	68.00	EARL SCHLUNEGAR	PERPETUAL	DIAMOND	
162663	AG LEASE	9.00	FARMS)	PERPETUAL	SHAWNEE	
A55255	LS ELEV	72.00	ESTATE OF CARL OUSLEY/MOCKONEMA	PERPETUAL	MOCKONEMA	
A90639	AG LEASE	72.00	ESTATE OF CARL OUSLEY/MOCKONEMA	ANNUAL	MOCKONEMA	
A99365	ENCR W/L	18.00	NORTHWEST	5 YEARS	PULLMAN	
PLD 511	LS ELVE	18.00	HARLOW FARMS INC.	PERPETUAL	PULLMAN	
A65771	LS BLDG	77.00	HENNING FARMS	PERPETUAL	THORNTON	
PLD 482	LS ELEV	18.00	INLAND EMPIRE MILLING CO.	PERPETUAL	ST JOHN	
PLD 292	LS ELEV	18.00	INLAND EMPIRE MILLING COMPANY	PERPETUAL	ST JOHN	
	LS ELEV	4.00	JACKSON W. SMITH & SON (Reed Smith)	ANNUAL	ST JOHN	
A100749	AG LEASE	15.00	JON ANDERSON	ANNUAL	PULLMAN	
A98596	LS STG	77.00	JONES TRUCK AND IMPLEMENT, INC.	PERPETUAL	COLFAX	
A93884	AG LEASE	25.00	JORDAN FARMS, INC.	PERPETUAL	SUNSET	
A99023	LS ELEV	41.00	LA CROSSE TRUCKING	PERPETUAL	LACROSSE	
157510	AG LEASE	5.00	LEWIS GAISER	PERPETUAL	WINONA	
PLD 456	PARKING	43.00	MARY ANN FRANZ	PERPETUAL	COLFAX	
A101936	AG LEASE	77.00	MARY LEE TOLLETT	PERPETUAL	THORNTON	
A101847	LS ELEV	14.00	MCGREGOR LAND AND LIVESTOCK CO.	PERPETUAL	HOOPER	
A67144	LS STG	26.00	MCGREGOR LAND AND LIVESTOCK CO.	PERPETUAL	HOOPER	
A99752	LS PARKG	19.00	WASHINGTON	PERPETUAL	PULLMAN	

83776	LS ELEV	68.00	MILLER LAND & LIVESTOCK CO.	PERPETUAL	DIAMOND
A100626	LS ELEV	68.00	MILLER LAND & LIVESTOCK CO.	PERPETUAL	DIAMOND
A87338	LS ELEV	68.00	MILLER LAND & LIVESTOCK CO.	PERPETUAL	DIAMOND
MSB841	LD/LS	18.00	MOSCOW BUILDING SUPPLIES INC	ANNUAL	PULLMAN
A91801	LS STG	18.00	NEILL MOTORS	PERPETUAL	PULLMAN
A99760	LS ELEV	31.00	NELSON BROS. FARMS, INC.	PERPETUAL	THORNTON
161944	ITA	25.00	PALOUSE PRODUCERS SUBDIVISION	PERPETUAL	WILLSON
A103939	LS PARKG	19.00	PRAIT MOVING & STORAGE, INC.	PERPETUAL	PULLMAN
A69996	LS STG	18.00	PULLMAN GRANGE SUPPLY	PERPETUAL	PULLMAN
951115	LS STG	19.00	PULLMAN RENTALS, INC.	PERPETUAL	PULLMAN
931800	LS ELEV	82.00	RAY JONES	6 YEARS	RISBECK
A56624	LS STG	37.00	RITZVILLE WAREHOUSE	PERPETUAL	PAMPA
A66628	LS ELEV	41.00	RITZVILLE WAREHOUSE	5 YEARS	HOOPER
A89320	LS ELEV	41.00	RITZVILLE WAREHOUSE	PERPETUAL	LACROSSE
A59068	LS ELEV	41.00	RITZVILLE WAREHOUSE	PERPETUAL	GORDON
A103031	AG LEASE	33.00	ROBERT H. SCHOLZ	PERPETUAL	THORNTON
165107	AG LEASE	66.00	ROBERT R. BROWN	PERPETUAL	THERA
PLD 294	LS STG	41.00	SCHWEIGER BROS.	PERPETUAL	LACROSSE
A101611	LS STG	18.00	ST. JOHN COOP TELEPHONE & TELEGRAPH	ANNUAL	ST. JOHN
A90881	ENCR W/L	18.00	TELEGRAPH COMPANY	10 YEAR	ST. JOHN
PLD 220	LS ELEV	11.00	ST. JOHN GRAIN GROWERS INC.	PERPETUAL	WILLADA
A62108	LS STG	20.00	ST. JOHN GRAIN GROWERS, INC	PERPETUAL	JUNO
A75370	LS ELEV	25.00	ST. JOHN GRAIN GROWERS, INC	PERPETUAL	SUNSET
PLD 422	LS ELEV	18.00	ST. JOHN GRAIN GROWERS, INC.	PERPETUAL	ST. JOHN
A101201	LS LAND	182.00	ST. JOHN GRANGE SUPPLY, INC.	ANNUAL	ST. JOHN
PLD 483	LS STG	41.00	THE MCGREGOR COMPANY	PERPETUAL	LACROSSE
145079	ITA	31.00	THE MCGREGOR COMPANY	PERPETUAL	THORNTON
161844	ITA	26.00	THE MCGREGOR COMPANY	PERPETUAL	COLFAX
A91747	LS INDUS	41.00	THE MCGREGOR COMPANY	PERPETUAL	LACROSSE
A99328	LS STG	41.00	THE MCGREGOR COMPANY	PERPETUAL	LACROSSE
A65744	LS INDUS	41.00	THE MCGREGOR COMPANY	PERPETUAL	LACROSSE
144219	LS STG	31.00	THE MCGREGOR COMPANY	PERPETUAL	THORNTON
950901	LS STG	72.00	THE MCGREGOR COMPANY	PERPETUAL	COLFAX
A80653	LS STG	41.00	THE MCGREGOR COMPANY	PERPETUAL	LACROSSE
A76259	ENCR W/L	18.00	COMPANY	YEARS	PULLMAN
A81604	ENCR W/L	21.00	COMPANY	YEARS	PULLMAN

A98351	ENCR W/L	31.00	COMPANY	5 YEARS	THORNTON
A96334	ENCR P/L	0.00	COMPANY	5 YEARS	COLFAX
A91257	ENCR P/L	77.00	COMPANY	YEARS	COLFAX
117623	ENCR W/L	41.00	TOWN OF LA CROSSE	10 YEARS	LACROSSE
104769	ENCR P/L	41.00	TOWN OF LA CROSSE	10 YEARS	LACROSSE
142319	PARKING	18.00	FOUNDATION	PERPETUAL	PULLMAN
A101122	AG LEASE	9.00	WEBER, YVONNE	22.5	SHAWNEE
A103916	LS STG	18.00	WESMAR CONSTRUCTION	PERPETUAL	PULLMAN
71753	LS STG	57.00	WESTERN FARM SERVICE, INC.	PERPETUAL	ENDICOTT
A100299	TRK LS	13.00	WESTERN FARM SERVICE, INC.	PERPETUAL	DAYTON
A102035	TRK LS	57.00	WESTERN FARM SERVICE, INC.	ANNUAL	ENDICOTT
146470	LS ELEV	57.00	WHEAT GROWERS OF ENDICOTT	PERPETUAL	ENDICOTT
A69199	LS STG	64.00	WHEAT GROWERS OF ENDICOTT	PERPETUAL	THERA
84979	LS ELEV	64.00	WHEAT GROWERS OF ENDICOTT, INC.	PERPETUAL	WINONA
A83028	LS ELEV	52.00	WHEAT GROWERS OF ENDICOTT, INC.	PERPETUAL	WINONA
94130	ENCR P/L	52.00	WHEAT GROWERS OF ENDICOTT, INC.	10 YEARS	WINONA
A96427	BLDG	99.00	DISTRICT #2	PERPETUAL	ST. JOHN
A57524	LS STG	7.00	WHITMAN COUNTY GROWERS, INC.	5 YEARS	PARVIN
A73837	LS ELEV	31.00	WHITMAN COUNTY GROWERS, INC.	PERPETUAL	THORNTON
141027	ITA	77.00	WHITMAN COUNTY GROWERS, INC.	PERPETUAL	COLFAX
A96973	LS STG	12.00	WHITMAN COUNTY GROWERS, INC.	PERPETUAL	ALBION
163800	BLDG	77.00	WHITMAN COUNTY GROWERS, INC.	PERPETUAL	COLFAX
142897	LS ELEV	12.00	WHITMAN COUNTY GROWERS, INC.	PERPETUAL	ALBION
A86201	LS ELEV	18.00	WHITMAN COUNTY GROWERS, INC.	ANNUAL	PULLMAN
PLD 385	LS ELEV	72.00	WHITMAN COUNTY GROWERS, INC.	PERPETUAL	MOCKENEMA
A101150	LS ELEV	77.00	WHITMAN COUNTY GROWERS, INC.	PERPETUAL	COLFAX
A92214	TRK LS	41.00	WILBUR-ELLIS	5 YEARS	PULLMAN

COPY

Purchase and Sale Agreement

between

**STATE OF WASHINGTON,
DEPARTMENT OF TRANSPORTATION**

and

**PALOUSE RIVER AND
COULEE CITY RAILROAD, INC.**

Agreement No.: RR-00327

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PURCHASE AND SALE AGREEMENT

THIS PURCHASE AND SALE AGREEMENT (the "Agreement") is entered into as of the 29th day of October, 2004 by and between PALOUSE RIVER AND COULEE CITY RAILROAD, INC., a Washington corporation ("Seller") and the STATE OF WASHINGTON, DEPARTMENT OF TRANSPORTATION, an agency of the state of Washington ("Purchaser").

RECITALS

WHEREAS Seller owns and operates certain lines of railroad in the States of Washington, Oregon and Idaho; and

WHEREAS Seller desires to transfer by sale and Purchaser desires to acquire most of the physical assets of the rail lines owned by Seller in the State of Washington and to lease those assets to the Seller or its potential assignee the Great Northwest Railroad, Inc. ("GRNW") to provide freight railroad operations on, the rail lines; and

WHEREAS the parties desire to facilitate the Purchaser's rehabilitation of the rail lines located on the Rail Property; and

WHEREAS the Purchaser recognizes shippers on the rail lines need assurance of long term rail viability to invest in business along the corridor; and

WHEREAS in conjunction with the acquisition of the rail lines by Purchaser, Seller has reserved and may elect to transfer to GRNW the exclusive rail Freight Easement for the purpose of providing common and contract rail freight service on the rail lines.

NOW, THEREFORE, in consideration of the terms and conditions set forth herein, the parties agree as follows:

Section 1. Definitions.

1.1 **Environmental Claims:** means any cause or action under the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. Section 9601, et seq., the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq.; the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901 et seq., the Toxic Substances Control Act, 15 U.S.C. Section 2601 et seq., the Clean Water Act, 33 U.S.C. Section 1251 et seq., the Clean Air Act, 42 U.S.C. Section 7401 et seq., the Washington Model Toxics Control Act, Chapter 70.105D RCW, the Washington Hazardous Waste Management Act, Chapter 70.105 RCW, the Washington Clean Air Act, Chapter 70.94 RCW and the Washington Water Pollution Control Act, Chapter 90.48 RCW, all as amended or as may be amended, and any other federal, state, local or other governmental statute, regulation, or ordinance, dealing with the protection of human health, natural resources or the environment and any cause of action arising from similar federal, state or local legislation or other rules of law, and private causes of action of whatsoever nature which arise from environmental damage, contamination, toxic wastes or similar causes.

1.2 **Freight Easement:** The Permanent Freight Railroad Operating Easement in a form substantially similar to that contained in Exhibit 4 to this Agreement that may be executed by and between Seller and GRNW.

1.3 **Hazardous Substance:** means (i) any substance, product, waste or other material of any nature whatsoever which is or becomes listed, regulated, or addressed pursuant to the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. Section 9601, et seq., the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq.; the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901 et seq., the Toxic Substances Control Act, 15 U.S.C. Section 2601 et seq., the Clean Water Act, 33 U.S.C. Section 1251 et seq., the Clean Air Act, 42 U.S.C. Section 7401 et seq., the Washington Model Toxics Control Act, Chapter 70.105D RCW, the Washington Hazardous Waste Management Act, Chapter 70.105 RCW, the Washington Clean Air Act, Chapter 70.94 RCW and the Washington Water Pollution Control Act, Chapter 90.48 RCW, all as amended or as may be amended, or any other federal, state or local statute, law, ordinance, resolution, code, rule, regulation, order or decree regulating, relating to, or imposing liability or standards of conduct concerning, any hazardous, toxic or dangerous waste, substance or material, as now or at any time hereafter in effect, (ii) any substance, product, waste or other material of any nature whatsoever which may give rise to liability under any of the above statutes, (iii) petroleum or crude oil or products thereof other than petroleum and petroleum products which are contained within regularly operated motor vehicles, locomotives, equipment and properly permitted, if applicable, above ground storage tanks or containers, (iv) asbestos and (v) radioactive wastes and substances.

1.4 **Rail Property:** Shall have the definition as provided in Section 2.2 below.

1.5 **Surface Transportation Board:** The ICC Termination Act of 1995 (Public Law 104-88) established the Surface Transportation Board as a three-member decisionally independent agency, administratively affiliated with the Department of Transportation, with the authority to regulate railroads.

Section 2. Sale of Rail Property.

2.1 **Description of Rail Property.** Purchaser seeks to acquire the Rail Property of the following rail lines owned by Seller in the State of Washington:

- (i) the Hooper Jct.-Winona line located between Milepost 26.6, at Hooper Junction, and Milepost 52.3, at Winona;
- (ii) the Thornton-Winona line located between Milepost 0.0, at Winona, and Milepost 31.7, at Thornton;
- (iii) the Winona-Endicott line located between Milepost 52.3 at Winona, and Milepost 57.9, at Endicott;
- (iv) the Endicott-Colfax line located between Milepost 57.9, at Endicott, and Milepost 77.7, at Colfax;

(v) the Colfax-Moscow line located (a) between Milepost 0.0, at Colfax, and Milepost 18.7, at Pullman, and (b) between Milepost 75.9, at Pullman, and Milepost 84.05, at the Washington-Idaho State Line;

(vi) the WIM line located between Milepost 0.0, at Palouse, and Milepost 3.85, at the Washington-Idaho State Line; and

(vii) the P&L line located between Milepost 1.0, at Marshall, and Milepost 75.9, at Pullman (together the "Rail Lines").

2.2 Rail Property. At Closing, as hereinafter defined, and subject to the terms and conditions hereof, Seller agrees to sell, assign, convey and quitclaim to Purchaser, and Purchaser agrees to purchase, all of Seller's right, title and interest in that certain portion of the real estate transportation corridor underlying the Rail Lines (the "Rights-of-Way") consisting of: (1) Seller's office building and a small portion of station ground to be used for maintenance work located in Rosalia, Washington; (2) All of Seller's interest in the entire Right-of-Way lying outside of the city limits, as agreed to and established by the parties for purposes of this Agreement ("City Limits"), of any city, whether incorporated or unincorporated, in the state of Washington; and (3) That portion of the Rights-of-Way lying within ten (10) feet of the centerline of the outermost through track of the Rail Line for that portion of the Right-of-Way lying within City Limits of any city, incorporated or unincorporated, that the Right-of-Way runs through in the state of Washington with all of the above being more fully described in the quitclaim deeds attached hereto as Exhibit 1 (the "Quitclaim Deeds") and depicted and identified on the maps attached to the Agreement as Exhibit 1A. Such sale, assignment and conveyance shall include but not be limited to, buildings, improvements, fixtures, tracks, track materials, ties, sidings, connecting tracks, lead tracks and turnouts, bridges, culverts, poles, lines, signals, grade crossing gates and signals, and other appurtenances in place on the above purchased Right-of-Way at Closing and all of Seller's right, title and interest in the personal property of Seller identified in the Bill of Sale attached hereto as Exhibit 2 (except as specifically reserved or otherwise provided herein, the Quitclaim Deeds or in the Bill of Sale)(together the "Rail Property").[WSDOT must verify accuracy of this description]

2.3 Reservations. At Closing, the Rights-of-Way shall be conveyed and quit-claimed to Purchaser by Seller "AS IS, WHERE IS," without warranty of title or for quiet enjoyment, subject to the provisions of Section 8.1 and all outstanding and superior rights and interests reserved unto Seller's predecessors in interest, their successors, licensees and assigns, including, without limitation, (i) any easements in, under and across all of the Rail Property for the purpose of installing, constructing, maintaining, repairing, operating and/or relocating any new or existing communication or fiber optic facilities, as well as signal equipment necessary for a predecessors mainline signal operations, together with the right of ingress and egress thereto; (ii) any mineral rights of every kind and character now known to exist or hereafter discovered in and underlying the Rail Property, including oil and gas rights thereto, together with the sole, exclusive and perpetual right to explore for, remove and dispose of, said minerals by any means or methods suitable to such predecessor in interest, its successors and assigns, but without entering upon or using the surface of the Rail Property, and in such manner as not to damage the Rail Property or to interfere with the use thereof as a railroad; (iii) any coal, oil, gas, casing-head gas and all ores and minerals of every kind and nature, including sand and gravel underlying the

surface of the Rail Property, together with the full right, privilege and license at any and all times to explore, or drill for and to protect, conserve, mine, take, remove and market any and all such products in any manner which will not damage structures on the surface of the Rail Property, together with the right of access at all times to exercise these rights; (iv) all water rights, and the exclusive right to develop and take water by any means, and to all appropriations, priorities, permits and certificates which are appurtenant to, associated with, used upon, flowing over, under, or lying on, in or under the Rail Property, and an exclusive, permanent easement to construct, install, operate, replace, rework, reconstruct, rehabilitate and maintain any and all water diversion, production and transportation structures, equipment, improvements and piping and to construct, install, operate and maintain water pumps and hydroelectric generation equipment necessary, convenient or related to the production, transportation or delivery of water from, on, under or across the Rail Property, together with the right of access at all times to exercise these rights, provided that all activities in the exercise of these rights shall be performed in a manner which will not damage structures on the surface of the Rail Property; (v) exclusive and/or non-exclusive, permanent easements for construction, reconstruction, maintenance, use and/or operation of one or more pipelines or fiber optic communication lines, together with related facilities and appurtenances in, under, across, along and through all or any portion of the Rail Property, including the right to enter and disturb the surface, and occupy the Rail Property for purposes of constructing, reconstructing, maintaining, using and/or operating one or more pipelines or fiber optics communication lines, facilities and appurtenances in, under, across, along and through all or any portion of the Rail Property, provided that notice in advance of any such entry must be given, and such entry and occupancy shall be done in a manner which does not materially interfere with the use and occupancy of the Rail Property; and (vi) air rights over that portion of the Rail Property, if any, at or near Fairchild, Washington, for the purpose of operating, maintaining and, as necessary, reconstructing main line railroad and any related facilities or structures over the Rail Property at or near this location.

2.4 Excluded from Sale. The following assets, rights and interests are expressly excluded from the sale herein contemplated: (i) the Freight Easement for the purpose of providing common and contract carrier rail freight service to all freight customers on the Rail Lines, including the right to operate trains, locomotives, railcars and rail equipment; (ii) all of Seller's right, title and interest in those portions of the Rights-of-Way and Station Ground excluded from the sale and not transferred in the Quitclaim Deeds identified in Exhibit 1; (iii) all of Seller's rights and interests under any existing contract, agreement, lease, license or easement and any amendment thereto granting or conveying any occupancy or other rights in the Rail Lines, including rights used or held for use in Seller's current rail operations on the Rail Lines; (iv) the non-exclusive rights, if any, related to the location, construction, operation and maintenance of fiber optics or other wire lines or pipelines and sign boards or other communications technologies, provided that the granting of such rights do not interfere with Purchaser's ownership of the Rights-of-Way or rail operations on the Rail Lines; and any personal property of Seller not listed on the Bill of Sale (collectively the "Excluded Interests"). Seller may freely sell or transfer these Excluded Interests, including but not limited to a transfer to GRNW.

The parties envision that Seller will likely assign and transfer the retained Freight Easement to GRNW. If this occurs, Seller may assign to GRNW and have GRNW assume from RR-00327

Seller, all leases, easements, licenses, permits, agreements, sidetrack agreements and privileges pertaining to the Rail Lines, including the right to grant future leases, easements, licenses, permits, agreements, sidetrack agreements and privileges pertaining to the Rights-of-Way by way of an Assignment and Assumption Agreement in a form similar to that as evidenced in Exhibit 5 and duly executed by Seller and GRNW.

2.5 Buyer acknowledges that Seller may wish to structure this transaction as a tax deferred exchange of like-kind property within the meaning of Section 1031 of the Internal Revenue Code. Buyer agrees to reasonably cooperate with Seller to effect such an exchange; provided, however, that (i) Buyer not be required to acquire or take title to any exchange property, (ii) Buyer shall not be required to incur any expense (including attorneys' fees) or liability whatsoever in connection with the exchange, including, without limitation, any obligation for the payment of any escrow, title, brokerage or other costs incurred with respect to the exchange, (iii) no substitution of Seller shall release Seller from any of its obligations, warranties or representations set forth in this Agreement or from liability for any prior or subsequent default under this Agreement by Seller, its successors or assigns, which obligations shall continue as the obligations of a principal and not of a surety or guarantor, (iv) Seller shall give Buyer at least five (5) business days' prior notice of the proposed changes required to effect such exchange and the identity of any party to be substituted in the escrow, (v) Seller shall be responsible for preparing all additional agreements, documents and escrow instructions (collectively, the "Exchange Documents") required by the exchange, at its sole cost and expense, and (vi) Seller shall be responsible for making all determinations as to the legal sufficiency, tax considerations and other considerations relating to the proposed exchange, the Exchange Documents and the transactions contemplated thereby, and Buyer shall in no event be responsible for, or in any way be deemed to warrant or represent any tax or other consequences of the exchange transaction arising by reason of Buyer's performance of the acts required hereby.

2.6 Maintenance Easement.

Seller shall convey to Purchaser a Maintenance Easement over that portion of Seller's retained real estate being part of its Excluded Interests and described as that portion of the real estate transportation corridor underlying the Rail Lines lying outside ten (10) feet but within twenty-five (25) feet to the field side of the centerline of the outermost through track of the Rail Lines for that portion of the real estate transportation corridor lying within the City Limits of any city, incorporated or unincorporated, in the state of Washington, through which the Rail Lines run with the above being more fully described in the Maintenance Easement attached hereto as Exhibit 2A.

Section 3. Purchase Price.

3.1 Consideration for Rail Property. As consideration for the conveyance of the Rail Property and Seller's performance of its other obligations hereunder, Purchaser shall pay to Seller the following:

3.1.1 A Cash Payment of six million four hundred eighty-six thousand and No/100 (\$6,486,000) dollars to be paid pursuant to the following schedule and method for payment:

3.1.1.1 Buyer shall pay at Closing five million five hundred and fifty thousand (\$5,550,000) dollars by state warrant in immediately available funds, less the tax obligation for the sale at Closing.

3.1.1.2 A loan forgiveness (the "Loan Forgiveness") at Closing of Seller's outstanding State of Washington freight rail assistance loans made to Seller to previously repair the Rail Lines in the aggregate amount of nine hundred thirty-six thousand and No/100 (\$936,000) dollars. Specifically, the loan to be forgiven can be identified as follows:

3.1.1.2.1 WSDOT - PCC Loan # RR-00256
Effective Date: September 26, 2000
Outstanding balance: \$936,000

3.1.1.3 The Purchase Price shall be allocated between real, personal and intangible property as set forth in Exhibit 3.

3.1.1.4 All of the above payments and actions by Buyer shall be deemed the Purchase Price.

3.2 Adjustments and Costs. Real property ad valorem taxes, and special assessments, if any, due and owing for any period of time prior to Closing shall be paid by Seller prior to the Closing Date, as hereinafter defined, or as a set off as provided in Section 3.1.1.1 above to the extent not paid, in which case Purchaser shall remit payment for the same after Closing when such taxes become due and owing. Purchaser shall be responsible for paying any and all such taxes, fees or assessments accruing or payable after the Closing Date. To the extent that following Closing, it is determined that any real property ad valorem taxes, and special assessment, if any, accruing for the period prior to the Closing Date were not paid by Seller prior to the Closing Date or were not set off against the purchase price at Closing, Seller shall pay or reimburse Purchaser for the portion thereof, if any, accrued during or based on the time prior to the Closing Date.

3.3 All payments by Purchaser are subject to appropriation by the Washington State Legislature.

Section 4. Closing.

4.1 Date and Place. The closing of the transactions contemplated in this Agreement (the "Closing") shall take place at Washington State Department of Transportation Headquarters Office, located in Olympia, Washington (or at such other location as is mutually agreed upon by the parties) no later than November 5, 2004. Such date of Closing is referred to herein as the "Closing Date".

4.2 Expense. Each party shall bear its own costs and expenses arising out of the closing of the transactions contemplated hereby. However, Purchaser and Seller agree any and all filing or registration fees, assessments, taxes (excluding state or federal income taxes) that

become due and owing as a result of this transaction shall be paid as a set off to the purchase price as provided in Section 3.1.1.1.

4.3 Condition to Closing. It shall be a condition to each party's obligation to close hereunder that the representations and warranties of the other party are true and correct as of the Closing Date and that the Lease Agreement between the Washington State Department of Transportation and Palouse River and Coulee City Railroad, Inc., or their assignee, the Great Northwest Railroad, Inc., for operation of the line be simultaneously effective and executed. Further, it shall be a condition of closing that Purchaser have filed the appropriate filing with the Surface Transportation Board as set forth in Section 7 and that the Surface Transportation Board takes no affirmative action prior to closing to stop Purchaser's acquisition of the Rail Property.

Section 5. Delivery of Documents.

5.1 Documents to be Delivered by Seller. Seller agrees to deliver the following documents, duly executed as appropriate, to Purchaser at the Closing:

5.1.1 The Quitclaim Deeds in the form of Exhibit 1.

5.1.2 The Bill of Sale in the form of Exhibit 2.

5.1.3 Certified copies of corporate resolutions of Seller authorizing it to enter into this Agreement and to consummate the transactions contemplated herein.

5.1.5 An opinion of counsel in the form attached hereto as Exhibit 6, duly executed by counsel for Seller.

5.1.6 A Secretary's and Officer's Certificate in the form attached hereto as Exhibit 7, duly executed by the Seller's secretary or assistant secretary.

5.2 Documents to be Delivered by Purchaser. Purchaser agrees, at the Closing, to deliver the following documents, duly executed as appropriate, in the manner directed by Seller:

5.2.1 Presentation of a state warrant by the Purchaser to the Seller for the amount set for in Section 3.1.1.1.

5.2.2 An opinion of counsel in the form attached hereto as Exhibit 8, duly executed by counsel to Purchaser.

5.2.3 Evidence of a completed forgiveness of the indebtedness evidenced in Section 3.1.1.2.

Section 6. Representations and Warranties.

6.1 Representations, Warranties and Covenants of Seller. Seller hereby represents and warrants to Purchaser, on the date hereof and on the Closing Date, only as follows:

6.1.1 Seller is a corporation duly organized, validly existing and in good standing under the laws of the State of Washington, has all requisite power and authority, corporate and otherwise, to own its properties and assets and to conduct its business as it is now conducted.

6.1.2 Seller has full power and authority to execute and deliver this Agreement and to carry out the transactions contemplated hereby, and all proceedings required to be taken by Seller in connection with this Agreement and the transactions contemplated hereby necessary to make the same effective have been duly and validly taken. This Agreement and all other instruments and agreements executed or to be executed in connection herewith have been or will be duly executed and delivered by Seller and are or will be the legal, valid and binding obligation of Seller and are enforceable in accordance with their respective terms against Seller.

6.1.3 Neither the execution and delivery of this Agreement by Seller, nor compliance by Seller with the terms and provisions of this Agreement will conflict with or result in a breach of (i) any of the terms, conditions or provisions of the Articles of Incorporation, Bylaws or other governing instruments of Seller, (ii) any judgment, order, decree or ruling to which Seller is a party, (iii) any injunction of any court or governmental authority to which Seller is subject, or (iv) any agreement, contract or commitment to which Seller is a party or by which Seller is bound (except for any agreements with regard to third party claims or liens as referenced in Section 5.1.4, which claims or liens are to be released for purposes of Closing).

6.1.4 The Rights-of-Way to be quitclaimed to Purchaser pursuant to this Agreement are as set forth in the Quitclaim Deeds attached hereto as Exhibit 1. It is expressly understood that Seller does not warrant title to the Rights-of-Way, and the Purchaser accepts title to the Rights-of-Way subject to the terms, conditions and provisions hereof and of the Quitclaim Deeds. However, Seller shall obtain appropriate documentation to release any third party claims or liens securing Seller's obligation for repayment of an indebtedness, which are of record and encumber Purchaser's interest in the Rights-of-Way, as a condition to Closing.

6.1.5 There is no pending or threatened litigation (nor, to Seller's knowledge, any claim which may lead to a threat of litigation), proceeding, or investigation (including any environmental, building or safety investigation) relating to any material aspect of Seller's business on the Rights-of-Way, nor is Seller subject to any existing judgment, order or decree which would prevent, impede, or make illegal the consummation of the transactions contemplated in this Agreement.

6.1.6 Except for those contemplated in Section 7.1 of this Agreement, all consents, approvals, qualifications, licenses, orders or authorizations of, or filings with or other action by, any local, state or federal governmental authority required in connection with Seller's valid execution, delivery and performance of this Agreement and the consummation by Seller of any transactions contemplated hereby have been obtained.

6.1.7 To the Seller's knowledge, Seller's operation of the Rail Lines is in compliance with all applicable federal, state and local statutes, laws, rules, regulations, ordinances, orders, judicial or administrative decisions of any governmental authority or court of competent jurisdiction in effect and in each case, if applicable, as amended as of the Closing relating to (a) pollution of the environment, (b) a Release, as defined below, or threatened Release of Hazardous Substance, or (c) the handling, storage, transport or disposal of Hazardous Substance. During the period of Seller's ownership of the Rights-of-Way, to the knowledge of Seller (a) there has been no Release, as defined below, of any Hazardous Substance on the Rights-of-Way, and (b) there have not been, and Seller has not received any notices from any governmental authority of any underground storage tanks on the Rights-of-Way. For purposes of this Agreement, "Release" shall mean, a violation of applicable Environmental Laws, by depositing, discharging, injecting, spilling, leaking, leaching, dumping, emitting, escaping, emptying, seeping or placing and other similar like actions into or upon any land, water or air, or otherwise entering into the environment, but excluding *de minimus* deposits, discharges, injection, spills, leaks, leaching, emitting, escaping, seeping or placement and other similar like actions that result from the normal daily operations of a rail business, such non-compliance that has not and would not reasonably be expected to have, individually or in the aggregate, a material adverse effect, and matters that have been previously remedied according to applicable law, if any. Seller has disclosed to Purchaser all reports and other documents in its possession concerning environmental matters relating to the Rights-of-Way.

6.1.8 There are no claims for brokerage commissions, finders' fees or similar compensation in connection with transactions contemplated hereby based on any arrangement or agreement made by or on behalf of Seller.

6.1.9 No representation in this Section contains any untrue statement of a material fact or omits to state any material fact the omission of which would be misleading.

6.1.10 Seller has good title to each item of the personal property to be sold to Seller pursuant to the Bill of Sale, and has the right to use and to sell to Buyer each item of personal property to be sold pursuant to the Bill of Sale, free and clear of all liens, claims or encumbrances of any kind, character or nature whatsoever. Seller shall not cause, to the date of Closing, any liens, claims or encumbrances to be filed against the Rail Property.

6.2 Representations, Warranties and Covenants of Purchaser. Purchaser hereby represents and warrants to Seller, on the date hereof and on the Closing Date, only as follows:

6.2.1 Purchaser is a governmental entity duly organized, validly existing and in good standing under the laws of the state of Washington, has all requisite power and authority, corporate and otherwise, to own its properties and assets and to conduct its business, including the ownership of Rail Property.

6.2.2 Purchaser has full power and authority to execute and deliver this Agreement and to carry out the transactions contemplated hereby, and all proceedings

required to be taken by Purchaser in connection with this Agreement and the transactions contemplated hereby necessary to make the same effective have been duly and validly taken. This Agreement and all other instruments and agreements executed or to be executed in connection herewith have been or will be duly executed and delivered by Purchaser and are or will be the legal, valid and binding obligation of Purchaser and are enforceable in accordance with their respective terms against Purchaser.

6.2.3 Neither the execution and delivery of this Agreement by Purchaser, nor compliance by Purchaser with the terms and provisions of this Agreement will conflict with or result in a breach of (i) any of the terms, conditions or provisions of any governing instrument of Purchaser, (ii) any judgment, order, decree or ruling to which Purchaser is a party, (iii) any injunction of any court or governmental authority to which Purchaser is subject, or (iv) any agreement, contract or commitment to which Purchaser is a party or by which Purchaser is bound.

6.2.4 Purchaser expressly acknowledges that Seller does not warrant title to the Rights-of-Way, and that Purchaser accepts title to the Rights-of-Way subject to the terms, conditions and provisions hereof and of the Quitclaim Deeds and accepts the property AS IS, WHERE IS, and WITH ALL FAULTS, except as otherwise provided herein regarding environmental indemnification contained in Section 8.1.

6.2.5 There is no pending or threatened litigation (nor, to Purchaser's knowledge, any claim which may lead to a threat of litigation), proceeding, or investigation (including any environmental, building or safety investigation) which would have a material adverse effect on Purchaser's performance hereunder or the consummation of the transactions contemplated hereby, nor is Purchaser subject to any existing judgment, order or decree which would prevent, impede, or make illegal the consummation of the transactions contemplated in this Agreement.

6.2.6 There are no claims for brokerage commissions, finders' fees or similar compensation in connection with transactions contemplated hereby based on any arrangement or agreement made by or on behalf of Purchaser.

6.2.7 No representation in this Section contains any untrue statement of a material fact or omits to state any material fact the omission of which would be misleading.

Section 7. Regulatory Matters.

7.1 Authority. Purchaser shall, at Purchaser's sole expense, acquire any necessary authority or exemption from the Surface Transportation Board ("STB") to complete the transactions herein contemplated or obtain a ruling from the STB that the acquisition of the Rail Property is not subject to the jurisdiction of the STB. Seller shall reasonably cooperate with Purchaser in connection with any hearings or submittals required in connection herewith. Prior to any Purchaser filing with the STB with regard to this transaction, Purchaser shall provide a copy of such proposed filing to Seller for Seller's review before submittal to the STB. Prior to any Seller filing with the STB with regard to this transaction, Seller shall provide a copy of such

proposed filing to Purchaser for Purchaser's review. Seller retains the right to transfer the Freight Easement over the Rights-of-Way to GRNW. If Seller elects to transfer the Freight Easement to GRNW, Seller shall, at Seller's sole expense, acquire any necessary authority or exemption from the STB to transfer the Freight Easement to GRNW, or obtain a ruling from the STB that such transfer is not subject to the jurisdiction of the STB. Purchaser shall reasonably cooperate with Seller and GRNW in connection with any hearings or submittals required in connection with the transfer of the Freight Easement from Seller to GRNW.

Section 8. Liability.

8.1 Seller Indemnity. Subject to the terms and provisions of the Lease Agreement, Seller assumes the risk of and agrees to indemnify and hold Purchaser harmless, and to defend Purchaser against and from any claims, costs, liabilities, expenses (including without limitation court costs and attorney fees), or demands of whatsoever nature or source arising or resulting from (i) any contamination or Environmental Claims, latent or obvious, discovered or undiscovered, in the Real Property, (ii) any personal injury to or death of persons whomsoever (including without limitation employees, agents or contractors of Seller, Purchaser or any third party) or (iii) any property damage or destruction of whatsoever nature (including without limitation property of Seller or Purchaser, or property in its or their care, custody or control, and third party property) where such contamination, Environmental Claims, injury death or damage arise out of acts, omissions or events occurring before Closing but solely to the extent caused by the intentional or negligent acts of Seller. If Seller's indemnification of Purchaser for such contamination or Environmental Claims becomes effective, Seller has the right to assume sole control of and/or implement any order, demand, plan or request, or defend against any cause of action of whatever nature using legal and technical counsel of its choosing.

Section 9. Termination.

9.1 Termination for Convenience. This Agreement may be terminated for withdrawal of authority or failure of appropriation by written notice to the other party.

9.2 Termination of the Agreement. This Agreement may be terminated and the Closing contemplated herein may be abandoned at any time prior to the Closing (a) by either party upon written notice to the other if the Closing shall not have occurred for any reason (including, but not limited to, the failure of any condition precedent to be satisfied) no later than November 5, 2004; (b) by either party upon written notice to the other if permitted by this Agreement; (c) by either party upon written notice to the other if any court of competent jurisdiction or any other governmental body shall have issued an order, judgment or decree (including, but not limited to, a temporary restraining order) restraining, enjoining or otherwise prohibiting the consummation of the transactions contemplated hereby on the terms set forth herein and the parties hereto shall have failed to have such order, judgment or decree vacated no later than November 5, 2004; or (d) by either party (the "Non-Defaulting Party") upon written notice to the other party (the "Defaulting Party") in the event that (i) any of the representations or warranties of the Defaulting Party contained in this Agreement were inaccurate or misleading in any material respect on the date given or (ii) the Defaulting Party has failed to perform any material obligation to be performed by it or to satisfy any material condition to be satisfied by it pursuant to terms of, and as of the date required by, this Agreement.

9.3 Effect of Termination. In the event of the termination of this Agreement by either the Seller or the Purchaser as provided above, (i) the provisions of this Agreement shall immediately become void and of no further force and effect (other than Sections 4.2, 9.2 and 10 in its entirety, which shall survive the termination of this Agreement), and (ii) there shall be no liability on the part of the Purchaser or the Seller to one another, except in the case of any knowing or willful breaches of this Agreement prior to the time of such termination. No action shall lie for punitive, contingent or consequential damages or for lost profits.

Section 10. Miscellaneous Provisions.

10.1 Acknowledgment of Purchaser. Purchaser has conducted to its satisfaction an independent investigation and verification of the Rail Property, its assets, properties and prospects. In making its determination to proceed with the transactions contemplated by this Agreement, Purchaser has relied on the results of its own independent investigation and verification, and the representations and warranties of Seller expressly and specifically set forth in this Agreement, including the Exhibits attached hereto. **SUCH REPRESENTATIONS AND WARRANTIES BY SELLER CONSTITUTE THE SOLE AND EXCLUSIVE REPRESENTATIONS AND WARRANTIES OF SELLER TO PURCHASER IN CONNECTION WITH THE TRANSACTIONS CONTEMPLATED HEREBY, AND THE PURCHASER UNDERSTANDS, ACKNOWLEDGES AND AGREES THAT ALL OTHER REPRESENTATIONS AND WARRANTIES OF ANY KIND OR NATURE EXPRESSED OR IMPLIED ARE SPECIFICALLY DISCLAIMED BY SELLER INCLUDING, BUT NOT LIMITED TO (i) ANY AND ALL REPRESENTATIONS AND WARRANTIES MADE BY THE SELLER, ITS PARENT, ITS SUBSIDIARIES AND ITS AFFILIATES AND THEIR RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES REPRESENTATIVES AND AGENTS; AND (ii) ANY AND ALL REPRESENTATIONS AND WARRANTIES RELATING TO THE FUTURE OR HISTORICAL FINANCIAL CONDITION, RESULTS AND OPERATIONS, ASSETS OR LIABILITIES OF THE RAIL PROPERTY OR SELLER. WITHOUT LIMITING THE GENERALITY OF THE PRECEDING SENTENCE, AND EXCEPT AS EXPRESSLY PROVIDED OTHERWISE IN THIS AGREEMENT, SELLER DISCLAIMS ANY REPRESENTATION AND WARRANTY, EXPRESS OR IMPLIED, INCLUDING WITHOUT LIMITATION, THE IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, WITH RESPECT TO THE RAIL PROPERTY AND AVER THAT SUCH RAIL PROPERTY IS BEING SOLD "AS IS, WHERE IS," WITH THE EXCEPTION OF THE PROVISIONS CONTAINED HEREIN FOR ENVIRONMENTAL DAMAGE, CONTAMINATION, EXISTENCE OF HAZARDOUS SUBSTANCES OR ANY OTHER VIOLATION OF ENVIRONMENTAL LAWS.**

10.2 Entire Agreement. This Agreement and the related agreements and exhibits referred to herein, constitute the entire agreement between the parties and shall supersede all prior agreements and understandings, oral or written, between the parties hereto concerning the subject matter of this Agreement.

10.3 Amendment and Waiver. No modification, addition or amendments to this Agreement or any of the attached Exhibits, shall be effective unless and until such modification, addition or amendment is in writing and signed by the parties. Any waiver shall be limited to the circumstance or event specifically referenced in the written waiver document and shall not be deemed a waiver of any other term hereof or of the same circumstance or event upon any recurrence thereof.

10.4 Assignment. This Agreement shall be binding upon and inure to the benefit of the successors and assigns of each party. Purchaser may not assign, pledge, encumber or transfer this Agreement, or any interest herein, without the prior written consent of Seller.

10.5 Governing Law. This Agreement shall be governed and construed in accordance with the laws of the State of Washington and any applicable federal laws. Venue of any action hereunder shall be in Thurston County Superior Court, Washington.

10.6 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which together shall be deemed to be one and the same instrument.

10.7 Survival of Representations and Warranties. All representations and warranties made in this Agreement shall survive Closing. All covenants of the parties shall survive Closing to the extent such covenants are not fully satisfied and discharged by Closing.

10.8 Notices. All notices, demands, requests or other communications which may be or are required to be given, served or sent by either party to the other pursuant to this Agreement shall be in writing and shall be deemed to have been properly given or sent:

10.8.1 If intended for Seller, by mailing by registered or certified mail, return receipt requested, with postage prepaid, or by reputable overnight courier, addressed to Seller at:

Palouse River & Coulee City Railroad, Inc.
315 West 3rd Street
Pittsburg, Kansas 66762
Attn: EVP—Strategic Business Developments

With copy to:

Palouse River & Coulee City Railroad, Inc.
315 West 3rd Street
Pittsburg, Kansas 66762
Attn: General Counsel

10.8.2 If intended for Purchaser, by mailing by registered or certified mail, return receipt requested, with postage prepaid, or by reputable overnight courier, addressed to Purchaser at:

Washington State Department of Transportation
Director, Public Transportation and Rail Division
PO Box 47387
Olympia, WA 98504-7387
Ph. (360) 705-7921

10.8.3 Each notice, demand, request or communication which shall be mailed by registered or certified mail to either party in the manner aforesaid shall be deemed sufficiently given, served or sent for all purposes at the time such notice, demand, request or communication shall be either received by the addressee or refused by the addressee upon presentation. Either party may change the name of the recipient of any notice, or his or her address, at any time by complying with the foregoing procedure.

10.9 Severability. If any term or provision of this Agreement is illegal, invalid or unenforceable under present or future laws, then in that event, it is the intention of the parties hereto that the remainder of the Agreement shall not be affected thereby and shall be valid and shall be enforced to the fullest extent permitted by law.

10.10 Headings. Headings are for convenience only and shall not affect any construction or interpretation of this Agreement.

10.11 Parties Are Not Partners Or Joint Venturers. The parties specifically agree that their participation in this Agreement is as Purchaser and Seller of property, and not as partners or joint venturers.

10.12 Arbitration

10.12.1 Any disputes relative to obligations, remedies, or performance of this Agreement shall be resolved by neutral binding arbitration under the rules and regulations (but not the administration unless otherwise agreed) of the American Arbitration Association ("AAA").

10.12.2 Subject to written agreement to the contrary, arbitration shall be held in accordance with the Commercial Rules of the AAA in effect at the time of the arbitration; provided however, that to the extent that the AAA Rules are inconsistent with the terms of this Lease Agreement or other terms of this Lease Agreement are more specific than the AAA Rules, the terms of this Lease Agreement will govern. Unless otherwise agreed in writing, discovery and motion practice shall be permitted, and the Federal Rules Civil Procedures and Federal Rules of Evidence shall govern all such motion practice and discovery, the exchange of exhibits, witness lists and workpapers, and the presentation of evidence by expert witnesses.

10.12.3 The question or controversy shall be submitted for arbitration to a single competent, disinterested arbitrator, if the parties are able to agree upon such single arbitrator within 30 days after the party requesting arbitration notifies the other party of such request. If a single arbitrator cannot be agreed upon within such 30-day period, a board of three arbitrators shall be used. The party initiating the arbitration shall state in writing the question(s) to be submitted for decision and nominate a person to act as its

party-appointed arbitrator. The receiving party shall appoint its party-appointed arbitrator within 30 days of receipt of such notice and also provide any notice of claims or defenses it wishes to have adjudicated. Thereafter, the first and second arbitrators shall select a third arbitrator, but if the arbitrators shall be unable to agree upon such a third arbitrator within a period of 30 days from the day of appointment of the second arbitrator, the third arbitrator shall be appointed by the AAA or other neutral entity or process if mutually agreed upon in writing.

10.12.4 Upon selection of the board or appointment of the single arbitrator shall proceed with diligence to inquire into the questions or controversies. A hearing shall be held within 180 days of appointment of the board or single arbitrator, and the arbitrator or board shall state its decision and award, in writing, within 30 days of the final submission by the parties, which decision and award, when delivered to both parties, shall be final and binding. Judgment may be entered upon such decision and award in any court of competent jurisdiction.

10.12.5 Each party shall bear its own expenses incurred in connection with arbitration under this Section, including any expenses associated with its appointed arbitrator in the case of arbitration before a three-member panel. The parties shall share equally the expenses associated with the services of the single, disinterested arbitrator in the case of a one-member panel and/or the third neutral member of the three-member panel, as the case may be.

10.13 Consequential Damages

UNDER NO CIRCUMSTANCES SHALL SELLER OR BUYER HAVE ANY LIABILITY TO THE OTHER PARTY, THEIR EMPLOYEES, AGENTS AND REPRESENTATIVES, FOR ANY CONSEQUENTIAL, INCIDENTAL, OR OTHER INDIRECT LOSS OR DAMAGES, PUNITIVE, OR EXEMPLARY DAMAGES OR COSTS HOWSOEVER CAUSED.

10.14 Attorney's Fees.

Should it become necessary for Seller or Buyer to engage in arbitration or other legal proceedings as may be necessary for the purpose of enforcing this Agreement or otherwise, each party, except as otherwise specifically provided for in this Agreement, shall be responsible for its own costs, attorneys' fees and any other reasonable expenses incurred in connection with those legal proceedings

10.15 Right of First Refusal.

As additional consideration to Seller for the sale of the Rail Property to Purchaser, Purchaser hereby grants to Seller a right of first refusal to purchase the Rail Property. Purchaser shall not sell, assign or otherwise transfer its interest in the Rail Property without first giving written notice to Seller of Purchaser's intention to sell or assign its interest and the consideration that has been offered. The Seller shall have ninety (90) days following its actual receipt of the written notice to exercise its right of first refusal to purchase the Rail Property on the same terms and for the same consideration as set forth in the written notice from Purchaser. If Seller does not elect to

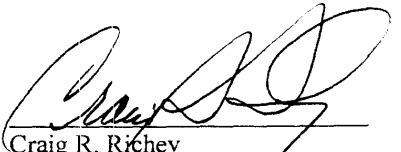
purchase the Rail Property from Purchaser, Purchaser may sell or assign its interest to the third party identified in the written notice, provided that such sale is completed on the same terms and for the consideration as stated in the written notice to Seller.

Section 11. Counterparts.

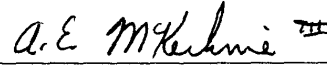
This Purchase and Sale Agreement may be executed in several counterparts, each of which shall be deemed to be an original having identical legal effect.

IN WITNESS WHEREOF, the parties hereto cause this Agreement to be executed in multiple originals as of the date first herein written.

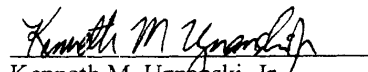
Attest:


Craig R. Richey
General Counsel and Asst. Secretary
Date: 10-29-04

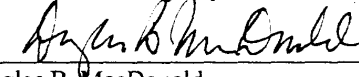
PALOUSE RIVER & COULEE CITY RAILROAD, INC.


Arthur E. McKechnie, III
Executive Vice President and Asst. Secretary
Date: 10/29/04

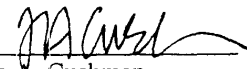
Attest:


Kenneth M. Uzarski, Jr.
Manager, Rail Office
Date: October 29, 2004

WASHINGTON STATE DEPARTMENT OF
TRANSPORTATION an agency of the state of Washington


Douglas B. MacDonald
Secretary of Transportation
Date: 10/29/04

APPROVED AS TO FORM
Christine O. Gregoire
Attorney General
This 29th Day of October, 2004

By: 
Jeanne A. Cushman
Assistant Attorney General

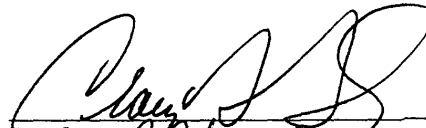
NOTICE OF ASSIGNMENT

Date: November 5, 2004

To: Washington State Department of Transportation
Director, Public Transportation and Rail Division
PO Box 47387
Olympia, WA 98504-7387

Please be advised that by Assignment dated November 5, 2004, as Seller of the subject Property, Palouse River and Coulee City Railroad, Inc. ("Palouse") has assigned and transferred to Bank of Oklahoma, Tulsa, Oklahoma, as a Qualified Intermediary under IRC Section 1031 and applicable Regulations, all of our right, title and interest in and to the Purchase and Sale Agreement dated October 29, 2004, between Palouse as Seller and you as Purchaser. A copy of said Assignment is attached for your records.

Palouse River and Coulee City Railroad, Inc.



By: *Craig R. Richman, Asst. Sec. & General Counsel*

EXHIBIT 1

Washington

AFTER RECORDING RETURN TO:

Name:

Ken Uznanski, Manager, Rail Office

Address:

Washington State Department of Transportation
Attn: Rail Office
PO Box 47387
Olympia, WA 98504-7316

QUITCLAIM DEED

PALOUSE RIVER AND COULEE CITY RAILROAD, INC., a Washington corporation, and as successor in interest to BLUE MOUNTAIN RAILROAD, INC., Grantor, in consideration of the sum of Ten Dollars (\$10.00), and other valuable consideration to it duly paid, the receipt whereof is hereby acknowledged, hereby conveys and quitclaims to STATE OF WASHINGTON, DEPARTMENT OF TRANSPORTATION, an agency of the state of Washington, Grantee, whose address is PO Box 47387, Olympia, WA 98504-7316, and unto its successors and assigns forever, that portion of Grantor's right, title, interest, estate, claim and demand, both at law and in equity, of, in, and to the rail lines, real estate and right of way (hereinafter the "Property") of Grantor's lying: (i) the Hooper Jct.-Winona line located between Milepost 26.6, at Hooper Junction, and Milepost 52.3, at Winona; (ii) the Thornton-Winona line located between Milepost 0.0, at Winona, and Milepost 31.7, at Thornton; (iii) the Winona-Endicott line located between Milepost 52.3 at Winona, and Milepost 57.9, at Endicott; (iv) the Endicott-Colfax line located between Milepost 57.9, at Endicott, and Milepost 77.7, at Colfax; (v) the Colfax-Moscow line located (a) between Milepost 0.0, at Colfax, and Milepost 18.7, at Pullman, and (b) between Milepost 75.9, at Pullman, and Milepost 84.05, at the Washington-Idaho State Line; (vi) the WIM line located between Milepost 0.0, at Palouse, and Milepost 3.85, at the Washington-Idaho State Line; and (vii) the P&L line located between Milepost 1.0, at Marshall, and Milepost 75.9, at Pullman, all lying within the state of Washington and as more particularly described in **Exhibit 1**, hereto attached and hereby made apart hereof (hereinafter the "Rail Property").

SUBJECT, however, to all existing interests, including but not limited to all reservations, rights-of-way, easements and other encumbrances, of record or otherwise.

EXCEPTING AND RESERVING the retained interests, if any, of Seller's predecessors in title, as specified in more detail in their Quitclaim Deeds to Seller, including but not limited to those interests reserved unto Seller's predecessors in interest, their successor, licensee and assigns, as follows: (i) any easements in, under and across all of the Rail Property for the purpose of installing, constructing, maintaining, repairing, operating and/or relocating any new or existing communication or fiber optic facilities, as well as signal equipment necessary for a predecessors mainline signal operations, together with the right of ingress and egress thereto; (ii) any mineral rights of every kind and character now known to exist or hereafter discovered in and underlying the Rail Property, including oil and gas rights thereto, together with the sole, exclusive and perpetual right to explore for, remove and dispose of, said minerals by any means or methods suitable to such predecessor in interest, its successors and assigns, but without entering upon or using the surface of the Rail Property, and in such manner as not to damage the Rail Property or to interfere with the use thereof as a railroad; (iii) any coal, oil, gas, casing-head gas and all ores and minerals of every kind and nature, including sand and gravel underlying the surface of the Rail Property, together with the full right, privilege and license at any and all times to explore, or drill for and to protect, conserve, mine, take, remove and market any and all such products in any manner which will not damage structures on the surface of the Rail Property, together with the right of access at all times to exercise these rights; (iv) all water rights, and the exclusive right to develop and take water by any means, and to all appropriations, priorities, permits and certificates which are appurtenant to, associated with, used upon, flowing over, under, or lying on, in or under the Rail Property, and an exclusive, permanent easement to construct, install, operate, replace, rework, reconstruct, rehabilitate and maintain any and all water diversion, production and transportation structures, equipment, improvements and piping and to construct, install, operate and maintain water pumps and hydroelectric generation equipment necessary, convenient or related to the production, transportation or delivery of water from, on, under or across the Rail Property, together with the right of access at all times to exercise these rights, provided that all activities in the exercise of these rights shall be performed in a manner which will not damage structures on the surface of the Rail Property; (v) exclusive and/or non-exclusive, permanent easements for construction, reconstruction, maintenance, use and/or operation of one or more pipelines or fiber optic communication lines, together with related facilities and appurtenances in, under, across, along and through all or any portion of the Rail Property, including the right to enter and disturb the surface, and occupy the Rail Property for purposes of constructing, reconstructing, maintaining, using and/or operating one or more pipelines or fiber optics communication lines, facilities and appurtenances in, under, across, along and through all or any portion of the Rail Property, provided that notice in advance of any such entry must be given, and such entry and occupancy shall be done in a manner which does not materially interfere with the use and occupancy of the Rail Property; and (vi) air rights over that portion of the Rail Property, if any, at or near Fairchild, Washington, for the purpose of operating, maintaining and, as necessary, reconstructing main line railroad and any related facilities or structures over the Rail Property at or near this location.

TOGETHER with all and singular the hereditaments and appurtenances thereunto belonging; TO HAVE AND TO HOLD, subject to the aforesaid provisions, the Property unto the said Grantee and unto its successors and assigns.

IN WITNESS WHEREOF, THE GRANTOR has caused this deed to be duly
executed as of the 5th day of November, 2004.

Attest:

PALOUSE RIVER AND COULEE
CITY RAILROAD, INC.

Asst. Secretary 

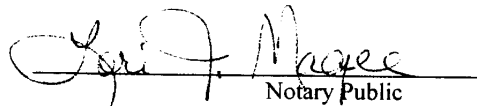
By: A.E. McArthur III
Name: A.E. McArthur III
Title: EV

ACKNOWLEDGMENT

STATE OF Kansas)
COUNTY OF Crawford) ss.

On this 5th day of November, 2004, before me, a Notary Public in and for said County and State, personally appeared A.E. McArthur III and Chris R. Richey who are the EV, and the Asst. Secretary, respectively, of PALOUSE RIVER AND COULEE CITY RAILROAD, INC., a Washington corporation, and who are personally known to me (or proved to me, on the basis of satisfactory evidence) to be the persons whose names are subscribed to in the within instrument, and acknowledged to me that they executed the same in their authorized capacities, and that by their signatures on the instrument the persons, or the entity upon behalf of which the persons acted, executed the instrument.

WITNESS my hand and official seal.


Notary Public

(Seal)

expires 3-10-08

Except as otherwise provided in the Purchase and Sale Agreement entered into by and between the parties and dated October 29, 2004 and specifically excluding Grantor's retained right to the rail freight easement over and on the Rail Property, all right, title, and interest in and to that portion of the right of way, trackage and appurtenances of the Palouse River and Coulee City Railroad, as now constructed and operated, as described in that certain Deed dated November 20, 1992, recorded October 31, 1996 under Auditor's File No. 422403 (Micro Film No. 589331), records of Whitman County, Washington, recorded November 4, 1996 under Auditor's File No. 243602, records of Adams County, Washington; and that certain Deed dated September 3, 1996, recorded September 11, 1996 under Auditor's File No. 4034511, records of Spokane County, Washington, recorded September 13, 1996 under Micro Film No. 588280, records of Whitman County, Washington; and more particularly described as follows:

UNION PACIFIC RAILROAD COMPANY

Hooper Jct. to Winona

Adams County

Township 15 North, Range 37 East, WM
Sections 27, 34

EXCEPT that portion in Section 34 (Hooper Junction) – from the west line of the Northwest quarter of Section 34 to the north line of the Northwest quarter of Section 34, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exception for the purpose of maintenance and operation of said rail corridor.

Whitman County:

Township 15 North, Range 37 East, WM
Sections 24, 25, 26, 27

EXCEPT that portion in Section 26 (Hooper) – from the west line of said Section 26 to the east line of said Section 26, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exception for the purpose of maintenance and operation of said rail corridor.

Township 15 North, Range 38 East, WM
Sections 19, 20, 21, 22, 23, 24, 25, 26, 27

Township 15 North, Range 39 East, WM
Sections 2, 3, 9, 10, 11, 16, 17, 19, 20

EXCEPT that portion in Section 2 (La Crosse) – from the West line of Section 2 to the North line of Section 2, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

EXCEPT that portion in Section 3 (La Crosse) – from the South line of Section 3 to the East line of Section 3, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

EXCEPT that portion in Sections 10 (La Crosse) – from the west line of Section 10 to the North line of Section 10, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

EXCEPT that portion in Section 20 (Pampa) – from the west line of said Section 20 to the north line of said Section 20, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exceptions for the purpose of maintenance and operation of said rail corridor.

Township 16 North, Range 39 East, WM
Sections 1, 12, 13, 24, 25, 35, 36

Township 16 North, Range 40 East, WM
Section 6

EXCEPT that portion in Section 6 (Sutton) – from the west line of Section 6 to the north line of Section 6, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exception for the purpose of maintenance and operation of said rail corridor.

Township 17 North, Range 39 East, WM
Sections 25, 36

Township 17 North, Range 40 East, WM
Sections 20, 29, 30

Thornton to Winona

Whitman County:

Township 19 North, Range 43 East, WM
Sections 19, 20, 21, 28

That portion of the West half of section 27, Township 19 North, Range 43 East, WM, that lies between the West line of said West half and a straight line drawn at right angles to a point in the centerline of main track of said rail line that is 2133 feet, more or less, distant East, measured along said centerline, from the said West line.

EXCEPT that portion in Section 21 (Thornton) – from Station 1791+42 to the south line of Section 21, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

EXCEPT that portion in Section 28 (Thornton) – from the north line of Section 28 to Station 1817+18, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exceptions for the purpose of maintenance and operation of said rail corridor.

Township 19 North, Range 42 East, WM
Sections 23, 24, 26, 27, 28, 29, 30, 31

EXCEPT that portion in Section 26 (Sunset) – from Station 1328+39 to Station 1346+27.5, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

EXCEPT that portion in Section 30 (Juno) – from the South line of the Northeast quarter of the Northwest quarter, northeasterly and southeasterly to the South line of the Northwest quarter of the Northeast quarter, on the North side only, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

EXCEPT that portion in Section 31 (St. John) – from the south line of the Southwest quarter of the Southwest quarter of Section 31, northwesterly to the west line of the Southwest quarter of the Southwest quarter of Section 31, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exceptions for the purpose of maintenance and operation of said rail corridor.

Township 19 North, Range 41 East, WM
Sections 25, 36

EXCEPT that portion in Section 36 (St. John) – from Station 974+20.3 to the south line of Section 36, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exception for the purpose of maintenance and operation of said rail corridor.

Township 18 North, Range 42 East, WM
Sections 6

EXCEPT that portion in Section 6 (St. John) – from the West line of the Northwest quarter of the Northwest quarter of Section 6, southeasterly and southwesterly to the West line of the Southwest quarter of the Northwest quarter of Section, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exception for the purpose of maintenance and operation of said rail corridor.

Township 18 North, Range 41 East, WM
Sections 1, 2, 10, 11, 15, 16, 20, 21, 29, 31, 32

EXCEPT that portion in Section 1 (St. John) – from the North line of the Northeast quarter of the Northeast quarter of Section 1 to the East line of the Northeast quarter of the Northeast quarter of Section 1, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

EXCEPT that portion in Section 1 (St. John) – from the East line of the Southeast quarter of the Northeast quarter of Section 1 to the West line of the Southwest quarter of the Northeast quarter of Section 1, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

EXCEPT that portion in Section 29 (Willada) – from the north line of Section 29 to Station 592+56.7, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exceptions for the purpose of maintenance and operation of said rail corridor.

Township 18 North, Range 40 East, WM
Sections 35, 36

Township 17 North, Range 40 East, WM

Sections 2, 3, 4, 5, 8, 17, 20

EXCEPT that portion in Section 20 (Winona) – from the North line of the south half of Section 20 to the South line of Section 20, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exception for the purpose of maintenance and operation of said rail corridor.

Winona to Endicott

Whitman County:

Township 17 North, Range 40 East, WM

Sections 21, 22, 25, 26, 27, 28, 29

EXCEPT that portion in Section 29 (Winona) – from Station 1861+35 to Station 1871+80, on the Southerly side only, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exception for the purpose of maintenance and operation of said rail corridor.

Township 17 North, Range 41 East, WM

Sections 30, 31

EXCEPT that portion in Section 31 (Endicott) – from the south line of 2nd Street in Endicott, to the north line of 5th Street in Endicott, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exception for the purpose of maintenance and operation of said rail corridor.

Endicott to Colfax

Whitman County:

Township 17 North, Range 41 East, WM
Sections 25, 26, 31, 32, 33, 34, 35

Township 17 North, Range 42 East, WM
Sections 29, 30, 32, 33, 34

EXCEPT that portion in Section 29 (Thera) – from the West line of Section 29 to Station 2542+68.5 to, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.
EXCEPT that portion in Sections 30 (Thera) – from Station 2531+16.4 to the East line of Section 30, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.
EXCEPT that portion in Section 34 (Diamond) – from Station 2711+77 to Station 2741+10 as it passes through the Southeast quarter of the Southeast quarter of said Section 34, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exceptions for the purpose of maintenance and operation of said rail corridor.

Township 16 North, Range 42 East, WM
Sections 1, 2, 3

EXCEPT that portion in Section 2 (Diamond) – from Station 2711+77 to Station 2741+10, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exception for the purpose of maintenance and operation of said rail corridor.

Township 16 North, Range 43 East, WM
Sections 6, 7, 9, 10, 11, 14, 15, 16, 17, 18, 20

EXCEPT portions in Sections 11 & 14 (Colfax) – bounded on the west by the west line of Section 11; bounded on the south by the south line of North Street; and bounded on the northeast by a straight line drawn at right angles to a point in the centerline of the main track that is 1340 feet, more or less, distant north, measured along said centerline, from the south line of the SW ¼ of the NE ¼ of Section 11; lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

EXCEPT that portion in Section 18 (Mockonema) – from the north line of the southeast quarter of Section 18 to the east line of the said southeast quarter of Section 18, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exceptions for the purpose of maintenance and operation of said rail corridor.

Colfax to Moscow Line

Whitman County:

Colfax to Pullman:

Township 16 North, Range 43 East, WM
Sections 13, 14, 24

Township 16 North, Range 44 East, WM
Sections 17, 19, 20, 28, 29, 33

EXCEPT that portion in Section 28 (Parvin) – from Station 613+39 southeasterly to Station 631, on the northeasterly side only, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

EXCEPT that portion in Section 33 (Shawnee) – from Station 715+10.7 to the south line of Section 33, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exceptions for the purpose of maintenance and operation of said rail corridor.

Township 15 North, Range 44 East, WM
Sections 3, 4, 10, 15, 22, 23, 25, 26, 36

EXCEPT that portion in Section 4 (Shawnee) – from the north line of Section 4 to Station 736+10, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

EXCEPT that portion in Section 15 (Albion) – from the west line of the northeast quarter in Section 15 to the south line of said northeast quarter in Section 15, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exceptions for the purpose of maintenance and operation of said rail corridor.

Township 15 North, Range 45 East, WM
Section 31

Township 14 North, Range 45 East, WM
Sections 5, 6

EXCEPT that portion of Section 5 lying within the Bill Chipman Trail as conveyed to Whitman County.

EXCEPT that portion in Sections 5 & 6 (Pullman) [former UPRR] – from Station 985+89.8 in Government Lot 2 in Section 6 southeasterly to Station 1060+65.6 in the southeast quarter of the southeast quarter of Section 5, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exception for the purpose of maintenance and operation of said rail corridor.

Washington, Idaho and Montana Railway Company (WIM)

Palouse to State Line

Whitman County:

Township 16 North, Range 45 East, WM
Section 1

EXCEPT that portion in Section 1 (Palouse) – from the South line of Whitman Street in Government Lot 11 to the East line of said Section 1, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

Township 16 North, Range 46 East, WM
Sections 5, 6

EXCEPT that portion in Section 6 (Palouse) – from the West line of Section 6 to the East line of Government Lot 3 in Section 6, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exception for the purpose of maintenance and operation of said rail corridor.

Burlington Northern Railroad

Marshall to Pullman

Spokane County:

Township 24 North, Range 42 East, WM
Sections 22, 27, 34

Township 23 North, Range 42 East, WM
Sections 2, 3, 11, 12, 13

Township 23 North, Range 43 East, WM
Sections 18, 19, 20, 28, 29, 33

EXCEPT that portion in Section 33 (Spangle) – Station 590+37 to the south line of said Section 33, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exception for the purpose of maintenance and operation of said rail corridor.

Township 22 North, Range 43 East, WM
Sections 4, 9, 16, 21, 27, 28, 34

EXCEPT that portion of Section 4 (Spangle) – from the north line of Section 4 to Station 607+03, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document..

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exception for the purpose of maintenance and operation of said rail corridor.

Township 21 North, Range 43 East, WM
Sections 3, 4, 9, 16, 21, 22, 27, 34

Whitman County:

Township 20 North, Range 43 East, WM
Sections 2, 10, 11, 14, 15, 23, 25, 26, 36

Also,

That portion of the Northeast quarter of Section 15, described as follows:

Beginning at the most Easterly corner of Lot 18, Block 10 of the Original Town of Rosalia, Washington; thence Southeasterly along the Southeasterly extension of the Northerly line of said Lot 18 a distance of 275.0 feet to a point being 25.0 feet Northwesterly, as measured at right angles from said Main Track centerline; thence Northeasterly parallel with said Main Track centerline to the intersection with a line drawn at right angles to said Main Track centerline at a point distant 1,042.0 feet Southwesterly of the North line of said Section 15, as measured along said Main Track centerline; thence Southeasterly at right angles to said Main Track centerline 75.0 feet; thence Southwesterly along a line drawn parallel with and distant 50.0 feet Southeasterly, as measured at right angles from said Main Track centerline 960 feet, more or less, to the Westerly extension of the Southerly line of Sixth Street 360 feet, more or less, to the most Southerly corner of Lot 1, Block 10 of the Original Town of Rosalia; thence Northeasterly along the Easterly line of said Block 10 a distance of 900.0 feet to the Point of Beginning. EXCEPT that portion bounded as follows; on the South by North line of Fifth Street; on the East by a line ten feet westerly of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document; on the North by the North line of Lot 18 Block 10 of the Original Town of Rosalia extended Easterly; on the West by the East line of Block 10 of the Original Town of Rosalia.

Township 20 North, Range 44 East, WM
Sections 31, 32

EXCEPT that portion in Section 31 (McCoy) – from Station 1680 to Station 1695, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exception for the purpose of maintenance and operation of said rail corridor.

Township 19 North, Range 44 East, WM
Sections 5, 8, 9, 15, 16, 22, 23, 24, 25, 26

EXCEPT that portion in Section 22 (Oakesdale) – from Station 1970 to the East line of Section 22, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

EXCEPT that portion in Section 23 (Oakesdale) – from the West line of Section 23 to Station 2005, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exceptions for the purpose of maintenance and operation of said rail corridor.

Township 19 North, Range 45 East, WM
Sections 30, 31, 32

Township 18 North, Range 45 East, WM
Sections 5, 8, 9, 17, 20, 28, 29, 33

EXCEPT that portion in Section 5 (Belmont) – from the north line of Section 5 southeasterly to Station 2277+63, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

EXCEPT that portion in Section 20 (Eden) – from Station 2484+56.4 to the South line of Section 20, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

EXCEPT that portion in Section 29 (Eden) – from the North line of Section 29 to Station 2502+22, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

EXCEPT that portion in Section 33 (Garfield) – from Station 2600 to the south line of said Section 33, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exceptions for the purpose of maintenance and operation of said rail corridor.

Township 17 North, Range 45 East, WM
Sections 3, 4, 10, 15, 22, 26, 27, 35, 36

EXCEPT that portion in Section 4 (Garfield) – from the north line of said Section 4 southerly to Station 2666+58, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exception for the purpose of maintenance and operation of said rail corridor.

Township 16 North, Range 45 East, WM

Sections 1, 12, 13, 22, 23, 24, 26, 27, 34, 35, 36

EXCEPT that portion in Section 1 (Palouse) [former BN line] – from the South line of the Palouse River in Government Lot 11 to the East line of Government 10, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

EXCEPT that portions in Sections 26, 27, 34, & 35 (Fallon) – from Station 3452+10 to Station 3477+21.1, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exceptions for the purpose of maintenance and operation of said rail corridor.

Township 15 North, Range 45 East, WM

Sections 1, 11, 12, 14, 15, 21, 22, 28, 29, 32

EXCEPT that portion in Section 14 (Whelan) – from Station 3710 to the West line of Section 14, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document

EXCEPT that portion in Section 15 (Whelan) – from the East line of Section 15 to Station 3740, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

EXCEPT that in Section 32 (Pullman) – from Station 3960 to the South line of Section 32, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exceptions for the purpose of maintenance and operation of said rail corridor.

Township 14 North, Range 45 East, WM

Section 1, 2, 5, 8, 9, 10, 11,

EXCEPT that portion in Section 5 (Pullman) [former BN line] – from the north line of Section 5 to Station 4025, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exception for the purpose of maintenance and operation of said rail corridor.

Township 15 North, Range 46 East, WM

Sections 5, 6

EXHIBIT 1A

EXHIBIT 2

BILL OF SALE

PALOUSE RIVER AND COULEE CITY RAILROAD, INC., a Washington corporation ("Seller"), for and in consideration of promises made by the **STATE OF WASHINGTON, DEPARTMENT OF TRANSPORTATION**, an agency of the state of Washington ("Buyer"), to purchase on this date certain of Seller's interests in certain personal property, more fully described in the Purchase and Sale Agreement, entered into by and between Seller and Buyer on October 29, 2004 (the "Purchase Agreement"), hereby sells, greats and conveys unto Buyer and Buyer's successors and assigns, subject to the terms of the Purchase Agreement, all of Seller's rights, interest and title in and to the following personal property relating to the Rail Lines considered as part of the Rail Property (both terms as defined in the Purchase Agreement), subject to all the limitations on Seller's rights, interest and title to wit:

All rail, ties, spikes, tie plates, rail anchors, bridges, culverts, signaling and road crossing protection equipment, and other supporting structures, ballast, track, and bridges, but specifically excluding but not limited to the following items not included as Rail Property purchased by Buyer: bridge timber inventory not presently used in an existing structure, signal and telecommunications materials and supplies not presently used in existing structures, tools, equipment, parts, supplies, vehicles, locomotives, rail cars and other rolling stock, software relating to operations on the Rail Lines, operating data on the computers including the RMI operating data, cash, accounts receivable, locomotive parts, security deposits, prepaid expenses, and any railroad marks belonging to Seller and all other intangible personal property, specifically including but not limited to the Freight Easement as defined in the Purchase Agreement.

EXCEPT AS OTHERWISE PROVIDED IN THE PURCHASE AGREEMENT, SELLER HEREBY DISCLAIMS ANY REPRESENTATION OR WARRANTY, WHETHER EXPRESS OR IMPLIED, AS TO THE DESIGN OR CONDITION OF ANY OF THE PROPERTY TO BE CONVEYED BY DELIVERY OF THIS BILL OF SALE, ITS MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE, THE QUALITY OF THE MATERIAL OR WORKMANSHIP OF ANY OF THE PROPERTY, OR THE CONFORMITY OF ANY OF THE PROPERTY TO ITS INTENDED USES. SELLER SHALL NOT BE LIABLE TO BUYER FOR INCIDENTAL OR CONSEQUENTIAL DAMAGES (INCLUDING STRICT LIABILITY AND TORT) WHICH ARE RELATED IN ANY WAY TO THE DESIGN, CONDITION, QUALITY, SAFETY, MERCHANTABILITY, OR FITNESS FOR ANY PARTICULAR PURPOSE, OF ANY OF THE PROPERTY CONVEYED BY DELIVERY OF THIS BILL OF SALE; OR THE CONFORMITY OR ANY SUCH PROPERTY TO ITS INTENDED USES. SELLER CONVEYS TO BUYER AND BUYER, BY ACCEPTANCE OF SELLER'S DELIVERY OF THIS BILL OF SALE, HEREBY ACCEPTS, ALL PROPERTY CONVEYED BY DELIVERY OF THIS BILL OF SALE IN "AS IS, WHERE IS, WITH ALL FAULTS" CONDITION AND SUBJECT TO ALL LIMITATIONS ON SELLER'S RIGHTS, INTERESTS AND TITLE TO SUCH PROPERTY.

IN WITNESS WHEREOF, Seller has caused this Bill of Sale to be executed by its duly authorized representative on this 5th day of November, 2004.

**PALOUSE RIVER AND COULEE CITY
RAILROAD, INC.**

By: A.E. McKelvie

Name: Arthur E. McKelvie, III

Title: EVP & Asst Sec

EXHIBIT 2A

Washington

AFTER RECORDING RETURN TO:

Name:

Ken Uznanski, Manager, Rail Office

Address:

Washington State Department of Transportation
Attn: Rail Office
PO Box 47387
Olympia, WA 98504-7316

QUITCLAIM DEED

PALOUSE RIVER AND COULEE CITY RAILROAD, INC., a Washington corporation, and as successor in interest to BLUE MOUNTAIN RAILROAD, INC., Grantor, in consideration of the sum of Ten Dollars (\$10.00), and other valuable consideration to it duly paid, the receipt whereof is hereby acknowledged, hereby conveys and quitclaims to STATE OF WASHINGTON, DEPARTMENT OF TRANSPORTATION, an agency of the state of Washington, Grantee, whose address is PO Box 47387, Olympia, WA 98504-7316, and unto its successors and assigns forever, that portion of Grantor's right, title, interest, estate, claim and demand, both at law and in equity, of, in, and to the rail lines, real estate and right of way (hereinafter the "Property") of Grantor's lying: (i) the Hooper Jct.-Winona line located between Milepost 26.6, at Hooper Junction, and Milepost 52.3, at Winona; (ii) the Thornton-Winona line located between Milepost 0.0, at Winona, and Milepost 31.7, at Thornton; (iii) the Winona-Endicott line located between Milepost 52.3 at Winona, and Milepost 57.9, at Endicott; (iv) the Endicott-Colfax line located between Milepost 57.9, at Endicott, and Milepost 77.7, at Colfax; (v) the Colfax-Moscow line located (a) between Milepost 0.0, at Colfax, and Milepost 18.7, at Pullman, and (b) between Milepost 75.9, at Pullman, and Milepost 84.05, at the Washington-Idaho State Line; (vi) the WIM line located between Milepost 0.0, at Palouse, and Milepost 3.85, at the Washington-Idaho State Line; and (vii) the P&L line located between Milepost 1.0, at Marshall, and Milepost 75.9, at Pullman, all lying within the state of Washington and as more particularly described in **Exhibit 1**, hereto attached and hereby made apart hereof (hereinafter the "Rail Property").

SUBJECT, however, to all existing interests, including but not limited to all reservations, rights-of-way, easements and other encumbrances, of record or otherwise.

EXCEPTING AND RESERVING the retained interests, if any, of Seller's predecessors in title, as specified in more detail in their Quitclaim Deeds to Seller, including but not limited to those interests reserved unto Seller's predecessors in interest, their successor, licensee and assigns, as follows: (i) any easements in, under and across all of the Rail Property for the purpose of installing, constructing, maintaining, repairing, operating and/or relocating any new or existing communication or fiber optic facilities, as well as signal equipment necessary for a predecessors mainline signal operations, together with the right of ingress and egress thereto; (ii) any mineral rights of every kind and character now known to exist or hereafter discovered in and underlying the Rail Property, including oil and gas rights thereto, together with the sole, exclusive and perpetual right to explore for, remove and dispose of, said minerals by any means or methods suitable to such predecessor in interest, its successors and assigns, but without entering upon or using the surface of the Rail Property, and in such manner as not to damage the Rail Property or to interfere with the use thereof as a railroad; (iii) any coal, oil, gas, casing-head gas and all ores and minerals of every kind and nature, including sand and gravel underlying the surface of the Rail Property, together with the full right, privilege and license at any and all times to explore, or drill for and to protect, conserve, mine, take, remove and market any and all such products in any manner which will not damage structures on the surface of the Rail Property, together with the right of access at all times to exercise these rights; (iv) all water rights, and the exclusive right to develop and take water by any means, and to all appropriations, priorities, permits and certificates which are appurtenant to, associated with, used upon, flowing over, under, or lying on, in or under the Rail Property, and an exclusive, permanent easement to construct, install, operate, replace, rework, reconstruct, rehabilitate and maintain any and all water diversion, production and transportation structures, equipment, improvements and piping and to construct, install, operate and maintain water pumps and hydroelectric generation equipment necessary, convenient or related to the production, transportation or delivery of water from, on, under or across the Rail Property, together with the right of access at all times to exercise these rights, provided that all activities in the exercise of these rights shall be performed in a manner which will not damage structures on the surface of the Rail Property; (v) exclusive and/or non-exclusive, permanent easements for construction, reconstruction, maintenance, use and/or operation of one or more pipelines or fiber optic communication lines, together with related facilities and appurtenances in, under, across, along and through all or any portion of the Rail Property, including the right to enter and disturb the surface, and occupy the Rail Property for purposes of constructing, reconstructing, maintaining, using and/or operating one or more pipelines or fiber optics communication lines, facilities and appurtenances in, under, across, along and through all or any portion of the Rail Property, provided that notice in advance of any such entry must be given, and such entry and occupancy shall be done in a manner which does not materially interfere with the use and occupancy of the Rail Property; and (vi) air rights over that portion of the Rail Property, if any, at or near Fairchild, Washington, for the purpose of operating, maintaining and, as necessary, reconstructing main line railroad and any related facilities or structures over the Rail Property at or near this location.

TOGETHER with all and singular the hereditaments and appurtenances thereunto belonging; TO HAVE AND TO HOLD, subject to the aforesaid provisions, the Property unto the said Grantee and unto its successors and assigns.

PALOUSE RIVER AND COULEE
CITY RAILROAD, INC.

By: _____
Name: _____
Title: _____

STATE OF)
) ss.
COUNTY OF)

WITNESS my hand and official seal.

(Seal)

Except as otherwise provided in the Purchase and Sale Agreement entered into by and between the parties and dated October 29, 2004 and specifically excluding Grantor's retained right to the rail freight easement over and on the Rail Property, all right, title, and interest in and to that portion of the right of way, trackage and appurtenances of the Palouse River and Coulee City Railroad, as now constructed and operated, as described in that certain Deed dated November 20, 1992, recorded October 31, 1996 under Auditor's File No. 422403 (Micro Film No. 589331), records of Whitman County, Washington, recorded November 4, 1996 under Auditor's File No. 243602, records of Adams County, Washington; and that certain Deed dated September 3, 1996, recorded September 11, 1996 under Auditor's File No. 4034511, records of Spokane County, Washington, recorded September 13, 1996 under Micro Film No. 588280, records of Whitman County, Washington; and more particularly described as follows:

UNION PACIFIC RAILROAD COMPANY

Hooper Jct. to Winona

Adams County

Township 15 North, Range 37 East, WM
Sections 27, 34

EXCEPT that portion in Section 34 (Hooper Junction) – from the west line of the Northwest quarter of Section 34 to the north line of the Northwest quarter of Section 34, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exception for the purpose of maintenance and operation of said rail corridor.

Whitman County:

Township 15 North, Range 37 East, WM
Sections 24, 25, 26, 27

EXCEPT that portion in Section 26 (Hooper) – from the west line of said Section 26 to the east line of said Section 26, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exception for the purpose of maintenance and operation of said rail corridor.

Township 15 North, Range 38 East, WM
Sections 19, 20, 21, 22, 23, 24, 25, 26, 27

Township 15 North, Range 39 East, WM
Sections 2, 3, 9, 10, 11, 16, 17, 19, 20

EXCEPT that portion in Section 2 (La Crosse) – from the West line of Section 2 to the North line of Section 2, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document. EXCEPT that portion in Section 3 (La Crosse) – from the South line of Section 3 to the East line of Section 3, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document. EXCEPT that portion in Sections 10 (La Crosse) – from the west line of Section 10 to the North line of Section 10, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

EXCEPT that portion in Section 20 (Pampa) – from the west line of said Section 20 to the north line of said Section 20, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exceptions for the purpose of maintenance and operation of said rail corridor.

Township 16 North, Range 39 East, WM
Sections 1, 12, 13, 24, 25, 35, 36

Township 16 North, Range 40 East, WM
Section 6

EXCEPT that portion in Section 6 (Sutton) – from the west line of Section 6 to the north line of Section 6, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exception for the purpose of maintenance and operation of said rail corridor.

Township 17 North, Range 39 East, WM
Sections 25, 36

Township 17 North, Range 40 East, WM
Sections 20, 29, 30

Thornton to Winona

Whitman County:

Township 19 North, Range 43 East, WM
Sections 19, 20, 21, 28

That portion of the West half of section 27, Township 19 North, Range 43 East, WM, that lies between the West line of said West half and a straight line drawn at right angles to a point in the centerline of main track of said rail line that is 2133 feet, more or less, distant East, measured along said centerline, from the said West line.

EXCEPT that portion in Section 21 (Thornton) – from Station 1791+42 to the south line of Section 21, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

EXCEPT that portion in Section 28 (Thornton) – from the north line of Section 28 to Station 1817+18, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exceptions for the purpose of maintenance and operation of said rail corridor.

Township 19 North, Range 42 East, WM
Sections 23, 24, 26, 27, 28, 29, 30, 31

EXCEPT that portion in Section 26 (Sunset) – from Station 1328+39 to Station 1346+27.5, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

EXCEPT that portion in Section 30 (Juno) – from the South line of the Northeast quarter of the Northwest quarter, northeasterly and southeasterly to the South line of the Northwest quarter of the Northeast quarter, on the North side only, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

EXCEPT that portion in Section 31 (St. John) – from the south line of the Southwest quarter of the Southwest quarter of Section 31, northwesterly to the west line of the Southwest quarter of the Southwest quarter of Section 31, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exceptions for the purpose of maintenance and operation of said rail corridor.

Township 19 North, Range 41 East, WM
Sections 25, 36

EXCEPT that portion in Section 36 (St. John) – from Station 974+20.3 to the south line of Section 36, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exception for the purpose of maintenance and operation of said rail corridor.

Township 18 North, Range 42 East, WM
Sections 6

EXCEPT that portion in Section 6 (St. John) – from the West line of the Northwest quarter of the Northwest quarter of Section 6, southeasterly and southwesterly to the West line of the Southwest quarter of the Northwest quarter of Section, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exception for the purpose of maintenance and operation of said rail corridor.

Township 18 North, Range 41 East, WM
Sections 1, 2, 10, 11, 15, 16, 20, 21, 29, 31, 32

EXCEPT that portion in Section 1 (St. John) – from the North line of the Northeast quarter of the Northeast quarter of Section 1 to the East line of the Northeast quarter of the Northeast quarter of Section 1, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

EXCEPT that portion in Section 1 (St. John) – from the East line of the Southeast quarter of the Northeast quarter of Section 1 to the West line of the Southwest quarter of the Northeast quarter of Section 1, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

EXCEPT that portion in Section 29 (Willada) – from the north line of Section 29 to Station 592+56.7, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exceptions for the purpose of maintenance and operation of said rail corridor.

Township 18 North, Range 40 East, WM
Sections 35, 36

Township 17 North, Range 40 East, WM
Sections 2, 3, 4, 5, 8, 17, 20

EXCEPT that portion in Section 20 (Winona) – from the North line of the south half of Section 20 to the South line of Section 20, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exception for the purpose of maintenance and operation of said rail corridor.

Winona to Endicott

Whitman County:

Township 17 North, Range 40 East, WM
Sections 21, 22, 25, 26, 27, 28, 29

EXCEPT that portion in Section 29 (Winona) – from Station 1861+35 to Station 1871+80, on the Southerly side only, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exception for the purpose of maintenance and operation of said rail corridor.

Township 17 North, Range 41 East, WM
Sections 30, 31

EXCEPT that portion in Section 31 (Endicott) – from the south line of 2nd Street in Endicott, to the north line of 5th Street in Endicott, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exception for the purpose of maintenance and operation of said rail corridor.

Endicott to Colfax

Whitman County:

Township 17 North, Range 41 East, WM
Sections 25, 26, 31, 32, 33, 34, 35

Township 17 North, Range 42 East, WM
Sections 29, 30, 32, 33, 34

EXCEPT that portion in Section 29 (Thera) – from the West line of Section 29 to Station 2542+68.5 to, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.
EXCEPT that portion in Sections 30 (Thera) – from Station 2531+16.4 to the East line of Section 30, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.
EXCEPT that portion in Section 34 (Diamond) – from Station 2711+77 to Station 2741+10 as it passes through the Southeast quarter of the Southeast quarter of said Section 34, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exceptions for the purpose of maintenance and operation of said rail corridor.

Township 16 North, Range 42 East, WM
Sections 1, 2, 3

EXCEPT that portion in Section 2 (Diamond) – from Station 2711+77 to Station 2741+10, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exception for the purpose of maintenance and operation of said rail corridor.

Township 16 North, Range 43 East, WM
Sections 6, 7, 9, 10, 11, 14, 15, 16, 17, 18, 20

EXCEPT portions in Sections 11 & 14 (Colfax) – bounded on the west by the west line of Section 11; bounded on the south by the south line of North Street; and bounded on the northeast by a straight line drawn at right angles to a point in the centerline of the main track that is 1340 feet, more or less, distant north, measured along said centerline, from the south line of the SW ¼ of the NE ¼ of Section 11; lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

EXCEPT that portion in Section 18 (Mockonema) – from the north line of the southeast quarter of Section 18 to the east line of the said southeast quarter of Section 18, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exceptions for the purpose of maintenance and operation of said rail corridor.

Colfax to Moscow Line

Whitman County:

Colfax to Pullman:

Township 16 North, Range 43 East, WM
Sections 13, 14, 24

Township 16 North, Range 44 East, WM
Sections 17, 19, 20, 28, 29, 33

EXCEPT that portion in Section 28 (Parvin) – from Station 613+39 southeasterly to Station 631, on the northeasterly side only, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

EXCEPT that portion in Section 33 (Shawnee) – from Station 715+10.7 to the south line of Section 33, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exceptions for the purpose of maintenance and operation of said rail corridor.

Township 15 North, Range 44 East, WM
Sections 3, 4, 10, 15, 22, 23, 25, 26, 36

EXCEPT that portion in Section 4 (Shawnee) – from the north line of Section 4 to Station 736+10, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

EXCEPT that portion in Section 15 (Albion) – from the west line of the northeast quarter in Section 15 to the south line of said northeast quarter in Section 15, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exceptions for the purpose of maintenance and operation of said rail corridor.

Township 15 North, Range 45 East, WM
Section 31

Township 14 North, Range 45 East, WM
Sections 5, 6

EXCEPT that portion of Section 5 lying within the Bill Chipman Trail as conveyed to Whitman County.

EXCEPT that portion in Sections 5 & 6 (Pullman) [former UPRR] – from Station 985+89.8 in Government Lot 2 in Section 6 southeasterly to Station 1060+65.6 in the southeast quarter of the southeast quarter of Section 5, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exception for the purpose of maintenance and operation of said rail corridor.

Washington, Idaho and Montana Railway Company (WIM)

Palouse to State Line

Whitman County:

Township 16 North, Range 45 East, WM
Section 1

EXCEPT that portion in Section 1 (Palouse) – from the South line of Whitman Street in Government Lot 11 to the East line of said Section 1, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

Township 16 North, Range 46 East, WM
Sections 5, 6

EXCEPT that portion in Section 6 (Palouse) – from the West line of Section 6 to the East line of Government Lot 3 in Section 6, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exception for the purpose of maintenance and operation of said rail corridor.

Burlington Northern Railroad

Marshall to Pullman

Spokane County:

Township 24 North, Range 42 East, WM
Sections 22, 27, 34

Township 23 North, Range 42 East, WM
Sections 2, 3, 11, 12, 13

Township 23 North, Range 43 East, WM
Sections 18, 19, 20, 28, 29, 33

EXCEPT that portion in Section 33 (Spangle) – Station 590+37 to the south line of said Section 33, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exception for the purpose of maintenance and operation of said rail corridor.

Township 22 North, Range 43 East, WM
Sections 4, 9, 16, 21, 27, 28, 34

EXCEPT that portion of Section 4 (Spangle) – from the north line of Section 4 to Station 607+03, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document..

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exception for the purpose of maintenance and operation of said rail corridor.

Township 21 North, Range 43 East, WM
Sections 3, 4, 9, 16, 21, 22, 27, 34

Whitman County:

Township 20 North, Range 43 East, WM
Sections 2, 10, 11, 14, 15, 23, 25, 26, 36

Also,

That portion of the Northeast quarter of Section 15, described as follows:

Beginning at the most Easterly corner of Lot 18, Block 10 of the Original Town of Rosalia, Washington; thence Southeasterly along the Southeasterly extension of the Northerly line of said Lot 18 a distance of 275.0 feet to a point being 25.0 feet Northwesterly, as measured at right angles from said Main Track centerline; thence Northeasterly parallel with said Main Track centerline to the intersection with a line drawn at right angles to said Main Track centerline at a point distant 1,042.0 feet Southwesterly of the North line of said Section 15, as measured along said Main Track centerline; thence Southeasterly at right angles to said Main Track centerline 75.0 feet; thence Southwesterly along a line drawn parallel with and distant 50.0 feet Southeasterly, as measured at right angles from said Main Track centerline 960 feet, more or less, to the Westerly extension of the Southerly line of Sixth Street 360 feet, more or less, to the most Southerly corner of Lot 1, Block 10 of the Original Town of Rosalia; thence Northeasterly along the Easterly line of said Block 10 a distance of 900.0 feet to the Point of Beginning. EXCEPT that portion bounded as follows; on the South by North line of Fifth Street; on the East by a line ten feet westerly of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document; on the North by the North line of Lot 18 Block 10 of the Original Town of Rosalia extended Easterly; on the West by the East line of Block 10 of the Original Town of Rosalia.

Township 20 North, Range 44 East, WM
Sections 31, 32

EXCEPT that portion in Section 31 (McCoy) – from Station 1680 to Station 1695, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exception for the purpose of maintenance and operation of said rail corridor.

Township 19 North, Range 44 East, WM
Sections 5, 8, 9, 15, 16, 22, 23, 24, 25, 26

EXCEPT that portion in Section 22 (Oakesdale) – from Station 1970 to the East line of Section 22, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

EXCEPT that portion in Section 23 (Oakesdale) – from the West line of Section 23 to Station 2005, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exceptions for the purpose of maintenance and operation of said rail corridor.

Township 19 North, Range 45 East, WM
Sections 30, 31, 32

Township 18 North, Range 45 East, WM
Sections 5, 8, 9, 17, 20, 28, 29, 33

EXCEPT that portion in Section 5 (Belmont) – from the north line of Section 5 southeasterly to Station 2277+63, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.
EXCEPT that portion in Section 20 (Eden) – from Station 2484+56.4 to the South line of Section 20, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.
EXCEPT that portion in Section 29 (Eden) – from the North line of Section 29 to Station 2502+22, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.
EXCEPT that portion in Section 33 (Garfield) – from Station 2600 to the south line of said Section 33, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exceptions for the purpose of maintenance and operation of said rail corridor.

Township 17 North, Range 45 East, WM
Sections 3, 4, 10, 15, 22, 26, 27, 35, 36

EXCEPT that portion in Section 4 (Garfield) – from the north line of said Section 4 southerly to Station 2666+58, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exception for the purpose of maintenance and operation of said rail corridor.

Township 16 North, Range 45 East, WM

Sections 1, 12, 13, 22, 23, 24, 26, 27, 34, 35, 36

EXCEPT that portion in Section 1 (Palouse) [former BN line] – from the South line of the Palouse River in Government Lot 11 to the East line of Government 10, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

EXCEPT that portions in Sections 26, 27, 34, & 35 (Fallon) – from Station 3452+10 to Station 3477+21.1, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exceptions for the purpose of maintenance and operation of said rail corridor.

Township 15 North, Range 45 East, WM

Sections 1, 11, 12, 14, 15, 21, 22, 28, 29, 32

EXCEPT that portion in Section 14 (Whelan) – from Station 3710 to the West line of Section 14, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document

EXCEPT that portion in Section 15 (Whelan) – from the East line of Section 15 to Station 3740, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

EXCEPT that in Section 32 (Pullman) – from Station 3960 to the South line of Section 32, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exceptions for the purpose of maintenance and operation of said rail corridor.

Township 14 North, Range 45 East, WM

Section 1, 2, 5, 8, 9, 10, 11,

EXCEPT that portion in Section 5 (Pullman) [former BN line] – from the north line of Section 5 to Station 4025, lying beyond and outside of a line ten feet field side of the farthest (outermost) through track, as measured from the center of said track, as existing on the date of this document.

In addition to the above the Grantors convey and grant to the Grantee an easement 15 feet in width parallel with and contiguous to a line, ten feet from the farthest (outermost) through track, as measured from the center of said track, as described in the above exception for the purpose of maintenance and operation of said rail corridor.

Township 15 North, Range 46 East, WM

Sections 5, 6

EXHIBIT 3

RAIL PROPERTY (EXCLUDING THE OFFICE BUILDING AND MAINTENANCE GROUND IN ROSALIA, WA).....	\$6,456,000
OFFICE BUILDING AND MAINTENANCE GROUND IN ROSALIA, WA.....	\$ <u>30,000</u>
TOTAL.....	\$6,486,000

EXHIBIT 4

PERMANENT FREIGHT RAILROAD OPERATING EASEMENT

THIS FREIGHT RAILROAD OPERATING EASEMENT, transferred as of this ____ day of _____, _____, by the Palouse River and Coulee City Railroad, Inc., a Washington corporation ("PCC"), to Great Northwest Railroad, Inc., an Idaho corporation ("GNR").

WITNESSETH:

WHEREAS, PCC owns and/or operates certain lines of railroad in the States of Washington, Oregon and Idaho;

WHEREAS, the State of Washington, Department of Transportation ("WSDOT") acquired the physical assets of the rail lines owned by PCC in the State of Washington (the "Rights-of-Way") lying on the Rail Property identified and defined in the Purchase and Sale Agreement entered into by and between WSDOT and PCC and dated October 29, 2004 (hereinafter "Sale Agreement");

WHEREAS, pursuant to a Lease Agreement (hereinafter "Lease") entered into by and between the WSDOT and PCC, PCC leased from WSDOT the Rights-of-Way;

WHEREAS, pursuant to the terms of the Sale Agreement, PCC retained the exclusive freight railroad operating easement on the Rights-of-Way with the right to freely transfer the same to GNR, in order to enable GNR to provide common and contract carrier rail freight service on the Rights-of-Way; and

WHEREAS, GNR has obtained authorization from the Surface Transportation Board ("STB") to operate over the Rights-of-Way.

NOW, THEREFORE, in consideration of the terms and conditions set forth herein, PCC hereby transfers the following easement to GNR:

1. TRANSFER OF FREIGHT EASEMENT

1.1 Subject to the terms and conditions set forth herein, PCC hereby transfers to GNR the exclusive rail freight easement for the purpose of providing common and contract carrier rail freight service to all freight customers on the following Rights-of-Way in the State of Washington (more specifically described in Exhibit A):

- (i) the Hooper Jct.-Winona line located between Milepost 26.6, at Hooper Junction, and Milepost 52.3, at Winona;
- (ii) the Thornton-Winona line located between Milepost 0.0, at Winona, and Milepost 31.7, at Thornton;
- (iii) the Winona-Endicott line located between Milepost 52.3 at Winona, and Milepost 57.9, at Endicott;
- (iv) the Endicott-Colfax line located between Milepost 57.9, at Endicott, and Milepost 77.7, at Colfax;
- (v) the Colfax-Moscow line located (a) between Milepost 0.0, at Colfax, and Milepost 18.7, at Pullman, and (b) between Milepost 75.9, at Pullman, and Milepost 84.05, at the Washington-Idaho State Line;
- (vi) the WIM line located between Milepost 0.0, at Palouse, and Milepost 3.85, at the Washington-Idaho State Line; and
- (vii) the P&L line located between Milepost 1.0, at Marshall, and Milepost 75.9, at Pullman.

1.2 The rail freight easement described in Section 1.1 hereof ("Freight Easement") is for common and contract carrier rail freight service on the Rights-of-Way. The Freight Easement transfers to GNR the exclusive right to conduct freight railroad operations on the Rights-of-Way; provided, however, that the Freight Easement shall not be construed to prohibit or limit non-freight uses by GNR or other parties that do not unreasonably interfere with GNR's freight railroad operations. The Freight Easement includes the right to operate with GNR's trains, locomotives, rail cars and rail equipment with GNR's own crews over the Rights-

of-Way for the purposes set forth in this Freight Easement; provided, however, that said right to operate trains, locomotives, rail cars and rail equipment over the Rights-of-Way shall be an exclusive right to the occupancy and use of the Rights-of-Way only with respect to rail freight operations.

1.3 The conveyance of this Freight Easement by PCC to GNR includes any and all rights and obligations of PCC under federal law to conduct common and contract carrier rail freight service on the Rights-of-Way.

1.4 The Freight Easement granted by PCC in the Rights-of-Way includes a right of entry over the Rights-of-Way for any and all GNR employees, agents or representatives, machinery, vehicles or equipment which GNR reasonably may deem necessary or convenient for the purpose of inspecting the Rights-of-Way, clearing any derailments or wrecks of GNR trains on the Rights-of-Way or otherwise conducting GNR rail freight service over the Rights-of-Way in accordance with this Freight Easement.

1.5 This Freight Easement is subject to the terms, conditions and limitations of the separate Lease Agreement between PCC and WSDOT dated as of November 5, 2004.

1.6 GNR may assign its interests in this Freight Easement only with the written consent of WSDOT, which consent shall not be unreasonably withheld.

2. LIABILITY

2.1 GNR agrees to indemnify, defend, and hold PCC harmless, and to defend PCC against and from any claims, costs, liabilities, expenses (including without limitation court costs and reasonable attorneys' fees), or demands of whatsoever nature or source arising or resulting from (i) any contamination or Environmental Problems, latent or obvious, discovered or undiscovered, in the Rights-of-Way; (ii) any personal injury to or death of persons whomsoever

(including without limitation employees, agents or contractors of PCC, GNR or any third party); or (iii) any property damage or destruction of whatsoever nature (including without limitation property of PCC, or GNR, or property in its or their care, custody or control and third party property), where such contamination, Environmental Problems, injury, death or damage arise out of acts, omissions or events relating to GNR's operation over or presence on the Rights-of-Way.

2.2 "Environmental Problems" means any cause or action under the federal Comprehensive Environmental Response Compensation and Liability Act of 1980 (as amended), the Resource and Conservation and Recovery Act, 42 U.S.C. § 6901 et seq., the Federal Water Pollution Control Act, 33 U.S.C. § 1201 et seq., the Clean Water Act, 33 U.S.C. § 1321 et seq., the Clean Air Act, 42 U.S.C. § 7401 et seq., and any other federal, state, local or other governmental statute, regulation, law or ordinance dealing with the protection of human health, natural resources or the environment and any cause or action arising from similar federal, state or local legislation or other rules of law, and private causes of action of whatsoever nature which arise from any pollutant, contaminant, hazardous substance or waste, solid waste, petroleum or any fraction of petroleum or of any other chemical, substance or material listed or identified in or regulated by any environmental law.

3. TERM AND TERMINATION

3.1 This Freight Easement is perpetual.

3.2 This Freight Easement shall terminate and be extinguished and all real property rights transferred to GNR hereunder shall vest in the owner of the Rights-of-Way upon the termination, pursuant to an order of the STB, of common carrier rail freight service on the Rights-of-Way or any part thereof; provided, that a termination of this Freight Easement pursuant

to such an order shall apply only to those sections of the Rights-of-Way subject to such an STB order.

IN WITNESS WHEREOF, the parties have caused this Freight Easement to be executed by their respective officers duly authorized, as of the day and year first above written.

PALOUSE RIVER AND COULEE CITY RAILROAD, INC.

By: _____

Title: _____

GREAT NORTHWEST RAILROAD, INC.

By: _____

Title: _____

EXHIBIT 5

ASSIGNMENT AND ASSUMPTION AGREEMENT

THIS ASSIGNMENT AND ASSUMPTION AGREEMENT, entered into this _____ day of _____, _____, by and between PALOUSE RIVER AND COULEE CITY RAILROAD, INC., a Washington corporation, ("Assignor") and GREAT NORTHWEST RAILROAD, INC., an Idaho corporation ("Assignee").

Recitals

- A. Assignor and Assignee entered into an Agreement for Sale of Certain Assets, Rights and Obligations of PALOUSE RIVER AND COULEE CITY RAILROAD, INC., to GREAT NORTHWEST RAILROAD, INC. on _____, _____, (the "Purchase Agreement") [or a merger agreement] under which Assignor agreed to sell to Assignee and Assignee agreed to purchase from Assignor certain assets, more specifically described in the Purchase Agreement. The capitalized terms not otherwise defined herein shall have the meaning assigned to them in the Purchase Agreement.
- B. The parties desire to provide for the assignment of all of Assignee's Contracts associated with the Property that is the subject of the Purchase Agreement.

Assignment and Assumption

- 1. Assignment. In consideration of the mutual covenants contained in the Purchase Agreement and other good and valuable considerations, the receipt and sufficiency of which are hereby acknowledged, Assignor hereby assigns to Assignee all of Assignor's rights, title, and interest and obligations arising after the Closing Date hereof set forth in the contracts, agreements, easements and licenses listed in Schedule 1 attached hereto and made a part hereof (the "Contracts").
- 2. Acceptance and Assumption. Assignee hereby accepts assignment of the Contracts and Property, and assumes all of Assignee's obligations therein and thereunder, which are performable on and after the Closing Date except for breaches by Assignor, which occurred prior to Closing Date, and Assignee hereby agrees to indemnify, defend, save and hold harmless Assignor from and against any damages whatsoever arising from, relating to or caused by Assignee's failure to perform any of the obligations hereunder assumed.
- 3. Incorporation of Terms of Purchase Agreement. This Assignment and Assumption Agreement is being delivered in accordance with the terms of the Purchase Agreement and is subject to the terms and conditions of the Purchase Agreement, which terms and conditions are incorporated in this Assignment and Assumption Agreement by this reference.
- 4. Binding Effect. This Assignment and Assumption Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

IN WITNESS WHEREOF, the parties have executed this Agreement in duplicate originals as of the year and day first above written.

ATTEST:

**PALOUSE RIVER AND COULEE CITY
RAILROAD, INC.**

Assignor

Secretary

By _____
Name _____
Title _____

ATTEST:

GREAT NORTHWEST RAILROAD, INC.

Assignee

Secretary

By _____
Name _____
Title _____

EXHIBIT 6

Palouse River & Coulee City Railroad, Inc.

315 W. 3rd St.
Pittsburg, Kansas 66762
Phone: 620-231-2230
Fax: 620-231-5192

November 4, 2004

Washington State Department
of Transportation
Secretary of Transportation
P. O. Box 47387
Olympia, WA 98504-7387

**Re: *Purchase and Sale Agreement dated 10/29/04.
Palouse River & Coulee City Railroad, Inc.***

Dear Secretary MacDonald:

I have acted as General Counsel to the Palouse River & Coulee City Railroad, Inc., a Washington corporation (the "PCC"), in connection with the preparation, execution and delivery of the Purchase and Sale Agreement dated October 29, 2004 ("Agreement") entered into by and between PCC and Washington State Department of Transportation, an agency of the state of Washington ("State").

Terms capitalized but not defined herein shall have the meanings given to them in the Agreement.

In so acting, I have reviewed executed copies of the following documents:

- i. Agreement;
- ii. PCC's By-Laws;
- iii. PCC's Articles of Incorporation; and
- iv. PCC's resolution authorizing the Agreement.

I have relied upon originals or copies certified or otherwise identified to my satisfaction, of such records, documents, certificates, and other instruments, and have made such other investigations, as in my judgment are necessary or appropriate to enable me to render the opinions expressed below. Except with respect to the Directors or Officers of PCC, I have assumed the genuineness of all signatures and the authenticity of all documents submitted to me

as originals, the conformity to original documents of all documents submitted to me as certified copies or photocopies and the authenticity of the originals of such latter documents.

Based upon and subject to the foregoing and the qualifications and assumptions set forth below, I am of the opinion that as of the date of this letter:

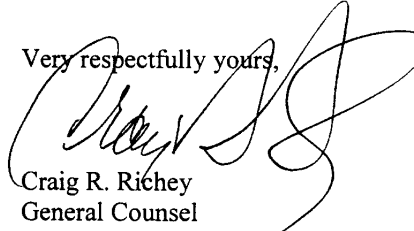
1. The PCC is a corporation duly organized, validly existing and in good standing under the laws of the State of Washington and is qualified to do business as necessary in the State of Washington. The PCC has the corporate power and authority to own its respective properties and to carry on its respective business as now conducted. The PCC has the corporate power to execute, deliver and perform the Agreement with its ancillary documents (collectively "Agreement Documents").
2. The execution and delivery by the PCC and the performance by the PCC of the obligations provided for in the Agreement and Agreement Documents have been duly authorized by all proper and necessary corporate action. Each of the Agreement Documents to which the PCC is a party has been duly executed and delivered by the PCC.
3. The Agreement and Agreement Documents to which the PCC is a party constitute the legal, valid and binding obligations of the PCC, enforceable against the PCC in accordance with their terms, except as may be limited by (a) bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting the rights of creditors generally and (b) general principles of equity (whether considered in a proceeding in at law or in equity).
4. PCC has all requisite corporate authority to sell the rights and properties which are to be conveyed to State under the terms of the Agreement and Agreement Documents; to enter the Agreement.
5. There is no provision in the Articles of Incorporation or Bylaws of the PCC which prohibits the execution of the Agreement or consummation of the transactions covered by the Agreement.
6. By the Closing Date, PCC will have obtained all legal authority which is required of PCC to allow it to sell the Rail Property as described in the Agreement and Agreement Documents to the State.

This opinion is being delivered to you pursuant to Section 5.1.5 to the Agreement. This opinion is solely for your benefit and may not be relied upon by any other person without my prior written consent. Notwithstanding anything herein to the contrary, this opinion is expressly limited in scope and substance to those statements and opinions which do not and will not constitute nor be deemed a conflict of interest under applicable ethics rules and regulations with respect to my representation of the PCC.

I am a member of the Bars of the State of Kansas and the District of Columbia and express no opinion with respect to the law of any jurisdictions other than the laws of the State of Kansas and the federal laws of the United States, in each case as in effect on the date hereof.

Unless you are specifically notified by me in writing, this letter will remain in effect through Closing of the Agreement. Thank you.

Very respectfully yours,

A handwritten signature in black ink, appearing to read 'Craig R. Richey', written over the closing text.

Craig R. Richey
General Counsel
Palouse River & Coulee City Railroad, Inc.

CRR/me

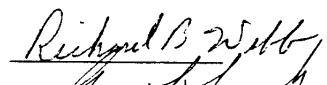
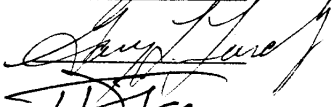
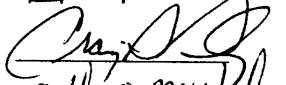
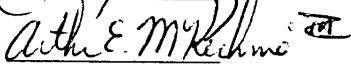
EXHIBIT 7

SECRETARY'S CERTIFICATE

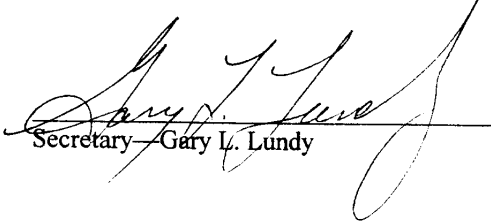
The undersigned, being the duly elected secretary of Palouse River and Coulee City Railroad, Inc., a Washington corporation (the "Corporation"), hereby certifies, on behalf of the Corporation, to the State of Washington, Department of Transportation, an agency of the state of Washington, that:

1. Attached hereto as Exhibit "A" is a true and complete copy of resolution with respect to the Purchase and Sale Agreement (as defined in the resolution) duly adopted by the board of directors of the Corporation by unanimous consent dated October 29, 2004, and such resolution has not been amended, modified or rescinded and remains in full force and effect as of the date hereof; and

2. The following individuals are qualified and acting officers of the Corporation as set forth in the right column opposite their respective names and the signature appearing in the extreme right column opposite the name of each such officer is a true specimen of the genuine signature of such person:

Name	Title	Signature
Richard B. Webb	CEO and interim CFO	
Gary L. Lundy	Vice-President, Secretary and Treasurer	
Terrance D. Towner	President	
Craig R. Richey	Assistant Secretary	
Arthur E. McKechnie, III	Assistant Secretary	

WITNESS my hand this 5th day of November, 2004.


Secretary—Gary L. Lundy

OFFICER'S CERTIFICATE

Dated November 5, 2004

I, Richard B. Webb, CEO of Palouse River and Coulee City Railroad, Inc., do hereby certify that Gary L. Lundy is duly elected and qualified as Secretary of Palouse River and Coulee City Railroad, Inc., as of the date hereof, and that the signature set forth above is such officer's genuine signature.


Richard B. Webb, CEO

EXHIBIT "A"

(Resolution)

**PALOUSE RIVER AND COULEE CITY RAILROAD, INC.
ACTION OF BOARD OF DIRECTORS WITHOUT MEETING**

The undersigned, being all of the directors of the **Palouse River and Coulee City Railroad, Inc.**, an Washington corporation (the "Corporation"), consent, by this writing and pursuant to the Washington business laws, to take the following action and to adopt the following resolutions:

WHEREAS, , Corporation has negotiated a Purchase and Sale Agreement ("Agreement") to sale a portion of it Right-of-Way identified in the Agreement as Rail Property;

WHEREAS, the completion of the transaction contemplated by the Agreement will be in the best interest of and a benefit to Corporation; and

WHEREAS, the form of Lease Agreement, Freight Easement, Bill of Sale, Quit Claim Deed, Maps and other ancillary documents (collectively with the Agreement identified as the Agreement Documents) have been presented to and reviewed by the Directors of this Corporation.

NOW, THEREFORE BE IT RESOVED, that the CEO, President or any Vice President or Assistant Secretary of this Corporation, acting alone, is hereby authorized to execute and deliver, in the name and on behalf of this Corporation the Agreement Documents, substantially in the form as presented to and reviewed by the Directors of this Corporation, except for such changes, additions and deletions as to any or all of the terms and provisions thereof as the officer executing the same may approve, the execution thereof by such officer to be conclusive evidence of the approval thereof by such officer and by this Board; and

FURTHER RESOLVED, that each and every officer of this Corporation, be and each of them, acting alone, is hereby authorized from time to time in the name and on behalf of this Corporation to take such actions and execute and deliver such certificates, instruments, notices and documents as may be required or as such officer may deem necessary, advisable or proper in order to carry out and perform the obligations of this corporation under the Agreement Documents; all such actions to be performed in such manner, and all such certificates, instruments, notices and documents to be executed and delivered in such form, as the officer performing or executing the same may approve, with such approval thereof by such officer being deemed by this Board.

I direct that this consent be filed with the minutes of the Board of Directors of this Corporation.

Dated this 29th day of October, 2004.

(signatures on following page)

Richard B. Webb
Richard B. Webb, Director

Gary L. Lundy
Gary L. Lundy, Director

EXHIBIT 8