



MOVING FORWARD WITH THE SANTA CRUZ BRANCH RAIL LINE

Santa Cruz County Regional Transportation Commission
Santa Cruz, California
October 26, 2017

PGR Attendees:
Craig McKenzie
Mark Westerfield
Dave Fellon



DAVE FELLON

PRESIDENT

612-791-3255

dfellon@progressiverail.com

Good morning to the Board of Directors of SCCRTC,

The definition of railroading means different things to different operators.

Of course, operating a safe railroad is first and foremost and on that topic PGR is wholly vested in going above and beyond in our quest to create the safest work environment in the industry. My colleague Jason Welsh, Director of FRA Compliance & HSE, will expand upon this key topic in the coming pages.

Looking beyond safety to the other cogs in PGR's railroading wheel, you will be introduced to our approach to everything from maintenance-of-way to our proven operating plan that prioritizes the customer's supply chain needs first and foremost. Still, every railroad is defined by how they approach the business and for PGR you can distill our mission into two words: Industrial Development.

Why?

At the core of everything we as an industry accomplish together it needs to begin with creating a consistent value proposition that motivates businesses of nearly all types to become physically connected to the Nation's rail network.

To that end, there simply is no comparable as to what the Santa Cruz Branch Rail Line can generate in direct carloadings, transloading activity, and repurposing long-forgotten facilities to now become new incubators of growth.

With eyes wide open, carload growth doesn't come easy nor should it. Hard work is something that PGR knows so well and we embrace it everyday. Our unique approach to railroading is made possible thanks to a hand-picked assembly of team members that are firmly tethered to our roots of reinventing the Air Lake Industrial Park in Lakeville, MN. We started with a Category Three abandonment story to now be a revived center of commerce that has grown from 300 carloads a year to 5,000 rail cars a year and growing. This success has been replicated across the entire PGR network as we make sound long-term investments in our customers' futures.

PGR is well prepared to drive long-term growth for the Santa Cruz County Regional Transportation Commission in Santa Cruz, CA.

[612] 791-3255 [Cell] / [24] [7]

Dave





JASON WELSH

GENERAL MANAGER, HSE & FRA COMPLIANCE

612-578-5646

jwelsh@progressiverail.com

SAFETY COMES FIRST

The most important part of work is providing for family. I want every team member at PGR to go home in the same condition they arrived. In fact, if I can help them learn a better way to perform in any environment, maybe they will take some of that knowledge home and be healthier in their personal life as well.

Safety has no trademark. Knowing we can be a company that freely provides a foundation to our Team Members and customers that ensures a symmetry between the works to be done and doing it in a manner that makes safety a priority is our goal.

As we have done in all of PGR's network, we will roll out a STOP program that is mobile APP-based. Actively contributing to implementing safety protocols is obligatory and is component of our team members' bonuses just to drive the point home.





DUSTIN HEICHEL

MANAGING DIRECTOR, OPERATIONS

651-888-9468

dheichel@progressiverail.com

OPERATIONS

My philosophy for operating a railroad is that we are here for the customers' schedule not ours. This is only accomplished thanks to my T&E team being trained and motivated to be safe and customer centric in every move they make.

The core points of my operations plan are as follows:

1. Position a SW-1500 locomotive on site.
2. PGR stores locomotives on other properties so we would offer two spots for additional locomotives that as part of the agreement PGR can deploy a stored locomotive into duty.
3. Immediately remove any remaining stored rail cars as that does not portray "Open For Business".
4. Two shifts of T&E with a standby relief crew ready to go at a moment's notice.
5. General Manager installed on the property that is also qualified.

Again, it all starts with safety followed up with being responsive to the customer. Combine the two assures total operational success.





LEON HOYT

GENERAL MANAGER, MAINTENANCE OF WAY

715-563-4327

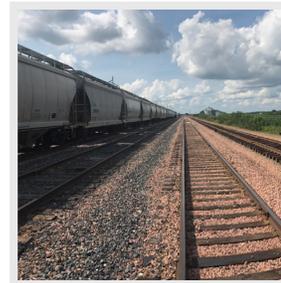
lhoyt@progressiverail.com

MAINTENANCE OF WAY

As General Manager, Maintenance of Way, for PGR my number one priority is a safe and reliable railway. Given the opportunity our team would first launch an extensive inspection of the railway system. Our team is equipped to handle any and all defects there may be, from insufficient ballast or cross level issues to switches and turn outs. We are also equipped with a on-track brush cutter and have licensed herbicide applicators on staff. We would analyze tie conditions and put a multi-year tie program in place that ensures to stay well above standard of the track classification.

The Plan

1. Walk the track system and create an inspection report.
2. Assess priorities of joint ties defects, tie clusters, surface conditions, signal & crossings, and track that is out of service.
3. Meet with the local FRA representative and address integrity-critical compliance items first.
4. At the outset, commit to and set aside 2,000 ties for a first phase implementation.





JORDAN BUCK

DIRECTOR, MARKETING - ST. LOUIS, MISSOURI

618-910-8273

jbuck@progressiverail.com

CONNECTING WITH THE CUSTOMERS

At PGR we truly partner with our customers. Our prosperity is a direct function of their prosperity and we perpetually engage with them at all levels to drive improvements in the efficiency of their supply chains. We understand that the best customer is the one that has already been won. These customers already appreciate the advantages of rail transportation, but don't always know that railroads can help them find additional markets, new or better sources for their raw materials, or better ways to move their products door-to-door. We become involved in our customers' businesses so we can use our own networks of buyers, sellers and transportation providers to find advantages that our customers can use to prosper in their marketplaces.

PGR engages our customers with frequent face to face meetings, phone and email contact, weekly newsletters, monthly magazine mailings and hand-written notes. We not only like to keep asking the question, "what else are we missing?" but we like to share with them examples of programs and ideas we've developed with other customers to improve their supply chain efficiencies.





GERRE GOARD

DIRECTOR, MARKETING - GASTONIA, NORTH CAROLINA

612-772-1730

ggoard@progressiverail.com

REAL ESTATE OPPORTUNITIES

PGR makes speculative investments in rail-served warehouses where it does business. These buildings become incubators of growth and expand PGR's offer to its customers.

PGR has identified a rail-served warehouse in Watsonville that is suitable as a transloading and storage warehouse. PGR will engage in negotiations to buy this building.



880 W Beach Road, Watsonville, CA 95076





MICHAEL JOHNS

DIRECTOR, MARKETING - CENTERVILLE, IOWA

641-529-0061

mjohns@progressiverail.com

UPGRADING THE NETWORK

PGR is pleased to partner with its railroad customers when track or track-related facility improvements are needed. All of these investments are examined by PGR on the basis of financial feasibility through return on investment analysis. PGR works with new or existing customers to expand capacity, construct new track into facilities, build needed environmental compliance features at or near track, and provide safety management. Examples of the latter might include providing 'fall protection' at railcar loading sites.

Rail customers will find PGR easy to deal with when discussing business expansions requiring enhanced rail facilities. The PGR philosophy is to cost share through a mutually agreeable financial arrangement. These deal structures can be 50%-50%, or can be a situation where one party provides the materials and the other party provides labor. All of these cost share arrangements are driven by rail volume and ROI calculations, together with other considerations that may be unique to an individual industrial development project.



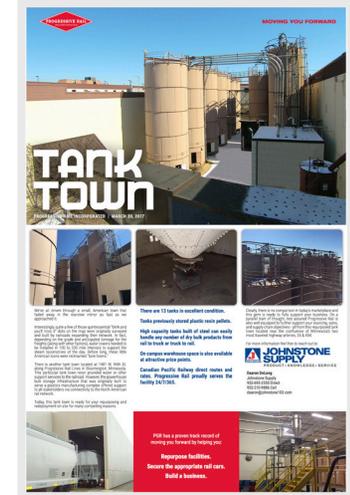


BRANDON BAUER
 DIRECTOR, MARKETING - LAKEVILLE, MINNESOTA
 651-233-6769
 bbauer@progressiverail.com

PLATFORM TO DRIVE GROWTH

Marketing to key local stakeholders including realtors, chamber of commerce groups, site selection consultants, key government figures, etc, will revive the marketplace. PGR will engage and market towards these key decision makers to launch strategic partnerships and become a new source of enthusiasm for the area and in turn drive long term growth.

PGR's sales and marketing platform is designed to promote immediate customer success and provide avenues for continued growth in the marketplace through networking. Our marketing strategy is to, quite simply, connect our customers to larger markets, further away via PGR lines.





JEREMY URLACHER

MANAGING DIRECTOR, OPERATION SERVICES

612-791-3254

jurlacher@progressiverail.com

FACILITY TRANSFORMATION

Transloading is a customer-oriented operation. My mission as Managing Director of Operation Services is to identify the customer, research their needs, and construct or adapt a facility that wins over the customer. With this role in PGR, I have overseen industry track build-outs, sidings, warehouse refurbishments, auger equipment, bagging operations, propane installations, and more.

With the opportunity to work with any new customers, I will continue to provide the same dedication and work hard to foresee and solve any situations that might arise.





DAN O'SHEA

SENIOR ASSOCIATE, TRANLOADING - LAKEVILLE, MINNESOTA

612-791-4771

doshea@progressiverail.com

HAZARDOUS MATERIALS

PGR's 11 transload facilities located throughout the rail network have the capabilities to store and transload a variety of commodities. We currently transload in eight different hazardous products that include gases, flammable liquids, oxidizing substances, organic peroxides, corrosives, and other miscellaneous hazmat materials.

Safety is always our number one priority. From track pans under the rail cars to on-site shower/eyewash stations. Our customers are confident in knowing their products are transloaded safely.





TIM ANDERSON

DIRECTOR, MARKETING - MASON CITY, IOWA

309-235-5817

tanderson@progressiverail.com

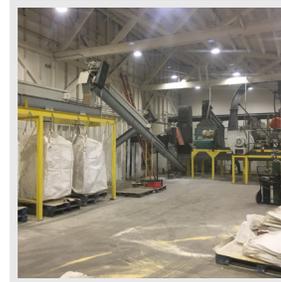
VALUE ADDED SERVICES

Over the last 20 years I have watched ingredients come into California only to be trucked to a toll manufacturer to add value then sent back to California for further movements east.

When Dave mentioned a facility in Santa Cruz, I was very excited to have the opportunity to move the toll processing to that rail site. I see a number of possibilities that include bulk load out, blending, crushing, and pelleting to name a few.

This is very exciting and the opportunities are endless and I could not wait to be able to reach out to our customer base with the exciting news. So I did a quick poll of a handful of long time customers and their reaction was as anticipated with "WHEN CAN WE START?"

This is a great program and I am privileged to be a part.





MICHAEL SANDERS

DIRECTOR, MECHANICAL

573-418-0132

msanders@progressiverail.com

HORSEPOWER

From my perspective, my team and I are responsible for keeping PGR's motive power rolling in perfect mechanical condition. Doing so requires unique mechanical skill sets backed up with a full complement of mobile service trucks, good inventory of EMD parts and a great preventative maintenance program.

PGR has just embarked on a multi-year program to acquire up to three newly rebuilt locomotives a year from cores we supply. This is an exciting program as our ever growing fleet of locomotives are on a systematic program of modernization and renewal.

PGR's locomotives are my responsibility and it's a 24/7 job that I take a great deal of pride in which you would hopefully see working at their best on the Santa Cruz Branch Rail Line.





JEANETTE LENTZ

SENIOR MANAGER, OPERATIONS

612-791-5400

jlentz@progressiverail.com

A PROVEN PARTNERSHIP

PGR's Customer Solutions team works with the Union Pacific's work order group on a daily basis to ensure correct interchanges are received and delivered at the appropriate stations. We also work with the Errors group to ensure proper billing is in place for cars delivered to us in error. We work with the E-Business group to ensure billing is processed correctly and in a timely manner for our customers outbound traffic. I believe the relationship between PGR Customer Solutions and UPRR Operations is very productive and helpful in problem resolution for various purposes.

In Santa Cruz, we would have a dedicated 24/7 customer service representation so that our customers are never without a prompt and courteous solution.





MARK WESTERFIELD

ADVISOR

708-224-1406

mwesterfield@progressiverail.com



NEIL BAGAUS

ADVISOR

352-988-4093

nbagaus@aol.com

ADVISORY

New to PGR's business, but well-informed on the incumbent operator's operations and the Santa Cruz line, these experienced advisors provide continuity to both operations and partner relations. Both have extensive freight and passenger service management experience, but Neil also has a unique perspective of the Polar Express events since he played an active role.

As part of the PGR team, Mark and Neil are well-positioned to contribute to specific operations and to be boots on the ground as an extension of industrial development and marketing efforts that will ramp up for the line. Further, both will have an active role in the development and reinstatement of Polar Express events and other select excursions.





September 27, 2017

Re: Santa Cruz Branch Rail Line, Santa Cruz, CA.

Dear Sirs:

It is my sincere pleasure to share some key details in my companies' relationship with PGR over the years.

My involvement in the development of Airlake Industrial Park began in 1978. Airlake is a 1,500 acre industrial park just south of Minneapolis, Minnesota. It currently holds over 200 businesses and is 88% built out. Approximately 4000 people work here. It is a very diverse group of industries.

In 1996, a significant change to our ability to develop and draw new business to Airlake occurred when I met Dave Fellon, and PGR became our new short line rail operator. The existing industrial park tenants embraced the PGR culture – as created by Dave Fellon. “24/7” is a term most often used to define the rail service provided by PGR.

Multiple switches during the day, and other customized services provided to rail users became the “new norm” and shipping preferences turned to rail.

Our community grew and benefited from PGR's presence. I have been on the Lakeville Economic Development Commission for over 25 years and can assure you that PGR's impact to our business climate is probably our biggest selling point in drawing new businesses! Our Chamber of Commerce recognized Dave Fellon and PGR as a “Business of the Year.”

My companies', APPRO Development, Inc. (a full service design/build/development firm) and CERRON Commercial Properties (a full service commercial/industrial real estate company) have benefited and engaged with PGR in so many ways over the years:

- Cooperatively marketing to various industries prospecting for new facilities/sites.
- Confirming all benefits of locating here, including labor, transportation and economic.
- We have had the sincere pleasure of designing and building PGR's numerous facilities, including their corporate headquarters and many additions. They are a great company to work for, as well as one to work with!
- We have worked together to enhance/improve business opportunities to the existing companies we serve. I can share many specific examples and references of international, national and small local companies that will sing the praises of the incredible service provided by PGR.

The PGR culture of service creates an economic environment that continually builds on itself – the existing businesses flourish and draw new industry to our park – vendors, supply chain partners and even competitors have realized the benefits of locating here. Economic incentives to industry are important, but take a distant second or third consideration to the critical infrastructure to do business – for instance, solid transportation considerations like reliable rail service.

I sincerely hope that you will contact me (any time – “24/7”) to allow me to elaborate on the benefits of having PGR in our business community!

Respectfully,

Jack Matasosky

CEO
APPRO Development, Inc.
21476 Grenada Avenue
Lakeville, MN 55044
(952) 240-4705 (cell)
www.approdevelopment.com

Owner/Broker
CERRON Commercial Properties, LLC
21476 Grenada Avenue
Lakeville, MN 55044
(952) 240-4705 (cell)
www.cerron.com

John O'Hara
Lansing Trade Group LLC
10975 Benson Dr. Suite 400
Overland Park, KS 66210
10/20/2017

LANSING
TRADE GROUP, LLC

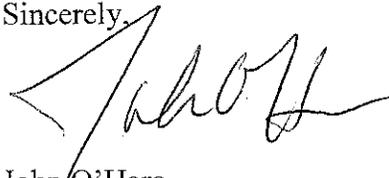
Dave Fellon
Owner
Progressive Railroad Incorporated
21778 Highview Avenue
Lakeville, MN 55044

Dear Dave Fellon:

I am writing to express our support for Progressive Railroad (PGR) in regards to acquiring a site located in the Santa Cruz, California area. Over the last 5 years, we have continued to increase our propane presence with PGR, including developing and growing volumes for propane at Moravia, IA, Mason City, IA, and Chippewa Falls WI. As a top 10 shipper of propane on the Canadian Pacific Railroad, we would like to continue our growth with you and your team. The service your team provides is unparalleled in the industry, and has been instrumental in enabling us to provide creative, efficient, and competitive supply to various markets. Dave, we look forward to continuing our growth in partnership with PGR.

Please let me know as you advance this opportunity.

Sincerely,



John O'Hara
Manager, Lansing NGL Services,
a division of Lansing Trade Group LLC





NICK DILLON

MANAGING DIRECTOR, FINANCE

612-385-1423

ndillon@progressiverail.com

FINANCIAL CONDITION

PGR isn't your everyday short line railroad. Its customer-first mentality is embraced by every team member. Its focus on safety and efficiency is unwavering. Its commitment to both operational and financial integrity is unmatched.

At PGR, we live in the moment but plan for the future. We track and manage our carload activity on a daily basis, conduct monthly financial reviews with each of our business unit leaders, and assemble an annual operating plan to ensure our path to success is clearly mapped out.

Our focus on financial rigor, compliance, and planning is, and will continue to be, a top priority at PGR. Our seasoned finance department has successfully integrated multiple businesses into the PGR portfolio over the years including the addition of Piedmont and Northern Railroad earlier this year. Also, we recently renegotiated our loan and security agreement to ensure we are properly capitalized and able to take advantage of the right opportunities when they arise. If we are fortunate enough to be awarded the lease, we will endeavor to provide the same level of diligence and dedication that we do for our existing PGR businesses with the hope of returning a thriving and financially stable railroad to the county of Santa Cruz and the surrounding area.



PROGRESSIVE RAIL, INC. AND AFFILIATE
UNAUDITED COMBINED STATEMENTS OF OPERATIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017

	YTD September 30, 2017
REVENUES	\$ 26,963,374
COST OF SALES	427,769
GROSS PROFIT	26,535,605
OPERATING EXPENSES	23,061,360
INCOME FROM OPERATIONS	3,474,245
OTHER EXPENSE	(1,157,124)
INCOME BEFORE INCOME TAXES	2,317,122
PROVISION FOR INCOME TAXES	122,390
NET INCOME	\$ 2,194,732
NET LOSS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	(16,385)
NET INCOME ATTRIBUTABLE TO PROGRESSIVE RAIL, INC.	\$ 2,178,347
EBITDA	\$ 5,887,023
Latest full year forecast for 2017	\$ 8,500,000



**PROGRESSIVE RAIL, INC. AND AFFILIATE
COMBINED BALANCE SHEETS
AS OF SEPTEMBER 30, 2017 AND DECEMBER 31, 2016**

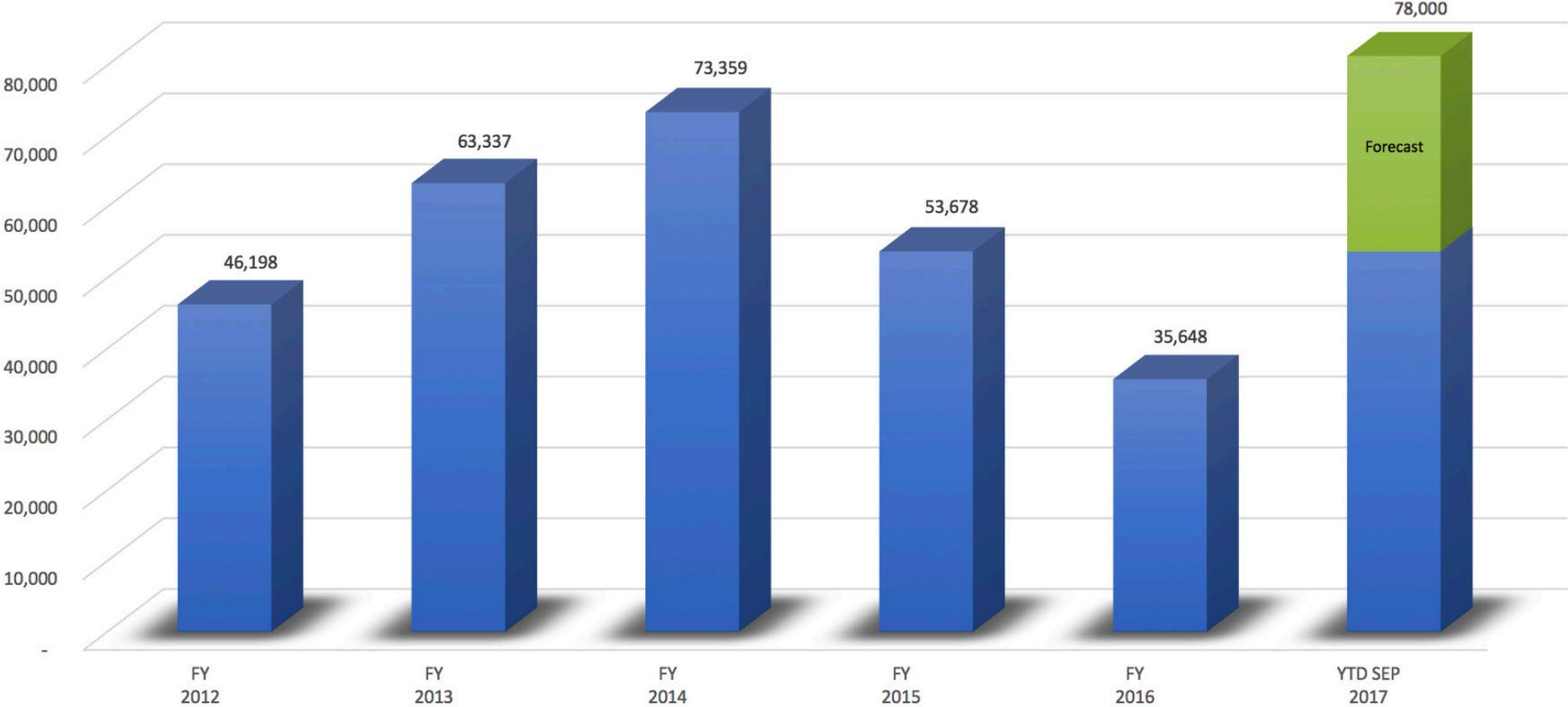
ASSETS

	SEPTEMBER 30, 2017 (Unaudited)	DECEMBER 31, 2016 (Audited)
CURRENT ASSETS	\$ 10,917,546	\$ 9,581,002
PROPERTY AND EQUIPMENT	58,551,876	54,177,704
LESS - ACCUMULATED DEPRECIATION	22,625,593	21,410,502
PROPERTY AND EQUIPMENT, NET	35,926,283	32,767,202
OTHER ASSETS	5,109,765	4,969,678
TOTAL ASSETS	\$ 51,953,594	\$ 47,317,882

LIABILITIES AND STOCKHOLDERS

CURRENT LIABILITIES	\$ 8,749,073	\$ 5,339,364
LONG-TERM LIABILITIES	14,747,124	14,818,753
TOTAL LIABILITIES	23,496,196	20,158,117
TOTAL EQUITY - PROGRESSIVE RAIL, INC.	28,089,754	26,758,506
NON-CONTROLLING INTEREST IN SUBSIDIARIES	367,643	401,259
TOTAL STOCKHOLDER EQUITY	28,457,397	27,159,765
TOTAL LIABILITIES AND STOCKHOLDER EQUITY	\$ 51,953,594	\$ 47,317,882

Progressive Rail, Inc. Revenue Carloads





JIM THORNTON

MANAGING DIRECTOR, LEGAL

404-539-5421

jthornton@progressiverail.com

PARTNERING

Progressive Rail has assembled a team of professionals to help the company thrive. An experienced executive team is bolstered by an operations team with thousands of years of experience. This combined with top-notch safety, MOW and MOE teams ensures that Progressive Rail can operate seamlessly.

PGR is commercially agile and applies its legal capabilities to create a variety of contracts tailored to customers' needs. Whether it is a carload switching agreement or a transloading agreement or the installation of a propane terminal, we stand ready to execute,

With regard to operating the Santa Cruz Branch Line for the SCCRTC, we envisage a closely aligned partnership that enables us to restore and grow the business optimally. As such, we plan to invest a significant amount of capital in speculative growth initiatives that will require bank financing. PGR will require a sufficient leasing term to underpin that financing. Oftentimes the payout period for such endeavors can exceed ten years.

David Fellon is the founder and driving force behind Progressive Rail Incorporated, but Progressive Rail is more than David Fellon. It is the collective of culture, leadership, experience, structure and ability assembled by Dave to preserve and grow his legacy.





CRAIG MCKENZIE

CHAIRMAN

218-324-2001

cmckenzie@progressiverail.com

BUSINESS PLAN

The PGR team will rebuild, operate, and grow the Santa Cruz Branch Line in a safe, professional, cost-effective manner. Our industrial approach will comprise the following priorities:

1. Given the deteriorated conditions, a phased maintenance of way program will be necessary to first achieve minimal ties and surfacing compliance and then methodically rebuild the entire track infrastructure.
2. Locate a SW1500 or equivalent switcher to Santa Cruz and appoint a dedicated Train & Enginemen (T&E).
3. Secure a rail-served warehouse that can be deployed into a modern multmodal transloading campus.
4. Approach existing customers in the switching district to pledge a new level of service to begin earning their confidence.
5. Target existing customers within PGR's network for possible expansion into Santa Cruz as well as new customers that may benefit from being connected to the National Rail Network.
6. Enroll PGR's bank and possible government agencies as sources of funding to underpin the required works and aspirational growth projects.

With the priorities above, a business plan will be created in the first 90 days to define specific deliverables. To implement the plan PGR will assign an Operations "business unit leader" who will be singly accountable for building a comprehensive T&E capability, conducting safe operations in Santa Cruz county, providing on-the-ground customer and local stakeholder interface, and facilitating efforts to grow the business. All works aimed at restoring asset integrity will be led by our Operations Services organization that includes Maintenance-of-Way, Maintenance-of-Equipment, Signals & Crossing, FRA Compliance, Health, Safety, & Environment, and Multimodal Transloading Services.

PGR is not in a position to know the historical carload and financial details of the Santa Cruz Branch Line. Thus, PGR's pledge outlined in this submittal makes a number of assumptions related to potential costs and value generation. Knowing that there are a number of asset integrity issues to resolve and that PGR will need to make a number of speculative investments to create a growth platform from which to build, PGR would like to respectfully submit a revenue sharing arrangement where PGR pays the SCCRTC 5% of revenues and a lease term of 20 years with automatic renewals. This combination will enable PGR to bridge toward becoming a profitable business that achieves funding hurdles, and results in a sustainable, safely-run business that is ever-growing.



THE FIRST 90 DAYS

From the Contract Effective Date, PGR will prepare a number of plans to ensure the Santa Cruz Branch Line is properly launched as a PGR operation. These plans include:

- MOW & Signals Plan – a rail and bridge review will be undertaken by all MOW & Signals teams, which will include retaining independent bridge inspectors for qualified bridge reports. Signal crossings will be evaluated in-house. From these inspections, a maintenance plan will be created to manage routine maintenance, repairs, and upgrades.
- Operations Plan – Led by the PGR HSE team, a review will be undertaken of all operating procedures, FRA compliance, certifications, and other formal records. A plan will be prepared and implemented to resolve any deficiencies.
- Performance Plan – The Business Unit Leader (BUL) responsible for the Santa Cruz Branch Line will help prepare and subsequently execute a performance contract with key metrics for safety, operations, key financials, and team behaviors. The BUL will report on performance against these metrics quarterly and the entire team will be eligible for quarterly Short Term Incentive (STI) cash bonuses for superior and excellent performance.
- Marketing Effort – From day one, PGR will reach out to its existing customer network and ascertain if any of them are in a position to extend their freight transportation to the Santa Cruz Branch Line. A dedicated representative from the PGR marketing team will begin a never-ending process to “pound the pavement” locally in Santa Cruz to identify, market towards, and secure brand new freight customers.
- Excursion Plan – PGR will meet with SCCRTC to better understand how PGR can provide both continuity of service to existing excursions such as the “Polar Express” and other possible initiatives. PGR has excursion experts both in-house and through its alliance with the pre-eminent excursion provider in the United States who will dedicate resources to explore other possible family-oriented passenger trips. A multi-year plan will be formed to lay out priorities and agree passenger trip projects, which once approved, will be implemented with dedicated resources.



CLOSING PERIOD

From the contract award date, PGR will meet with SCCRTC immediately to make introductions and to agree a process to finalize and execute definitive agreements.

PGR will invite SCCRTC officials to its headquarters in Lakeville, Minnesota, to showcase its operations and discuss how to best align PGR capabilities with SCCRTC priorities.

As permitted by SCCRTC, PGR will have introductory discussions with Santa Cruz Branch Line employees. PGR's commitment is to retain all Santa Cruz Branch Line employees.

PGR will assign a "business unit leader" who will be singly accountable for conducting safe operations on the line, providing customer and local stakeholder interface, and facilitating efforts to grow the business, which will be driven by PGR's marketing team.

A transition plan will be prepared and implemented to ensure new employees to PGR are provided with a company orientation, Human Resource documents that include compensation and grade level assignments, benefits, employment contracts, and any training that is required.



THE PGR PLATFORM WORKS IN LAKEVILLE, MINNESOTA,



AND IT WILL WORK IN SANTA CRUZ, CALIFORNIA.