



**SAN DIEGO & ARIZONA
EASTERN RAILWAY
COMPANY**

A NEVADA NONPROFIT
CORPORATION

1255 IMPERIAL AVENUE,
SUITE 1000
SAN DIEGO, CA
92101-7490
(619) 231-1466

BOARD OF DIRECTORS
BRAD OVITT, CHAIRPERSON
MATT DOMEN
PAUL JABLONSKI

OFFICERS
PAUL JABLONSKI, PRESIDENT
MATT DOMEN, SECRETARY
ERIN DUNN, TREASURER

LEGAL COUNSEL
KAREN LANDERS

AGENDA

San Diego and Arizona Eastern (SD&AE) Railway Company
Board of Directors Meeting

April 15, 2014
9:00 a.m.

Executive Committee Room
James R. Mills Building, 1255 Imperial Avenue, 10th Floor

This information will be made available in alternative formats upon request. To request an agenda in an alternative format, please call the Clerk of the Board at least five working days prior to the meeting to ensure availability. Assistive Listening Devices (ALDs) are available from the Clerk of the Board prior to the meeting and are to be returned at the end of the meeting.

- | | <u>ACTION
RECOMMENDED</u> |
|---|-------------------------------|
| 1. <u>Approval of the Minutes of January 14, 2014</u>
Action would approve the SD&AE Railway Company Minutes of January 14, 2014. | Approve |
| 2. <u>Statement of Railway Finances (Erin Dunn)</u>
Action would receive a report for information. | Receive |
| 3. <u>Report on San Diego and Imperial Valley (SD&IV) Railroad Operations (Matt Domen)</u>
Action would receive a report for information. | Receive |
| 4. <u>Report on Pacific Southwest Railway Museum (Diana Hyatt)</u>
Action would receive a report for information. | Receive |
| 5. <u>Report on the Desert Line (Chas McHaffie)</u>
Action would receive a report for information. | Receive |
| 6. <u>Real Property Matters (Tim Allison)</u>
a. <u>Summary of SD&AE Documents Issued Since January 14, 2014</u>
Action would receive a report for information. | Receive |
| b. <u>Easement Agreement with Unified Port of San Diego</u>
Action would approve: (1) two public at-grade crossing easements to Unified Port of San Diego (Port) across the Coronado Branch south of J Street in the City of Chula Vista; and (2) two temporary license agreements to use the existing crossings in the same location. | Approve |
| 7. <u>Election of SD&AE Chairperson (Karen Landers)</u>
Action would discuss electing a new Chairperson and forward a recommendation to the MTS Board of Directors for approval. | Possible
Action |
| 8. Board Member Communications | |
| 9. Public Comments | |
| 10. Next Meeting Date: July 15, 2014 | |
| 11. Adjournment | |

DRAFT MINUTES

BOARD OF DIRECTORS MEETING OF THE SAN DIEGO & ARIZONA EASTERN RAILWAY COMPANY

January 14, 2014

A meeting of the Board of Directors of the San Diego & Arizona Eastern (SD&AE) Railway Company, a Nevada corporation, was held at 1255 Imperial Avenue, Suite 1000, San Diego, California 92101, on January 14, 2014, at 9:00 a.m.

The following persons, constituting the Board of Directors, were present: Matt Domen and Wayne Terry (as the alternate for Paul Jablonski). Brad Ovitt was absent. Also in attendance were members from:

San Diego Metropolitan Transit System:
San Diego Association of Governments:
Pacific Southwest Railway Museum:
Pacific Imperial Railroad, Inc.:

Kimley-Horn & Associates:
Trains Magazine:
FFBC:
Other:

Tim Allison, Karen Landers, Erin Dunn
Pete d'Ablaing
Diana Hyatt
Sheila LeMire, Dave Arganbright, Jack Rohal,
Raul Pulido, David Rohal, Charles Patterson
Anthony Podegracz
Don Jones
Hector Gonzalez
Ana Sofia Gonzalez, Juan Antonio Martinez

1. Approval of Minutes

Mr. Terry moved to approve the Minutes of the October 22, 2013, SD&AE Railway Board of Directors meeting. Mr. Domen seconded the motion, and it was unanimously approved.

7. Update on San Ysidro Freight Yard Improvement Projects (Taken Out of Order)

Pete d'Ablaing of SANDAG and Anthony Podegracz of Kimley-Horn gave an update on San Ysidro Freight Yard Improvement Projects. (See attached PowerPoint.)

Action Taken

Mr. Terry moved to receive the report for information. Mr. Domen seconded the motion, and it was unanimously approved.

2. Statement of Railway Finances

Erin Dunn reviewed the financial statement for the 4th quarter of 2013 (attached to the agenda item). Tim Allison added that some of the expenses were for a wind turbine project in the valley, which required engineers and personnel.

Action Taken

Mr. Terry moved to receive the report for information. Mr. Domen seconded the motion, and it was unanimously approved.

3. Report on San Diego & Imperial Valley Railroad (SD&IV) Operations

Matt Domen reviewed the report of activities for the 4th quarter of 2013 (attached to the agenda item). Mr. Domen stated that there was an additional engineer/conductor position added under Labor (on page 1 of the report) for a total of 10 employees at the end of December 31, 2013.

Action Taken

Mr. Terry moved to receive the report for information. Mr. Domen seconded the motion, and it was unanimously approved.

4. Report on Pacific Southwest Railway Museum Operations

Diana Hyatt reviewed the 4th quarter of 2013 report (attached to the agenda item). Ms. Hyatt noted the following corrections to the report:

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During the fourth quarter of 2013, utilizing all volunteer crews, the Pacific Southwest Railway Museum ran 26 passenger trains carrying 6,535 passengers with no FRA reportable accidents or injuries. Total income from SD&AE property for fourth quarter, 2014 exceeded \$140,000; a → \$160,000 more accurate accounting will be provided verbally at the quarterly meeting of the SD&AE board. By comparison, PSRM carried 6,889 passengers during the fourth quarter of 2012 and total income from SD&AE property was \$185,410.

Ms. Hyatt stated that the decline in ticket revenue was due to reduced train operations.

Ms. Hyatt expressed concern that it has been a year since the operating agreement has expired and it has been on a month-to-month basis. Ms. Hyatt requested separate operating agreements for PIR and the Museum.

Ms. Landers responded that she is not amenable to separate agreements. She added that MTS is not willing to sign off on not being a party to maintenance and operations on the line, and that the intent is to renew the agreement for five years. Ms. Landers stated that some additional provisions need to be added to the lease. Ms. Hyatt responded that the issue with a month-to-month lease is that it could affect the Museum when applying for potential grants.

Shelia LeMire of PIR clarified that the intention was not to leave MTS out of the agreement but instead for PIR to work with the Museum to iron out the responsibilities and then present them to MTS.

Ms. Landers stated that passenger operations should not be addressed in the agreement at this point. She clarified that the agreement will continue for five years and will include responsibilities (that are amenable to all parties).

Ms. Hyatt requested copies of the appendices that are to be included with the agreement. Ms. Landers agreed to provide those copies.

Action Taken

Mr. Domen moved to receive the report for information. Mr. Terry seconded the motion, and it was unanimously approved.

5. Report on the Desert Line

Sheila LeMire introduced David Rohal, newly elected President of PIR. Mr. Rohal introduced new PIR personnel: Charles Patterson, Chief Commercial Officer; David Arganbright, Senior Vice President of Development; Raul Pulido, Controller; and Jack Rohal (David Rohal's son).

Chas McHaffie reviewed PIR's 4th quarter of 2013 report (attached to the agenda item). Mr. McHaffie explained that PIR will be focusing on commodities solely on the U.S. side of the border going forward and doing much less business with the maquiladoras than originally planned. He added that PIR will submit the newly revised business plan to the SD&AE Board by the next quarter.

Mr. McHaffie informed members that PIR submitted payments on schedule and in conformance with its contract.

- Alejandro De La Torre of Baja California Railroad, Inc.

1. Mr. De La Torre requested the status of the maintenance project on the Desert Line and a time line for completion. He stated that Baja is working on the rail line in Tecate and anticipates completion by June 2014.

Mr. Rohal, PIR President, responded stating that PIR had an engineering firm conduct physical inspections of the bridges, tunnels, rails, and ties. They should have a final sum for the work required in a few weeks. Mr. Rohal stated that the line is currently not safe to operate on, and all work and testing must be completed and in compliance before operations can commence. He added that he could not provide a time line at this time.

2. Mr. De La Torre asked who the majority owners of PIR are because there are two groups claiming to be the owners (PIR and Dan Barone). He asked who to speak with regarding an interchange agreement.

Mr. McHaffie responded that the majority owners of PIR are a group from Nevada, and Mr. McHaffie is their representative on all matters.

3. Mr. De La Torre commented that information on PIR's Web site is creating issues for his company because it implies that PIR is operating on the Tecate short line. He requested that PIR correct this information. Ms. LeMire responded that the information on the Web site does not say that specifically, but it is a little vague. Mr. McHaffie added that since the new business plan will be geared toward the U.S., all of that current information will be alleviated.

Action Taken

Mr. Domen moved to receive the report for information. Mr. Terry seconded the motion, and it was unanimously approved.

6. Real Property Matters**a. Summary of SD&AE Documents Issued Since October 22, 2013**

Tim Allison stated that since the October 22, 2013, SD&AE Railway Company Board of Directors meeting, the documents described below have been processed by staff.

- S200-14-587: Right of Entry Permit to LB Civil Construction, Inc. to construct the extension of H Street in the City of Chula Vista.

Action Taken

Mr. Terry moved to receive the report for information. Mr. Domen seconded the motion, and it was unanimously approved.

8. Board Member Communications

There were no Board member communications.

9. Public Comments

There were no additional public comments.

10. Next Meeting Date

The next meeting of the SD&AE Railway Company Board of Directors is on April 15, 2014.

11. Adjournment

The meeting was adjourned at 9:30 a.m.

President

General Counsel

DRAFT MINUTES - SDAE 1-14-14

Attachment: PowerPoint - *TCIF Funded South Line Freight Rail Projects*



TCIF Funded South Line Freight Rail Projects

Status Update: SD&AE Main Line
Track and San Ysidro Freight Yard
Improvements Projects

SD&AE Board of Directors
January 14, 2014

Trade Corridors Improvement Fund (TCIF) Program

- » Statewide program, \$250M in San Diego
- » Focus on freight infrastructure improvements on high volume trade corridors
- » CTC has approved project scopes of work and funds have been allocated
- » Monitored by California Transportation Commission (CTC) and Caltrans Division of Rail (DOR)



South Line Freight Corridor Improvements

- » Increased Freight Capacity within corridor
 - » Doubles capacity - increase freight capacity from 10,000/year to 19,600/year (from 2 to 4 trains/day)
 - » Provide freight capacity to potentially eliminate up to 31,800 truck trips/year on regional facilities
- » Increase speed of freight traffic along corridor
- » Safety improvements through Signal upgrades
- » Potential for improved connectivity with Mexico
- » Leverages rail investments and provides flexibility for future Freight demands.
- » Also benefits MTS



SANDAG 3

South Line Freight Corridor Details

- » 2 Separate Construction Projects
 - San Ysidro Yard Expansion Project
 - » Cost:
 - \$25.9M from TCIF
 - \$40.5M total cost
 - » Status:
 - Right-of-Way Acquisition Complete
 - Initial Construction started early 2013
 - Main Construction project to start in February 2014
 - Main Line Improvement Project
 - » Cost:
 - \$42.2M from TCIF for mainline improvements
 - \$51.2M total cost
 - » Status:
 - Broken into 4 Phases for Construction
 - » 3 Phases in Construction (1 complete)
 - » 4th Phase schedule to start in February 2014

SANDAG 4

Mainline Improvement Project

» Project Elements

- Signaling Improvements
 - Aerial Cable/Fiber Backbone
 - Positive Train Separation (if FRA requires)
 - Bi-Directional CTC
 - Bi-Directional Grade Crossing
- Palomar Siding Improvements
 - Siding Split North and South of Palomar St. Trolley Station
 - New Southern Connection
 - Freight Bridge Over Main Street
 - New turnouts and derails
- New Mainline Crossovers
 - Just South of San Diego Yard Entrance
 - North of L Street



SANDAG

Mainline Improvement Project Status

» Palomar Siding: Existing Condition



» Palomar Siding: Future Configuration



SANDAG

Mainline Improvement Project Status

» Construction Phasing

- Broken into 4 Phases to Aid in project delivery and for Efficiency with concurrent Trolley Improvement Program

- Phase 1: Aerial Cable/Fiber Backbone

- Complete

- Phase 2: Initial Signal & Track Improvements

- In final stage of Construction

- Phase 3: Palomar Siding Improvements

Concurrent with Palomar LRT Station reconstruction, work scheduled for mid 2014 (overall construction contract underway)

- Phase 4: Track, Signal and Grade Separation Improvements

- Project awarded to Flatiron/H&H Joint Venture
 - Anticipate Construction NTP will occur in February 2014
 - Project duration: 545 calendar days (~18 months)



SANDAG

San Ysidro Freight Yard Expansion

» Project Elements

- Freight Track Improvements

- Reconstruction of Storage Tracks and Special Trackwork
 - Yard Lead Extension

- New Access Road & Circulation

- New Paved Loading Areas

- Improved Potential for Transloading

- Signal Improvements

- Grading & Drainage Improvements

- New Lighting and Communication Systems (CCTV)

- Right of Way Acquired



SANDAG

San Ysidro Freight Yard Expansion

- Right-of-Way Acquisition:
 - Complete
- Construction:
 - Initial Phases
 - Chain and Mow occurred in January 2013
 - Initial Mainline work occurred in late 2013
 - Main Project
 - Awarded to West Coast General
 - NTP to occur February 3, 2014
 - Project Duration: 300 working days (~ 15 months)



SANDAG

Conclusion

- » We will continue to work with MTS/SD&AE.
- » We will continue to monitor concurrent Trolley Improvement Projects.
- » Questions?
- » Contacts
 - Pete D'Ablaing (619-699-1906; Pete.Dablaing@sandag.org)
 - Anthony Podegracz (619-744-0116; anthony.podegracz@kimley-horn.com)

SANDAG 10

Agenda Item No. 2

**San Diego and Arizona Eastern (SD&AE)
Railway Company
Board of Directors Meeting**

April 15, 2014

SUBJECT:

STATEMENT OF RAILWAY FINANCES

RECOMMENDATION:

That the SD&AE Railway Company Board of Directors receive a financial report for the quarter ended March 31, 2014.

Budget Impact

None

DISCUSSION:

Attached are the financial results for the first three quarters of fiscal year (FY) 2014, which includes the periods ended March 31, 2014, and 2013.

The current year-to-date income of \$835,000 is favorable to budget primarily due to the Desert Line lease revenue not being in the original budget as well as an increase in right of entry permit revenue. Income has increased by \$814,000 compared to the same period last year—again—primarily due to the Desert Line lease revenue and an increase in right of entry permit revenue. MTS anticipates programming the Desert Line lease revenues for capital repairs along SD&AE-owned property.

Expenses are \$30,000 unfavorable to budget primarily due to an unfavorable variance in personnel costs offset by favorable risk management costs. Expenses have increased by \$8,000 over the same period last year primarily due to the increase in personnel costs partially offset by a decrease in outside services. The net income for the first three quarters of FY 14 was \$812,408 compared to net income of \$7,235 for the same period in FY 13.

Attachment: SD&AE Operating Statement 3rd Quarter FY 14

SD&AE Operating Statement FY 2014-13

	FY 2014						FY 2013	
	Q1 2014	Q2 2014	Q3 2014	YTD	Budget	Variance	Q1 - Q3	Variance
Revenue								
Right of Entry Permits	\$ 13,250	(700)	82,128	94,678	22,500	72,178	38,049	56,629
Lease Income	13,081	18,640	17,984	49,705	60,003	(10,298)	59,569	(9,864)
Desert Line Lease Revenue	250,000	250,000	250,000	750,000	-	750,000	-	750,000
SD&IV 1% Freight Fee	9,704	8,000	31,198	48,902	26,253	22,649	32,000	16,902
Total Revenue	286,035	275,940	381,310	943,284	108,756	834,528	129,618	813,666
Expense								
Personnel Costs	30,685	36,238	31,765	98,688	64,673	(34,015)	76,968	(21,720)
Legal Fees	-	-	1,200	1,200	-	(1,200)	-	(1,200)
Outside Services	515	17,529	1,325	19,369	15,016	(4,353)	29,740	10,371
Risk Management	3,336	3,751	3,799	10,885	20,475	9,590	15,141	4,257
Misc Operating Expenses	284	75	375	734	378	(356)	534	(200)
Depreciation	-	-	-	-	-	-	-	-
Total Expense	34,820	57,593	38,464	130,876	100,542	(30,334)	122,383	(8,493)
Net Income/(Loss)	\$ 251,215	\$ 218,347	\$ 342,846	\$ 812,408	\$ 8,214	804,194	\$ 7,235	805,174

Reserve Balance 2013 **\$ 1,505,741**

Allocated interest earnings - estimated 3,000
Operating profit/(loss) 812,408

Reserve Balance 2014 - Estimated **\$ 2,321,149**

Agenda Item No. 3

**San Diego and Arizona Eastern (SD&AE)
Railway Company
Board of Directors Meeting**

April 15, 2014

SUBJECT:

REPORT ON SAN DIEGO AND IMPERIAL VALLEY (SD&IV) RAILROAD OPERATIONS

RECOMMENDATION:

That the SD&AE Board of Directors receive a report for information.

Budget Impact

None.

DISCUSSION:

An oral report will be given during the meeting.

Attachment: Periodic Report for the 1st Quarter of 2014



SD&AE Board
C/O MTS
1255 Imperial Avenue, Suite 1000
San Diego, California 92101

March 31, 2014

Periodic Report

In accordance with Section 20 of the Agreement for Operational Freight Service and Control through Management of the San Diego and Arizona Eastern Railway Company activities of interest for the 1st Quarter of 2014 are listed as follows:

1. Labor

At the end of March 31, 2014 the San Diego & Imperial Railroad had 10 employees:

- 1 General Manager
- 1 Trainmaster
- 1 Manager - Marketing & Sales
- 1 Office Manager
- 1 Mechanical Manager
- 1 Roadmaster
- 1 Maintenance of Way Employee
- 3 Train Service Employees

2. Marketing

Volume in the 1st Quarter declined 3% as compared to 2013. Bridge traffic had a 1% decrease, primarily driven by a decrease in food and ag products going into Mexico. Traffic terminating or originating on the SDIY was down 17% versus last year.

3. Reportable Injuries/Environmental

Days through year to date, March 31, 2014, there were no FRA Reportable injuries or Environmental incidents on the SDIV Railroad.

Days FRA Reportable Injury Free: 6206

4. Summary of Freight

	2014	2013	2012
Total rail carloads that moved by SDIY Rail Service in the quarter.	1185	1227	756
Total railroad carloads Terminating/Originating Mexico in the quarter.	1033	1043	584
Total railroad carloads Terminating/Originating El Cajon, San Diego, National City, San Ysidro, California in the quarter.	152	184	172
Total customers directly served by SDIY in the quarter	10	10	10
Regional Truck trips that SDIY Railroad Service replaced in the quarter	3555	3681	2268

Respectfully,

Matt Domen

General Manager

Agenda Item No. 4

San Diego and Arizona Eastern (SD&AE)
Railway Company
Board of Directors Meeting

April 15, 2014

SUBJECT:

REPORT ON PACIFIC SOUTHWEST RAILWAY MUSEUM

RECOMMENDATION:

That the SD&AE Board of Directors receive a report for information.

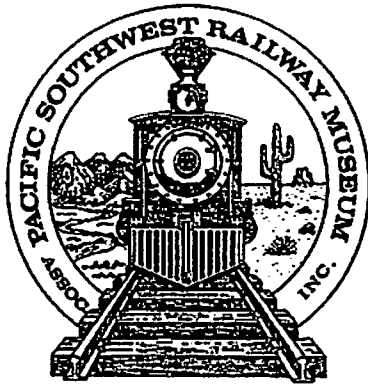
Budget Impact

None.

DISCUSSION:

A report will be presented during the meeting.

Attachment: Quarterly Report



Pacific Southwest Railway Museum

La Mesa Depot 4685 Nebo Drive La Mesa, CA 91841 619-465-7776

April 7, 2014

SD&AE Board
c/o Metropolitan Transit System
1255 Imperial Avenue, Suite 1000
San Diego, CA 92101

Re: First Quarter 2014

Dear SD&AE Board:

During the first quarter of 2014, utilizing all volunteer crews, the Pacific Southwest Railway Museum ran 52 passenger trains carrying 2,223 passengers with no FRA reportable accidents or injuries. Total income from SD&AE property for first quarter, 2014 was \$36,566.33. Our check for \$731.33 will follow under separate cover. By comparison, PSRM carried 3,081 passengers during the first quarter of 2013 and total income from SD&AE property was \$20,934.32.

Passenger ridership by comparison to the same quarter in previous years:

3,081 passengers during the first quarter of 2013
3,001 passengers during the first quarter of 2012
924 passengers during the first quarter of 2011
1,006 passengers during the first quarter of 2010
2,483 passengers during the first quarter of 2009
2,987 passengers during the first quarter of 2008

Passenger ridership figures have declined for at least two reasons: the first being our Groupon promotion last year. Although Groupon was successful in terms of elevating ridership, it was not successful in elevating income, as is evidenced by the increase in actual income of \$15,632.01 for first quarter, 2014. The second reason for a decrease in ridership was due to no special events during the first quarter of 2014, unlike 2013, Easter and Bunny Trains will take place during the second quarter of the year.

PSRM continues to maintain both signalized railroad crossings within our right of way limits performing the monthly and quarterly inspections. PSRM also performs twice-weekly track

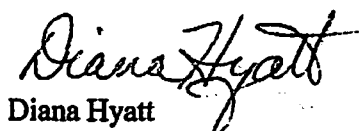
inspections between MP 59.9 and 66.77. Likewise, our volunteer track crew continues to perform track maintenance tasks, particularly tie replacement on the mainline.

On Sunday, March 2, 2014, with the permission of PIR, a track inspection of the railroad was performed from Campo to Dos Cabezas. Again, with permission of PIR, a contingent of visitors, primarily employees of Admicarga but also representatives from the local and state departments of tourism in Mexico were escorted by PSRM via motorcar from Jacumba to Plaster City and return. The objective was to demonstrate the continuity of the Desert Line to our Mexican contemporaries.

Highlights for second quarter 2014 will be the Chefs Fire Up the Iron Horse wine and food pairing event in our Display Building on Saturday, April 5 and the Father's Day BBQ and train ride on Sunday, June 15. A modified summer schedule will begin on Saturday, June 21 and extend through Sunday, August 31, 2014. The museum will operate two evening trains on Saturday, one departing the Campo Depot at 5:00 pm and one departing at 7:00 pm. The museum will not operate passenger trains on Sundays during this time period. The regular Golden State train schedule with train departures on Saturdays and Sundays at 11:00 am and 2:30 pm will resume on Saturday, September 6, 2014.

PSRM's operating agreement with SD&AE expired in December, 2012 and currently self-renews on a monthly basis. No progress has been made since the last quarterly meeting of this board towards changing this situation. There is a letter of understanding between PSRM and PIR dated January 14, 2013 which was presented to this board and incorporated into the minutes of the January 15, 2013 meeting. A suggested re-draft that incorporated the parameters outlined in the above-referenced letter was submitted by PSRM to Don Stocklein and Karen Landers last spring. At the last quarterly meeting concerns were raised that the attachments to the last agreement were not readily available to PIR or PSRM.

Sincerely,


Diana Hyatt
President



Pacific Southwest Railway Museum

La Mesa Depot 4605 Nebo Drive La Mesa, CA 91941 618-465-7778

**Mr. Don Stoecklein
President
Pacific Imperial Rail
c/o Stoecklein Law Firm
401 West A Street, Suite 1150
San Diego, CA 92101**

Re: Our meeting Friday, January 11, 2013

Dear Don:

Please accept this letter as a summary of our meeting held at your office last Friday, January 11, 2013. Those in attendance were: Sheila Lamire, PIR, Don Stoecklein, PIR, Greg Luiz, PSRM Director of Operations, Michael Edwards, PSRM Assistant Director of Operations and myself.

The primary objective for this meeting was to discuss the renewal of PSRM's operating agreement with the Metropolitan Transit System (MTS) and its impact upon the parallel operating agreement between MTS and PIR. This letter is intended to identify the responsibilities and establish the administrative infrastructure with regards to rail operations and traffic control as it pertains to the SDAE railway known as the Desert Line between MP 59.94 and MP 74. It was agreed upon that Pacific Southwest Railway Museum will be identified as the "Host Railroad" and control all rail operations between MP 59.94 and MP 74.0, specifically:

- 1. All rail traffic will be dispatched by PSRM.**
- 2. PSRM will be responsible for training and qualifying dispatchers in accordance with Federal Railroad Administration (FRA) standards including supervision, testing and record keeping.**
- 3. PSRM will establish and maintain all operating rules, policies, timetables, general orders, track bulletins, road frequencies and procedures for all rail traffic operating between MP 59.94 and MP 74.0 in compliance with all FRA and FCC regulations.**
- 4. PSRM will be responsible for maintaining designated track, structures, and right-of-way to Class 2 Federal standards in compliance with all FRA regulations.**
- 5. PSRM will be responsible for vegetation abatement along the right of way and in compliance with Cal-Fire and California PUC requirements.**

6. PIR and PSRM agree that PSRM is unable to assume liability for the grade crossings without maintaining financial responsibility for the public utility service at the two automated grade crossing warning systems located at state highway 94 at the west and east ends of the Campo Valley respectively. PSRM will perform all FRA mandated monthly, quarterly, semi-annual and annual inspections and maintenance and any other inspections and maintenance as necessary.
7. The above points shall not inhibit or restrict PIR's ability to operate freight trains along museum's portion of the Desert Line. PIR freight trains will be dispatched in conjunction with PSRM trains and with minimal delay.
8. This agreement shall remain in effect until such time as it naturally expires or until such time as PIR begins revenue freight rail movement on a consistent basis.

Thank you for your time and attention to this matter. I look forward to a mutually benefitting relationship.

Sincerely,

A handwritten signature in black ink, appearing to read "Diana Hyatt", with a long horizontal flourish extending to the right.

Diana Hyatt
President

Agenda Item No. 5

**San Diego and Arizona Eastern (SD&AE)
Railway Company
Board of Directors Meeting**

April 15, 2014

SUBJECT:

REPORT ON THE DESERT LINE

RECOMMENDATION:

That the SD&AE Board of Directors receive a report for information.

Budget Impact

None.

DISCUSSION:

A report will be presented during the meeting.

Attachment: Quarterly Report



PERIODIC REPORT

April 15, 2014

The periodic report to the SD&AE Railway Company is produced quarterly by the Pacific Imperial Railroad, Inc. for the SD&AE Board, in fulfillment of contractual requirements and to document activity in the restoration of the line to regional service along with its ongoing improvement for future generations.

Pacific Imperial Railroad, Inc.

First Quarter 2014

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- I. RECENT CHANGES IN MANAGEMENT**
- II. GOVERNMENTAL RELATIONS**
- III. DESERT LINE**
- IV. REPORTABLE INJURIES / ACCIDENTS /
ENVIRONMENTAL INCIDENTS**
- V. MARKETING**
- VI. FREIGHT ACTIVITY**
- VII. MTS OPERATING AGREEMENT REQUIREMENTS**

APPENDIX A: Diamond Capital Advisors, LLC \$150 Million Investment

Banking Agreement Press Release

APPENDIX B: PIR Confidential Management Report to Board of

Directors dated March 18, 2014

I. RECENT CHANGES IN MANAGEMENT

- a.** Due to recent, highly publicized turmoil surrounding false and defamatory allegations made against Pacific Imperial Railroad, Inc.'s ("PIR") majority stockholders, on February 5th and 6th of 2014, each member of management either resigned or was terminated. For continuity of business operations, Mr. Dwight Jory temporarily stepped into the positions of President and Chief Executive Officer ("CEO"). On February 19, 2014, Mr. Donald J. Stoecklein was appointed to the position of CEO of PIR.

Today, Mr. Jory, acting as President and Mr. Stoecklein acting as CEO are working to repair any damage done by members of the former management team and minimize any delay in reaching previously set goals, under the MTS Operating Agreement and otherwise.

II. GOVERNMENTAL RELATIONS

- a.** PIR still maintains that Mexican side of the rail is a crucial piece to this operation. As such, PIR has been working with Carlo Bonfante and Victor Celis on the Lindero Property has issued a

Letter of Intent pertaining to an interchange agreement at Lindero.

III. DESERT LINE

a. Reconstruction Plan

i. Inspections- PIR met with J.L. Patterson on April 3, 2014 regarding the status of the Inspections and Construction on the Line. In Order to evaluate the costs associated with tunnel repairs, to enable double stack containers, JL Patterson is recommending to PIR a LiDAR Survey of several of the tunnels. LiDAR is an acronym for “light detection and ranging.” This laser effect allows for a 3D mapping of the tunnels. This is necessary as the result of PIR wanting to maximize the capacity on the “dessert Line” by double stacking 40 & 50 Containers. The workflow analysis discussed by management of PIR and JL Patterson was as follows:

1) Process Data

2) Analyze Data

3) Generate Surfaces

4) Analyze Track Alignment

5) Analyze Notch Alignment

6) Propose Best Fit Alignment

**7) Conclude with Best and Most
Economical Fit.**

As a result of the contract work with JL Patterson, PIR has paid \$596,786.75 and has an invoice for \$40,298.61 outstanding.

b. Financing Plans

- i. PIR is evaluating its options for its fundraising efforts going forward. PIR has executed a \$150 Million Investment Banking Agreement with Diamond Capital Advisors, LLC (See Appendix A) and PIR is currently meeting with other possible sources of funding. In the past weeks PIR has received support from multiple sources, and the recent turmoil does not seem to dissuade anyone's opinion on the immense potential and impact of this project.

IV. REPORTABLE

INJURIES/ACCIDENTS/ENVIRONMENTAL INCIDENTS

- i. There have not been any reportable accidents
- ii. There have not been any reportable injuries.

- iii. There have not been any reportable environmental incidents.

V. MARKETING

- a. PIR is continuing its efforts to the approximately 658 companies in the Maquiladoras region that are potential rail customers for PIR as well as fostering the existing relationships with members of the San Diego Chamber of Commerce. PIR will continue to further those efforts in the coming weeks.
- b. The state of Baja California continues to receive inquiries into the status of train operations as a result of the high demand for railroad infrastructures.

VI. FREIGHT ACTIVITY

- a. Currently, PIR has not commenced revenue generation pending completion of the Inspections and Construction above.

VII. MTS OPERATING AGREEMENT REQUIREMENTS

- a. Pursuant to the Amended and Restated Desert Line Lease and Operating Agreement between PIR, San Diego and Arizona Eastern Railways Company and the San Diego Metropolitan Transit System, the following Performance Milestone Requirements fell within First Quarter 2014:

i. Initial Repairs. Initial Repairs shall be completed within 12 months after approval, by SD&AE of the Desert Line Reconstruction Plan (“DLRP”)

- 1) Once a conclusion has been reached in regards to the best and most economical fit for the tunnels PIR will complete its amended DLRP, Including all reports issued by JL Patterson.

ii. Rent/Lease Payment: PIR shall pay SD&AE semi-annually, a lump sum payment of \$500,000.

1. The January 1, 2014 \$500,000 payment was made to SD&AE.



**PACIFIC IMPERIAL RAILROAD, INC.
ENTERS INTO \$150 MILLION INVESTMENT BANKING AGREEMENT WITH
DIAMOND CAPITAL ADVISORS, LLC**

SAN DIEGO, CALIFORNIA (BUSINESS WIRE) -- Pacific Imperial Railroad, Inc. (PIR) announced today that it has entered into a strategic advisory agreement with Diamond Capital Advisors, LLC ("Diamond") in connection with raising up to \$150 million. Under the agreement, the funds raised will provide PIR with the capital required to repair bridges, tunnels, and replace track and ties on the 70 miles of railroad track between the US/Mexico Border and connecting with Union Pacific Railroad at El Centro, California.

We are extremely excited to have Diamond, a recognized leader in capital formation as a key advisor and an integral part of our PIR team," said PIR CEO, Donald J. Stoecklein. Gary Ferrell, Managing Director at Diamond stated "we are very pleased for the opportunity to participate in what we consider one of the most important investment opportunities in the Southern California region today." Mr. Ferrell additionally indicated that Diamond understands the significance of providing the required capital to the PIR project, creating an operational rail system on the old Desert Line, allowing for the economic transportation of significant volumes of freight from the Maquilatropolis® region of Baja, California."

ABOUT DIAMOND CAPITAL ADVISORS, LLC

Headquartered in Los Angeles, California, Diamond is a premier middle market investment-banking group that provides financial advisory and investment banking services to a diverse client base, with securities cleared through Aaron Capital Inc., a member of FINRA and SIPC. (www.diamondcapadvisors.com).

ABOUT PACIFIC IMPERIAL RAILROAD, INC.

PIR is the only company providing railroad freight services on the Desert Line, servicing the Tijuana-Tecate region of Baja California, Mexico and eastern San Diego County, as a result of signing a 99 year lease with San Diego and Arizona Railroad (SD&AE) and San Diego Metropolitan Transit System (MTS). In total, the railway system is approximately 130 miles long, consisting of 70 miles of the Desert Line, incorporating over 57 bridges and tunnels. It is the only rail line that runs directly adjacent to approximately 755 manufacturing facilities (known as maquiladoras), or the Maquilatropolis®, which is approximately 14 miles south of the US-Mexico Border, and consists of companies such as Toyota, Hyundai, Mattel, Bose, Samsung, etc.

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Pacific Imperial Railroad, Inc.

MARCH 18, 2014

**CONFIDENTIAL MEMORANDUM
REPORT TO BOARD OF DIRECTORS
Pacific Imperial Railroad, Inc.
Subject: Management Report on Company Activities
From: Donald J. Stoecklein, CEO**

Pacific Imperial Railroad, Inc. ("PIR" or the "Company") has recently experienced turmoil surrounding its origination documentation its management, allegations of fraud, criminal misconduct and mismanagement of investor funds. PIR's management writes to you, the Board of Directors now in response to those allegations, and in an attempt to provide you with a clear, factually based picture of PIR over the past 27 months.

This Management Report on Company Activities ("Report") will discuss, PIR's origins, PIR's accomplishments and issues relating to the two management 'teams. In particular, the accounting and recordkeeping irregularities, including issues regarding the A.C. Funding allegations, that PIR is currently expending significant time and money dealing with, will be analyzed.

This Report is only intended for internal use, not for general circulation. The Report shall not be disclosed to third parties without prior consent of current PIR Management.

PIR's Origins

First, in January 2011, Carrizo Gorge Railway, Inc. ("CZRY") and related parties assigned an Operating Rights Agreement on the Desert Line and a Trackage Rights Agreement with Union Pacific (the "Railroad Project Agreements") and the opportunities those two Agreements presented, to a third party.

Pacific Imperial Railroad, Inc. was then incorporated in Nevada on October 27, 2011 and concurrently, a Pre-Incorporation Agreement with and a Contribution Agreement were executed¹; setting forth the corporate structure of PIR and provided PIR with all rights, title and interest in the "Railroad Project Agreements", in exchange for the issuance of both Common and Series A Preferred Stock to Donald J. Stoecklein ("Stoecklein") and Camden Healthcare, Inc., a Nevada entity ("Camden") with Donald J. Stoecklein as its sole officer, director, and stockholder at that time.

¹ See PIR0031-PIR0058

Stoecklein was PIR's Incorporator, President, Secretary, Treasurer, and sole Director. He was asked to serve as such by the group known as the "Nevada Group," made up of Camden Healthcare, Inc., Gold Mountain North, LLC, A.C. Funding, Inc., CC Trust, Locati Global Holdings, Inc., Dwight Jory and the other principals of each entity. The Nevada Group were the founding and control group of stockholders that provided the foundational work, and years of funding and the experience of being directly involved in the operation of CZRY for four years.

As such, on January 1, 2012, Stoecklein executed an employment agreement to serve as President of PIR. Concurrently, Stoecklein Law Group ("SLG") executed a retainer agreement for the legal representation of PIR. In both instances, Stoecklein signed for both himself and SLG as well as PIR; *there was no one else to sign on behalf of PIR at that time*. On October 15, 2012, PIR conducted its annual shareholder meeting², which confirmed Mr. Stoecklein, again, as President, Secretary, Treasurer, and sole Director of PIR.

The Tembabichi Contribution

After receiving financial advice, and in an attempt to provide assets to PIR and encourage financing possibilities, in June 2012, Gold Mountain North, LLC, a member of the Nevada Group, contributed to PIR its 99% interest in the stock of Baja Mexican Riviera, S.A. a ("BMR") in exchange for 2,900,000 shares of PIR Series C Preferred Stock and 2,210,000 Series D Preferred Stock. This Preferred Stock was subordinated behind the rights of the Common and Series B Preferred Stock (No Series B was issued). This transaction was approved by the sole Director, President and Secretary, and 90% stockholder at that time; Donald J. Stoecklein.

Through a court order in Mexico³, BMR owns the property commonly known as "Rancho Tembabichi", consisting of approximately 21,326.73 acres on the Sea of Cortez, in Baja California, Mexico. The primary parcel is 5,685.30 acres, with 12 miles of ocean front, a natural lagoon with an estimated area of 12.36 acres, set on a gentle sloping site with a view of the Sea of Cortez. Due to the appraisal on Rancho Tembabichi of over \$500,000,000⁴, Stoecklein believed that having this asset in PIR would improve PIR's abilities to raise funds.

However, in spring 2013, after struggling to raise the funds needed, Ernie Dahlman approached PIR with the suggestion of eliminating Rancho Tembabichi and the Preferred Stock. He stated that the structure of PIR at that time with the rights and preferences of Common, Preferred Series A, B, C and D were too confusing for certain investors and that it created too much debt in PIR to entice any major investor, even though all existing Preferred Stock was subordinate to the interest of the proposed new investors. This came only about three months after PIR redeemed \$200,000 of Series C Preferred stock⁵ to avoid early redemption in the years to follow (part of the A.C. Funding allegations). This restructuring was contrary to Stoecklein's opinion, as he felt Tembabichi enhanced the balance sheet of the Company.

After another two months of discussion, planning and reorganizing, on May 24 and May 25, 2013, PIR ultimately executed two Share Exchange Agreements⁶ resulting in PIR eliminating all of its Preferred Stock- leaving only Common- and BMR and Rancho Tembabichi are now owned by Intercontinental Equity Group, Inc.

² See PIR0064-PIR0065

³ Available upon request

⁴ See PIR0030

⁵ See PIR006-PIR007 & PIR004-PIR005

⁶ Available upon request

(“IEG”), a shareholder of PIR. Today, BMR is still owned by IEG and PIR’s only significant asset on the financial statements is the Operating Agreement⁷ and three locomotives.

PIR’s Initial Funding – Loans from the Nevada Group

In order to provide the initial, much needed capital, PIR borrowed its initial funding from the Nevada Group (\$100,000) on or about February of 2012 for the purpose of paying Rail America, USA for its interest in the Desert Line.⁸ On December 1, 2012, the Nevada Group, through Camden executed a Revolving Credit Grid Note (“Camden Grid Note”)⁹ lending PIR up to one million dollars (\$1,000,000). This action was approved by the officers, directors and sole stockholder of PIR. PIR received the first \$50,000 under the Camden Grid Note on December 22, 2012 and periodically received additional amounts under that same note in intervals during the next two years. PIR executed other promissory notes from 2011 to 2014 discussed below, and in total, the Nevada Group loaned PIR \$1,259,000 (since the \$100,000 paid to Rail America directly by the Nevada Group, it is not reflected on the Check Register¹⁰ of PIR).

PIR’s Agreement with A.C. Funding

As a result of Stoecklein’s need for assistance in building a railroad enterprise crossing international borders, Stoecklein immediately commenced working with the Nevada Group, which consisted of A.C. Funding, who not only had the knowledge but had also operated the railroad in both the United States and Mexico for a period of several years. As part of his responsibilities, Stoecklein, utilizing his knowledge of financing and as a corporate and securities attorney, and working in conjunction with the Nevada group, negotiated a 99 year lease with SD&AE/MTS. On December 20, 2012, after much time and effort, PIR had its greatest moment to date; the execution of the Amended and Restated Desert Line Lease and Operating Agreement (the “MTS Operating Agreement”)¹¹ with the San Diego Metropolitan System (“MTS”) and San Diego and Arizona Eastern Railway Company (“SD&AE”) for the rights to use the “Desert Line” railroad right of way stretching approximately 70 miles from Division to Plaster City, CA for 99 years. Without this MTS Operating Agreement, the agreement which PIR initially acquired would have expired in March of 2014. Further note, no outside brokerage or finder’s fees were paid for generating this lease.

After working with the Nevada Group for several months, which included their consultation over the initial rights to the original operating agreement, the negotiations over the 99 year lease with MTS, assistance with obtaining Tembabitchee as an asset, assistance in filing through railroad counsel for the Surface Transportation Board (STB), and assistance in obtaining the Rail America trackage rights, Stoecklein and Sheila LeMire, who had been elected as a Director, executed the Advisory and Consulting agreement with A.C. Funding on or about February 4, 2013 (“A.C. Funding Agreement”)¹². The A.C. Funding Agreement called for the payment of \$280,000 and \$150,000¹³ for assistance in the above activities. Essentially these payments were made from the funds borrowed from the Nevada Group through the previously mentioned Camden Grid Note. Neither Stoecklein nor LeMire received funds from these payments. The A.C. Funding Agreement was approved by the Directors of PIR¹⁴ and PIR had the majority consent of the stockholders.

⁷ See PIR0067-PIR0093

⁸ See PIR0029

⁹ See PIR0059-PIR0061

¹⁰ See Exhibits tab “Check Register”

¹¹ See PIR0067-PIR0093

¹² See PIR0010-PIR0016

¹³ See PIR0008 and PIR0009

¹⁴ See PIR0015-PIR0016

Analysis of the A.C. Funding Loans Received – Loans Paid – Consulting Fees Received

Payments made to A.C. Funding and the related entities- the Nevada Group- have been called into question and have been labeled as fraudulent¹⁵; even being submitted to the FBI by David Rohal as such. Notwithstanding the fact that the initial, crucial PIR funding came from the very same exact group that these “fraudulent” payments were allegedly made to, the total amount paid to A.C. Funding when compared to the amount loaned, the allegations of fraud were merely a ploy to take attention away from the malicious actions taken by those making the allegations, i.e. the attempted take away of the railroad asset from PIR by Rohal and Dahlman Group, the conspirators.

Note: Company’s counsel is also reviewing the import of the action of providing the information to the FBI, as it relates to Title 18 U.S.C. 1001, which denotes the potential Criminal liability attendant to making a False Statement to a Public Servant or Federal Agency.

In the email dated February 4, 2014, from David Rohal to his "family" captioned in the subject line, "CORRUPTION SCANDAL AND FRAUD"¹⁶ Mr. Rohal made this false statement together with false innuendos to the group which included Karen Landers, Counsel for the San Diego Metropolitan Transit System, who is a public servant, working for a public agency; among others. There was no basis for any such characterizations against PIR, Mr. Jory, and Mr. McHaffie.

Title 18 U.S.C. 1001, which is Federal Law that concerns making a false statement to a Federal Agency, could subject Mr. Rohal to criminal prosecution. When Mr. Rohal made this false and unproven statement, he made this "knowingly," and "falsified a material fact," in a "writing", the email. The statement was clearly voluntary and intentional, emanating from Mr. Rohal's email address, with his name at the bottom of the email as the author. The statement was reckless as the allegations were unproven, with a purpose to obfuscate the truth (a pattern of actions designed by Rohal in his takeover scheme). The statement was "false" as it was untrue when it was communicated by email.

Additionally, as noted below, while making allegations against activities of A.C. Funding, Dahlman himself, through an entity created for the very purpose, wrote a check to A.C. Funding for the purpose of acquiring PIR Stock in a private transaction. The \$1 million check was from funds generated by Mr. Dahlman, as noted below, by the sale of stock to one of PIR's stockholders, a clear breach of his fiduciary obligation to PIR.

The allegedly fraudulent payments to A.C. Funding are comprised of a Preferred Stock redemption, loan repayments, and legitimate consulting payments. Those payments all together, as set forth below, tell the story of how the payments were not only legitimate and far from fraudulent but critical to the success PIR has experienced to date. Stoecklein reiterates the point that without the expertise and assistance the of A.C. Funding, Inc. members, PIR would not have accomplished what it has thus far; as made obvious from the fact that the Rohal – Dahlman Group (“RAD Management Team”) with all its expenses, management, etc., failed to accomplish any documented significant task.

PIR Stock Redemption of December 2012

On December 10, 2012, PIR redeemed \$200,000¹⁷ in Series C Preferred Stock owned by Gold Mountain North, LLC, for the purpose of extending by one year, other payments which would become due on the Series C Preferred Stock Rights and Preferences. Gold Mountain North, LLC requested that \$190,000 of the total be made

¹⁵ See PIR00171-PIR0177 and PIR0196-PIR0198

¹⁶ See PIR00171-PIR0177 and PIR0196-PIR0198

¹⁷ See PIR006-PIR007 and PIR004- PIR005

payable to A.C. Funding and \$10,000 be paid to Sheila LeMire.¹⁸ These payments are documented, clear and straightforward.

PIR Loans Received and Repaid From Nevada Group

To further illustrate, the table below compares the funds received from the Nevada Group, including A.C. Funding, to the amounts ultimately paid back to the Nevada Group.

Date	Amount	Description	Running Nevada Group Balance
December 22, 2011	\$50,000	Loan under Camden Grid Note ¹⁹	\$50,000
January 10, 2012	\$20,000	Loan under Camden Grid Note	\$70,000
February 2, 2012	\$100,000	Advanced for Rail America, USA ²⁰	\$170,000
September 7, 2012	\$4,000	Loan under Camden Grid Note	\$174,000
September 7, 2012	\$4,000	Loan under Camden Grid Note	\$178,000
December 11, 2012	\$19,201.17	Loan under Camden Grid Note	\$197,201.17
December 13, 2012	\$150,000	Loan under Camden Grid Note	\$347,201.17
December 13, 2012	\$130,798.83	Loan under Camden Grid Note	\$478,000.00
January 31, 2013	\$150,000	Loan under Camden Grid Note	\$628,000.00
January 31, 2013	\$150,000	Loan under Camden Grid Note	\$778,000.00
March 6, 2013	\$50,000	Dwight Jory Demand Promissory Note ²¹	\$828,000.00
March 22, 2013	\$6,000	Dwight Jory Demand Promissory Note ²²	\$834,000.00

¹⁸ See PIR006-PIR007 & PIR004-PIR005

¹⁹ See PIR0060-PIR0061

²⁰ See PIR0029

²¹ See PIR0104-PIR0105

²² See PIR0106-PIR0107

April 16, 2013	\$50,000	CC Trust Loan for Locomotive Costs	\$884,000.00
May 16, 2013	(\$17,500)	CC Trust Loan Repayment ²³	\$866,500.00
May 23, 2013	\$125,000	Loan under Camden Grid Note	\$991,500.00
May 29, 2013	(\$32,500)	CC Trust Loan Repayment ²⁴	\$959,000.00
June 5, 2013	(\$250,000)	Camden Note Loan Repayment	\$709,000.00
November 15, 2013	\$250,000	Locati Global Holdings Promissory Note ²⁵	\$959,000.00

From 2011 to the close of 2013 ,the total amount of funds loaned or advanced by the Nevada Group was **\$1,259,000**. The Total loan repayments to Nevada Group were \$300,000, leaving a total loan amount outstanding for \$959,000.00. Note that Ernie Dahlman himself signed the Locati Global Holdings Note on behalf of PIR.

PIR Consulting Fees Paid to Nevada Group

The following payments were made to the Nevada Group, including AC Funding pursuant to the A.C. Funding Agreement and the services provided therein:

Date	Amount	Description	Running Nevada Group Balance
February 4, 2013	\$280,000	Pursuant to A.C. Funding Agreement	280,000
March 27, 2013	\$150,000	Pursuant to A.C. Funding Agreement	\$430,000
June 4, 2013	\$28,000	Pursuant to A.C. Funding Invoice ²⁶	\$458,000
June 5, 2013	\$25,000	Pursuant to A.C. Funding Invoice ²⁷	\$483,000
June 19, 2013	\$200,000	Pursuant to A.C. Funding Invoice ²⁸	\$683,000
Total Consulting Fees			\$683,000

²³ PIR0025

²⁴ PIR0028

²⁵ See PIR00139-PIR0143

²⁶ See PIR0017-PIR0018

²⁷ See PIR0019

²⁸ See PIR0020-PIR0023

The total consulting fees paid to A.C. Funding for the consulting performed are not only supported by documentation, but those documents are approved by the Board of Directors. The \$280,000 on February 4, 2013 and the \$150,000 on March 27, 2013 were made pursuant to the A.C. Funding Agreement²⁹ which was authorized by the Board of Directors and evidenced by the Board Resolution dated February 4, 2013.³⁰

While it is true that the following \$28,000, \$25,000 and \$200,000 payments to A.C. Funding were not specifically listed in the original A.C. Funding Agreement, as they were not contemplated at the time of execution, the relationship between A.C. Funding and PIR continued, and services were still being rendered. No member of the Board of Directors or Management questioned the validity, purpose or importance of those payments or the services they paid for. In fact, the \$200,000 payment was requested to be paid to “our consulting team”³¹ by Sheila LeMire and was approved via email by Stoecklein and Ernie Dahlman- the entire Board of Directors. Ironically, Dahlman is one of the individuals making the allegations of fraud today.³²

PIR - Blueberry Ridge Holdings, LLC (Dahlman) Agreement

Moving forward, Stoecklein realized that despite the funding from the Nevada Group, PIR needed to raise capital to meet the milestones of the MTS Operating Agreement, repair the Desert Line and become operational. Therefore, on January 28, 2013 PIR executed an Agreement with Blueberry Ridge Holdings, LLC (“Blueberry Ridge Agreement”)³³ hoping to utilize Ernest Dahlman’s experience as an investment banker with Dahlman Rose, specifically in the transportation industry. Stoecklein later learned that neither Blueberry nor Dahlman were licensed with FINRA, thus acting as an unlicensed Broker Dealers in violation of the California Corp. Code §25501.5, FINRA regulations and in violation of §29- Validity of Contracts- Securities Exchange Act of 1934.

On February 1, 2013 Mr. Ernie Dahlman, from Blueberry Ridge, was appointed as Chief Executive Officer (“CEO”) and Director of PIR. Ms. Sheila LeMire was appointed as Chief Operating Officer (“COO”) and Director.³⁴ (“Stoecklein Management Team”) Each member of the Stoecklein Management team worked out of the SLG office and had full and complete access to the PIR physical and electronic files.

With the Stoecklein Management Team in place, PIR was able to successfully raise \$2,175,000 through a Private Placement Memorandum (“PPM”). Additionally, during the pendency of Stoecklein’s leadership, the priority corporate objectives were as follows:

- Establish the corporate strategy and business plan;
- Facilitate and legally construct the transition of the business from prior operator;
- Acquire Operating Rights from Rail America for \$100,000;

²⁹ See PIR0010-0014

³⁰ See PIR0016

³¹ See PIR0021

³² See PIR0020-PIR0022

³³ See PIR0094-0101

³⁴ See PIR0102-0103

- Commence discussions and negotiation with the San Diego Metropolitan System (“MTS”) and San Diego and Arizona Eastern Railway Company (“SD&AE) for the rights to use the Desert Line;
- Successfully obtain the 99 year lease to operate the railroad from MTS;
- Secure interim operating capital from the founding stockholders and issue each PIR certificates;
- Manage core customer relationships and create demand for PIR transport services in the United States and Mexico;
- Establishment of contract with JL Patterson for purposes of providing inspections of the 57 bridges, 22 tunnels, track and rail on the Desert Line;
- Establishment of construction contract with Watkins Environmental for purposes of commencing construction work on the inspected items as delineated by the JL Patterson inspections;
- Determination of which relevant regulatory, business partner and governmental parties were critical for the approvals and operation of the railway in the US and in Mexico;
 - Stoecklein counseled with the US State Department in Ensenada in an effort to determine PIR’s exemption from the Presidential Permit needed to cross the International Border³⁵;
 - Stoecklein traveled to Washington D.C. to expedite obtaining the Exemption for the Presidential Permit, ultimately required for financing purposes;
 - Stoecklein met with and obtained the criteria for moving freight between Mexico and the US and the Border Patrol implications and criteria;
- Establishing these relevant relationships, taking the necessary steps for approvals, and contractual structuring of same;

All of these corporate objectives were achieved by the Stoecklein Management Team, positioning PIR with a 99 year Operating Agreement with MTS, core customer demand for capacity, and readying the company for post-reconstruction operational status. PIR then hired and paid both a construction company and rail inspectors to move forward with the repair and ultimate operations on the Desert Line.

Particularly, the Stoecklein Management Team was very careful to ensure complete compliance with each of the Performance Milestones conditioned upon PIR within the Operating Agreement, including:

- Submission of PIR Business Plan;
- Desert Line Reconstruction Plan;
- PIR Operating Plan that includes;

³⁵ See PIR0147-PIR0149

- Maintenance of Way Plan;
- Safety and Security Plans
- Anti-Smuggling and Customs Enforcement Plans;
- Homeland Security Plan
- PIR Marketing Plan which included Stoecklein and staff meeting with 40 of the largest maquiladora companies in Mexico to determine the extent of the freight market for PIR;
- Payment of the semi-annual lump sum payment of \$500,000 until limited operations are commenced;
- Unaudited financial reports on PIR and Desert Line operations within 45 days after the end of each quarter;
- Quarterly Reports to the SD&AE Board of Directors;
- Maintenance of proper Insurance policies.

Each and every milestone was met and every term and condition within the Operating Agreement was met and fulfilled until the quarter ended September 13, 2013 financial statement became due on November 15, 2013, after which time period Stoecklein had turned over the reins to what were thought to be a seasoned railroad management team.

PIR Management Change - Rohal & Dahlman

Stoecklein decided that PIR was at the point where further funding required an experienced railroad operations management team. Therefore, In October 2013, Stoecklein chose to step down from his position as President and Director of PIR.³⁶ As a result, he executed an Employment Settlement Agreement that ultimately resulted in Stoecklein being paid \$5,000 for the work performed as President since inception in October 2011 to October 2013.

In December 2013, Ernie Dahlman, the CEO hired David Rohal for the position of President of PIR³⁷ even though the hiring was in direct contravention to PIR's Bylaws³⁸ calling for the Officers and their compensation to be appointed and approved by Board of Directors. Mr. Rohal, in turn, hired two of his relatives, David and John Rohal, as well as Raul Pulido, David Arganbright, and Charles Patterson. They all executed Employment Agreements on January 22, 2014 totaling \$1,095,000 annual base salary, \$4,659,748 in severance payments and \$16,024,998 in stock option value. The only Board Resolution provided thus far illustrating compliance with the Bylaw provision, is the January 23, 2014 Written Consent of Board of Directors³⁹, however, among other flaws, that document only specifically approves the Employment Agreement for Ernie Dahlman. The appointment, and any corporate authority as a result of David Rohal, and everyone else after him is therefore questionable at least.

³⁶ See PIR0130-PIR0134

³⁷ See PIR0144-PIR0145

³⁸ Article IV- Section 4.1- full Bylaws available upon request.

³⁹ See PIR0150-PIR0151

Despite questionable authority, Messer's. Dahlman and Rohal ("RAD Management Team") were charged with the following Corporate Objectives:

- Comply with the requirements and milestones of the MTS Operating Agreement, including but not limited to:
 - Quarterly PIR financial statements (these financial statements were never provided after Stoecklein left, leaving PIR with the risk of being defaulted in the lease);
 - Payment of the \$500,000 semi-annual payment- until Limited Operations;
- Secure permanent operating capital sufficient to reconstruct the railway with any required reparations, and to fund expansion in capacity;
- Facilitate and retain the continuity in relationships between PIR, its core customers, its partners and regulatory overseers; and
- Attract and retain all necessary consultants and management team members to execute the post re-construction business plan.

The RAD Management Team was only partially successful in achieving the above corporate objectives, in that the \$500,000 lease payment was made to MTS on January 1, 2014. Most importantly, their negligence and inability to manage effectively resulted in a default of the terms and conditions of the MTS Operating Agreement; evidenced by the letter sent from MTS General Counsel to Donald Stoecklein on February 4, 2014⁴⁰ regarding such.

Under RAD Management, about \$1,360,200 in equity was raised with one private placement offering to investors. The much needed permanent operating capital, however, was not secured. As discussed below, current PIR counsel is working on reviewing the paperwork associated with the investments and to ensure compliance with all applicable state and Federal Laws that were neglected under RAD Management.

On the objective of attracting the necessary Management Team and consulting resources, RAD fell short of a good balance. There was no apparent lack of ability to hire, enter into agreements, or pay for same; however, whether PIR got fair bang for its buck is in question.

⁴¹Also, it is the view of the majority stockholders that the continuity in the Mexican relationships, and its related country risk perceptions, deteriorated under the RAD Management. Particularly, as a result of the wide circulation of the fraud and corruption allegations made by members of RAD Management themselves, which allegations were unsupported and motivated by RAD Management Team's conspiracy to take the lease away from PUR. Not to mention the call to liquidate the Company by RAD Management.

Since October 2013, when Mr. Stoecklein resigned as Director and President, Mr. Stoecklein concluded any participation in the fundraising activities lead by RAD, investor communications, investor stock issuances, and any other management responsibilities.

⁴⁰ PIR0159-PIR0160

⁴¹ See PIR0171-PIR0177, PIR0196-PIR0198 and Paragraph 3 of PIR0274-PIR0275
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During the last eight to ten weeks, in direct response to the allegations, the majority stockholders have taken pains to review the progress of the former Stoecklein Management Team in comparison to the RAD Management Team, in terms of capital formation, Mexican Relationships, and Growth strategies. The conclusion is that the philosophy of building up staffing and management structures, under the RAD Management Team was in contravention of the greater good-which is to provide investors with the confidence to back our first priority-to get into revenue generating mode.

To better serve the interests of PIR and its stockholders, the majority stockholder determined that a reorganization of the management team was imperative. As such, a new Board of Directors was elected and Dwight Jory was appointed as President.

RAD Accounting and Management Irregularities

In the process of this reorganization, a number of allegations have arisen regarding the corporate activities of PIR and certain expenditures. In order to clarify the context and substance of the allegations, and to preserve the value of the enterprise to stockholders, PIR is preparing possible actions for recompense against the dismissed management team.

The RAD Management Team, in an *apparent attempt to “take under and take over,”* has ostensibly conspired to weaken the Company and its prospects, to enable the possibility of an end run on the Company and its primary asset, the 99 year lease with MTS and other Partners which actions continue through the date of this Report. In specific, the former management team “managed” to, in a period of 15 days, effectuate their own self-dealing contracts with egregious severance parachutes in obvious anticipation of their plan to leave the employ of PIR and usurp the largest corporate opportunity, hoping to encumber the Company with many millions of undeserved obligations. RAD Management directly contacted key corporate partners and relationships in a poorly veiled attempt to translocate the business opportunity to a brand new entity, RD Griffin Partners, LLC. To begin the story of this short lived scheme, we first look at the Agreements.

Egregious RAD Team Employment Agreements

In specific, the Employment Agreements entered into on January 22, 2014 (“January Employment Agreements”) were an attempt to obligate PIR with \$4,659,748 in cash payments and the issuance of 24,749,998 options to purchase shares of stock.⁴²

Their intents are further illustrated by the fact that on December 1, 2013, David Rohal and Charles Patterson executed PIR Employment Agreements (“December 2013 Employment Agreements”) that were clearly not as generous as they lacked many of the ‘fringes’ and heavy payments as their 2014 counterparts and had 2-year terms. For some reason, despite the current 2-year term, they felt compelled to disregard those December 2013 Employment Agreements and execute the January Employment Agreements. Neither the originals nor a copy of the December 2013 Employment Agreements were provided to PIR or any member of Stoecklein Law Group. In fact, their existence was only learned as a result of a third party providing the originals very recently.

According to David Rohal’s own calculations, the January 2013 Employment Agreements, at the time of termination triggered \$20,684,746.00 in payables⁴³ for work performed from January 22, 2014 to February 5 and 6, 2014.

⁴² See PIR0228

⁴³ See PIR0228. Note that if you deduct the total in the Investment column, the total is \$19,609,746

The parasitic nature of the January Employment Agreements is obvious and they are an interesting read, at a minimum. When compared to the contracted and actually paid employment agreements for the Stoecklein Management Team⁴⁴ and for the time frame covered, it's laughable. The severe disparity is alarming.⁴⁵

Executive	Date Agreement Executed	Salary Per Employment Agreement	Termination Date	Compensation Actually Received ⁴⁶
Donald Stoecklein	January 1, 2012	\$120,000 annually	October 2013	\$5,000
Tracie Matsuo	July 1, 2012	\$60,000 annually	January 23, 2014	\$10,000
Jennifer Trowbridge	February 1, 2012	\$24,000 annually	January 23, 2014	\$0
Total Stoecklein Team		\$204,000 annually		\$15,000

Executive	Date Agreement Executed	Salary Per Employment Agreement	Termination Date	Compensation Actually Received ⁴⁷
Ernest Dahlman	January 22, 2014	\$120,000 annually \$15,000 annual increase \$30,000 in "fringes" Stock and stock options Discretionary bonus	February 4, 2014	\$11,538.46
David Rohal	January 22, 2014	\$120,000 annually \$15,000 annual increase \$30,816 in "fringes" Stock and stock options Discretionary bonus	February 6, 2014	\$46,153.85
Charles Patterson	January 22, 2014	\$200,000 annually \$15,000 annual increase \$12,000 in "fringes" Stock and stock options Discretionary bonus	February 4, 2014	\$36,153.85
Raul Pulido	January 22, 2014	\$240,000 annually \$15,000 annual increase \$12,000 in "fringes" Stock and stock options Discretionary bonus	February 6, 2014	\$12,816.16
David Arganbright	January 22, 2014	\$185,000 annually \$15,000 annual increase \$12,000 in "fringes" Stock and stock options Discretionary bonus	February 4, 2014	\$29,884.61
John Robert "Jack" Rohal	January 22, 2014	\$50,000 annually \$15,000 annual increase \$0 in "fringes" Stock and stock options Discretionary bonus	February 4, 2014	\$19,564.21

⁴⁴ Both Ernie Dahlman and Sheila LeMire were both at some point members of both "teams"; however, despite the overlap, their compensation is included in the RAD Management Team totals. See PIR 0228

⁴⁵ The Employment Agreements themselves had been omitted from this report, but are available upon request

⁴⁶ Numbers are the net amount after state and federal withholdings.

⁴⁷ Numbers are the net amount after state and federal withholdings.

Sheila LeMire	January 22, 2014	\$120,000 annually \$15,000 annual increase \$0 in "fringes" Stock and stock options Discretionary bonus	February 4, 2014	\$107,782.47 ⁴⁸
Total RAD Team		\$1,035,000 base salary \$105,000 in annual increases \$108,816 in annual "fringes" Unlimited bonus		\$263,393.61

Without even immediately addressing the incredibly inflated and unrealistic terms of the January Employment Agreements for a start-up, currently non-operational railroad that is barely subsisting off of related party loans, investor funds and in many cases, donated time, resources and tears- but when you compare what each team accomplished as a result of the amounts actually paid its impressive.

From January 22, 2014 to February 4 and 6, 2014 the RAD Management Team was paid \$263,393.16 and they feel they are owed the accrued balances of severance, stock and stock options, etc. to the tune of **\$20,684,746.00- for 15 calendar days.**

This is furthered when you take into consideration the "expense reimbursements each Management Team received as discussed below on page 15.

Unauthorized Corporate Account Withdraws and Fraudulent QuickBooks Entries

Further, the overall conspiracy to the RAD Management Team, led by then President Mr. David Rohal, and then CEO, Mr. Ernie Dahlman, on February 4, 2014, despite being on notice to the contrary by the Board of Directors⁴⁹, authorized and issued a cash disbursement of 580,000,⁵⁰ to themselves and one partner entity. The total paid equaled 87% of the company's cash balance in the PIR Wells Fargo corporate bank account. The manner in which RAD raided the company's bank account is particularly disturbing.

Raul Pulido, the only remaining management team member working for David Rohal, orchestrated a scheme to open a new bank account at Wells Fargo, to transfer \$580,000 to this account, and then to issue payments from this account- which had been previously voided by the Board of Directors- to themselves, their lawyers, and J.L. Patterson.⁵¹

Curiously, the accounting entries on QuickBooks, shows that the dates of these transfers and checks were modified on February 6, 2014. **They were not only backdated in the QuickBooks files to February 4, 2014, by Raul Pulido, but new handwritten checks were produced, dated February 4, 2014⁵²-under the auspices of the only remaining management team member at the time, David Rohal, conceivably to cover their tracks on the disbursements in violation of the clear Board of Directors "freeze" on corporate accounts.⁵³**

⁴⁸ \$86,090.17 for February 1, 2013 to January 22, 2014 and \$21,692.30 for January 22, 2014 to February 4, 2014.

⁴⁹ See PIR0179-PIR0185 and PIR0187-PIR0189

⁵⁰ See PIR0178

⁵¹ See PIR0199, PIR0186, PIR0190- PIR0194

⁵² See all PIR checks in Exhibit tab "Handwritten Checks"

⁵³ See PIR0179-PIR0185 and PIR0187-PIR0189

The timeline, which is attached for your review, shows a very disturbing sequence of actions by RAD, clearly demonstrating the dirty hands and intentions at play. The unauthorized payments were, not surprisingly, last minute extravagant expense reimbursements.

Inflated Expense Reports – Personal Expenses

During the course of investigation for this report it was discovered that payments were made from the PIR corporate account for alleged PIR corporate expenses and/or reimbursements that were either in direct contravention of the Board of Directors “freeze” on corporate accounts⁵⁴, have no corresponding Board Resolution approving such expenses and in many instances were not for legitimate PIR related items.

For instance, on February 4, 2014 David Rohal authorized a handwritten, backdated check for \$22,911.83⁵⁵ payable to himself for:

- \$4,600 for January’s rent on the Oceanside space in which he lives;
- \$4,600 security deposit on that same space in which he lives;
- \$13,711.83 in charges on an American Express card in his personal name which include;
 - Airfare and travel expenses for a “Byron/Kim Miller” with no known association to PIR;
 - \$1,434.40 in Denver hotel charges for Rohal and this Miller;
 - Airfare (x3) and travel expenses for a “Sivigny/Julie Ann” with no know association to PIR;
 - Airfare for Rohal family members, John and Robert;
 - Numerous hotels and even more restaurants.

Also, on February 4, 2014, Ernest Dahlman authorized a handwritten backdated check payable to himself for \$75,233.23 for:⁵⁶

- \$4,418 in Meals and Entertainment;
- \$16,000 in “Public Relations”⁵⁷;
- \$8,857.98 in Travel; and
- \$15,232.00 in Legal and Professional Fees.
 - Upon review of the billing statements submitted by the law firm- it appears as if Dahlman was having PIR pay for the fees associated with **non-PIR** items such as:
 - Formation and analysis of Romanian LLC;
 - Personal International Tax issues
 - Structuring a Romanian treaty
 - Formation of Golden Quadrilateral Mining entity in Delaware.

Additionally, on February 4, 2014, Charles Patterson was reimbursed \$2,430.43⁵⁸ for unspecified expenses.

⁵⁴ See PIR0179-PIR0185 and PIR0187-PIR0189

⁵⁵ See PIR0199-PIR0214 and Check No. 1002 dated February 4, 2014

⁵⁶ See PIR0236-PIR0256 and Check No. 1003 dated February 4, 2014

⁵⁷ No receipts, descriptions or other indication of what “Public Relations” covers

⁵⁸ See PIR0258 and Check No. 1011 dated February 4, 2014

During the investigation, no documents have been produced indicating that Ernie's Romanian LLC, mining company or personal international tax issues would remotely qualify as a reimbursable business expense for a non-operational start-up company. However, the degree of nepotism demonstrated by David Rohal, at the expense of the Investors, is surprisingly well documented.

Taking a step back again and setting aside for a moment the fact that the expenses are questionable, violate PIR's own adopted Internal Controls, lack proper authorizations pursuant to the Best Practices⁵⁹ and rather, looking overall at the totals from each Management Team, we see the following:

Executive	Total Reimbursements Paid	Employment Period
Donald Stoecklein	\$0	January 1 2012- October 1, 2013
Tracie Matsuo	\$0	July 1, 2012- January 23, 2014
Jennifer Trowbridge	\$0	February 1, 2013- January 23, 2014
Total Stoecklein Team	\$0	

Executive	Total Reimbursements Paid	Employment Period
Ernest Dahlman	\$83,863.23	January 22, 2014 – February 4, 2014
David Rohal	\$35,175.22	January 22, 2014 – February 6, 2014
Charles Patterson	\$8,714.92	January 22, 2014 – February 4, 2014
Raul Pulido	\$188.36	January 22, 2014 – February 6, 2014
David Arganbright	\$2,199.25	January 22, 2014 – February 4, 2014
John Robert "Jack" Rohal	0	January 22, 2014 – February 4, 2014
Sheila LeMire	\$11,470.86	February 1, 2013 to January 22, 2014 & January 22, 2014 – February 4, 2014
Total RAD Management	\$141,611.84	

Since inception in 2011 to January 23, 2014, the executives on the Stoecklein Management Team had not only \$15,000 in actual paid salaries but had \$0.00 paid to themselves for expense reimbursements.⁶⁰

Again, \$141,611.84 in expenses incurred in 15 days of employment with PIR.

Incomplete, Inaccurate. Missing and Utterly Flawed Subscription Agreements and Investments

After reviewing the documentation provided, PIR's current counsel found several issues with the record keeping for investor documentations. Some of the issues have since been cleared up, but to date there are still several pending issues, mainly missing Subscription Agreements for about \$275,000.

In particular, PIR is evaluating a request for rescission by an investor, Larocca.⁶¹ This stockholder invested a total of \$300,000 in three separate tranches. \$100,000 of which was taken on January 27, 2014 just days prior to both the unauthorized disbursements discussed above and RAD calling a Special Meeting of Stockholders where the only item to vote on was the liquidation or dissolution of PIR.⁶²

Mr. Dahlman was advised via email on January 27, 2014 by Corporate Counsel at Alvarado Smith not to take in any funds due to some concern over the offering documents and discussion over a vote to liquidate PIR.

⁵⁹ See PIR0124-PIR0125. Full Internal Controls/Best Practices Policy available upon request

⁶⁰ As noted before, Sheila LeMire's employment overlaps each Team. But due to her inclusion in the RAD Team's outlines and tables she is included here as well as part of the RAD Team for consistency.

⁶¹ See PIR0280

⁶² See PIR0152

Mr. Dahlman and Mr. Rohal disregarded this advice and accepted the funds from Larocca. Additionally, for Mr. Larocca's entire \$300,000 investment, only one Subscription Agreement exists and that is for only \$125,000. **RAD management accepted \$175,000 from Mr. Larocca without documentation and against legal counsel.** Even after several request from current PIR counsel, no further documentation has been provided. This action has been determined by counsel to be a possible violation of Federal Securities laws.

\$100,000 was taken from V. Dahlman without any documentation whatsoever. No shares have been issued to date, despite attempts from PIR's current counsel to rectify the issue. No responses.

PIR is also evaluating an assertion from Mr. Rohal that the offering documents were somehow flawed. However, no information as to the actual flaw has been given. This is quite interesting, given that Mr. Rohal, Mr. Dahlman, and their chosen outside counsel for PIR, Alvarado, Smith, were the parties that drafted and prepared the Private Placement Memorandums and Subscription agreements that appear to contain the flaws and misrepresentations. Mr. Rohal and Mr. Dahlman had direct supervisory responsibility and oversight on all stock issuances, offerings, and disclosures to investors. It is difficult to reconcile this purported flawed document, with the fact that Rohal, a family member, Dahlman and a family member all relied on the documents that RAD prepared, approved and distributed and made significant investments, nonetheless, in PIR. Was this purported flaw real and if so, should we give attribution to RAD?

RD Griffin Partners, LLC- Textbook Breach of Fiduciary Duties

While trying to make sense of the nonsense discussed above, it came to the PIR's attention that beginning in January 2014, an entity named "RD Griffin" approached MTS general counsel and Board of Directors members with the specific stated agenda to obtain the rights to the Desert Line currently subject to the MTS Operating Agreement PIR management team under Stoecklein worked so hard to obtain. After minimal due diligence, PIR located RD Griffin Partners, LLC ("RD Griffin") formed in Delaware on February 5, 2014 by David Rohal and Ernie Dahlman.⁶³

Note that the first contact made with MTS, et al was on January 28, 2014. David Rohal, Raul Pulido and Jack Rohal met with MTS again on January 31, 2014 and again on February 5, 2014 while Rohal and Pulido were still employed as officers and/or on the Board of Directors of PIR. RD Griffin Partners LLC then provided MTS with a written proposal on February 10, 2014.⁶⁴ While at the same time frame sending emails outlining fraud and corruption to, among others, the very officials they are meeting with at MTS⁶⁵ making specific allegations of kickbacks and theft.⁶⁶ Simultaneously, the very same individuals notice the Special Shareholder Meeting on February 14, 2014 for the sole purpose of liquidating the company, immediately before triggering the \$20 million Employment Agreement obligations discussed above.

A more defined example of usurpation of a corporate opportunity for the personal use of a corporate employee could not be found!

⁶³ See PIR0195

⁶⁴ See PIR0218-PIR0223

⁶⁵ See PIR0171-PIR0177 and PIR0196-PIR0198

⁶⁶ See PIR0196-PIR0198

J.L. Patterson, was then solicited by the principals of RD Griffin to enter into a competitive business relationship with PIR and RAD-an action that would potentially and permanently, compromise the value of stockholders investments.⁶⁷

These unethical, self-serving actions by Messer's. Rohal and Dahlman ran unquestionably afoul of their corporate fiduciary and other legal duties to PIR, their employer. Ironically, at the Special Shareholders meeting on February 14, 2014, Mr. Rohal was queried about RD Griffin by a stockholder present. **Mr. Rohal said he "did not know of RD Griffin and had no involvement with the entity."** To the contrary, as discussed above, Mr. Rohal is listed on the incorporation documents for RD Griffin as CEO and Mr. Dahlman is listed as President for RD Griffin. Additionally, they met with MTS in person, in the capacity as President and CEO of RD Griffin and **provided MTS with a written proposal with both Dahlman and Rohal listed as CEO and President for RD Griffin for the operation of the Desert Line – dated February 10, 2014⁶⁸—only 4 days earlier!!** A sudden memory loss by Rohal is an unlikely probability.

TEU Stock Transaction- Personal Financial Gain - Ernie Dahlman's payment to A.C. Funding of \$1 Million to Purchase 5 million Shares of PIR Stock in a Private Transaction and the Subsequent Resale to PIR Stockholders

The Company is also reviewing transactions with TEU, Inc., ("TEU") an entity formed and controlled by Mr. Dahlman, in which he apparently conducted a private transaction, selling a stockholder 2.5 Million shares, of personal stock he acquired in PIR from a minority stockholder, while CEO and a Director of PIR.

On November 13, 2013 TEU entered into a Stock Purchase and Option Agreement with Donald Stoecklein⁶⁹ wherein TEU was granted an option to purchase \$28,000,000 common shares of PIR according to the defined vesting and payment schedule. ("TEU Option Agreement")⁷⁰ On November 18, 2013, Ernie Dahlman, on behalf of TEU exercises the first set option purchase of \$1,000,000 for 5,000,000 shares of PIR common stock at a purchase price of \$0.20 per share.

Later, during the investigation for this report, it was discovered that either simultaneously or shortly before the exercise and purchase of the 5,000,000 shares, Ernie Dahlman sold 2,500,000 common shares to one stockholder at \$0.20 per share.⁷¹ It appears as if he also sold the other 2,500,000 common shares to two other individuals at a price that was first reported to be well above \$0.20 per share. The details are still being provided, but what is clear based on conversations with the parties involved, that the private purchase of the PIR stock by Ernie was for a personal financial gain while he was the CEO and a Director of PIR, and while he himself was conducting the active \$0.60 per share offering.

Ernie directly circumvented the funds being sent to the Company, but rather sold his own personal stock during an active offering.

Synthesis and Cost Benefit Analysis

Bringing it all together; during the 27 month period, commencing October 27, 2011 to the present, the Stoecklein Management Team's Salary and Expense Reimbursement cost totaled **\$15,000**. In comparison, the

⁶⁷ See PIR0217

⁶⁸ See PIR00218- PIR0223

⁶⁹ Donald Stoecklein was no longer an officer, director or even counsel for PIR at the time of the TEU Option Agreement.

⁷⁰ See PIR0135-PIR0138

⁷¹ See PIR0271

RAD Group, for a 1.25 month period, commencing January 1, 2014 until February 4, 2014, incurred 286,252.12 in Salary and Reimbursement Expenses. Sheila LeMire, who worked for both Groups, incurred 119,253.33 in Salary and Expense Reimbursement.

When viewed in the context of value conveyed to PIR, one may note that the average monthly cost for the **Stoecklein Management Team** was \$577.00, in contrast to **RAD Management Team's** of \$229,210 per month average and **Sheila LeMire's** \$4,587 per month average. The invalid employment agreements (deliberately crafted without the requisite Board or Majority Shareholder consent and approval required by the Bylaws of the Company) entered into by RAD Group, conceivably would have increased the RAD Management Team's Salary, Corporate withholding burden (16.6%) and what David Rohal dubs as "fringes" to \$1,264,452 per annum, putting a huge burden on the working capital resources of PIR. During a period of development and limited financial resources, the Stoecklein Management Team worked without pay, secured critical financing, structured a substantial and game changing asset acquisition of the Tembabihi property in Mexico, and entered into the 99 year MTS Operating Agreement. This accomplishment alone, ramped the enterprise value from a meager level to that of a significant potential cash flow generating entity, with a post-operational valuation, potentially in the hundreds of millions of dollars.

While there is some value attributable to the capital raised in the RAD era, there is scant additional achievements of note.

It does not require the acumen of a forensic accountant to clearly differentiate the **much higher COST/BENEFIT ratio of RAD v. Stoecklein**. One might infer that given more time, RAD's spending patterns would have compromised PIR's ability to pass diligence muster with Capital Sources, and served as a perpetual vacuum of fiscal resources, ultimately challenging corporate viability as an ongoing concern.

Earmarks of a "Take Under and Take Over Conspiracy"

Included for further understanding is a detailed timeline so that you can glean the synchronicity of the actions taken by the RAD Management Team to the detriment of PIR, for their own personal benefit. You will see from the tentacles of their actions and lack thereof, how they hoped to derail PIR and translocate the business to their own entity, RD Griffin Partners, LLC.

Of particular note:

- RAD failed to pay for and maintain liability insurance, a less than \$10,000 cost, which produced a technical default on the MTS Operating Agreement. Instead, David Rohal issued a check for consulting services to another one of his family members- Cathy Rohal or CTR Consulting, for 15,000. No consulting agreement, Board Resolution or even invoice has been provided.

- Despite the requirement to provide MTS with quarterly financial statements, to remain in compliance with the MTS Operating Agreement, the RAD management Team appeared to be incapable of producing them and thus did not comply during the time of the management responsibilities. Prior to RAD Management Team's assumption of control, PIR was in strict compliance with this requirement. Now that new management is in place, PIR will once again maintain compliance with the financial reporting requirement to MTS.

- Mr. Dahlman repeatedly took steps to ignore and dismiss potential investor sources, delaying responses, disturbing potential investors in multiple face to face meetings. One FINRA licensed Investment Banking Firm, Diamond Capital, after committing substantial time to the due diligence review, and readying its investors for commitment to PIR, took a pass due to Mr. Dahlman's antics. This was

exemplary of what appears to be a pattern of discouraging outside sources of capital to be procured by PIR, to make the takeover effort easier for RAD Management Team.

-On January 22, 2014, RAD Management Team attempted to encumber PIR with the aforementioned corporate burden of over \$1,000,000 per year, at a time in which capital was very limited, and PIR did not have the ability to afford the burden. The unearned issuance of over 24,000,000 options to purchase shares would serve, it appears, to dissuade capital from outside sources, who would be deterred by the dilutive effect of options representing a significant percentage of the issued and outstanding capitalization.

-On February 4, 2014 with the thought that they had padded their income prospects, RAD Management Team solicited the law firm of Alvarado, Smith, to prepare a stockholder proposal to liquidate PIR, again only a couple days after taking in Larocca's investment.

-On February 4th to 6th, RAD looted the Wells Fargo Bank Account, despite Majority Shareholder approvals of freeze orders to Wells Fargo. \$580,000 was paid out to members of the RAD Management Team, the Alvarado Smith Law Firm and two PIR contractors with whom they ostensibly were hoping to curry favor for their illicit scheme.

-At a time when the company was struggling for resources, David Rohal made the decision to hire an investigatory firm and spend over \$3,000 to grasp for any basis to disparage the PIR principals in communications with key partner entities, MTS and J.L. Patterson. These aggressive solicitations of key partners are evidenced by emails sent by RAD and indicate communications for their scheme for weeks prior to their aggressive face to face proposal on 2/10/2014.

-Consistent with this pattern to weaken PIR, RAD Management Team was negligent in allowing for transactions with at least two PIR major investors, in which the funds did not go to PIR as paid in capital, but rather to the personal account of Ernie Dahlman.

-One additional investor, Mr. Chris Larocca was solicited by Dahlman to invest an additional 100,000. In PIR just days before the run on PIR's Bank Account by RAD Management Team. Mr. Dahlman ignored advice from his counsel to not accept the funds. It appears that Dahlman encouraged Mr. Larocca to make a request for rescission, after his departure from the employ of PIR, with the likely purpose of putting pressure on the board and new management team at PIR.

-These negligent actions, all currently under review, potentially exposed PIR to rescission claims that they did not have the funds to satisfy. RAD Management Team could not care any less, as they hoped to liquidate PIR, leave the stockholders holding the bag, and reap an undeserved reward thru its entity RD Griffin Partners, LLC, formed conveniently on February 5, 2014 in the midst of the conspiracy. PIR ceasing business operations, and the subsequent losses suffered by even their own investors was not a concern to RAD Management Team but a necessary cog in their conspiratorial wheel.

Possible Civil Remedies

The investigation is still ongoing and current members of PIR Management are still obtaining information, only having recently (March 17, 2014) received PIR bank account information under control of RAD Management Team. Based on the information discussed and the information we may continue to receive, PIR is consulting with legal counsel, and officers of difference agencies concerning possible causes of action against the RAD Management Team

-Interference with Contractual Relations

The tort of interference with contractual relations permits a plaintiff to recover damages based upon a claim that a defendant interfered with the plaintiff's contractual relations. The elements of an intentional interference with contractual relations claim are (1) a valid contract between plaintiff and a third party; (2) defendant's knowledge of this contract; (3) defendant's intentional acts designed to induce a breach or disruption of the contractual relationship; (4) actual breach or disruption of the contractual relationship; and (5) resulting damage.

-Interference with Prospective Business Advantage

The tort of interference with prospective business advantage protects economic interests that have not yet been formalized into contract. The elements of that tort are (1) an economic relationship between the plaintiff and some third person containing the probability of future economic benefit to the plaintiff, (2) defendant's knowledge of the existence of the relationship, (3) defendant's intentional acts designed to disrupt the relationship, (4) actual disruption of the relationship, and (5) damages to the plaintiff proximately caused by the acts of the defendant

-Unfair Competition

In California, the tort of unfair competition includes "any unlawful, unfair or fraudulent business act or practice and unfair, deceptive, untrue or misleading advertising." *California Business and Professions Code § 17200.*

-Breach of Implied Covenant of Good Faith and Fair Dealing

Under Delaware law, the duty of care requires a director to exercise the care that a reasonably prudent person in a like position would exercise under similar circumstances. *The duty of loyalty requires a director to act in good faith and to refrain from putting his personal interests ahead of the interests of the corporation and/or its stockholders.*

In 2009, however, the Delaware Supreme Court held in the Gantler case that: "[O]fficers of Delaware corporations, like directors, owe fiduciary duties of care and loyalty, and...the fiduciary duties of officers are the same as directors."

In the Hampshire Group case in 2010, the Delaware Chancery Court expressly noted that officers are "expected to pursue the best interests of the company in good faith (i.e., to fulfill their duty of loyalty) and to use the amount of care that a reasonably prudent person would use in similar circumstances (i.e., to fulfill their duty of care)."

-Violation of Confidentiality Covenant in Employment Agreements With Regard to Trade Secrets.

In California, which has adopted the greater part of the Uniform Trade Secret Act, a trade secret is defined as follows: "information, including a formula, pattern, compilation, program, device, method, technique, or process that (1) derives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use, and (2) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy."

CONCLUSION

In conclusion, when you compare the objectives set and achieved, the investor funds raised and spent and on what and whom within each set of Management, it is clear that the allegations of fraud made in reference to A.C. Funding are baseless and a waste of time. On the contrary, the clear acts of greed, self-dealing, and bloated egos within the RAD Management Team are supported by undeniable documentation. The timeline and facts show a planned, yet poorly executed scheme to usurp PIR's corporate assets for their own financial gain, interfere

with the most important business contracts that PIR has, and take the operations opportunity for themselves, all at a severe cost to the PIR stockholders.

PIR Management now wishes to address and clear these issues up, answer any remaining questions and move on to the future.

We look forward to our journey, and enjoyed successes. As a policy my door will always be open to our Board members and stockholders and PIR welcomes your feedback and comments. You can expect a flurry of information and milestones coming from the company in the near future and PIR offers sincere thanks for your loyalty and continued support as the Board of Directors of Pacific Imperial Railroad, Inc.

Agenda

Item No. 6a

San Diego and Arizona Eastern (SD&AE)
Railway Company
Board of Directors Meeting

April 15, 2014

SUBJECT:

SUMMARY OF SD&AE DOCUMENTS ISSUED SINCE JANUARY 14, 2014

RECOMMENDATION:

That the SD&AE Railway Company Board of Directors receive a report for information.

Budget Impact

None.

DISCUSSION:

Since the January 14, 2014, SD&AE Railway Company Board of Directors meeting, the documents described below have been processed by staff.

- S200-13-573: Easement to San Diego Gas and Electric for electric service to a new traction power substation near Beyer Blvd.
- S200-13-574: Easement to San Diego Gas and Electric for electric service to a new traction power substation near High Street in Lemon Grove.
- S200-14-582: Right of Entry Permit to the San Diego Community College District to construct an adjacent project at Cesar Chavez in the City of San Diego.
- S200-14-584: Right of Entry Permit to Beta Engineering to construct utility crossings on the Desert Line at various locations from Jewel Valley Road to east of Jacumba.
- S200-14-589: Right of Entry Permit to San Diego Gas and Electric for maintenance and inspection of various facilities along the entire Desert Line.
- S200-14-592: Right of Entry Permit to HDR Engineering, Inc. for maintenance and inspection of various City of San Diego wastewater facilities.

- S200-14-593: Right of Entry Permit to Ramona Paving and Construction Corp. to construct street improvement along Cesar Chavez Parkway in the City of San Diego.
- S200-14-594: Right of Entry Permit to West Coast General Corp. to construct the San Ysidro Yard Expansion Project.
- S200-14-596: Right of Entry Permit to Flatiron / H&H (A Joint Venture) to construct the South Line Freight Improvement Project.
- S200-14-597: Right of Entry Permit to the City of La Mesa for its Flag Day Parade Celebration.

Agenda

Item No. 6b

San Diego and Arizona Eastern (SD&AE)
Railway Company
Board of Directors Meeting

April 15, 2014

SUBJECT:

EASEMENT AGREEMENT WITH UNIFIED PORT OF SAN DIEGO

RECOMMENDATION:

That the SD&AE Railway Company Board of Directors approve: (1) two public at-grade crossing easements to Unified Port of San Diego (Port) across the Coronado Branch south of J Street in the City of Chula Vista; and (2) two temporary license agreements to use the existing crossings in the same location.

Budget Impact

Fees would be credited to the SD&AE Reserve, which includes the value of the easements and staff costs.

DISCUSSION:

Port requests the issuance of two easements for two permanent public at-grade crossings over SD&AE tracks located south of J Street on the Coronado Branch in the City of Chula Vista. The at-grade crossings will serve as public ingress/egress points for the Chula Vista Bayfront Master Plan. Attached is an exhibit of the proposed project. Port is requesting a 90-foot-wide easement for the northern crossing and a 50-foot-wide easement for the southern crossing.

In the interim, while the Port obtains all approvals, the Port wishes to use the existing crossings for construction use. The use would be granted utilizing license agreements for the crossings. No additional improvements would be required for this use.

Attachment: Diagram of Proposed Project



North Crossing 90' Wide

LEGEND



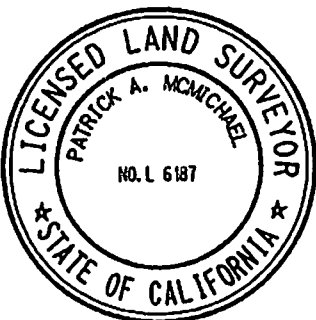
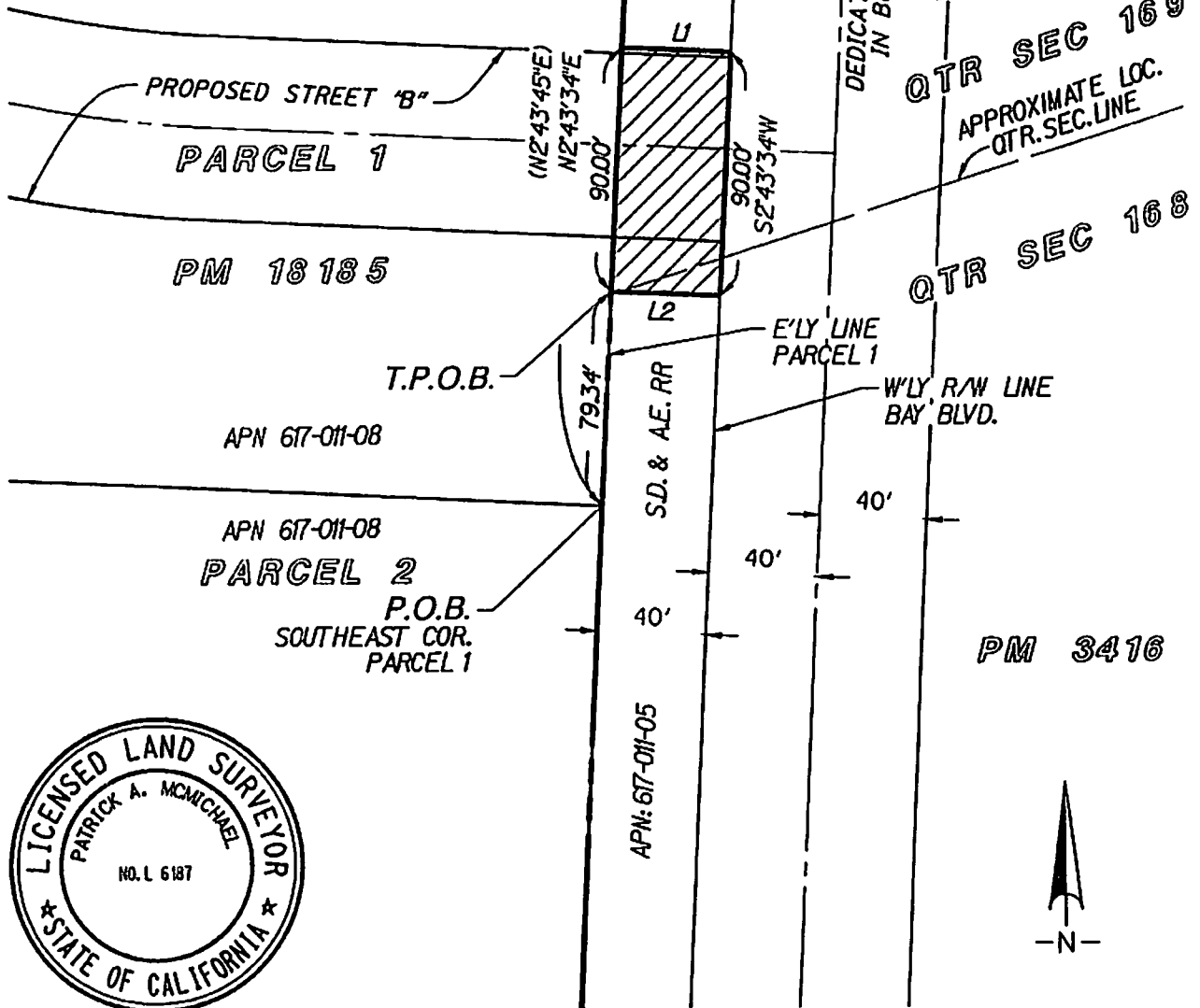
EASEMENT
3600.00± SQ. FT.

P.O.B. INDICATES POINT OF BEGINNING

T.P.O.B. INDICATES TRUE POINT OF BEGINNING

() INDICATES RECORD DATA PER PM 18185

NAME	LINE TABLE DIRECTION	LENGTH
L1	S 87° 16' 26" E	40.00
L2	N 87° 16' 26" W	40.00



DRAWN M.A.R.

CHECKED

REVIEWED

APPROVED

PATRICK A. MCMICHAEL

SAN DIEGO UNIFIED PORT DISTRICT
WITHIN CORPORATE LIMITS OF CHULA VISTA

SAN DIEGO AND ARIZONA EASTERN RAILWAY COMPANY
EASEMENT TO THE SAN DIEGO UNIFIED PORT DISTRICT
IN CHULA VISTA

DATE DECEMBER 13, 2013

SCALE 1" = 60'

REF.

SHEET 1 OF 1
DRAWING NO.

531-

South Crossing 50' Wide

LEGEND



EASEMENT
2000.00± SQ. FT.

P.O.B. INDICATES POINT OF BEGINNING

T.P.O.B. INDICATES TRUE POINT OF BEGINNING

() INDICATES RECORD DATA PER PM 18185

/// INDICATES EDGE OF PAVEMENT

NAME	LINE TABLE DIRECTION	LENGTH
L1	S 87°16'26" E	40.00
L2	S 2°43'34" W	50.00
L3	N 87°16'26" W	40.00
L4	N 2°43'34" E	50.00

PARCEL 1

APN 617-011-08

APN 617-011-08

P.O.B.
NORTHEAST COR.
PARCEL 2

E'LY LINE
PARCEL 2

PARCEL 2

PM 18185

(N2°43'45"E PM 18185)
S2°43'34"W

T.P.O.B.

EXISTING
ACCESS
ROAD

APN: 617-011-05

SD. & AE. RR

BAY BOULEVARD

DEDICATED PER DOC. REC. OCT. 3, 1894,
IN BOOK 232, PAGE 106 OF DEEDS

PM 3416

QTR SEC 168
MAP 166

W'LY R/W LINE
BAY BLVD.



DRAWN M.A.R.
CHECKED _____
REVIEWED _____

APPROVED
DRAFT
PATRICK A. McMICHAEL, L.S. 6187

SAN DIEGO UNIFIED PORT DISTRICT
WITHIN CORPORATE LIMITS OF CHULA VISTA

SAN DIEGO AND ARIZONA EASTERN RAILWAY COMPANY
EASEMENT TO THE SAN DIEGO UNIFIED PORT DISTRICT
IN CHULA VISTA

DATE DECEMBER 13, 2013
SCALE 1" = 60'
REF. _____

SHEET 1 OF 1
DRAWING NO.
531-

Agenda

Item No. 7

San Diego and Arizona Eastern (SD&AE)
Railway Company
Board of Directors Meeting

April 15, 2014

SUBJECT:

ELECTION TO FILL VACANT POSITION OF SD&AE CHAIR

RECOMMENDATION:

That the SD&AE Board of Directors discuss electing a new Chairperson for the SD&AE Railway Company Board of Directors and forward a recommendation to the MTS Board of Directors for approval.

Budget Impact

None.