

September 21, 2007

Mr. Marc Bader, Chief Engineer
Rail America Operations West
One Harbor Center Drive, Suite 340
Suisun City, CA 94585

**RE: TUNNEL CONDITION ASSESSMENT FOR COOS BAY SUBDIVISION,
OREGON**

Dear Mr. Bader:

As discussed in recent phone conversations, this letter is to provide you with our concerns regarding the current conditions and potential for rock falls, and timber rib failures in the nine tunnels on the Coos Bay Subdivision of the Central Oregon and Pacific Railroad.

As stated and described in detail in our tunnel inventory report dated July 2007, we identified and classified numerous sections in the tunnels, that are in various states of deterioration and, in our opinion, require immediate rehabilitation work (within six months) in order to reduce the currently high risk of rock falls and timber collapses to more acceptable levels. Some of the areas – particularly in Tunnel 15 and Tunnel 18, were identified and discussed with you as early as November 2006, when emergency repairs were initiated in Tunnel 15. We also identified numerous other areas in the tunnels that need repairs, but based on our field investigations did not appear to be in as great a risk of failure, and therefore were not classified as being in need of immediate repair, although we did consider that they should be repaired within the next year or so.

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Since November 2006, several rock falls and failed timber sets were observed in tunnels in the Coos Bay Subdivision:

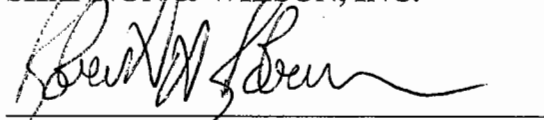
- Several partially collapsed timber sets were observed in Tunnel 15 during emergency repairs from November 2006 to January 2007.
- Six timber posts in the west sidewall of Tunnel 18 shifted into the tunnel. The posts rested on deteriorated wooden foot blocks.
- Several rock falls occurred in Tunnel 19 between May and July 2007. Rock falls occurred in areas of spalled shotcrete and exposed bedrock.
- Failure of a timber set occurred in Tunnel 15 in June 2006. The timber set was highly deteriorated.

In our opinion, the repairs recommended for tunnel sections that were classified as Repair Level 1 and 2 in our July 2007 report, are necessary to continue relatively safe train passage. Recent rock fall events in Tunnel 19 require immediate attention as well. The risk of future rock falls and failing timber sets is high under the current condition of the tunnels. However, the increased seepage rate in some areas of the tunnels that normally accompanies the rainy season will contribute to an increased risk of instability and also makes the application of remedial shotcrete in these seepage areas impossible and hazardous. Consequently, it may not be safe for much of the repair work to be undertaken until the drier months of next spring and summer.

We appreciate the opportunity to work with you and look forward to answering any questions you have about the information in this report.

Sincerely,

SHANNON & WILSON, INC.



Robert A. Robinson
Senior Vice President
Director of Underground Services