



February 2, 2017

Re: Pacific Imperial Railroad, Inc. – Asset Sale Opportunity

Dear Potential Buyers:

Enclosed for your review are marketing materials regarding the opportunity to purchase substantially all of the non-cash assets owned by Pacific Imperial Railroad, Inc. (“PIR”). Those assets consist primarily of (1) a long-term lease of a railroad right of way known as the “Desert Line” stretching approximately 70 miles from Milepost 59.6 at or near the U.S. Border in Division, California to Milepost 130.0 at Plaster City, California as evidenced by that certain Amended and Restated Desert Line Lease and Operating Agreement dated as of December 20, 2012, by and among PIR, the San Diego Metropolitan Transit System (the “MTS”), and San Diego and Arizona Eastern Railway Company, a Nevada nonprofit corporation, and all amendments thereto (as amended, “Desert Line Lease”), (2) the sublessor’s interest in a sublease of approximately 60 miles of the Desert Line to Baja California Rail Road, Inc. (“Baja Rail”), (3) approximately 11 miles of the Desert Line that is not subleased to Baja Rail, but which Baja Rail has the non-exclusive right to travel over, and (4) certain real property adjacent to the last 11 miles which may be suitable for the construction of an intermodal facility (collectively, the “Assets”).

PIR is a debtor-in-possession under chapter 11 of the U.S. Bankruptcy Code. It has proposed the sale of the Assets to International Transportation Association LLC, a Nevada limited liability company (“ITA”) for the price of \$3,800,000. ITA is an affiliate of Baja Rail. The sale is subject to overbidding. That means that other interested and qualified purchasers may bid for the Assets at a sale hearing to be scheduled in the near future.

Due diligence materials will be made available to interested parties who (1) sign a confidentiality agreement, and (2) are determined by PIR to be a viable potential purchaser. The minimum overbid will be \$3,875,000. In addition, under the terms of the Desert Line Lease, the purchaser will be required to make certain improvements to the last 11 miles of the Desert Line that will likely cost at least \$10 million. The financial ability of an interested party to pay the minimum overbid and to make the required improvements will be used by PIR to determine if an interested party is a viable potential purchaser who will receive access to the due diligence materials.

The last day on which interested parties may make an expression of interest is March 6, 2017. A hearing to approve the sale of the Assets to ITA is currently set for March 10, 2017 at 9:00 a.m. in Department 3 of the United States Bankruptcy Court for the Southern District of California (the "Bankruptcy Court"). A hearing will be held on March 7, 2017 at 3:00 p.m. to determine (1) if there are interested potential bidders who wish to conduct further due diligence, and (2) whether the sale hearing should be postponed at approximately 30 days to accommodate potential bidders who wish to conduct further due diligence. Any potential bidders wishing to conduct further due diligence beyond March 7, 2017 will be required to post a \$25,000 deposit in the form of a cashier's check or wired funds prior to March 7, 2017. If there are no interested potential bidders as of the hearing on March 7, 2017, the Bankruptcy Court might approve the sale of the Assets to ITA at the hearing on March 10, 2017.

The bidding will be in response to the terms of the Asset Purchase Agreement entered into between PIR and ITA. Bids must be for all Assets. Bids for only a portion of the Assets will not be accepted. A copy of that Asset Purchase Agreement will be made available to interested parties upon request. In order to bid for the assets, an interested party must qualify as a bidder by (1) presenting evidence acceptable to PIR that the bidder has the financial wherewithal to pay the purchase price and perform the lessee's obligations under the Desert Line Lease, (2) making a deposit of an additional \$75,000 (\$100,000 total), and (3) satisfying certain requirements of the MTS. A more precise description of the bidding requirements will be set forth in an order of the Bankruptcy Court and made available upon request.

The MTS is the owner and lessor under the Desert Line Lease. The MTS has informed the Bankruptcy Court, PIR and other interested parties in PIR's Chapter 11 case that PIR and any proposed bidder must timely cure existing defaults under the Desert Line Lease, and provide adequate assurance of future performance to the MTS under the Lease, including the milestones set out in the Desert Line Lease. Any bidder for the purchase and assumption of PIR's rights under the Desert Line Lease must be prepared to cure existing defaults and also be prepared to perform impending milestones and performance obligations under the Lease.

The MTS has identified as examples of events of default and prospective defaults the following performance milestones all relating to the easternmost 10 miles of rail in the Desert Line (as distinguished from the separate, much longer, portion of the rail line that is under sublease to BJRR, which appears to be "on track"):

- a. Existing Default: Lease section 1.2.3.1.1–Phase I Initial Repairs–Bridge Demolition work (if any) was required to commence on July 20, 2016 and be completed by November 9, 2016.
- b. Existing Default: Lease section 1.2.3.1.2–Phase I Initial Repairs–Bridge Repair Schedule–Bridge repairs were to commence on August 5, 2016 and be completed on or about December 23, 2016.
- c. Prospective Default: Lease section 1.2.3.1.3–Phase I Initial Repairs–Track Repair–Track repairs were required to commence on August 1, 2016 and be completed by March 1, 2017.
- d. Prospective Default: Lease section 1.2.4.1–Phase I Test Train Operations–The lessee is required to commence test train operations on the easternmost 10 miles of rail on or before April 1, 2017.
- e. Prospective Default: Lease section 1.2.6.1–Phase I Limited Operations–The lessee is required to commence limited rail operations (running at least three trains per week) on the easternmost 10 miles of track no later than December 31, 2017.

The MTS will evaluate all prospective bidders seeking to purchase PIR's interests in the Desert Line Lease for qualifications both financially and operationally in terms of ability to perform the material terms and conditions going forward under the Desert Line Lease. The MTS fully reserves its rights to insist on the prompt cure of the identified and other existing defaults pursuant to Bankruptcy Code section 365(b) and its rights to receive adequate assurance of future performance pursuant to section 365(f)(2)(B). Both financial and operational aspects are key to the MTS's evaluation of a particular candidate, as well as familiarity with the unique nature of the Desert Line Lease and the cross-border challenges it presents in both regards to any bidder. In this regard, the MTS has prepared and provided to PIR a bidder's questionnaire that it will use as part of its initial evaluation of a bidder's asserted qualifications as a prospective assignee of the Desert Line Lease.

After completing the MTS bidder's questionnaire, a prospective bidder should direct questions regarding the purchase of the Desert Line Lease in the first instance to counsel for PIR, who will in turn direct questions for further detail to the MTS through its counsel, James P. Hill, Esq., of Sullivan Hill Lewin Rez & Engel.

Interested parties should contact:

Alan Vanderhoff
Vanderhoff Law Group
600 West Broadway, Suite 1550
San Diego, CA 92101

(619) 299-2050
Alan.vanderhoff@vanderhofflaw.com

Sincerely,



Arturo Alemany,
President and CEO