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LAW OFFICES
ALVORD AND ALVORD
200 WORLD CENTER BUILDING
918 SIXTEENTH STREET, N.W.
WASHINGTON, D.C.
20006

ELIAS C. ALVORD (1942)
ELLSWORTH C. ALVORD (1984)

ROBERT W. ALVORD
ALBERT H. GREENE
CARL C. DAVIS*
CHARLES T. KAPPLER
JOHN H. DOYLE
MILTON C. GRACE*
GEORGE JOHN KETO**
RICHARD N. BAGENSTOS

* NOT A MEMBER OF D.C. BAR
** ALSO A MEMBER OF OHIO BAR NO.

RECORDATION 12428
Filed 2023

NOV 20 1980 - 1 20 PM

INTERSTATE COMMERCE COMMISSION

OF COUNSEL
JESS LARSON
URBAN A. LESTER
CABLE ADDRESS
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12428 A

November 20, 1980

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INTERSTATE COMMERCE COMMISSION

Agatha L. Mergenovich, Secretary
Interstate Commerce Commission
Washington, D.C. 20423

325A033

No. 7
NOV 20 1980

Date.....

Fee \$..60.00

ICC Washington, D. C.

Dear Madam:

Enclosed for recordation under the provisions of 49 U.S.C. §11303(a) are original and five (5) certified true copies each of 1) a Lease Agreement dated as of November 10, 1979 and 2) a First Amendment to Lease Agreement dated as of September 29, 1980 ("Documents").

The names and addresses of the parties to the Documents are as follows:

LESSOR: Brae Corporation
Three Embarcadero Center
San Francisco, California 94111

LESSEE: Pend Oreille Valley Railroad, Inc.
P.O. Box 598
Metaline Falls, Washington 99153

NOV 20 1 07 PM '80
Fee BRANCH

A general description of the railroad equipment covered by the Documents is:

One hundred (100) 70-ton 50'6" boxcars, AAR Mechanical Designation XP, bearing reporting marks and numbers POVA 35001 through POVA 35100, both inclusive.

The undersigned is agent for Brae Corporation for the purpose of recording the Documents and has knowledge of the matters set forth therein.

C. T. Kowler

Agatha L. Mergenovich, Secretary
November 20, 1980
Page Two

Please return the copies of the Documents not needed for recordation purposes to Cary J. Malkin, Esq., Mayer, Brown & Platt, 231 South LaSalle Street, Chicago, Illinois 60604 or to the bearer hereof.

Also enclosed is a check in the amount of \$60.00 payable to the order of the Interstate Commerce Commission covering the required recordation fees.

Very truly yours,

ALVORD AND ALVORD
Agent for Brae Corporation

By Charles T. Kappler

Charles T. Kappler

BRAE CORPORATION

LEASE AGREEMENT

12428
RECORDATION NO. Filed 1425

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INTERSTATE COMMERCE COMMISSION

THIS LEASE AGREEMENT, made as of this 10th day of November, 1979, between BRAE CORPORATION, a California corporation, Three Embarcadero Center, San Francisco, California 94111 ("BRAE"), as Lessor, and PEND OREILLE VALLEY RAILROAD, INC., a Washington corporation.

1. Scope of Agreement

A. BRAE agrees to lease to Lessee, and Lessee agrees to lease from BRAE, freight cars as set forth in any lease schedules executed by the parties concurrently herewith or hereafter and made a part of this Agreement. The word "Schedule" as used herein includes the Schedule or Schedules executed herewith and any additional Schedules and amendments thereto, each of which when signed by both parties shall be a part of this Agreement. The scheduled items of equipment are hereinafter called collectively the "Cars."

B. It is the intent of the parties to this Agreement that BRAE shall at all times be and remain the lessor of the Cars. Lessee agrees that it will at no time take any action or file any document which is inconsistent with the foregoing intent and that it will take such action and execute such documents as may be necessary to accomplish this intent.

2. Term

A. This Agreement shall remain in full force until it shall have been terminated as to all of the Cars as provided herein. The lease pursuant to this Agreement with respect to each Car shall commence when such Car has been delivered, as provided in Section 3A hereof, and shall continue until fifteen (15) years (the "initial lease term") have expired from the actual date of delivery, as provided in Section 3A hereof, for the last of the Cars described on the Schedule on which such Car is described.

B. If this Agreement has not been earlier terminated and no default has occurred and is continuing, it shall automatically be extended for not more than five consecutive periods of twelve months each (the "extended lease term") with respect to all of the

Cars described on each Schedule, provided, however, that BRAE or Lessee may terminate this Agreement at the expiration of the initial or any extended lease term as to all, but not fewer than all, of the Cars on any Schedule by written notice delivered to the other not less than twelve months prior to the end of the initial or such extended lease term, as the case may be.

3. Supply Provisions

A. BRAE will inspect each of the Cars tendered by the manufacturer for delivery to Lessee. Prior to such inspection, however, Lessee shall confirm in writing to BRAE that the sample Car which will be made available for Lessee's inspection prior to the commencement of deliveries conforms to the specifications of the equipment agreed to by Lessee. Upon such approval by Lessee and BRAE's determination that the Car conforms to the specifications ordered by BRAE and to all applicable governmental regulatory specifications, and if this Agreement has not then been terminated, BRAE will accept delivery thereof at the manufacturer's facility and shall notify Lessee in writing of such acceptance. Each of the Cars shall be deemed delivered to Lessee upon acceptance by BRAE. However, any cars found not to meet specifications agreed to by Lessee when initially received at Lessee's tracks, shall be altered at BRAE's expense. The Cars shall be moved to Lessee's railroad line at no cost to Lessee as soon after acceptance of delivery by BRAE as is consistent with mutual convenience and economy. Due to the nature of the railroad operations in the United States, BRAE can neither control nor determine when the Cars leased hereunder will actually be available to Lessee for its use on its railroad tracks. Notwithstanding that Lessee may not have immediate physical possession of a Car, the lease hereunder with respect thereto shall commence and Lessee shall pay to BRAE the rent for such Car set forth in this Agreement, all upon acceptance of such Car by BRAE from the manufacturer. To move the Cars to Lessee's railroad line and insure optimal use of the Cars after the first loading of freight for each Car (the "initial loading"), BRAE agrees to assist Lessee in monitoring Car movements and, when deemed necessary by Lessee and BRAE, to issue movement orders with respect to such Cars to other railroad lines in accordance with ICC and AAR interchange agreements and rules.

B. Lessee agrees that so long as it shall have on lease any Cars, it shall not lease freight cars from any other party until it shall have received all of the Cars on the Schedule or Schedules. Lessee shall give preference to BRAE and shall load the Cars leased from BRAE prior to loading substantially similar freight cars leased from other parties or purchased by Lessee subsequent to the date of this Agreement or interchanged with railroads; provided, however, that this shall in no event prevent or prohibit Lessee from fulfilling its obligations to provide transportation and facilities upon reasonable request therefor to shippers on its railroad tracks.

C. Additional Cars may be leased from BRAE by Lessee only upon the mutual agreement of the parties hereto. Such additional Cars shall be identified in Schedules to this Agreement and shall benefit from and be subject to this Agreement upon execution of the Schedules by BRAE and Lessee. Notwithstanding the execution of any Schedules, including Schedules for additional Cars, the delivery of any Car to Lessee shall be subject to manufacturer's delivery schedules, the availability of financing on terms satisfactory to BRAE and the mutual acknowledgement of the parties that the addition of such Cars is not likely to reduce Utilization (as defined in Section 6A hereof) of all Cars on lease to Lessee to less than 87.5 per cent in any calendar quarter. If, due to any of the factors listed in the preceding sentence, fewer than all of the Cars listed on a Schedule shall be delivered to Lessee, the initial lease term shall terminate fifteen (15) years from the delivery date for the final Car actually delivered, as provided in Section 3A hereof, provided that Lessee shall be entitled to share in payments as provided in Section 6A with respect to each Car from such Car's initial loading.

4. Railroad Markings and Record Keeping

A. BRAE and Lessee agree that on or before delivery of any Cars to Lessee, such Cars will be lettered with the railroad markings of Lessee and may also be marked with the name and/or other insignia used by Lessee. BRAE and Lessee further agree that any Car may also be marked with the name of BRAE and any other information required by an owner or secured party under a financing agreement entered into by BRAE in connection with the acquisition of such Car. All such names, insignia and other information shall comply with all applicable regulations.

B. At no cost to Lessee, BRAE shall during the term of this Agreement prepare for Lessee's signature and filing all documents relating to the registration, maintenance and record keeping functions involving the Cars. Such documents shall include but shall not be limited to the following: (i) appropriate AAR documents including, with Lessee's approval, an application for relief from AAR Car Service Rules 1 and 2; (ii) registration in the Official Railway Equipment Register and the Universal Machine Language Equipment Register; and (iii) such reports as may be required from time to time by the ICC and/or other regulatory agencies.

C. Each Car leased hereunder shall be registered at no cost to Lessee in the Official Railway Equipment Register and the Universal Machine Language Equipment Register. BRAE shall, on behalf of Lessee, perform all record keeping functions related to the use of the Cars by Lessee and other railroads in accordance with AAR railroad interchange agreements and rules, such as car hire reconciliation. Correspondence from railroads using such Cars shall be addressed to Lessee at such address as BRAE shall select.

D. All record keeping performed by BRAE hereunder and a record of all payments, charges and correspondence related to the Cars shall be separately recorded and maintained by BRAE in a form

suitable for reasonable inspection by Lessee from time to time during BRAE's regular business hours. Lessee shall supply BRAE with such reports, including daily telephone reports (to be initiated by and at the expense of BRAE) of the number of Cars on Lessee's tracks, regarding the use of the Cars by Lessee on its railroad line as BRAE may reasonably request.

5. Maintenance, Taxes and Insurance

A. Except as otherwise provided herein, BRAE will pay all costs, expenses, fees and charges incurred in connection with the use and operation of each of the Cars during its initial lease term and any extended lease term, including but not limited to repairs, maintenance and servicing, unless the same was occasioned by the fault of Lessee. Lessee shall inspect all Cars interchanged to it to insure that such Cars are in good working order and condition and shall be liable to BRAE for any repairs required for damage which would cause a defect card to be generated and not noted thereon at the time of interchange. Lessee hereby transfers and assigns to BRAE all of its right, title and interest in any warranty in respect of the Cars. All claims or actions on any warranty so assigned shall be made and prosecuted by BRAE at its sole expense and Lessee shall have no obligation to make any claim on such warranty. Any recovery under such warranty shall be payable solely to BRAE.

B. Except as provided in Section 5A hereof, BRAE shall make or cause to be made such inspections of, and maintenance and repairs to, the Cars as may be required. Upon request of BRAE, at BRAE's expense, Lessee shall perform any necessary maintenance and repairs to Cars on Lessee's railroad tracks as may be reasonably requested by BRAE, and can be accommodated by the railroad. BRAE shall also make, at its expense, all alterations, modifications or replacement of parts as shall be necessary to maintain the Cars in good operating condition throughout the term of the lease of such Cars. Lessee may make running repairs, at BRAE's expense, to facilitate continued immediate use of a Car, but shall not otherwise make any repairs, alterations, improvements or additions to the Cars without BRAE's prior written consent. If Lessee makes an alteration, improvement or addition to any car without BRAE's prior written consent, Lessee shall be liable to BRAE for any revenues lost due to such alteration. Title to any such alteration, improvement or addition shall be and remain with BRAE (or its assignee).

C. Lessee will at all times while this Agreement is in effect be responsible for the Cars while on Lessee's railroad tracks in the same manner that Lessee is responsible under Rule 7 of the AAR Car Service and Car Hire Agreement Code of Car Service Rules - Freight for freight cars not owned by Lessee on Lessee's railroad tracks. BRAE will extend its physical damage insurance coverage to protect against the consequences of an event of loss involving the Cars while on Lessee's tracks. Any incremental charges for said coverage will be paid by Lessee. Such charges shall be deducted by BRAE from amounts earned by Lessee hereunder. Should utilization fall below 93%, Lessee will remit to BRAE the amount required for the incremental charges. BRAE will also name Lessee as additional insured on its public liability and property damage coverage which insurance



coverage will extend to the Cars only while the Cars are not on Lessee's rail lines. However, at any time, Lessee has the option to self insure or obtain other insurance. Lessee shall also maintain bodily injury and property damage liability insurance. Lessee shall furnish to BRAE concurrently with the execution hereof and thereafter at intervals of not more than 12 calendar months certificates of insurance with respect to such insurance signed by an independent insurance broker. All insurance shall be taken out in the name of Lessee and BRAE (or its assignee) as their interests may appear.

D. BRAE agrees to reimburse Lessee for all taxes, assessments and other governmental charges of whatsoever kind or character paid by Lessee relating to each Car and on the lease, delivery or operation thereof which may remain unpaid as of the date of delivery of such Car to Lessee or which may be accrued, levied, assessed or imposed during the lease term, except taxes on income imposed on Lessee and sales or use taxes imposed on that portion of the mileage charges and/or car hire revenues received by Lessee pursuant to Section 6a (ii) hereof. BRAE shall forward to Lessee all sales and use tax payments received by it on behalf of Lessee. BRAE and Lessee will comply with all state and local laws requiring the filing of ad valorem tax returns on the Cars. BRAE shall review all applicable tax returns prior to filing.

6. Lease Rental

A. Lessee agrees, subject to Section 6D hereof, to pay the following rent to BRAE for the use of the Cars:

(i) BRAE shall receive all straight car hire payments made to Lessee by other railroad companies for their use or handling of the Cars, (all of which payments made to Lessee are hereinafter collectively referred to as "payments") if Utilization of all Cars delivered to Lessee on an aggregate basis for each calendar year shall be equal to or less than 93 percent. For the purpose of determining Utilization, "Car Hour" shall mean one hour during which one Car is on lease hereunder, commencing on the initial loading of such Car. For the purpose of this Agreement, "Utilization" shall mean with respect to any period a fraction the numerator of which is (x) the aggregate number of Car Hours for which payments are earned by the Lessee during such period, and the denominator of which is (y) the aggregate number of Car Hours during such period.

(ii) In the event Utilization exceeds 93 per cent in any calendar year, BRAE shall receive an amount equal to the BRAE Base Rental. For the purpose hereof, BRAE Base Rental shall be an amount equal to the total straight car hire payments for the calendar year multiplied by a fraction, the numerator of which is 93 per cent and the denominator of which is the Utilization for such calendar year. (The above determination of BRAE Base Rental insures that Lessee will, if Utilization is greater than 93 per cent in any calendar year, receive 100% of all of the straight car hire payments made by other railroads for use or handling of the Cars in excess of the BRAE Base Rental.)

(iii) Lessee agrees to pay as rent to BRAE all mileage charges earned on the Cars, up to 75 miles per day per Car.

(iv) If BRAE pays other railroads to move Cars in accordance with Section 3A (only diversions approved by Lessee) hereof, except for any payments incurred to deliver such Cars to Lessee's railroad line, Lessee shall reimburse BRAE for such payments, but only from and out of the monies received by Lessee pursuant to Subsection 6A(ii) hereof.

(v) The rental charges payable to BRAE by Lessee shall be paid from the payments received by the Lessee in the following order until BRAE receives the amounts due it pursuant to this Section 6A: (1) incentive car hire payments; 2) straight car hire payments; (3) mileage charges and (4) other.

(vi) In the event damage beyond repair or destruction of a Car has been reported in accordance with Rule 7 of the AAR Car Service and Car Hire Agreement Code of Car Hire Rules - Freight and the appropriate amount due as a result thereof is received by BRAE, the damaged or destroyed Car will be removed from the coverage of this Agreement as of the date that car hire payments ceased.

(vii) In the event that incentive car hire payments remain in effect, Lessee shall pay as rent to BRAE forty percent (40%) of such payments.

(viii) In the event that any Car(s) are taken out of service for a period exceeding sixty (60) consecutive days as a result of maintenance or repair work being performed with respect thereto, such Car(s) will not be included in the Utilization calculations set forth above, provided that (a) incentive per diem payments still remain in effect and (b) overall Utilization, including all Cars being repaired or serviced, remains at a 90% or higher level.

B. The calculations required above shall be made within five months after the end of each calendar year. However, to enable BRAE to meet its financial commitments, BRAE may, prior to such calculations, retain the payments received by it on behalf of Lessee. Further, since the parties desire to determine on a quarterly basis the approximate amount of the rental charges due BRAE, BRAE shall within three months after the end of each calendar quarter, calculate on a quarterly basis rather than a yearly basis the amount due it or Lessee pursuant to this Section 6. Any amounts payable to BRAE and Lessee pursuant to the preceding sentence shall be paid promptly following such calculation, provided, however, that following the yearly calculation, any amount paid to either party in excess of the amounts required by the yearly calculation shall be promptly refunded to the appropriate party.

C. If at any time during a calendar quarter, the number of days that the Cars have not earned car hire payments is such as to make it mathematically certain that the Utilization in such calendar quarter cannot be equal to or greater than 87.5 per cent, BRAE

may, at its option and upon not less than ten (10) days' prior written notice to Lessee, terminate this Agreement as to such Cars as BRAE shall determine; provided however, such Cars as BRAE shall terminate pursuant to this Paragraph shall be equal to that number of Cars reasonably estimated by BRAE to be required so as to achieve 87.5% utilization; provided further, that in lieu of terminating certain Cars as provided above, BRAE shall first provide to Lessee the option to make up per diem payments so as to assure BRAE receives revenue as if cars were being utilized at 87.5%).

D. During the term of this Agreement, if any Car remains on Lessee's railroad tracks for more than seven consecutive days, BRAE may, at its option and upon not less than twenty-four (24) hours' prior written notice, terminate this Agreement as to such Car and withdraw such Car from Lessee's railroad tracks. If any such Car remains on Lessee's railroad tracks more than seven consecutive days because Lessee has not given preference to the Cars as specified in Section 3B hereof, Lessee shall be liable for and remit to BRAE an amount equal to the payments (assuming 75 miles per day) Lessee would have earned if such Cars were in the physical possession and use of another railroad for the entire period in excess of two days. Such option shall not be exercisable so long as total utilization is 87.5% or more during any calendar quarter.

7. Possession and Use

A. So long as Lessee shall not be in default under this Agreement, Lessee shall be entitled to the possession, use and quiet enjoyment of the Cars in accordance with the terms of this Agreement and in the manner and to the extent Cars are customarily used in the railroad freight business, provided that Lessee retain on its railroad tracks no more Cars than are necessary to fulfill its immediate requirements to provide transportation and facilities upon reasonable request therefor to shippers on its railroad tracks. However, Lessee's rights shall be subject and subordinate to the rights of any owner or secured party under any financing agreement entered into by BRAE in connection with the acquisition of some or all of Cars, i.e., upon notice to Lessee from any such secured party or owner that an event of default has occurred and is continuing under such financing agreement, such party may require that all rent shall be made directly to such party and/or that Cars be returned to such party. Lessee agrees that to the extent it has physical possession and can control use of the Cars, the Cars will at all times be used and operated under and in compliance with the laws of the jurisdiction in which the same may be located and in compliance with all lawful acts, rules and regulations, and orders of any governmental bodies or officers having power to regulate or supervise the use of such property, except that either BRAE or Lessee may in good faith and by appropriate proceedings contest the application of any such rule, regulation or order in any reasonable manner at the expense of the contesting party.

B. Lessee will not directly or indirectly create, incur, assume, or suffer to exist (except as provided in Section 7A) any mortgage, pledge, lien, charge, encumbrance, or other security interest or claim on or with respect to the Cars or any interest therein or in this Agreement or any Schedule hereto. Lessee will promptly, at its expense, take such action as may be necessary duly to discharge any such mortgage, pledge, lien, charge, encumbrance, security interest, or claim if the same shall arise at any time.

8. Default

A. The occurrence of any of the following events shall be an event of default:

(i) The nonpayment by Lessee of any sum required herein to be paid by Lessee within ten (10) days after the date any such payment is due.

(ii) The breach by Lessee of any other term, covenant, or condition of this Agreement, which is not cured within thirty (30) days after notice to Lessee of breach.

(iii) Any act of insolvency or bankruptcy by Lessee, or the filing by Lessee of any petition or action under any bankruptcy, reorganization, insolvency or moratorium law, or any other law or laws for the relief of, or relating to, debtors.

(iv) The filing of any involuntary petition under any bankruptcy, reorganization, insolvency or moratorium law against Lessee that is not dismissed within sixty (60) days thereafter, or the appointment of any receiver or trustee to take possession of the properties of Lessee, unless such petition or appointment is set aside or withdrawn or ceases to be in effect within sixty (60) days from the date of filing or appointment.

(v) The subjection of any of Lessee's property to any levy, seizure, assignment, application or sale for or by any creditor or governmental agency which is not released or bonded against within sixty (60) days thereafter.

(vi) Any action by Lessee to discontinue rail service on all or a portion of its tracks or abandon any of its rail properties pursuant to applicable provisions of the laws of the United States of America or of any state, if such action would substantially decrease utilization as defined in Paragraph 6A.

(vii) Lessee shall be merged with or consolidated into another corporation which after such merger or consolidation shall have a net worth less than that of Lessee immediately prior thereto.

B. Upon the occurrence of any event of default, BRAE may, at its option:

(i) Terminate this Agreement, proceed by any lawful means to recover damages for a breach hereof, and terminate Lessee's right of possession and use of the Cars, whereupon all right and interest of Lessee in the Cars shall terminate and thereupon BRAE may enter upon any premises where the Cars may be located and take possession of them and henceforth hold, possess and enjoy the same free from any right of Lessee, provided that BRAE shall nevertheless have the right to recover from Lessee any and all rental amounts which under the terms of this Agreement may then be due or which may have accrued to the date on which BRAE took such possession; or

(ii) Proceed by any lawful means to enforce performance by Lessee of this Agreement. Non-prevailing party agrees to bear the costs and expenses, including without limitation reasonable attorneys' fees, incurred in connection with the exercise of its remedies pursuant to this Section 8B.

9. Termination

At the expiration or termination of this Agreement as to any Car, Lessee will surrender possession of such Car to BRAE by delivering the same to BRAE at such place reasonably convenient to Lessee as BRAE shall designate. A Car shall be no longer subject to this Agreement upon the removal of Lessee's railroad markings from such Car and the placing thereon of such markings as may be designated by BRAE, either, at the option of BRAE, (1) by Lessee upon return of such Car to Lessee's railroad line or (2) by another railroad line which has physical possession of the Car at the time of or subsequent to termination of the lease term as to such Car. If such Car is not on the railroad line of Lessee upon termination or expiration, any cost of assembling, delivering, storing, and transporting such Car to Lessee's railroad line or the railroad line of a subsequent lessee shall be borne by BRAE. If such Car is on the railroad line of Lessee upon such expiration or termination or is subsequently returned to Lessee's railroad line, Lessee shall at its own expense, as promptly as practicable remove Lessee's railroad markings (Note: only railroad initials & number) from such Car (only those Cars on Lessee's tracks) and place thereon such markings as may be designated by BRAE. After the removal and replacement of markings, Lessee shall use its best efforts to load such Car with freight and deliver it to a connecting carrier for shipment. Lessee shall provide up to thirty (30) days' free storage on its railroad tracks to the extent track is available for BRAE or the subsequent lessee of any terminated Car. If any Car is terminated pursuant to Section 8A (i), 8A (ii) or Lessee does not give preference in loading as outlined in 3B, Sections 6C, 6E or 8 hereof prior to the end of its lease term, Lessee shall be liable to BRAE for all costs and expenses incurred by BRAE to repaint such Car and place thereon the markings and name or other

insignia of BRAE's subsequent lessee.

10. Indemnities

BRAE will defend, indemnify and hold Lessee harmless from and against (1) any and all claims based upon loss or damage to the Cars, unless such loss or damage results from the negligence of Lessee, and (2) any other type of claim, cause of action, damage, liability, cost or expense which may be asserted against Lessee with respect to the Cars (unless occurring through the fault of Lessee), including without limitation claims with respect to the construction, purchase, delivery to Lessee's railroad line, ownership, leasing, return, use, maintenance, repair, replacement, operation or condition (whether defects, if any, are latent or are discoverable by BRAE or Lessee) of the Cars.

11. Representations, Warranties and Covenants

Lessee represents, warrants and covenants that:

(i) Lessee is a corporation duly organized, validly existing and in good standing under the laws of the state where it is incorporated and has all necessary corporate power and authority, permits and licenses to perform its obligations under this Agreement.

(ii) The entering into and performance of this Agreement will not violate any judgment, order, law or regulation applicable to Lessee, or result in any breach of, or constitute a default under, or result in the creation of any lien, charge, security interest or other encumbrance upon any assets of Lessee or on the Cars pursuant to any instrument to which Lessee is a party or by which it or its assets may be bound.

(iii) There is no action or proceeding pending or threatened against Lessee before any court or administrative agency or other governmental body which might result in any material adverse effect on the business, properties and assets, or conditions, financial or otherwise, of Lessee.

(iv) There is no fact which Lessee has not disclosed to BRAE in writing, nor is Lessee a party to any agreement or instrument nor subject to any charter or other corporate restriction which, so far as the Lessee can now reasonably foresee, will individually or in the aggregate materially adversely affect the ability of the Lessee to perform its obligations under this Agreement.

(v) Lessee has during the years 1964-1968 neither built, leased nor purchased any new or rebuilt freight cars.

12. Inspection

BRAE shall at any time during normal business hours have the right to enter the premises where the Cars may be located for the purpose of inspecting and examining the Cars to insure Lessee's compliance with its obligations hereunder. Lessee shall immediately notify BRAE of any accident connected with the malfunctioning or operation of the Cars, including in such report the time, place and nature of the accident and the damage caused, the names and addresses of any persons injured and of witnesses, and other information pertinent to Lessee's investigation of the accident. Lessee shall also notify BRAE in writing within five (5) days after any attachment, tax lien or other judicial process shall attach to any Car. Lessee shall furnish to BRAE promptly upon its becoming available, a copy of its annual report submitted to the ICC and, when requested, copies of any other income or balance sheet statements submitted to the ICC or its shareholders generally.

13. Miscellaneous

A. This Agreement and the Schedules contemplated hereby shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns, except that Lessee may not without the prior written consent of BRAE assign this Agreement or any of its rights hereunder or sublease the Cars to any party, and any purported assignment or sublease in violation hereof shall be void. Lessee agrees to acknowledge, upon receipt, any assignment of this Agreement by BRAE to an owner or secured party under any financing agreement entered into by BRAE in connection with the acquisition of all or part of the Cars leased hereunder. Lessee hereby agrees that any such assignment may be with respect to all or part of the Cars to be leased hereunder and may relate to all or part of the Cars on any Schedule hereto. Any assignment of this Agreement by BRAE to an owner or secured party shall not subject that owner or secured party to any of BRAE's obligations hereunder. Those obligations shall remain enforceable by Lessee solely against BRAE.

B. Both parties agree to execute the documents contemplated by this transaction and such other documents as may be required in furtherance of any financing agreement entered into by BRAE in connection with the acquisition of the Cars in order to confirm the financing party's interest in and to the Cars, this Agreement and Schedules hereto and to confirm the subordination provisions contained in Section 7 hereof and in furtherance of this Agreement.

C. It is expressly understood and agreed by the parties hereto that this Agreement constitutes a lease of the Cars only and no joint venture or partnership is being created. Notwithstanding the calculation of rental payments, nothing herein shall be construed as conveying to Lessee any right, title or interest in the Cars except as a lessee only.

D. No failure or delay by BRAE shall constitute a waiver or otherwise affect or impair any right, power or remedy available to BRAE nor shall any waiver or indulgence by BRAE or any partial or single exercise of any right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy.

E. This Agreement shall be governed by and construed according to the laws of the State of California.

F. All notices hereunder shall be in writing and shall be deemed given when delivered personally or three days after deposit in the United States mail, postage prepaid, certified or registered, addressed to the president of the other party at the address set forth in the preamble to this Agreement.

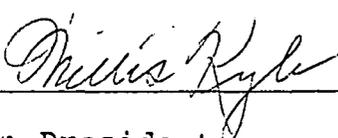
G. No security interest in this Agreement, as chattel paper (as defined in the Uniform Commercial Code), may be created by the transfer of possession except by transfer of an original, duplicate or photocopy of this Agreement and the only original counterpart of the applicable Schedule or Schedules. The original counterpart of each Schedule shall be marked "Original" and delivered to BRAE and all other counterparts thereof shall be duplicates and shall be marked "Duplicate."

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

BRAE CORPORATION

PEND OREILLE VALLEY RAILROAD,
INC.

By: 
Title: William J. Texido
President
FEB 7/80
Date: November 16, 1979

By: 
Title: Willis Kyle
President
Date: November 14, 1979

EQUIPMENT SCHEDULE No. ONE

BRAE CORPORATION hereby leases the following Cars to PENDING OREILLE VALLEY RAILROAD, INC. pursuant to that certain Lease Agreement dated as of November 10, 1979.

A.A.R. Mech. Design	Description	Numbers	Dimensions			Doors Width	No. of Cars
			Length	Width	Height		
XP	50' 70 ton General Purpose Boxcars with 10" end of car cushioning Specifications shall be more particularly agreed upon between BRAE & Lessee.	POVA 35001 through POVA 35100 (both inclusive)	50' 6"	9' 6"	11' 1-3/4"	DBL 8' Offset	100

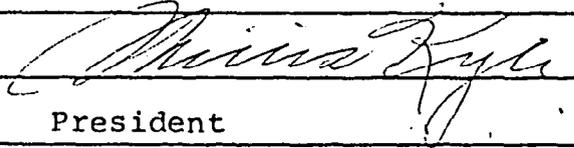
BRAE CORPORATION

BY: 
William J. Texido

TITLE: President

DATE: November 16, 1979 Feb 7/80

PENDING OREILLE VALLEY RAILROAD, INC.

BY: 
Thomas Kyle

TITLE: President

DATE: November 14, 1979

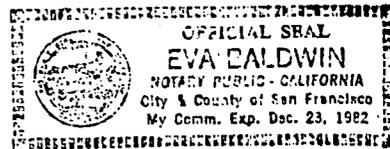
STATE OF California)
COUNTY OF San Francisco)

On this 14th day of November, 1979, before me personally appeared Willis Kyle, to me personally known, who being by me duly sworn says that such person is President of Pend Oreille Valley Railroad, Inc and that the foregoing Lease Agreement, Rider(s) No. _____ and Equipment Schedule(s) No. One were signed on behalf of said corporation by authority of its board of directors, and such person acknowledged that the execution of the foregoing instruments were the free acts and deeds of such corporation.

Eva Baldwin

Notary Public

[seal]



STATE OF CALIFORNIA)
CITY AND COUNTY OF SAN FRANCISCO)

On this 7th day of February, 1980, before me personally appeared William S. Texido, to me personally known, who being by me duly sworn says that such person is President of BRAE CORPORATION, and that the foregoing Lease Agreement, Rider(s) No. _____ and Equipment Schedule(s) No. One were signed on behalf of said corporation by authority of its board of directors, and such person acknowledged that the execution of the foregoing instruments were the free acts and deeds of such corporation.

Mirella R. Abbo

Notary Public

[seal]

