RECORDATION NO 22031 FILED

FEB 18 '99 10:55 AM

MOMBACH, BOYLE & HARDIN, P.A.

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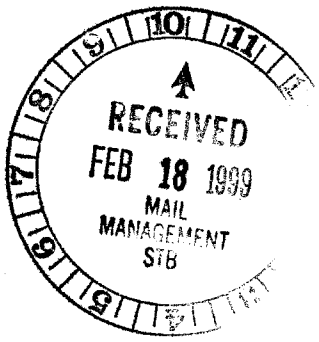
February 16, 1999



VIA FEDERAL EXPRESS
SECOND DAY DELIVERY

Mr. Vernon A. Williams, Secretary
Surface Transportation Board
1925 K Street, N.W., Room 715
Washington, D.C. 20423

Dear Mr. Williams:

Enclosed for recordation pursuant to the provisions of 49 U.S.C. § 11303(a) are one executed copy and one copy of a Security Agreement dated as of the 16th day of June, 1998, a primary document as defined in the Board's Rules for the Recordation of Documents under 49 C.F.R. Part 1177.

The names and addresses of the parties to the enclosed document are:

Debtor:	Huron and Eastern Railway Company, Inc. 101 Enterprise Drive Vassar, Michigan 48768
Secured Party:	National Bank of Canada, as Agent 5100 Town Center Circle, Suite 430 Boca Raton, Florida 33486

A description of the railroad equipment covered by the enclosed documents is attached hereto as Exhibit "A".

Also enclosed is a check in the amount of $26.00 payable to the order of the Surface Transportation Board covering the required recordation fee.

Please return one stamped copy of the enclosed document to:

Gary S. Singer, Esquire
Mombach, Boyle & Hardin, P.A.
500 East Broward Boulevard
Broward Financial Center, Suite 1950
Ft. Lauderdale, Florida 33394-3079

A short summary of the enclosed primary document to appear in the Board's index is:

Security Agreement dated as of the 16th day of June, 1998, between Huron and Eastern Railway Company, Inc., as debtor, and National Bank of Canada, as Agent, and the Secured Parties as set forth therein, as secured party, covering certain railroad rolling stock and other equipment as set forth on Exhibit "A" attached hereto.

Very truly yours,

MOMBACH, BOYLE & HARDIN, P.A.

Ashley E. Helsel, Secretary
to Gary S. Singer

Enclosures: One original Security Agreement
One copy of Security Agreement
Check
SASE

DAB/aeh

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SURFACE TRANSPORTATION BOARD
WASHINGTON, D.C. 20423-0001

OFFICE OF THE SECRETARY

Gary S. Singer, Esquire
Mombach, Boyle & Hardin, P.A.
500 East Broward Boulevard
Broward Financial Center, Ste. 1950
Ft. Lauderdale, Florida 33394-3079

Dear Sir:

The enclosed documents (s) was recorded pursuant to the provisions of 49 U.S.C. 11301 and CFR 1177.3 (c), on 2/18/99 at 10:55AM , and assigned recordation numbers (s): 22031.

Sincerely Yours,

Vernon A. Williams

Enclosure(s)
26.00
$_____ The amount indicated at the left has been received in payment of a fee in connection with a document filed on the date shown. This receipt is issued for the amount paid. In the event of an error or any questions concerning this fee, you will receive a notification after the Surface Transportation Board has an opportunity to examine your document.

Signature----------

RECORDATION NO 12031 FILED

FEB 18 '99 10-55 AM

SECURITY AGREEMENT

THIS AGREEMENT, made and entered into as of the 16th day of June, 1998, by HURON AND EASTERN RAILWAY COMPANY, INC., a Michigan corporation ("Debtor"), to NATIONAL BANK OF CANADA, a Canadian Chartered Bank, as Agent (the "Agent"), and the Secured Parties (as defined below). Except as otherwise defined herein, terms used herein and defined in the Loan Agreement referred to below, shall be used herein as so defined.

W I T N E S S E T H:

WHEREAS, the Secured Parties have agreed to extend certain financing to the Debtor, RAILAMERICA, INC., a Delaware corporation ("RailAmerica"), KALYN/SIEBERT INCORPORATED, a Texas corporation, RAILAMERICA INTERMODAL SERVICES, INC., a Delaware corporation, RAILAMERICA CARRIERS INC., a corporation organized under the laws of the Province of Ontario, STEEL CITY CARRIERS INC., a corporation organized under the laws of the Province of Ontario, SAGINAW VALLEY RAILWAY COMPANY, INC., a Delaware corporation, WEST TEXAS AND LUBBOCK RAILROAD COMPANY, INC., a Texas corporation, PLAINVIEW TERMINAL COMPANY, a Texas corporation, CASCADE AND COLUMBIA RIVER RAILROAD COMPANY, a Delaware corporation, OTTER TAIL VALLEY RAILROAD COMPANY, INC., a Minnesota corporation, MINNESOTA NORTHERN RAILROAD, INC., a Delaware corporation, DELAWARE VALLEY RAILWAY COMPANY, INC., a Delaware corporation, and ST. CROIX VALLEY RAILROAD COMPANY, a Delaware corporation (collectively, the "Existing Borrowers") in accordance with the terms and provisions of that certain Modification Master Revolving / Term Promissory Note in the principal amount of Twenty Five Million and 00/100 Dollars ($25,000,000.00) executed by the Existing Borrowers in favor of NATIONAL BANK OF CANADA, a Canadian Chartered Bank, and being dated of even date herewith, that certain Modification Master Revolving / Term Promissory Note in the principal amount of Fifteen Million and 00/100 Dollars ($15,000,000.00) executed by the Existing Borrowers in favor of COMERICA BANK, a Michigan banking corporation and being dated of even date herewith, and that certain Master Revolving/Term Promissory Note in the principal amount of Fifteen Million and 00/100 Dollars ($15,000,000.00) executed by the Existing Borrowers in favor of SOUTHTRUST BANK, NATIONAL ASSOCIATION, a national banking association and being dated of even date herewith (collectively the "Note" or "Notes") and a Loan Agreement dated as of May 23, 1997, as amended from time to time (collectively, the "Loan Agreement") entered into by and among the Existing Borrowers and the other borrowers which are from time to time named in and are signatory parties thereto (collectively, the "Borrowers"), the Agent and the financial institutions which from time to time are named in and are signatory parties thereto (the "Lenders"; the Lenders together with the Agent are collectively referred to as the "Secured Parties"). Further, it is acknowledged that it is a condition precedent to the making of Advances by the Lenders under the Notes and the Loan Agreement that the Debtor shall have granted a security interest in certain assets of the Debtor in favor of the Secured Parties as hereinafter provided.

NOW, THEREFORE, in consideration of the premises, and in order to induce the Lenders to make Advances under the Notes and the Loan Agreement, the Debtor hereby agrees as follows:

1. Creation and Grant of Securities. The Debtor hereby grants, assigns and pledges to and in favor of the Agent, for the benefit of the Secured Parties, and hereby grants to the Agent, for the benefit of the Secured Parties, a continuing security interest in all of the following property described and listed below (the "Collateral"):

A. All accounts, accounts receivable, patents, trademarks, tradenames, licenses, franchises, general intangibles, contract rights and other obligations of any kind, whether now owned or hereafter acquired by Debtor and all proceeds of the foregoing and all rights now or hereafter existing in and to all security agreements, leases and other contracts securing or otherwise relating to any such accounts, contract rights, chattel paper instruments, general intangibles or obligations (any and all such accounts, contract rights, chattel paper instruments, general intangibles and obligations being the "Receivables") and any and all such leases, security agreements and other contracts being the "Related Contracts"; all of Debtor's right, title and interest in, to and in respect of all goods relating to, or which by sale have resulted in Receivables, including without limitation, all goods described in invoices, documents, contracts or instruments, with respect to, or otherwise representing or evidencing any Receivables or other collateral, including without limitation, all returned, reclaimed or repossessed goods, all deposit accounts, all books, records, ledger cards, computer programs and other property and general intangibles evidencing or relating to the Receivables, and, any other collateral, together with the file cabinets or containers in which the foregoing are stored, and all other general intangibles of every kind and description, and all proceeds, profits, deposits, products and accessions of and to all of the foregoing.

B. All of Debtor's right, title and interest as Lessee in and to all leases and rental arrangements of any property leased by Debtor or any part thereof heretofore made and entered into and in and to all leases and rental arrangements hereafter made and entered into by or on behalf of Debtor together with any and all guarantees of such leases or rental arrangements, and, including all present and future security deposits and advance rentals.

C. All machinery, equipment, furniture, fixtures, computer hardware and software, hand and power tools, trucks, trailers, forklifts, automobiles, heavy equipment, railroad equipment and other equipment, locomotives financed by the Secured Parties, unimogs financed by the Secured Parties, rolling stock financed by the Secured Parties and other motor vehicles, trucks, trailers, machinery and equipment of all classes, together with all parts thereof and all accessions thereto, wherever located, now owned or hereafter acquired by Debtor (any and all such machinery, equipment, fixtures, parts and accessions and all other items set forth in this Article 1-C being defined as the "Machinery and Equipment"). The Machinery and Equipment also includes, without limitation, all of the locomotives and rolling stock set forth on Exhibit "A" appended hereto and made a part hereof. Notwithstanding the foregoing, locomotives and unimogs acquired under leases are specifically excluded from the Collateral, although specific units of same may be added to the Collateral at a future date, if financed by the Secured Parties and evidenced by the filing of financing statement amendments or new financing statements or filings with the Surface Transportation Board.

D. All inventory in all of its forms, wherever located, now or hereafter existing, including without limitation, raw materials, work in process, parts, components, assemblies, supplies and materials used or consumed in Debtor's business, finished goods and all other inventory of whichsoever kind or nature, wherever located, whether now owned or hereafter existing, or acquired by Debtor, including without limitation, all wrapping, packaging, advertising, shipping materials, and, all other goods consumed in Debtor's business, all labels and other devices, names or marks affixed or to be affixed thereto for purposes of selling or identifying the same, or, the seller or manufacturer thereof, and, all of Debtor's right, title and interest therein and thereto; all books, records, documents, other property and general intangibles at any time relating to the Inventory, all goods, wares and merchandise finished or unfinished, held for sale or lease or furnished or to be furnished under contracts of service; all goods returned to or repossessed by Debtor; and all accessions thereto and products thereof (any and all such inventory, accessions and products being the "Inventory").

E. All rails, tracks, trackage, track materials, ties and timber owned by the Debtor, whether now owned or hereafter acquired, including but not limited to (i) all rail and track owned by Debtor, but not yet affixed to any real estate or incorporated within existing railroad lines, and (ii) all rail and track owned by Debtor and affixed to real estate or incorporated within existing railroad lines, together with all fixtures, equipment, machinery, structures, buildings, tracks, rails, ties, switches, crossings, bridges, trestles, culverts, signals, crossing protection devices, loading platforms, pools, communication lines, powerlines and appurtenances of every kind or nature, used or useful in connection with laying, maintaining and operating such rail and track (the "Railroad Trackage").

F. All franchises, sanctions, rights (oral and written), licenses, privileges and operating agreements or authorities, third-party agreements and interchange agreements, and all other agreements (oral and written), including without limitation and to the extent the same are assignable, agreement(s) between Debtor and the State of Michigan Department of Transportation, or between third parties and the State of Michigan Department of Transportation, as assigned or licensed to Debtor, to operate over 206 miles of track, or thereabouts (collectively the "Franchises").

G. All fixtures, furniture, instruments, equipment, vehicles and any and all other personal property now owned or hereafter acquired by the Debtor.

H. All assets now or hereafter acquired by Debtor pursuant to a Collateralized Acquisition Advance as more fully described and set forth in the Loan Agreement.

I. To the extent applicable, any and all microfiche compilations of documents vesting title to any of the Debtor's real property (collectively the "Real Property"), together with all other evidence of title related to the Real Property, including without limitation, all valuation maps, land reports, title reports, surveys and all other title information related to the Real Property.

J. All present and future bills, notes and cheques (as such are defined pursuant to the Bills of Exchange Act (Canada)), and all other writings that evidence or relate to the payment of money and are of a type that in the ordinary course of business are transferred by delivery without any necessary endorsement or assignment.

K. All of Debtor's deposit accounts, certificates of deposit, investment accounts, money market funds, mutual funds, and cash and currency authorized as legal tender in the United States of America, Canada and/or any other country.

L. All issues, deposits, products, rents, profits and proceeds derived of and from any and all of the foregoing collateral and to the extent not otherwise included, all payments under insurance (whether or not the Agent or the Secured Parties are the loss payees thereof) or any indemnity, warranty or guaranty, chose in action or judgment payable by reason of loss or damage to or otherwise with respect to any of the foregoing collateral.

The Collateral also includes other assets of the same or similar class or classes hereafter owned or acquired by Debtor, and the Secured Parties shall have a security interest in all such after acquired assets and all parts, accessories, attachments, additions, replacements, accessions, substitutions, increases, profits, income, distributions, proceeds and products thereof in any form.

All of the above being located at the offices of the Debtor at 301 Yamato Road, Suite 1190, Boca Raton, Florida 33431; 101 Enterprise Drive, Vassar, Michigan 48768; and/or any such other place or places as the above and foregoing collateral may be located from time to time.

2. Security for Obligations. This Agreement secures the payment of any and all indebtedness, obligations and liabilities of any kind whatsoever of Borrowers to the Secured Parties, and also to others to the extent of their participations granted to or interests therein created or acquired for them by the Secured Parties, now or hereafter existing, of every kind and description, whether matured or unmatured, direct or contingent, including obligations in respect to future advances, whether or not there shall have been made the initial advance under the Notes and Loan Agreement, and whether for principal, interest, fees, expenses or otherwise, including, without limitation, all obligations of the Borrowers now or hereafter existing (a) under the Notes and Loan Agreement, (b) under this Agreement, and (c) under existing or future promissory notes of Borrowers (all such obligations of the Borrowers being hereinafter referred to as the "Obligations").

3. Debtor to Remain Liable. Anything herein to the contrary notwithstanding, (a) the Debtor shall remain liable under the contracts, leases, policies, Franchises and agreements included in the Collateral to the extent set forth therein, to perform all of its duties and obligations thereunder to the same extent as if this Agreement had not been executed; (b) the exercise by the Agent and/or the Secured Parties of any of the rights hereunder shall not release the Debtor from any of its duties or obligations under contracts, leases, policies, Franchises and agreements included in the Collateral; and (c) the Secured Parties shall not have any obligation or liability under the contracts, leases, policies, Franchises and agreements included in the Collateral by reason of this

Agreement, nor shall the Secured Parties be obligated to perform any of the obligations or duties of Debtor thereunder, or to take any action to collect or enforce any claim for payment assigned hereunder.

4. Debtor's Covenants, Warranties and Representations. The Debtor covenants, warrants and represents the following:

(a) Excepting for existing liens encumbering specific Machinery and Equipment identified and set forth in lien searches obtained by the Secured Parties on or before the date hereof, which liens have not been objected to by the Secured Parties (the "Permitted Liens"), and, except for the security interest granted hereby, Debtor is the sole owner of the Collateral, which is free of any liens, security interest or encumbrance, and Debtor will defend the Collateral against all claims or demands of any person at any time claiming the same or any interest therein.

(b) Each account constituting the Receivables is genuine and enforceable in accordance with its terms against the party obligated to pay the same ("Account Debtor").

(c) The amount represented by Debtor to Secured Parties as owing by each Account Debtor is the correct amount actually and unconditionally owing by such Account Debtor, except for normal cash discounts where applicable.

(d) To the best of Debtor's knowledge, no Account Debtor has any defense, set-off, claim or counterclaim against Debtor which can be asserted against Secured Parties whether in any proceeding to enforce the Receivables or otherwise.

(e) Debtor will notify the Agent immediately of any material default by any Account Debtor in payment or other performance of its obligations with respect to any Receivables which in the aggregate exceed the sum of Ten Thousand ($10,000.00) Dollars.

(f) Debtor without the Agent's prior written consent will not make or agree to make any alteration, modification or cancellation of or substitution for or credits, adjustments or allowances on any of the Receivables, except in the normal and ordinary course of business.

(g) Excepting for the Permitted Liens, none of the Collateral shall be subject to a security interest other than that of the Secured Parties, excepting for any security interests provided in connection with purchase money financing of a specific piece of machinery or equipment; provided that the aggregate indebtedness incurred in connection with purchase money financing of Collateral which replaces existing Collateral (other than Collateral identified as a Permitted Lien which is encumbered in favor of another lending institution) may not exceed the sum of Two Hundred Fifty Thousand and 00/100 Dollars ($250,000.00) in the aggregate in each fiscal year of the Borrowers on a consolidated basis. In connection with any existing Collateral encumbered by a Permitted Lien which is currently financed by and encumbered in favor of another lender, in the event Debtor wishes to refinance this portion of the Collateral with another lending institution (the

"Substitute Lender"), the Agent, on behalf of the Secured Parties will subordinate their security interest in that portion of the Collateral to the lien and effect of the Substitute Lender's security interest in that portion of the Collateral, and, the Agent, on behalf of the Secured Parties will execute a Subordination Agreement, reasonably acceptable to Secured Parties and their counsel, if required by the Substitute Lender. Additionally, Debtor shall also have the right to refinance and encumber in favor of any other lending institution (the "Other Lender") any of the Machinery and Equipment so long as at the time of said refinancing, Debtor provides the Agent with updated appraisals of the Machinery and Equipment being refinanced, evidencing the fair market value and forced liquidation value of such Machinery and Equipment, which appraisals must be in form and content acceptable to Secured Parties in Secured Parties' sole and absolute discretion, and, which valuations must be approved by the Agent, on behalf of the Secured Parties, in Secured Parties' sole discretion; provided further that the valuations attributed to the Machinery and Equipment being refinanced under the terms and provisions of Article 2, Section 2.1 of the Loan Agreement, shall be reduced by an amount equal to the value attributed by Secured Parties to the portion of the Machinery and Equipment being refinanced, such that in the event the outstanding principal balance of the Loan (as defined in the Loan Agreement) exceeds the amounts permitted to be advanced pursuant to the terms and provisions of Article 2, Section 2.1 of the Loan Agreement, then the outstanding principal balance of the Loan must be immediately reduced by such amount as is required in order to bring the Debtor back into compliance with the Borrowing Base and the required Minimum Asset Ratio as set forth in Article 2, Section 2.1 of the Loan Agreement. Additionally, Debtor shall have the right to obtain updated appraisals in accordance with and for the purposes set forth in Article 10, Section 10.15 of the Loan Agreement. In connection with a refinancing by the Debtor with the Other Lender, the Agent, on behalf of the Secured Parties will execute a Subordination Agreement reasonably acceptable to Secured Parties and their counsel, if required by the Other Lender.

(h) All books and records pertaining to the Collateral and portions of the Collateral shall be kept at the chief place of business of Debtor, which is located at 101 Enterprise Drive, Vassar, Michigan 48768. Debtor shall not remove said books and records and other information related to the Collateral or any portion of the Collateral located at said locations without the prior written consent of the Agent. The Collateral will not be wasted, misused or abused or deteriorated, except to the extent of ordinary wear and tear, and will not be used in violation of any law, ordinance or regulation of any governmental authority.

(i) This Agreement creates a valid and perfected first priority security interest in the Collateral, or the Debtor's interest in the Collateral, securing the payment of the Obligations and, simultaneously herewith, Debtor is executing such UCC-1 financing statements, UCC-3 Amendment Statements, PPSA and other financing statements and other types of filing statements, as have been required by Secured Parties such that all filings and other actions necessary or desirable to perfect or protect such security interest may be duly taken.

(j) Debtor shall keep all personal property, Machinery and Equipment and Inventory (other than inventory solely consumed in the ordinary course of business) at the Debtor's chief business locations or at such place as Debtor shall have previously notified the Agent, or, upon

thirty (30) days prior written notice to the Agent at such other place or places as shall have been consented to in writing by the Agent, (in Secured Parties' sole discretion) within said thirty (30) day time period. Notwithstanding the above it is acknowledged that Inventory may be dispatched for delivery prior to receipt of payment.

(k) Debtor shall cause the Railroad Trackage, the Machinery and Equipment and all other personal property to be maintained and preserved in the same condition, repair and working order as when new, ordinary wear and tear excepted, and in accordance with Federal Railroad Administration Standards, when applicable, and shall forthwith or in the case of any loss or damage to any of the Railroad Trackage, the personal property or Machinery and Equipment, as quickly as practicable, after the occurrence thereof, make or cause to be made all repairs, replacements or other improvements in connection therewith which are necessary or desirable to such end. The Debtor shall promptly furnish to the Agent a statement respecting any material loss or damage to any of the Railroad Trackage, the Machinery and Equipment or personal property.

(l) Debtor shall pay promptly, when due, all property and any taxes, assessments and governmental charges or levies imposed upon and all claims (including, claims for labor, materials and supplies) against the Railroad Trackage, the Machinery and Equipment, personal property and Inventory, except to the extent the validity thereof is being contested in good faith.

(m) No authorization, approval or other action by, and no notice to or filing with any governmental authority or regulatory body, or any other party is required either (i) for the grant by the Debtor of the security interest granted hereby, or for the execution, delivery or performance of this Agreement by Debtor; or (ii) for the perfection of or the exercise by the Secured Parties of their rights and remedies hereunder, excepting for the filing of UCC-1 financing statements, UCC-3 Amendment Statements, if applicable, PPSA financing statements, and, if applicable, Surface Transportation Board filings with the appropriate public authorities.

(n) The Collateral which needs to be insured shall be insured with such carriers and in such amounts and against such risks as shall be reasonably satisfactory to the Secured Parties, with policies payable to the Agent for the benefit of the Secured Parties as loss-payee. All policies of insurance shall provide for thirty (30) days written notice of cancellation to the Agent, and the Agent shall be furnished with the original policies or duplicates thereof. The insurance provisions are further set forth in Paragraph 6 herein.

(o) Debtor will pay when due all taxes and assessments upon the Collateral or its operation or use.

(p) At their option, and without any obligation to do so, the Secured Parties may discharge or pay any taxes, liens or other encumbrances at any time levied or placed on or against the Collateral or the Debtor, and may pay for insurance on the Collateral and may pay for the Collateral's maintenance and preservation. The Debtor agrees to reimburse the Secured Parties on demand for any such payment made or reasonable expense incurred pursuant to the foregoing

authorizations, or, at the Secured Parties' option, any such payment made by the Secured Parties may be added to the balance of the liability then owing.

(q) The Collateral will not, without the prior written consent of the Agent on behalf of Secured Parties, be sold, transferred, disposed of, or substantially modified, except in the usual and ordinary course of business.

(r) Debtor will immediately notify the Agent if any of Debtor's Receivables or Related Contracts arise out of contracts with the United States or any department, agency or instrumentality thereof, and will execute any instruments and take any steps required by Secured Parties in order that all monies due and to become due under any such Receivables and Related Contracts shall be assigned to Secured Parties and notice thereof given to the Government under the Federal Assignment of Claims Act.

(s) Debtor will not remove the Collateral from the State of Michigan or the State of Florida, as applicable, excepting in the ordinary course of business, nor change the location of its chief executive office unless Debtor has first provided the Agent with not less than fifteen (15) days prior written notice of such change in location.

(t) Debtor shall comply with all material terms and provisions of the Franchises and all other written agreements which constitute a part of the Collateral, and, shall fully and timely perform all material obligations to be complied with by each Debtor in connection with the same, such that all Franchises and agreements are maintained in good standing and in full force and effect.

(u) The Debtor hereby authorizes the Agent on behalf of the Secured Parties to file such financing statement(s) or continuation statement(s) relating to the Collateral without the Debtor's signature thereon, as Secured Parties may deem appropriate. The Debtor shall also execute from time to time alone or with the Agent, any financing statement or statements or other documents, and do such other act or acts considered by the Secured Parties to be necessary or desirable to perfect or protect the security interest hereby created, and shall pay all costs and expenses (including, without limitation, reasonable fees and expenses of counsel and filing fees) related to the preparation and filing of any financing statements, continuation statements, or other documents related to the perfection or protection of the security interest hereby created.

(v) The Debtor has not, since April 1, 1996, transacted business and does not transact business under any names or tradenames other than its corporate name.

(w) The Debtor shall at all times comply with all terms and provisions of the Loan Agreement.

5. Further Assurances. The Debtor agrees that from time to time, at the expense of the Debtor, that Debtor will promptly execute and deliver all further instruments and documents, and take all further actions that may be necessary or that the Agent, on behalf of the Secured Parties may

request in order to perfect and protect any security interest granted or purported to be granted hereby, or to enable the Secured Parties to exercise and enforce their rights and remedies hereunder with respect to any of the Collateral. Without limiting the generality of the foregoing, Debtor shall: (a) mark conspicuously each chattel paper included in the Receivables and each Related Contract and, at the request of the Agent, each of its records pertaining to the Collateral with a legend, in form and substance satisfactory to the Secured Parties, indicating that such chattel paper, Related Contract or Collateral is subject to the security interest granted hereby; (b) effective upon the occurrence of an Event of Default, if any Receivable shall be evidenced by a promissory note or other instrument or chattel paper, deliver and pledge to the Agent on behalf of the Secured Parties hereunder such note, instrument or chattel paper duly indorsed and accompanied by duly executed instruments of transfer or assignment, all in form and substance satisfactory to Secured Parties; (c) hold and preserve the books and records pertaining to the Collateral as set forth in Paragraph 4(h) above, and, preserve any chattel papers related to the Receivables, and, will permit representatives of the Secured Parties at any time during normal business hours to inspect and make abstracts from such books, records and chattel papers; and (d) furnish to the Agent from time to time statements and schedules further identifying and describing the Collateral and such other reports in connection with the Collateral as the Agent on behalf of the Secured Parties may reasonably request, all in reasonable detail.

All costs and expenses associated with any of the above set forth actions (including, without limitation, reasonable fees and expenses of the Agent's and the Secured Parties' counsel and filing fees) shall be the sole responsibility of the Debtor.

6. Insurance. The Debtor shall maintain liability insurance, worker's compensation insurance and hazard insurance (with fire extended coverage, vandalism and mischief protection) in accordance with the following provisions:

(a) The Debtor shall, at its own expense, maintain insurance with respect to the Railroad Trackage, Machinery and Equipment, Inventory and all other personal property in such amounts, against such risks, in such form and with such insurers, as shall be reasonably satisfactory to the Secured Parties. Each policy for (i) liability insurance shall provide for all losses to be paid on behalf of the Secured Parties and Debtor as their respective interests may appear and (ii) property damage insurance shall provide for all losses to be paid directly to the Agent for the benefit of the Secured Parties upon the request of the Agent. Each such policy shall in addition (i) name the Agent and the Secured Parties, as applicable, as an insured and as loss payee thereunder (without any representation or warranty by or obligation upon the Secured Parties), (ii) contain an agreement by the insurer that any loss thereunder shall be payable to the Agent for the benefit of the Secured Parties notwithstanding any action, inaction or breach of representation or warranty by the Debtor, (iii) provide that there shall be no recourse against the Agent or the Secured Parties for payment of premiums or other amounts with respect thereto, (iv) provide that at least thirty (30) days prior written notice of cancellation or of lapse shall be given to the Agent by the insurer, and (v) provide that upon notification from the Agent, all payments pursuant to such policies shall be paid directly to the Agent for the benefit of the Secured Parties. The Debtor shall deliver to the

Agent original or duplicate policies of such insurance as often as the Agent may reasonably request. Notwithstanding anything to the contrary set forth above, after the Agent's receipt of insurance proceeds in the event of casualty or loss, so long as there is not then existing an Event of Default or any event with which notice or lapse of time, or both, would become an Event of Default, the Agent shall release such insurance proceeds to Debtor, upon written request of Debtor, for the purpose of restoring, repairing or replacing any damaged, stolen or lost item, upon such terms and conditions as shall reasonably be required by the Secured Parties.

(b) Reimbursement under any liability insurance maintained by the Debtor pursuant to this Section 6 may be paid directly to the person who shall have incurred liability covered by such insurance. In case of any loss involving damage to Railroad Trackage, Machinery and Equipment, Inventory or any other personal property when subsection (c) of this Section 6 is not applicable, the Debtor shall make or cause to be made the necessary repairs to or replacements of such Railroad Trackage, Machinery and Equipment, Inventory or other personal property, and any proceeds of insurance maintained by the Debtor pursuant to this Section 6 shall be paid to the Debtor as reimbursement for the costs of such repairs or replacements, unless otherwise paid directly to the Agent for the benefit of the Secured Parties upon the request the Agent.

(c) Upon the occurrence and during the continuance of any Event of Default, all insurance payments in respect of such Railroad Trackage, Machinery and Equipment, Inventory or other personal property shall be paid to and applied by the Agent, on behalf of the Secured Parties in accordance with the terms and provisions of Section 14 hereof.

7. Agent Appointed Attorney-In-Fact. Each Debtor hereby irrevocably appoints the Agent (for the benefit of the Secured Parties) the Debtor's attorney-in-fact, which appointment is coupled with an interest, with full authority in the place and stead of the Debtor and in the name of the Debtor, the Secured Parties, the Agent or otherwise, from time to time in the Agent's discretion, to take any action and to execute any instrument which the Agent may deem necessary or advisable to accomplish the purposes of this Agreement (subject to the rights of the Debtor under Section 10), including without limitation:

(a) to obtain and adjust insurance required to be paid to the Secured Parties pursuant to Section 6;

(b) effective upon the occurrence of an Event of Default, to ask, demand, collect, sue for, recover, compound, receive and give acquittance and receipt for moneys due and to become due under or in respect of any of the Collateral;

(c) to receive, indorse, and collect any drafts or other instruments, documents and chattel paper, in connection with clause 7(a) or 7(b) above; and

(d) effective upon the occurrence of an Event of Default, to file any claims to take any action or institute any proceedings which the Secured Parties may deem necessary or desirable for the collection of any of the Collateral or otherwise to enforce the rights of the Secured Parties with respect to any of the Collateral.

8. Secured Parties / Agent May Perform. If the Debtor fails to perform any agreement contained herein, the Secured Parties or the Agent for the benefit of the Secured Parties, may (upon notice to Debtor) perform, or cause performance of, such agreement, and the expenses of the Secured Parties and/or the Agent incurred in connection therewith shall be payable by the Debtor under Sections 12 (h) and 14 hereof.

9. Secured Parties' / Agent's Duties. The powers conferred on the Secured Parties and the Agent hereunder are solely to protect their interest in the Collateral and shall not impose any duty upon it or them to exercise any such powers. Except for the safe custody of any Collateral in its possession and the accounting for moneys actually received by it hereunder, the Secured Parties and the Agent shall have no duty as to any Collateral or as to the taking of any necessary steps to preserve rights against prior parties or any other rights pertaining to any Collateral.

10. Rights of Debtor Prior to Default. Until default, Debtor may use the Collateral in any lawful manner not inconsistent with this Agreement, and with the terms of insurance thereon.

11. Events of Default. Debtor shall be in default under this Security Agreement upon the happening of any of the following events:

(a) If Debtor (i) defaults in the due performance or observance of any monetary obligation of Debtor under any of the Notes or the Loan Agreement, (ii) defaults in the due performance or observance of any other material obligation of Debtor under any of the Notes or the Loan Agreement, or (iii) defaults in the due performance or observance of any material obligation of Debtor under this Security Agreement and fails to cure such latter default within fifteen (15) days of the occurrence of the event of default;

(b) If any material representation or warranty or guaranty made by Debtor herein or in any other statement heretofore or hereafter furnished by Debtor to the Agent or the Secured Parties proves to be false or misleading in any material respect;

(c) Failure to pay any other material obligation, liability or claim hereby secured;

(d) If any obligation or liability of Debtor (other than any obligation secured hereby) for the payment of money becomes or is declared to be due and payable prior to the expressed maturity thereof;

(e) Loss, theft, substantial change or destruction to the Collateral which is not adequately insured against;

(f) If Debtor subjects any Collateral to a security interest in favor of any party other than the Secured Parties, excepting for any security interests provided in connection with purchase money financing of a specific piece of Machinery and Equipment; provided that the aggregate indebtedness incurred in connection with purchase money financing of Collateral, which replaces Collateral (other than the Collateral identified as a Permitted Lien which is encumbered in favor of another lending institution), shall not exceed the sum of Two Hundred Fifty Thousand ($250,000.00) Dollars in the aggregate in each fiscal year of Borrowers on a consolidated basis, unless such security interest is provided in accordance with the terms and provisions of Section 4(g) of this Agreement;

(g) The assignment for the benefit of creditors by Debtor or the admission, in writing, of any inability to pay any debts, generally, as they become due, or, ordering the winding up or liquidation of its affairs by Debtor, or, the commencement of a case by or against Debtor under any insolvency, bankruptcy, creditor adjustment, debtor rehabilitation or similar law, provincial, state or federal (United States or Canada), and, which in the case of an involuntary proceeding, has not been dismissed within thirty (30) days of such filing;

(h) The determination by Debtor to request relief under any insolvency, bankruptcy, creditor adjustment, debtor rehabilitation or similar proceeding, provincial, state or federal (United States or Canada), including without limitation, the consent by Debtor, to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator, or similar official for it or for any of its property or assets;

(i) There shall have occurred any substantial adverse change in the financial condition of RailAmerica or any of the other Borrowers, which in the case of Borrowers other than RailAmerica, must adversely impact the ability of the Borrowers to repay the Notes or perform the Borrowers' obligations under the Loan Agreement, this Agreement or any of the Loan Documents;

(j) If the Debtor shall have failed to materially comply with any other agreement, covenant, condition, provision or term contained in any of the Loan Documents;

(k) There shall be entered against Debtor, one (1) or more judgments or decrees which have not been satisfied within thirty (30) days of entry; or

(l) If Debtor loses any rights to operate on any portion of the railroad tracks under any of the Franchises, excepting that it is acknowledged by Secured Parties that the Vassar, Michigan section of the portion of the railroad line operated pursuant to an existing operating agreement of Debtor may expire and not be renewed, which shall not be an Event of Default.

Then, upon the happening of any of the foregoing events of default, the promissory note or notes and all other obligations, liabilities and claims secured hereby, shall become immediately due and payable. Debtor expressly waives any presentment, demand, protest or other notice of any kind.

12. Secured Parties' Remedies and Additional Rights After Default. Upon default, the Secured Parties shall have the rights and remedies of a secured party under the New York Uniform Commercial Code, the Florida Uniform Commercial Code, the Michigan Uniform Commercial Code, or any other applicable law. Without limiting the generality of the foregoing, Secured Parties may exercise the following rights and remedies:

(a) Secured Parties or the Agent on behalf of the Secured Parties may peaceably, or by its own means or with judicial assistance by injunction or otherwise, enter Debtor's premises and take possession of the Collateral, or render it unusable, or dispose of the Collateral on Debtor's premises, and Debtor will not resist or interfere with such action;

(b) Secured Parties or the Agent on behalf of the Secured Parties may with judicial assistance by injunction, or otherwise, require Debtor, at Debtor's expense, to assemble all or any part of the Collateral and make it available to the Secured Parties at any place designated by the Agent. Debtor hereby agrees that Debtor's chief place of business or any place designated by the Agent on behalf of the Secured Parties within Palm Beach County, Florida or the State of Michigan are places reasonably convenient to Debtor to assemble such Collateral;

(c) Debtor hereby agrees that a notice to Debtor, at least five (5) days before the time of any intended sale or of the time after which any public or private sale or other disposition of the Collateral is to be made, shall be deemed to be reasonable notice of such sale or other disposition;

(d) In the event of sale or other disposition of any such Collateral, the Agent on behalf of the Secured Parties may apply the proceeds of any such sale or disposition to the satisfaction of its and the Secured Parties' reasonable attorneys' fees, legal expenses, and other costs and expenses incurred in connection with its taking, re-taking, holding, preparing for sale and selling of the Collateral;

(e) Without precluding any other methods of sale, the sale of Collateral shall have been made in commercially reasonable manner if conducted in conformity with reasonable commercial practices but, in any event, the Secured Parties or the Agent on behalf of the Secured Parties may sell on such terms as it may choose, without assuming any credit risk and without any obligation to advertise;

(f) The Collateral need not be present at any public or private sale or in view of the purchaser or purchasers, and title shall pass upon such sale wherever the property or any part thereof is located with like effect as though all the property were present and in the possession of the person conducting the sale and were physically delivered to the purchaser or purchasers; the Secured Parties or the Agent on behalf of the Secured Parties may bid for and purchase at any public or private sale the Collateral offered for sale or any part thereof, and by such purchase shall become the owner thereof;

(g) Any sale or other disposition of the Collateral, or any portion thereof, or of any other property of Debtor held by Secured Parties or any portion thereof, made under or by virtue of this Agreement shall operate to divest all of the estate, right, title, interest, claim and demand whatsoever at law or in equity of the Debtor and all persons claiming by, through or under the Debtor in and to the properties and rights so sold, whether sold to Secured Parties or to others. The receipt of the Agent or its designated agent on behalf of Secured Parties shall be a sufficient discharge to the purchaser or purchasers at any such sale or other disposition for his or their purchase money, and such purchaser or purchasers and their respective successors, assigns or personal representatives, shall not, after paying such purchase money and receiving such receipt of the Agent or its designated agent on behalf of the Secured Parties, be obligated to see to the application of such purchase money or be in any way answerable for any loss, misapplication or non-application thereof;

(h) The Agent may deduct from the gross proceeds of any public or private sale the reasonable expenses incurred by the Agent and the Secured Parties in connection therewith, including any expenses set forth in Section 14, herein, reasonable attorneys' fees and brokers' commissions, if any, and the net proceeds then remaining shall be applied first to the satisfaction of the amount owed to the Secured Parties by Borrowers, including payment of all of the Obligations, and, any amount then remaining shall be returned to the Borrowers;

(i) The Agent on behalf of the Secured Parties may (i) notify the Account Debtors under any and all of Debtor's accounts, including, without limitation, the Receivables and Related Contracts, of Secured Parties' interest therein, and direct such Account Debtors to make payments due and to become due thereunder directly and solely to the Agent on behalf of the Secured Parties, (ii) accept and take control of all payments and proceeds received from the Account Debtors, and, at the expense of Debtor, enforce collection of any such Receivables and Related Contracts and adjust, settle or compromise the amount for payment thereof in the same manner and to the same extent as the Debtor might have done. Additionally, all amounts and proceeds (including instruments) received by the Debtor in respect of the Receivables and Related Contracts shall be received in trust for the benefit of the Secured Parties, shall be segregated from other funds of the Debtor and shall be forthwith paid over to the Agent for the benefit of the Secured Parties in the same form as so received (with any necessary endorsement) to be held as cash collateral and either (i) released to the Debtor so long as no Event of Default shall be continuing, or (ii) if any Event of Default shall have occurred and be continuing, applied against the Agents' and the Secured Parties' reasonable attorneys' fees and expenses, and, all other expenses of the Agent and the Secured Parties incurred in connection with this Agreement, and, then applied as provided by Section 12(h), and, the Debtor shall not adjust, settle or compromise the amount or payment of any Receivable or Related Contract, or release wholly or partly any Account Debtor or obligor thereof, or allow any credit or discount thereon. The above shall not be deemed to constitute a foreclosure by Secured Parties or an election by Secured Parties of any remedy limiting the right of Secured Parties to recover the unpaid balance of the Obligations, such that Secured Parties shall be entitled to all other remedies set forth herein;

(j) The Secured Parties and/or the Agent on behalf of the Secured Parties may, in addition to any other rights it may have, appoint by instrument in writing a receiver or receiver and manager (both of which are herein called a "Receiver") of all or any part of the Collateral or may institute proceedings in any court of competent jurisdiction for the appointment of such a Receiver. Any such Receiver is hereby given and shall have the same powers and rights and exclusions and limitations of liability as the Agent and the Secured Parties have under this Security Agreement, at law or in equity. In exercising any such powers, any such Receiver shall, to the extent permitted by law, act as and for all purposes shall be deemed to be the agent of the Debtor, and the Secured Parties shall not be responsible for any act or default of any such Receiver. The Secured Parties and/or the Agent on behalf of the Secured Parties may appoint one or more Receivers hereunder and may remove any such Receiver or Receivers and appoint another or others in his or their stead from time to time. Any Receiver so appointed may be an officer or employee of any of the Secured Parties. A court need not appoint, ratify the appointment by the Secured Parties of or otherwise supervise in any manner the actions of any Receiver. Upon the Debtor receiving notice from the Agent of the taking of possession of the Collateral or the appointment of a Receiver, all powers, functions, rights and privileges of each of the directors and officers of Debtor with respect to the Collateral shall cease, unless specifically continued by the written consent of the Agent on behalf of the Secured Parties;

(k) The Secured Parties and/or the Agent on behalf of the Secured Parties may carry on, or concur in the carrying on of, all or any part of the business or undertaking of Debtor, may, to the exclusion of all others, including the Debtor, enter upon, occupy and use all or any of the premises, buildings, plant and undertaking of or occupied or used by Debtor and may use all or any of the tools, machinery, equipment and intangibles of Debtor for such time as the Secured Parties see fit, free of charge, to carry on the business of Debtor and, if applicable, to manufacture or complete the manufacture of any Inventory and to pack and ship the finished product;

(l) Secured Parties and/or the Agent on behalf of the Secured Parties may proceed directly against the Debtor and obtain judgments against the same; and

(m) No right, power, or remedy of the Agent and the Secured Parties as provided in this Agreement, the Loan Agreement, and in any other loan document associated herewith, is intended to be exclusive of any other right, power, or remedy of the Agent and the Secured Parties, but each and every such right, power and remedy shall be cumulative and concurrent and in addition to any other right, power or remedy available to the Agent and the Secured Parties now or hereafter existing at law or in equity. The failure of Secured Parties and/or the Agent on behalf of the Secured Parties to exercise any such right, power or remedy shall in no event be construed as a waiver or release thereof.

13. Right of Set-off. In addition to and not in limitation of all rights of offset that Secured Parties and/or the Agent on behalf of the Secured Parties may have under applicable law,

Secured Parties and/or the Agent on behalf of the Secured Parties shall, upon the occurrence of an Event of Default and whether or not Secured Parties or the Agent on behalf of the Secured Parties has made any demand, or the Obligations are matured, and without notice to the Debtor (any such notice being expressly waived by the Debtor) have the right to set off and apply to the payment of the Obligations all deposits of Debtor (general or special, time or demand, provisional or final) at any time held by any Secured Party and other indebtedness or property at any time owing by any Secured Party to or for the credit or the account of Debtor against any and all of the Obligations of the Borrowers to the Secured Parties.

14. Indemnity and Expenses. Debtor shall indemnify and hold harmless Secured Parties and the Agent as follows:

(a) The Debtor agrees to indemnify the Secured Parties and the Agent from and against any and all claims, losses and liabilities growing out of or resulting from this Agreement (including, without limitation, enforcement of this Agreement), except claims, losses or liabilities resulting from the Secured Parties' or the Agent's gross negligence or willful misconduct.

(b) The Debtor will upon demand pay to the Secured Parties and/or the Agent the amount of any and all reasonable expenses, including the reasonable fees and disbursements of its counsel and of any experts and agents, which the Secured Parties and/or the Agent may incur in connection with (i) the administration of this Agreement, (ii) the custody, preservation, use or operation of, or the sale of, collection from, or other realization upon, any of the Collateral, (iii) the exercise or enforcement of any of the rights of the Secured Parties or the Agent hereunder or (iv) the failure by the Debtor to perform or observe any of the provisions hereof.

15. Non-Judicial Process. Secured Parties or the Agent on behalf of the Secured Parties may enforce their rights hereunder without resort to prior judicial process or judicial hearing, and, Debtor hereby waives any right Debtor may have to notice and a hearing before possession or sale of Collateral is effected by the Secured Parties or the Agent by self-help, replevin, attachment or otherwise, and waives any requirement that Secured Parties or the Agent on behalf of the Secured Parties post a bond or other security which might be required by any court prior to allowing Secured Parties or the Agent on behalf of the Secured Parties to exercise any of Secured Parties' remedies, and the benefit of all appraisement, extension and exemption laws, such waivers being consistent with commercial necessity. Nothing herein is intended to prevent Secured Parties or the Agent on behalf of the Secured Parties from resorting to judicial process at their option.

16. Injunctive Relief. Debtor recognizes that, in the event Debtor fails to perform, observe or discharge any of its obligations or liabilities under this Agreement, any remedy at law may prove to be inadequate relief to Secured Parties; therefore, Debtor agrees that Secured Parties and/or the Agent on behalf of the Secured Parties, if Secured Parties and/or the Agent so request, shall be entitled to temporary and permanent injunctive relief in any such case without the necessity of proving actual damages.

17. VENUE OF ACTIONS. IT IS EXPRESSLY UNDERSTOOD AND AGREED THAT NO SUIT OR ACTION SHALL BE COMMENCED BY THE DEBTOR, OR BY ANY SUCCESSOR, PERSONAL REPRESENTATIVE OR ASSIGNEE OF DEBTOR, WITH RESPECT TO THE INDEBTEDNESS SECURED HEREBY, WITH RESPECT TO THIS SECURITY AGREEMENT, OR ANY OF THE OTHER LOAN DOCUMENTS, OTHER THAN IN A STATE COURT OF COMPETENT JURISDICTION IN AND FOR THE COUNTY OF THE STATE IN THE UNITED STATES IN WHICH THE PRINCIPAL PLACE OF BUSINESS OF THE AGENT IS SITUATED, OR IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT IN THE UNITED STATES IN WHICH THE PRINCIPAL PLACE OF BUSINESS OF THE AGENT IS SITUATED, AND NOT ELSEWHERE. NOTHING IN THIS PARAGRAPH CONTAINED SHALL PROHIBIT THE SECURED PARTIES AND/OR THE AGENT ON BEHALF OF THE SECURED PARTIES FROM INSTITUTING SUIT IN ANY COURT OF COMPETENT JURISDICTION FOR THE ENFORCEMENT OF ITS RIGHTS HEREUNDER, IN THE NOTES, IN THE LOAN AGREEMENT, OR IN ANY OTHER LOAN DOCUMENT.

18. Automatic Stay. Debtor hereby agrees that, in consideration of the recitals and mutual covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, in the event Debtor shall (i) file with any bankruptcy court of competent jurisdiction or be the subject of any petition under title 11 of the U.S. Code, as amended, (ii) be the subject of any order for relief issued under such Title 11 of the U.S. Code, as amended, (iii) file or be the subject of any petition seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution, or similar relief under any present or future federal or state act or law relating to bankruptcy, insolvency, or other relief for debtors, (iv) have sought or consented to or acquiesced in the appointment of any trustee, receiver, conservator, or liquidator, (v) be the subject of any order, judgment, or decree entered by any court of competent jurisdiction approving a petition filed against such party for any reorganization, arrangement, composition, readjustment, liquidation, dissolution, or similar relief under any present or future federal or state act or law relating to bankruptcy, insolvency, or relief for debtors, Secured Parties shall thereupon be entitled to relief from any automatic stay imposed by Section 362 of Title 11 of the U.S. Code, as amended, or otherwise, on or against the exercise of the rights and remedies otherwise available to Secured Parties as provided in the Notes, the Loan Agreement, this agreement and all associated loan documents, and as otherwise provided by law. Debtor hereby agrees not to object to the Agent and/or the Secured Parties immediately seeking relief from the automatic stay, to allow the Agent and/or the Secured Parties to proceed immediately to exercise the rights and remedies provided under this Agreement, including without limitation, the right to take title to the Collateral, to conduct a foreclosure sale of the Collateral and to the issuance of a Certificate of Title to the Collateral in connection with any foreclosure sale, and/or to proceed against and realize upon the Collateral for the Obligations and to otherwise allow the Agent and/or the Secured Parties to take all such actions as Secured Parties may elect in their sole discretion in pursuance of the other rights and remedies available in the event of a default by Debtor under the Loan Documents. Debtor hereby waives any protection afforded under 11 U.S.C., Section 362(a).

19. Addresses for Notices. All notices and other communications provided for hereunder, if any, shall be in writing (including facsimile communication) and, if to the Debtor, mailed, federal expressed, faxed or delivered to it, addressed to it at the address of the Debtor specified in the Loan Agreement, if to the Agent and/or the Secured Parties, mailed or delivered to it, addressed to it at the address of the Agent and the Secured Parties specified in the Loan Agreement, or as to either party at such other address as shall be designated by such party in a written notice to each other party complying as to delivery with the terms of this Section. All such notices and other communications shall, when mailed, addressed as aforesaid, be effective three (3) days after deposited in the mail, when federal expressed, be effective one day after deposit with Federal Express, and, when sent by facsimile shall be effective immediately.

20. Continuing Security Interest; Transfer of Notes. This Agreement shall create a continuing security interest in the Collateral and shall (i) remain in full force and effect until payment in full of the Obligations, (ii) be binding upon the Debtor, its successors and assigns and (iii) inure to the benefit of the Secured Parties and their successors, transferees and assigns. Without limiting the generality of the foregoing clause (iii), the Secured Parties may assign or otherwise transfer the Notes held by it to any other person or entity, and such other person or entity shall thereupon become vested with all the benefits in respect thereof granted to the Secured Parties herein or otherwise. Upon the payment in full of the Obligations, the security interest granted hereby shall terminate and all rights to the Collateral shall revert to the Debtor. Upon any such termination, the Agent will, at the Debtor's expense, execute and deliver to the Debtor such documents as the Debtor shall reasonably request to evidence such termination.

21. Amendments, Etc. No amendment or waiver of any provision of this Agreement nor consent to any departure by the Debtor herefrom shall in any event be effective unless the same shall be in writing and signed by the Agent on behalf of the Secured Parties, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

22. Waiver. No failure on the part of Secured Parties or the Agent on behalf of the Secured Parties to exercise or delay in exercising any right or remedy hereunder shall operate as a waiver thereof, nor shall any singular or partial exercise by the Secured Parties or the Agent on behalf of the Secured Parties of any right or remedy hereunder preclude any other or future exercise thereof, or the exercise of any other right or remedy.

23. Additional Waivers of Debtor. To the fullest extent that it or they may lawfully so agree, Debtor agrees that they will not at any time insist upon, claim, plead or take any benefit or advantage of any appraisement, valuation, stay, extension, moratorium, redemption or similar law now or hereafter in force in order to prevent, delay or hinder the enforcement hereof or the absolute sale of any part of the Collateral. Debtor, for itself and all who claim through it, so far as it or they now or hereafter lawfully may do so, hereby waive the benefit of all such laws, and all rights to have the Collateral marshaled upon any foreclosure hereof, and agrees that any court having jurisdiction to foreclose this Agreement may order the sale of the Collateral as an entirety. Without limiting the generality of the foregoing, Debtor hereby: (i) authorizes Secured Parties or the Agent on behalf of

the Secured Parties in its sole discretion and without notice to or demand upon Debtor and without otherwise affecting the obligations of Debtor hereunder from time to time to take and hold other collateral (in addition to the Collateral) for payment of any Obligations, or any part thereof, and to exchange, enforce or release such other collateral or any part thereof and to accept and hold any endorsement or guarantee of payment of the Obligations, or any part thereof and to release or substitute any endorser or guarantor or any other person granting security for or in any other way obligated upon any Obligations or any part thereof, and (ii) waives and releases any and all right to require Secured Parties and/or the Agent to collect any of the Obligations from any specific item or items of the Collateral or from any other party liable as guarantor or in any other manner in respect of any of the Obligations or from any collateral (other than the Collateral) for any of the Obligations.

24. Successors and Assigns. All of the terms, conditions, and covenants of this Agreement shall inure to the benefit of and bind the heirs, personal representatives, successors and assigns of the respective parties hereto.

25. Severability. If performance of any provision hereof or any transaction related hereto is limited by law, then the obligation to be performed shall be reduced accordingly, and if any clause or provision herein contained operates or would operate to invalidate this Agreement in part, then the invalid part of said clause or provisions only shall be held for naught as though not contained herein, and the remainder of this Agreement shall remain operative and in full force and effect.

26. Modification. This Agreement may not be changed orally, but only by an instrument in writing, and signed by the party against whom enforcement of any waiver, change, modification or discharge is sought.

27. Currency. Unless otherwise provided for herein, all monetary amounts referred to herein shall refer to lawful currency of the United States of America.

28. Prepayment Fees. Each of the Notes is subject to a prepayment fee as set forth in the Notes and the Loan Agreement (the "Prepayment Fee"). The Prepayment Fee shall be due and payable whether such prepayment is voluntary or involuntary, and, is due notwithstanding that such payment may be the result of any default, acceleration, bankruptcy or other events or circumstances which results in acceleration of all or other sums due as a result of such acceleration or default. The Prepayment Fee shall be due and owing in addition to any default rate interest. The Prepayment Fee shall also be secured by this Security Agreement.

29. Waiver and Release. AS A MATERIAL INDUCEMENT FOR THE SECURED PARTIES TO EFFECTUATE THE LOANS EVIDENCED BY THE NOTES AND EXECUTE THIS AGREEMENT, THE DEBTOR DOES HEREBY RELEASE, WAIVE, DISCHARGE, COVENANT NOT TO SUE, ACQUIT, SATISFY AND FOREVER DISCHARGE THE SECURED PARTIES, THEIR OFFICERS, DIRECTORS, EMPLOYEES, ATTORNEYS AND AGENTS AND ITS AFFILIATES AND ASSIGNS FROM ANY AND ALL LIABILITY, CLAIMS, COUNTERCLAIMS, DEFENSES, ACTIONS, CAUSES OF ACTION, SUITS, CONTROVERSIES, AGREEMENTS, PROMISES AND DEMANDS WHATSOEVER IN LAW

OR IN EQUITY WHICH THE DEBTOR OR THE OTHER BORROWERS EVER HAD, NOW HAVE, OR WHICH ANY PERSONAL REPRESENTATIVE, SUCCESSOR, HEIR OR ASSIGN OF THE DEBTOR OR THE OTHER BORROWERS HEREAFTER CAN, SHALL OR MAY HAVE AGAINST THE SECURED PARTIES, THEIR OFFICERS, DIRECTORS, EMPLOYEES, ATTORNEYS AND AGENTS, AND THEIR AFFILIATES AND ASSIGNS, FOR, UPON OR BY REASON OF ANY MATTER, CAUSE OR THING WHATSOEVER, THROUGH THE DATE HEREOF. THE DEBTOR FURTHER EXPRESSLY COVENANTS WITH AND WARRANTS UNTO THE SECURED PARTIES AND THEIR AFFILIATES AND ASSIGNS, THAT THERE EXIST NO CLAIMS, COUNTERCLAIMS, DEFENSES, OBJECTIONS, OFFSETS OR CLAIMS OF OFFSET AGAINST THE SECURED PARTIES OR THE OBLIGATION OF THE BORROWERS TO PAY THE SECURED PARTIES ALL AMOUNTS OWING UNDER THE NOTES, THE LOAN AGREEMENT, AND ALL ASSOCIATED LOAN DOCUMENTS AS AND WHEN THE SAME BECOME DUE AND PAYABLE.

30. Governing Law. This Agreement and the rights and obligations of the parties hereunder shall be construed in accordance with the internal laws (and not the law of conflicts) of the State of New York, but giving effect to federal laws applicable to national banks to the extent applicable; provided however, that Secured Parties shall be entitled to take advantage of any laws related to creditor rights and remedies in any jurisdiction where the Collateral is located.

31. Entire Agreement. This Security Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof.

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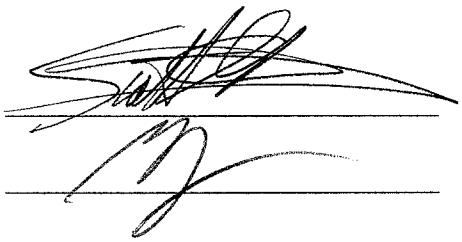
WAIVER OF JURY TRIAL. DEBTOR, THE AGENT AND SECURED PARTIES HEREBY MUTUALLY, KNOWINGLY, WILLINGLY AND VOLUNTARILY WAIVE THEIR RIGHT TO TRIAL BY JURY AND NO PARTY NOR ANY ASSIGNEE, SUCCESSOR, HEIR, OR LEGAL REPRESENTATIVE OF THE PARTIES (ALL OF WHOM ARE HEREINAFTER COLLECTIVELY REFERRED TO AS THE "PARTIES") SHALL SEEK A JURY TRIAL IN ANY LAWSUIT, PROCEEDING, COUNTERCLAIM OR ANY OTHER LITIGATION PROCEEDING BASED UPON OR ARISING OUT OF THIS SECURITY AGREEMENT OR ANY ASSOCIATED LOAN DOCUMENTS OR ANY INSTRUMENT EVIDENCING, SECURING OR RELATING TO THE OBLIGATIONS SECURED HEREBY OR ANY RELATED AGREEMENT OR INSTRUMENT, ANY OTHER COLLATERAL FOR THE OBLIGATIONS SECURED HEREBY OR ANY COURSE OF ACTION, COURSE OF DEALING, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS RELATING TO THE OBLIGATIONS OR TO THIS SECURITY AGREEMENT. THE PARTIES ALSO WAIVE ANY RIGHT TO CONSOLIDATE ANY ACTION IN WHICH A JURY TRIAL HAS BEEN WAIVED WITH ANY OTHER ACTION IN WHICH A JURY TRIAL HAS NOT BEEN WAIVED. THE PROVISIONS OF THIS PARAGRAPH HAVE BEEN FULLY NEGOTIATED BY THE PARTIES. THE WAIVER CONTAINED HEREIN IS IRREVOCABLE, CONSTITUTES A KNOWING AND VOLUNTARY WAIVER, AND SHALL BE SUBJECT TO NO EXCEPTIONS. SECURED PARTIES HAVE IN NO WAY AGREED WITH OR REPRESENTED TO DEBTOR OR ANY OTHER PARTY THAT THE PROVISIONS OF THIS PARAGRAPH WILL NOT BE FULLY ENFORCED IN ALL INSTANCES.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement the day and year first above written.

WITNESSES:



DEBTOR:

HURON AND EASTERN RAILWAY COMPANY, INC., a Michigan corporation

By: _____
DONALD D. REDFEARN,
Executive Vice President

(Corporate Seal)

SECURED PARTIES/AGENT:

NATIONAL BANK OF CANADA, a Canadian Chartered Bank, as Agent and on behalf of the Secured Parties

By: _____
MICHAEL S. BLOOMENFELD,
Vice President

STATE OF GEORGIA)
COUNTY OF COBB)

The foregoing instrument was acknowledged before me this 16 day of June, 1998, by DONALD D. REDFEARN, as Executive Vice President of and on behalf of HURON AND EASTERN RAILWAY COMPANY, INC., a Michigan corporation, who is personally known to me or has produced his dr. lic. as identification.

_____
NOTARY PUBLIC - STATE OF GEORGIA
Print Name: Dawn Summers
My Commission Expires: MY COMMISSION EXPIRES
Commission Number: OCTOBER 15, 2000

STATE OF GEORGIA)
COUNTY OF COBB)

The foregoing instrument was acknowledged before me this 16 day of June, 1998, by MICHAEL S. BLOOMENFELD, as Vice President of and on behalf of NATIONAL BANK OF CANADA, a Canadian Chartered Bank, as Agent and on behalf of Secured Parties, who is personally known to me or has produced his dr. lic. as identification.

_____
NOTARY PUBLIC - STATE OF GEORGIA
Print Name: Dawn Summers
My Commission Expires: MY COMMISSION EXPIRES
Commission Number: OCTOBER 15, 2000

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EXHIBIT "A"

Locomotives

1. General Motors Corporation, Electro-Motive Division ("EMD"), Model GP38-2, 2,000 horsepower, 4 axle diesel electric locomotive, Road Number 201.

2. General Motors Corporation, EMD, Model GP38-2, 2,000 horsepower, 4 axle diesel electric locomotive, Road Number 202.

3. General Motors Corporation, EMD, Model GP38-2, 2,000 horsepower, 4 axle diesel electric locomotive, Road Number 203.

4. General Motors Corporation, EMD, Model GP38-2, 2,000 horsepower, 4 axle diesel electric locomotive, Road Number 204.

5. General Motors Corporation, EMD, Model GP9, 1,750 horsepower, 4 axle diesel electric locomotive, Road Number 103.

6. General Motors Corporation, EMD, Model GP7, 1,600 horsepower, 4 axle diesel electric locomotive, Road Number 104.