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16749A
FEB 20 1992 -10 15 AM

INTERSTATE COMMERCE COMMISSION

February 20, 1992

PATRICIA L. PAYNE
JAY A. STEPHENS
ANDREA LEE NEGRONI
OF COUNSEL

*NOT ADMITTED IN DC
FEB 20 10 04 AM '92
NOTICE OF UNIT

BY HAND DELIVERY

The Honorable Sidney L. Strickland, Jr.
Secretary
Interstate Commerce Commission
Room 1324
12th Street & Constitution Avenue, N.W.
Washington, DC 20423

Dear Mr. Strickland:

Enclosed is an original and one copy of the document described below, to be recorded pursuant to Section 11303 of Title 49 of the U.S. Code.

This document is a Lease Agreement, a primary document, dated February 5, 1992.

We request that this Lease Agreement be cross-indexed with the primary document to which it is connected, recorded under Recordation No. 16749.

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

Lessee: Lake State Railway Company
210 Oak Street
P.O. Box 250
Tawas City, MI 48764

Lessor: Detroit & Mackinac Railway Company
120 Oak Street
Tawas City, MI 48763

Rambona K Baker

Hon. Sidney L. Strickland, Jr.

-2-

February 20, 1992

A description of the equipment covered by the document follows:

Leased Railroad Equipment

LOCOMOTIVE ROSTER

<u>Unit Number</u>	<u>Original Builder</u>	<u>Rebuilt Model</u>
1280	Alco	425-M
181	Alco	425-M
281	Alco	425-M
381	Alco	425-M
974	Alco	TE56-4A
975	Alco	TE56-4A
976	Alco	C-420
469-1	Alco	RS-2
977	Alco	RS-2
646	Alco	S-1
4610	Alco	RS-2

HOPPER CARS

<u>Series #</u>	<u># of Units</u>
5100 HT	48
5400 HT	32
5500 HT	5
5700 HT	29
5800 HT (5800-5824)	25
5900 HT	100
7000 HT	45
9600 HT	4
	<u>288</u>

Included in the property covered by the aforesaid Lease Agreement are railroad cars, locomotives and other rolling stock intended for use related to interstate commerce, or interests therein, owned by the aforesaid Lessor at the date of said Lease Agreement or thereafter acquired by it or its successors as owners of the lines of railway covered by the Lease Agreement.

A fee of \$16.00 is enclosed. Please return the original and any extra copies not needed by the Commission for recordation to the representative of this firm presenting these documents for recordation.

Hon. Sidney L. Strickland, Jr.

-3-

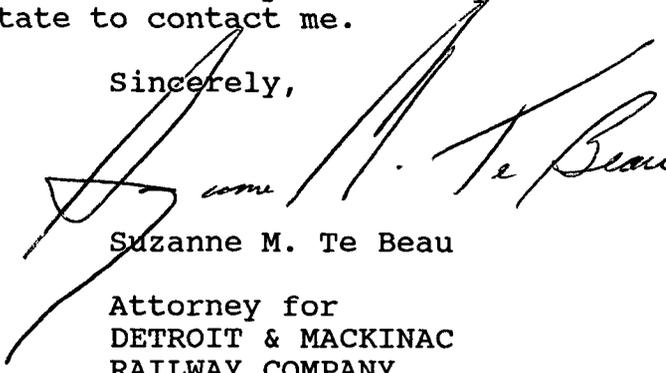
February 20, 1992

A short summary of the document to appear in the index follows:

A Lease Agreement between Lake State Railway Company (Lessee) of 210 Oak Street, P.O. Box 250, Tawas City, Michigan 48763 and Detroit & Mackinac Railway Company (Lessor) of 120 Oak Street, Tawas City, Michigan 48763 for a term of five years, covering 11 locomotives and 288 hopper cars, bearing the reporting marks HT, as listed in the exhibit A attached to the Lease Agreement.

If you need further information or if you have any questions, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Suzanne M. Te Beau". The signature is written in a cursive style with a large initial "S" and "T".

Suzanne M. Te Beau

Attorney for
DETROIT & MACKINAC
RAILWAY COMPANY

Enclosures

8590\3\TACS738.LET

Interstate Commerce Commission
Washington, D.C. 20423

2/20/92

OFFICE OF THE SECRETARY

Suzanne M. Te Beau

Weiner, McCaffrey, Brodsky & Kaplan

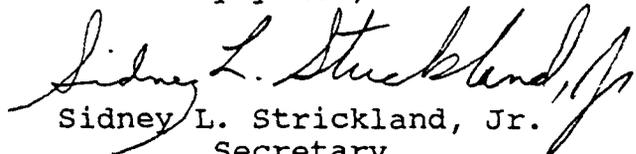
1350 New York Avenue N.W. Suite 800

Washington, D.C. 20005-4797

Dear Sir:

The enclosed document(s) was recorded pursuant to the provisions of Section 11303 of the Interstate Commerce Act, 49 U.S.C. 11303, on 2/20/92 at 10:15am, and assigned recordation number(s). 16749-A

Sincerely yours,


Sidney L. Strickland, Jr.
Secretary

C E R T I F I C A T E

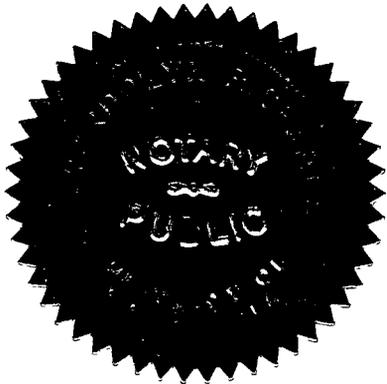
I, Gwendolyn Richards, have compared the foregoing copy of the Lease Agreement between Detroit & Mackinac Railway Company and Lake State Railway Company with the original Lease Agreement and found the copy to be complete and identical in all respects to the original document.

Date: February 19, 1992

District of Columbia)
) ss
)

Gwendolyn Richards
Notary Public

My Commission Expires:
My Commission Expires January 14, 1997



LEASE AGREEMENT

REGISTRATION NO 16749-A
FEB 20 1992 - 10 15 AM
INTERSTATE COMMERCE COMMISSION

By and Between

DETROIT & MACKINAC RAILWAY COMPANY

and

LAKE STATE RAILWAY COMPANY

February 5, 1992

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- Exhibit A - Railroad Equipment
- Exhibit B - Excluded Properties
- Exhibit C - Leased Line Track Standard Classification
- Exhibit D - Excluded Agreements
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LEASE AGREEMENT

This Lease Agreement (hereinafter referred to as "Lease") made the 5th day of February, 1992, by and between DETROIT & MACKINAC RAILWAY COMPANY, a Michigan railroad corporation (hereinafter referred to as "Lessor") and LAKE STATE RAILWAY COMPANY, a Michigan railroad corporation (hereinafter referred to as "Lessee").

W I T N E S S E T H:

WHEREAS, Lessor operates a line of railroad and related rail structures and facilities in the State of Michigan between the following Points:

<u>Segment</u>	<u>Mile Post</u>	<u>City</u>
Pinconning Subdivision	5.0 - 11.0	B.O.L - Linwood
	Crossover	Pinconning
Mackinaw Subdivision	11.0 - 116.0	Linwood -
	116.0 - 121.0	Gaylord
Huron Subdivision	16.0 - 151.25	
Roger City Branch	0.0 - 11.0	
Hillman Branch	Entire Branch	
Alabaster Branch	Entire Branch	

and the stations, spurs, yard and passing tracks, and connections related thereto (hereinafter collectively referred to as "Leased Line"), including within said Leased Line the track, ties, rail, other track material, wires, pipes, conduits, poles, guys, bridges, switches, buildings, culverts, signals, scales, related roadbed structures and certain interests in the underlying real estate associated with the operation of the rail line; and

WHEREAS, Lessor uses certain locomotives, hopper cars, (hereinafter collectively referred to as "Railroad Equipment" and as detailed in Exhibit A hereto); and

WHEREAS, Lessee desires to lease and Lessor is willing to let the Leased Line, permitting Lessee to conduct rail common carrier and exempt freight carriage and related activities ("Rail Freight Service") on the Leased Line using the Railroad Equipment (said Leased Line and Railroad Equipment collectively referred to as "Rail Property") thereover on the terms and conditions hereinafter set forth; and

WHEREAS, Lessee intends to seek an exemption from the requirements of 49 USC §10901 to provide Rail Freight Service on the Leased Line; and

WHEREAS, Lessor desires to abandon or otherwise suspend its rail carrier authority, and to stop providing any Rail Freight

Service on or to said Leased Line; and

WHEREAS, on even date herewith, Lessee has purchased certain assets from Lessor and has entered into additional agreements with Lessor ("Supplemental Contracts").

NOW, THEREFORE, the parties hereto mutually covenant and agree as follows:

ARTICLE I Premises

A. (1) Lessor hereby assigns, lets and leases to Lessee, and Lessee hereby leases, takes and accepts from Lessor, the Leased Line and Railroad Equipment under the terms and conditions established herein.

(2) Lessee's use and possession of the Leased Line and Railroad Equipment is and shall be limited to the operation of a general Rail Freight Service business, and for no other purpose. Lessee's possession shall be non-exclusive, and shall be subject to the existing uses and possessions, the Reservation contained herein, and future uses and possessions as are properly allowed.

B. Lessee may, at its sole cost and expense, undertake program maintenance, including improvements, additions, betterments or alterations of the Rail Property as it may deem to be necessary or desirable; provided, however, that no such improvements, additions, betterments or alterations shall be undertaken without the prior written consent of Lessor, which consent will not be unreasonably withheld. Any such improvements shall become a part of the Rail Property and shall become the property of Lessor and may not be removed by Lessee at the Expiration of this Lease. Regular maintenance shall be undertaken and performed pursuant to Article VI.

ARTICLE II Term and Extended Term

A. (1) Lessee shall begin Rail Freight Service on a mutually agreeable date that is not less than five (5) nor more than thirty (30) days after Lessee has satisfied the requirements of Article IX hereof. If Rail Freight Service has not commenced by March 31, 1992, this Lease shall be void and of no further effect.

(2) The initial term ("Term") of the Lease is five (5) years beginning on the day on which Rail Freight Service starts ("Commencement Date").

(3) The Lease shall expire ("Expiration Date") five (5) years after the Commencement Date, unless extended as herein

provided.

B. The Term of this Lease shall automatically extend ("Extended Term") for consecutive one (1) year periods:

(1) Upon Lessee delivering One Hundred Thousand and 00/100 (\$100,000.00) Dollars cash to Lessor no later than one hundred eighty (180) days prior to the Expiration Date of the Term or any Extended Term, but

(2) Only if Lessee is not then in Default, unless

(3) Lessee gives written notice to Lessor of its intention not to extend at least thirty (30) days prior to the time specified in B(1) of this Article.

This Lease shall be extended not more than five (5) successive and consecutive times. (The actual duration of this Lease is and shall be referred to as the "Term".)

ARTICLE III

Rent

A. Lessee shall make a monthly payment ("Rental Payment") equal to a percentage of the Gross Railroad Revenue earned by Lessee by providing Rail Freight Service on the Leased Line, determined on an accrual basis (including therein freight, switching, preservation fee and surcharge revenues, but less any allowances and/or rebates, demurrage charges and freight car repair billing) calculated using the Applicable Percentage of Gross Railroad Revenue from the following schedule:

<u>Annual Revenue Amount</u>	<u>Applicable Percentage</u>
\$ 0 - \$5,000,000	17.50%
\$5,000,001 - \$5,500,000	17.75%
\$5,500,001 - \$5,750,000	18.00%
\$5,750,001 - \$6,000,000	18.50%
\$6,000,001 - \$6,625,000	19.50%
\$6,625,001 - Above	20.00%

B. The monthly Rental Payment shall be calculated by applying the Applicable Percentage (said Percentage shall be determined on a cumulative basis for each fiscal year period beginning on the Commencement Date during the Term of this Lease) to the Gross Railroad Revenue earned by Lessee for the month in question, and shall be due and payable on the last business day of the next following month, except that the Rental Payment for the first month after the Commencement Date is due and shall be paid on the last business day of the fourth month following the Commencement Date of the Lease.

ARTICLE IV
Option to Purchase

A. At any time during the Term, Lessee shall have an exclusive option to purchase ("Option") the Leased Line and Railroad Equipment (excepting only therefrom the property listed in Exhibit B hereto, Excluded Properties) for Nine Million Two Hundred Fifty-Five Thousand and 00/100 (\$9,255,000.00) Dollars ("Option Purchase Price").

B. (1) If Lessee elects to exercise ("Exercise") this Option, it shall give written notice of its Exercise to Lessor no later than one hundred eighty (180) days prior to the Expiration Date and include with its notice of Exercise cash or certified funds in an amount equal to five (5%) percent ("Deposit") of the Option Purchase Price.

(2) If Lessee does not properly and timely Exercise, this Option shall terminate without further action by Lessor.

(3) This Option is not severable from the remaining terms and conditions of this Lease, and shall not survive any Default (as defined herein) by Lessee, or the Expiration Date of this Lease.

C. Closing shall occur not later than ninety (90) days after the Exercise by Lessee. At Closing,

(1) Lessee shall pay the balance of the Option Purchase Price in cash to Lessor; and

(2) Lessor shall deliver a suitable Bill of Sale without representations or warranties for the Rail Equipment, and a Quit Claim Deed without representations or warranties for the Leased Line, as well as a suitable statement of Termination of this Lease.

(3) The parties shall execute a Closing Statement reflecting the purchase price and any adjustments thereto as required herein.

D. Should Lessee fail to close after its Exercise, Lessor may retain the Deposit as liquidated damages, terminate the parties' relationship and retain title to the Leased Line and Railroad Equipment, or at its election, seek damages or specific performance.

E. At Closing, the Rail Property shall be conveyed free of any liens placed on the Rail Property by the sole and specific acts of Lessor.

F. The Option Purchase Price shall increase, cumulatively, by three (3%) percent for each Extended Term period, or any part thereof.

ARTICLE V
Reservation by Lessor. Exceptions

A. Lessor's conveyance of a leasehold interest under this Lease (and the Option granted herein) shall be subject to the reservation (the "Reservation") by Lessor, in perpetuity, of the following rights and interests, including the income from the exercise or transfer of said rights or interests:

1. (i) All oil, gas and minerals of every kind and nature, including, but not limited to aggregate oil, natural gas, sulfur, coal, lignite, ores and timber, whether on or underlying the surface of said Leased Line, together with the full right, privilege and license at any time to explore, or drill for and to protect, conserve, mine, take, extract, remove and market any and all such products;

(ii) Exclusive perpetual easements and the exclusive right to grant easements or licenses, either in perpetuity or for terms, for the construction, installation, erection, reconstruction, reinstallation, re-erection, relocation, maintenance, removal, repair, replacement, use and operation of fluids, gases, communications and energy pipelines, telephone, radio, radar or laser transmission systems, wire, cable, fiber, fiber-optic, utility, energy and power transmission lines or conduits of every kind and character together with all necessary supporting structures and devices which may be constructed, erected or installed on, in, under, over, above, across and along all or any portion of the Leased Line at any time from time to time in the future.

2. (i) The right of access to and ingress and egress over, upon, to, from and across the Leased Line by adjacent property owners and by Lessor and its designated contractors, agents, and employees, together with all necessary and incidental vehicles, work equipment, machinery and other movable structures for purposes in connection with the rights reserved hereby;

(ii) The right of Lessor or any company controlled by or under common control with Lessor ("Lessor's Affiliate") to establish access roads across the Leased Line from time to time for the purpose of obtaining access to properties of Lessor or Lessor's Affiliate adjacent to each side of the Leased Line. Any such crossing shall be constructed by Lessee or at Lessee's direction, at Lessor's or Lessor's Affiliate's sole cost and at such locations and upon such specifications as Lessee may reasonably establish consistent with the needs of its Rail Freight Service. Any such crossings shall be maintained by

Lessee at Lessor's or Lessor's Affiliate's sole expense;

(iii) The right, but not the obligation, to continue to grant the non-exclusive use of the Leased Line to other third parties, including but not limited to, adjacent property owners, in a manner and pursuant to its past business practices.

3. (i) The exclusive right to enforce any and all of the rights, reservations and agreements as herein provided, at law or in equity, against any person or entity bound by such rights, reservations and agreements as herein provided to recover any damages suffered by Lessor for any violation, threat of violation or breach hereof;

(ii) The exclusive right and entitlement to any and all income from whatever source derived in connection with any and all of the rights reserved hereby;

(iii) The exclusive right to transfer any rights reserved hereby from time to time in whole or in part to one or more persons or entities without the necessity of any consent from Lessee.

4. (i) Neither Lessor nor any of its successors in interest nor transferees shall exercise any of the reserved rights described in this Article V in a manner that unreasonably interferes with Lessee's use of the Leased Lines for its general railroad purposes and shall be subject to the rights of Lessee to require that any person, as a condition to entering or crossing the property to exercise such rights, sign release forms releasing Lessee from liability for injury to or death of such persons arising out of Lessee's railroad operations, but such releases shall not relieve Lessee from the consequences of gross negligence or willful or wanton misconduct. Lessee may also request, with Lessor's prior review and approval, that any unrelated third party transferee of Lessor reimburse Lessee for unusual costs not normally associated with such use. If requested to do so by Lessee, Lessor shall enforce the foregoing condition against Lessor's employees, agents or contractors or third parties seeking to enter the property to exercise such rights.

(ii) Nothing herein shall be construed to allow (or act as a reservation by Lessor of) any residual rail freight transportation rights, except as specifically requested by Lessor.

B. Rail Property is and shall be subject to:

(1) The exceptions, reservations, rights and privileges of Lessor set forth in this Lease, including but not

limited to, any reservations, exceptions and restrictions of record;

(2) Existing and future building, zoning, subdivision and other applicable federal, state, county, municipal and local laws, ordinances and regulations;

(3) Reservations or exceptions or record of minerals or mineral rights; public utility easements and easements and rights of way, howsoever created, for crossings, roads, streets and highways;

(4) Taxes and assessments, both general and special, which are attributable to the period of time subsequent to Commencement Date;

(5) All encroachments or any other state of facts which might be revealed from an accurate survey, title search or personal inspection of the Rail Property; and

(6) Any and all existing ways, alleys, party walls, privileges, rights, appurtenances and servitudes, howsoever created.

ARTICLE VI

Possession, Use and Maintenance of Leased Line and Railroad Equipment

A. (1) So long as Lessee is not in Default, it shall be entitled to possession of the Leased Line and Railroad Equipment and use thereof; provided, however, that said possession and use shall at all times be solely for the purpose of providing Rail Freight Service. Lessee understands and acknowledges that Lessor has used the Leased Line and Railroad Equipment for regular Rail Freight Service for many years, and that Lessor makes no representations or warranties, express or implied, whatsoever, concerning either the Leased Line or Railroad Equipment's state, condition, or fitness for any purpose whatsoever, including the performance of a general Rail Freight Service.

(2) Lessee is familiar with the Leased Line and Railroad Equipment and accepts it at its sole risk "As Is, Where Is".

B. (1) Lessee shall at all times, and at its own cost, keep and maintain in good order and condition, to the satisfaction of Lessor, the Leased Line and Railroad Equipment and all improvements or appurtenances thereto, and to make all repairs thereto and any restoration, replacements and renewals therein, structures or non-structures, and shall use reasonable precaution to prevent waste, damage or injury.

(2) (i) The Parties acknowledge that they are familiar with and have inspected the Leased Line, and agree that the current FRA Class Safety Standards of the Leased Line is as specified in Exhibit C hereto.

(ii) Lessee shall maintain the Leased Line throughout the Term in not less than its current FRA Class Safety Standards, as determined in accordance with FRA Track Safety Standards, and so as at all times to provide safe and efficient Rail Freight Service thereon. Lessor shall be allowed access to the Properties at all times to allow for reasonable inspection thereof.

(3) Lessee shall promptly replace and restore any or all items of Rail Property destroyed or otherwise rendered useless by Lessee with like-kind property of equal or better value and utility. No destruction of Rail Property shall be sufficient grounds for any abatement or equitable reduction of rents or any other obligation hereunder.

ARTICLE VII Taxes and Utilities

A. Lessee agrees to promptly and fully pay all taxes, fees, levies, assessments, payments and charges of any kind, specifically including, but not limited to, that specific tax against railroad and public utilities assessed by the State of Michigan pursuant to MCLA §465.1, et seq, with respect of the Rail Property, or use thereof, during the Term. Lessee shall include with its report or return for such taxes all of the Rail Property and any other property assigned to or used by, in whole or in part, by Lessee, whether reserved to Lessor or otherwise. Such taxes shall not be subject to reimbursement by Lessor.

B. Lessee, at no cost or expense to Lessor, shall arrange for, obtain and pay all bills, charges and assessments in connection with any heat, water, electricity, sewer and other services required for its use of the Leased Line. In the event that it is impossible or impracticable to secure any of such services other than through facilities owned by Lessor, Lessor shall not be liable for any temporary suspension of such services.

ARTICLE VIII Insurance

Lessee shall be responsible for obtaining and maintaining full and adequate general comprehensive railroad liability, property and casualty insurance coverage against any loss or risk of loss, from any cause whatsoever, in amounts and on terms mutually and reasonably agreed to by the parties hereto, including:

(1) General Comprehensive Railroad and Public Liability for its general Rail Freight Service operations with coverage limits not less than \$3,000,000, \$3,000,000 per occurrence, cumulative, with a self-insurance deductible of \$50,000.

(2) All risk property insurance for the Railroad Equipment and the Tawas Office (tenants coverage), Alpena Maintenance buildings, and the Bay City Engine House in the amount of \$250,000.

(3) Workers insurance covering all employees to at least statutory limits.

Prior to the Commencement Date, Lessee shall procure all such insurances with Lessor being named as an additional insured/payee and shall provide a Certificate of Insurance (Long Form).

ARTICLE IX **Regulatory Approvals and Compliance with Laws**

A. Lessee acknowledges that Interstate Commerce Commission ("ICC") approval or exemption of Lessee's operation on the Leased Line and approval of the termination of Lessor's operations without any labor protection being imposed is a condition precedent to Lessee's rights to perform of Rail Freight Service on the Leased Line pursuant to this Lease. Lessee hereby covenants that, at its sole cost and expense, (1) it shall have obtained such approval or exemption prior to taking possession of or commencing any Rail Freight Service on the Leased Line; and (2) such approval or exemption will not impose labor protective conditions upon Lessor or Lessee, either directly or indirectly. Lessee's failure to initially and continually satisfy covenants (1) or (2) herein, at any time, shall, notwithstanding any provision of this Lease, be grounds for Early Termination at the sole election of Lessor, without liability of either party to the other party for loss incurred as a result of such failure.

B. Lessee, at its sole cost and expense, shall comply with and obey all laws, ordinances, rules, regulations and requirements of all governmental or regulatory authorities having jurisdiction over either the Leased Line or Railroad Equipment and Lessee's Rail Freight Service, or any part thereof, including but not limited to, all laws, ordinances, rules, regulations and requirements governing Lessee's Rail Freight Service on the Leased Line, and shall protect, defend, indemnify and hold Lessor harmless from all liability resulting from or arising out of Lessee's failure to so comply and obey.

ARTICLE X
Allocation of Liabilities

A. (1) Lessee shall assume and bear all liability of whatever kind or nature for any matter arising out of, relating to, or resulting from its general Rail Freight Service, or relating to or resulting from any condition occurring or created after the Commencement Date (including without limitation environmental conditions, whenever discovered) relating to the Properties.

(2) Lessee shall not be liable for, or on account of, any loss or damage arising solely and completely before the Commencement Date which a prudent inspection discloses.

B. Lessor shall not be liable for or on account of any loss of, damage to, or destruction of the Rail Property, the property of Lessee, its employees or agents, the property of any other person, firm, partnership or other corporation whatsoever, or for injury to or death of any employee, agent or individual which may result from Lessee's operation, use or interest in the properties aforesaid, including, without limitation, all defects in the Rail Property and any and all loss, damage, destruction, injury or death arising out of or connected with Lessee's performance of any work.

C. Lessee shall defend, indemnify and hold Lessor harmless from any and all liability suits, claims, loss, cost, damage or injury as provided in paragraphs A. and B. above. Lessee hereby waives any statute of limitation that would limit or obviate such indemnity obligation. This indemnity shall survive any Termination or Expiration of this Lease.

ARTICLE XI
Condemnation. Partial or Complete Destruction

A. (1) If the whole of the Leased Line, or a substantial portion thereof sufficient to render the remainder of the Leased Line unsuitable for the purposes of Lessee, shall be appropriated or condemned by the exercise of the right of eminent domain, or by sale in lieu of condemnation, for any public or quasi-public use or purpose, then in such event this Lease shall terminate on the earlier of the date that the condemning authority takes possession of the condemned property, or the date that such authority acquires title to the property, or such portion thereof. All rents shall be paid up to such date and Lessee shall have no claim against Lessor for the value of any unexpired term of this Lease.

(2) All compensation awarded or paid upon a total or partial condemnation of the Leased Line shall belong to and be paid to Lessor. Lessee shall have the right to claim and recover

from the condemning authority, but not from Lessor, such compensation as may be separately awarded to or recoverable by Lessee in its own right, if any.

B. (1) Partial or complete destruction of the Rail Properties, or any item thereof, shall not be reason for cancellation of the Lease, or abatement of any obligation therein.

(2) Should any portion of the Leased Line, or any item of Railroad Equipment be destroyed so that it becomes useless, Lessee shall, as soon as is practicable, provide a replacement of equal or better value and utility as a replacement thereof.

ARTICLE XII

Assignment, Subletting, Restrictions

A. (1) Prior to commencing Rail Freight Service, Lessor and Lessee shall enter into an Assignment and Assumption Agreement covering all contracts, agreements and leases pertaining to the Rail Property or to the continuing Rail Freight Service conveying to Lessee all of Lessor's rights and interests in the assigned agreements and Lessee shall assume and be bound by all of Lessor's obligations and liabilities thereunder. From and after the date hereof, Lessee shall be entitled to or be responsible for, as the case may be, any and all fees, rents, charges or income arising out of or connected with the assigned agreements. Except as otherwise expressly provided in the immediately following sentence, Lessee shall forever release and discharge Lessor from and against any and all obligations and liabilities arising out of or connected with said assigned agreements for the Term hereof (as defined below), and Lessor shall forever protect, defend, indemnify and hold harmless Lessee, its officers, agents and employees from and against any and all obligations, liabilities, costs or expenses arising out of or connected with the assigned agreements prior to or after the Term hereon. The provisions of this paragraph shall not apply to contracts, agreements, leases, licenses and easements which are listed or described in Exhibit D ("Excluded Agreements") hereto. Obligations of Lessee arising under this paragraph shall survive any termination of this Lease.

In the event Lessor is unable for any reason(s) to effect any assignment anticipated herein, Lessor's failure or inability shall not be construed as a default and shall not constitute grounds for the termination or rescission of this Lease.

(2) In the event that subsequent to the Commencement Date, Lessor locates any additional contracts, agreements, leases, licenses or easements, the parties shall amend Exhibit D to incorporate any such documents and Lessee shall accept

assignment thereof.

(3) Upon Expiration or other Termination, Lessor may require Lessee to assign to Lessor all of Lessee's right, title and interest in and to any or all of the instruments so assigned, as Lessor may specify or require.

B. (1) Lessee may not assign this Lease, sublet the Rail Property or any part thereof, or permit any other party to use such property and facilities without the prior written consent of Lessor, which consent may be withheld for any reason whatsoever.

(2) Lessee shall not mortgage, pledge or otherwise encumber or permit to be encumbered any of the Rail Property other than Permitted Liens as detailed in Exhibit E hereto, without Lessor's prior written consent. Any attempt by Lessee to do so shall constitute a Default hereunder.

(3) (i) In no event shall Lessee permit or allow any other entity or person to perform Rail Freight Service, or any aspect thereof on the Leased Line without the prior written consent of Lessor.

(ii) Any written consent by Lessor permitting Lessee to assign or transfer this Lease in whole or in part, or to sublet the whole or any part of the Leased Line, or to otherwise encumber any part thereof, shall not be deemed a waiver of the Lessor's rights, nor shall such consent be deemed as giving consent to any other or further assignment, subletting or encumbering.

(iii) Any permitted assignee or subtenant of Lessee, at the option of Lessor, shall become directly liable to Lessor for all obligations of Lessee hereunder; provided, however, that no assignment or sublease by Lessee shall relieve Lessee of its liability hereunder.

ARTICLE XIII

Access to Financial Statements and Records

A. Lessee shall furnish to Lessor the following:

(1) Promptly and in any event within three (3) business days after becoming aware of the occurrence of (i) any Event of Default or any event or condition which, with notice or lapse of time, or both, would constitute an Event of Default, (ii) the commencement of any material litigation against, by or affecting Lessee or any of its subsidiaries, and any material developments therein, or (iii) entering into any material contract or undertaking that is not entered into in the ordinary course of business or (iv) any development in the business or affairs of Lessee which has resulted in or which is likely in the

reasonable judgment of Lessee, to result in a material adverse change in the business, properties, operations or condition, financial or otherwise of Lessee, a statement of the chief financial officer of Lessee setting forth details of such Event of Default or such event or condition or such litigation and the action which Lessee, as the case may be, has taken and proposes to take with respect thereto.

(2) As soon as available and in any event within sixty (60) days after the end of each fiscal quarter of Lessee, the consolidating balance sheet of Lessee, its subsidiary, associated and related companies, or either, as of the end of such quarter, and the related consolidating statements of income, retained earnings and other financial information as may be reasonably requested by Lessor for the period commencing at the end of the previous fiscal year and ending with the end of such quarter, setting forth in each case in comparative form the corresponding figures for the corresponding date or period of the preceding fiscal year, all in reasonable detail and duly certified (subject to year-end audit adjustments) by the chief financial officer of Lessee as having been prepared in accordance with generally accepted accounting principles, together with a certificate of the chief financial officer of Lessee stating (i) that no Event of Default or event or condition which, with notice or lapse of time, or both, would constitute an Event of Default, has occurred and is continuing or, if an Event of Default or such an event or condition has occurred and is continuing, a statement setting forth the details thereof and the action which Lessee has taken and proposes to take with respect thereto, and (ii) that a computation (which computation shall accompany such certificate and shall be in reasonable detail) is in conformity with the terms of this Lease.

(3) As soon as available and in any event within one hundred thirty-five (135) days after the end of each fiscal year of Lessee, a copy of the consolidated and consolidating balance sheet of Lessee as of the end of such fiscal year and the related consolidated and consolidating statements of income, retained earnings and changes in financial position of Lessee for such fiscal year, with a customary audit report of an independent certified public accountants selected by Lessee and acceptable to Lessor, without qualifications unacceptable to Lessor, together with a certificate of such accountants stating (i) that they have reviewed this Lease and stating further whether, in the course of their review of such financial statements, they have become aware of any Event of Default or any event or condition which, with notice or lapse of time, or both, would constitute an Event of Default, and, if such an Event of Default or such an event or condition then exists and is continuing, a statement setting forth the nature and status thereof, and (ii) that a computation by Lessee (which computation shall accompany such certificate and shall be in reasonable detail) is in conformity with the terms of

this Lease.

(4) As soon as available and in any event within one hundred twenty (120) days after the end of each fiscal year of Lessee, and from time to time upon, and within ten (10) days of, request by Lessor a report describing all insurance with respect to Lessee of its respective property or assets as of the end of such fiscal year, including, without limitation, liability, casualty, and business interruption (including product liability), insurance, in form and detail satisfactory to Lessor, certified as true and correct by the chief financial officer of Lessee.

(5) Promptly and in any event within ten (10) days after receipt, a copy of any management letter or comparable analysis prepared by the auditors for Lessee.

(6) Promptly, such other information respecting the business, Properties, operations or condition, financial or otherwise, of Lessee as Lessor may from time to time reasonably request.

B. (1) Lessee shall maintain a system of accounting, on an accrual basis, established and administered in accordance with sound business practices to permit preparation of financial statements in accordance with generally accepted accounting principles and to comply with the requirements of this Lease.

(2) Upon twenty-four (24) hours advance written notice, and during normal business hours, Lessee shall permit Lessor or any of its agents or representatives (i) to examine and make copies of, and abstracts from, the records and books of account of, and visit the properties of, the Lessee to discuss the affairs, finances and accounts of Lessee with their respective directors, officers, employees and independent auditors, and by this provision Lessee does hereby authorize such persons to discuss such affairs, finances and accounts with Lessor, and (ii) to conduct a comprehensive field audit of its books, records, properties and assets, including without limitation, the Properties and related or associated assets and that of Lessee's affiliates.

ARTICLE XIV Events Constituting Default

Any of the following events ("Event of Default") shall constitute a Default hereunder:

(1) The non-payment by Lessee for a period of ten (10) days after due date of the Rental required under Article III hereof.

(2) The non-payment by Lessee of any other sum required to be paid hereunder by Lessee within thirty (30) days after the receipt of written notice thereof from Lessor.

(3) (i) Any affirmative act of insolvency by Lessee, or the filing or attempted filing by Lessee of any petition under any bankruptcy, reorganization, insolvency, or moratorium law, or any law for the relief of, or relating to, debtors;

(ii) The filing of any involuntary petition under any bankruptcy statute by or against Lessee, or the appointment of any receiver or trustee to take possession of any part of the Leased Line;

(iii) Making a general assignment for benefit of creditors by Lessee.

(4) The subjection of any of the Rail Property or any of Lessee's other property to any levy, seizure, assignment, application, encumbrance, lien or sale except for "Permitted Liens" as described in Exhibit E hereto.

(5) (i) The filing for, or the termination, suspension or revocation of Lessee's federal, state or local regulatory authority to perform general Rail Freight Service on the Leased Line;

(ii) Lessee's failure to provide general Rail Freight Service over the Leased Line.

(iii) Failure to generate \$2,250,000 of Gross Railroad Revenue;

(iv) Lessee's deliberate understatement of Gross Railroad Revenue in any amount, or if not deliberate, Lessee's gross negligent understatement of Gross Railroad Revenue at any time, by more than five (5%) percent;

(v) Default under any Supplemental Contract attached hereto and incorporated herein by reference,

(6) Any non-performance by Lessee of any warranty, term, covenant, or condition of this Lease for which Lessee has not taken substantial steps to cure within thirty (30) days.

ARTICLE XV
Lessor's Rights on Default

Upon Default,

A. Lessor may terminate ("Early Termination") the Lease by written notice to Lessee.

B. Lessor, if it so chooses, may undertake any or all of the following actions or remedies without notice or demand, in its sole discretion:

(1) Take exclusive, immediate possession of the Leased Line and Railroad Equipment, in which event Lessee shall surrender the Properties to Lessor without Lessor becoming responsible or liable for prosecution or any claim for damage therefrom (and without a specific notice of which shall not constitute termination of the Lease);

(2) Relet the Properties;

(3) Take any other action or exercise any remedy available to Lessor at law or equity.

C. Lessee agrees to pay Lessor on demand the amount for all loss and damage which Lessor may suffer by reason of such Default, including but not limited, to only costs of recovering the Leased Line and Railroad Equipment, and reasonable attorney fees. Lessee's obligations herewith shall survive any such Early Termination.

If, following the filing of a petition by or against Lessee in a Bankruptcy Court, Lessor is not permitted to terminate this Lease, Lessee shall promptly request, within no more than fifteen (15) days of Lessor's request, a hearing and determination to assume or reject this Lease and Lessee shall not seek to request any extension or adjournment of such hearing. Failure to assume this Lease shall be assumed to be a rejection, upon which Lessor may request the appointment of a designated operator of Lessor's sole choosing, pending resolution of the proceeding. Any trustee for Lessee may assume the Lease only if it cures the Event of Default, or provides adequate assurance that it can do so, and that it will continue to provide proper, full and adequate future performance pursuant to this Lease.

ARTICLE XVI

Obligations of Lessee Upon Termination

In sufficient time prior to Expiration, or promptly, in the event of Early Termination, Lessee agrees without prior notice:

(1) To cease its use of the Leased Line and Railroad Equipment to the extent permitted by law and to remove itself therefrom as expeditiously as possible, peaceably and without the need for legal compulsion;

(2) To promptly file a petition, or at Lessor's election, join in and support any petition by Lessor, before any

relevant federal, state or local regulatory or judicial authorities, seeking to terminate the effectiveness or applicability of any certificate, authority or exemption conferring or purporting to confer upon Lessee the right to operate Rail Freight Service on the Leased Line;

(3) To take no action to prevent or interfere with Lessor's taking and maintaining possession of the Leased Line or the rights, privileges or benefits related thereto; and

(4) Vacate the Rail Property and restore them to the same or better condition than they were at the beginning of the Term, except that rail, wheels and other similar items shall be subject to reasonable wear and tear.

ARTICLE XVII Acceptance of Partial Payments

In the event Lessee is in Default, acceptance by Lessor of partial payment or partial performance shall not waive the Default. Lessor's right to Terminate shall not be prevented except by full performance by Lessee prior to Early Termination. This Lease shall not be reinstated after Early Termination except by written agreement by Lessor.

ARTICLE XVIII Notices

All notices given under this Lease shall be in writing and sent by express, registered or certified mail, or by a nationally recognized courier service, postage prepaid, to the parties at their respective addresses set forth below, or such other addresses as are specified by written notice and delivered in accordance herewith, and all such notices shall be deemed so delivered when received.

If to Lessor:

Mr. Charles A. Pinkerton, III
Detroit & Mackinac Railway Company
120 Oak Street
Tawas City, Michigan 48763

With a copy to:

Michael J. Biber, Esquire
Stone, Biber & O'Toole, P.C.
2701 Troy Center Drive Suite 400
Troy, Michigan 48084

If to Lessee:

Mr. Richard L. Van Buskirk, Jr.
Lake State Railway Company
P.O. Box 192
East Tawas, Michigan 48730

ARTICLE XIX
Miscellaneous Provisions

A. This Lease shall be governed by, and construed and interpreted in accordance with federal law or, where applicable, the laws of the State of Michigan.

B. Lessor's failure to exercise any power given Lessor under this Lease, or to insist upon strict compliance by Lessee with its obligations hereunder, shall not constitute a waiver of Lessor's right to demand exact compliance with the terms of this Lease.

C. Time is of the essence in complying with the terms, covenants and conditions of this Lease.

D. Except as expressly limited by the terms of this Lease, all rights, powers and privileges conferred hereunder upon the parties shall be cumulative and not restrictive to those given by law.

E. Subject to Article XII hereof, this Lease shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns.

F. No amendment to this Lease shall be binding upon either of the parties hereto unless such amendment is in writing and executed by both parties hereto.

G. It is the intention of the parties that this Lease is what is commonly known as "Net Net Net" or a "Carefree" lease and Lessor's obligations herein shall be limited to only those specifically indicated herein. Lessee's obligations are absolute and unconditional and are not subject to abatement or set-off whatsoever.

H. Any amounts due hereunder, and unpaid when due, shall bear interest at thirteen (13%) percent. To compensate it for increased costs, Lessor may assess a reasonable late charge of five (5%) percent. Lessee's obligation to pay rent that is accrued but unpaid shall survive the Expiration or other Termination of the Term.

IN WITNESS WHEREOF, the parties hereto have caused this Lease to be executed the date first above written.

WITNESS:

LESSOR:

DETROIT & MACKINAC RAILWAY COMPANY



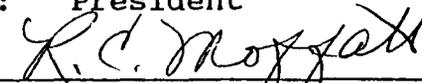
John R. Fowler, Jr.

By: 

Charles A. Pinkerton, III
Its: President



Michael J. Biber

And: 

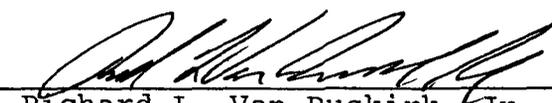
Roger C. Moffatt
Its: Executive Vice President

LESSEE:

LAKE STATE RAILWAY COMPANY



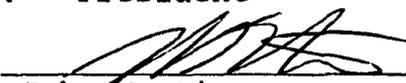
John R. Fowler, Jr.

By: 

Richard L. Van Buskirk, Jr.
Its: President



Michael J. Biber

And: 

John Martin
Its: Secretary

I, Charles A. Pinkerton, III, certify that I am President of the Detroit & Mackinac Railway Company, that the foregoing instrument was signed on behalf of the Company by authority of its Board of Directors, and that I acknowledge that the execution of the foregoing instrument was the free act and deed of the Company. I further certify under penalty of perjury that the foregoing is true and correct.

Executed on: Feb 5th, 1992

BY: Charles A. Pinkerton, III
Charles A. Pinkerton, III
President
Detroit & Mackinac Railway Company

I, Richard L. Van Buskirk, Jr., certify that I am President of the Lake State Railway Company, that the foregoing instrument was signed on behalf of the Company by authority of its Board of Directors, and that I acknowledge that the execution of the foregoing instrument was the free act and deed of the Company. I further certify under penalty of perjury that the foregoing is true and correct.

Executed on: February 5, 1992

BY: 
Richard L. Van Buskirk
President
Lake State Railway Company

EXHIBIT A

Railroad Equipment

LOCOMOTIVE ROSTER

<u>Unit Number</u>	<u>Original Builder</u>	<u>Rebuilt Model</u>
1280	Alco	425-M
181	Alco	425-M
281	Alco	425-M
381	Alco	425-M
974	Alco	TE56-4A
975	Alco	TE56-4A
976	Alco	C-420
469-1	Alco	RS-2
977	Alco	RS-2
646	Alco	S-1
4610	Alco	RS-2

RAILCAR INVENTORY

HOPPER CARS

<u>Series #</u>	<u># of Units</u>
5100 HT	48
5400 HT	32
5500 HT	5
5700 HT	29
5800 HT (5800-5824)	25
5900 HT	100
7000 HT	45
9600 HT	4
	<u>288</u>

Excluded Properties

The following described properties are excluded from the terms and conditions of this Lease, as contained in Article IV hereto:

Leased Line:

- All non-operating property
- North Bay City Yard and all surrounding property, except that Lessee shall have use of and access to the two (2) station locomotive maintenance and repair facilities in the yard and access to trackage necessary to perform switching for Dow Chemical and other industries to be served by Lessee in the Bay City switching area.
- Tawas Yard, except for an operating easement through the yard.

Rail Property:

- Snow plow, rerailling equipment and movable jacks used for locomotive repair, and other miscellaneous equipment to be agreed upon (with a corresponding price adjustment), except that Lessee shall agree upon a joint and reasonable use of these assets and upon a sharing of the maintenance and operational costs associated therewith.
- Passenger excursion equipment.

Boxcars:

<u>Series #</u>	<u># of Units</u>	<u>Owner</u>
2100 XM	6	DMR
2400 XF	71	DMR
2700 XM	1	DMR
3000 XM	1	DMR
3100 XM	1	DMR

Open Hopper Cars:

<u>Series #</u>	<u># of Units</u>	<u>Owner</u>
5800 HT (5825-5899)	61	DMR

EXHIBIT B (cont.)

Gondola:

<u>Series #</u>	<u># of Units</u>	<u>Owner</u>
3500	7	DMR

Flat Cars:

<u>Series #</u>	<u># of Units</u>	<u>Owner</u>
400	3	DMR
500	9	DMR

Leased Line Track Standard Classification

Miles	Location	Signals	Track Class
5	Bay City Yard	2	Class I
116	Kawkawlin to Gaylord MP 5 to MP 121	16	Class III
57	Pinconning to Oscoda MP 17 to MP 74	9	Class II
38	Oscoda to Ossineke MP 74 to MP 112	5	Excepted
7	Ossineke to Alpena MP 112 to MP 119	0	Class II
32	Alpena to Hawks MP 119 to MP 151	12	Excepted
4	Alabaster Branch MP 0 to MP 4	1	Excepted
8	Hillman Branch MP 0 to MP 8	1	Excepted
11	Rogers City Branch MP 0 to MP 11	1	Excepted
5	Tawas Yard	0	Class I
5	Alpena Yard	2	Excepted

RECAP:

Miles	Class	Signals
10	Class I	2
64	Class II	9
116	Class III	16
98	Excepted	22
288	Total	49

Excluded Agreements

A. Any and all employment contracts and union or employee operating agreements, including but not limited to, any union contracts or obligations with the following specified unions:

United Transportation Union
Transportation Communications Union
Brotherhood of Railway Carmen
Brotherhood of Maintenance-of-Way Employees
International Association of Machinists

Permitted Liens

Except for Permitted Liens set forth herein, Lessee shall not create, suffer, or otherwise permit any lien, claim, mortgage, encumbrance, or charge of any nature whatsoever, including, without limitation, any mechanics or materialmen's lien (hereinafter collectively referred to as "Liens") to be asserted or claimed against any or all of the Rail Property for any reason, whether prior to or subsequent to the Commencement Date of this Lease.

If any Lien other than those created by the voluntary action of Lessee shall at any time be claims against the Rail Property, the following provisions shall apply:

(1) Lessee shall cause any such Lien to be discharged of record within thirty (30) days after the date of filing of same. If Lessee shall fail to discharge such Lien within such period, then, in addition to any other right of Lessor, Lessor may, but shall not be obligation to, discharge the same by paying the amount claimed to be due without injury into the validity of same. Any amount paid by Lessor in procuring the discharge thereof, all necessary disbursements in connection therewith, and all costs and expenses, including reasonable attorneys' fees, incurred by Lessor in connection therewith, together with interest thereon at the maximum rate allowed by law from the date of payment, shall be paid by Lessee to Lessor within thirty (30) days of Lessor's submissions to Lessee of a bill therefor.

(2) Notwithstanding the foregoing provisions, Lessee shall have the right to contest any such Lien, provided that within thirty (30) days after any such Lien is filed or attaches, Lessee shall give written notice to Lessor of Lessee's intention to contest such Lien, such notice to specify the amount of the Lien to be contested, and provided, further, that Lessee, on demand of Lessor, shall protect Lessor by a good and sufficient surety bond against any such lien and all liability, cost or expense arising out of or connected with such contest and lien. In the event that Lessee has met with foregoing requirements, Lessor may not pay, remove, or otherwise proceed to discharge any such Lien, provided that all such legal proceedings shall be prosecuted with all due diligence and dispatch on the part of Lessee, and provided, further, that Lessee shall forever protect, indemnify, defend and hold harmless Lessor from all liability, cost and expense arising out of or connected therewith, including without limitation, the principal amount of the Lien and all reasonable attorneys' fees incurred by Lessor.

(3) Nothing in this provision shall affect or act as a waiver of any other Default or Event of Default, including but not limited to, for example, those Defaults specified in Article XIV A.(1), (2) or (3).

Permitted Liens are and shall include:

- (1) Any loans and security agreements and liens arising out of or under any agreement, now or hereafter existing, between Lessor and Lessee.
- (2) Any agreement by and between Lessee and a Michigan banking corporation in an amount not to exceed \$150,000, and secured by the assets of the Lessee. Lessee shall also be permitted to obtain a line of credit in an amount not to exceed \$250,000 using the accounts receivable and inventory as security.
- (3) Mechanical and materialman's liens as they so arise, so long as they are properly, timely and completely discharged pursuant to normal business practice.