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September 21, 2004

**VIA FEDERAL EXPRESS**

Hon. Vernon A. Williams, Secretary  
Surface Transportation Board  
1925 K Street, N.W.  
Washington, D.C. 20423-0001

RECORDATION NO. 25202 FILED

SEP 23 '04 8-43 AM

SURFACE TRANSPORTATION BOARD



Dear Sir:

I am enclosing two (2) originals of the document described below, to be recorded pursuant to Section 11301 of Title 49 of the U.S. Code.

This document is a Memorandum of Security Agreement, a primary document dated as of September 1, 2004. The names and addresses of the parties to the document are as follows:

Klamath Northern Railway Company, grantor of the security interest, One Sawmill Road, Gilchrist, Oregon 97737, USA.

Royal Bank of Canada, Agent for certain lenders, Royal Bank Plaza, P.O. Box 50, 12<sup>th</sup> Floor, South Tower, 200 Bay Street, Toronto, Ontario, M5J 2W7.

A description of the equipment covered by the document follows:

One (1) General Electric Locomotive, Manufacturer's Serial No. 41290, Designation No. 207 and spare parts and accessories relating thereto.

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

Memorandum of Security Agreement dated as of September 1, 2004, between Klamath Northern Railway Company, an Oregon corporation and Royal Bank of Canada as agent for certain lenders under that certain Credit Agreement dated for reference August 25, 2004, relating to that certain Security Agreement dated as of September 1, 2004 between the aforesaid parties.

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A fee of \$30 is enclosed. Please return one of the enclosed originals of the Memorandum of Security Agreement with the recordation number stamped on it to the undersigned.

If you have any questions, please call me at 212-554-7832.

Very truly yours,

MOSES & SINGER LLP

  
Devika Kewalramani

Enclosures

cc: James Sutcliffe, Esq.  
Richard Sarabando, Esq.  
Ward Burringrud, Esq.  
Duff Bryant, Esq.  
Ms. Rose Lindberg  
Peter S. Smedresman, Esq.  
Elizabeth S. Sawyer, Esq.

SEP 23 '04 8-43 AM

**MEMORANDUM FOR RECORDATION WITH THE SURFACE TRANSPORTATION BOARD UNDER 49 U.S.C. § 11301**

MEMORANDUM OF SECURITY AGREEMENT dated as of ~~August 25~~ <sup>September 1,</sup> 2004, between KLAMATH NORTHERN RAILWAY COMPANY, an Oregon corporation (hereinafter, "KNRC"), and ROYAL BANK OF CANADA as agent for certain lenders under that certain Credit Agreement dated as of the date hereof (hereinafter, the "Agent").

WHEREAS, KNRC and the Agent are entering into that certain Security Agreement dated as of the date hereof covering, among other things, the locomotive described in Schedule A attached hereto.

IN WITNESS WHEREOF, KNRC and the Agent wish to show for the public record the ownership of the said locomotive by KNRC and accordingly have caused this memorandum to be executed by their respective officers thereunto duly authorized, as of the date first above written.

KLAMATH NORTHERN RAILWAY COMPANY

By:   
Name: JOHN HORNING  
Title: CFO

ROYAL BANK OF CANADA, as Agent

By:   
Name: GAIL WARK  
Title: MANAGER, AGENCY

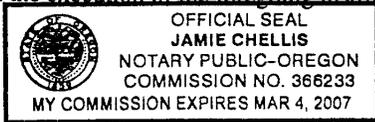
SCHEDULE A TO MEMORANDUM OF SECURITY AGREEMENT

1. One (1) General Electric Locomotive, Manufacturer's Serial No. 41290, Designation No. [207]; and
2. Spare parts and accessories relating to item 1 above.



STATE OF OREGON )  
CITY OF Multnomah ) ss.:

On this 1<sup>st</sup> day of Sept., 2004, before me personally appeared John Morning, to me personally known, who, by me being duly sworn, says that he/she is a CFD of Klamath Northern Railway Company, and that the foregoing instrument was signed on behalf of said company by authority of its board of directors, and he/she acknowledged that the execution of the foregoing instrument was the free act and deed of said company.



Jamie Chellis  
Notary Public FOR OREGON

My commission expires: 3-4-07

STATE OF )  
CITY OF ) ss.:

On this \_\_\_ day of \_\_\_, \_\_\_, before me personally appeared \_\_\_\_\_, to me personally known, who, by me being duly sworn, says that he/she is a \_\_\_\_\_ of Royal Bank of Canada, and that the foregoing instrument was signed on behalf of said bank by authority of its board of directors, and he/she acknowledged that the execution of the foregoing instrument was the free act and deed of said bank.

\_\_\_\_\_  
Notary Public

My commission expires: