



March 16, 2012

Mr. Gary Ridley
Secretary of Transportation
Oklahoma Department of Transportation
200 N.E. 21st Street
Oklahoma City, Oklahoma 73105

Dear Secretary Ridley:

The State-owned rail lines managed for ODOT by Farmrail Corporation ("FMRC") and connected to both major Western Class I carriers by our affiliate, Grainbelt Corporation ("GNBC"), are fortuitously situated atop vast Anadarko Basin oil and gas reserves. Though these fields have been productive for nearly a century, new horizontal-drilling technology is revealing many additional strata containing high-quality hydrocarbons that heretofore were not commercially recoverable. This phenomenon, now in only its fourth year, is having a consequential impact not only on the regional economy, but also with respect to reducing the nation's extreme dependence on foreign-sourced oil.

Our railroads have been receiving large quantities of frac sand used in the hydraulic-drilling process since 2008 and now service distributors in eight different locations. Two more are expected to start up shortly. As of last August, we began to haul outbound crude oil to domestic refineries by rail, since there is no available pipeline capacity and trucking is prohibitively expensive over the distances involved. Four different firms already gather oil for truck-to-rail transloading on FMRC at Sayre (the focus of a TIGER III application), and a much larger, pipeline-to rail transloading operation is planned for an FMRC site at Westhom (refer to the accompanying system diagram).

The Anadarko Basin encompasses up to 50,000 square miles of western Oklahoma and the Texas Panhandle and contains several oil and gas fields with different characteristics. In the absence of transmission lines, our rail infrastructure system is strategically positioned to be a "rolling pipeline." The Sayre origination point affords optimal access for production from the Granite Wash formation, one of the thickest domestic reserves, while Westhom fills the same role with respect to more northerly Woodford Shale deposits. The FMRC-GNBC rail combination therefore is uniquely suited to provide the local switching required to make up and split up tank-car trains delivered to or arriving from the connecting trunk-line carriers.

We are quickly becoming acutely aware of the extraordinary dimension and potential longevity of this endeavor, which is attracting major investment by the large energy producers and their suppliers. FMRC and GNBC are ramping up operations accordingly, increasing the combined work force 79% and the locomotive fleet 29% over the past three years.

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As shown on the system diagram, internal resources currently are being devoted to upgrading GNBC trackage between Enid and Thomas to achieve Federal Railroad Administration Class 2 condition to all Class I interchanges.

The challenge that exceeds available private resources arises from the fact that access for energy producers can be most efficiently provided at appendages to a rail network that was previously maintained to handle agricultural commodities, mainly wheat. Grain elevators on FMRC west of Clinton closed about a decade ago, and the one at Westhom has not used rail since its acquisition by a nearby grain company with its own railroad. As a result, the eight-mile segment from Foley to Westhom has been reclassified as an industrial lead and used only for temporary railcar storage and constructive placements to alleviate congestion elsewhere.

ODOT's TIGER IV application would restore the Foley-Westhom spur to Class 2 standards to accommodate an unusually innovative project initiated by Chesapeake Energy to transport production from the Woodford Shale. It would advantageously "recycle" existing and unused rail, storage and pipeline infrastructure with a far greater intrinsic value than the cost of reactivation – combining inbound pipelines and road access to a dormant refinery near Thomas (with 150,000 barrels of tank storage), an outbound pipeline easement to the railhead at Westhom, and the rehabilitated eight-mile rail segment connecting with FMRC and GNBC. This arrangement, together with the Sayre project, (1) creates competitive Class I rail outlets for Basin production to the widest possible array of domestic terminals, refineries and export points and (2) increases the throughput (efficiency) of the entire western Oklahoma "rolling pipeline" network, thereby lowering unit costs of transportation. (The indicated volume of traffic would increase Farmrail's system traffic density on the order of 25%.)

FMRC's mission as ODOT's contract operator has been to do what we can to provide reliable rail service and bring about industrial development wherever possible. Though that has been a struggle over the 30 years of our existence, the stars finally are aligned to advance the regional economy, increase State revenues, and alter the country's international trade balance with oil rather than grain.

The benefits of mutual investment commitments to implement the Westhom project are fully consistent with the stated objectives of TIGER IV and have the expressed support of Farmrail as well as Chesapeake Energy, Oklahoma Department of Energy, City of Thomas, and others. They include:

- Short-term job creation for the construction trades and related suppliers
- Long-term upgrading of rail infrastructure for safety and efficiency
- Promotion of rural economic development in a fragile regional economy

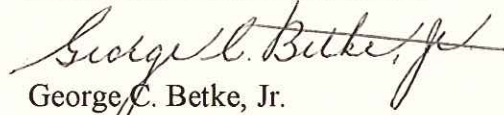
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- Cost-effective transportation support of domestic energy production
- Transfer of hazardous traffic from highway to rail (railcar = 3.8 trucks)
- Reduction of highway maintenance needs, traffic congestion and delays
- Improved fuel efficiency, particulate emissions, and highway accident risk
- Lowered transportation cost of moving product to processing facilities
- Realization of demonstrable value from public-sector track investment
- Revitalization of the community of Thomas with an economic “driver”

Since Chesapeake is believed to have the largest leased acreage in the region, its tangible commitment to rail movement of product is a critical underpinning to the TIGER IV proposal. Each carload represents 3.8 truckloads of toxic crude oil transferred from I-40 and other highways to rail, which in itself should produce a very attractive cost-benefit analysis.

Yours truly,




FARMRAIL CORPORATION



George C. Betke, Jr.
Chairman and Chief Executive Officer

Enclosure

WESTERN OKLAHOMA'S "ROLLING PIPELINE"

- Excepted track 
- Class 1 track 
- Class 2 track 
- Class 3 track 