Pioneer Railcorp

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To Our Shareholders:

We are pleased to report that 2014 marked another profitable year for Pioneer Railcorp and its portfolio of short line railroads, equipment leasing and ancillary businesses. While pleased that 2014 and years past have been financially profitable, understanding the story behind the numbers and our continued financial success requires an appreciation for and understanding of the complexities and challenges associated with how we manage, monitor and operate our business. Our management group and team of dedicated employees devote considerable efforts to the seemingly endless task of navigating industry and regulatory obstacles while embracing our core competencies, preserving our heritage, and guiding the Company toward long-term sustainability. Our 2014 results, similar to those of 2013, saw diminished although continued profits from operations bolstered by several nonrecurring items that contributed significantly to our overall profitability. Our short line railroad operations, leasing and ancillary operations are our primary daily focus, however, we devote considerable attention to strategic and operational initiatives that capitalize on and take advantage of non-recurring and one-time items that provide both short-term and long-term operational benefits. We strengthen our financial footprint by adapting to the many challenges facing the industry and this organization.

Net income was $2,043,000 in 2014 compared to $4,544,000 in 2013. Reported operating income of $1,736,000 decreased $2,367,000 or 58% in 2014 compared to $4,103,000 in 2013. We would be remiss if we didn't acknowledge that many factors not directly associated with daily train movement and operations including regulatory and compliance matters, risk management and the effect on our business of decisions related to railroad liability, railroad property insurance and employee health insurance matters, human resources and personnel matters, legal defense issues, taxation matters, and real estate easement and property management matters affecting our operations and industry prove evermore challenging.

In 2014, our carloads increased to 30,445 from 29,052 in 2013, an increase of 1,393 cars or 5%. Many factors including the geographic dispersion of our operations, weather and track conditions, customer appetite and demand for shipping by rail, and changes in customer demands for rail movement affect the traffic volumes across our railroad operations. We monitor the results of each of our operations, market our services to existing and potential customers and adjust to the operating conditions and challenges presented. Enumerating the impact of the variables impacting each of the railroad operations in our portfolio isn't practical here. We highlight here several operations that we believe have strategic significance to our present and future success. The Napoleon Defiance & Western (NDW) railroad operation offers considerable potential for growth. This operation has benefitted from $4,004,000 of track infrastructure capital investment since its acquisition in late-December 2012. $900,000 of these track improvements were funded with grants from the Ohio Rail Development Commission (ORDC). In early March 2015, we closed on a $1,000,000 rehabilitation loan with the ORDC that reimburses us for rehabilitation costs we have self-funded to date. We are committed to our continuing investment in this railroad to bring it to a level of service that allows us to grow the rail traffic in this corridor. This operation

handled 2,094 loads in 2014, up 6% from 2013. We continue to be encouraged by the levels of support the NDW operation is receiving from local, county and state officials and the customers located along the railroad and believe this operation has the potential with continued improvement to be one of the brightest operations in our portfolio. NDW generated $1,440,000 of revenues in 2014 and $976,000 in 2013. NDW net income grew from $385,000 in 2013 to $760,000 in 2014 and NDW generated $1,162,000 of cash flow in 2014 compared to $668,000 in 2013.

We were adversely affected from mid-September 2013 through May 2014 by the collapse of the Spoon River Bridge, a major bridge on our Keokuk Junction Railway (KJ) operation. The bridge reopened and operations over the KJ line resumed at the end of May 2014. A significant portion of the recurring historical traffic across this line did not materialize in 2014 though as the major customer on that line had no choice but to find alternative routes for a considerable portion of its traffic that was subject to annual traffic route negotiation. That collapse resulted in rerouting significant traffic volumes from our most significant customer and contributed to an approximate $638,000 and $650,000 drop in 2014 and 2013 revenues, respectively. We conservatively estimate that 70% of these amounts would have increased operating income each year. We are pleased that a significant portion of the traffic rerouted and thus lost in 2013 and for all of 2014 is now again traveling across the KJ in 2015 and that the revenue and operating profit associated with this traffic is being restored in 2015.

The U.S. railroad industry as a whole witnessed increased carload volume in 2014 compared to 2013 with carloads up 3.9%. The U.S. rail industry serves as a barometer for the economic strength of the U.S. economy. Our switching revenues grew $177,000 or 1% in 2014, despite 1,363 more carloads in 2014 than 2013, primarily because of the dilutive impact of the KJ rerouted bridge traffic. Although we still switched all the traffic for our major KJ customer, significant revenue was lost for traffic not handled across our KJ line to Peoria, IL., as opposed to switching directly to a Class 1 carrier near the customer's plant in Keokuk, IA.

Total operating revenues dropped $795,000 or 4% in 2014 to $20,842,000 compared to $21,637,000 in 2013. Revenue from railcar storage on our properties was another major driver of the overall 2014 operating revenue drop. Railcar storage dropped $915,000 or 42% to $1,272,000 as demand for stored coal cars shifted in 2013 with a noticeable drop in the volume of railcars stored beginning in the 4th quarter 2013 as coal cars go back into service across North America. The number of railcars stored on our properties dropped from 2,181 cars at 1/1/14 to 1,194 cars at 12/31/14. A surge in the number of sand and residual oil tanker cars needing to be stored in 2015 due to economic changes in energy and oil production and pricing has resulted in a climb in our storage volumes to over 2,000 storage cars in March 2015.

We identified above several of the key operational factors impacting the 2014 and 2013 results of operations. As noted earlier, there were also several significant non-recurring or non-operational matters that impacted 2014 and 2013 operating results. Equalizing 2014 and 2013 operating income for the affect of these transactions that involves the disposal of or involuntary conversion of physical assets or income from the sale of 45G railroad maintenance tax credits along with understanding the operating impacts resulting from the KJ bridge collapse discussed above, results in more comparable and meaningful results from operations.

In 2014, we realized gains on the disposal of assets that totaled $1,266,000. We scrapped 100 covered hoppers near the end of their useful lives at a gain of $704,000. The income-tax free gain generated from this transaction was redirected into the purchase of 44 replacement covered hopper railcars having 29 year services lives. We also abandoned 11 miles of unutilized track from our West Michigan Railroad operation

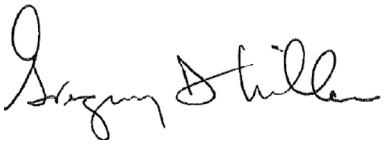
for a gain of $450,000 in 2014. In 2014 we also recognized a gain of $279,000 related to insurance proceeds on the collapsed KJ bridge and realized a gain of $1,859,000 from the sale of 45G railroad maintenance tax credits.

During 2013 we abandoned 7 miles of unutilized track on the Alabama Railroad Company for a gain of $431,000 and scrapped 142 covered hoppers that were near the end of their useful lives for a gain of $1,065,000. The income-tax free gains generated from these transactions were redirected into several significant railroad track rehabilitation projects and the purchase of 49 replacement covered hopper railcars. Non-operating factors having a marked impact on the comparability of 2013 financial results include 1) the gain of $1,483,000 related to recognition of insurance proceeds received associated with the replacement of the collapsed KJ bridge and 2) a $3,212,000 gain recognized in 2013 from the sale of 45G railroad maintenance tax credits applicable to both 2012 and 2013. Due to Congress not passing the law extending the 45G short line railroad maintenance tax credits until early 2013, accounting standards did not permit us to recognize the income from the sale of the 2012 credits until 2013.

In 2015, we continue to be committed to having a significant long-term presence in the short line railroad marketplace. Overall demand for our railroad switching and ancillary services is stable and within our expectations, however, challenges still abound. As in year's past, factors which will have a likely impact on our continued success include customer retention and attracting new rail customers, capital improvements in our rail system, locomotive and railcar fleets and availability of capital, the regulatory environment, litigation and liability matters, access to affordable railroad liability and railroad property insurance amid an environment of increasing premiums and deductibles, fine-tuning the mix of entities in our portfolio and capitalizing on appropriate growth and expansion opportunities, the continued economic rebound within the U.S. and the uncertainty of the continued benefits afforded by the 45G shortline railroad maintenance tax credits. We have successfully handled these and similar challenges through the years and they will remain a part of the business environment we operate in. We continue to focus on our daily operations and make decisions that we believe will drive long-term benefits and not simply generate short-term profits or gains. We continue to be optimistic about the long-term prospects for the Company and are pleased that you shareholders have joined us on this journey.

Respectfully,





J. Michael Carr
President - CEO

Gregory D. Miller
CFO - Treasurer

March 17, 2015