Pioneer Railcorp

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To Our Shareholders:

Pioneer Railcorp and its portfolio of short line railroads, equipment leasing and ancillary businesses had another ptrofitable year in 2015. 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 employees navigate industry changes, operational challenges and regulatory obstacles on a daily basis while staying committed to our goal of being a respected leader in the short line railroad industry. This year's results reflect the ever changing economic climate impacting the railroad industry as a whole. Short line operators like ourselves and the Class I national railroads have been impacted by factors that continue to challenge economic growth. These economic factors include changing energy markets that have dramatically lowered fuel prices which in turn has dramatically impacted national oil production/exploration industries which rely on tanker and sand railcars. Coal mining, consumption and transportation has been dropping throughout 2015 and continues to do so. These industries utilize rail as a primary mode of freight movement. Further we have seen drops in carload volumes attributable to grain, scrap metal and other aggregate materials all of which are attributable to economic factors, pricing and demand. Consequently as will be explain in more detail later, our traffic volumes like those of the national railroads and other short line operations dropped in 2015. On a positive note, we witnessed unprecedented revenues from storage and switching of railcars idled as a result of the aforementioned commodity and economic changes and these activities contributed significantly to our 2015 results.

Operating revenue was $24,146,000 in 2015 compared to $20,842,000 in 2014. Net income was $1,993,000 in 2015 compared to $2,043,000 in 2014. Operating income of $1,675,000 in 2015 dropped $61,000 from 2014, however, equalizing the results for 2015 and 2014 for the impact of gains and losses on equipment transactions and stock sales, operating income for 2015 would have been $1,603,000 compared to $191,000 in 2014 and net income would be approximately $1,920,000 in 2015 compared to $498,000 in 2014. To sum it up, operating results from daily operations improved significantly in 2015. 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 ever challenging.

Operating expenses for 2015 of $22,543,000 without consideration of net gains on the sale of property and equipment and a gain on the sale of stock of a subsidiary grew $1,892,000 from 2014. We have reformatted the accompanying statements of income for 2015 and 2014 to provide a more meaningful and in depth analysis of our operating costs. Costs which contribute significantly to the rise in operating expenses for 2015 include health and dental costs, wages and benefits, depreciation, purchased switching services, railroad liability and property insurance and transportation costs while fuel costs have dropped significantly due to declining fuel prices.

Our carloads decreased 6% to 28,528 in 2015 from 30,473 in 2014 which approximate the 2015 national drop in carloads. Our 2015 switching revenue of $13,748,000 for our carload volumes was down 4% so our switching operation revenues fared better than the carloads we handled. Nationally, 2015 had the fewest rail carloads since sometime before 1988. The U.S. rail industry serves as a barometer for the economic strength of the U.S. economy. 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.

As noted in the prior year, our Keokuk Junction Railway (KJ) operations were adversely affected by a major bridge collapse that occurred in the fall of 2013.The bridge reopened and operations over the KJ line resumed mid-2014, however a significant portion of the recurring historical traffic across this line did not materialize again until 2015 as the major customer on that line had no choice but to use alternate routes for a considerable portion of its outbound traffic that was subject to annual traffic route negotiation. This collapse resulted in rerouting significant traffic volumes and thus an approximate $800,000 and $400,000 drop in 2014 and 2013 revenues, respectively. KJ revenue increased $821,000 in 2015 as a result of the restoration of a good portion of this historical outbound traffic and a one-time contract that generated approximately $600,000 of revenue while being offset by reduced revenue and carloads associated with a drop in inbound grain traffic.

The railcar storage and related switching of storage cars was quite lucrative in 2015. Railcar storage revenues were $3,245,000 in 2015 compared to $1,272,000 in 2014. At December 31, 2015 we had 5,052 cars stored on our railroads compared to 1,194 at December 31, 2014. This volume relates to a surge in the number of sand, coal and residual oil tanker cars needing to be stored in 2015 due to the aforementioned economic changes. It is anticipated that these storage levels will remain level throughout 2016, and any storage cars moving off our railroads would likely be replaced by other storage opportunities. The revenue from the switching of storage cars was $2,208,000 in 2015 compared to $647,000 in 2014 as the storage volumes climbed.

With respect to non-operating revenue activities, in November 2015 we sold the stock of the West Michigan Railroad Co. subsidiary for $200,000 and recognized a gain of $45,000 associated with the sale. Additionally in 2015 we recognized a gain of $28,000 on the disposal of several pieces of equipment. 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 in 2014. 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. In 2014, we also abandoned 11 miles of unutilized track from our West Michigan Railroad operation for a gain of $450,000 and recognized a gain of $279,000 related to insurance proceeds on the collapsed KJ bridge. The sale of income tax credits associated with the 45G railroad maintenance credit netted $1,915,000 in 2015 and $1,859,000 in 2014.

We continue to be committed to having a significant long-term presence in the short line railroad marketplace. We are pleased to acknowledge that 2016 marks Pioneer Railcorp's 30th anniversary. Demand for our services continues to meet our expectations based upon the current market conditions, however, challenges still abound. As in year's past, factors which will have a likely impact on our continued success include the economic climate, capital improvements in our rail system, availability of

capital, the regulatory environment, litigation and liability matters, access to affordable railroad liability and railroad property insurance, the mix of entities in our portfolio, capitalizing on appropriate growth and expansion opportunities, and the continuing 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 be optimistic about the long-term prospects for the Company and are pleased that you shareholders have joined us.

Respectfully,



J. Michael Carr
President - CEO



Gregory D. Miller
CFO - Treasurer

March 21, 2016