

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF MAINE**

In re:)	Chapter 11
)	
Montreal Maine & Atlantic Railway Ltd.,)	
)	Case No. 13-10670 (LHK)
Debtor.)	
)	Related to Docket Nos. 5 and 51
)	
)	

**MAINE DEPARTMENT OF TRANSPORTATION’S RESPONSE TO DEBTOR’S
MOTION FOR ORDER PURSUANT TO 11 U.S.C. §§ 361, 362 AND 363
AUTHORIZING DEBTOR TO USE OF CASH COLLATERAL**

The State of Maine, acting by and through the Department of Transportation, (“MaineDOT”) is a creditor and party in interest in this case and, by and through its undersigned counsel, respectfully submits this response to Debtor’s Motion for Order Pursuant to 11 U.S.C. §§ 361, 362 and 363 Authorizing Debtor to Use of Cash Collateral (“Response”). In further support of the Response, MaineDOT states as follows:

I. Jurisdiction and Venue

1. The Court has jurisdiction of this case pursuant to 28 U.S.C. § 157 & 1334 and D. Me. Local R.83.6(a), pursuant to which all cases filed in Maine under 11 U.S.C. §§ 101, *et seq.* (as amended, “Bankruptcy Code”) are referred to bankruptcy judges of this District. Venue is proper pursuant to 28 U.S.C. §§1408 and 1409. This is a core proceeding over which the Court has the jurisdiction and Constitutional authority to enter a final order.

II. Procedural Background

2. On August 7, 2013 (“Petition Date”), Montreal, Maine & Atlantic Railway Ltd. (“MMA” or “Debtor”) filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code. The Debtor indicated in its bankruptcy petition that the nature of its business is a railroad.

3. The Debtor remains in possession and control of its property and continues to operate as a debtor-in-possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code, and the order of the Court allowing the Debtor to act temporarily as debtor-in-possession.

4. Pursuant to § 1163 of the Bankruptcy Code, as soon as practicable after the order for relief, the Secretary of Transportation is to submit a list of five disinterested persons that are qualified and willing to serve as trustees in the case. The United States Trustee is required to appoint one of such persons to serve as the trustee in the case. *See* 11 U.S.C. 1163.

5. On August 7, 2013, the Debtor filed a motion to use cash collateral on an interim basis (“Cash Collateral Motion”) (Docket No. 4)¹.

6. On August 9, 2013, the Court entered an interim order authorizing Debtor to use cash collateral and granting adequate protection (“Interim Order”) (Docket No. 51). Pursuant to the Interim Order, the Debtor is permitted to use cash collateral, including cash on hand and cash from collection of its pre-petition accounts receivables on an interim basis for ordinary course business purposes through close of business on August 23, 2013.

¹ The Debtor filed a “corrected” version of the Cash Collateral Motion at Docket No. 5.
(01480816)

III. MMA'S Indebtedness Owed to MaineDOT

7. MaineDOT is a cabinet-level state agency with primary responsibility for statewide transportation by all modes.

8. MMA is indebted to MaineDOT pursuant to (i) a rail funding agreement dated December 23, 2002 wherein MaineDOT provided \$5,400,000.00 to MMA ("Rail Funding Agreement I"); (ii) rail funding agreement dated May 13, 2005 pursuant to which MaineDOT provided \$3,244,000.00 to MMA ("Rail Funding Agreement II"); (iii) rail funding agreement dated June 9, 2006 pursuant to which MaineDOT provided \$2,100,073.00 to MMA ("Rail Funding Agreement III"); and (iv) rail funding agreement dated June 8, 2009 pursuant to which MaineDOT provided \$1,000,000.00 ("Rail Funding Agreement IV"). Rail Funding Agreement I, together with Rail Funding Agreement II, Rail Funding Agreement III and Rail Funding Agreement IV are collectively referred to hereinafter as the "Rail Funding Agreements." The outstanding indebtedness under the Rail Funding Agreements is \$1,243,200.00.

9. MMA's obligations to MaineDOT arising from the Rail Funding Agreements are secured pursuant to an amended and restated purchase money security agreement and financing statement ("Security Agreement") wherein MMA granted to MaineDOT a security interest in all rail, related cross ties, tie joints, tie plates, switch ties, switches, spikes, joints, anchors and other related track materials incorporated or installed in, attached to or located at or on the real property described in exhibit A of the Security Agreement ("Rail Assets"). The Security Agreement was recorded in the registries of deeds for the various counties in Maine where MMA owns property. MaineDOT

perfected its security interest pursuant to a UCC-1 filed with the Delaware Department of State (the "UCC-1"). True and correct copies of the Security Agreement, Rail Funding Agreements and the UCC-1 are attached hereto and marked as Exhibit "A", "B" and "C", respectively. On June 6, 2013, MaineDOT executed a partial termination and release of lien when a segment was sold by MMA to Eastern Maine Railway ("Partial Release"). The Partial Release is attached hereto and marked as Exhibit "D."

10. MaineDOT's lien securing the Rail Funding Agreements is subordinate to the Federal Railroad Administration's ("FRA") lien.

11. Additionally, on or about April 21, 2009, MMA borrowed \$750,000.00 for local rail freight assistance ("LRFA Loan") in order to provide for infrastructure improvements to its branch lines. The outstanding indebtedness under the LRFA Loan is \$487,500.00. A true and correct copy of the LRFA Loan is attached hereto and marked as Exhibit "E". The LRFA Loan is unsecured. The outstanding indebtedness would qualify MaineDOT as one of the 20 largest unsecured creditors.

12. Pursuant to the Rail Funding Agreements and the LRFA Loan, MaineDOT submits MMA's indebtedness to MaineDOT is approximately \$1.73 million. The indebtedness owed to MaineDOT by MMA is not referenced in any of the Debtor's bankruptcy filings to date.

IV. The Public Interest Represented by MaineDOT

13. Section 1165 of the Bankruptcy Code requires the court and the trustee, in applying the Bankruptcy Code, to consider the public interest in addition to the interests of the debtor, creditors and equity security holders. *See* 11 U.S.C. 1165.

14. The rail system operated by MMA is of vital importance to the Maine economy, serving shippers in a large portion of the State as well as connecting the coast and the Bangor area with Quebec, Ontario, and the U.S. mid-west. In particular, the lines that MMA operates provide important outlets for the forest products industry centered in the State. The forest products industry so vital to the Maine economy is highly dependent on rail to remain competitive in the world market. Numerous other natural resources-based industries in the State depend upon rail service as well.

15. If MMA's rail service were to be lost, those firms that are able would convert rail shipments to truck, further exacerbating the already serious problems on the State and local roadway network in the region. Increases in the number of trucks increases the risk of fatalities, injuries and property damage, in addition to the increased wear and tear on existing roads and bridges and increased air pollution from diesel emissions.

16. MaineDOT's goal is, and has always been, to ensure the continuation of the essential freight rail services provided by rail carriers, including MMA, over the rail lines throughout the State in order to enhance the economic competitiveness of the State and its communities.

V. MMA's Canadian Operational Issues

17. Upon information and belief, MaineDOT submits that the Canadian Transportation Agency ("Agency") varied its order suspending MMA's and MMA Canada's certificate of fitness, effective August 20, 2013, allowing MMA Canada and MMA to maintain their certificate of fitness until October 1, 2013, provided that the Canadian assets of MMA be made subject to a prior charge and security for the payment

of the self-insured portion provided for in MMA and MMA Canada's insurance policy by August 23, 2013. MaineDOT understands that a hearing will be held in the MMA Canada Credit Adjustment Proceeding on August 23, 2013. Until that hearing, it is unknown whether, and for how long, MMA will be able to continue to operate in Canada, and how such cessation would affect MMA's proposed budget.

18. In addition, MMA no longer can handle cross border traffic as its lines between Maine and Quebec were severed by the catastrophic derailment at Lac Megantic. This limits the amount of traffic that MMA is able to generate for its lines.

19. MaineDOT provides this information solely as an illustration of potential operational issues that may face MMA's United States operations post-bankruptcy.

VI. MaineDOT's Response to MMA's Cash Collateral Motion

20. Notwithstanding the concerns and non-bankruptcy procedures discussed below regarding the Surface Transportation Board ("STB"), MaineDOT **does not** object to MMA's continued use of cash collateral. To the contrary, MaineDOT files this Response to advise this Court of the expeditious procedures specific to the railroad industry and railroad bankruptcies in the event that MMA is unable to operate and the STB authorizes another carrier to operate over MMA's rail lines (which will require resources and cooperation from MMA) and to provide the details about the "public interest" that MaineDOT represents.

21. The STB is an independent agency within the U.S. Department of Transportation which regulates interstate rail carriers, including MMA pursuant to Title 49 of the U.S. Code.

22. Section 1166 of the Bankruptcy Code provides: “Except with respect to abandonment under section 1170 of this title, or merger modification of the financial structure of the debtor, or issuance or sale of securities under a plan, the trustee and debtor are subject to the provisions of subtitle IV of Title 49 that are applicable to railroads.” *See* 11 U.S.C. §1166.

23. Section 1170 of the Bankruptcy Code provides: “The court, after notice and a hearing, may authorize the abandonment of all or a portion of a railroad line if such abandonment is:

- (i) in the best interest of the estate; or
- (ii) essential to the formulation of a plan; and
- (iii) consistent with the public interest.”

24. As acknowledged by MMA in its Motion for Order Authorizing Continued Business Operations Pending Appointment of a Chapter 11 Railroad Trustee (“Trustee Motion”) (Doc. No. 14), under both bankruptcy and non-bankruptcy law, the debtor is required to continue to operate the rail lines it owns. Continued operations of the rail lines to serve railroad customers and businesses in the State of Maine is consistent with and required by the public interest.

25. MaineDOT is concerned that, especially in light of the interruption in service between Maine and Canada, and the potential suspension of service in Canada, the budget attached to the Debtor’s Cash Collateral Motion (“Revised Budget”) lacks meaningful information and is overly optimistic and that operations may not generate sufficient funds to continue even MMA’s current reduced minimal level of operations.

(For the purposes of this Response, references to “operations” include maintenance of the railroad facilities in safe operating condition.)

26. Moreover, the Revised Budget does not take into account the time and costs for the Trustee to become familiarized with the operations of the Debtor. The Revised Budget is subject to change upon the appointment of the Trustee.

27. The Debtor should be required to provide a more detailed and meaningful budget for both MMA and MMA Canada that would include the following additional information:

- a. Revenue Detail – Itemization of revenue details separating the Debtor’s revenue as follows:
 - i. Revenue from train operations;
 - ii. Detail of gross revenue versus revenue owed to haulage carriers;
 - iii. Revenue from equipment lease income;
 - iv. Revenue from real estate income;
 - v. Revenue from car repair; and
 - vi. Notation of revenue from any other sources, other than train operations, equipment leases, real estate or car repair.
- b. Expense Detail – Itemization of the Debtor’s expenses as follows:
 - i. Train/engine crew expense;
 - ii. Fuel;
 - iii. Equipment maintenance;
 - iv. Maintenance of way;
 - v. Insurance;
 - vi. Trustee or Management costs; and
 - vii. Any other significant expense categories.
- c. Employment Detail – weekly report of employment census by department (operating, mechanical, maintenance, etc.).
- d. Operating Plan – two (2) week projection of anticipated train frequencies and carloads broken down by line segment.

28. Pursuant to 11 U.S.C. §1166, if either the Debtor (or the Trustee once appointed), determines that there are insufficient funds or means to continue rail

operations, then MaineDOT, shippers or other carriers could seek emergency temporary authority from the STB under 49 U.S.C. §11123(a) and 49 C.F.R. §1146.1, to provide alternative service over, and operate some or all of the lines of railroad of the Debtor. A copy of 49 C.F.R. §1146.1 is attached hereto as Exhibit "F" for the Court's convenience.

29. To be clear, regardless of the automatic stay provisions of 11 U.S.C. § 362, MaineDOT submits that the STB is able to authorize another rail carrier to operate over the Debtor's rail lines.

30. As the process at the STB can take up to ten (10) business days before an operator would be authorized, MaineDOT requests that the Debtor provide MaineDOT and all current shippers with at least two weeks' notice prior to the cessation of any service, and that the Debtor discuss with MaineDOT and any potential alternative service operator (1) whether and when the Debtor believes it will be able to restore adequate service, and (2) reasonable compensation for use of the Debtor's tracks (considering which party will be maintaining the tracks). The Debtor should also be required to make its locomotives and other equipment and employees available if requested by the Trustee or the third party operator, subject to reasonable compensation to be approved by the Court.

31. Further, so that MaineDOT can adequately safeguard the public interest and monitor the Debtor's financial status and ability to continue operations, MaineDOT requests that it be provided with the regular weekly reports on financial condition and cash flow that the Debtor will be providing, regardless of whether MaineDOT is one of the twenty largest unsecured creditors.

32. In short, MaineDOT requests the Debtor, and ultimately the Trustee, be required to safeguard against a disruptive transition of the operations of the current MMA rail lines, in the event the STB authorizes alternative service, through the provision of more detailed information in its budget and use of cash collateral as a condition to its use of cash collateral.

WHEREFORE, MaineDOT respectfully requests that the Court grant the relief requested herein and any other relief that this Court deems proper.

Respectfully submitted,

Dated: August 20, 2013

CLARK HILL THORP REED

/s/ William C. Price
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- and -

MAINE DEPARTMENT OF
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EXHIBIT A

AMENDED AND RESTATED
PURCHASE MONEY SECURITY AGREEMENT AND FINANCING STATEMENT

MONTREAL, MAINE & ATLANTIC RAILWAY, LTD., a Delaware corporation with a principal place of business at 15 Iron Road, Hermon, ME 04401, the owner and holder of the Rail Assets (as hereinafter defined) (the "Debtor"),

HEREBY GRANTS TO

STATE OF MAINE, acting by and through its **DEPARTMENT OF TRANSPORTATION** with mailing address of 16 State House Station, Augusta, Maine 04333-0016 (the "State");

A present and continuing security interest in the following described property located, as applicable, in the respective Counties of Piscataquis, Penobscot, Waldo, Somerset and Aroostook, State of Maine, to wit:

(A) All rail, related cross ties, tie joints, tie plates, switch ties, switches, spikes, joints, anchors and other related track materials incorporated or installed in, attached to or located at or on, the real property described in Exhibit "A" hereto (the "Property") that have been purchased by the Debtor or for which the purchase price will be or has been reimbursed to the Debtor, in either case using funds advanced or provided to the Debtor by the State ("Rail Assets") pursuant to the terms of the following agreements: (i) Rail Funding Agreement, dated December 23, 2002, by and between the Debtor and the State pursuant to which the State provided \$974,964.55 to the Debtor; (ii) Rail Funding Agreement, dated May 13, 2005 (as amended by First Amendment dated August 29, 2006), by and between the Debtor and the State, pursuant to which the State provided \$4,425,035.55 to the Debtor; (iii) Rail Funding Agreement, dated June 9, 2006, by and between the Debtor and the State, pursuant to which the State provided \$4,800,000.00 to the Debtor; and (iv) Rail Funding Agreement, date June 8, 2009, by and between the Debtor and the State, pursuant to which the State agreed to provide up to \$1,000,000 and has, as of the date of this Amended and Restated Purchase Money Security Agreement and Financing Statement, as amended, modified, supplemented, restated or replaced from time to time (the "Security Agreement") provided \$288,861.80 to the Debtor (the foregoing, as the same may have been or may be may be amended, modified, supplemented, restated or replaced from time to time, the "Rail Funding Agreements") (collectively, to the extent actually provided to the Debtor, the "Funds"), said Funds being derived from General Obligation Bonds for rail corridor development as provided by Private and Special Law 1999, Chapter 37 and Private and Special Law 2001, Chapter 38; and,

(B) Whatever is received upon the sale, exchange, collection or other disposition of the Rail Assets, including but not limited to insurance payable by reason of loss or damage to the Rail Assets.

1. This security interest is granted to secure any payment obligations that the Debtor may have to the State under the Rail Funding Agreements or upon the Disposition of the Rail Assets. "Disposition of the Rail Assets" shall mean the occurrence of any of the following events:
 - a. Any sale or transfer by the Debtor of its interest in any of the Rail Assets prior to ten (10) years following the date of the applicable Rail Funding Agreement pursuant to which funds were advanced for the purchase (either directly or through reimbursement as set forth in paragraph (A) above) of the particular Rail Assets being sold or transferred. The term "Disposition of the Rail Assets" shall not include a sale or transfer of Rail Assets that were purchased with funds from a Rail Funding Agreement that was dated more than ten (10) years prior to such sale or transfer.
 - b. Any acquisition, by foreclosure or otherwise, of any of the Rail Assets by the United States of America, represented by the Secretary of Transportation acting through the Administrator of the Federal Railroad Administration, its assigns, or any other lender or holder of any interest in the Rail Assets prior to ten (10) years following the date of the applicable Rail Funding Agreement pursuant to which funds were advanced for the purchase (either directly or through reimbursement as set forth in paragraph (A) above) of the particular Rail Assets being foreclosed upon. The term "Disposition of the Rail Assets" shall not include a foreclosure of Rail Assets that were purchased with funds from a Rail Funding Agreement that was dated more than ten (10) years prior to such foreclosure.
 - c. Any default under the terms of this Security Agreement or the Rail Funding Agreements, if such default is not cured within 30 days after written notice thereof by the State to Debtor, whichever is longer.
2. The security interest created by this Security Agreement continues with respect to any particular Rail Asset until the State receives full payment of any amounts due and payable to it under the Rail Funding Agreement pursuant to which funds were advanced for the purchase of the particular Rail Asset or upon the Disposition of such Rail Asset, or until the security interest is released by the State, as provided in section 16 below and as evidenced by a duly recorded release.
3. This Security Agreement and any security interest, lien or encumbrance derivative thereof are subject and subordinate to the lien of a Mortgage, Security Agreement and Financing Statement in the original amount of Thirty-Four Million Dollars (\$34,000,000.00), as amended (the "FRA Lien"), from the Debtor to the United States of America, represented by the Secretary of Transportation acting through the Administrator of the Federal Railroad Administration, in accordance with the terms and provisions of that certain Subordination Agreement, dated March 25, 2005, executed and delivered by the State (as may be amended, modified or supplemented from time to time, in accordance with the terms and provisions thereof, the "Subordination Agreement"). The parties intend, but the Debtor does not warrant,

that this Security Agreement and any security interest derivative thereof shall be prior to liens other than the FRA Lien.

4. Debtor covenants, represents and agrees that:
 - a. At the time of attachment and perfection of the security interest granted pursuant hereto and thereafter all Rail Assets will be located and will be maintained only at the locations described in the Rail Funding Agreements.
 - b. To the extent permitted by applicable law, the Rail Assets shall remain personal property notwithstanding the manner or mode of the attachment to the Property and shall not become fixtures, provided, however, that the State acknowledges that the Debtor has represented in one or more security agreements or mortgages granted to the Federal Railroad Administration that the Rail Assets are fixtures
 - c. The Debtor's true and correct legal name is as set forth herein and the Debtor will not change its name, identity or jurisdiction of incorporation without at least 60 days prior written notice to the State.
 - d. There is vested in the Debtor full power and authority to execute this Security Agreement and to subject the Rail Assets to the security interest created hereby, and the Debtor has taken all requisite action necessary to authorize the execution and delivery of and performance of all applicable obligations of the Debtor under this Security Agreement. The security interest granted hereby is intended to constitute an attached, perfected purchase money security interest in the Rail Assets under Maine law.
5. For purposes of the perfection of the State's security interest in the Rail Assets in accordance with the requirements of this Security Agreement, the Debtor authorizes the State, at any time and from time to time, to file financing statements, continuation statements and amendments thereto that describe the Rail Assets and which contain any other information required by the Uniform Commercial Code as in effect from time to time in the State of Maine (the "Code") for the sufficiency or filing office acceptance of any financing statement, continuation statement or amendment, and the State may take such actions as it deems necessary to establish and maintain an attached, perfected security interest in the Rail Assets and otherwise enable the State to comply with Section 5(i) of the Department of Transportation Act, 49 U.S.C. Appx. Section 1651, *et seq.*, including, without limitation, the filing of financing statements, continuation statements and amendments, as it deems necessary or advisable from time to time.
6. The Debtor will at any time or times hereafter when requested by State, execute such financing, continuation statements and other documents (collectively "Lien Documents") as the State may reasonably request to perfect and maintain the perfection of the security interest granted herein under the Code. If any such Lien Document requires the signature of the Debtor, it may be signed by the State on

behalf of the Debtor if the Debtor fails or refuses to do so in a timely manner. The Debtor shall, from time to time at the request of the State, file or record, or cause to be filed or recorded, such other Lien Documents as are reasonably necessary or advisable from time to time in order to perfect and continue perfected the security interest granted herein. The State may file or record such Lien Documents if the Debtor fails or refuses to do so in a timely manner. The Debtor agrees that a carbon, photographic or other reproduction of this Security Agreement or financing statement is sufficient as a financing statement and may be filed instead of the original.

7. Other than in the ordinary course of business or as described in the Subordination Agreement, the Debtor will not sell, transfer, lease or grant any security interest in or dispose of the Rail Assets, or attempt to do any of the foregoing, without prior written notice to the State. No provisions contained in this Security Agreement shall be construed to authorize any such sale, transfer, lease or other disposition of any of the Rail Assets except on the conditions contained in this paragraph.
8. The State may, at its option and without demand or notice, in addition to the rights and remedies granted hereby, exercise all rights and remedies of a secured party under the Uniform Commercial Code or any other applicable law.
9. The Debtor, by entering into this Security Agreement and negotiating the terms hereof, voluntarily, intelligently and knowingly, waives any rights it may have to demand any notices other than those provided for herein and those required under the Code or other applicable law and any right to a hearing as a condition precedent to the State's exercise of its rights to foreclose on any Rail Assets covered by this Security Agreement.
10. The Debtor agrees, in the event of a foreclosure, to make the Rail Assets available to the State, subject to the FRA Lien referred to in section 3 above.
11. No delay or failure by the State in the exercise of any right or remedy shall constitute a waiver thereof, and no single or partial exercise by the State of any right or remedy shall preclude other or further exercise thereof or the exercise of any other right or remedy.
12. This Security Agreement and the rights and obligations of the parties hereunder shall be construed and governed by the laws of the State of Maine.
13. The Debtor shall install, repair, replace, maintain and improve its infrastructure on the Property in accordance with the Rail Funding Agreements, as applicable.
14. The following shall constitute default by the Debtor:
 - a. Failure by the Debtor to comply with or perform any provision of this Security Agreement or any of the Rail Funding Agreements, if such failure is not cured

within the time permitted for cure as set forth in the Rail Funding Agreements, or 30 days after written notice thereof by the State to the Debtor, whichever is longer.

- b. False or misleading representations or warranties made or given by the Debtor in connection with this Security Agreement.
 - c. Subjection of the Rail Assets to levy of execution or other judicial process.
 - d. Commencement of any insolvency proceeding by the Debtor or any such proceeding against the Debtor that is not discharged or dismissed within 60 days.
15. This Security Agreement amends and restates the Purchase Money Security Agreement and Financing Statement, dated November 10, 2004, made by the Debtor in favor of the State (the "Original Security Agreement"), and is not a novation of the obligations of the Debtor pursuant to the Original Security Agreement.
16. On or after the respective tenth (10) anniversary dates of each individual Rail Funding Agreement, assuming that there is no default under any Rail Funding Agreement or outstanding payment obligation of the Debtor to the State, the State shall, promptly upon written request of the Debtor and upon receipt of a commercially reasonable form of release prepared by the Debtor, release its security interest in the Rail Assets that were purchased (either directly or through reimbursement as set forth in paragraph (A) above) using funds attributable to that particular Rail Funding Agreement. For purposes of this paragraph, the Debtor shall have the burden of demonstrating to the State the accuracy of any provision in a release that identifies the segments of line on which the released Rail Assets are located.
17. Upon the Debtor's demonstration to the State that no Rail Assets exist on any specific segment of any of the Debtor's lines described on Exhibit A or that specified rails, ties or other track material do not constitute Rail Assets, the State shall execute and deliver to the Debtor such documents as are reasonably requested by the Debtor to permit the Debtor to deliver clear title (whether as part of a sale or a financing transaction) to such segment and to all rail, ties and other track materials on such segment or clear title to the specified rails, ties or other track materials. For purposes of this paragraph, the Debtor shall have the burden of demonstrating to the State that no Rail Assets exist on such segment or that the specified rails, ties or other track materials do not constitute Rail Assets.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK/SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, the parties hereto have executed this Amended and Restated Purchase Money Security Agreement and Financing Statement and made it effective as of the date last signed below.

Date Signed: December 20, 2011

MONTREAL, MAINE & ATLANTIC RAILWAY, LTD.

Sara Osborne
Witness Sara Osborne
asst. Secretary

By: [Signature]
Print Name: ROBERT C. GRINDROD
Title: PRESIDENT + CEO

State of **Maine**
County of PENOBSCOT

Personally appeared the above named ROBERT C. GRINDROD, PRESIDENT - CEO of Montreal, Maine & Atlantic Railway, Ltd., and acknowledged the foregoing instrument to be his free act and deed in his said capacity and the free act and deed of Montreal, Maine and Atlantic Railway, LTD.

Before me, [Signature]
Notary Public/Attorney at Law
Print Name: GAYNOR L. RYAN
Notary Public, Maine
My commission expires May 4, 2015

Date Signed: _____, 2011

STATE OF MAINE, acting by and through
its **DEPARTMENT OF**
TRANSPORTATION

Witness

By: _____
David Bernhardt, Commissioner

State of Maine
County of Kennebec

Dated: _____,

Personally appeared the above named David Bernhardt, Commissioner, Department of Transportation, and acknowledged the foregoing instrument to be his free act and deed in his said capacity and the free act and deed of the State of Maine.

Before me, _____
Notary Public/Attorney at Law

Print Name: _____

My commission expires: _____

EXHIBIT A

MAIN LINES:

The main line of the former Bangor & Aroostook Railroad from Searsport Maine (MP 0.12) to Grindstone Maine (MP 109.0). This line includes the following subdivisions:

- Searsport
- Millinocket

The main line of the former Canadian Pacific Railway from Brownville Junction (MP 0.0) to the US/Canadian border at Boundary Maine (MP 101.7). This line includes the following subdivisions:

- Moosehead

BRANCH LINES:

The following branch lines of the former Bangor and Aroostook Railroad will be operated:

- Van Buren Subdivision from Madawaska Maine (MP 0.0) to Van Buren Maine (MP 24.1)
- KI Subdivision from Brownville Maine (MP 0.85) to Brownville Junction Maine (MP 3.74)
- East Millinocket Subdivision from Millinocket Maine (MP 0.0) to East Millinocket Maine (MP 6.19)

EXHIBIT B

RAIL FUNDING AGREEMENT

THIS RAIL FUNDING AGREEMENT (the "Agreement") made on the date last signed below by and among MONTREAL, MAINE & ATLANTIC RAILWAY, LTD., a Delaware corporation, having its principal place of business at Northern Maine Jct. Park, RR #2, Box 45, Bangor, Maine 04401-9602 ("MMA"), and the STATE OF MAINE, acting by and through its Department of Transportation, with a mailing address of 16 State House Station, Augusta, Maine 04333-0016 (the "State").

WITNESSETH:

WHEREAS, MMA has entered into an Asset Purchase Agreement with the Bangor & Aroostook Railroad Company ("BAR") and related entities under which it intends to acquire certain property and assets of BAR including all of BAR's rail right of way and track structure within the State; and

WHEREAS, the State has agreed to provide Five Million Four Hundred Thousand Dollars (\$5,400,000.00) to BAR or its successor for specified infrastructure improvements ("State Funds"), said funds to be derived from General Obligation Bonds for rail corridor development work as provided by Private and Special Law 2001, chapter 38; and

WHEREAS, to memorialize the terms and conditions of the State's agreement to provide such funds to MMA as successor to BAR, the State and MMA desire to enter into this Agreement.

NOW, THEREFORE, for valuable consideration, receipt of which is hereby acknowledged, and with the intent to be legally bound hereby, the State and MMA agree as follows.

SECTION 1 – PAYMENT OF FUNDS

- 1.1 Subject to the terms of this Agreement including the contingencies set forth in Section 2 below, the State hereby agrees to provide, when and as needed to fund the acquisition and installation of railroad track materials on designated rail lines, up to a maximum of Two Million Seven Hundred Thousand Dollars (\$2,700,000.00) to MMA as successor to BAR in each of calendar years 2003 and 2004. Up to One Million, Five Thousand Three Hundred Thirty Four Dollars (\$1,005,334.00) will be paid to BAR as the current operating railroad as an advance against the 2003 allocation to MMA for mobilization of materials and equipment to install railroad track materials on the designated rail lines to upgrade such rail lines as required for the continuation of operations through the 2002-2003 winter season (November 2002 to April 2003) in accordance with the terms of this Agreement.

1.2 All payments of State Funds shall be matched by MMA on a dollar for dollar basis. For purposes of this Agreement, expenditures by MMA for engineering, labor, equipment, work trains, matching material (including ties, rail, other track material, and ballast), and other necessary expenses incurred by MMA to incorporate and install the track materials eligible for reimbursement by the State hereunder shall qualify as matching expenditures under this Section.

1.3 Prior to, and as a condition of funding, the State shall have the right to review and approve the scope of MMA's work, estimates, and work locations. MMA shall provide transportation for Maine Department of Transportation ("MDOT") representatives to and from MMA's work locations to facilitate the State's review.

SECTION 2--CONDITIONS FOR FUNDING

2.1 The State's obligations hereunder are subject to the following conditions. If one or more of these conditions are not satisfied, the State's obligations hereunder shall cease and this Agreement will be automatically terminated.

a. MMA will complete its acquisition of and at all times will hold title to and own the real property and assets of BAR described in the Asset Purchase Agreement approved by the United States Bankruptcy Court, District of Maine (Chapter 11 Case No. 01-11565) under an October 9, 2002 Order Approving Asset Purchase Agreements, Authorizing Sale of Assets to MMA, and Authorizing Assignment and Assumption of Related Agreements.

b. MMA will assume the loans, contingent repayment obligations, and all other obligations owing to the State by BAR or Canadian American Railroad (CDAC) in connection with track and branch line improvement grants.

c. MMA will own and will continue to own all rail and related cross ties, tie joints, tie plates, switch ties, turnouts, switches, anchors and spikes located on the Property acquired from BAR, as well any and all replacements therefor and accessions thereto installed by MMA, other than those disposed of in the ordinary course of business, including, without limitation, the "Rail Assets" as defined in Section 3 below.

d. MMA will enter into the security instruments described in Section 3 below and any other security instruments reasonably required by the State under terms reasonably acceptable to the State to protect the public investment in rail infrastructure contemplated by this Agreement.

2.2 As consideration for the State's investment in its rail infrastructure as set forth herein, MMA hereby represents and warrants that it will continue operations on the entire system of rail lines acquired from BAR as more particularly set forth on attached Exhibit A (the "BAR System") for a period of ten years from the date of this Agreement. If MMA abrogates this ten year operating commitment by abandoning, or seeking authority from the Surface Transportation Board to abandon, its common carrier obligations as to any portion of the BAR System (other than spurs and de minimis portions of track which are excluded) as defined in Exhibit A hereto before the ten years of operation are complete, the State may:

- a. decline to provide any State Funds beyond those provided prior to the abandonment; and
- b. require MMA to repay a percentage of funds granted pursuant to this Agreement equal to the number of years prior to ten that abandonment is sought divided by ten.

Exercise by the State of its remedy under Section 2.2(b) shall terminate the State's remedy under Section 4.

SECTION 3 - COLLATERAL

3.1 MMA's obligations to the State hereunder shall be secured by a first priority security interest in the following property of MMA:

- a. all rail and related cross ties, tie joints, tie plates, switch ties, switches, anchors, spikes, and other related track materials incorporated or installed in or attached to the track described in Exhibit B hereto (the "Property") which are paid for with Funds provided to MMA as successor to BAR by the State pursuant to the terms of this Agreement (the "Rail Assets"); and
- b. all proceeds from any sale or transfer of any of the Rail Assets unless specifically permitted by the terms of the Security Agreement.

3.2 To evidence MMA's grant to the State of a security interest in the Rail Assets, MMA shall execute and deliver to the State a Purchase Money Security Agreement and Financing Statement in a form satisfactory to the State in its sole discretion together with such other documents and instruments as are reasonably necessary for the State to obtain a perfected, first priority security interest in the Rail Assets. Execution and delivery of the Purchase Money Security Agreement and Financing Statement and any other security instruments reasonably required by the State and receipt by the State of satisfactory evidence of perfection of the State's lien in the Rail Assets shall be a precondition to the provision of Funds hereunder in accordance with Section 1 above.

3.3 Subject to the agreement of the State and MMA, Exhibit B will be periodically revised to reflect the scope of work financed under the provisions of this Agreement.

SECTION 4 – DEFAULT AND REMEDIES

Any foreclosure on, or action taken to possess or use, the Rail Assets by any of MMA's lenders following an Event of Default under any security instruments held by any of MMA's lenders shall constitute an Event of Default under this Agreement. Any failure by MMA to maintain in effect the State's security interest in the Rail Assets as provided in Section 3.1 or any other failure by MMA to comply with any of the terms, conditions and warranties set forth herein, if not cured within 30 days after notice thereof by the State to MMA, shall also constitute an Event of Default. Upon the occurrence of an Event of Default, in addition to other remedies provided in Section 2.2(a) herein, the State shall be entitled to recover from MMA an amount equal to the value of the Rail Assets at the time of the Event of Default ("Value Recovery Remedy"), and upon demand for and receipt of such amount, the State's security interest in the Rail Assets shall terminate. The value of the Rail Assets at the time of the Event of Default shall be calculated using straight line, 20 year depreciation. Exercise by the State of its Value Recovery Remedy under this Section 4 shall terminate the State's remedy under Section 2.2(b).

SECTION 5 – GENERAL PROVISIONS

5.1 This Agreement may be executed in counterparts, all of which together shall constitute one and the same instrument.

5.2 No amendment of this Agreement shall be effective unless it is in writing and signed by all of the parties hereto.

5.3 This Agreement and the rights and obligations of the parties hereunder shall be construed and governed by the laws of the State of Maine, without reference to choice of law rules.

5.4 This Agreement is not assignable by MMA without the express written consent of the State.

**[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK/
SIGNATURES FOLLOW ON NEXT PAGE]**

IN WITNESS WHEREOF, the parties hereto have executed this Agreement and made it effective as of the date last signed below.

Date Signed: 12/23, 2002

Cathy D. Adams
Witness

MONTREAL, MAINE & ATLANTIC RAILWAY, LTD.

By: Edward A. Burkhardt

Print Name: EDWARD A. BURKHARDT

Title: CHAIRMAN

Date Signed: 12/23, 2002

Allan H. Basler
Witness

STATE OF MAINE, acting by and through its DEPARTMENT OF TRANSPORTATION

Carl A. Croce
By: Carl A. Croce, Acting Commissioner

*Marie Wilson
6-23-03*

UNENCUMBERED
JUN 10 2003
NO FUNDS RESERVED
FOR THIS CONTRACT

Exhibit A

MMA – MDOT AGREEMENT

As part of the Montreal, Maine and Atlantic Railway Ltd. (MMA) agreement with the State of Maine Department of Transportation (MDOT), MMA commits to not abandoning the following rail lines for a period of ten years from the date of this agreement. The lines that this agreement includes are as follows:

MAIN LINES:

The main line of the former Bangor & Aroostook Railroad from Searsport Maine (MP 0.12) to Madawaska Maine (MP 263.33). This line includes the following subdivisions:

- Searsport
- Millinocket
- Madawaska

The main line of the former Canadian Pacific Railway from Brownville Junction (MP 0.0) to the US/Canadian border at Boundary Maine (MP 101.7). This line includes the following subdivisions:

- Moosehead

BRANCH LINES:

The following branch lines of the former Bangor and Aroostook Railroad will be operated:

- Van Buren Subdivision from Madawaska Maine (MP 0.0) to Van Buren Maine (MP 24.1)
- Presque Isle Subdivision from Squa Pan Maine (MP 0.0) to Presque Isle (MP 25.3)
- Houlton Subdivision from Oakfield Maine (MP 0.0) to Houlton Maine (MP 16.9)
- Fort Fairfield Subdivision from Presque Isle Maine (MP 0.0) to Easton Maine (MP 10.0)
- Limestone Subdivision from Presque Isle Maine (MP 0.0) to Limestone Maine (MP 29.85)
- KI Subdivision from Brownville Maine (MP 0.85) to Brownville Junction Maine (MP 3.74)
- East Millinocket Subdivision from Millinocket Maine (MP 0.0) to East Millinocket Maine (MP 6.19)

MMA will keep in place the contiguous rail network listed above but reserves the right to alter or remove tracks that are not economically viable such as sidings and yard tracks.

**FIRST AMENDMENT TO
RAIL FUNDING AGREEMENT**

This First Amendment to Rail Funding Agreement (the "First Amendment") is made and entered into on this 12th day of March, 2003, by and between **MONTREAL, MAINE & ATLANTIC RAILWAY, LTD.**, a Delaware corporation, having its principal place of business at Northern Maine Jct. Park, RR #2, Box 45, Bangor, Maine 04401-9602 ("MMA") and the **STATE OF MAINE**, acting by and through its Department of Transportation, with a mailing address of 16 State House Station, Augusta, Maine 04333-0016 (the "State").

WHEREAS, MMA and the State entered into a Rail Funding Agreement dated December 23, 2002, the ("Agreement"), whereby the State, under the terms and conditions set forth in the Agreement, agreed to provide to MMA as successor to the Bangor & Aroostook Railroad Company certain funds to be derived from General Obligation Bonds for rail corridor development work as provided by Private and Special Law 2001, chapter 38;

WHEREAS, MMA has requested that the State temporarily waive, for the 2003 construction season only, the requirement that MMA match all payments of State funds on a dollar for dollar basis;

WHEREAS, the State has determined that, in light of the bankruptcy filing of Great Northern Paper, it is appropriate and in the public interest to temporarily waive MMA's contributions to rail corridor development work to assist MMA in maintaining its rail corridors while remaining financially viable; and,

WHEREAS, the parties have agreed to amend the terms of the Rail Funding Agreement accordingly.

NOW, THEREFORE, in consideration of the foregoing and other good and valuable consideration, the parties do hereby agree as follows:

1. Paragraph 1.2 of Section 1 - Payment of Funds is hereby replaced in its entirety by the following:

1.2. All payments of State funds after January 1, 2004, shall be matched by MMA on a dollar for dollar basis. For purposes of this Agreement, expenditures by MMA for engineering, labor, equipment, work, trains, matching material (including ties, rail, other track material, and ballast), and other necessary expenses incurred by MMA to incorporate and install the track materials eligible for reimbursement by the State hereunder shall qualify as matching expenditures under this section.

2. All other terms and conditions of the Rail Funding Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the parties hereto have caused this First Amendment to be executed by their duly authorized representatives as of the date and year first written above.

Date Signed: March 12, 2003

**MONTREAL, MAINE & ATLANTIC
RAILWAY, LTD.**

Frederic W. Young, Jr.
Witness

By: Robert C. Grandnot

Print Name: ROBERT C. GRANDNOT

Title: PRESIDENT & CEO

Date Signed: March ~~12~~²⁴ 2003

**STATE OF MAINE, acting by and
through the DEPARTMENT OF
TRANSPORTATION**

Sh. R. W.
Witness 3/24/03

By: David A. Cole
David A. Cole, Commissioner

**SECOND AMENDMENT TO
RAIL FUNDING AGREEMENT**

This Second Amendment to Rail Funding Agreement (the "Second Amendment") is made and entered into on this 30TH day of DECEMBER, 2003, by and between **MONTREAL, MAINE & ATLANTIC RAILWAY, LTD.**, a Delaware corporation, having its principal place of business at Northern Maine Jct. Park, RR #2, Box 45, Bangor, Maine 04401-9602 ("MMA") and the **STATE OF MAINE**, acting by and through its Department of Transportation, with a mailing address of 16 State House Station, Augusta, Maine 04333-0016 (the "State").

WHEREAS, MMA and the State entered into a Rail Funding Agreement dated December 23, 2002, the ("Agreement"), whereby the State, under the terms and conditions set forth in the Agreement, agreed to provide to MMA as successor to the Bangor & Aroostook Railroad Company certain funds to be derived from General Obligation Bonds for rail corridor development work as provided by Private and Special Law 2001, chapter 38; and,

WHEREAS, MMA has requested that the State advance funds allotted for expenditure in the 2004 construction season, for use in the 2003 construction season; and,

WHEREAS, MMA has requested that the State advances in 2003 be matched by MMA in 2004 and at a different percentage basis: and,

WHEREAS, the State has determined that, in light of the continued financial struggles of MMA, it is appropriate and in the public interest to make the requested monetary advances and to temporarily waive MMA's contributions to rail corridor development work to assist MMA in maintaining its rail corridors while remaining financially viable; and,

WHEREAS, the parties have agreed to amend the terms of the Rail Funding Agreement accordingly.

NOW, THEREFORE, in consideration of the foregoing and other good and valuable consideration, the parties do hereby agree as follows:

1. Paragraph 1.2 of Section 1 - Payment of Funds is hereby replaced in its entirety by the following:

1.2. All payments of State funds after January 1, 2004, shall cover 80% of MMA expenditures in calendar year 2004 approved by the State. All payments of State funds made in the month of December, 2003 shall be matched by MMA on a four State dollar to one MMA dollar basis before December 31, 2004. For purposes of this

Agreement, expenditures by MMA for engineering, labor, equipment, work, trains, matching material (including ties, rail, other track material, and ballast), and other necessary expenses incurred by MMA to incorporate and install the track materials eligible for reimbursement by the State hereunder shall qualify as matching expenditures under this section.

2. All other terms and conditions of the Rail Funding Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the parties hereto have caused this First Amendment to be executed by their duly authorized representatives as of the date and year first written above.

Date Signed: DECEMBER 30, 2003

MONTREAL, MAINE & ATLANTIC RAILWAY, LTD.

[Signature]

By: [Signature]

Witness

Print Name: ROBERT C. GRANDNER

Title: PRESIDENT & CEO

Date Signed: JAN. 14, 2004, ~~2003~~

STATE OF MAINE, acting by and through the DEPARTMENT OF TRANSPORTATION

[Signature]

By: [Signature]

Witness

David A. Cole, Commissioner

**SECOND AMENDMENT TO
RAIL FUNDING AGREEMENT**

This Second Amendment to Rail Funding Agreement (the "Second Amendment") is made and entered into on this 30th day of DECEMBER, 2003, by and between **MONTREAL, MAINE & ATLANTIC RAILWAY, LTD.**, a Delaware corporation, having its principal place of business at Northern Maine Jct. Park, RR #2, Box 45, Bangor, Maine 04401-9602 ("MMA") and the **STATE OF MAINE**, acting by and through its Department of Transportation, with a mailing address of 16 State House Station, Augusta, Maine 04333-0016 (the "State").

WHEREAS, MMA and the State entered into a Rail Funding Agreement dated December 23, 2002, the ("Agreement"), whereby the State, under the terms and conditions set forth in the Agreement, agreed to provide to MMA as successor to the Bangor & Aroostook Railroad Company certain funds to be derived from General Obligation Bonds for rail corridor development work as provided by Private and Special Law 2001, chapter 38; and,

WHEREAS, MMA has requested that the State advance funds allotted for expenditure in the 2004 construction season, for use in the 2003 construction season; and,

WHEREAS, MMA has requested that the State advances in 2003 be matched by MMA in 2004 and at a different percentage basis: and,

WHEREAS, the State has determined that, in light of the continued financial struggles of MMA, it is appropriate and in the public interest to make the requested monetary advances and to temporarily waive MMA's contributions to rail corridor development work to assist MMA in maintaining its rail corridors while remaining financially viable; and,

WHEREAS, the parties have agreed to amend the terms of the Rail Funding Agreement accordingly.

NOW, THEREFORE, in consideration of the foregoing and other good and valuable consideration, the parties do hereby agree as follows:

1. Paragraph 1.2 of Section 1 - Payment of Funds is hereby replaced in its entirety by the following:


1.2. All payments of State funds after January 1, 2004, shall cover 80% of MMA expenditures in calendar year 2004 approved by the State. All payments of State funds made in the month of December, 2003 shall be matched by MMA on a four State dollar to one MMA dollar basis before December 31, 2004. For purposes of this

Agreement, expenditures by MMA for engineering, labor, equipment, work, trains, matching material (including ties, rail, other track material, and ballast), and other necessary expenses incurred by MMA to incorporate and install the track materials eligible for reimbursement by the State hereunder shall qualify as matching expenditures under this section.


2. All other terms and conditions of the Rail Funding Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the parties hereto have caused this First Amendment to be executed by their duly authorized representatives as of the date and year first written above.

Date Signed: DECEMBER 30, 2003


Witness


MONTREAL, MAINE & ATLANTIC RAILWAY, LTD.

By: 

Print Name: ROBERT C. GRANDNOT

Title: PRESIDENT & CEO

Date Signed: JAN. 14, 2004, ~~2003~~


Witness

STATE OF MAINE, acting by and through the DEPARTMENT OF TRANSPORTATION

By: 
David A. Cole, Commissioner

RAIL FUNDING AGREEMENT

THIS RAIL FUNDING AGREEMENT (the "Agreement") made on the date last signed below by and among MONTREAL, MAINE AND ATLANTIC RAILWAY LTD, a Delaware corporation, having its principal place of business at 15 Iron Road, Hermon, Maine 04401-9602 ("MMA"), and the STATE OF MAINE, acting by and through its Department of Transportation, with a mailing address of 16 State House Station, Augusta, Maine 04333-0016 (the "State").

WITNESSETH:

WHEREAS, MMA and the State previously entered into agreements for infrastructure improvements and those agreements have expired; and

WHEREAS, the State has agreed to provide Three Million Two Hundred Forty Four Thousand Dollars (\$3,244,000.00) to MMA for specified infrastructure improvements ("State Funds"), said funds to be derived from General Obligation Bonds for rail corridor development work as provided by Private and Special Law 1999, chapter 37 and Private and Special Law 2001, Chapter 38; and

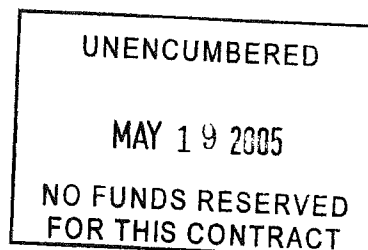
WHEREAS, to memorialize the terms and conditions of the State's agreement to provide such funds to MMA as successor to BAR, the State and MMA desire to enter into this Agreement.

NOW, THEREFORE, for valuable consideration, receipt of which is hereby acknowledged, and with the intent to be legally bound hereby, the State and MMA agree as follows.

SECTION 1 – PAYMENT OF FUNDS

1.1 Subject to the terms of this Agreement including the contingencies set forth in Section 2 below, the State hereby agrees to provide a maximum of Three Million Two Hundred and Forty Four Thousand Dollars (\$3,244,000.00) to MMA (\$2,700,000.00 in funds programmed for 2005 and \$544,000 in funds carried over from 2004) as successor to BAR in calendar year 2005 to enable MMA to acquire and install railroad track materials on designated rail lines.

1.2 All payments of State Funds shall be matched by MMA on a dollar for dollar basis. For purposes of this Agreement, expenditures by MMA for engineering, labor, equipment, work trains, matching material properly installed in rail lines (including ties, rail, other track material, and ballast), and other necessary expenses incurred by MMA to incorporate and install the track materials eligible for reimbursement by the State hereunder shall qualify as matching expenditures under this Section. The State agrees to make payments on significant quantities of high value materials such as welded rail and ties when delivered in order to assist in project cash flows. The State shall have the right to inspect all invoiced work and materials prior to payment of invoices.



1.3 Prior to funding, the State shall have the right to review and approve the scope of MMA's work, estimates, and work locations. MMA shall provide transportation for Maine Department of Transportation ("MaineDOT") representatives to and from MMA's work locations to facilitate the State's review.

SECTION 2--CONDITIONS FOR FUNDING

2.1 The State's obligations hereunder are subject to the following conditions. If one or more of these conditions are not satisfied, the State's obligations hereunder shall cease.

a. MMA will at all times will hold title to and own the real property and assets of BAR described in the Asset Purchase Agreement approved by the United States Bankruptcy Court, District of Maine (Chapter 11 Case No. 01-11565) under an October 9, 2002, Order Approving Asset Purchase Agreements, Authorizing Sale of Assets to MMA, and Authorizing Assignment and Assumption of Related Agreements.

b. MMA will own and will continue to own all rail and related cross ties, tie joints, tie plates, switch ties, turnouts, switches, anchors and spikes located on the Property acquired from BAR, as well any and all replacements therefore and accessions thereto installed by MMA, including, without limitation, the "Rail Assets" as defined in Section 3 below.

c. MMA will enter into the security instruments described in Section 3 below and any other security instruments reasonably required by the State under terms acceptable to the State to protect the public investment in rail infrastructure contemplated by this Agreement.

d. Records of the MMA's costs for compensation under the project agreement shall be kept in accordance with 23 CFR (Code of Federal Regulations) Part 140 Subpart I – Reimbursement for Railroad Work. To the extent necessary to verify MMA's charges and upon the States timely request, copies of such records shall be made available to the State. Records shall be available for audit or review by the State for a period of three (3) years following final uncontested payment.

e. Direct expenses such as telephone, tolls, reproduction costs, per diem (requires overnight stay) shall be billed at actual cost to the Railroad as defined in 48 CFR, Part 31. The reimbursable costs for per diem shall not exceed that allowed by the State's Administrative Policy Memorandum No. 191. Mileage shall be paid at the current amount allowed by the State of Maine, Title 5 M.R.S.A. § 1541. Reproduction of plans for submittal to the State shall be charged at actual costs. Any reproduction costs incurred for the MMA's internal use are considered overhead expenses and not chargeable as a direct expense.

2.2 As consideration for the State's investment in its rail infrastructure as set forth herein, MMA hereby represents and warrants that it will continue operations on the entire system of rail lines acquired from BAR as more particularly set forth on attached Exhibit A (the "BAR System") for a period of ten years from the date of this Agreement. If MMA abrogates this ten year operating commitment by seeking to abandon, without the prior agreement of the State, its common carrier obligations as to any portion of the BAR System (other than spurs and de minimis portions of track) before the ten years of operation are complete, the State may:

- a. decline to provide any State Funds beyond those provided prior to the abandonment; and
- b. require MMA to repay a percentage of grant funds. That percentage will be based on the number of years prior to ten that the abandonment is sought divided by ten. (A ten-year straight line basis)

Exercise by the State of its remedy under Section 2.2(b) and payment by MMA of the required funds shall terminate the State's remedy under Section 4.

SECTION 3 - COLLATERAL

3.1 MMA's obligations to the State hereunder shall be secured by a security interest in the following property of MMA pursuant to the attached Subordination Agreement (Attachment A) dated 3/25/05:

- a. all rail and related cross ties, tie joints, tie plates, switch ties, switches, anchors, spikes, and other related track materials incorporated or installed in or attached to the real property described in Exhibit B hereto (the "Property") which are paid for with Funds provided to MMA as successor to BAR by the State pursuant to the term of this Agreement (the "Rail Assets"); and
- b. all proceeds from any sale or transfer of any of the Rail Assets unless specifically permitted by the terms of the Security Agreement.

3.2 As a precondition to the provision of State Funds under this Agreement, MMA's grant of a security interest in the Rail Assets as set forth above must be evidenced by a Purchase Money Security Agreement and Financing Statement in a form satisfactory to the State together with any other documents reasonably required for the State to obtain a perfected security interest in the Rail Assets, consistent with the Subordination Agreement dated March 25, 2005 and attached hereto as Attachment A. For purposes of this section, the parties agree to execute appropriate amendments to the Purchase Money Security Agreement and Financing Statement dated concurrently with the execution of this Agreement.

3.3 Subject to the agreement of the State and MMA, Exhibit B will be periodically revised to reflect the scope of work financed under the provisions of this Agreement.

SECTION 4 – DEFAULT AND REMEDIES

MMA hereby agrees that its failure to comply with any of the material terms, conditions and warranties set forth herein shall constitute an "Event of Default" under this Agreement. Upon the occurrence of an Event of Default, in addition to any other remedies provided herein, the State shall be entitled to recover from MMA an amount equal to the value of the Rail Assets at the time of the Event of Default ("Value Recovery Remedy"), and upon demand for and receipt of such amount, the State's security interest in the Rail Assets shall terminate. The value of the Rail Assets at the time of the Event of Default shall be calculated using straight line, 20 year depreciation. An Event of Default under any security instruments held by the United States of America, or any other lender holding security interests in the Rail Assets shall also constitute an Event of Default under this Agreement. Exercise by the State of its Value Recovery Remedy under this Section 4 and recovery of such funds from MMA shall terminate the State's remedy under Section 2.2(b).

SECTION 5 – GENERAL PROVISIONS

5.1 This Agreement may be executed in counterparts, all of which together shall constitute one and the same instrument.

5.2 No amendment of this Agreement shall be effective unless it is in writing and signed by all of the parties hereto.

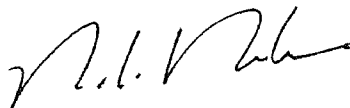
5.3 This Agreement and the rights and obligations of the parties hereunder shall be construed and governed by the laws of the State of Maine, without reference to choice of law rules.

5.4 This Agreement is not assignable by MMA without the express written consent of the State.

**[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK/
SIGNATURES FOLLOW ON NEXT PAGE]**

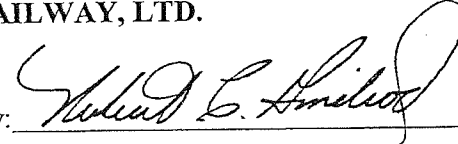
IN WITNESS WHEREOF, the parties hereto have executed this Agreement and made it effective as of the date last signed below.

Date Signed: May 12, 2005



Witness

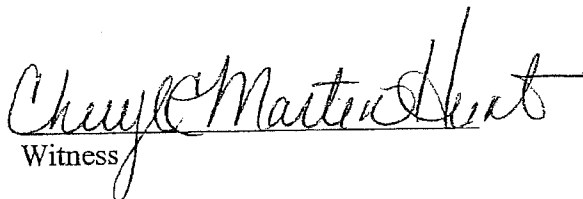
MONTREAL, MAINE & ATLANTIC RAILWAY, LTD.

By: 

Print Name: ROBERT C. GRANDNOT

Title: PRESIDENT & CEO

Date Signed: May 13, 2005



Witness

STATE OF MAINE, acting by and through its DEPARTMENT OF TRANSPORTATION

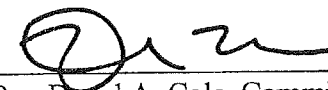
By: 
David A. Cole, Commissioner

EXHIBIT A

As part of the Montreal, Maine and Atlantic Railway Ltd. (MMA) agreement with the State of Maine Department of Transportation (MaineDOT), MMA commits to not abandoning the following rail lines for a period of ten years from the date of this agreement. The lines that this agreement includes are as follows:

MAIN LINES:

The main line of the former Bangor & Aroostook Railroad from Searsport Maine (MP 0.12) to Madawaska Maine (MP 263.33). This line includes the following subdivisions:

- Searsport
- Millinocket
- Madawaska

The main line of the former Canadian Pacific Railway from Brownville Junction (MP 0.0) to the US/Canadian border at Boundary Maine (MP 101.7). This line includes the following subdivisions:

- Moosehead

BRANCH LINES:

The following branch lines of the former Bangor and Aroostook Railroad will be operated:

- Van Buren Subdivision from Madawaska Maine (MP 0.0) to Van Buren Maine (MP 24.1)
- Presque Isle Subdivision from Squa Pan Maine (MP 0.0) to Presque Isle (MP 25.3)
- Houlton Subdivision from Oakfield Maine (MP 0.0) to Houlton Maine (MP 16.9)
- Fort Fairfield Subdivision from Presque Isle Maine (MP 0.0) to Easton Maine (MP 10.0)
- Limestone Subdivision from Presque Isle Maine (MP 0.0) to Limestone Maine (MP 29.85)
- KI Subdivision from Brownville Maine (MP 0.85) to Brownville Junction Maine (MP 3.74)
- East Millinocket Subdivision from Millinocket Maine (MP 0.0) to East Millinocket Maine (MP 6.19)

MMA will keep in place the contiguous rail network listed above but reserves the right to alter or remove tracks that are not economically viable such as sidings and yard tracks.

Attachment A

Penobscot

SUBORDINATION AGREEMENT

For good and valuable consideration, the STATE OF MAINE acting by and through its Department of Transportation, with a mailing address of 16 State House Station, Augusta, Maine 04333-0016 ("MDOT) holder of a security interest in certain real or personal property and/or fixtures, evidenced by a UCC Financing Statement recorded at the Penobscot County Registry of Deeds in Book 9631, Page 164, hereby subordinates the lien of said security interest to the lien of a Mortgage, Security Agreement and Financing Statement in the original principal amount of Thirty-Four Million Dollars (\$34,000,000.00) from Montreal, Maine & Atlantic Railway, Ltd., a Delaware limited liability company, to the United States of America, represented by the Secretary of Transportation acting through the Administrator of the Federal Railroad Administration (the "FRA") (the "Mortgage") and agree that the Mortgage once executed, delivered and recorded shall have priority over the above-referenced security interest held by MDOT as if the Mortgage had been duly executed, delivered and recorded prior to the execution and delivery of said security interest to MDOT and prior to the recording of said UCC Financing Statement by MDOT.

IN WITNESS WHEREOF, the STATE OF MAINE, acting by and through its Department of Transportation, has caused this Subordination Agreement to be executed by DAVID A. COLE, its COMMISSIONER thereunto duly authorized this ___ day of March, 2005.

WITNESS:

STATE OF MAINE DEPARTMENT OF TRANSPORTATION

Coni R. Kemmelle

By: *DAV*
Its: COMMISSIONER
Print Name: DAVID A. COLE

STATE OF MAINE
COUNTY OF KENNEBEC, SS.

March 25, 2005

Personally appeared the above-named DAVID A. COLE, COMMISSIONER of the Maine Department of Transportation, as aforesaid, who acknowledged the foregoing instrument to be his/her free act and deed in his/her said capacity and the free act and deed of the Maine Department of Transportation.

Before me,

Yves J. Plouffe
YVES J. PLOUFFE
Notary Public, Maine
My Commission Expires December 3, 2008
Notary Public/Attorney-at-Law

EXHIBIT B

[Rail World's engineers will start working on this, but will need to coordinate with MaineDOT.]

RAIL FUNDING AGREEMENT

THIS RAIL FUNDING AGREEMENT (the "Agreement") made on the date last signed below by and among MONTREAL, MAINE AND ATLANTIC RAILWAY LTD, a Delaware corporation, having its principal place of business at Northern Maine Jct. Park, RR#2, Box 45, Bangor, Maine 04401-9602 ("MMA"), and the STATE OF MAINE, acting by and through its Department of Transportation, with a mailing address of 16 State House Station, Augusta, Maine 04333-0016 (the "State").

WITNESSETH:

WHEREAS, MMA and the State previously entered into agreements for infrastructure improvements and those agreements have expired; and

WHEREAS, the State has agreed to provide Two Million One Hundred Thousand, Seventy Three Dollars (\$2,100,073.00) to MMA for specified infrastructure improvements ("State Funds"), said funds to be derived from General Obligation Bonds for rail corridor development work as provided by Private and Special Law 1999, chapter 37 and Private and Special Law 2001, Chapter 38; and

WHEREAS the State recognizes that the amount provided by this agreement is \$599,927 less than the amount originally proposed for this project and agrees in good faith to pursue this remaining amount in future funding for award to the MMA.

WHEREAS, to memorialize the terms and conditions of the State's agreement to provide such funds to MMA as successor to BAR, the State and MMA desire to enter into this Agreement.

NOW, THEREFORE, for valuable consideration, receipt of which is hereby acknowledged, and with the intent to be legally bound hereby, the State and MMA agree as follows.

SECTION 1 – PAYMENT OF FUNDS

1.1 Subject to the terms of this Agreement including the contingencies set forth in Section 2 below, the State hereby agrees to provide a maximum of Two Million One Hundred Thousand, Seventy Three Dollars (\$2,100,073.00) to MMA as successor to BAR in calendar year 2006 to enable MMA to acquire and install railroad track materials on designated rail lines. If additional funding becomes available for this project, the maximum amount shall be increased and funds will be added to this agreement by amendment.

1.2 All payments of State Funds shall be matched by MMA on a dollar for dollar basis. For purposes of this Agreement, expenditures by MMA for engineering, labor, equipment, work trains, matching material properly installed in rail lines (including ties, rail, other track

material, and ballast), and other necessary expenses incurred by MMA to incorporate and install the track materials eligible for reimbursement by the State hereunder shall qualify as matching expenditures under this Section. The State agrees to make payments on significant quantities of high value materials such as welded rail and ties when delivered in order to assist in project cash flows. The State shall have the right to inspect all invoiced work and materials prior to payment of invoices.

1.3 Prior to funding, the State shall have the right to review and approve the scope of MMA's work, estimates, and work locations. MMA shall provide transportation for Maine Department of Transportation ("MaineDOT") representatives to and from MMA's work locations to facilitate the State's review.

SECTION 2--CONDITIONS FOR FUNDING

2.1 The State's obligations hereunder are subject to the following conditions. If one or more of these conditions are not satisfied, the State's obligations hereunder shall cease.

- a. MMA will at all times will hold title to and own the real property and assets of BAR described in the Asset Purchase Agreement approved by the United States Bankruptcy Court, District of Maine (Chapter 11 Case No. 01-11565) under an October 9, 2002 Order Approving Asset Purchase Agreements, Authorizing Sale of Assets to MMA, and Authorizing Assignment and Assumption of Related Agreements.
- b. MMA will own and will continue to own all rail and related cross ties, tie joints, tie plates, switch ties, turnouts, switches, anchors and spikes located on the Property acquired from BAR, as well any and all replacements therefore and accessions thereto installed by MMA, including, without limitation, the "Rail Assets" as defined in Section 3 below.
- c. MMA will enter into the security instruments described in Section 3 below and any other security instruments reasonably required by the State under terms acceptable to the State in its sole discretion to protect the public investment in rail infrastructure contemplated by this Agreement.
- d. Records of the MMA's costs for compensation under the project agreement shall be kept in accordance with 23 CFR (Code of Federal Regulations) Part 140 Subpart I – Reimbursement for Railroad Work. To the extent necessary to verify MMA's charges and upon the States timely request, copies of such records shall be made available to the State. Records shall be available for audit or review by the State for a period of three (3) years following final uncontested payment.
- e. Direct expenses such as telephone, tolls, reproduction costs, per diem (requires overnight stay) shall be billed at actual cost to the Railroad as defined in 48 CFR, Part 31. The reimbursable costs for per diem shall not exceed that allowed by the State's Administrative Policy Memorandum No. 191. Mileage shall be paid at the

current amount allowed by the State of Maine, Title 5 M.R.S.A. § 1541. Reproduction of plans for submittal to the State shall be charged at actual costs. Any reproduction costs incurred for the MMA's internal use are considered overhead expenses and not chargeable as a direct expense.

2.2 As consideration for the State's investment in its rail infrastructure as set forth herein, MMA hereby represents and warrants that it will continue operations on the entire system of rail lines acquired from BAR as more particularly set forth on attached Exhibit A (the "BAR System") for a period of ten years from the date of this Agreement. If MMA abrogates this ten year operating commitment by seeking to abandon its common carrier obligations as to any portion of the BAR System before the ten years of operation are complete, the State may:

- a. decline to provide any State Funds beyond those provided prior to the abandonment; and
- b. require MMA to repay a percentage of grant funds. That percentage will be based on the number of years prior to ten that the abandonment is sought divided by ten. (A ten-year straight line basis)

Exercise by the State of its remedy under Section 2.2(b) and payment by MMA of the required funds shall terminate the State's remedy under Section 4.

SECTION 3 - COLLATERAL

3.1 MMA's obligations to the State hereunder shall be secured by a security interest in the following property of MMA pursuant to the attached Subordination Agreement (Attachment A) dated 3/25/05:

- a. all rail and related cross ties, tie joints, tie plates, switch ties, switches, anchors, spikes, and other related track materials incorporated or installed in or attached to the real property described in Exhibit B hereto (the "Property") which are paid for with Funds provided to the MMA as successor to BAR by the State pursuant to the term of this Agreement (the "Rail Assets"); and
- b. all proceeds from any sale or transfer of any of the Rail Assets unless specifically permitted by the terms of the Security Agreement.

3.2 As a precondition to the provision of State Funds under this Agreement, MMA's grant of a security interest in the Rail Assets as set forth above must be evidenced by a Purchase Money Security Agreement and Financing Statement in a form satisfactory to the State together with any other documents reasonably required for the State to obtain a perfected security interest in the Rail Assets, consistent with the Subordination Agreement dated March 25, 2005 and attached hereto as Attachment A. For the purposes of this section, the parties agree to execute appropriate amendments to the Purchase Money Security Agreement and Financing Statement dated concurrently with the execution of this Agreement.

3.3 Subject to the agreement of the State and MMA, Exhibit B will be periodically revised to reflect the scope of work financed under the provisions of this Agreement.

SECTION 4 – DEFAULT AND REMEDIES

MMA hereby agrees that its failure to comply with any of the terms, conditions and warranties set forth herein shall constitute an “Event of Default” under this Agreement. Upon the occurrence of an Event of Default, in addition to any other remedies provided herein, the State shall be entitled to recover from MMA an amount equal to the value of the Rail Assets at the time of the Event of Default (“Value Recovery Remedy”), and upon demand for and receipt of such amount, the State’s security interest in the Rail Assets shall terminate. The value of the Rail Assets at the time of the Event of Default shall be calculated using straight line, 20 year depreciation. An Event of Default under any security instruments held by the United States of America, or any other lender holding security interests in the Rail Assets shall also constitute an Event of Default under this Agreement. Exercised by the State of its Value Recovery Remedy under this Section 4 and recovery of such funds from MMA shall terminate the State’s remedy under Section 2.2(b).

SECTION 5 – GENERAL PROVISIONS

5.1 This Agreement may be executed in counterparts, all of which together shall constitute one and the same instrument.

5.2 No amendment of this Agreement shall be effective unless it is in writing and signed by all of the parties hereto.

5.3 This Agreement and the rights and obligations of the parties hereunder shall be construed and governed by the laws of the State of Maine, without reference to choice of law rules.

5.4 This Agreement is not assignable by MMA without the express written consent of the State.

**[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK/
SIGNATURES FOLLOW ON NEXT PAGE]**

IN WITNESS WHEREOF, the parties hereto have executed this Agreement and made it effective as of the date last signed below.

Date Signed: May 1, 2006

Fredric W. Ryan, Jr.
Witness

MONTREAL, MAINE AND ATLANTIC RAILWAY

By: Robert C. Grubert

Print Name: ROBERT C. GRUBERT

Title: PRESIDENT & CEO

Date Signed: June 9, 2006

Cheryl M. [Signature]
Witness

STATE OF MAINE, acting by and through its DEPARTMENT OF TRANSPORTATION

[Signature]
By: David A. Cole, Commissioner

EXHIBIT A

As part of the Montreal, Maine and Atlantic Railway Ltd. (MMA) agreement with the State of Maine Department of Transportation (MDOT), MMA commits to not abandoning the following rail lines for a period of ten years from the date of this agreement. The lines that this agreement includes are as follows:

MAIN LINES:

The main line of the former Bangor & Aroostook Railroad from Searsport Maine (MP 0.12) to Madawaska Maine (MP 263.33). This line includes the following subdivisions:

- Searsport
- Millinocket
- Madawaska

The main line of the former Canadian Pacific Railway from Brownville Junction (MP 0.0) to the US/Canadian border at Boundary Maine (MP 101.7). This line includes the following subdivisions:

- Moosehead

BRANCH LINES:

The following branch lines of the former Bangor and Aroostook Railroad will be operated:

- Van Buren Subdivision from Madawaska Maine (MP 0.0) to Van Buren Maine (MP 24.1)
- Presque Isle Subdivision from Squa Pan Maine (MP 0.0) to Presque Isle (MP 25.3)
- Houlton Subdivision from Oakfield Maine (MP 0.0) to Houlton Maine (MP 16.9)
- Fort Fairfield Subdivision from Presque Isle Maine (MP 0.0) to Easton Maine (MP 10.0)
- Limestone Subdivision from Presque Isle Maine (MP 0.0) to Limestone Maine (MP 29.85)
- KI Subdivision from Brownville Maine (MP 0.85) to Brownville Junction Maine (MP 3.74)
- East Millinocket Subdivision from Millinocket Maine (MP 0.0) to East Millinocket Maine (MP 6.19)

MMA will keep in place the contiguous rail network listed above but reserves the right to alter or remove tracks that are not economically viable such as sidings and yard tracks.

Attachment A

Penobscot

SUBORDINATION AGREEMENT

For good and valuable consideration, the STATE OF MAINE acting by and through its Department of Transportation, with a mailing address of 16 State House Station, Augusta, Maine 04333-0016 ("MDOT") holder of a security interest in certain real or personal property and/or fixtures, evidenced by a UCC Financing Statement recorded at the Penobscot County Registry of Deeds in Book 9631, Page 164, hereby subordinates the lien of said security interest to the lien of a Mortgage, Security Agreement and Financing Statement in the original principal amount of Thirty-Four Million Dollars (\$34,000,000.00) from Montreal, Maine & Atlantic Railway, Ltd, a Delaware limited liability company, to the United States of America, represented by the Secretary of Transportation acting through the Administrator of the Federal Railroad Administration (the "FRA") (the "Mortgage") and agree that the Mortgage once executed, delivered and recorded shall have priority over the above-referenced security interest held by MDOT as if the Mortgage had been duly executed, delivered and recorded prior to the execution and delivery of said security interest to MDOT and prior to the recording of said UCC Financing Statement by MDOT.

IN WITNESS WHEREOF, the STATE OF MAINE, acting by and through its Department of Transportation, has caused this Subordination Agreement to be executed by DAVID A. COLE, its COMMISSIONER thereunto duly authorized this day of March, 2005.

WITNESS:

Soni R Kemmelle

STATE OF MAINE DEPARTMENT OF TRANSPORTATION

By: *DAV*
Its: COMMISSIONER
Print Name: DAVID A. COLE

STATE OF MAINE
COUNTY OF KENNEBEC, SS.

March 25, 2005

Personally appeared the above-named DAVID A. COLE, COMMISSIONER of the Maine Department of Transportation, as aforesaid, who acknowledged the foregoing instrument to be his/her free act and deed in his/her said capacity and the free act and deed of the Maine Department of Transportation.

Before me,

Yves J. Plouffe
YVES J. PLOUFFE
Notary Public, Maine
Commission Expires December 3, 2006
Notary Public/Attorney-at-Law

**FIRST AMENDMENT TO
RAIL FUNDING AGREEMENT
AGREEMENT NUMBER U067061034
PIN 012145.00**

This First Amendment to Rail Funding Agreement (the "First Amendment") is made and entered into on this 29TH day of AUGUST, 2006, by and between **MONTREAL, MAINE & ATLANTIC RAILWAY, LTD.**, a Delaware corporation, having its principal place of business at Northern Maine Jct Park, RR #2, Box 45, Bangor, Maine 04401-9602 ("MMA") and the **STATE OF MAINE**, acting by and through its Department of Transportation, with a mailing address of 16 State House Station, Augusta, Maine 04333-0016 (the "State")

WHEREAS, MMA and the State entered into a Rail Funding Agreement dated June 9, 2006, the ("Agreement"), whereby the State, under the terms and conditions set forth in the Agreement, agreed to provide to MMA as successor to the Bangor & Aroostook Railroad Company certain funds to be derived from General Obligation Bonds for rail corridor development work as provided by Private and Special Law 2001, chapter 38, and,

WHEREAS, MMA has requested that \$262,411 in State funds not expended in the calendar year 2005 contract be brought forward to be used in calendar year 2006, and,

WHEREAS, the State agrees that these funds should be brought forward to be used for the ongoing capital projects, and,

WHEREAS, the parties have agreed to amend the terms of the Rail Funding Agreement accordingly

NOW, THEREFORE, in consideration of the foregoing and other good and valuable consideration, the parties do hereby agree as follows

- 1 Paragraph 3, Page 1, is hereby replaced in its entirety by the following

WHEREAS the State has agreed to provide Two Million, Three Hundred Sixty Two Thousand, Four Hundred Eighty Four Dollars (\$2,362,484 00) to MMA for specified infrastructure improvements ("State Funds"), said funds to be derived from General Obligation Bonds for rail corridor development work as provided by Private and Special Law 1999, chapter 37 and Private and Special Law 2001, Chapter 38, and

- 2 Paragraph 1 1 of Section 1- Payment of Funds is hereby replaced in its entirety by the following

1 1 Subject to the terms of this Agreement including the contingencies set forth in Section 2 below, the State hereby agrees to provide a maximum of Two Million, Three Hundred Sixty – Two Thousand, Four Hundred Eighty – Four Dollars (\$2,362,484 00) to MMA as successor to BAR in calendar year 2006 to enable MMA to acquire and install railroad track materials on designated lines. If additional funding becomes available for this project, the maximum amount shall be increased and funds will be added to this agreement by amendment

3 All other terms and conditions of the Rail Funding Agreement shall remain in full force and effect

IN WITNESS WHEREOF, the parties hereto have caused this First Amendment to be executed by their duly authorized representatives as of the date and year first written above

Date Signed August 29, 2006

MONTREAL, MAINE & ATLANTIC RAILWAY, LTD.

Melinda A. Sheehan
Witness

By Robert C. Guindrot

Print Name ROBERT C. GUINDROT

Title PRESIDENT & CEO

Date Signed 08/29, 2006

STATE OF MAINE, acting by and through the DEPARTMENT OF TRANSPORTATION

Witness

By David A. Cole
David A. Cole, Commissioner

UNENCUMBERED
APR 10 2007
NO FUNDS RESERVED
FOR THIS CONTRACT

State of Maine Department of Administrative and Financial Services Bureau of General Services Division of Purchases

Contract/Grant Designation Form and Requisition for Contract/Grant Authorization BP37R (Oct2004)

Part One Contract/Grant Designation

♦ It is required to CHECK ONE of the following options which best describes the attached document

The document is a **Contract**

The principal purpose of this relationship is to purchase, lease, or barter property or services for the direct benefit of the government

The document is a **Grant**

The principal purpose of this relationship is the transfer of money, property, services, or anything of value to the recipient in order to accomplish a public purpose of support—with no substantial involvement between the state agency or department and the recipient during the performance of the activity

Please refer to State Controller's Bulletin 05 05 Determination of Subrecipient vs Vendor Relationship for additional guidance as well as OMB Circular A 133

Part Two Requisition for Contract/Grant Authorization BP37R (Oct2004)

♦ Please complete any of the following entries which apply to the document (agreement or amendment)

Agency/Department	Transportation					Dept Contact	Nate Moulton			
Contractor Name	Montreal Maine & Atlantic Railway, Ltd					Contact Phone	624-3563			
At the right, briefly Describe the Service Provided	Modification #1 to Rail Funding Agreement 17E U067061034					Contract Amount	\$2,100,073 00			
						Amendment Amt	\$262,411 00			
						Doc End Date	06/08/2007			
Show Principal Item Coding The coding could be any combination of these	Fund	Agency	Org	SubOrg	Approp	Activity	Object	SubObj	Job No	RptCtgy
	017	17E	60000		0350	660	4099		012145.00 009232.00	

♦ Please respond to all questions applicable for this document Additional pages may be attached if necessary
NOTE If this is an amendment, please complete the Substantiation of Need section only

Substantiation of Need. Include statutory citations, cost savings which will be achieved, and a history of the relationship with the contractor
Modification #1

Impact on the Civil Service System,
Describe any displacement or dislocation of state employees
N/A

Employer/Employee Relationship
between the State and the Contractor (if any)

Effect on State Affirmative Action Efforts

Justification for Sole Source Procurement Is this the only source of the service, is the service so specialized that it can only be effectively obtained from a single source, what will be the impact if the contract is delayed as a result of competitive bidding?

Evidence of Prior or Scheduled RFP If no RFP was issued, show the vendors contacted for quotations If the value of the contract exceeds \$2,500, attach the written quotations

MSEA REVIEW Date Forwarded	Purchases File Number
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♦ Completed forms should be attached to the document and the package forwarded to
Division of Purchases, 4th Floor Burton M. Cross Building, 9 State House Station, Augusta, ME 04333 0009

**MODIFICATION 2
TO
RAIL FUNDING AGREEMENT**

This Modification hereby modifies a Rail Funding Agreement that was executed on June 8, 2006 with MONTREAL, MAINE AND ATLANTIC RAILWAY LTD, a Delaware corporation, having its principal place of business at Northern Maine Jct Park, RR#2, Box 45, Bangor, Maine 04401-9602 ("MMA"), and the STATE OF MAINE, acting by and through its Department of Transportation, with a mailing address of 16 State House Station, Augusta, Maine 04333-0016 (the "State") This agreement is hereby amended by this modification as follows

1 The termination date is extended from June 8, 2007 to June 8, 2008
(old term date) (new term date)

Reason This date extension is to allow time for the project to be completed

All other terms and conditions of the original contract remain in full force and effect

IN WITNESS WHEREOF, the DEPARTMENT and CONTRACTOR, by their duly authorized representatives, have executed this amendment in duplicate originals as of the day and year first above written

Date Signed Apr 19, 2007

Fredric W. Young Jr.
Witness

MONTREAL, MAINE AND ATLANTIC RAILWAY

By Robert C. Gannaway

Print Name ROBERT C. GANNAWAY

Title PRESIDENT & CEO

Date Signed 4-18, 2007

Cheryl Martin-Hunt
Witness

STATE OF MAINE, acting by and through its DEPARTMENT OF TRANSPORTATION

David A. Cole
By David A Cole, Commissioner

UNENCUMBERED
APR 24 2007
NO FUNDS RESERVED
FOR THIS CONTRACT

State of Maine Department of Administrative and Financial Services Bureau of General Services Division of Purchases

Contract/Grant Designation Form and Requisition for Contract/Grant Authorization BP37R (Oct2004)

Part One Contract/Grant Designation

♦ It is required to CHECK ONE of the following options which best describes the attached document

The document is a **Contract**

The principal purpose of this relationship is to purchase, lease, or barter property or services for the direct benefit of the government

The document is a **Grant**

The principal purpose of this relationship is the transfer of money, property, services, or anything of value to the recipient in order to accomplish a public purpose of support—with no substantial involvement between the state agency or department and the recipient during the performance of the activity

Please refer to State Controller's Bulletin 05 05 Determination of Subrecipient vs Vendor Relationship for additional guidance as well as OMB Circular A-133

Part Two Requisition for Contract/Grant Authorization BP37R (Oct2004)

♦ Please complete any of the following entries which apply to the document (agreement or amendment)

Agency/Department		Transportation				Dept Contact		Nate Moulton		
Contractor Name		Montreal Maine & Atlantic Railway, Ltd				Contact Phone		624-3563		
At the right, briefly Describe the Service Provided		Modification #2 to Rail Funding Agreement 17E U067061034				Contract Amount		\$2,362,484 00		
						Amendment Amt		\$0 00		
						Doc End Date		06/08/2008		
Show Principal Item Coding The coding could be any combination of these*	Fund	Agency	Org	SubOrg	Approp	Activity	Object	SubObj	Job No	RptCtgy
	017	17E	60000		0350	660	4099		012145 00 009232 00	

♦ Please respond to all questions applicable for this document Additional pages may be attached if necessary
NOTE If this is an amendment, please complete the Substantiation of Need section only

Substantiation of Need. Include statutory citations cost savings which will be achieved, and a history of the relationship with the contractor
Modification #2

Impact on the Civil Service System,
Describe any displacement or dislocation of state employees
N/A

Employer/Employee Relationship
between the State and the Contractor (if any)

Effect on State Affirmative Action Efforts.

Justification for Sole Source Procurement Is this the only source of the service, is the service so specialized that it can only be effectively obtained from a single source, what will be the impact if the contract is delayed as a result of competitive bidding?

Evidence of Prior or Scheduled RFP If no RFP was issued, show the vendors contacted for quotations If the value of the contract exceeds \$2,500, attach the written quotations

MSEA REVIEW Date Forwarded	Purchases File Number
--------------------------------------	---------------------------------

♦ Completed forms should be attached to the document and the package forwarded to
Division of Purchases, 4th Floor Burton M Cross Building, 9 State House Station Augusta, ME 04333 0009

**MODIFICATION 3
TO
RAIL FUNDING AGREEMENT**

This First Amendment to Rail Funding Agreement (the "First Amendment") is made and entered into on this 22nd day of January, 2008, by and between **MONTREAL, MAINE & ATLANTIC RAILWAY, LTD.**, a Delaware corporation, having its principal place of business at Northern Maine Jct. Park, RR #2, Box 45, Bangor, Maine 04401-9602 ("MMA") and the **STATE OF MAINE**, acting by and through its Department of Transportation, with a mailing address of 16 State House Station, Augusta, Maine 04333-0016 (the "State")

WHEREAS, MMA and the State entered into a Rail Funding Agreement dated JUNE 8, 2006, the ("Agreement"), whereby the State, under the terms and conditions set forth in the Agreement, agreed to provide to MMA as successor to the Bangor & Aroostook Railroad Company certain funds to be derived from General Obligation Bonds for rail corridor development work as provided by Private and Special Law 2001, chapter 38,

WHEREAS, MMA has requested that the State temporarily waive, for the 2007 construction season only, the requirement that MMA match all payments of State funds on a dollar for dollar basis and match State funds on a 75% State 25% MMA basis, to which the State has agreed

WHEREAS, the State has determined that, in light of the significant drop in traffic on MMA lines from forest products and building material shippers, it is appropriate and in the public interest to temporarily reduce MMA's contributions to rail corridor development work to assist MMA in maintaining its rail corridors while remaining financially viable, and,

WHEREAS, the parties have agreed to amend the terms of the Rail Funding Agreement accordingly

NOW, THEREFORE, in consideration of the foregoing and other good and valuable consideration, the parties do hereby agree as follows

1. Paragraph 1.2 of Section 1 - Payment of Funds is hereby replaced in its entirety by the following

1.2 All payments of State funds after January 1, 2007 shall be matched by MMA on a 75% State 25% MMA basis. For purposes of this Agreement, expenditures by MMA for engineering, labor, equipment, work, trains, matching material (including ties, rail, other track material, and ballast), and other necessary expenses incurred by

MMA to incorporate and install the track materials eligible for reimbursement by the State hereunder shall qualify as matching expenditures under this section. The State agrees to make payments on significant quantities of high value materials such as welded rail and ties when delivered in order to assist in project cash flows. The State shall have the right to inspect all invoiced work and materials prior to payment of invoices.

- 2. All other terms and conditions of the Rail Funding Agreement shall remain in full force and effect

IN WITNESS WHEREOF, the parties hereto have caused this First Amendment to be executed by their duly authorized representatives as of the date and year first written above

Date Signed: January 22, 2008

MONTREAL, MAINE & ATLANTIC RAILWAY, LTD.

Melody A. Sheahan
Witness

By [Signature]

Print Name RC Gaudinot

Title PRESIDENT & CEO

Date Signed: 1-23, 2008

STATE OF MAINE, acting by and through the DEPARTMENT OF TRANSPORTATION

Cheryl Martin Hunt
Witness

By [Signature]
David A. Cole, Commissioner

RAIL FUNDING AGREEMENT

THIS RAIL FUNDING AGREEMENT (the "Agreement") made on the date last signed below by and among MONTREAL, MAINE AND ATLANTIC RAILWAY LTD, a Delaware corporation, having its principal place of business at Northern Maine Jct Park, RR#2, Box 45, Bangor, Maine 04401-9602 ("MMA"), and the STATE OF MAINE, acting by and through its Department of Transportation, with a mailing address of 16 State House Station, Augusta, Maine 04333-0016 (the "State")

WITNESSETH

WHEREAS, MMA and the State previously entered into agreements for infrastructure improvements and those agreements have expired, and

WHEREAS, the State has agreed to provide One Million Dollars (\$1,000,000 00) to MMA for specified infrastructure improvements ("State Funds"), said funds to be derived from General Obligation Bonds for rail corridor development work as provided by Private and Special Law 1999, chapter 37 and Private and Special Law 2001, Chapter 38, and

WHEREAS, to memorialize the terms and conditions of the State's agreement to provide such funds to MMA as successor to BAR, the State and MMA desire to enter into this Agreement

NOW, THEREFORE, for valuable consideration, receipt of which is hereby acknowledged, and with the intent to be legally bound hereby, the State and MMA agree as follows

SECTION 1 – PAYMENT OF FUNDS

- 1 1 Subject to the terms of this Agreement including the contingencies set forth in Section 2 below, the State hereby agrees to provide a maximum of One Million Dollars (\$1,000,000 00) to MMA as successor to BAR in calendar year 2009 to enable MMA to acquire and install railroad track materials on designated rail lines
- 1 2 For purposes of this Agreement, expenditures by MMA for engineering, labor, equipment, work trains, matching material properly installed in rail lines (including ties, rail, other track material, and ballast), and other necessary expenses incurred by MMA to incorporate and install the track materials are eligible for reimbursement under this Section. The State agrees to make payments on significant quantities of high value materials such as welded rail and ties when delivered in order to assist in project cash flows. The State shall have the right to inspect all invoiced work and materials prior to payment of invoices
- 1 3 Prior to funding, the State shall have the right to review and approve the scope of MMA's work, estimates, and work locations. MMA shall provide transportation for Maine

Department of Transportation ("MaineDOT") representatives to and from MMA's work locations to facilitate the State's review

SECTION 2--CONDITIONS FOR FUNDING

2.1 The State's obligations hereunder are subject to the following conditions. If one or more of these conditions are not satisfied, the State's obligations hereunder shall cease

a MMA will at all times will hold title to and own the real property and assets of BAR described in the Asset Purchase Agreement approved by the United States Bankruptcy Court, District of Maine (Chapter 11 Case No 01-11565) under an October 9, 2002 Order Approving Asset Purchase Agreements, Authorizing Sale of Assets to MMA, and Authorizing Assignment and Assumption of Related Agreements. The parties agree to exclude non-operating real estate

b MMA will own and will continue to own all rail and related cross ties, tie joints, tie plates, switch ties, turnouts, switches, anchors and spikes located on the Property acquired from BAR, as well any and all replacements therefore and accessions thereto installed by MMA, including, without limitation, the "Rail Assets" as defined in Section 3 below

c MMA will enter into the security instruments described in Section 3 below and any other security instruments reasonably required by the State under terms acceptable to the State in its sole discretion to protect the public investment in rail infrastructure contemplated by this Agreement

d Records of the MMA's costs for compensation under the project agreement shall be kept in accordance with 23 CFR (Code of Federal Regulations) Part 140 Subpart I - Reimbursement for Railroad Work. To the extent necessary to verify MMA's charges and upon the States timely request, copies of such records shall be made available to the State. Records shall be available for audit or review by the State for a period of three (3) years following final uncontested payment

e Direct expenses such as telephone, tolls, reproduction costs, per diem (requires overnight stay) shall be billed at actual cost to the Railroad as defined in 48 CFR, Part 31. The reimbursable costs for per diem shall not exceed that allowed by the State's Administrative Policy Memorandum No 191. Mileage shall be paid at the current amount allowed by the State of Maine, Title 5 M.R.S.A. § 1541. Reproduction of plans for submittal to the State shall be charged at actual costs. Any reproduction costs incurred for the MMA's internal use are considered overhead expenses and not chargeable as a direct expense

2.2 As consideration for the State's investment in its rail infrastructure as set forth herein, MMA hereby represents and warrants that it will not abandon any line improved through the use of funds in this agreement for a period of at least 10 years from the agreement date. If MMA abrogates this ten year operating commitment by seeking to abandon its common carrier obligations as to any portion of trackage improved through funding in this agreement before the ten years of operation are complete, the State may

- a decline to provide any State Funds beyond those provided prior to the abandonment, and
- b require MMA to repay a percentage of grant funds. That percentage will be based on the number of years prior to ten that the abandonment is sought divided by ten. (A ten-year straight line basis)

Exercise by the State of its remedy under Section 2.2(b) and payment by MMA of the required funds shall terminate the State's remedy under Section 4.

SECTION 3 - COLLATERAL

3.1 MMA's obligations to the State hereunder shall be secured by a security interest in the following property of MMA pursuant to the Subordination Agreement dated 3/25/05

- a all rail and related cross ties, tie joints, tie plates, switch ties, switches, anchors, spikes, and other related track materials incorporated or installed in or attached to the real property described in Exhibit A hereto (the "Property") which are paid for with Funds provided to the MMA as successor to BAR by the State pursuant to the term of this Agreement (the "Rail Assets"), and
- b all proceeds from any sale or transfer of any of the Rail Assets unless specifically permitted by the terms of the Security Agreement

3.2 As a precondition to the provision of State Funds under this Agreement, MMA's grant of a security interest in the Rail Assets as set forth above must be evidenced by a Purchase Money Security Agreement and Financing Statement in a form satisfactory to the State together with any other documents reasonably required for the State to obtain a perfected security interest in the Rail Assets, consistent with the Subordination Agreement dated March 25, 2005. For the purposes of this section, the parties agree to execute appropriate amendments to the Purchase Money Security Agreement and Financing Statement dated concurrently with the execution of this Agreement.

3.3 Subject to the agreement of the State and MMA, will be periodically revise to reflect the scope of work financed under the provisions of this Agreement.

SECTION 4 - DEFAULT AND REMEDIES

MMA hereby agrees that its failure to comply with any of the terms, conditions and warranties set forth herein shall constitute an "Event of Default" under this Agreement. Upon

the occurrence of an Event of Default, in addition to any other remedies provided herein, the State shall be entitled to recover from MMA an amount equal to the value of the Rail Assets at the time of the Event of Default ("Value Recovery Remedy"), and upon demand for and receipt of such amount, the State's security interest in the Rail Assets shall terminate. The value of the Rail Assets at the time of the Event of Default shall be calculated using straight line, 20 year depreciation. An Event of Default under any security instruments held by the United States of America, or any other lender holding security interests in the Rail Assets shall also constitute an Event of Default under this Agreement. Exercised by the State of its Value Recovery Remedy under this Section 4 and recovery of such funds from MMA shall terminate the State's remedy under Section 2 2(b)

SECTION 5 – GENERAL PROVISIONS

5.1 This Agreement may be executed in counterparts, all of which together shall constitute one and the same instrument.

5.2 No amendment of this Agreement shall be effective unless it is in writing and signed by all of the parties hereto.

5.3 This Agreement and the rights and obligations of the parties hereunder shall be construed and governed by the laws of the State of Maine, without reference to choice of law rules.

5.4 This Agreement is not assignable by MMA without the express written consent of the State.

**[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK/
SIGNATURES FOLLOW ON NEXT PAGE]**

IN WITNESS WHEREOF, the parties hereto have executed this Agreement and made it effective as of the date last signed below

Date Signed May 21st, 2009

Melody A. Deaton
Witness

**MONTREAL, MAINE AND ATLANTIC
RAILWAY**

By Robert C. Brundage

Print Name ROBERT C BRUNDAGE

Title PRESIDENT & CEO

Date Signed JUNE 8, 2009

Shirley A. Deaton
Witness

**STATE OF MAINE, acting by and through its
DEPARTMENT OF TRANSPORTATION**

David A. Cole
By David A. Cole, Commissioner

EXHIBIT A

As part of the Montreal, Maine and Atlantic Railway Ltd (MMA) agreement with the State of Maine Department of Transportation (MDOT), MMA commits to not abandoning the following rail lines for a period of ten years from the date of this agreement. The lines that this agreement includes are as follows:

MAIN LINES

The main line of the former Bangor & Aroostook Railroad from Searsport Maine (MP 0 12) to Madawaska Maine (MP 263 33). This line includes the following subdivisions:

- Searsport
- Millinocket
- Madawaska

The main line of the former Canadian Pacific Railway from Brownville Junction (MP 0 0) to the US/Canadian border at Boundary Maine (MP 101 7). This line includes the following subdivisions:

- Moosehead

BRANCH LINES

The following branch lines of the former Bangor and Aroostook Railroad will be operated:

- Van Buren Subdivision from Madawaska Maine (MP 0 0) to Van Buren Maine (MP 24 1)
- Presque Isle Subdivision from Squa Pan Maine (MP 0 0) to Presque Isle (MP 25 3)
- Houlton Subdivision from Oakfield Maine (MP 0 0) to Houlton Maine (MP 16 9)
- Fort Fairfield Subdivision from Presque Isle Maine (MP 0 0) to Easton Maine (MP 10 0)
- KI Subdivision from Brownville Maine (MP 0 85) to Brownville Junction Maine (MP 3 74)
- East Millinocket Subdivision from Millinocket Maine (MP 0 0) to East Millinocket Maine (MP 6 19)

MMA will keep in place the contiguous rail network listed above but reserves the right to alter or remove tracks that are not economically viable such as sidings and yard tracks.

Track Work in Progress

Page 1 of 1

Track Work in Progress - CT -

[Menu Back](#)

Date Submitted 6/8/2009 Submitter Kendra Gero

Approval Rule ID	Seq No	Approval Level	Assignment Date	Assignee Name	Approval Status	Approval User Name
2047	1	1	2009-06-08	MDOT - Rail and Van Pool Appro	Approved	Mane Malloy
2047	2	3	2009-06-09	PC CONTRACT ADMIN APPROVER	Approved	Kathy Paquette
2047	3	4	2009-06-18	PC DIR OF PURCHASES APPROVER	Approved	Kathy Paquette

[View Log](#)

CT #:

CSN:

MODIFICATION #1 TO RAIL FUNDING AGREEMENT

MDOT PROGRAM / DIVISION / OFFICE: Freight Transportation
MDOT Contact Person: Nathan Moulton
Type of Services: Rail Program

Project Location: Statewide
State P.I.N. #:
Federal P.I.N. #:
Appropriation #:
Vendor Customer #:

Original Agreement Maximum Amount: 1,000,000.00
Original Agreement Expiration Date: 12/31/2009
Modified Agreement Maximum Amount: N/A
Modified Agreement Expiration Date: 12/31/2010

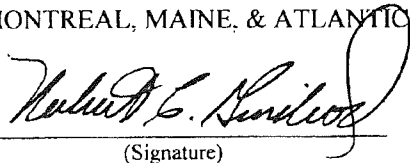
This Modification hereby amends a **Rail Funding Agreement** that was executed by the Department on June 08, 2009 with Montreal, Maine, & Atlantic for **rail improvements** services for the above referenced project as follows:

1. The Expiration Date of the Cooperative Agreement shall be extended from December 31, 2009 to December 31, 2010 due to delays in delivery of materials to complete work.
2. The services to be provided under this Cooperative Agreement shall be modified by N/A.
3. The maximum amount of the Cooperative Agreement shall be increased by: \$ N/A from \$ N/A to \$ N/A due to a change in scope of work as provided in Appendix to this Modification.

All other terms and conditions of the original Project Agreement shall remain in effect. The Department and **Montreal, Maine, & Atlantic** by their duly authorized representatives, have executed this modification to said original Project Agreement on the date last signed below.

MONTREAL, MAINE, & ATLANTIC

MAINE DEPARTMENT OF TRANSPORTATION

By: 
(Signature)

By: 
(Signature)

Robert C. Grindrod, President, CEO
Nov. 13, 2009
(Date Signed)

David A. Cole, Commissioner
Nov. 16, 2009
(Date Signed)

Track Work in Progress - CT

[Menu Back](#)

Date Submitted : 11/16/2009 Submitter : Kendra Gero

Approval Rule ID	Seq No	Approval Level	Assignment Date	Assignee Name	Approval Status	Approval User Name
2047	1	1	2009-11-16	MDOT - Rail and Van Pool Appro	Approved	Marie Malloy
2047	2	3	2009-11-17	PC CONTRACT ADMIN APPROVER	Approved	Kathy Paquette
2047	3	4	2009-11-18	PC DIR. OF PURCHASES APPROVER	Approved	Kathy Paquette

[View Log](#)

EXHIBIT C


UCC FINANCING STATEMENT

FOLLOW INSTRUCTIONS (front and back) CAREFULLY

A. NAME & PHONE OF CONTACT AT FILER [optional]

B. SEND ACKNOWLEDGMENT TO: (Name and Address)

Corporation Service Company
2711 Centerville Road, Suite 400
Wilmington, DE 19808



DELAWARE DEPARTMENT OF STATE
U.C.C. FILING SECTION
FILED 04:27 PM 02/28/2012
INITIAL FILING # 2012 0770703
SRV: 120244841

THE ABOVE SPACE IS FOR FILING OFFICE USE ONLY

1. DEBTOR'S EXACT FULL LEGAL NAME - insert only one debtor name (1a or 1b) - do not abbreviate or combine names

1a. ORGANIZATION'S NAME
Montreal, Maine & Atlantic Railway, LTD.

OR
1b. INDIVIDUAL'S LAST NAME

FIRST NAME	MIDDLE NAME	SUFFIX

1c. MAILING ADDRESS
15 Iron Road

CITY Hermon	STATE ME	POSTAL CODE 04401	COUNTRY USA
----------------	-------------	----------------------	----------------

1d. SEE INSTRUCTIONS

ADD'L INFO RE ORGANIZATION DEBTOR	1e. TYPE OF ORGANIZATION CORP	1f. JURISDICTION OF ORGANIZATION DE	1g. ORGANIZATIONAL ID #, if any 3583244	<input type="checkbox"/> NONE
-----------------------------------	----------------------------------	--	--	-------------------------------

2. ADDITIONAL DEBTOR'S EXACT FULL LEGAL NAME - insert only one debtor name (2a or 2b) - do not abbreviate or combine names

2a. ORGANIZATION'S NAME

OR
2b. INDIVIDUAL'S LAST NAME

FIRST NAME	MIDDLE NAME	SUFFIX

2c. MAILING ADDRESS

CITY	STATE	POSTAL CODE	COUNTRY

2d. SEE INSTRUCTIONS

ADD'L INFO RE ORGANIZATION DEBTOR	2e. TYPE OF ORGANIZATION	2f. JURISDICTION OF ORGANIZATION	2g. ORGANIZATIONAL ID #, if any	<input type="checkbox"/> NONE
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3. SECURED PARTY'S NAME (or NAME of TOTAL ASSIGNEE of ASSIGNOR S/P) - insert only one secured party name (3a or 3b)

3a. ORGANIZATION'S NAME
State of Maine, Department of Transportation

OR
3b. INDIVIDUAL'S LAST NAME

FIRST NAME	MIDDLE NAME	SUFFIX

3c. MAILING ADDRESS
16 State House Station

CITY Augusta	STATE ME	POSTAL CODE 04333-0016	COUNTRY USA
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4. This FINANCING STATEMENT covers the following collateral:

(A) All rail, related cross ties, tie joints, tie plates, switch ties, switches, spikes, joints, anchors and other related track materials incorporated or installed in, attached to or located at or on, the real property described in the Addendum hereto (Form UCC1ad) (the "Property") that have been purchased by the Debtor or for which the purchase price will be or has been reimbursed to the Debtor, in either case using funds advanced or provided to the Debtor by the State ("Rail Assets") pursuant to the terms of certain defined Rail Funding Agreements; and,

(B) Whatever is received upon the sale, exchange, collection or other disposition of the Rail Assets, including but not limited to insurance payable by reason of loss or damage to the Rail Assets.

5. ALTERNATIVE DESIGNATION [if applicable]:

<input type="checkbox"/> LESSEE/LESSOR	<input type="checkbox"/> CONSIGNEE/CONSIGNOR	<input type="checkbox"/> BAILEE/BAILOB	<input type="checkbox"/> SELLER/BUYER	<input type="checkbox"/> AG. LIEN	<input type="checkbox"/> NON-UCC FILING
--	--	--	---------------------------------------	-----------------------------------	---

6. This FINANCING STATEMENT is to be filed [for record] (or recorded) in the REAL ESTATE RECORDS. Attach Addendum

7. Check to REQUEST SEARCH REPORT(S) on Debtor(s) [optional]

All Debtors	Debtor 1	Debtor 2
-------------	----------	----------

8. OPTIONAL FILER REFERENCE DATA

UCC FINANCING STATEMENT ADDENDUM

FOLLOW INSTRUCTIONS (front and back) CAREFULLY

9. NAME OF FIRST DEBTOR (1a or 1b) ON RELATED FINANCING STATEMENT

9a. ORGANIZATION'S NAME		
OR Montreal, Maine & Atlantic Railway, LTD.		
9b. INDIVIDUAL'S LAST NAME	FIRST NAME	MIDDLE NAME, SUFFIX

10. MISCELLANEOUS: DE-Secretary Of State

See Exhibit A attached hereto for description of the Property.

THE ABOVE SPACE IS FOR FILING OFFICE USE ONLY

11. ADDITIONAL DEBTOR'S EXACT FULL LEGAL NAME - insert only one name (11a or 11b) - do not abbreviate or combine names

11a. ORGANIZATION'S NAME			
OR			
11b. INDIVIDUAL'S LAST NAME	FIRST NAME	MIDDLE NAME	SUFFIX
11c. MAILING ADDRESS		CITY	STATE POSTAL CODE COUNTRY

11d. SEE INSTRUCTIONS	ADD'L INFO RE ORGANIZATION DEBTOR	11e. TYPE OF ORGANIZATION	11f. JURISDICTION OF ORGANIZATION	11g. ORGANIZATIONAL ID #, if any	<input type="checkbox"/> NONE
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12. ADDITIONAL SECURED PARTY'S or ASSIGNOR S/P'S NAME - insert only one name (12a or 12b)

12a. ORGANIZATION'S NAME			
OR			
12b. INDIVIDUAL'S LAST NAME	FIRST NAME	MIDDLE NAME	SUFFIX
12c. MAILING ADDRESS		CITY	STATE POSTAL CODE COUNTRY

13. This FINANCING STATEMENT covers timber to be cut or as-extracted collateral, or is filed as a fixture filing.

14. Description of real estate:

16. Additional collateral description:

15. Name and address of a RECORD OWNER of above-described real estate (if Debtor does not have a record interest):

17. Check only if applicable and check only one box.

Debtor is a Trust or Trustee acting with respect to property held in trust or Decedent's Estate

18. Check only if applicable and check only one box.

- Debtor is a TRANSMITTING UTILITY
- Filed in connection with a Manufactured-Home Transaction — effective 30 years
- Filed in connection with a Public-Finance Transaction — effective 30 years

DEBTOR:
Montreal, Maine & Atlantic Railway, LTD.
15 Iron Road
Hermon, ME 04401

SECURED PARTY:
State of Maine, Department of
Transportation
16 State House Station
Augusta, ME 04333-0016

EXHIBIT "A"

PROPERTY

The Property is described as follows:

Debtor's rail corridors situated in the State of Maine, more particularly described as follows:

Main Line Segments

The segment of the main line of the former Bangor and Aroostook Railroad, located in Waldo, Penobscot and Piscataquis Counties, from Searsport, Maine (MP 0.00) to Grindstone, Maine (MP 109).

The segment of the main line of the former Bangor and Aroostook Railroad, located in Aroostook County, from Frenchville, Maine (MP 260) to Madawaska, Maine (MP 264.13).

The segment of the main line of the former Canadian Pacific Railway, located in Piscataquis, Somerset and Franklin Counties, from Brownville Junction, Maine (MP 0.0) to the international border between Maine, USA and Quebec, Canada (MP 101.75).

Branch Lines

The branch line of the former Bangor and Aroostook Railroad known as the Van Buren Subdivision, located in Aroostook County, from Madawaska, Maine (MP V 0.0) to Van Buren, Maine (MP V 23.69), and the line segment from MP V 22.7 in Van Buren, Maine to the international border on the bridge between Van Buren, Maine, USA and St. Leonard, New Brunswick, Canada.

The branch line of the former Bangor and Aroostook Railroad known as the KI Subdivision, located in Piscataquis County, from Brownville, Maine (MP K 0.00) to Brownville Junction, Maine (MP K 3.74).

The branch line of the former Bangor and Aroostook Railroad known as the East Millinocket Subdivision, located in Penobscot County, from Millinocket, Maine (MP E 0.0) to East Millinocket, Maine (MP E 7.67).

EXHIBIT D

Bk 1812 Pg 243 #2296
06-12-2013 @ 12:48p

PARTIAL TERMINATION AND RELEASE OF LIEN

WHEREAS, Montreal, Maine & Atlantic Railway, Ltd., a Delaware corporation with a principal place of business at 15 Iron Road, Hermon, Maine 04401 ("Debtor"), granted a security interest to the State of Maine, acting by and through its Department of Transportation, with a mailing address at 16 State House Station, Augusta, Maine 04333-0016 (the "State") in the Rail Assets as described in an Amended and Restated Purchase Money Security Agreement and Financing Statement executed by Debtor as of December 20, 2011, and by the State as of December 27, 2011 (the "Security Agreement"); and

WHEREAS, the Security Agreement is recorded in the Northern Aroostook Registry of Deeds in Book 1748, Page 260; and

WHEREAS, Debtor is selling that portion of the Rail Assets, located in Frenchville, Madawaska, Grand Isle, and Van Buren, Aroostook County, in or on the segment of the main line of the former Bangor and Aroostook Railroad, located in Aroostook County, from Frenchville, Maine (MP 260) to Madawaska, Maine (MP 264.13), and the connecting branch line known as the Van Buren Subdivision located in Aroostook County, from Madawaska, Maine (MP V 0.0) to Van Buren, Maine (MP V 23.69), and the line segment from MP V 22.7 in Van Buren, Maine to the international border on the bridge between Van Buren, Maine, USA and St. Leonard, New Brunswick, Canada; and

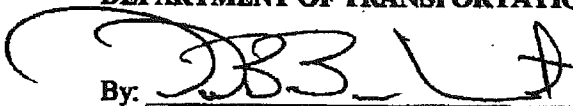
WHEREAS, in connection with and to facilitate that sale, the State has agreed to terminate its lien on the Rail Assets being sold by Debtor, and the proceeds from the sale of such Rail Assets, as described on Schedule 1 attached hereto (the "Released Collateral");

NOW, THEREFORE, FOR GOOD AND VALUABLE CONSIDERATION, the receipt and sufficiency of which is hereby acknowledged, the State hereby terminates, releases and discharges any and all of its rights, security interests, liens and other interests under the Security Agreement, in and to the Released Collateral, but only in and to the Released Collateral.

IN WITNESS WHEREOF, the State has caused this Partial Termination and Release of Lien to be duly executed on this 6 day of JUNE, 2013.

STATE OF MAINE, acting by and through its
DEPARTMENT OF TRANSPORTATION


Witness

By: 
David B. Bernhardt, P.E.
Commissioner

Bk 1812 Pg244 #2296

State of Maine
County of Kennebec

Date: 6-6-13

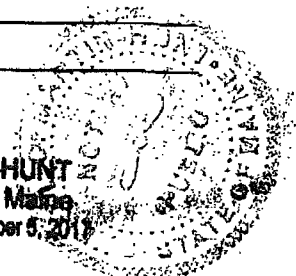
Personally appeared the above-named David B. Bernhardt, Commissioner of the State of Maine Department of Transportation, and acknowledged the foregoing instrument to be his free act and deed in his said capacity and the free act and deed of the State of Maine.

Before me: *Cheryl C. Martin-Hunt*
Notary Public/Attorney at Law

Print Name: _____

My commission expires: _____

CHERYL C. MARTIN-HUNT
Notary Public State of Maine
My commission expires December 5, 2013



Schedule 1

Released Collateral

(A) All of the Rail Assets, located in Frenchville, Madawaska, Grand Isle, and Van Buren, Aroostook County, in or on:

The segment of the main line of the former Bangor and Aroostook Railroad, located in Aroostook County, from Frenchville, Maine (MP 260) to Madawaska, Maine (MP 264.13); and

The branch line of the former Bangor and Aroostook Railroad known as the Van Buren Subdivision, located in Aroostook County, from Madawaska, Maine (MP V 0.0) to Van Buren, Maine (MP V 23.69), and the line segment from MP V 22.7 in Van Buren, Maine to the international border on the bridge between Van Buren, Maine, USA and St. Leonard, New Brunswick, Canada;

and

(B) Whatever proceeds are received upon the sale, exchange, collection or other disposition of the Rail Assets described above.

Partial Termination and Release of Lien
Page 3 of 3

ATTEST: *Lance M. Cesar*
REGISTER OF DEEDS

EXHIBIT E

LOAN AGREEMENT

FOR THE LOAN AND USE OF \$750,000 IN LOCAL RAIL FREIGHT ASSISTANCE (LRFA) FUNDING BY THE MONTREAL, MAINE AND ATLANTIC RAILWAY FOR RAIL IMPROVEMENTS

WHEREAS, Montreal, Maine and Atlantic Railway (MMA) wishes to borrow LRFA funding to provide for infrastructure improvements to its branch rail lines; and

WHEREAS, the State of Maine through its Department of Transportation (MaineDOT) has a current balance of LRFA funds to loan for the purpose of improvements to lower volume freight lines; and

WHEREAS, MMA and MaineDOT agree that the proposed infrastructure improvements to the branch rail lines will improve freight movements and efficiencies on said lines and meet the intent of the LRFA loan program.

NOW, THEREFORE, for valuable consideration, receipt of which is hereby acknowledged, and with the intent to be legally bound hereby, the MaineDOT and MMA agree as follows

Section 1. The Agreement

The Montreal, Maine and Atlantic Railway (MMA) shall borrow \$750,000 in a LRFA loan from MainDOT to carry out eligible projects and tasks in support of rail improvements and operations. The loan shall be used to improve rail properties in support of rail freight service within the State. MMA shall use these funds for approved projects within the following provisions

a. This agreement shall be effective on the date of signature of the Commissioner of the Department of Transportation.

b. Any change to this agreement or any waiver of rights reserved under this agreement must be made in writing as an amendment to this agreement.

c. In performance of its obligations under this agreement the MMA shall comply with and require all contractors to comply with all applicable provisions of Federal, State and local laws and regulations.

d. Records of the MMA's costs for compensation under the project agreement shall be kept in accordance with 23 CFR (Code of Federal Regulations) Part 140 Subpart I – Reimbursement for Railroad Work. To the extent necessary to verify MMA's charges and upon the States timely request, copies of such records shall be made available to the State. Records shall be available for audit or review by the State for a period of three (3) years following final uncontested payment.

e. Direct expenses such as telephone, tolls, reproduction costs, per diem (requires overnight stay) shall be billed at actual cost to the Railroad as defined in 48 CFR, Part 31. The reimbursable costs for per diem shall not exceed that allowed by the State's Administrative Policy Memorandum No. 191. Mileage shall be paid at the current amount allowed by the State of Maine, Title 5 M.R.S.A. § 1541. Reproduction of plans for submittal to the State shall be charged at actual costs. Any reproduction costs incurred for the MMA's internal use are considered overhead expenses and not chargeable as a direct expense.

f. The term of the Loan and this agreement shall be from the date of signature by the Commissioner of MaineDOT through June 30, 2020.

g. As consideration for the State's investment in its rail infrastructure as set forth herein, MMA hereby represents and warrants that it will continue operations on the rail lines in which loan funds were invested for a period of ten years from the date of this Agreement. If MMA abrogates this ten year operating commitment by seeking to abandon its common carrier obligations on any of said rail lines before the ten years of operation are complete, the State may request and will receive immediate repayment of loan funds

Section 2. Repayments of Loan Funds

- a. Funds used by MMA under this agreement are provided as a loan and shall be repaid in twenty(20) equal semiannual installments of \$37,500. The first installment shall be due on December 31, 2009;

succeeding installments shall be due on December 31 and June 30 of each calendar year, with the final installment being June 30, 2020. MMA at its option can at any point during the agreement period make a lump sum payment to pay off the balance of the loan.

Section 3. Project Monitoring

MMA shall monitor project activities for compliance with this agreement and all applicable laws and regulations including:

- a. All eligible expenditures will be accountable within the MMA's project accounting system.
- b. All contractors and subcontractors comply with applicable elements of this agreement and all contract specifications and follow all applicable audit standards.
Verify labor and materials charged by contractors before providing for payments under any contract.
- c. Verify quantities of any uninstalled materials paid for under this agreement and that the materials are secured against damage, theft or unapproved use.
- d. MMA shall follow all applicable Federal and State laws in Procurement of any materials, contractors and consultants using funds from this agreement.

Section 4. Fiscal Control

- a. MMA shall insure all financial records and procedures related to this agreement are compliant with regulations of the Secretary of the Treasury and all other applicable Federal and State laws and procedures including those referenced above. This shall include records of all contractors and subcontractors.

SECTION 5 – DEFAULT AND REMEDIES

MMA hereby agrees that its failure to comply with any of the terms, conditions and warranties set forth herein shall constitute an "Event of Default" under this Agreement. Upon the occurrence of an Event of Default, in addition to any other remedies provided herein, the State shall be entitled to recover from MMA the remaining balance of the loan at that time.

SECTION 6 – GENERAL PROVISIONS

6.1 This Agreement may be executed in counterparts, all of which together shall constitute one and the same instrument.

6.2 No amendment of this Agreement shall be effective unless it is in writing and signed by all of the parties hereto

6.3 This Agreement and the rights and obligations of the parties hereunder shall be construed and governed by the laws of the State of Maine, without reference to choice of law rules.

6.4 This Agreement is not assignable by MMA without the express written consent of the State.

6.5 The MMA agrees to the loan terms as set forth in this agreement and the requirements contained herein.

The rest of this page intentionally left blank

IN WITNESS WHEREOF, the parties hereto have executed this Agreement and made it effective as of the date last signed below

Date Signed: APRIL 17, 2009

**MONTREAL, MAINE AND
ATLANTIC RAILWAY**

Melody A. Spearman
Witness

By: Robert C. Graveland

Print Name: ROBERT C. GRAVELAND

Title: PRESIDENT & CEO

Date Signed: April 21, 2009

**STATE OF MAINE, acting by
through its DEPARTMENT OF
TRANSPORTATION**

Cheryl Martin Hunt
Witness

By: David A. Cole, Commissioner

May 5, 2009

Payable to : Montreal, Maine & Atlantic
15 Iron Road
Hermon, Maine 04401

Local Rail Freight Assistance Loan payment \$750,000
Pursuant to contract

EXHIBIT F

§ 1146.1

Prescription of alternative rail service.

(a) **General.** Alternative rail service will be prescribed under 49 U.S.C. 11123(a) if the Board determines that, over an identified period of time, there has been a substantial, measurable deterioration or other demonstrated inadequacy in rail service provided by the incumbent carrier.

(b) (1) **Petition for Relief.** Affected shippers or railroads may seek the relief described in paragraph (a) of this section by filing an appropriate petition containing:

(i) A full explanation, together with all supporting evidence, to demonstrate that the standard for relief contained in paragraph (a) of this section is met;

(ii) A summary of the petitioner's discussions with the incumbent carrier of the service problems and the reasons why the incumbent carrier is unlikely to restore adequate rail service consistent with current transportation needs within a reasonable period of time;

(iii) A commitment from another available railroad to provide alternative service that would meet current transportation needs (or, if the petitioner is a railroad and does not have an agreement from the alternative carrier, an explanation as to why it does not), and an explanation of how the alternative service would be provided safely without degrading service to the existing customers of the alternative carrier and without unreasonably interfering with the incumbent's overall ability to provide service; and

(iv) A certification of service of the petition, by hand or by overnight delivery, on the incumbent carrier, the proposed alternative carrier, and the Federal Railroad Administration.

(2) **Reply.** The incumbent carrier must file a reply to a petition under this paragraph within five (5) business days.

(3) **Rebuttal.** The party requesting relief may file rebuttal no more than three (3) business days later.

(c) **Presumption of continuing need.** Unless otherwise indicated in the Board's order, a Board order issued under paragraph (a) of this section shall establish a rebuttable presumption that the transportation emergency will continue for more than 30 days from the date of that order.

(d) (1) **Petition to terminate relief.** Should the Board prescribe alternative rail service under paragraph (a), of this section the incumbent carrier may subsequently file a petition to terminate that relief. Such a petition shall contain a full explanation, together with all supporting evidence, to demonstrate that the carrier is providing, or is prepared to provide, adequate service. Carrier are admonished not to file such a petition prematurely.

(2) **Reply.** Parties must file replies to petitions to terminate filed under this subsection within five (5) business days.

(3) **Rebuttal.** The incumbent carrier may file any rebuttal no more than three (3) business days later.

(e) **Service.** All pleadings under this part shall be served by hand or overnight delivery on the Board, the other parties, and the Federal Railroad Administration.

[63 FR 71401, Dec. 28, 1998]

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF MAINE**

In re:) Chapter 11
)
Montreal Maine & Atlantic Railway Ltd.,)
) Case No. 13-10670 (LHK)
Debtor.)
)
)
)
)

CERTIFICATE OF SERVICE

I, the undersigned, certify that I caused to be served, on the 20th day of August, 2013, a true and correct copy of the attached **Response to Debtor's Motion for Order Pursuant to 11 U.S.C. §§ 361, 362 and 363 Authorizing Debtor to Use of Cash Collateral** upon all interested parties via CM/ECF.

By: /s/ William C. Price
William C. Price