Pioneer Railcorp

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To Our Shareholders:

Our 2017 results continue to reflect the ever-changing economic climate and operating challenges impacting Pioneer Railcorp and the railroad industry as a whole. Understanding the story behind our numbers and our continued success necessitates an appreciation for the challenges associated with operating our business particularly when considering we operate 18 short line railroad subsidiaries and ancillary businesses in 12 states. Industry, regulatory and operational challenges are a daily occurrence. Short line operators and the national railroads throughout the U.S. continue to be impacted by factors that challenge growth and sustainability with the high costs associated with infrastructure investments, maintenance and rehabilitation chief among them. With respect to Pioneer's infrastructure investments and maintenance for instance, we reinvest substantially all of our free cash flow annually into our properties, infrastructure and equipment. Political and economic factors affecting our business are energy and fuel markets, coal mining, scrap metal markets and political policy making discord in the U.S. What follows is an overview of our business and summary of our 2017 operations and financial performance.

The geographic dispersion of our operations, weather and track conditions, competition among our operations for capital expenditures and infrastructure improvements, customer demand for shipping by rail, and availability of trucking as an affordable alternative to rail movement all impact our operations and thus operating results. We monitor the results of each of our operations, evaluate strategic alternatives which impact our decisions as to whether to continue or discontinue particular operations and adjust to the operating conditions and challenges presented. First and foremost our goal is to remain a relevant and respected player in the short line marketplace, doing so in a fiscally responsible manner.

Our traffic volumes have been declining slightly since 2014 due in part to continuing domestic and global economic issues which have resulted in customer losses and plant closures along several of our properties, unforeseen plant production disruptions at our largest customer, and the continued challenge of trucking as an affordable alternative to rail (particularly in recent years where fuel prices have been at their lowest levels in several years thus making trucking more affordable than rail traffic for many commodities and many routes) among others. Of note, we have witnessed strong revenue streams from railcar storage and switching of railcars taken out of service and idled since early 2015 to date as a result of the aforementioned economic factors that are resulting in reduced traffic volumes. Nationally, 2016 had the fewest rail carloads since sometime before 1988.

Turning our attention to financial performance, 2017 results are mixed when compared to 2016. Operating income was a loss of $202,000 in 2017 compared to operating income of $1,807,000 in 2016. Net income was $4,121,000 in 2017 compared to $2,466,000 in 2016. Operating revenue was $22,822,000 in 2017 compared to $23,227,000 in 2016, down 2%. Our 2017 switching revenue of $12,531,000 for our carload freight volumes were up 1% in 2017 compared to $12,409,000 in 2016. Our 2017 carloads of 26,043 remained virtually unchanged when compared to 26,128 caloads in 2016. The railcar storage and related switching of storage cars remained lucrative in 2017, however we have seen anticipated declines from record storage levels witnessed in 2016 and 2015. Railcar storage revenues were $4,403,000 in 2017 compared to $4,761,000 in 2016. At December 31, 2017 and as of the writing of this letter, we had 4,500 idled cars stored on our railroads compared to 5,600 and 5,000 at December 31, 2016 and 2015, respectively. Storage has historically consisted primarily of empty sand, coal and oil tanker cars needing to be stored due to the economic climate. A trend we are beginning to capitalize on is storage of loaded railcars as demand for this service grows. Our storage volume peaked at 6,400 cars in August 2016. and our continued decline in storage numbers follows the national trend of fewer railcars in storage. Historically cars moving out of storage and into active use is an indicator of an increased carload volume for railroads. We speculate that we will see steady to slightly declining storage volumes in 2018 with continued declines in 2019; however, this is largely dictated by the economy and thus difficult to project. Revenue from switching of storage cars was $1,152,000 in 2017 compared to $1,230,000 in 2016.

Operating expenses of $23,023,000 for 2017 increased $1,603,000 or 7% from $21,420,000 in 2016. Costs which contribute significantly to our operating expenses are wages and benefits, health and dental costs, depreciation, liability and property insurance, transportation and fuel costs, professional fees, and maintenance of way materials and services. Collectively these costs represent 89% and 88%, respectively, of operating expenses in 2017 and 2016. Our expenses are categorically listed on the accompanying statements of comprehensive income.

With respect to non-operating items of income and expense, the sale of income tax credits associated with the 45G railroad maintenance credit netted $1,809,000 in 2016. Legislation providing for the 45G railroad maintenance credit retractive to 2017 was not passed into law until February 2018. Accordingly, the $1,791,000 benefit of the 45G tax credit sale related to 2017 can not be recognized in our financial statements until 2018. We sell our 45G tax credits for cash profit since under existing income tax practices we have no means of utilizing those tax credits to further offset our current or future federal income tax obligations. We recognized $314,000 in other income as a one-time benefit from lessor forgiveness of certain lease obligations in 2016 and we had no similar transaction in 2017.

Finally, the provision (benefit) for income taxes was a non-cash benefit of $3,884,000 in 2017 compared to a tax provision of $1,301,000 in 2016. The 2017 benefit is attributable to the Tax Cuts and Jobs Act tax reform legislation passed into legislation December 22, 2017. This legislation makes significant changes in U.S. tax law including a reduction in the U.S. corporate income tax rate from 35% to 21%. As a result of the enacted law, the Company was required to revalue its deferred tax assets and liabilities as of December 31, 2017 at the newly enacted rate. This revaluation resulted in a benefit of $4,006,000 to income tax expense in continuing operations and a corresponding reduction in the deferred tax liabilities.

We continue to be committed to having a significant long-term presence in the short line railroad marketplace. We continue to be optimistic about the long-term prospects for the Company.

Respectfully,

J. Michael Carr
President - CEO

Gregory D. Miller
CFO – Treasurer

July 12, 2018