Pioneer Railcorp

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To Our Shareholders:

The year ended 2013 marked a record year in terms of overall profitability for Pioneer Railcorp and its portfolio of short line railroads, equipment leasing and ancillary businesses. While pleased by that fact, understanding the story behind the numbers and our success requires an appreciation for and understanding of the complexities and challenges associated with how we manage, monitor and operate so as to achieve these results. Our management group and team of dedicated employees devote considerable efforts to the seemingly endless task of navigating environmental and regulatory obstacles while embracing our core competencies, preserving our heritage, and guiding the Company toward long-term sustainability. The year ended 2013 evidenced diminished although continued profits from operations bolstered by multiple one-time or nonrecurring items that contributed significantly to our overall profitability. As we have historically reported, our railroad, leasing and ancillary operations are our primary daily focus, however, we devote considerable attention to strategic and operational initiatives that capitalize on and take advantage of these one-time and non-recurring items that contribute significantly to not only our short-term profitability but our prospects for long-term operational benefits. While we are thankful for the multi-year string of profitability, more importantly our experienced management team's efforts and initiatives continue to strengthen our overall financial position and generate positive cash flow. Our 25 rail operations in 13 states as of the end of 2013 are a testament to our stability and industry leadership.

The year ended 2013 reported net income was $4,544,000, or $1.18 per share compared to $919,000, or $.24 per share in 2012. Reported operating income increased $2,147,000 or 110% to $4,103,000 in 2013 compared to $1,956,000 in 2012. Operating income without consideration of the impact of gains on equipment disposals and gain from involuntary conversion of property and equipment, however, was $744,000 in 2013 compared to $1,325,000 in 2012. The effects of lower profits and reduced operating margin in 2013 compared to 2012 after equalizing results for the effects of gains on equipment disposals and involuntary conversion are addressed later in this overview. We would be remiss if we didn't acknowledge that daily operations including regulatory, reporting and legal defense matters surrounding the short line railroad industry prove evermore challenging. Economic uncertainty continues to affect our operations as it does our industry.

In total, our 2013 carloads equaled those of 2012. Our 2012 carloads dropped 3% from 2011 counts. Many factors including the geographic dispersion of our operations, weather conditions, customer stability, and changes in customer demands for the commodities we handle affect the traffic volumes across our railroad operations. Enumerating the impact of the variables impacting each of the railroad operations in our portfolio isn't practical here. Suffice it to say we monitor the results of each of our operations, market our services to existing and potential customers and adjust to the operating conditions and challenges presented. To that end, we are pleased to report that the Napoleon Defiance & Western (NDW) railroad operation we purchased and began operating in late-December 2012 is contributing to our success. This operation contributed almost 2,000 cars of traffic in 2013 which was in line with our projections and approximately $975,000 of revenues in 2013, and although it had marginal profitability in its first year of operation it contributed approximately $310,000 to our cash flow. Conversely, we were adversely affected during the 4th quarter 2013 and through the 1st quarter 2014 by a major bridge collapse on our Keokuk Junction Railway (KJ) operation. That collapse has resulted in rerouting significant traffic volumes on this railroad resulting in an approximate $400,000 drop in revenues in 2013 with a similar projected affect on 1st quarter 2014 revenues.

The U.S. railroad industry as a whole has seen mixed carload volume results with 2013 carloads up only .5% from 2012 while 2012 U.S. carloads declined 3% from 2011. The U.S. rail industry serves as a barometer for the economic strength of the U.S. economy. Our switching revenues grew $419,000 or 3% in 2013, despite carloads in 2013 being equal to those of 2012, because of higher car load pricing and the switching revenue associated with railcar storage. Total operating revenues grew $1,278,000 or 6% for 2013 to $21,637,000 compared to $20,359,000 in 2012. Revenue generated from the storage of railcars on our properties increased 31% to $2,186,000 in 2013 as demand for storage of excess coal cars began to rise in 2012 and remained strong for much of 2013. Railcar storage volumes peaked in the 3rd quarter 2013, began dropping in the 4th quarter 2013 and continues to drop in the 1st quarter 2014 as coal cars go back into service across North America.

In September 2013 we acquired for $490,000 the 20-year lease rights to a 41 mile railroad between Corinth, Mississippi and Red Bay, Alabama as part of our Mississippi Central Railroad (MSCI) and anticipate as a result of synergies and customer agreements that it will contribute up to $200,000 of positive cash flow annually. During 2013 we invested significant capital into improving the debilitated NDW track structure that we acquired in December 2012 and are committed to our continuing investment on this railroad in 2014 and 2015 to bring the line to a level of service that allows us to grow the rail traffic in this corridor. Public support of this operation is positive as to date we have received matching grants approximating $900,000 from the Ohio Rail Development Commission (ORDC) that are assisting with funding the rehabilitation and we are working out the details on a $1,000,000 rehabilitation loan with the ORDC that we hope to finalize in the near future. We continue to be encouraged by the levels of support the NDW operation is receiving from local, county and state officials and the customers located along the railroad.

As mentioned earlier, significant non-recurring transactions contribute to differences between 2013 and 2012 operating results. With respect to operating income, there are two significant matters of note. During 2013 we abandoned 7 miles of unutilized track on the Alabama Railroad Company for a gain of $431,000 and scrapped 142 covered hoppers that were near the end of their useful lives for a gain of $1,065,000. The income-tax free gains generated from these transactions were redirected into several significant railroad track rehabilitation projects and the purchase of 49 replacement covered hopper railcars. Equalizing 2013 and 2012 operating income for the impact of these property transactions along with the operating impacts resulting from the KJ bridge collapse among other things result in more comparable and meaningful results from operations. Non-operating factors having a marked impact on the comparability of 2013 and 2012 financial results include 1) a one-time gain required by accounting standards of $1,483,000 in 2013 related to recognition of insurance proceeds received to date associated with the replacement of the collapsed KJ bridge. We anticipate further insurance proceeds from the insurance company and gains in 2014 as the KJ bridge replacement is finalized, and 2) a $3,212,000 gain recognized in 2013 from the sale of 45G railroad maintenance tax credits applicable to both 2012 and 2013. Due to Congress not passing the law extending the 45G short line railroad maintenance tax credits until early 2013, accounting standards did not permit us to recognize the income from the sale of the 2012 credits until 2013. Hence significant gains in 2013 and none in 2012 associated with the sale of the 45G tax credits.

We want to take an opportunity to recognize that much of what Pioneer Railcorp has become would not have been possible without the foresight and commitment of the Company's founder Guy Brenkman who passed away in September 2013. Although retired from the daily operations since 2006, Guy continued to be a Director of the Company until his death. Consistent with Guy's vision, we are committed to being a significant long-term presence in the short line railroad marketplace. Overall demand for our railroad switching and ancillary services is stable and within our expectations, however, we anticipate a softening of earnings in 2014. Specifically, factors having an impact on our profitability include the KJ bridge collapse, ongoing regulatory and litigation matters, the weaking of the railcar storage market, impacts of weather on our operations, continued economic instability within the U.S., the likelihood in future years of higher railroad liability and railroad property premiums and deductibles, and increased employee health insurance costs, attributable to the effects of unfavorable claims experience within the Company and the industry and the uncertainty of the continued benefits afforded by the 45G shortline railroad maintenance tax credits.These are challenges we have successfully dealt with before over the years and they will always remain a part of the business environment we operate in. Despite these near-term uncertainties, we continue to focus on our daily operations and make decisions that we believe will drive long-term benefits and not simply generate short-term profits or gains. We continue to be optimistic about the long-term prospects for the Company and are pleased that you shareholders have joined us on our quest.

Respectfully,

J. Michael Carr
President - CEO

Gregory D. Miller
CFO - Treasurer

March 26, 2014