Applications of

BOSTON-MAINE AIRWAYS CORP.

for issuance of new or amended certificates of public
convenience and necessity pursuant to 49 U.S.C. 41102
(Interstate and Foreign Large-Aircraft Operations)

RESPONSE OF
BOSTON-MAINE AIRWAYS CORP.
TO REQUEST FOR UPDATED FITNESS INFORMATION

Communications with respect to this document should be sent to:

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Attorneys for
BOSTON-MAINE AIRWAYS CORP.

July 18, 2006
BEFORE THE
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON DC

Applications of

BOSTON-MAINE AIRWAYS CORP.:

for issuance of new or amended certificates of public
convenience and necessity pursuant to 49 U.S.C. 41102
(Interstate and Foreign Large-Aircraft Operations)

Docket OST-00-7668 and
Docket OST-03-14985

July 18, 2006

RESPONSE OF
BOSTON-MAINE AIRWAYS CORP.
TO REQUEST FOR UPDATED FITNESS INFORMATION

Boston-Maine Airways Corp. ("BMAC") hereby submits this Response to the
June 23, 2006 letter from the Department’s Acting Assistant Secretary for Aviation and
International Affairs to counsel for BMAC, requesting BMAC to submit certain updated
financial fitness information, and to report on any other changes affecting BMAC’s
previously-filed fitness-related information.

I. INTRODUCTORY COMMENTS

At the outset, BMAC has a preliminary comment relating to BMAC’s modified
B727 service plans for the next 12 months. As discussed below, BMAC’s planned
substantial service reductions have resulted in both a reduced preoperating cost estimate
and a reduced 12-month operating expense projection, reflecting those planned service
adjustments, in comparison to BMAC’s prior projections in this proceeding.
In connection with the following service plan changes, BMAC notes that a period of more than three years has gone by since the filing of BMAC’s initial request for authority to operate up to a total of seven B727-200 aircraft in interstate and foreign air transportation (Supplement No. 6, filed April 18, 2003), and that nearly a full year has elapsed since the last time that BMAC submitted updated operating and financial fitness information to the Department specifically focused on its pending application for authority to operate four additional B727 aircraft (Supplement No. 15, filed August 2, 2005).

During those time intervals, the circumstances affecting BMAC’s initial application for large aircraft authority (first filed on August 27, 2002) have changed substantially. Partially as a result of lengthy procedural delays which have precluded BMAC’s ability to operate an adequately-sized fleet of more efficient and more competitive B727 aircraft for about two years, and for the past year as a result of the devastating impact on BMAC resulting from the extremely serious unlawful actions of BMAC’s former General Counsel, which first came to light on June 1, 2005, BMAC has incurred very severe operating losses during the past three calendar years, as noted in the Department’s June 23rd letter. In addition, as the Department is well aware, aviation fuel prices have increased dramatically over the past two years, and that cost impact is particularly severe in the case of relatively small-volume purchasers of jet fuel, like BMAC.
As a result of those factors, the senior management of BMAC has decided to make certain substantial changes in BMAC’s previously-planned B727 operations, as discussed below. In addition, the circumstance of escalating fuel costs, with no reversal in sight, is causing BMAC’s senior management to consider replacing BMAC’s current 3-engine B727 aircraft with other newer and more fuel-efficient aircraft of comparable size.

At this time, BMAC is obliged to predicate its current updated first-year operating cost projections contained in this Response on a revised operating plan using its current B727 aircraft. The principal service plan revisions, which will apply immediately to the additional B727 aircraft which BMAC seeks authority to operate at this time, and on which the first-year cost projections are based, are as follows:

First, BMAC now plans to operate only two additional B727 aircraft during the next twelve months, and tentatively plans (subject to market conditions and the financial results of its operations with five B727 aircraft) to operate two additional B727 aircraft beginning at some point during the following year. BMAC desires to continue to prosecute its current seven-aircraft application, but requests the Department to defer action on its application for authority to operate the 6th and 7th B727 aircraft at this time. BMAC will notify the Department, and will file appropriate financial and other fitness information, when it is ready to seek authority to operate two additional large aircraft.

Second, BMAC has decided to focus its new B727 operations exclusively on passenger charter services during the next 12 months, in the interest of reducing the fixed and variable cost of its operations while maintaining or increasing operating revenues.
through increased daily aircraft utilization. BMAC intends to continue to maintain limited scheduled service with one or two of its current B727 aircraft, and will continue to provide scheduled and charter passenger service with its Jetstream aircraft fleet.

II. REVISED AND UPDATED FINANCIAL FITNESS INFORMATION

1. Revised Preoperating and 1st Year Operating Expense Projections

As described above, BMAC has decided to reduce the number of additional B727-200 aircraft it proposes to operate during the next 12 months (following its receipt of authority in this proceeding) to operate only two additional aircraft, for a total fleet of five B727-200 aircraft. In addition, as noted above, BMAC has decided to reduce its already-limited amount of scheduled-service flights with B727 aircraft, and to focus its primary B727 aircraft utilization on charter-only operations, for two basic reasons. First, BMAC believes that it can operate passenger charter flights at a lower total operating cost than the higher level of fixed operating expense necessitated by scheduled-service operations. Second, BMAC believes that its shift in emphasis to B727 charter operations, including both ad hoc charters and longer-term contract charters, will enable BMAC to generate the same or greater annual revenues with B727 aircraft resulting from increased average daily hours of utilization with its B727 fleet.

As indicated in the projected first-year operating statistics for the two additional B727 aircraft, set forth in the attached Exhibit BMA-100, infra, BMAC expects to operate a total of 846 annual charter flights, for a total of 1,566 annual block hours, with
the two additional B727 aircraft. That level of operations is expected to consume an annual total of 2,035,800 gallons of jet fuel (at a fuel burn rate of 1,300 gallons per block hour). That level of increased annual fuel consumption is substantially below the threshold of 10 million gallons constituting a “major regulatory action” under Part 313 of the Department’s Procedural Regulations.

Based on the foregoing level of flight operations, BMAC projects that its first-year operations with two additional B727 aircraft will result in a total of $8,217,000 in increased annual direct and indirect operating costs, as reflected in the detailed 12-month operating expense tabulation set forth in Exhibit BMA-101, infra.

In Exhibit BMA-102, infra, BMAC projects that the addition of two additional B727 aircraft to its active fleet will entail a total out-of-pocket cost of $475,000, primarily attributable to the following expenses: $425,000 for the cost of “C check” maintenance on one of the two new B727 aircraft, and $50,000 for various miscellaneous expenses related to the addition of the other new B727 aircraft.


As a result of the excess of Current Liabilities over Current Assets on BMAC’s March 31, 2006 Balance Sheet, BMAC currently has a negative working capital position of $4,368,674. BMAC recognizes that, under the Department’s established Financial Fitness Test, that negative working capital balance must be combined with all of BMAC’s remaining unpaid Preoperating Expenses of $475,000 and 25 percent of BMAC’s projected first-year operating expenses related to the two new B727 aircraft to
be added to BMAC’s active fleet, amounting to $2,055,000, producing an effective total working capital requirement of $6,898,674.

For the purpose of meeting the projected working capital requirements relating to its railroad and other operating companies, BMAC’s affiliated company, Pan Am Railways, Inc. ("PAR") (formerly Guilford Transportation Industries, Inc.) concluded a new financing agreement on June 30, 2006 with the Bank of America, N.A., and certain other lenders. That Agreement includes a $30 million Revolving Credit Facility for use by PAR in its railroad operations and to provide working capital funding to BMAC. A copy of relevant excerpts from that June 30, 2006 Credit Agreement is set forth in Exhibit BMA-104, infra. An electronic Bank of America statement of the current revolving credit account of PAR as of July 11, 2006, reflecting remaining uncommitted funds of $7,201,041.78, is set forth in Exhibit BMA-105, infra.

As stated in Article VII, Section 7.02(f) at page 69 of the Bank of America Credit Agreement (Exhibit BMA-104, p. 9), the Agreement places a limit of $7 million as a ceiling on the amount of the revolving line of credit which PAR may utilize to provide working capital support to BMAC. As evidenced by the separate commitment letter dated July 18, 2006, from David A. Fink, Chief Executive Officer of PAR, to Eric H. Lawler, Chief Financial Officer of BMAC, PAR has committed to provide up to $7.0 million from the foregoing Bank of America credit facility to provide working capital to BMAC for its operations, whenever and to the extent that such working capital support is
required by BMAC. A copy of that commitment letter is set forth in Exhibit BMA-106, infra.

3. Financial Fitness Test Calculation

As described above, BMAC has projected total remaining unpaid pre-operating expenses associated with the addition of the two B727 aircraft at issue to BMAC’s active aircraft fleet amount to $475,000 (Exhibit BMA-102). In addition, BMAC has projected total additional first-year operating expenses attributable to the two additional aircraft amounting to $8,217,000 (Exhibit BMA-101), of which 25 percent of that total amounts to $2,055,000. As indicated in the attached Exhibit BMA-107, the combination of those two amounts produces a total working capital requirement for BMAC’s addition of two B727 aircraft to its current aircraft fleet amounting to $2,530,000. The inclusion of BMAC’s current negative working capital of $4,368,674 shown on its March 31, 2006 Balance Sheet into BMAC’s total working capital calculation increases its total working capital requirement under the Department’s financial fitness test to $6,898,674.

Evidence that BMAC possesses working capital resources amounting to $7.0 million, as a beneficiary of a $30 million Revolving Credit Agreement between the Bank of America, and other lenders, and BMAC’s affiliated company, PAR, and the related commitment letter between between PAR and BMAC, guaranteeing BMAC’s right to working capital support under that agreement up to $7.0 million, is fully described in the preceding section of this Response and the supporting agreements and third-party verified credit account statement, contained in Exhibits BMA-104, 105 and 106, infra.
As shown in Exhibit BMA-107, that available working capital exceeds BMAC’s total projected working capital requirement by a surplus of $101,326.

III. OTHER CHANGES IN FITNESS-RELATED INFORMATION

1. New Management Personnel

There have been no changes in BMAC’s ownership, board of directors, executive officers or key operating management personnel since BMAC’s most recent filings in this proceeding. The recent promotion of Mr. John R. Butler, BMAC’s former Chief Inspector, to the position of Vice President of Maintenance was reported to the Department in BMAC’s Supplement No. 1 filing on April 24, 2006, together with the promotion of Mr. Kurt A. Lugar to the position of Chief Inspector for BMAC, and that reported included the biographical resumes and fitness questionnaires for both individuals (Supplement No. 1, p. 2 and Exhibits BMA-S/1-101 and 102). Subsequent to that filing, Mr. Butler’s title has been changed to Director of Maintenance, as indicated in the correspondence contained in Exhibit BMA-110, infra.

2. Compliance Disposition, Pending Litigation and Other Fitness Matters

There have been no developments adversely and materially affecting BMAC’s fitness determination subsequent to BMAC’s most recent prior comprehensive fitness information filings on December 30, 2005 and April 24, 2006. BMAC believes, however, that it is appropriate to note the following two matters in connection with this response to the Department’s June 23rd letter.
First, by Order 2006-7-7, served July 7, 2006, BMAC and the Department’s Office of Aviation Enforcement and Proceedings have entered into a consent settlement of certain alleged violations by BMAC of the Department’s regulations and precedents relating to the timely processing and payment by air carriers of passenger requests for refunds of amounts paid for tickets on subsequently-cancelled reservations or flights cancelled by the air carrier. BMAC had paid the amount of all overdue refunds in full prior to its receipt of the Department’s first formal letter requesting information about BMAC’s refund practices, although BMAC acknowledged and voluntarily reported that it had failed to make timely refund payments in a substantial number of instances. The matter was settled on the basis of the entry of a Consent Order and the payment by BMAC of a compromise amount in lieu of civil penalties which might otherwise have been assessed if the case had been litigated.

Second, BMAC continues to be involved as an involuntary party to certain longstanding litigation between the Air Line Pilots Association (ALPA) and BMAC’s now-dormant sister carrier, Pan American Airways, Inc. (Pan Am), currently pending before the U.S. Federal District Court for the District of New Hampshire (Air Line Pilots Association v. Pan American Airways Corp., et. al., case number 1:04-cv-00331 JD).

That litigation arises out of a claim by ALPA that Pan Am and its co-defendants (including BMAC) violated the Railway Labor Act and the terms of a Collective Bargaining Agreement between Pan Am and ALPA, as a result of the decision by the owners of Pan Am to terminate Pan Am’s flight operations and return Pan Am’s Part 121
Certificate to the FAA effective as of November 1, 2004. At bottom, ALPA alleges that the shut-down of Pan Am, and the prior applications by BMAC for authority to operate B727 aircraft, were an unlawful scheme by Pan Am’s owners to terminate ALPA’s pilot representation contract at Pan Am. Pan Am has responded to those allegations by presenting substantial evidence that the shutdown of Pan Am was motivated by the extremely severe and continuing operating losses incurred by Pan Am ever since it was first acquired by its present owners in June 1998, with no end to those losses in prospect in the foreseeable future.

On June 19, 2006, Pan Am, et al. filed a Motion for Summary Judgment. That Motion is awaiting an Answer by ALPA. Pan Am, et al. are confident that their Motion for Summary Judgment will be granted in due course.

IV. CONCLUSION AND REQUEST FOR EXPEDITION

BMAC respectfully submits that it has shown that it is demonstrably and unequivocally fit for certification to operate the additional B727 aircraft at issue in this proceeding, and in all other respects consistent with the continuing fitness requirement of Section 41110(e) of the Federal Aviation Statutes.

As BMAC has requested many times, BMAC earnestly and respectfully requests the Department to review the information set forth in this Response, and any other fitness-related information the Department believes to be relevant and material to the issues in this proceeding, with all due diligence and expedition, and to proceed to issue an
Order authorizing BMAC to operate the two additional B727 aircraft at issue at this stage of this proceeding as expeditiously as possible.

WHEREFORE, BMAC respectfully requests the Department to issue an expedited Order granting BMAC’s pending application for authority to operate two additional B727 aircraft, for a total of five B727 aircraft, and to defer action on the balance of BMAC’s pending application seeking authority to operate a total of seven B727 aircraft in scheduled and charter operations.

Respectfully submitted,

Nathaniel P. Breed, Jr.
ZUCKERT SCOUTT & RASENBERGER, LLP
Attorneys for
BOSTON-MAINE AIRWAYS CORP.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the foregoing Response of Boston-Maine Airways Corp. by messenger, fax, electronic transmission or United States mail, properly addressed and with postage prepaid, upon each of the persons listed in the Service List attached hereto.

Nathaniel P. Breed, Jr.
Washington, D.C.
July 18, 2006
BOSTON-MAINE AIRWAYS CORP.

Updated And Revised Fitness Information

<table>
<thead>
<tr>
<th>Exhibit Number</th>
<th>Title or Description of Contents</th>
</tr>
</thead>
<tbody>
<tr>
<td>BMA-100</td>
<td>Projected First-Year Operating Statistics (2 Additional B727's)</td>
</tr>
<tr>
<td>BMA-101</td>
<td>Projected First-Year Operating Expenses (2 Additional B727's)</td>
</tr>
<tr>
<td>BMA-102</td>
<td>Projected Pre-Operating Expenses (2 Additional B727's)</td>
</tr>
<tr>
<td>BMA-103</td>
<td>Balance Sheet as of March 31, 2006</td>
</tr>
<tr>
<td>BMA-104</td>
<td>Credit Agreement dated June 30, 2006 between Pan Am Railways, Inc. and Bank of America, N.A., et al. (selected excerpts only)</td>
</tr>
<tr>
<td>BMA-105</td>
<td>Letter of Credit Account Statement as of July 1, 2006</td>
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<tr>
<td>BMA-107</td>
<td>Financial Fitness Test Calculation</td>
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**BOSTON-MAINE AIRWAYS CORP.**  
**First-Year Operating Statistics (2 Additional B727’s)**

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<tr>
<th>Item</th>
<th>First-Year Total</th>
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<tr>
<td>Total Charter Flights</td>
<td>846</td>
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<tr>
<td>Total Added Block Hours</td>
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<tr>
<td>Est. Charter Revenue per Block Hour</td>
<td>$6,583.00</td>
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<td>Fuel Burn per Block Hour</td>
<td>1,300 gal.</td>
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<tr>
<td>Total Added Annual Fuel Consumption</td>
<td>2,035,800 gal.</td>
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<td>Projections</td>
<td>Current 727 Fleet</td>
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<tr>
<td>-----------------------------</td>
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<tr>
<td>Scheduled Service Passengers Carried</td>
<td>29,903</td>
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<tr>
<td>Scheduled Service Revenue Per Passenger</td>
<td>94.00</td>
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<td>Load Factor</td>
<td>76%</td>
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<tr>
<td>Charter Revenue Per Block Hour</td>
<td>6,583</td>
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**OPERATING REVENUES (000)**

- Charter Revenue: 20,822, 6,873, 3,437
- Passenger Revenue: 2,812, 0, 0
- Misc. Passenger Revenue: 140, 0, 0
- Miscellaneous Revenue: 120, 0, 0

**Total Operating Revenue**: 23,894, 6,873, 3,437

**OPERATING EXPENSES (000)**

- Operations: 3,600, 500, 250
- Aircraft Fuel: 11,543, 3,054, 1,527
- Passenger Taxes & Fees: 520, 173, 87
- Operations Support-Pax Services: 299, 98, 49
- Maintenance: 2,162, 360, 180
- Facilities: 840, 0, 0
- Sales & Marketing: 360, 30, 15
- Stations: 3,515, 1,023, 512
- General & Administrative: 2,640, 240, 120

**Total Operating Expenses**: 25,479, 5,478, 2,739

**Operating Income (Loss)**: (1,585), 1,395, 698

**Flight Summaries**

- Scheduled Service Flights: 277, 0, 0
- Scheduled Service Block Hours: 728, 0, 0
- Charter Flights: 2,115, 564, 282
- Charter Block Hours: 3,163, 1,044, 522

**All Flights**: 2,392, 564, 282

**All Block Hours**: 3,891, 1,044, 522

**Reserves**

- Addition Percentage
- Amount (000)
  - (4th) Additional Aircraft @ 25% | 1,370
  - (5th) Additional Aircraft @ 25% | 685
  - 50% utilization estimate
    | Total | 2,054

DOTProjections\add2aircraft(2).xls
Boston Maine Airways Corporation

Projected Next Two B 727 Pre-Operating Expenses

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<th>Expense Item</th>
<th>Estimated Cost</th>
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<tbody>
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<td>N346 PA</td>
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<td>N343 PA</td>
<td>C Check</td>
<td>$425,000.00</td>
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Total Cost for 2 Additional Planes in 2006 $475,000.00

DOT ADD'I Aircraft.xls
U.S. Department of Transportation  
Bureau of Transportation Statistics  
Office of Airline Information

REPORT OF FINANCIAL  
AND OPERATING STATISTICS FOR  
LARGE CERTIFICATED  
AIR CARRIERS

Period ended **MARCH 31, 2006**

**BOSTON-MAINE AIRWAYS CORP**  
(Full name of reporting company)

----------------------------------------

CERTIFICATION*

I, the undersigned  
**TREASURER**  
(Title of officer in charge of accounts)  
of the  
**BOSTON-MAINE AIRWAYS CORP**  
(Full name of reporting company)

do certify that this report and all schedules, ADP-media submissions,  
Passenger Origin-Destination Survey submissions and supporting documents  
which are submitted herewith or have been submitted heretofore as parts  
of this report filed for the above indicated period have been prepared  
under my direction; that I have carefully examined them and declare that  
they correctly reflect the accounts and records of the company, and to  
the best of my knowledge and belief are a complete and accurate statement,  
after adjustments to reflect full accruals, of the operating  
revenues and expenses, income items, assets, liabilities, capital,  
retained earnings, and operating statistics for the periods reported  
in the several schedules, the Schedule T-100 ADP-media submissions, and  
the Passenger Origin-Destination Survey; that the various items herein  
reported were determined in accordance with the Uniform System of  
Accounts and Reports for Large Certificated Air Carriers prescribed by  
the Department of Transportation; and that the data contained herein are  
reported on a basis consistent with that of the preceding report except  
as specifically noted in the financial and statistical statements.

**J L Casey**  
(Signature)

**14 AVIATION AVE, PORTSMOUTH, NH 03801**  
(Air Carrier Post Office Address)

Dated **MAY 10, 2006**

*Title 18 U.S.C. Sec. 1001, Crimes and Criminal Procedure, makes it a  
criminal offense subject-to a maximum fine of $10,000 or imprisonment  
for not more than 5 years, or both, to knowingly and willfully make or  
cause to be made any false or fraudulent statements or representations  
in any matter within jurisdiction of any agency of the United States.

BTS Form 41 Schedule A
## BALANCE SHEET

**As At:** MARCH 31, 2006  
**Air Carrier:** BOSTON-MAINE AIRWAYS  
**Operation:** Domestic E9DD  

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<td>Notes Receivable</td>
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<td>1895</td>
<td>Total Other Assets</td>
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<tr>
<td>1899</td>
<td>TOTAL ASSETS</td>
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**BALANCE SHEET**

As At: MARCH 31, 2006  
Air Carrier: BOSTON-MAINE AIRWAYS  
Operation : Domestic E9DD

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<th>ACCT#</th>
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<td>2005</td>
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<td>2015</td>
<td>Notes Payable - Others</td>
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<td>2021</td>
<td>Trade Accts. Payable</td>
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<td>Curr. Oblig. Under Cap. Leases</td>
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<td>2110</td>
<td>Accrued Salaries &amp; Wages</td>
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<td>2120</td>
<td>Accrued Vacation Pay</td>
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<td>2130</td>
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CREDIT AGREEMENT

Dated as of June 30, 2006

among

PAN AM RAILWAYS, INC.

as the Borrower,

BANK OF AMERICA, N.A.,

as Administrative Agent and L/C Issuer,

and

The Other Lenders Party Hereto

BANC OF AMERICA SECURITIES LLC,

as

Arranger
CREDIT AGREEMENT

This CREDIT AGREEMENT ("Agreement") is entered into as of June 30, 2006 among PAN AM RAILWAYS, INC. (formerly known as Guilford Transportation Industries, Inc.), a Delaware corporation (the "Borrower"), each lender from time to time party hereto (collectively, the "Lenders" and individually, a "Lender"), and BANK OF AMERICA, N.A., as Administrative Agent and L/C Issuer.

The Borrower has requested that the Lenders provide a term loan facility and a revolving credit facility, and the Lenders are willing to do so on the terms and conditions set forth herein.

In consideration of the mutual covenants and agreements herein contained, the parties hereto covenant and agree as follows:

ARTICLE I.
DEFINITIONS AND ACCOUNTING TERMS

1.01. Defined Terms. As used in this Agreement, the following terms shall have the meanings set forth below:

"ABR" means, when used in reference to any Loan or Borrowing, that such Loan or the Loans comprising such Borrowing are bearing interest at a rate determined by reference to the Alternate Base Rate.

"ABR Loan" means a Loan that bears interest based on the Alternate Base Rate.

"ACH Transaction" means any cash management or related services (including Automated Clearing House processing of electronic funds transfers through the direct Federal Reserve Fedline system) provided by Bank of America or its Affiliates for the account of the Borrower.

"Administrative Agent" means Bank of America in its capacity as administrative agent under any of the Loan Documents, or any successor administrative agent.

"Administrative Agent's Office" means the Administrative Agent's address and, as appropriate, account as set forth on Schedule 10.02, or such other address or account as the Administrative Agent may from time to time notify to the Borrower and the Lenders.

"Administrative Questionnaire" means an Administrative Questionnaire in a form supplied by the Administrative Agent.

"Affiliate" means, with respect to any Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified.

"Aggregate Commitments" means the Commitments of all the Lenders.

"Agreement" means this Credit Agreement.
reimburse the Administrative Agent or any Lender as a result of the Administrative Agent or such Lender purchasing participations or executing indemnities or reimbursement obligations with respect to Bank Products provided to Borrower pursuant to the Bank Product Agreements.

"Bank Products" means any service or facility extended to the Borrower by any Lender or any Affiliate of any Lender including: (a) credit cards, (b) credit card processing services, (c) debit cards, (d) purchase cards, (e) ACH Transactions, or (f) cash management, including controlled disbursement, accounts, or services.

"Borrower" has the meaning specified in the introductory paragraph hereto.

"Borrower Materials" has the meaning specified in Section 6.02.

"Borrowing" means a Revolving Credit Borrowing or a Term Loan Borrowing, as the context may require.

"Boston and Maine" means Boston and Maine Corporation, a Delaware corporation and a wholly-owned Subsidiary of the Borrower.


"Business Day" means any day other than a Saturday, Sunday or other day on which commercial banks are authorized to close under the Laws of, or are in fact closed in, the state where the Administrative Agent's Office is located and, if such day relates to any Eurodollar Rate Loan, means any such day on which dealings in Dollar deposits are conducted by and between banks in the London interbank Eurodollar market.

"Cape Town Convention" means, collectively, the official English language texts of the Convention on International Interests in Mobile Equipment (the "Convention") and the Protocol to the Convention on International Interests in Mobile Equipment on Matters Specific to Aircraft Equipment (the "Aircraft Protocol"), adopted on November 16, 2001, at a diplomatic conference in Cape Town, South Africa.

"Cash Collateralize" has the meaning specified in Section 2.03(g).

"Cash Equivalents" means, as to the Borrower and its Subsidiaries, (a) securities issued or directly and fully guaranteed or insured by the United States of America and having a maturity of not more than six (6) months from the date of acquisition; (b) certificates of deposit, time deposits and eurodollar time deposits with maturities of six (6) months or less from the date of acquisition, bankers' acceptances with maturities not exceeding six (6) months and overnight bank deposits, in each case, (i) with any Lenders or (ii) with any domestic commercial bank organized under the laws of the United States of America or any state thereof or a foreign subsidiary of such bank, in each case having a rating of not less than A or its equivalent by S&P or any successor and having capital and surplus in excess of $1,000,000,000; (c) repurchase obligations with a term of not more than seven (7) days for underlying securities of the types described in clauses (a) and (b) above; (d) any commercial paper or finance company paper
date, the amount of such L/C Obligations on such date after giving effect to any L/C Credit Extension occurring on such date and any other changes in the aggregate amount of the L/C Obligations as of such date, including as a result of any reimbursements by the Borrower of Unreimbursed Amounts or any reductions in the maximum amount available for drawing under Letters of Credit taking effect on such date.


"Pan Am Systems" means Pan Am Systems, Inc., a Florida corporation and the parent holding company of the Borrower, Pan American Airways Corp. and Boston-Maine Airways.

"Participant" has the meaning specified in Section 10.06(d).

"PBGC" means the Pension Benefit Guaranty Corporation.

"PCAOB" means the Public Company Accounting Oversight Board.

"Pension Plan" means any "employee pension benefit plan" (as such term is defined in Section 3(2) of ERISA), other than a Multiemployer Plan, that is subject to Title IV of ERISA and is sponsored or maintained by the Borrower or any ERISA Affiliate or to which the Borrower or any ERISA Affiliate contributes or has an obligation to contribute, or in the case of a multiple employer or other plan described in Section 4064(a) of ERISA, has made contributions at any time during the immediately preceding five plan years.

"Perfection Certificates" means the Perfection Certificates as defined in the Security Agreement.

"Perma Treat" means Perma Treat Corporation, a Delaware corporation and a wholly-owned Subsidiary of the Borrower.

"Permitted Encumbrances" has the meaning specified in the Real Estate Mortgages.

"Person" means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

"Plan" means any "employee benefit plan" (as such term is defined in Section 3(3) of ERISA) established by the Borrower or, with respect to any such plan that is subject to Section 412 of the Code or Title IV of ERISA, any ERISA Affiliate.

"Platform" has the meaning specified in Section 6.02.

"Pledge Agreements" means, collectively, (a) the Pledge Agreement, dated as of the Closing Date, by and between the Borrower and the Administrative Agent, for the benefit of the Secured Parties, and (b) the Pledge Agreement, dated as of the Closing Date, by and among the Guarantors and the Administrative Agent, for the benefit of the Secured Parties, each in form and substance satisfactory to the Administrative Agent.
Party for any capital expenditure relating to air transportation or air transportation assets (whether with respect to a business of such Loan Party or with respect to a business of an Affiliate or otherwise), including, without limitation, acquisitions or agreements to acquire, whether for lease or for such Loan Party's own use, any aircraft or aircraft engines, other than expenditures for routine, ordinary course maintenance of aircraft, aircraft engines and related equipment owned by such Loan Party as of such date.

"Restricted Payment" means any dividend or other distribution (whether in cash, securities or other property) with respect to any capital stock or other Equity Interest of the Borrower or any Subsidiary, or any payment (whether in cash, securities or other property), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, acquisition, cancellation or termination of any such capital stock or other Equity Interest, or on account of any return of capital to the Borrower's stockholders, partners or members (or the equivalent Person thereof), and any Restricted Investment.

"Revolving Credit Borrowing" means a borrowing consisting of simultaneous Revolving Credit Loans of the same Type and, in the case of Eurodollar Rate Loans, having the same Interest Period made by each of the Revolving Credit Lenders pursuant to Section 2.01(b).

"Revolving Credit Commitment" means, as to each Revolving Credit Lender, its obligation to (a) make Revolving Credit Loans to the Borrower pursuant to Section 2.01, and (b) purchase participations in L/C Obligations, in an aggregate principal amount at any one time outstanding not to exceed the amount set forth opposite such Lender's name on Schedule 2.01 under the caption "Revolving Credit Commitment" or opposite such caption in the Assignment and Assumption pursuant to which such Lender becomes a party hereto, as applicable, as such amount may be adjusted from time to time in accordance with this Agreement.

"Revolving Credit Facility" means, at any time, the aggregate amount of the Revolving Credit Lenders’ Revolving Credit Commitments at such time.

"Revolving Credit Facility Maturity Date" means June 30, 2011; provided, however, that, in each case, if such date is not a Business Day, the Revolving Credit Facility Maturity Date shall be the next preceding Business Day.

"Revolving Credit Lender" means, at any time, any lender that has a Revolving Credit Commitment at such time.

"Revolving Credit Loan" has the meaning specified in Section 2.01(b).

"Revolving Credit Note" means a promissory note made by the Borrower in favor of a Revolving Credit Lender evidencing Revolving Credit Loans made by such Revolving Credit Lender, substantially in the form of Exhibit B-1.

"S&P" mean Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. and any successor thereto.

(b) The Revolving Credit Borrowings. Subject to the terms and conditions set forth herein, each Revolving Credit Lender severally agrees to make loans (each such loan, a "Revolving Credit Loan") to the Borrower from time to time, on any Business Day during the Availability Period, in an aggregate amount not to exceed at any time outstanding the amount of such Lender's Revolving Credit Commitment; provided, however, that after giving effect to any Revolving Credit Borrowing, (i) the Total Revolving Credit Outstandings shall not exceed the Revolving Credit Facility, and (ii) the aggregate Outstanding Amount of the Revolving Credit Loans of any Revolving Credit Lender, plus such Revolving Credit Lender's Applicable Revolving Credit Percentage of the Outstanding Amount of all L/C Obligations shall not exceed such Revolving Credit Lender's Revolving Credit Commitment. Within the limits of each Lender's Revolving Credit Commitment, and subject to the other terms and conditions hereof, the Borrower may borrow under this Section 2.01(b), prepay under Section 2.04(e), and reborrow under this Section 2.01(b). Revolving Credit Loans may be ABR Loans or Eurodollar Rate Loans, as further provided herein.

2.02. Borrowings, Conversions and continuations of Loans.

(a) Each Term Loan Borrowing, each Revolving Credit Borrowing, each conversion of Term Loans or Revolving Credit Loans from one Type to the other, and each continuation of Eurodollar Rate Loans shall be made upon the Borrower's irrevocable notice to the Administrative Agent, which may be given by telephone. Each such notice must be received by the Administrative Agent not later than 11:00 a.m. (i) three Business Days prior to the requested date of any Borrowing of, conversion to or continuation of Eurodollar Rate Loans or of any conversion of Eurodollar Rate Loans to ABR Loans, and (ii) on the requested date of any Borrowing of ABR Loans. Each telephonic notice by the Borrower pursuant to this Section 2.02(a) must be confirmed promptly by delivery to the Administrative Agent of a written Committed Loan Notice, appropriately completed and signed by a Responsible Officer of the Borrower. Each Borrowing of, conversion to or continuation of Eurodollar Rate Loans shall be in a principal amount of $5,000,000 or a whole multiple of $1,000,000 in excess thereof. Except as provided in Sections 2.03(e) and 2.04(e), each Borrowing of or conversion to ABR Loans shall be in a principal amount of $500,000 or a whole multiple of $100,000 in excess thereof. Each Committed Loan Notice (whether telephonic or written) shall specify (i) whether the Borrower is requesting a Term Loan Borrowing, a Revolving Credit Borrowing, a conversion of Term Loans or Revolving Credit Loans from one Type to the other, or a continuation of Eurodollar Rate Loans, (ii) the requested date of the Borrowing, conversion or continuation, as the case may be (which shall be a Business Day), (iii) the principal amount of Loans to be borrowed, converted or continued, (iv) the Type of Loans to be borrowed or to which existing Term Loans or Revolving Credit Loans are to be converted, and (v) if applicable, the duration of the Interest Period with respect thereto. If the Borrower fails to specify a Type of Loan in a Committed Loan Notice or if the Borrower fails to give a timely notice requesting a conversion or continuation, then the applicable Term Loans or Revolving Credit Loans shall be made as, or converted to, ABR Loans. Any such automatic conversion to ABR Loans shall be effective as of the last day of the Interest Period then in effect with respect to the applicable Eurodollar Rate Loans. If the Borrower requests a Borrowing of, conversion to, or continuation of Eurodollar Rate Loans in any such Committed Loan Notice, but fails to specify an Interest Period, it will be
(vi) environmental reports as to the properties described in the Real Estate Mortgages, in form and substance and from professional firms acceptable to the Administrative Agent.

(vii) flood zone certificates as to the properties described in the Real Estate Mortgages, in form and substance and from professional firms acceptable to the Administrative Agent, and

(viii) evidence that all other action that the Administrative Agent may deem necessary or desirable in order to create valid first and subsisting Liens on the property described in the Real Estate Mortgages has been taken;

(b) a favorable opinion of local real estate counsel to the Loan Parties in the Commonwealth of Massachusetts, addressed to the Administrative Agent and each Lender, in form and substance satisfactory to the Administrative Agent and the Lenders;

(c) a favorable opinion of local real estate counsel to the Loan Parties in the State of New Hampshire, addressed to the Administrative Agent and each Lender, in form and substance satisfactory to the Administrative Agent and the Lenders;

(d) a favorable opinion of local real estate counsel to the Loan Parties in the State of Maine, addressed to the Administrative Agent and each Lender, in form and substance satisfactory to the Administrative Agent and the Lenders; and

(e) favorable opinion of local real estate counsel to the Loan Parties in the State of New York, addressed to the Administrative Agent and each Lender, in form and substance satisfactory to the Administrative Agent and the Lenders.

6.15. Additional Guarantors. Notify the Administrative Agent at the time that any Person becomes a Subsidiary, and promptly thereafter (and in any event within 30 days), cause such Person to (a) become a Guarantor by executing and delivering to the Administrative Agent a joinder to the Guaranty or such other document as the Administrative Agent shall deem appropriate for such purpose and (b) deliver to the Administrative Agent documents of the types referred to in clauses (iii) and (iv) of Section 4.01(a) and favorable opinions of counsel to such Person (which shall cover, among other things, the legality, validity, binding effect and enforceability of the documentation referred to in clause (a)), all in form, content and scope reasonably satisfactory to the Administrative Agent.

ARTICLE VII.
NEGATIVE COVENANTS

So long as any Lender shall have any Commitment hereunder, any Loan or other Obligation hereunder shall remain unpaid or unsatisfied, or any Letter of Credit shall remain outstanding, the Borrower shall not, nor shall it permit any Subsidiary to, directly or indirectly:

7.01. Liens. Create, incur, assume or suffer to exist any Lien upon any of its property, assets or revenues, whether now owned or hereafter acquired, other than the following:
(a) Liens pursuant to any Loan Document:

(b) Liens consisting of (i) pledge of Boston and Maine's Equity Interests in NorthPoint and (ii) Lien on Boston and Maine's real property interest in NorthPoint, in each case, in favor of any secured lender financing NorthPoint:

(c) a Lien consisting of a pledge by the Borrower of its Equity Interests in Maine Central in favor of the Stockholder to secure the Stockholder Loan:

(d) Liens existing on the date hereof and listed on Schedule 7.01 and any renewals or extensions thereof, provided that (i) the property covered thereby is not changed, (ii) the amount secured or benefited thereby is not increased except as contemplated by Section 7.03(d), (iii) the direct or any contingent obligor with respect thereto is not changed, and (iv) any renewal or extension of the obligations secured or benefited thereby is permitted by Section 7.03(d):

(e) Liens for taxes not yet due or which are being contested in good faith and by appropriate proceedings diligently conducted, if adequate reserves with respect thereto are maintained on the books of the applicable Person in accordance with GAAP:

(f) carriers', warehousemen's, mechanics', materialmen's, repairmen's or other like Liens (except such Liens on any of the Collateral which is subject to the Real Estate Mortgages) arising in the ordinary course of business which are not overdue for a period of more than 30 days or which are being contested in good faith and by appropriate proceedings diligently conducted, if adequate reserves with respect thereto are maintained on the books of the applicable Person:

(g) pledges or deposits in the ordinary course of business in connection with workers' compensation, unemployment insurance and other social security legislation, other than any Lien imposed by ERISA:

(h) deposits to secure the performance of bids, trade contracts and leases (other than Indebtedness), statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business;

(i) easements, rights-of-way, restrictions and other similar encumbrances affecting real property which, in the aggregate, are not substantial in amount, and which do not in any case materially detract from the value of the property subject thereto or materially interfere with the ordinary conduct of the business of the applicable Person:

(j) filings with the International Registry to evidence the Borrower's ownership interest in the Collateral described by the Aircraft Mortgage;

(k) Liens securing judgments for the payment of money not constituting an Event of Default under Section 8.01(h):

(l) Liens securing Indebtedness permitted under Section 7.03(g); provided that (i) such Liens do not at any time encumber any property other than the property financed by such
Indebtedness and (ii) the Indebtedness secured thereby does not exceed the cost or fair market value, whichever is lower, of the property being acquired on the date of acquisition; and

(m) Permitted Encumbrances under the Real Estate Mortgages.

7.02. Investments. Make any Investments, except:

(a) Investments in cash or Cash Equivalents;

(b) advances to officers, directors and employees of the Borrower and Subsidiaries in an aggregate amount not to exceed $250,000 at any time outstanding, for travel, entertainment, relocation and analogous ordinary business purposes;

(c) Investments of the Borrower in any Guarantor (other than Maine Central) and Investments of any Guarantor in the Borrower or in another Guarantor (other than Maine Central);

(d) Investments consisting of extensions of credit in the nature of accounts receivable or notes receivable arising from the grant of trade credit in the ordinary course of business, and Investments received in satisfaction or partial satisfaction thereof from financially troubled account debtors to the extent reasonably necessary in order to prevent or limit loss;

(e) Guarantees permitted by Section 7.03;

(f) Restricted Investments in an aggregate amount not to exceed $7,000,000 at any time; provided, however, that such amount shall be increased by an amount equal to 50% of Consolidated Net Income earned in the immediately preceding fiscal year, commencing with the 2007 fiscal year after the Administrative Agent’s receipt of the audited financial statements for the fiscal year ended December 31, 2006 required to be delivered pursuant to Section 6.01(a); provided, further, that so long as the Borrower has complied with Section 6.12, the Consolidated Net Income for the fiscal year ended December 31, 2006 shall take into account a deduction for a write-off with respect to aircraft in an amount of up to $30,000,000, and

(g) Investments for the purpose of acquiring the Equity Interests or assets of any Person (other than the Borrower or an Affiliate of the Borrower) or any business, division or operating unit thereof, in an aggregate amount not to exceed $5,000,000 at any time, provided, that if such Person shall become a Subsidiary of the Borrower as a result of such acquisition, Borrower shall cause such Person to comply with Section 6.15.

7.03. Indebtedness. Create, incur, assume or suffer to exist any Indebtedness, except:

(a) Indebtedness under the Loan Documents;

(b) the Stockholder Loan;

(c) current accounts payable, accrued expenses and other expenses arising out of transactions (other than borrowings) in the ordinary course of business;
IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

PAN AM RAILWAYS, INC. (formerly known as Guilford Transportation Industries, Inc.)

By: [Signature]
Name: [Name]
Title: [Title]

BANK OF AMERICA, N.A., as Administrative Agent

By: [Signature]
Name: Matthew C. Corruba
Title: Assistant Vice President

BANK OF AMERICA, N.A., as a Lender and L/C Issuer

By: [Signature]
Name: [Name]
Title: [Title]

WESTLB AG, NEW YORK BRANCH, as a Lender

By: [Signature]
Name: Sarah S. Gu Федерини
Title: Director

By: [Signature]
Name: Thomas J. Rapp
Title: Director

Credit Agreement
## SCHEDULE 2.01

### COMMITMENTS AND APPLICABLE PERCENTAGES

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<th>Lender</th>
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<th>Revolving Credit Commitment</th>
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Select History Transactions To Display.
F1=Help  F3=Exit  F4=Prompt  F12=Cancel  F14=Messages  F16=Range  F18=User Bal
F19=T/Exit
Mr. Eric H. Lawler  
Senior Vice President and  
Chief Financial Officer  
Boston-Maine Airways Corp.  
14 Aviation Avenue  
Portsmouth, NH 03801

Dear Mr. Lawler:

As we have discussed, I understand that Boston-Maine, which has a pending application for expanded large-aircraft authority before the U.S. Department of Transportation, is required to have and maintain on hand, or have on-demand access to, an amount of working capital sufficient to satisfy the DOT’s financial fitness test applicable to Boston-Maine’s first year of operations pursuant to that expanded authority. I understand further that the amount of additional working capital required by Boston-Maine, over and above its current net working capital, is approximately $7,000,000.00.

The purpose of this letter is to confirm to you, and to the DOT, that Boston-Maine’s affiliated company Pan Am Railways, Inc. (“PAR”), of which I am the Chief Executive Officer and a director, is prepared and willing to make available up to a total of $7,000,000.00 to Boston-Maine, upon request of Boston-Maine to PAR, during a period of not less than one year, beginning on the date that Boston-Maine receives authority from the DOT to operate a total of two (2) additional B-727-200 aircraft for a total large aircraft fleet of five (5) B-727-200 aircraft in interstate and foreign air transportation, and ending on the date at which Boston-Maine has completed one full year of such expanded operations.

In order to provide Boston-Maine with this funding, PAR will commit up to $7 million of its $30 million Revolving Credit Agreement between PAR and Bank of America and other lenders—as authorized by the Credit Agreement—guaranteeing Boston-Maine’s right to working capital support under that agreement.
In the near future, we will memorialize the foregoing commitment, and its terms and conditions, in a formal Irrevocable Standby Letter of Credit Agreement between PAR and Boston-Maine.

Sincerely,

[Signature]
David A. Pink
Chief Executive Officer
BOSTON-MAINE AIRWAYS CORP.
Total Working Capital Requirement and Resources
Addition of Two (2) B-727-200 Aircraft to the Fleet

Working Capital Requirement

25% of Full-Year Operating Expense
   (4th B-727 Aircraft) $1,370,000
25% of Full-Year Operating Expense/ Spare plane
   (5th B-727 Aircraft) 685,000
Projected Unpaid Pre-Operating Expense 475,000

Total Working Capital Requirement $2,530,000

Working Capital

Net Working Capital on Hand (per 3/31/05 balance sheet)
   (current assets less current liabilities) (4,368,674)
Pan Am Railways Inc. LOC with Bank of America 7,000,000

Total Working Capital 2,631,326

Working Capital Surplus $101,326

DOT Working Capticial Requirements- 2 additional aircraft(1).xls
July 13, 2006

Mr. Victor Roxas
Principal Maintenance Inspector
Federal Aviation Administration
South Florida FSDO-29
5601 Mariner Street Suite 310
Tampa, Fl. 33609-3416

Subject: Personnel Changes

Dear Mr. Roxas,

This is to advise you that effective July 16, 2006 I will assume the position Director of Maintenance in accordance with FAR 119.67c. Mr. Holder has assumed the duties of Maintenance Manager. Along with this change the company has decided to temporarily eliminate the Vice President of Maintenance position, therefore the Chief Inspector and the Director of Maintenance will report to the President. In the near future the GMM will be changed to show this reporting procedure. With your concurrence we are in the process of updating the OPS Specs to reflect this change.

Should you have any questions please do not hesitate to contact the undersigned at (407) 585-4324 or Fax at (321) 283-2250.

Sincerely,

[Signature]
John Butler
Vice President of Maintenance

cc: David Fink
    Robert Culliford
    Kurt Lugar
    Gordon Long
    Bill Davidson

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