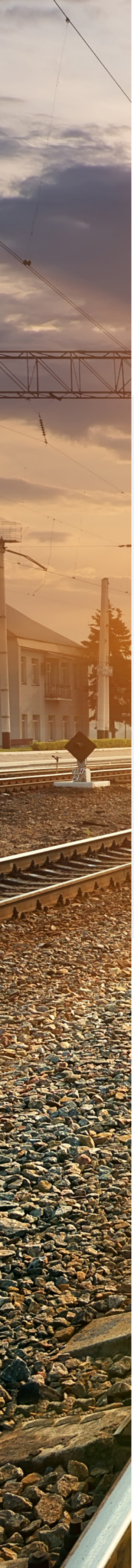


NORTH CAROLINA RAILROAD COMPANY

ANNUAL REPORT 2015

NORTH CAROLINA'S PARTNER

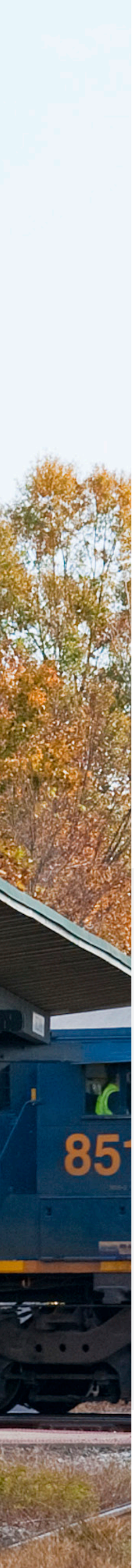


TABLE OF CONTENTS

OUR MISSION:

To develop the unique North Carolina Railroad assets for the good of the people of North Carolina.

OUR VISION:

To improve our state by:

Enabling freight to grow business;

Expanding rail to move people;

Investing in North Carolina.

LETTER FROM THE CHAIRMAN

2015 was a year of action and collaboration for the North Carolina Railroad.

The Company moved forward on implementing "NCRR Invests," an initiative aimed at enhancing the state's economic development activities through investments in North Carolina's railroad infrastructure. NCRR is also working closely with economic development partners at the state and local level to make meaningful investments in sites that have the potential to bring transformational job growth to the state, as demonstrated in the Company's investment in the Greensboro-Randolph Megasite and our commitment to North Carolina's other rail-served megasites.

As stated in its Mission, the North Carolina Railroad Company is developing its assets for the good of the people of North Carolina, its single shareholder. One way the Company does this is by reinvesting its revenue in the corridor itself, ensuring that the rail line is built to meet and exceed the state's freight rail needs. In 2015, NCRR completed significant upgrades to various portions of the corridor and began further upgrades to accommodate future capacity needs.

Partnership is extremely important to NCRR as it implements its strategic vision. One of our key partners is Norfolk Southern. Through our trackage rights agreement with the Class 1 freight rail operator, more than 100 customers are served along the NCRR Line, and the need for freight rail infrastructure continues to grow among businesses looking to locate or expand in our state. With this in mind, the Company continues its management of the 317-mile corridor in ways that create jobs, retain existing industry, help grow the economy and maximize its value.

The North Carolina Railroad was chartered 167 years ago for the purpose of economic development, and that focus continues today. The North Carolina Railroad Company and its Board of Directors look forward to opportunities to collaborate with partners in maintaining North Carolina's competitive advantage. I'm proud to serve as Chairman of the NCRR Board, and to be a part of an historic organization that will continue to build on a dedication to economic growth for our state.

Franklin Rouse
Chairman, NCRR Board of Directors

NORTH CAROLINA'S PARTNER... IN ECONOMIC DEVELOPMENT

Making investments that drive job creation and economic growth.

NCRR Invests

The North Carolina Railroad Company has an historic role in the state's economic development. In 2015, NCRR continued to build on that history by launching "NCRR Invests," an initiative that will enhance the state's economic development efforts through investments in railroad infrastructure.

"NCRR Invests" provides assistance to companies that take advantage of North Carolina's freight rail opportunities to create jobs, by locating or expanding their business in North Carolina. Through "NCRR Invests," the North Carolina Railroad Company will consider investments in engineering design, construction or related costs associated with the rail infrastructure needs of a potential new industry location or expansion.

"NCRR Invests is another tool to ensure North Carolina's competitive advantage as businesses look to locate or expand in our state," says Anna Lea Moore, Vice President of Economic Development at NCRR. "Our ability to work with North Carolina's economic development officials to provide needed rail infrastructure is extremely important to many companies as they decide where to locate their operations."

Transformational Opportunities

The southeast is a prime location for large manufacturers looking to relocate or expand assembly operations, and North Carolina continues to be a contender among auto manufacturers and other large-scale assembly plants. In order to accommodate large-scale industry, megasites are an important component in the state's efforts to recruit a manufacturer of significant size.

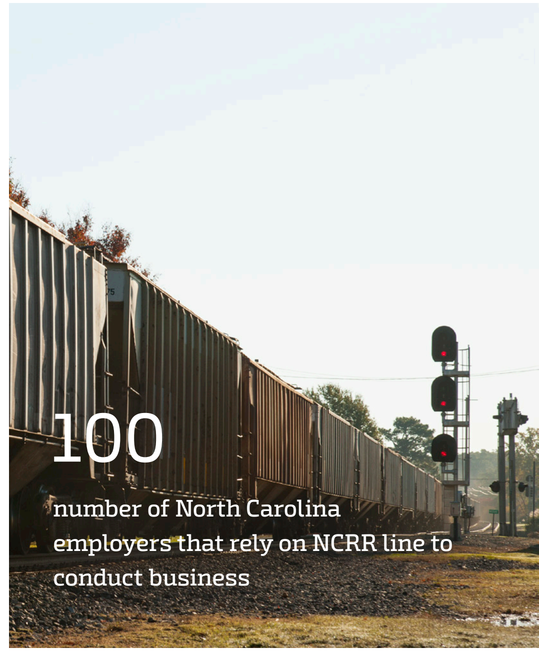
The North Carolina Railroad Company retained expert counsel who confirmed that North Carolina is home to four of the most competitive sites in the southeast United States.

One of the four identified sites—the Greensboro-Randolph Megasite—needed to be assembled, and this was where the NCRR Board believed the Company could be of assistance, working with Randolph County, the Bryan Foundation and the City of Greensboro to ensure that this site would be another tool to increase the state's competitiveness.

NCRR and its Board of Directors are committed to making select rail investments in key sites that have the potential to bring large scale industry that would result in transformational job growth for our state.

When any of North Carolina's sites are in the running for a transformational job growth opportunity, NCRR will look for ways to assist in site infrastructure, with the focus on ensuring that North Carolina secures a competitive advantage in recruiting new and expanding industry.

NCRR
INVESTS



Asbury Carbons

In May 2015, Asbury Carbons announced it would build a new minerals processing operation in Lumberton, N.C. The company committed to create at least 25 jobs and invest $8 million in the new Robeson County facility.

NCRR invested $50,000 to assist Robeson County with the engineering and design costs associated with the required new rail infrastructure at the site.

IN BUILDING RAIL INFRASTRUCTURE

Meeting North Carolina's current and future rail capacity needs.

$83 million

invested by NCRR in infrastructure improvements since 2000 (completed projects)

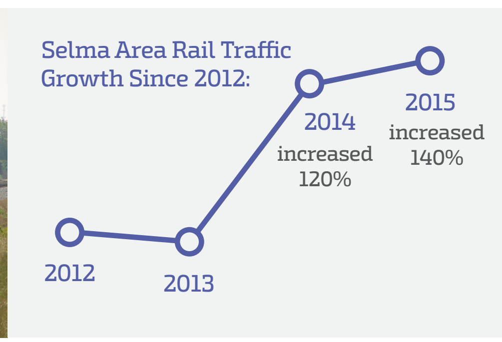
$115 million

committed by NCRR to future economic development and infrastructure improvements (Board committed projects)

The North Carolina Railroad Company is committed to ensuring that the rail line is prepared to meet future capacity needs. Throughout 2015, the Company continued a $13 million capital investment strategy approved by the Board of Directors in 2014 that is improving safety, increasing capacity and further sustaining the 317-mile corridor from Charlotte to Morehead City.

The Railroad also continued to build on its partnership with the NCDOT Rail Division. Since the North Carolina General Assembly first established the Freight Rail and Rail Crossing Safety Improvement Fund (FR&RCSI) in 2013, the North Carolina Railroad Company has paid $26 million in dividends to its single shareholder, the State of North Carolina. This annual dividend is equal to 25 percent of the Railroad's trackage rights agreement revenue from Norfolk Southern and is designed to assist in funding improvements to railroads across the state in order to recruit new and expanding industry and improve safety.

NCRR is also working closely with NCDOT on the final stages of the Piedmont Improvement Program, which involves upgrades to portions of the NCRR line to accommodate future increases in capacity related to passenger trains. This program is managed by the Rail Division with funds provided through the American Recovery and Reinvestment Act, as well as a capital investment of more than $30 million by NCRR.



Projects

Crabtree Creek Bridge

NCRR is partnering with the Town of Morrisville and is investing $6.9 million to construct a new railroad bridge over Crabtree Creek in Morrisville, replacing a structure built in 1927. The new railroad bridge includes a provision for a pedestrian greenway to be constructed under the bridge, and allows for a future second track that could be required to maintain freight service, and any future passenger rail.

Sugar Creek Road Bridge over NCRR

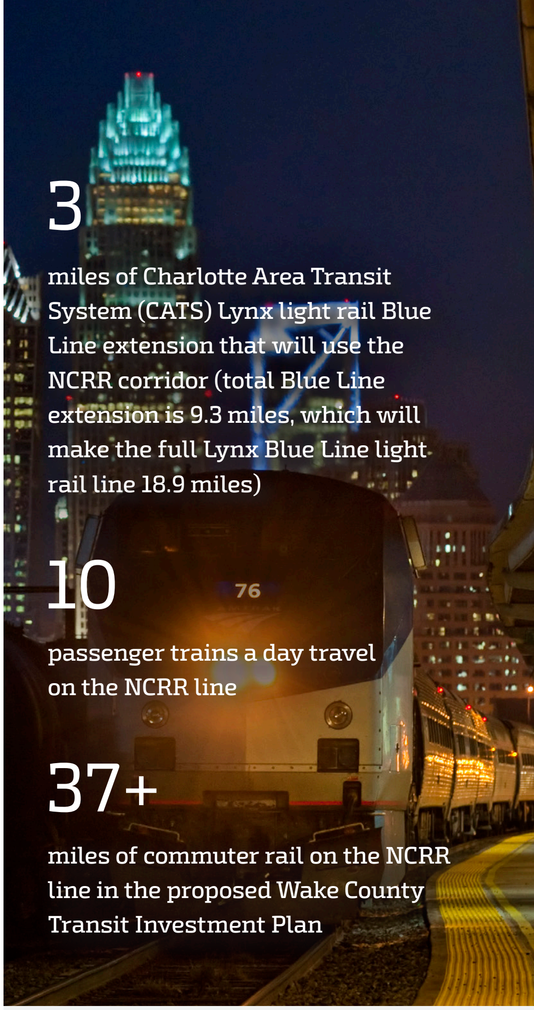
NCRR is partnering with NCDOT on replacing an at-grade or, street-level, crossing with an overhead bridge at Sugar Creek Road in Charlotte. The total cost of the project is $43 million. NCRR is committing a $10 million capital investment to the project. The Sugar Creek Road crossing experiences the highest amount of traffic on the NCRR line.

IN FUTURE PASSENGER RAIL

Moving people in North Carolina.

The North Carolina Railroad Company continues to be an active partner in the state's passenger rail needs. Currently, 10 Amtrak passenger trains travel along the NCRR line every day.

NCRR also understands the local and regional transit needs among the communities that are located along the line. The Company is currently working with the Charlotte Area Transit System (CATS) to accommodate an expansion of the city's Blue Line light rail service that will extend to UNC Charlotte. Approximately three miles of the 9.3 mile Blue Line extension will use the NCRR corridor. NCRR is also working with Wake County leadership as the county considers its long-term transportation strategy and the potential role of commuter rail in the Triangle.



3

miles of Charlotte Area Transit System (CATS) Lynx light rail Blue Line extension that will use the NCRR corridor (total Blue Line extension is 9.3 miles, which will make the full Lynx Blue Line light rail line 18.9 miles)

10

passenger trains a day travel on the NCRR line

37+

miles of commuter rail on the NCRR line in the proposed Wake County Transit Investment Plan

IN RAIL SAFETY

Rail Safety is top of mind for the North Carolina Railroad Company. Although Norfolk Southern operates the trains that run on the railroad, NCRR considers it part of its mission to provide safety resources for those accessing the corridor as part of day to day operations or in case of emergency.

In 2015, NCRR published an updated edition of Rail Safety for First Responders, a pocket-sized rail safety resource for emergency management officials. More than 1,000 booklets were shared with first responders, law enforcement and emergency management officials across the state at no charge.

$3 million

invested by NCRR on safety projects (grade crossing improvements and pedestrian underpasses)

25

number of bridges or culverts NCRR has replaced or improved since 2000 ($35.5 million in NCRR investment on these bridges)

BOARD OF DIRECTORS AND MANAGEMENT TEAM

NCRR BOARD MEMBERS

Franklin Rouse
Chairman
Leland
President, Rouse Insurance Agency, Inc.

Robert Brown
Vice Chairman
High Point
CEO, B&C Associates

Jacob F. Alexander, III
Salisbury
Sales Director, Genan, Inc

Thomas Glasgow
Morehead City
Retired Vice President and CEO, Clancy and Theys Construction Company, Virginia Division

Jeffrey Goodman
Asheville
Chairman and CEO, Hedrick Industries

Fred Klein
Charlotte
Senior Managing Partner, Childress Klein Properties

James E. Nance
Albemarle
Managing Member, North State Acquisitions, LLC

Gervais Oxendine
Lumberton
Retired, Abbott Laboratories

John M. Pike
Goldsboro
CEO, Goldsboro Milling Company

George Rountree III
Wilmington
Attorney and Special Counsel, Rountree Losee, LLP

Douglas Stafford
Charlotte
Principal, Griffin Stafford Hospitality

John Skvarla, III
Raleigh
Secretary, NC Department of Commerce

Michael Walters
Fairmont
President, Claybourn Walters Logging Co., Inc

MANAGEMENT TEAM

Scott M. Saylor
President

Daniel P. Halloran, CPA
Vice President and Chief Financial Officer

Charles E. Burnell, Jr.
Vice President, Real Estate

James K. Kessler, P.E.
Vice President, Engineering

Anna Lea Moore
Vice President, Economic Development

Donald H. Arant, P.E.
Staff Engineer

Catherine A. Campbell
Planning Director

Cathy Deeley
Real Estate Representative

Melissa DeVita
Department Administrative Assistant

Kristian D. Forslin, GISP, PLS
GIS Coordinator

Megen Hoenk
Director of Corporate Communications

Hilary A. Kanupp, CA
Archivist

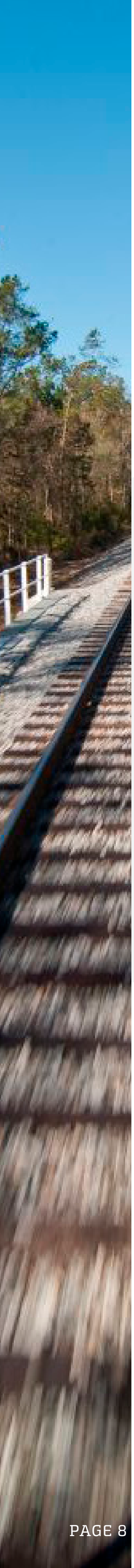
Justin Madigan
Infrastructure Manager

William C. Miller
Property Manager

Nancy D. Pickett
Office Manager

John L. Spencer
Director of Corridor Property

Richard L. Wiley
Senior Consultant for Economic Development



FINANCIAL REPORT

Consolidated Financial Statements for the Years Ended December 31, 2015 and 2014, and Independent Auditors' Report

NORTH CAROLINA RAILROAD COMPANY

TABLE OF CONTENTS

DHG
DIXON HUGHES GOODMAN LLP

Directors and Stockholder
North Carolina Railroad Company
Raleigh, North Carolina

We have audited the accompanying consolidated financial statements of North Carolina Railroad Company and subsidiary, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of operations and comprehensive income (loss), changes in stockholder's equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of North Carolina Railroad Company and subsidiary as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Dixon Hughes Goodman LLP

Raleigh, North Carolina
June 2, 2016

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2015 AND 2014

	2015	2014
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 5,804,488**	$ 4,927,993
Accounts receivable, net of allowance for doubtful accounts of $350,000 and $308,000 for 2015 and 2014	**102,362**	52,998
Prepaid expenses	**19,498**	25,818
Total current assets	**5,926,348**	5,006,809
Property and equipment:		
Roadway and land	**7,848,742**	7,848,742
Tracks, signals and bridges	**141,548,125**	132,652,580
Land	**4,402,236**	4,654,561
Buildings and improvements	**16,396,347**	15,875,959
Equipment and furniture	**2,561,604**	2,106,703
Construction in progress	**3,578,952**	6,295,850
	176,336,006	169,434,395
Less accumulated depreciation	**102,838,984**	92,727,598
Property and equipment, net	**73,497,022**	76,706,797
Other assets:		
Funded capital projects	**82,450,682**	80,624,572
Long-term receivables	**4,573,674**	3,595,532
Other	**8,065**	22,265
Total other assets	**87,032,421**	84,242,369
Total assets	**$ 166,455,791**	$ 165,955,975

See accompanying notes to consolidated financial statements

	2015	2014
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	**$ 1,698,180**	$ 697,531
Dividend payable	**3,779,305**	3,717,995
Current portion of unearned rent	**262,623**	225,517
Total current liabilities	**5,740,108**	4,641,043
Long-term liabilities:		
Security deposits	**47,514**	47,514
Deferred tax liability	**1,043,000**	1,147,000
Unearned rent	**10,874,545**	11,025,000
Total long-term liabilities	**11,965,059**	12,219,514
Total liabilities	**17,705,167**	16,860,557
Stockholder's equity:		
Common stock, $0.50 par value; 10,000,000 shares authorized; 317 shares issued and outstanding	**159**	159
Additional paid-in capital	**204,866,667**	199,001,857
Accumulated deficit	**(56,625,365)**	(51,802,448)
Accumulated other comprehensive income:		
Unrealized gain on available-for-sale securities	**509,163**	1,895,850
Total stockholder's equity	**148,750,624**	149,095,418
Total liabilities and stockholder's equity	**$ 166,455,791**	$ 165,955,975

See accompanying notes to consolidated financial statements

NORTH CAROLINA RAILROAD COMPANY

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Income:		
Lease of roadway and land	**$ 15,117,219**	$ 14,871,981
Other lease income	**2,531,006**	3,005,105
Total lease income	**17,648,225**	17,877,086
Expenses:		
Wages and benefits	**2,009,007**	1,819,870
Professional fees	**574,238**	450,944
Contracted services	**1,186,891**	764,903
Franchise and property taxes	**437,961**	431,434
Insurance	**157,902**	151,762
Reporting and public relations	**189,186**	224,311
Depreciation	**10,111,387**	10,509,215
Engineering, surveying and mapping	**539,818**	742,786
Property and corridor management	**402,667**	366,310
Bad debts	**44,481**	20,812
General and administrative	**696,461**	660,016
Economic development	**535,100**	-
Total expenses	**16,885,099**	16,142,363
Operating income	**763,126**	1,734,723
Other income (expenses):		
Investment income	**2,666,092**	1,651,483
Gain on disposition of assets	**181,856**	-
Other income	**853,756**	859,621
Project contributions	**(5,410,000)**	-
Total other income (expense)	**(1,708,296)**	2,511,104
Income (loss) before income taxes	**(945,170)**	4,245,827
Income tax expense	**98,442**	141,079
Net income (loss)	**$ (1,043,612)**	$ 4,104,748
Other comprehensive income (loss):		
Unrealized gains (losses) on securities:		
Unrealized holding gains (losses) arising during the period	**(587,979)**	1,382,794
Less reclassification adjustments for unrealized holding gains (losses) included in net income	**(798,708)**	357,805
Other comprehensive income (loss)	**(1,386,687)**	1,740,599
Comprehensive income (loss)	**$ (2,430,299)**	$ 5,845,347

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholder's Equity
Balance, December 31, 2013	$ 159	$ 199,001,857	$ (52,189,201)	$ 155,251	$ 146,968,066
Dividends	-	-	(3,717,995)	-	(3,717,995)
Net income	-	-	4,104,748	1,740,599	5,845,347
Balance, December 31, 2014	159	199,001,857	(51,802,448)	1,895,850	149,095,418
Capital improvement contributions	-	5,864,810	-	-	5,864,810
Dividends	-	-	(3,779,305)	-	(3,779,305)
Net loss	-	-	(1,043,612)	(1,386,687)	(2,430,299)
Balance, December 31, 2015	$ 159	$ 204,866,667	$ (56,625,365)	$ 509,163	$ 148,750,624

See accompanying notes to consolidated financial statements

NORTH CAROLINA RAILROAD COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Cash flows from operating activities:		
Net income (loss)	$ (1,043,612)	$ 4,104,748
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for bad debts	44,481	(20,812)
Depreciation	10,111,387	10,509,215
Deferred income tax benefit	(104,000)	(87,000)
Interest earned by funded capital project investments	(2,674,044)	(1,746,857)
Gain on disposal of property and equipment	(181,856)	-
Changes in operating assets and liabilities:		
Accounts receivable	(93,845)	17,573
Long-term receivable	(978,142)	(961,198)
Prepaid expenses	6,320	6,851
Other assets	14,200	(1,042)
Accounts payable and accrued expenses	1,447,755	(3,271,072)
Unearned revenues	(150,455)	(200,454)
Net cash provided by operating activities	6,398,189	8,349,952
Cash flows from investing activities:		
Purchase of property and equipment	(1,699,126)	(1,861,175)
Proceeds from sale of property	434,180	-
Transfer of unrestricted cash and cash equivalents to funded capital projects to fund board designations	(6,000,000)	(10,000,000)
Transfers of funded capital projects monies to cash and cash equivalents for capital expenditures	5,461,247	5,143,190
Net cash used in investing activities	(1,803,699)	(6,717,985)
Cash flow from financing activities:		
Payment of dividend	(3,717,995)	(3,654,157)
Net cash used in financing activities	(3,717,995)	(3,654,157)
Net increase (decrease) in cash and cash equivalents	876,495	(2,022,190)
Cash and cash equivalents at beginning of year	4,927,993	6,950,183
Cash and cash equivalents at end of year	$ 5,804,488	$ 4,927,993
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$ 207,495	$ 113,500
Supplemental schedule of noncash investing and financing activities:		
Additions to property and equipment contributed by the North Carolina Department of Transportation	$ 5,864,810	$ -
Disposal of CIP to Economic Development Expense	$ 410,000	$ -
Accrued dividends payable	$ 3,779,305	$ 3,717,995

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

1. Nature of Business

The North Carolina Railroad Company and subsidiary, a North Carolina company, (collectively referred to as the "Company"), owns approximately 317 miles of continuous railroad line extending from Charlotte, North Carolina to Morehead City, North Carolina. The Company's railroad facilities are operated by Norfolk Southern Railway Company ("NSR"). The State of North Carolina is the sole owner of all the common stock of the Company.

N.C. Railroad, Inc. ("NCRI"), a wholly owned subsidiary of the North Carolina Railroad Company ("NCRR"), was formed on December 15, 2006. NCRI conducts certain taxable activities, such as leasing of commercial real estate, while NCRR conducts all tax exempt activities, such as leasing of railroad facilities and corridor management.

2. Significant Accounting Policies

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of NCRR and its wholly owned subsidiary, NCRI. All intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

In preparing its consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP"), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the consolidated balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

For purposes of the consolidated statement of cash flows, the Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Cash equivalents include money market funds. Cash and cash equivalents that are restricted or designated by the Board of Directors for capital projects are reported as Funded Capital Projects in the accompanying consolidated balance sheets. See Note 5.

At times, the Company places cash and cash equivalents and certificates of deposits with original maturities of three months or more with financial institutions in amounts that are in excess of Federal Deposit Insurance Company insurance limits. The Company has not experienced any losses in such accounts. The financial condition of financial institutions is periodically reassessed, and the Company believes the risk of any loss is minimal.

Accounts Receivable

Accounts receivable are uncollateralized obligations due under agreements. The Company provides an allowance for doubtful accounts equal to the estimated losses that are expected to be incurred in their collection. The allowance is based on historical collection experience and management's review of the current status of the existing receivables. An account receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 30 days.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. The Company computes depreciation using the straight-line method over the following estimated useful lives:

	Estimated Useful Lives (Years)
Buildings and building improvements	25
Bridges	25
Track and signals	10
Equipment and furniture	3 - 7

Values of the properties included in roadway and land approximate 1916 valuations by the Interstate Commerce Commission. These properties represent fully depreciated roadway or undepreciated land. The Company assesses long-lived assets for impairment whenever events or changes indicate that the carrying amount of the assets may not be recovered based on estimated future undiscounted cash flows. In the event such cash flows are not expected to be sufficient to recover the carrying value of the assets, the useful lives of the assets are revised or the assets are written down to their estimated fair values.

Funded Capital Projects

Securities Held to Maturity

Debt securities for which the Company has the positive intent and ability to hold to maturity are classified as "held-to-maturity" and are reported at amortized cost, adjusted for premiums and discounts that are recognized in interest income using the interest method over the period to maturity. There are no held to maturity securities as of December 31, 2015.

Securities Available for Sale

Investments in marketable equity securities and debt securities not classified as held-to-maturity securities are classified as available-for-sale and are reported at fair value, with changes in net unrealized gains and losses included in other comprehensive earnings, net of tax, if any. When securities are sold, gains and losses are determined using the specific identification method for all investments except mutual funds which are determined using the average cost method. Investments are classified as noncurrent due to the board designations of investments for capital improvements. The Company reviews securities when quoted market prices are less than cost to determine if the impairment is other than temporary. Declines in the fair value of individual securities below their cost that are other than temporary would result in write-downs of the individual securities to their fair value with such write down being included in earnings as realized losses.

Fair values

The Company uses market data or assumptions that market participants would use in pricing assets and liabilities at fair value, and establishes a three-tier fair-value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include values based on quotes in active markets for identical assets (Level 1), values estimated based on other available market information including quoted market prices for similar assets in active and non-active markets and pricing models based on observable inputs (Level 2), and values based on management's estimates using various valuation methods (Level 3).

Revenue Recognition

Lease of Roadway and Land

Revenue received from property that is operated by NSR is reflected in the consolidated statements of income when earned in accordance with the Company's lease arrangements.

Other Lease Income

The Company leases certain property that is not operated by NSR. Revenue is reflected in the consolidated statements of operations when earned. The Company also collects license fee revenue which is recognized when earned. The Company defers recognition of contingent rentals until the requirements are met.

Advertising

The Company paid $37,788 and $63,855 in advertising expenses for 2015 and 2014, respectively.

Income Taxes

Pursuant to Section 11146 of the Safe, Accountable, Flexible, Efficient Transportation Equity Act of 2005 (the "Act"), a substantial portion of the Company's income is exempt from federal and state income taxes. The activities that generate income which is not exempt from federal and state income taxes pursuant to the Act are conducted in NCRI.

Deferred tax assets and liabilities are recognized by NCRI for the estimated future tax consequences attributable to differences between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which the temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that the tax benefits will not be realized.

3. Funded Capital Projects

The following is a summary of the securities portfolio by major classification included in funded capital projects at December 31, 2015 and 2014:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2015				
Available for Sale:				
Foreign debt instruments	$ 1,421,698	$ 17,296	$ -	$ 1,438,994
U.S. Government and federal agencies	4,763,388	-	12,058	4,751,330
Mortgage backed securities	11,557,311	-	114,458	11,442,853
Collateralized mortgage obligations	16,346,845	-	108,383	16,238,462
State and local governments	5,511,823	-	75,139	5,436,684
Corporate debt securities	17,196,939	-	157,635	17,039,304
Mutual funds	13,002,863	959,540	-	13,962,403
	$ 69,800,867	$ 976,836	$ 467,673	$ 70,310,030

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2014				
Held to Maturity:				
Corporate bonds	$ 4,986,607	$ 2,517	$ -	$ 4,989,124
Available for Sale:				
Foreign debt instruments	$ 909,323	$ 15,897	$ -	$ 925,220
U.S. Government and federal agencies	8,402,770	3,810	12,723	8,393,858
Mortgage backed securities	9,594,640	9,088	4,336	9,599,392
Collateralized mortgage obligations	10,457,070	-	10,003	10,447,066
State and local governments	3,914,472	-	99,987	3,814,485
Corporate debt securities	15,744,592	-	57,566	15,687,026
Mutual funds	18,180,343	2,051,670	-	20,232,013
	$ 67,203,210	$ 2,080,465	$ 184,615	$ 69,099,060

Held to maturity securities are carried in the financial statements at amortized cost. Available for sale securities are carried in the financial statements at fair value. For the year ended December 31, 2015, a net unrealized holding loss on available for sale securities in the amount of $1,386,687 has been included in accumulated other comprehensive income. For the year ended December 31, 2014, a net unrealized holding gain on available for sale securities in the amount of $1,740,599 has been included in accumulated other comprehensive income.

The fair values of securities carried at fair value in the accompanying financial statements are determined as follows:

	December 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Foreign debt instruments	**$ 1,438,994**	**$ -**	**$ 1,438,994**	**$ -**
U.S Government and federal agencies	**4,751,330**	**-**	**4,751,330**	**-**
Mortgage backed securities	**11,442,853**	**-**	**11,442,853**	**-**
Collateralized mortgage obligations	**16,238,462**	**-**	**16,238,462**	**-**
State and local governments	**5,436,684**	**-**	**5,436,684**	**-**
Corporate debt securities	**17,039,304**	**-**	**17,039,304**	**-**
Mutual funds	**13,962,403**	**13,962,403**	**-**	**-**
	$ 70,310,030	**$ 13,962,403**	**$ 56,347,627**	**$ -**

	December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Foreign debt instruments	$ 925,220	$ -	$ 925,220	$ -
U.S Government and federal agencies	8,393,858	-	8,393,858	-
Mortgage backed securities	9,559,392	-	9,559,392	-
Collateralized mortgage obligations	10,447,066	-	10,447,066	-
State and local governments	3,814,485	-	3,814,485	-
Corporate debt securities	15,687,026	-	15,687,026	-
Mutual funds	20,232,013	20,232,013	-	-
	$ 69,099,060	$ 20,232,013	$ 48,867,047	$ -

All assets have been valued using a market approach. Fair values for assets in Level 2 are calculated using quoted market prices for similar assets in markets that are not active

In addition to the investments disclosed above, Funded Capital Projects includes cash and cash equivalents totaling $12,136,635 and $6,528,835 and accrued interest receivable totaling $4,017 and $10,070 at December 31, 2015 and 2014 respectively. Investment management fees, totaling $156,657 and $130,949, respectively, in 2015 and 2014, are netted against investment income.

The amortized cost and fair values of available for sale securities at December 31, 2015 and 2014 by contractual maturity, and the amortized cost and fair values of held to maturity securities at December 31, 2014 by contractual maturity are shown below. Actual expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. No securities have been in a continuous loss position for more than 12 months.

	Amortized Cost	Fair Value
December 31, 2015		
Available for sale:		
Due within one year	**$ 4,568,766**	**$ 4,406,318**
Due after one year through five years	**21,995,609**	**21,733,043**
Due after five years through ten years	**11,435,275**	**11,407,749**
Due after 10 years	**18,798,353**	**18,800,517**
Equities	**13,002,863**	**13,962,403**
	$ 69,800,867	**$ 70,310,030**
December 31, 2014		
Held to Maturity:		
Due after one year through five years	$ 4,986,607	$ 4,989,124
Available for sale:		
Due within one year	$ 1,387,339	$ 1,357,902
Due after one year through five years	24,472,872	24,136,012
Due after five years through ten years	10,042,177	10,135,621
Due after 10 years	13,120,479	13,237,512
Equities	18,180,343	20,232,013
	$ 67,203,210	$ 69,099,060

4. Trackage Rights Agreement and Leases on Roadway and Land

Prior to 1999, substantially all of the Company's assets were leased to NSR or its predecessors, in two leases originally dating back to 1895 and 1939. The terms of the leases did not require either the Company or Norfolk Southern to renew the leases.

On August 10, 1999, the Board of Directors of the Company approved a Trackage Rights Agreement ("TRA") concurrent with NSR terminating the original leases. The TRA's term is 15 years with two 15-year renewal options by NSR (45 years) for a base annual rental of $11,000,000 (minimum) beginning January 1, 2000, with annual adjustments based upon an inflation index and a 4.5% annual cap (arbitration of cap if it exceeds an average of 4.5% over any 7-year period). The TRA provides for transition of management of certain non-rail properties to the Company, maintenance of the Company's rail property, inspections, records sharing, and audit. The TRA was approved by the Surface Transportation Board on September 1, 1999. During 2012 NSR exercised its option to renew the TRA for the 15 year period beginning January 1, 2015 and ending on December 31, 2029.

The TRA grants exclusive freight trackage rights to NSR to conduct all freight operations over the NCRR railroad line. Under federal law the National Rail Passenger Corporation ("Amtrak") operates over NSR operated lines under agreements with NSR. NSR is obligated under the TRA to provide rail service to all industries on the NCRR line. NSR is obligated to maintain the NCRR line and any improvements made to the line by NSR for freight operations. Under the TRA, NSR does not have financial responsibility for passenger improvements made by the Company, North Carolina Department of Transportation (NCDOT), Amtrak, or other parties.

Approximately 38 parcels not used in railroad operations have been returned to the Company for separate (non-NSR) management. These noncorridor properties are managed by the Company after transition from NSR management. The TRA contains provisions for responsibility for environmental matters by NSR and the Company.

NSR is responsible for any taxes on its freight operations. A Policy Planning Committee comprised of NCRR and NSR representatives addresses all future planning issues, capital improvements, and any disputes that arise under the TRA. In the event of any disagreements, NCRR and NSR are subject to binding arbitration under the TRA.

A lease of certain properties in Charlotte, North Carolina to NSR (the 1968 Lease) expires on December 31, 2067, and provides for an annual rental of $81,319 through December 2018. The 1968 lease provides that beginning on January 1, 2019, the annual rental for the remaining term of the 1968 Lease is 6% of the appraised value of the property on that date. Under the terms of the 1968 Lease, all taxes connected with the property, except income taxes, are paid by the lessee. The 1968 Lease was not affected by the TRA.

Pursuant to agreements signed in each year since 2008, NCRR has assigned to NSR all of the NCRR lines that constitute eligible railroad tracks solely for purposes of allowing NSR to qualify as an eligible taxpayer with respect to such track and to claim tax credits under section 45G(a) for qualified railroad track maintenance expenditures it pays or incurs during each year under agreement with respect to such track. In exchange, NSR agrees to pay to NCRR fifty percent of the tax credits NSR claims. Payment of the amount owed under the agreement is not due until the amount of the allowable credit is not subject to further appeal, review or modification through proceedings or otherwise.

The Company has recorded a long-term receivable amounting to $4,555,718, representing $4,243,750 of total tax credit revenue that the Company is due for tax years 2011 to 2015 from NSR, plus accumulated 4% interest of $311,968, as of December 31, 2015.

5. Capital Commitments

Project Agreements and Contracts

As of December 31, 2015, the Company has capital commitments under various individual project agreements and other contracts totaling $47.4 million. The contractual commitments of the Company consist of certain capital improvement projects set forth in project agreements, other strategic and economic development investments including commitments for the purchase of certain real estate, and ARRA/PRIIA High-Speed Passenger Rail improvement projects. The ARRA/PRIIA High-Speed Passenger Rail improvement commitments are further described in more detail below. The various individual projects, capital improvements and strategic investments to which capital is committed are scheduled for completion between 2016 and 2020.

ARRA/PRIIA High-Speed Passenger Rail Projects

In 2011, the State of North Carolina was selected to receive certain federal grant awards through the American Recovery and Reinvestment Act of 2009 (“ARRA”) and the Passenger Rail Investment Act of 2008 (“PRIIA”) for the capital funding of certain high speed intercity passenger rail projects, under which NCDOT is the grantee of the awards. On December 15, 2010, the Company, the NCDOT, and NSR entered into an Agreement on Principles (“AOP”), which outlined certain terms for capital improvements within and along the NCRR corridor operated by NSR (Note 4). On March 21, 2011, the Company, NCDOT, NSR and Amtrak entered into a Definitive Service Outcomes Agreement (“DSOA”), clarifying the individual parties’ responsibilities and further detailing the projects to be funded by the grants to NCDOT. On March 21, 2012, the Company and the NCDOT entered into a Railroad Corridor Property Acquisition Agreement (“RCPA”) regarding rail corridor property, including acquisition of additional railroad corridor property needed in connection with certain projects funded by the grants to NCDOT. As a result of these agreements, management expects to record a capital contribution and related assets for a portion of the improvements that will be made by NCDOT as the improvements are completed in future periods, in addition to the commitment of funds made by the Company described below.

Under the AOP, DSOA, and RCPA, the Company has committed up to a total of $31,000,000 of capital investment toward certain projects in order to assist in completion of certain track capacity improvement projects and engineering. Out of its $31,000,000 commitment, the AOP and DSOA provide that the Company reserve up to $10,000,000 for a Capital Reserve Fund, which is designated by the Company for the purpose of making further capacity improvements to the NCRR line in the future in order to improve passenger and freight train reliability caused by identified unacceptable train delays. Investments by the Company under these agreements are to be applied against and reduce the Company’s commitment under the agreements. Through December 31, 2015, the Company has expended approximately $4 million of its commitments under these agreements. In the year ended December 31, 2015, the Company made a project contribution of $5.4 million for a joint highway and rail project in Charlotte for which the Company did not receive any depreciable assets. The Company also has committed use of the Company’s rail corridor lands for such capacity and other related improvement projects.

Board Designated Funds

The Board of Directors passed resolutions during 2015 and 2014 to designate $6,000,000 and $10,000,000, respectively, of unrestricted cash for use on capital improvement projects.

The Company has designated the following amounts (invested in cash, certificates of deposit or debt securities) for capital improvement projects as follows:

	2015	2014
Restricted under contracts	**$ 47,376,109**	$ 37,695,918
Restricted for other capital improvements	**146,772**	146,062
Board designated funds	**34,927,801**	42,782,592
Funded capital projects	**$ 82,450,682**	$ 80,624,572

6. Employee Benefit Plan

The Company established a Safe Harbor 401(k) Plan effective January 1, 2012 to provide retirement benefits for its employees. All full-time employees who meet certain eligibility requirements are qualified to participate in the 401(k) Plan. Participants may make pre-tax deferrals up to 90% of their compensation subject to Internal Revenue Service limitations. Participants are fully vested in their contributions plus actual earnings thereon and any rollovers into their accounts. The Company contributes 3% of the compensation of all eligible active participants. In addition, the Company may elect each plan year whether to make a discretionary employer contribution on behalf of eligible active participants. Employer contributions for the years ended December 31, 2015 and 2014 were $92,977 and $91,200, respectively, including $53,130 and $52,180, respectively, of discretionary contributions.

On April 18, 2013, the Company established a deferred compensation plan for an officer. The compensation will be paid out according to the terms of the plan unless the employee is terminated for cause as defined in the plan. The Company incurred expenses of $35,908 and $50,802 related to the plan in 2015 and 2014.

7. Future Minimum Lease Revenue

The Company derives income from leased commercial space and other property under non-cancellable operating leases. Of the non-cancellable leases, one lease, described in Note 4, comprises 86% of the lease income. Rental income received from this lease during 2015 and 2014 was approximately $15.1 million and $14.9 million, respectively. The remaining non-cancellable leases are related to the rental of commercial space. Future minimum rent receipts, excluding renewal periods, on the non-cancellable operating leases are as follows for the years ending December 31:

	Amount
2016	$ 15,673,949
2017	15,649,308
2018	15,520,217
2019	15,273,517
2020	15,282,783
Thereafter	137,941,161
	$ 215,340,935

Minimum lease receipts do not include contingent rentals that may be received under certain leases. The Company's policy is to defer recognition of such contingent rentals until the requirements are met. Contingent rental income earned during the years ended December 31, 2015 and 2014 totaled $69,933 and $27,005, respectively.

City of Charlotte Lease Agreement

The Company and the City of Charlotte ("Charlotte") entered into an agreement ("Lease Agreement") dated May 3, 2012, whereby Charlotte leased a segment of the North Carolina Railroad corridor, approximately 2.7 miles in length parallel to the Company's main line railroad tracks and facilities, for the purpose of the extension of Charlotte's LYNX Blue Line light rail transit system. The Lease Agreement provides for a one time rent payment to be paid to the Company in the amount of $11,760,000 for the 50 year lease term, all of which was received in full on October 16, 2013. The Lease Agreement provides that Charlotte is responsible for all construction, operations, maintenance, taxes, assessments and costs related to Charlotte's use of the segment.

Coincident with the execution of the Lease Agreement, Charlotte entered into a Construction and Reimbursement Agreement and an Operations Agreement with NSR related to Charlotte's use of the segment and the compatibility thereof with NSR's operation and maintenance of the Company's rail line.

The Lease Agreement provides that design and construction is to be provided by Charlotte at its expense, subject to the approval of the Company. The Lease Agreement is subject to early termination, in which event a portion of the lease fee may be refundable. The Lease Agreement contains one renewal term at a rate agreed upon by the parties, or in the absence of agreement, based upon an appraised value.

The Company has recorded unearned rent liability of $11,137,168 and $11,250,517 at December 31, 2015 and 2014, respectively. At December 31, 2015 and 2014, $262,623 and $225,517 of the liability is included in the current portion of unearned rent.

8. Income Taxes

The Company's income (loss) before income taxes for the years ended December 31, 2015 and 2014 is as follows:

	2015	2014
Income (loss) before income taxes:		
Nontaxable entity	$ (1,313,589)	$ 3,822,591
Taxable entity	368,419	423,236
Income (loss) before income taxes	$ (945,170)	$ 4,245,827

The difference between the federal income tax computed by the statutory federal income tax rate of 34% and NCRI's income tax expense as reflected in the consolidated financial statements is as follows:

	2015	2014
Income tax at statutory federal income tax rates	$ 125,262	$ 143,900
Decrease attributable to:		
State income tax, net of federal income tax benefit	22,137	9,854
Change in state tax rate	(40,000)	(13,769)
Other	(8,957)	1,094
	$ 98,442	$ 141,079

The Company's taxable subsidiary, NCRI, has a deferred income tax liability at December 31, 2015 and 2014 as follows:

	2015	2014
Noncurrent deferred tax liability, property and equipment	$ 1,043,000	$ 1,147,000

The Company's total tax expense for 2015 and 2014 is summarized as follows:

	2015	2014
Current income tax expense	$ 202,442	$ 228,079
Deferred income tax benefit	(104,000)	(87,000)
Total income tax expense	$ 98,442	$ 141,079

9. Subsequent Events

The Company evaluated the effect subsequent events would have on the consolidated financial statements through June 2, 2016, which is the date the financial statements were available to be issued.

On April 13, 2016, the Company completed several purchases to acquire 630 acres of real estate in Randolph County at a purchase price of $8,014,301. The purchase of additional acreage is expected to occur in 2016 or later and is expected to cost approximately $7,226,000. The purpose of the land purchase is to assist the State of North Carolina in attracting transformational manufacturing entities that will invest significant sums in plant and equipment and will create a significant number of jobs. The Company is investing in this property with the intention of assembling it with properties owned by Randolph County and a private foundation for marketing to large-scale transformational users or for high-value multi-user industrial sites.

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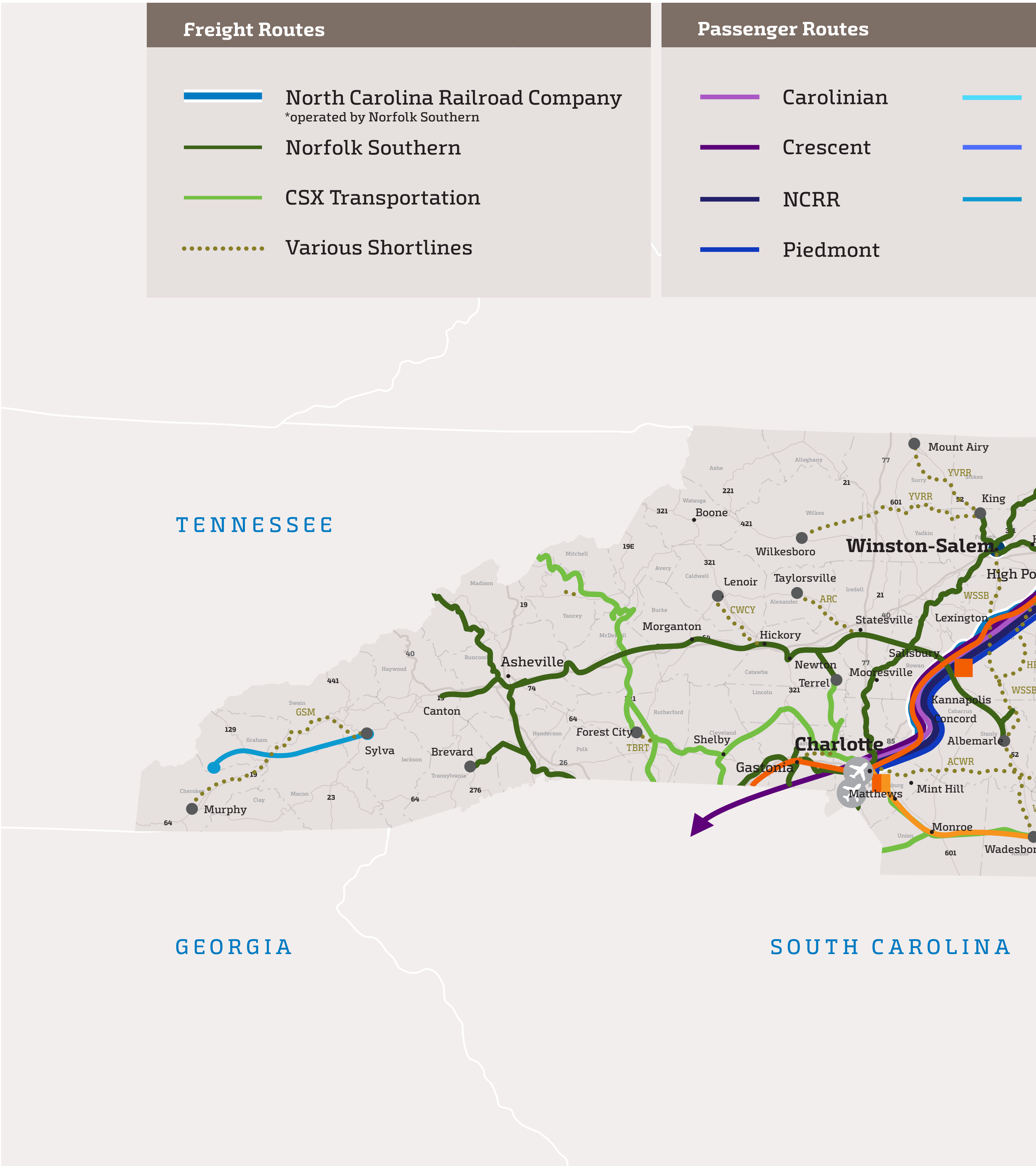
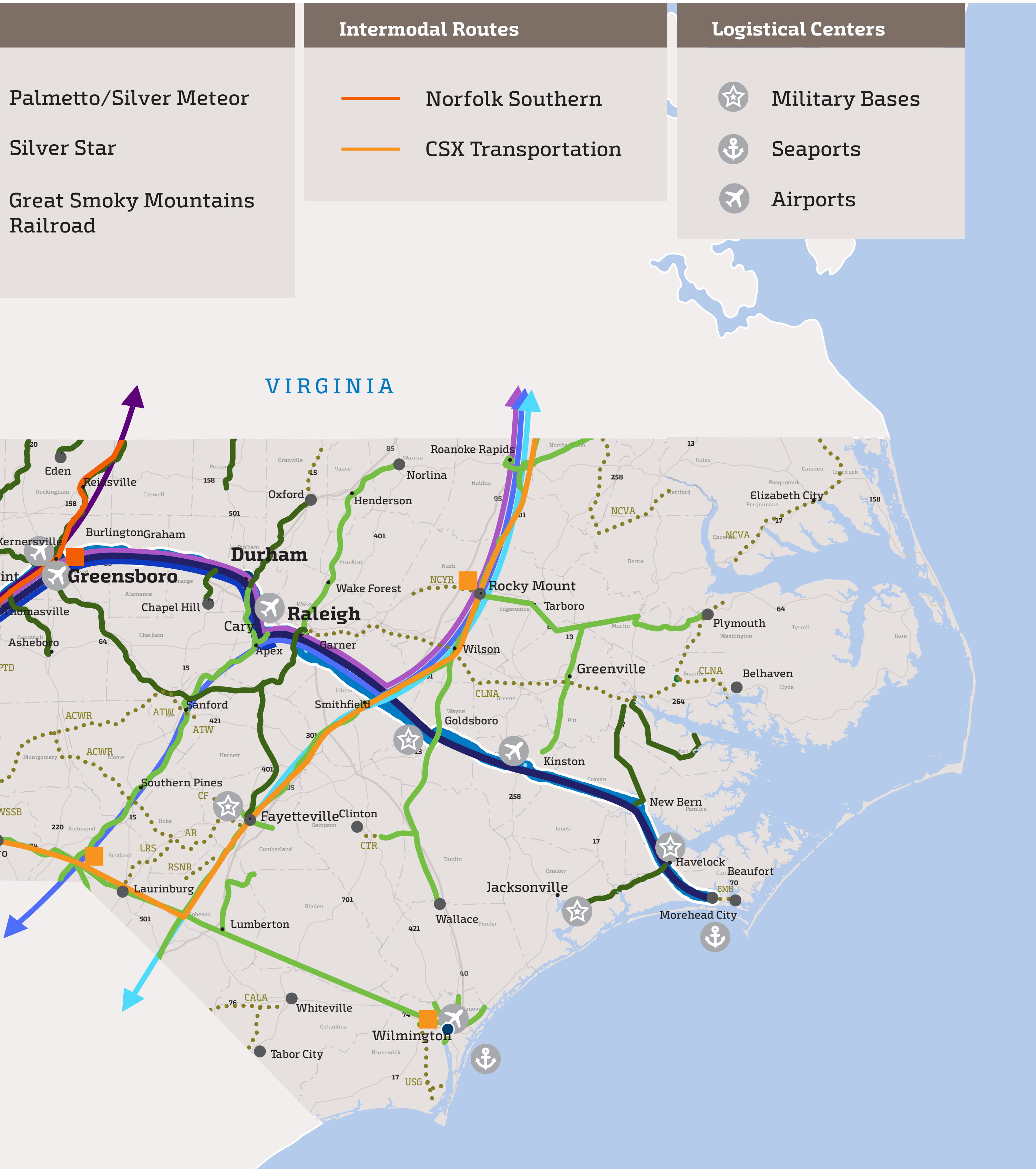
NORTH CAROLINA RAILROAD COMPANY
CORRIDOR MAP





Palmetto/Silver Meteor
Silver Star
Great Smoky Mountains Railroad
Intermodal Routes
Norfolk Southern
CSX Transportation
Logistical Centers
Military Bases
Seaports
Airports
VIRGINIA
Eden
Reidsville
Burlington
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ANNUAL REPORT 2015

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