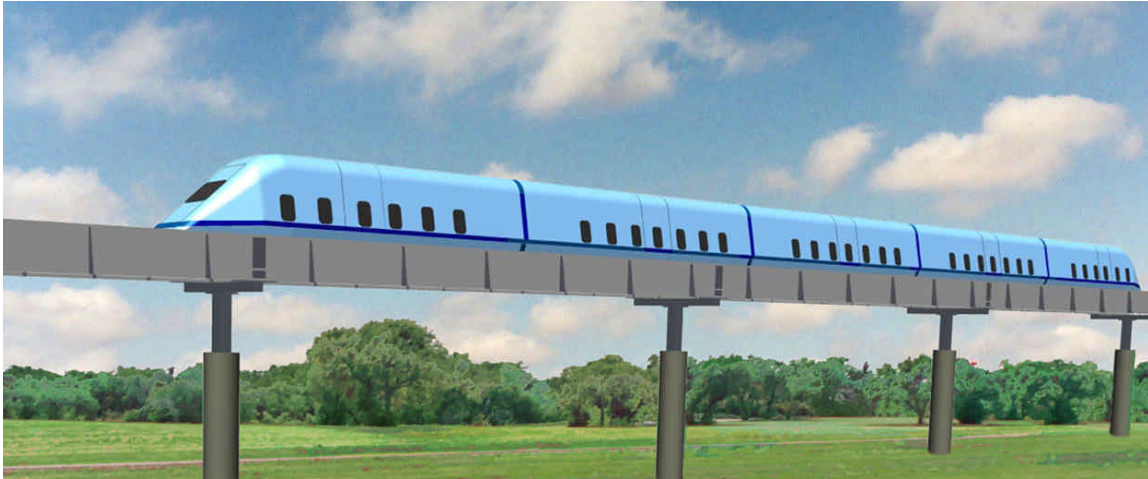


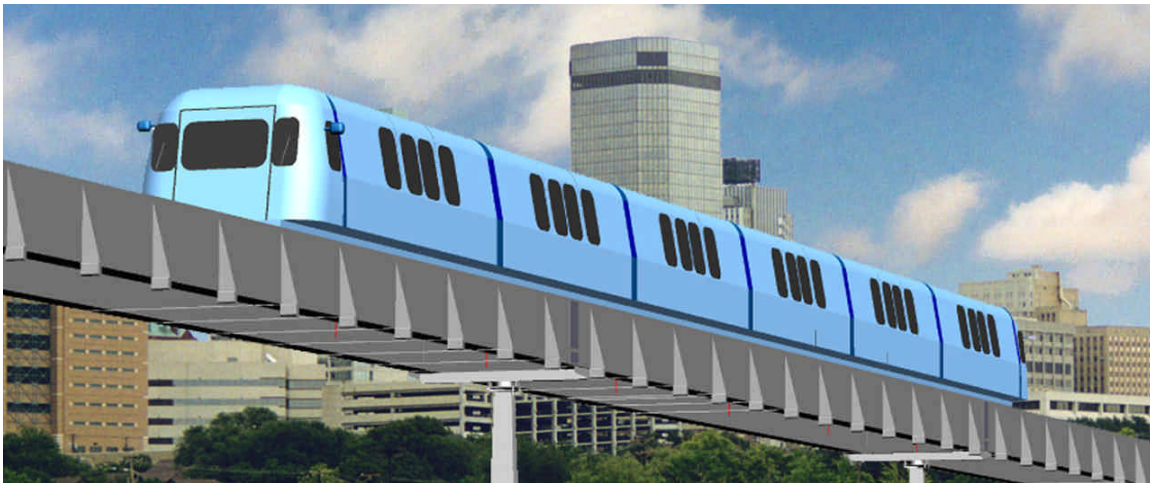
MEGARAIL BACKGROUND, PRODUCTS & PLANS

July 2004

MegaRail photo & graphic



MegaRail high-speed inter-city *WhisperLiner*™ along Interstate highway - 125-mph travel



MicroRail™ Ultra-light Rail *Skycoach*™ 65-mph train for urban mass transit

MEGARAIL®
TRANSPORTATION SYSTEMS, Inc.

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Fort Worth, Texas 76108

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Fort Worth, Texas 76121

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www.megarail.com

• Low Cost
• Low Tech
• Low Risk

U.S. PATS. 6,039,135, 6,401,625, 6,435,100, 6,615,740 & 6,742,458
OTHER U.S. & INTERNATIONAL PATENTS PENDING

Company History & Current Status Overview

Brief History: MegaRail Transportation Systems, Inc. was chartered by the State of Texas in October 1997. After award of a broad coverage US patent 6,039,135 in March 2000, initial capital was raised by sale of stock to a small group of investors. An initial management staff consisting of President, Kirston Henderson, and Business and Marketing Manager, Steve Andrews, began operations and other part-time staff members were recruited to assist. An experienced full-time design engineer and Manufacturing Manager, Lee Cenova, joined in early 2002 and another highly experienced manager & engineer, Charles Anderson, joined the team in late 2002. Two experienced design & production companies; Micrin Technologies and Clark Precision Machine were recruited as parts of the MegaRail development & production team. (Morley Architects also assisted in early efforts.)

Achievements: Achievements to date have included (1) design and marketing of near-term, ultra-light, manually controlled MegaRail systems for urban mass transit, commuter rail and high-speed inter-city transport, (2) design and marketing of a near-term manually controlled heavy cargo system, (3) design and marketing of a material handling version for industrial and mining applications and (4) continuing definition of future automated versions of the systems. Static and working scale models were designed and built as well as a full-length section of full-sized guideway with a full-sized car for (1) passenger access and internal seating evaluations and (2) public display. Detailed design of a full-scale operating prototype system with a guideway and two cars to be built during 2004 is underway.

Near-term Products for Immediate Installation: MegaRail has a set of near-term, off-the-shelf technology products designed to meet specific current markets. These products can be delivered on an immediate basis to meet current customer requirements. **These products provide better capability than systems now being purchased but with lower environmental impacts and a cost from 15 to 20% of current systems.** Applications include urban mass transit, commuter rail and inter-city high-speed passenger and priority cargo rail.

MegaRail Market Activity & Prototype Program: MegaRail is working to sell systems for selected U.S. city and park uses and near-term uses in foreign countries. MegaRail was approved in 2002 by city officials for a manually controlled downtown mass transit train system in a densely populated city in Asia. A firm, fixed-price proposal has been submitted to the private company that is to build and operate the system and a contract for the initial 8.5-mile long segment is currently pending

A prototype program to design, build, and demonstrate a limited full-scale prototype system is underway and an operating full-scale demonstration system is planned for mid-2004. A small-scale working prototype has also been built and tested to validate the unique MegaRail vehicle steering and switching design. Design of a set of small-scale, fully automated cars has also been started. These cars will be used on an indoor racetrack for automated control testing and demonstrations to customers.

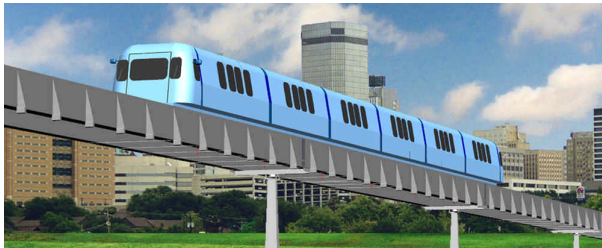
MegaRail is continuing to add capital to (1) fund both expanded prototype efforts and expanded marketing efforts and (2) cover start-up costs for a system contract. (A full-scale operating demonstration is probably required for sales to US states and cities because elected officials [and their consultants] want to see a system working before a purchase.) The added capital will cover additional base R&D and start-up costs that may be essential to and a first sale and production startup.

Now Available Products: Near-term Systems Overview

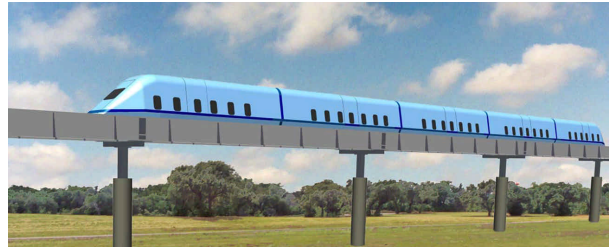
The first MegaRail Transportation Systems goal is to provide a family of breakthrough systems for commuter rail, urban mass transit and high-speed inter-city rail services at far less cost than conventional approaches. MegaRail systems can be produced **immediately** to meet urgent near-term needs at from approximately 15 to 20% of the cost and within 30 to 50% of the time for conventional systems! With an orderly future growth path, a subsequent Phase II program will automate the train systems and a later Phase III will achieve automated, single-car operation. No discard or upgrading of guideways is necessary for subsequent phases. MegaRail can demonstrate that the unique grouping of off-the-shelf technologies used can be accomplished with little risk. Strong efforts are being made to sell systems as (1) low-cost high-speed rail systems over Interstate rights-of-way and (2) low-cost commuter and urban transit systems over regional highways and city street rights of way.

The following pictures illustrate some of the very near-term manually controlled urban, regional, and high-speed inter-city train systems available for **immediate installation** within cities and between cities to solve current, urgent transportation problems.

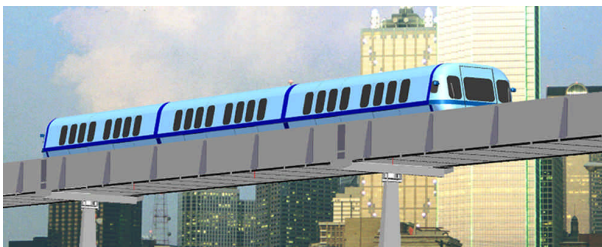
MegaRail photos & graphics



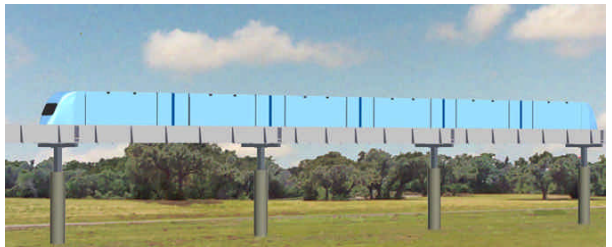
65-mph MicroRail **SkyCoach™** urban transit train



125-mph **WhisperLiner™** train along Interstate



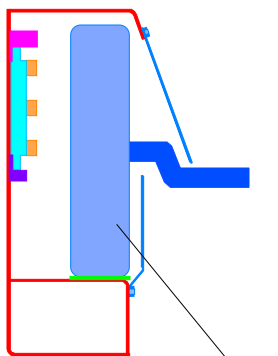
65-mph MegaRail **SkyCoach™** commuter train



125-mph **CargoLiner™** shares the guideway

U.S. Pat. 6,039,135

MegaRail graphics



**Vehicle Wheels Run
Inside Enclosed
Rails**

MegaRail vehicle wheels operate inside enclosed rails with a rail structure formed from sheets of stainless-steel welded together using highly automated manufacturing processes for very low manufacturing cost. The enclosed rail design enables MegaRail to operate safely and at speeds up to 125-mph in any weather, including ice and snow, a feat not possible with other transport systems. Rubber tired wheels inside enclosed rail tubes assures almost noise free operation.

MegaRail systems offer a significantly lower cost solution for urban light and regional commuter rail needs and long-range hi-speed trains than any other approach. With non-stop speeds of up to 125-mph, MegaRail can offer shorter trip times than most current high-speed trains, but at a small fraction of the cost. **MegaRail has high potential in this market.**

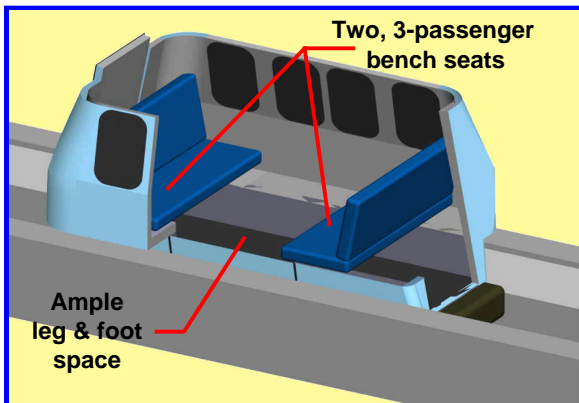
Now Available: Urban Ultra-light Rail Transport (URT)

MegaRail has two near-term & attractive alternatives to costly light and commuter rail systems. System cost is about 20% of the \$30 to \$60M (\$45M typical) cost of light or commuter rail and the time to install is from 30 to 50% of the six to twelve years needed for light rail. MicroRail systems move up to 10,137 passengers per hour with the same 200-ft long train and station platform length as light rail that can carry only about 5,220. Seats are provided for all passengers rather than requiring most passengers ride standing. The 6-ft wide by 28-inch high, open-in-the-center MicroRail guideway is very attractive for cities with narrow streets. It can be placed over the curbs of downtown sidewalks with the support posts replacing existent street light poles. It creates minimal shadowing of the ground. The larger MegaRail commuter system can carry 16,896 passengers per hour, but has a 50 rather 30-ft turn radius and a 9.5-ft wide by 36-inch guideway. Cost for both is similar. Both are the only available systems meeting fire safety and ADA standards.

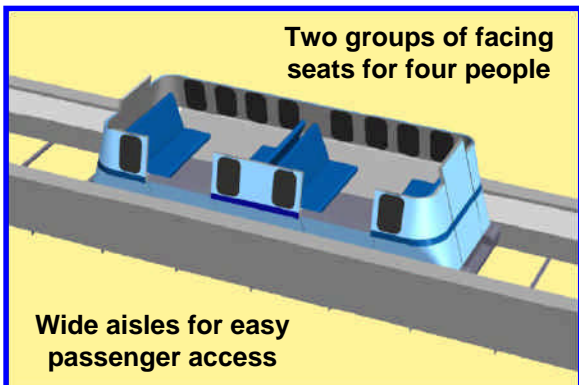
MicroRail trains use small, light-weight six-passenger coaches. (200-ft trains use 16 coaches and carry up to 96 passengers.) MegaRail trains use larger sixteen-passenger coaches. (200-ft trains use 9 cars and carry up to 144 passengers.) In each case, longer trains and longer station platforms can be used for even greater capacity. All cars offer fast step-in and sit entry for short (30-second) station times. Each coach has emergency exits at each end. Fold-down ramps at each end of trains allow safe escape of passengers to MegaRail-unique, between-the-rails emergency walkways.

Most major U.S. and foreign cities want affordable mass transit systems. Other current choices such as light rail are far to costly to allow needed coverage. **MicroRail and MegaRail URT systems are easily affordable mass transit systems!**

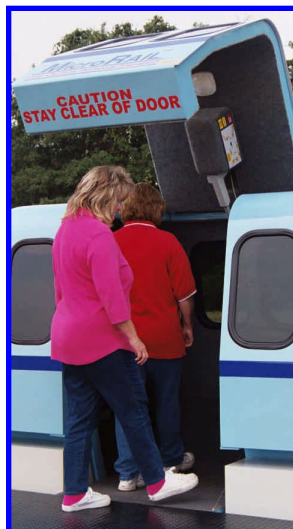
MegaRail photos & graphics



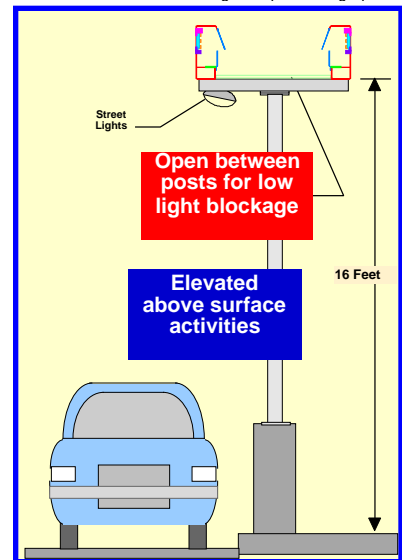
MicroRail URT coaches seat six passengers facing center entry aisle



MegaRail URT coaches seat 16 passengers facing two center entry aisles



All cars feature fast step-in & sit access



MicroRail fits over walk edges



MicroRail & MegaRail URT allows easy escape

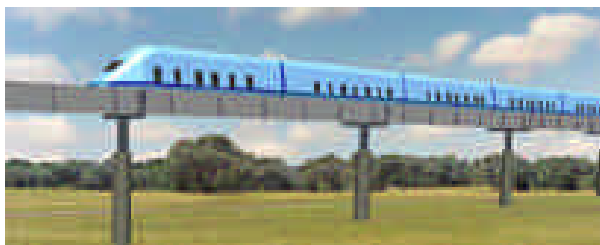
Now Available: Ultra-light High-speed Rail (UHSR)

MegaRail has a near-term & attractive alternate to very costly high-speed rail systems. UHSR system cost is about 16% of the typical \$45M per mile cost for conventional high-speed rail and the time to install is much less than that the many years needed for other high-speed rail. The cost and schedule advantages make the UHSR system very attractive for customers who are having difficulty finding money to fund conventional or higher-performance but more costly (up to \$75M per mile) maglev high-speed rail. Most U.S. states want the federal government to fund from 60 to 80% of high-speed rail projects. According to a recent Reuters news service article by Michael Conlon, “the White House has told states that they or private industry will have to fund the bulk of the cost for high-speed rail...” This situation makes the low-cost MegaRail UHSR system a much more attractive answer to the steadily increasing clamor both from the public and government officials for high-speed rail service and should increase sales potential.

MegaRail has expanded its near-term offerings to include high-speed *WhisperLiner™* passenger trains, combination *CarLiner™* trains that allow passengers to take along their automobiles and *CargoLiner™* trains that move priority cargo. All trains use ultra-light, low-cost cars and run at (125-mph) over the same elevated guideways for even lower cost. Fast car-based switching and small, low-cost trains make it economically practical to offer local and non-stop long-distance service for passengers and cargo.

WhisperLiner train coaches can carry from 10 to 13 passengers, depending upon luggage stowage capacity used. Passengers ride in spacious airliner-type seats that can be rotated to allow passengers traveling together to ride facing each other. Walk-through cabins with airliner-type restrooms in each car provide an uncrowded, pleasant atmosphere. 400-ft long trains using 400-ft platforms would allow a 13-car train to carry from 130 to 169 passengers. Typical *CarLiners* would carry 11 automobiles and up to 26 passengers. *CarLiner* passengers drive their cars directly into and out of special car carriers for fast loading and unloading and ride in their train’s comfortable *WhisperLiner* coaches. Fold-down ramps are provided in each end of trains to allow safe emergency escape of passengers to MegaRail-unique, between-the-rails emergency walkways. *CargoLiners* transport cargo in ultra-light two ton capacity containers. Container cargo may be loaded and unloaded and the containers may be moved with standard forklifts.

MegaRail graphics



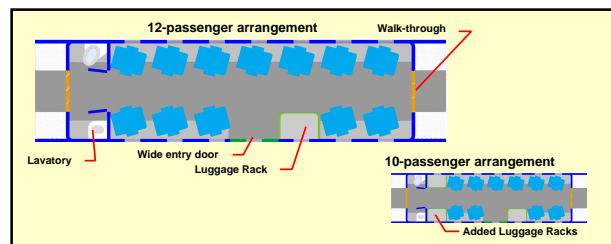
125-mph WhisperLiner train along Interstate



CargoLiner carry special closed containers



125-mph CarLiners share same guideway



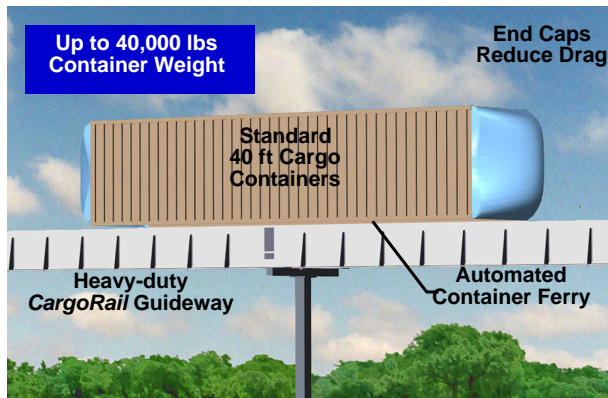
WhisperLiner has spacious interiors

Now Available: CargoRail™ Systems

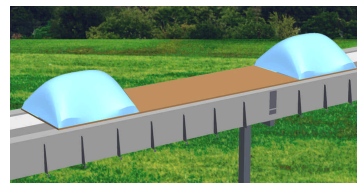
MegaRail has also expanded its product line in response to customer needs and interests. After interest by local area and State of Texas transportation officials in providing means to remove large trucks from the highways, MegaRail determined that a **CargoRail** heavy cargo version of the system could be built to carry large standard cargo containers, large truck trailers, and large truck tractors. **CargoRail** is designed to be built either along existent highways or along railroad rights of way and can be installed directly over railroad tracks. This system has been proposed to the Texas Department of Transportation and to the Houston Port Authority. It is currently under study by two universities for other applications. MegaRail will offer this system to railroads as a means to increase capacity. **CargoRail** can initially operate as manually controlled trains.

This system carries heavy cargo containers at speeds up to 75-mph without trucks or conventional rail cars and features rapid loading and unloading at freight terminals as illustrated below: Container loading, streamlining and latching is covered by U.S. Patent 6,615,740.

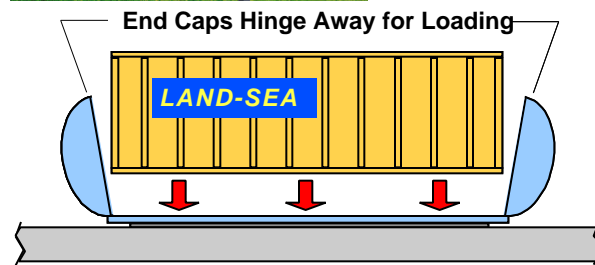
MegaRail graphics



CargoRail car with container on guideway



End caps fold down on empty cars for reduced air drag



Cargo containers loaded onto car

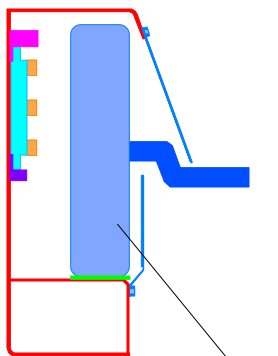
Unlike railroads, **CargoRail** is able to climb the same types of grades as trucks, thus allowing much greater freedom in location of lines.

Technical Basis: Solid Patent Protection Available

Although the systems are built only with proven, off-the-shelf technologies, the patented technology combination provides the major advantages over competing products. A key patented advance is the self-supporting, enclosed rail tube design described below.

U.S. Pat. 6,742,458
U.S. Pat. 6,039,135

MegaRail graphics



Vehicle Wheels Run Inside Enclosed Rails

MegaRail vehicle wheels operate inside enclosed rails with a rail structure formed from sheets of stainless-steel welded together using highly automated manufacturing processes for very low manufacturing cost. The enclosed rail design enables MegaRail to operate safely and at all speeds in any weather, including ice and snow, a feat not possible with other transport systems. Rubber tired wheels operating inside enclosed rail tubes assures almost noise free operation.

MegaRail systems offer a significantly lower cost solution for urban light and regional commuter rail needs and long-range hi-speed trains than any other approach. With non-stop speeds of up to 125-mph, MegaRail can offer shorter trip times than most current high-speed trains, but at a small fraction of the cost. **MegaRail has high potential in each of these markets.**

Future Products: Phase II

Phase II will enable the near-term Urban URT and the high-speed inter-city UHSR trains to be automated for reduced operating cost (eliminate train crews) and more frequent train service. This important step will be taken only after full testing and qualification of the necessary automated control software is completed. (Initial automated operation will retain the train crews to monitor operation and provide safety overrides.) Automated trains will use the same guideways without any throw-a-way or upgrades of either rolling stock or guideways. It is anticipated that this step will be possible within about three years.

Future Products: Phase III

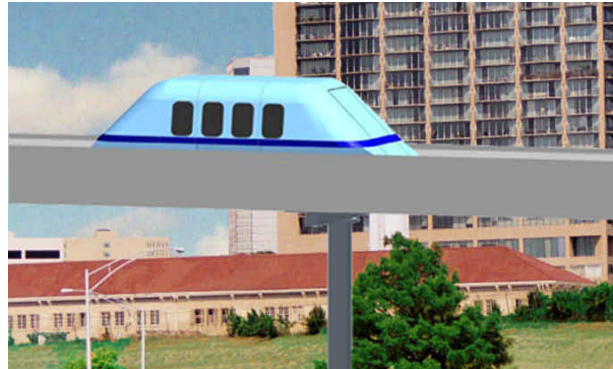
Phase III will include development and qualification of additional rolling stock and station hardware and control software to allow fully automated single cars on the same guideway system. The Phase III development will allow MegaRail to offer a wide range of highly desirable services, again using the same guideway and without throw-a-way of equipment. Additional fully automated services include 24-hour, seven-day Personal Automated Transport (PAT) for both urban and high-speed intercity use, scheduled, fixed-route urban Group Automated Transport (GAT), automated individual cargo container ferry service for MicroRail, MegaRail and CargoRail lines, automated dualmode car ferry service for standard automobiles and finally, dualmode electric car service for MegaRail, MicroRail and the smaller NanoRail system.

This phased approach allows MegaRail to enter the market and sell systems at an early date and offer a wide choice of systems to meet cost and schedule requirements. At the conclusion of Phase III, MegaRail will be able to offer a full range of transport products to meet virtually all ground transportation requirements. These products will include manually controlled trains, automated trains and individual automated vehicles. Individual vehicle services are illustrated below.

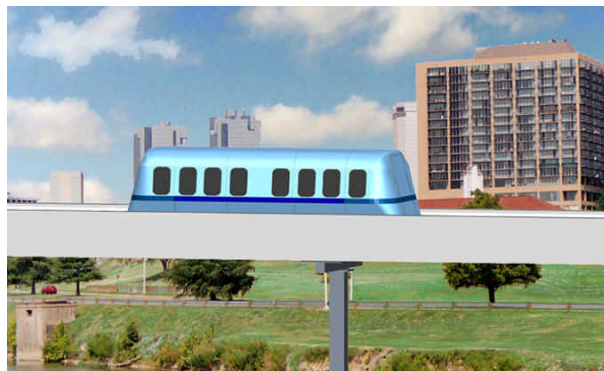
MegaRail photos & graphics



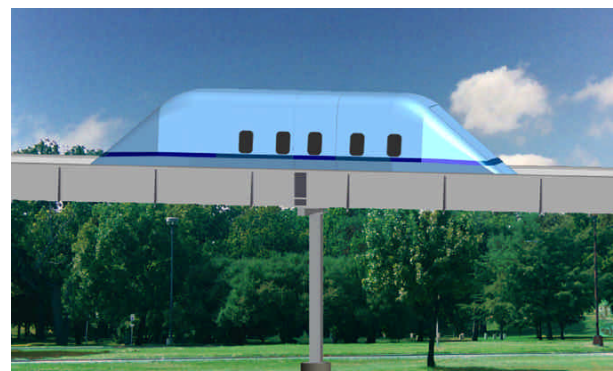
MicroRail URT PAT car on guideway



MegaRail UHSR PersonLiner™ on guideway

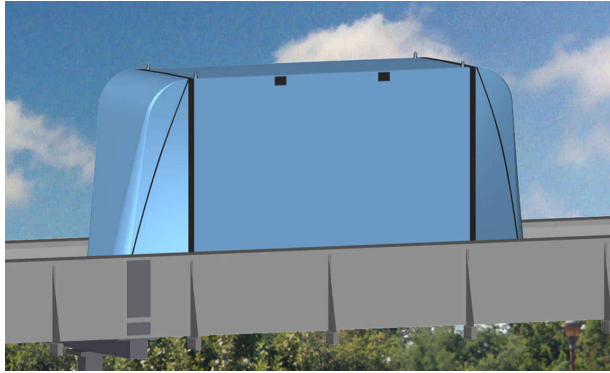


MegaRail URT group transport car on guideway

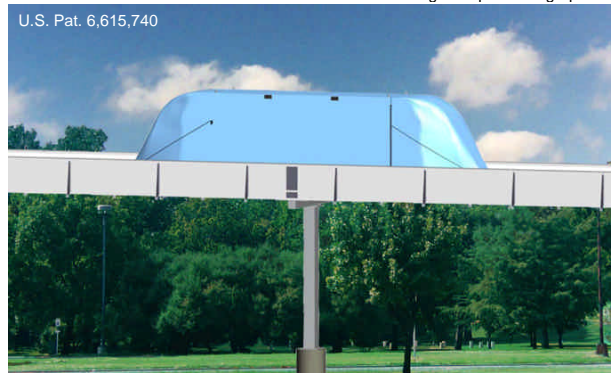


MegaRail UHSR MegaLiner™ on guideway

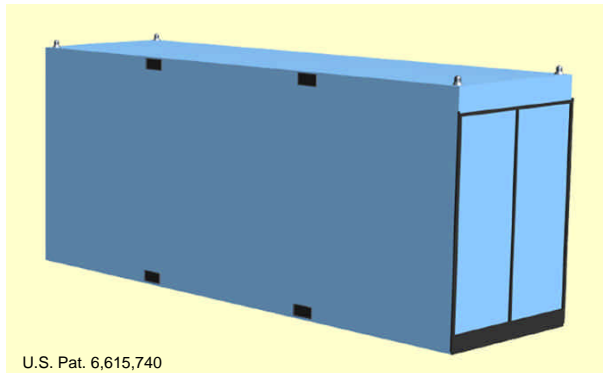
Future Products: Phase III, Continued



Automated *MicroRail* cargo cars carry up to 1,000 lbs of cargo on guideways at 65-mph

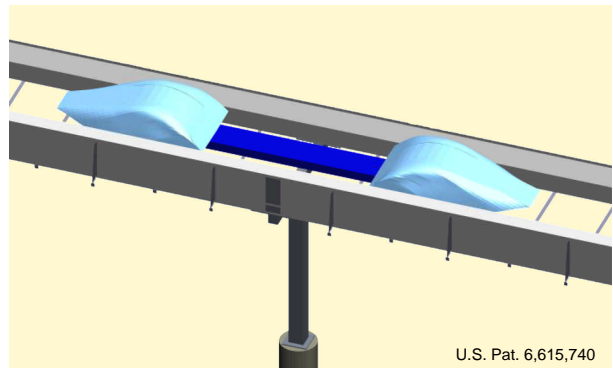


***MegaRail* cargo car moves containers at speeds up to 125-mph**



U.S. Pat. 6,615,740

***MegaRail* standard containers move up to two tons of cargo - Forklift loadable & movable**



U.S. Pat. 6,615,740

Empty *MegaRail* cargo carrier end caps fold down to reduce low drag



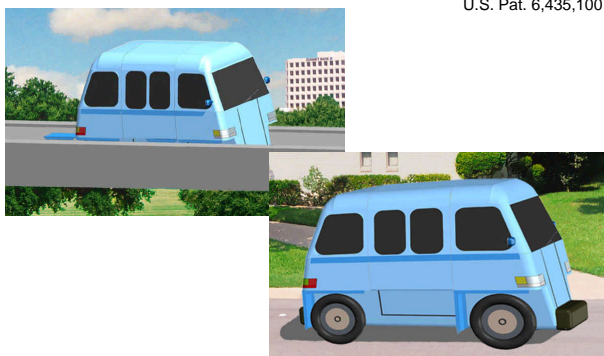
***MegaRail* car ferries carry standard cars with driver and passengers inside**

U.S. Pat. 6,435,100



***MegaRail* dualmode electric cars use both automated guideway & city streets**

U.S. Pat. 6,401,625



***MicroRail* dualmode electric cars use both automated guideway & local streets**



***MegaRail* dualmode car wheels shift out to allow wheels to operate inside rails**

Future Product Development: NanoRail™

MegaRail continues to carefully evaluate the market for new product opportunities and is actively investigating new versions of the basic MegaRail system to meet a variety of newly identified customer requirements. MegaRail recently identified a possible market for a very small personal automated transport (PAT) system that would be even smaller than the MicroRail system version. Such a system would be attractive for some office park and university campus installations where very small systems are desired.

A subsequent examination of the MicroRail system design resulted in definition of a smaller version. This NanoRail™ version can be built using the same basic MicroRail car design narrowed to provide a car with only two seats instead of four. The resulting downsized elevated guideway is only 48-inches wide, uses narrowed rail tubes, and retains the key center escape walkway feature of MegaRail and MicroRail. The car uses side panels identical to those used in the MicroRail car. The NanoRail tires and motor sizes match the reduced weight of this smaller car.

Future Product Development: MagRail™ U.S. Pat. 6,357,358

A very broad coverage US patent awarded to Kirston Henderson in April 2002 for a passive, permanent magnet magnetic levitation (maglev) version of the MegaRail system is licensed for development by MegaRail. This approach eliminates the complex and costly electromagnets and control systems that are used in the maglev systems previously demonstrated in Germany and Japan. The design also eliminates the extremely close tolerances in guideway structure and alignment necessary for the previous active systems.

A maglev system offers potential means to achieve high speeds, low noise levels, and absence of wear of wheels, track or bearings. Friction is reduced to that from aerodynamic drag, resulting in low energy cost for transport. The recently patented maglev approach also allows switching of individual cars from main lines to siding lines at stations without movement of any guideway sections. This feature makes it possible to dispatch individual, small cars on an on-call basis directly between point of departure and destination station without stops at intermediate stations along the route. Current heavy maglev train approaches do not allow individual car switching. Hence the trains must stop at stations along the line to pick up and discharge passengers, thereby reducing the effective speed of travel to much below the top speeds of the trains.

Future Product Development:

MegaRail is working toward development of another advanced levitated version of the basic MegaRail system. A patent is pending for this system and expected to be awarded and will be licensed to MegaRail. Preliminary design studies and testing of this advanced levitation system is underway to determine the technical feasibility of implementing a practical version of this system, including an advanced levitation technique based steering and switching system. This effort is highly developmental at this point. This advanced levitation version of the basic MegaRail systems offers the same potential advantages as maglev of eliminating wheels and all wear surfaces and enabling high speeds at very low noise levels, but at lower guideway and vehicle cost.

MegaRail is also working on other major enhancements to its base systems plus important derivatives of these systems. Development efforts in the area of enhancements to the MegaRail high-speed rail capability are of special importance for near-term applications.

MegaRail advantage summary:

MegaRail systems offer major advantages over competing products by virtue of unique and patented features:

The unique, enclosed rail design enables MegaRail to build ultra-light elevated guideways at a *small fraction* of the cost of guideways for other competing systems such as automated people-movers, monorails, and light rail systems. This unique design enables operation with very low noise levels under any weather conditions, plus a capability to climb steep grades. The small, modular guideway design enables placement over existent street and road right-of-way without effect on other uses. The guideway size and open-center design results in less shadowing than any other system. The unique (patent-pending) open-mesh wire escape walkways between the rails allow the systems to meet fire escape requirements not met by other elevated systems. Unlike competing systems, MegaRail and MicroRail are fully ADA compliant.

Now-available, manually controlled systems that can be placed in service on a very near-term basis can easily grow in the future to add fully automated train and individual automated vehicle services. **No discards or upgrades of any equipment is necessary to add the future automated features!**

Both the (patented) MegaRail maglev and the (patent pending) advanced levitation systems offer high potential to become the dominant future 200 to 300-mph inter-city passenger and priority cargo systems.

Systems are Low in Risk:

Although the systems are revolutionary in nature, they are solidly based on a unique (patented) combination of proven technologies. Except for the unique, weather-proof enclosed rail design of the guideway, all other elements are from automotive, other transit system, and computer systems. (Future automated systems also use some proven aircraft technology.) The only major new development area involves the failure-tolerant automated controls for future automated trains and single vehicles. In this case, risk is low because these controls will use aircraft proven techniques. Overall MegaRail system schedule risk in the control area is avoided by using manual train control for initial systems so that they operate in the exact same manner as light rail systems. Manual operation also helps to overcome public transit customer hesitation until these systems are intensively tested and demonstrated.

An experienced management and technical team with experience in aircraft automated controls and failure-tolerant design also lowers risk. A slow-paced development schedule allows adequate time for problem corrections.

Risk is also being reduced by prototype efforts by MegaRail. A 1/5th-scale switching and steering test working prototype has been built and tested to demonstrate crucial design elements. A four-car set of larger-scale, full function cars is in work. These cars will be used as a part of a small-scale control systems test bed for automated system demonstrations. A full-scale elevated MicroRail guideway section displayed in Azle, TX provides a view of the system along a city street. A full-size MicroRail car is on display at the MegaRail offices. Detailed design work is nearing completion for full-scale prototype MicroRail demonstration guideway and a fully operational manually controlled train..

The MegaRail Team:

The current full-time MegaRail staff includes the President, Kirston Henderson, Marketing and Business Manager, Steve Andrews and Lee Cenova, Manufacturing Engineering Manager. Charles Anderson is responsible for corporate strategies. Other experienced professionals assist on both full and part time basis. The company has recruited highly experienced key members of an additional full-time staff that will be added as necessary. Employees of the other team companies and other associated companies are also available as needed. Brief experience summaries for these key MegaRail core team members follow:

MegaRail Core Staff: Highly experienced design & business team

Mr. Henderson - 45 years engineering experience in aircraft and ground electronics and inventor of the MegaRail system. Experience includes all phases of design and testing and development management. **Mr. Anderson, PE** - 44 years in aircraft control system and aircraft design and management. Served as Vice-president of Engineering and President of General Dynamics, Fort Worth. **Mr. Andrews, PE** - 36 years of major program management and engineering experience with major aircraft companies and the U.S. Navy Civil Engineer Corps. Vice Chairman & Managing Director of a large investment company in Turkey. Port Design Manager in Saigon, Vietnam responsible for all port design. **Mr. Cenova** - Over 35 years industrial and mechanical engineering experience in a wide range of product development and production.

Team Companies: Key to MegaRail development and production

Micrin Technologies of Dallas, Texas, a rapidly expanding ISO-9001 electronic and power systems manufacturer for the communications industry, is responsible for detailed design and manufacture of all specialty electronics elements for MegaRail.

Clark Precision Machine of Azle, Texas, an experienced ISO-9000 tooling and mechanical item manufacturer, is responsible for manufacture of vehicles and production of guideway and station mechanical components. Clark produces aircraft tooling and structural items and aircraft simulator cockpits for major aircraft companies.



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