

The following is an internal audit prepared by one of our customers.

All,

Please find below the results of the audit we performed today on the new Republic locomotives.

## **Republic Locomotive Performance Audit**

### **Introduction**

During 2010 we purchased 3 new technology locomotives from the manufacturer, Republic Locomotive.

In the report included in the note "Vendor Evaluation Project", we listed the expected saving/performance expectations for the proposed locomotives.

With this analysis we evaluate the **actual** performances of the new locomotives to verify if the expectations have been achieved.

This analysis is performed over a total timeframe of 10 months (5+5) split as follows:

- Dec '09 to April '10 – PREVIOUS LESSOR locomotives utilization
- Aug '10 to Dec' 10 – Republic locomotives utilization

May' 10 to July '10 is not considered in the analysis since during that period of time we operated using a mixed configuration (1 Republic and 2 PREVIOUS LESSOR locomotives).

### **Results**

#### **Fuel Cost Savings**

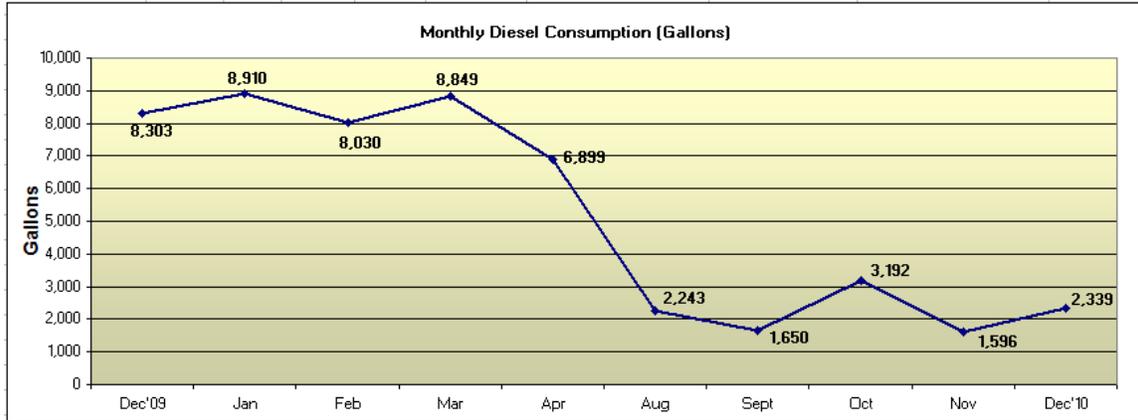
In order to remove the noise provided by the diesel price fluctuations, the assessment is focused on the diesel volumes consumed (gallons).

The following table has been generated considering the diesel items in the fuel vendor invoices received in the timeframe defined.

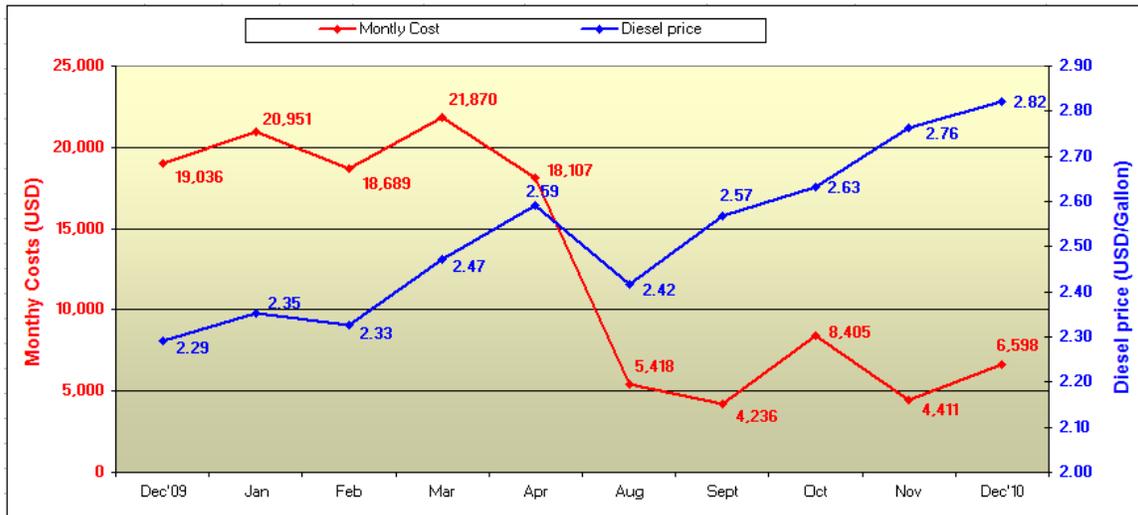
		Monthly Volume	Monthly cost	W.avg \$/Gal	Monthly Avg. Diesel Consump. (Gallons)	Monthly Avg. Costs (Gallons)	W.Avg price
PREVIOUS LESSOR	Dec'09	8,303	19,036	2.29	8,198	19,731	2.41
	Jan	8,910	20,951	2.35			
	Feb	8,030	18,689	2.33			
	Mar	8,849	21,870	2.47			
	Apr	6,899	18,107	2.59			
Republic Locomotives	Aug	2,243	5,418	2.42	2,204	5,814	2.64
	Sept	1,650	4,236	2.57			
	Oct	3,192	8,405	2.63			
	Nov	1,596	4,411	2.76			
	Dec'10	2,339	6,598	2.82			

Considering the *Monthly Avg. Diesel consumption* column, the average monthly diesel consumption moved from 8,198 Gal/month to 2,204 Gal/month with the new locomotives. This corresponds to a 73.1% savings which is even more than what was declared in the Republic Locomotive datasheet provided (1/3<sup>rd</sup> of consumption when compared to the SW1200 model). On a yearly basis this corresponds to ~72,000 gallons of diesel saved (8,198 x 12 x 0.731) and thus to an estimate ~200,000 USD/year savings in our fixed costs (diesel price used in this calculation 2.75USD/gal – Q4 2010 average).

The charts below show graphically the trends.



The following chart shows the conspicuous savings (red) despite the rise of the diesel price (up to +23% comparing the extreme values).



Other savings

The new locomotives' oil consumption is negligible when compared to the old models. OUR Maintenance Dept. refills about 1 gallon per month per unit, when previously we consumed up to 55 gallons per week (additional ~30,000 USD/year savings). As well, no brake shoes have been replaced so far, as predicted.

**Conclusions**

The expected cost savings estimation has been achieved. We can confirm that including the rental fee savings in the calculation 200,000 USD/year (market offer collected during the vendor evaluation phase), the total savings in our books sum up to 431,000 USD/year (200K diesel + 200K rental fee + 30K oil +1K brake shoes). It is nice to note that this comes with a better level of service of the equipment, more availability, less internal maintenance activities, higher safety and no environmental issue exposure. Moreover, the correctness of the information presented by the vendor during the evaluation phase and the support and promptness provided so far, confirm that Republic Locomotive is also a reliable partner for our company.