San Manuel Arizona Railroad Company (SMARRCO)

Analyst & Investor Tour - March 2014
San Manuel Arizona Railroad Company (SMARRCO)

- A short line railroad owned by Capstone
- Originally constructed for San Manuel Copper and began operating in 1955
- Average 50 concentrate truck deliveries daily from Pinto Valley
- Rail line runs 47 kms from the San Manuel loading facility to the Hayden junction where railcars are interchanged to a third party rail
- Loading facility with storage capacity of ~40kt
- Current fleet 4 locomotives and 182 railcars (200 optimal)
- SMARRCO $8.6 million of restart capital, operating cost ~$3.6M annually
- Subject to the rules and regulations of the Surface Transportation Board and the Federal Railroad Administration

SMARRCO is a key asset that facilitates access to international and domestic markets through the Port of Guaymas, Mexico
Regulatory Agencies and Associations

- Regulatory Agencies
  - FRA - Federal railroad administration
  - STB - Surface Transportation Board
  - ACC - Arizona Corporation Committee
  - RRB - Railroad Retirement Board

- Associations
  - AAR - Associations of American Railroads
  - ASLRRA - American Short Line and Regional Railroad association
SMARRCO Trans Load Personnel

- 16 current employees
- Experience in rail transportation and logistics
  - Coordinate daily activities with:
    - Pinto Valley Filter Plant
    - Arizona concentrate customers
    - Cecil trucking – concentrate deliveries
    - Union Pacific & FXE Railroads
    - Port of Guaymas
- Truck and Railcar tracking
- Inventory control
- Vessel loading at Guaymas
Rail and Truck Distances

Rail kms from San Manuel
- Guaymas 761
- Corpus Christi 1,998

Truck kms from Pinto Valley
- Hayden 85
- San Manuel 221
Access to Domestic and International Markets

- International copper sales exported through the Port of Guaymas, Mexico, located 750 kms from Pinto Valley.
- Molybdenum exports containerised and sold domestically directly from Pinto Valley.

Diagram:
- Pinto Valley Operations
- San Manuel, Arizona
- Hayden, Arizona
- Guaymas, Mexico
- International Markets

Flowchart:
- Truck
- SMARRCO
- Third-Party Rail
- Shipping
Marketing Strategy

- Diversification of customer base and geographies
- Maintain flexibility
- Mitigate counterparty risk
- Develop strategic relationships
- Freight savings on US shipments (20% of 2014 pdn)
- Spot sales provide market information
- Korean sales supports KORES’ objectives

**Freight (per wmt of concentrate)**

Includes truck transport, SMARRCO transloading, rail, port costs, ocean transport, supervision, sampling and assaying

- $70-$78 domestic, $135-$144 international
- $128-$136 combined rate per wmt of concentrate
SMARRCO – Key Takeaways

- Pinto Valley produces highly desirable products and has the infrastructure in place to sell copper and molybdenum concentrate internationally
- SMARRCO is a key asset that facilitates access to domestic and international markets
Entrance to SMARRCO Trans Load Facility
Copper Concentrate Truck Entering SMARRCO
Off loading into SMARRCO Trans Load Facility
980 K Cat Loader loading Railcars
Loading Railcars
Water sprays to minimize wind losses
Train access to concentrate Trans Load Facility
Loaded Train Departing SMARRCO Trans Load
Railcar Interchange Inspections
Railcar Maintenance: Job Planning
Maintenance Shop
Locomotive Pit
Locomotive Maintenance
SMARRCO Admin, Operations and Maintenance