



ANNUAL INFORMATION FORM

For the year ended December 31, 2019

March 16, 2020

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IN THIS ANNUAL INFORMATION FORM, UNLESS THE CONTEXT OTHERWISE REQUIRES, THE “COMPANY” OR “CAPSTONE” REFERS TO CAPSTONE MINING CORP. AND ITS SUBSIDIARIES. ALL INFORMATION CONTAINED HEREIN IS AS OF DECEMBER 31, 2019, UNLESS OTHERWISE STATED.

Cautionary Statement Regarding Forward-Looking Information

This Annual Information Form may contain “forward-looking information” within the meaning of Canadian securities legislation and “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995 (collectively, “forward-looking statements”). These forward-looking statements are made as of the date of this document and Capstone does not intend, and does not assume any obligation, to update these forward-looking statements, except as required under applicable securities legislation.

Forward-looking statements relate to future events or future performance and reflect our expectations or beliefs regarding future events. Forward-looking statements include, but are not limited to, statements with respect to the estimation of Mineral Resources and Mineral Reserves, the realization of Mineral Reserve estimates, the timing and amount of estimated future production, costs of production, the timing and possible outcome of legal proceedings and regulatory actions, and capital expenditures, the success of our mining operations, environmental risks, unanticipated reclamation expenses and title disputes. In certain cases, forward-looking statements can be identified by the use of words such as “plans”, “expects”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates”, “believes” or variations of such words and phrases, or statements that certain actions, events or results “may”, “could”, “would”, “might” or “will be taken”, “occur” or “be achieved” or the negative of these terms or comparable terminology. By their very nature, forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, amongst others, risks related to:

- inherent hazards associated with mining operations;
- future prices of copper and other metals;
- compliance with financial covenants;
- geotechnical challenges;
- surety bonding;
- our ability to raise capital;
- global crises and pandemics;
- Capstone’s ability to acquire properties for growth;
- market access restrictions or tariffs;
- foreign currency exchange rate fluctuations;
- changes in general economic conditions;
- accuracy of Mineral Resource and Mineral Reserve estimates;
- operating in foreign jurisdictions with risk of changes to governmental regulation or community interest;
- compliance with governmental regulations;
- reliance on approvals, licences and permits from governmental authorities;
- compliance with environmental laws and regulations;
- impact of climatic conditions on our Pinto Valley and Cozamin operations or development projects;
- changes in climate change regulatory regime;
- land reclamation and mine closure obligations;
- land reclamation and mine closure obligations;
- uncertainties and risks related to the potential development of the Santo Domingo Project;
- increased operating and capital costs;
- challenges to title to our mineral properties;
- ability to recruit local qualified personnel;
- dependence on key management personnel;
- potential conflicts of interest involving our directors and officers;
- corruption and bribery;
- limitations inherent in our insurance coverage;
- labour relations;

- increasing energy prices;
- competition in the mining industry;
- risks associated with joint venture partners;
- our ability to integrate new acquisitions into our operations;
- cybersecurity threats;
- reputational risk; and
- legal proceedings.

For a more detailed discussion of these factors and other risks, see [Risk Factors](#) beginning on page 39.

Although we have attempted to identify important factors that could cause our actual results, performance or achievements to differ materially from those described in our forward-looking statements, there may be other factors that cause our results, performance or achievements not to be as anticipated, estimated or intended. There can be no assurance that our forward-looking statements will prove to be accurate, as our actual results, performance or achievements could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on our forward-looking statements.

Currency

We report our financial results and prepare our financial statements in **United States dollars (“\$”)**. All currency amounts in this Annual Information Form are expressed in United States dollars, unless otherwise indicated. References to “C\$” are to Canadian dollars, references to “MX\$” are to Mexican pesos and references to “CLP” are to Chilean pesos.

The United States dollar exchange rates for our principal operating currencies are as follows:

As at December 31,			
Canadian dollar (C\$) ¹	2019	2018	2017
Average	1.3268	1.2952	1.2986
High	1.3600	1.3643	1.3743
Low	1.2989	1.2288	1.2128
Mexican peso (MX\$) ²	2019	2018	2017
Average	19.2605	19.2373	18.9104
High	20.1253	20.7160	21.9076
Low	18.7719	17.9787	17.4937

¹ Information on US\$ to C\$ exchange rates obtained from Bank of Canada daily noon exchange rates.

² Information on US\$ to MX\$ exchange rates obtained from Bank of Mexico.

Conversion Table

In this Annual Information Form, metric units are used with respect to Capstone’s mineral properties, unless otherwise indicated. Conversion rates from imperial measures to metric units and from metric units to imperial measures are provided in the table set out below.

Imperial Measure	=	Metric Unit	Metric Unit	=	Imperial Measure
2.47 acres		1 hectare	0.4047 hectares		1 acre
3.28 feet		1 metre	0.3048 metres		1 foot
0.62 miles		1 kilometre	1.609 kilometres		1 mile
0.032 ounces (troy)		1 gram	31.1 grams		1 ounce (troy)
1.102 tons (short)		1 tonne	0.907 tonnes		1 ton
0.029 ounces (troy)/ton		1 gram/tonne	34.28 grams/tonne		1 ounce (troy)/ton

Compliance with NI 43-101

As required by National Instrument 43-101 – *Standards of Disclosure for Mineral Projects* (“**NI 43-101**”), Capstone has filed technical reports detailing the technical information related to its material mineral properties discussed herein. For the purposes of NI 43-101, Capstone’s material mineral properties as of December 31, 2019 are the Pinto Valley Mine and the Cozamin Mine. Unless otherwise indicated, Capstone has prepared the technical information in this Annual Information Form (“**Technical Information**”) based on information contained in the technical reports, news releases and other public filings (collectively, the “**Disclosure Documents**”) available under Capstone’s profile on SEDAR at www.sedar.com. Each Disclosure Document was prepared by, or under the supervision of, or approved by a Qualified Person as defined in NI 43-101. For readers to fully understand the information in this Annual Information Form, they should read the Disclosure Documents in their entirety, including all qualifications, assumptions and exclusions that relate to the Technical Information set out in this Annual Information Form which qualifies the Technical Information. The Disclosure Documents are each intended to be read as a whole, and sections should not be read or relied upon out of context. Readers are advised that Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability. The Technical Information is subject to the assumptions and qualifications contained in the Disclosure Documents.

Classification of Mineral Reserves and Mineral Resources

In this Annual Information Form and as required by NI 43-101, the definitions of Proven and Probable Mineral Reserves and Measured, Indicated and Inferred Mineral Resources are those used by Canadian provincial securities regulatory authorities and conform to the definitions utilized by the Canadian Institute of Mining, Metallurgy and Petroleum (“**CIM**”) in the “CIM Definition Standards for Mineral Resources and Mineral Reserves” adopted on August 20, 2000, as amended (“**CIM Standards**”). The CIM Standards were updated in 2010 and 2014 at the request of the CIM Standing Committee on Mineral Reserve and Mineral Resource Definitions. Our Pinto Valley, Cozamin and Santo Domingo NI 43-101 Technical Reports were written in accordance with the CIM Standards updated in 2014.

Cautionary Note to US Investors Concerning Estimates of Mineral Reserves and Mineral Resources

The disclosure in this Annual Information Form uses Mineral Resource and Mineral Reserve classification terms that comply with reporting standards in Canada, and, unless otherwise indicated, all Mineral Resource and Mineral Reserve estimates included in this Annual Information Form have been prepared in accordance with NI 43-101. NI 43-101 is a rule developed by the Canadian Securities Administrators that establishes standards for all public disclosure an issuer makes of scientific and technical information concerning mineral projects. These standards differ significantly from the current disclosure requirements of the SEC set forth in Industry Guide 7. Consequently, Mineral Resource and Mineral Reserve information contained in this Annual Information Form is not comparable to similar information that would generally be disclosed by US companies in accordance with the rules of the SEC.

In particular, the SEC’s Industry Guide 7 applies different standards in order to classify mineralization as a Reserve. As a result, the definitions of Proven and Probable Reserves used in NI 43-101 differ from the definitions in Industry Guide 7. Under SEC standards, mineralization cannot be classified as a “Reserve” unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time the Reserve determination is made. Accordingly, Mineral Reserve estimates contained in this Annual Information Form may not qualify as “Reserves” under SEC standards.

In addition, this Annual Information Form uses the terms “Measured Mineral Resources”, “Indicated Mineral Resources” and “Inferred Mineral Resources” to comply with the reporting standards in Canada. The SEC’s Industry Guide 7 does not recognize Mineral Resources and US companies are generally not permitted to disclose Mineral Resources in documents they file with the SEC. Investors are cautioned not to assume that any part or all of the mineral deposits in these categories will ever be converted into SEC defined mineral “Reserves.” Further, “inferred Mineral Resources” have a great amount of uncertainty as to their existence and as to whether they can be mined legally or economically. Therefore, investors are also cautioned not to assume that all or any part of an inferred Mineral Resource exists. In accordance with Canadian rules, estimates of “inferred Mineral Resources”

cannot form the basis of feasibility or other economic studies, except in rare cases. In addition, disclosure of “contained ounces” in a Mineral Resource estimate is permitted disclosure under NI 43-101 provided that the grade or quality and the quantity of each category is stated; however, the SEC normally only permits issuers to report mineralization that does not constitute “Reserves” by SEC standards as in place tonnage and grade without reference to unit measures. For the above reasons, information contained in this Annual Information Form containing descriptions of our Mineral Resource and Mineral Reserve estimates is not comparable to similar information made public by US companies subject to the reporting and disclosure requirements of the SEC.

GLOSSARY OF TECHNICAL TERMS

In this Annual Information Form, the following technical terms are defined:

Ag: silver

Alteration: chemical and mineralogical changes in rock mass resulting from the passage of fluids.

Assay: an analysis of the contents of metals in mineralized rocks

Au: gold

Biotite: a magnesium-iron mica widely distributed in igneous rocks.

Brownfield Project: a project located near an operating mine.

Chlorite: the general term for hydrated silicates of aluminum, iron and magnesium.

CIM: Canadian Institute of Mining, Metallurgy and Petroleum and the “CIM Definition Standards for Mineral Resources & Reserves –” adopted on August 20, 2000 and amended on November 27, 2010 and May 10, 2014 (unless indicated otherwise in this Annual Information Form).

Co: cobalt

Cu: copper

CuEq: copper equivalent value, calculated by dividing the sum of the secondary metals multiplied by their own commodity prices by the copper metal price

diamond drillholes: holes drilled by a method whereby rock is drilled with a diamond impregnated, hollow drilling bit which produces a continuous, in situ record of the rock mass intersected in the form of solid cylinders of rock which are referred to as core.

disseminated: a texture in which minerals occur as scattered particles in the rock.

Dmt: dry metric tonnes

Dmtu: dry metric tonne unit

Engineer of Record: Engineer of record is the licenced professional engineer responsible for assuring that the tailings storage facility is safe, in that it is designed and constructed in accordance with the current state of practice and applicable regulations, statutes, guidelines, codes, and standards.

Fault: a fracture in a rock across which there has been displacement

Fe: iron

G or g: gram

Grade: the amount of valuable mineral in each tonne of ore, expressed as ounces per ton or grams per tonne for precious metal and as a percentage by weight for other metals.

g/t: grams per metric tonne.

g/t: grams per metric tonne.

Ha: hectares

host rock: a volume of rock within which mineralization or an ore body occurs.

HQ: approximately 63 millimetre diameter diamond drill core

Hydrothermal: applied to metamorphic and magmatic emanations high in water content; the processes in which they are concerned; and the rocks or ore deposits, alteration products, and springs produced by them.

Igneous: a type of rock that is crystallized from a liquid magma.

Indicated Mineral Resource: in accordance with CIM Definition Standards, is that part of a Mineral Resource for which quantity, grade or quality, densities, shape and physical characteristics are estimated with sufficient confidence to allow the application of Modifying Factors (as defined below) in sufficient detail to support mine planning and evaluation of the economic viability of the deposit. Geological evidence is derived from adequately detailed and reliable exploration, sampling and testing and is sufficient to assume geological and grade or quality continuity between points of observation. An Indicated Mineral Resource has a lower level of confidence than that applying to a Measured Mineral Resource and may only be converted to a Probable Mineral Reserve.

Inferred Mineral Resources: in accordance with CIM Definition Standards, that part of a Mineral Resource for which quantity and grade or quality are estimated on the basis of limited geological evidence and sampling. Geological evidence is sufficient to imply but not verify geological and grade or quality continuity. An Inferred Mineral Resource has a lower level of confidence than that applying to an Indicated Mineral Resource and must not be converted to a Mineral Reserve. It is reasonably expected that the majority of Inferred Mineral Resources could be upgraded to Indicated Mineral Resources with continued exploration.

GLOSSARY OF TECHNICAL TERMS

K: kilo (thousand)

Koz: thousands of ounces

Kt: one thousand tonnes

LOM: life of mine

M: mega (million)

Masl: metres above sea level.

Measured Mineral Resource: in accordance with CIM Definition Standards, is that part of a Mineral Resource for which quantity, grade or quality, densities, shape, and physical characteristics are estimated with confidence sufficient to allow the application of Modifying Factors to support detailed mine planning and final evaluation of the economic viability of the deposit. Geological evidence is derived from detailed and reliable exploration, sampling and testing and is sufficient to confirm geological and grade or quality continuity between points of observation. A Measured Mineral Resource has a higher level of confidence than that applying to either an Indicated Mineral Resource or an Inferred Mineral Resource. It may be converted to a Proven Mineral Reserve or to a Probable Mineral Reserve.

Mineral Reserve: in accordance with CIM Definition Standards, economically mineable part of a Measured and/or Indicated Mineral Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined or extracted and is defined by studies at pre-feasibility or feasibility level as appropriate that include application of Modifying Factors. Such studies demonstrate that, at the time of reporting, extraction could reasonably be justified. The reference point at which Mineral Reserves are defined, usually the point where the ore is delivered to the processing plant, must be stated. It is important that, in all situations where the reference point is different, such as for a saleable product, a clarifying statement is included to ensure that the reader is fully informed as to what is being reported. The public disclosure of a Mineral Reserve must be demonstrated by a pre-feasibility study or feasibility study.

Mineral Resource: in accordance with CIM Definition Standards, is a concentration or occurrence of solid material of economic interest in or on the Earth's crust in such form, grade or quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade or quality, continuity and other geological characteristics of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge, including sampling. Mineral Resources are sub-divided, in order of increasing geological confidence, into Inferred, Indicated and Measured categories.

Mineralization: significant amounts of mineral(s) that is (are) of economic interest which may be established by prospecting, trenching and drilling.

Mlb: millions of pounds.

mm: millimetres

Mo: molybdenum

Modifying Factors: Modifying Factors are considerations used to convert Mineral Resources to Mineral Reserves. These include, but are not restricted to, mining, processing, metallurgical, infrastructure, economic, marketing, legal, environmental, social and governmental factors.

Mt: megatonne (million tonnes)

MW: megawatt (million watts)

NI 43-101: National Instrument 43-101 – Standards of Disclosure for Mineral Projects

NQ: approximately 47 millimetre diameter diamond drill core.

NSR: net smelter return.

Ore: rock that contains one or more minerals or metals, at least one of which has commercial value and which is estimated to be able to be recovered at a profit

Pb: lead

PLS: Pregnant Leach Solution is acidic metal-laden water generated from stockpile leaching. Pregnant Leach Solution is used in the SX/EW process.

Pyrite: a common iron sulphide mineral commonly found in hydrothermal veins and systems and commonly associated with gold mineralization.

QAQC: quality assurance/quality control in a mineral exploration and mining context is the combination of quality assurance, the process or set of processes used to assure data quality, and quality control, the process of

GLOSSARY OF TECHNICAL TERMS

identifying data outside of established tolerance limits.

Qualified Person: has the meaning set out in NI 43-101.

Quartz: a common rock forming mineral made up of silicon dioxide.

S: sulphur

Silica: silicon dioxide (SiO_2), which occurs in the crystalline forms as quartz, cristobalite, tridymite, as cryptocrystalline chalcedony, as amorphous opal, and as an essential constituent of the silicate groups of minerals.

Silica: silicon dioxide (SiO_2), which occurs in the crystalline forms as quartz, cristobalite, tridymite, as cryptocrystalline chalcedony, as amorphous opal, and as an essential constituent of the silicate groups of minerals.

Tpd: tonnes per day

Vein: a sheet-like body of minerals formed by fracture-filling or replacement of the host rock.

Volcanic: formed by volcanic activity.

Zn: zinc.

1 – CORPORATE STRUCTURE

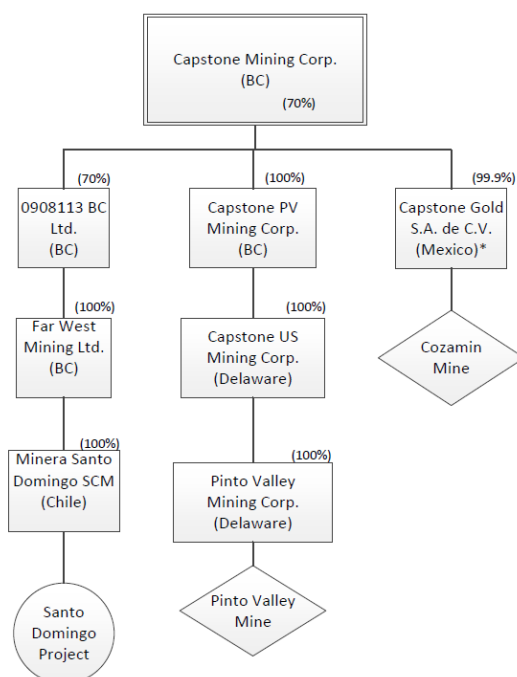
1.1 Name, Address and Incorporation

Capstone Mining Corp. was incorporated pursuant to the *Company Act* (British Columbia) on July 17, 1987 under the name 330338 BC Ltd. We changed our name to Fire Star Resources Ltd. on April 21, 1989, to International Bancorp Ltd. on August 17, 1989, and to IBL Equities Ltd. on March 5, 1991. On January 2, 1996, we changed our name to Serena Resources Ltd. and consolidated our share capital on a 5:1 basis. On May 17, 2001, we changed our name to Consolidated Serena Resources Ltd. and consolidated our share capital on a 5:1 basis. We changed our name to Capstone Gold Corp. on March 6, 2003. On January 12, 2005, we amended our Notice of Articles to, amongst other things, change our authorized capital from 100,000,000 common shares to an unlimited number of common shares, and to reduce the threshold percentage of votes required to approve a special resolution from 75% to 66⅔%. We changed our name to Capstone Mining Corp. on February 8, 2006. On November 24, 2008, Capstone and Sherwood Copper Corporation (“**Sherwood**”) completed a court-approved plan of arrangement pursuant to which a Capstone wholly-owned subsidiary acquired all of the issued and outstanding common shares of Sherwood in exchange for common shares of Capstone, and that subsidiary and Sherwood amalgamated to form a new corporation named “Capstone Mining North Ltd.” On January 1, 2009, Capstone and Capstone Mining North Ltd. were amalgamated to form Capstone Mining Corp. On April 30, 2014, we amended our Articles to modify the means by which notice of meetings of shareholders and other shareholder information may be delivered to shareholders and increased the quorum requirements for meetings of shareholders to two persons holding at least 25% of the votes eligible to be cast at the meeting. Capstone is now governed by the *Business Corporations Act* (British Columbia).

Capstone’s head and registered office is located at 2100 – 510 West Georgia Street, Vancouver, British Columbia, V6B 0M3, Canada.

1.2 Intercorporate Relationships

The following chart describes the intercorporate relationships amongst Capstone’s material subsidiaries and the percentage of voting securities held by Capstone, either directly or indirectly, as at December 31, 2019, and the jurisdiction of incorporation, formation, continuation or organization of each subsidiary:



* Capstone Gold S.A. de C.V.’s remaining % interest held by Capstone Mexico Mining Corp. 0908113 BC Ltd.’s remaining % interest held by Korea Resources Corporation

2 – GENERAL DEVELOPMENT OF THE BUSINESS

2.1 Three Year History

2020

- In February, announced the results of an updated feasibility level technical report for Santo Domingo. Updates included a higher level of capital expenditure and operational expenditure certainty, receipt of additional key permits and the development of a Preliminary Economic Assessment with respect to cobalt production.

2019

- Extended and amended our \$300 million senior secured corporate revolving credit facility to July 2022, with improved terms and resulting saving of approximately \$1 million per year in interest costs.
- Commenced a 200-hole infill and step-out drilling program at Cozamin aiming to double the current reserve base and double the current mine life.
- Santo Domingo obtained all critical long-lead permits required for the start of construction from Chilean authorities, including approval of its Mine Closure Plan.
- On June 3, sold Minto mine for up to \$20 million to Pembridge Resources PLC.
- On January 3, filed the NI 43-101 technical report titled, "Santo Domingo Project, Region III, Chile, NI 43-101 Technical Report on Feasibility Study Update" for the technical report announced on November 26, 2018.
- On January 1, Raman Randhawa was promoted to Chief Financial Officer.

2018

- On December 31, Gregg Bush, Senior Vice President and Chief Operating Officer and Jim Slattery, Senior Vice President and Chief Financial Officer left Capstone.
- In the fourth quarter of 2018, Mike Wickersham joined Pinto Valley as Mine General Manager. Mike is a Chemical Engineer with over 35 years of experience in the mining and mineral processing industry.
- In June, Capstone announced the results of an updated Mineral Resource estimate for Cozamin in Mexico, and subsequently in December, an updated technical report resulted in an increase of Proven and Probable Mineral Reserves by 89% over the Mineral Reserves as at December 31, 2017, to 6.2 million tonnes grading 1.60% copper. Inferred Mineral Resources were also re-estimated to include high grade results from step-out drilling to October 24, 2018 and resulted in an increase to 17 million tonnes at a copper grade of 1.11%; including 9.5 million tonnes at a copper grade of 1.61% in the Mala Noche Footwall Zone ("**MNFWZ**").
- On November 26, released an updated technical report for Santo Domingo and launched a strategic process to right size or monetize Capstone's 70% ownership.
- At Santo Domingo, three of the five long-lead permits required for construction were received.
- The union member employees at Pinto Valley voted to ratify a new four-year collective bargaining agreement, which was effective May 30.
- On October 11, Capstone announced it was putting Minto on care and maintenance to preserve its value, while continuing to explore value maximizing alternatives. All operations ceased in the fourth quarter once the ore stockpile was processed. Minto retained a core team of employees to oversee the site and meet environmental monitoring and legal obligations during the care and maintenance phase.

2017

- On December 31, the copper price protection program set up in 2016 to assure continued debt repayment through 2017 was completed, resulting in full exposure to copper prices starting January 1, 2018.
- On December 15, completed the sale of Kutcho development project to Kutcho Copper Corp. (formerly Desert Star Resources Ltd.).

- In September, entered into an agreement with Endeavor Silver Corp. to allow both companies to exchange access to certain of each other's mining concessions that abut the southern boundary of Cozamin. Cozamin continued wide-spaced testing of the MNFWZ structure on both sides of the Capstone/Endeavour boundary, encountering copper grades in excess of 4% over larger than average widths.
- On April 4, the precious metal streaming arrangement with Wheaton Precious Metals Corp. for silver production at the Cozamin mine expired. After this date, the full silver by-product credit was earned by Cozamin.

3 – DESCRIPTION OF THE BUSINESS

3.1 General

Capstone is a Canadian base metals mining company, focused on copper in politically safe, mining friendly jurisdictions in the Americas. We have grown through a combination of exploration, development and acquisition of mineral properties and currently operate two producing copper mines: Pinto Valley in the US and Cozamin in Mexico.

Our principal product is copper, with zinc, lead, molybdenum, silver and gold produced and sold as by-products. We are focused on optimizing our operations and assets to organically grow our production profile and are committed to the responsible development of our assets and the environments in which we operate. Capstone's material mineral properties consist of:

- Pinto Valley Mine, an open-pit, copper mine located in Arizona, US; and
- Cozamin Mine, an underground, copper-silver mine located in the State of Zacatecas, Mexico.

Capstone also owns 70% of the large-scale copper-iron Santo Domingo development project in Chile. In addition to ongoing exploration at the Cozamin Mine aimed at increasing mine life and throughput, we have a portfolio of early-stage, base metals exploration projects and are actively pursuing additional exploration opportunities through staking and acquiring properties and earn-in and/or joint venture models.

Principal Products and Operations

Capstone's principal product is copper (in concentrate as well as copper cathode), with zinc, silver and gold produced as by-products. The following table summarizes Capstone's production for 2019 and 2018:

Operating Statistics	Pinto Valley		Cozamin	
	2019	2018	2019	2018
Production (contained metal and cathode) ¹				
Copper (000's pounds)	117,629	119,067	35,842	36,155
Zinc (000's pounds)		-	18,463	14,900
Silver (000s ounces) ²	-	324	1,366	1,164
Mining - Open Pit				
Waste (000s tonnes)	30,101	27,687	-	-
Ore (000s tonnes)	18,888	19,290	-	-
Total (000s tonnes)	48,989	46,977	-	-
Mining – Underground				
Ore (000s tonnes)	-	-	1,143	989
Milling				
Milled (000s tonnes)	18,665	19,246	1,146	986
Tonnes per day	51,137	52,728	3,140	2,702
Copper grade (%)	0.33	0.32	1.50	1.75
Zinc grade (%)	-	-	1.07	1.04
Recoveries				
Copper (%)	85.1	84.6	94.4	95.0
Zinc (%)	-	-	68.2	65.6
Silver (%)	*	*	77.7	77.2
Gold (%)	*	*	**	**
Concentrate Production				
Copper (dmt)	196,560	201,747	61,720	62,949
Copper (%)	26.3	26.0	26.5	26.1
Silver (g/t)	-	-	607	508
Zinc (dmt)	-	-	17,297	14,300
Zinc (%)	-	-	48.4	47.3

¹ Adjustments based on final settlements will be made in future quarters.

² Pinto Valley gold production reaches payable levels from time to time. Any payable gold production will be reported in the period revenue is received. Gold and silver are not assayed on site, resulting in a significant lag time in receiving data. As such, this figure is an estimate.

* Silver and gold have not been estimated in the Pinto Valley resource model. Only recovered silver and payable gold is reported for this mine.

** Gold has not been estimated in the Cozamin resource model. Only payable gold is reported.

During the year ended December 31, 2019, we generated gross revenue of \$461.8 million primarily from the sale of 152.4 million pounds of payable copper. The year ended December 31, 2018 generated gross revenue of \$451.3 million primarily from the sale of 143.5 million pounds of payable copper.

The following table summarizes the gross sales revenue for 2019 and 2018 from sales to customers:

Gross Revenue by Metal¹

	2019 ¹		2018 ¹	
	\$ millions	%	\$ millions	%
Copper	412.3	89.3	411.2	91.1
Zinc	17.6	3.8	13.8	3.0
Lead	2.7	0.6	2.3	0.5
Molybdenum	2.3	0.5	2.5	0.5
Silver	23.8	5.2	19.3	4.3
Gold	3.1	0.6	2.2	0.5
Total from continuing operations^{2,3}	461.8	100	451.3	100

¹The current and subsequent periods may include final settlement quantity and/or price adjustments from prior shipments.

²Treatment and selling costs of \$43.2 million (2018 - \$35.4 million) are deducted from gross revenue of \$461.8 million (2018 - \$451.3 million) resulting in reported revenue of \$418.7 million in 2019 (2018 - \$415.9 million) as per the Consolidated Statements of Income (loss).² Treatment and selling costs of \$43.2 million (2018 - \$35.4 million) are deducted from gross revenue of \$461.8 million (2018 - \$451.3 million) resulting in reported revenue of \$418.7 million in 2019 (2018 - \$415.9 million) as per the Consolidated Statements of Income (loss).

³The Minto mine was placed on care and maintenance in Q4 2018 and was considered a discontinued operation under IFRS 5 up until the date of sale (June 3, 2019).

Pinto Valley production is primarily copper concentrate with a small amount of copper cathode produced from run-of-mine leaching and SX/EW production and molybdenum concentrate as a by-product. The Mine also recovers a small amount of silver and gold as a by-product, though it is not estimated in the block model and is not included in the Mineral Resource or Mineral Reserve estimate. In 2019, 100% of the copper concentrate production was exported to Asia, specifically Japan and Korea as well as the Philippines since the implementation of the tariffs on US-origin material in mid-2018. In 2019, 100% of the copper concentrate was hauled using a modular truck system and shipped out of the port of Guaymas, Mexico. The copper cathode and molybdenum concentrate are sold through a competitive tendering process.

Cozamin concentrate production is primarily copper with lesser amounts of by-product zinc and lead concentrate and significant by-product silver. The copper concentrate is delivered by truck under an agreement to a major trading company in Manzanillo, Mexico. Depending on market conditions the copper concentrate is sold under an annual or multi-year agreement. Similarly, the zinc and lead concentrates are sold under annual tenders or multi-year agreements and delivered by truck to Manzanillo or local Mexican smelters.

Competitive Conditions

Our business is to produce and sell copper. Prices are determined by world markets over which we have no influence or control. Our competitive position is primarily determined by our costs and high grade copper concentrate with low impurities compared to other producers throughout the world and our ability to maintain our financial integrity through metal price cycles. Costs are governed to a large extent by the grade, nature and location of our Mineral Reserves as well as by input costs and operating and management skills. In contrast with diversified mining companies, we focus on copper production, development and exploration, and are therefore subject to unique competitive advantages and disadvantages related to the price of copper and to a lesser extent, the price of our metal by-products. If copper prices increase, we will be in a relatively stronger competitive position than diversified mining companies that produce, develop and explore for other minerals in addition to copper. Conversely, if copper prices decrease, we will be at a competitive disadvantage to diversified mining companies.

The mining industry is competitive, particularly in the acquisition of additional Mineral Reserves and Mineral Resources in all phases of operation, and we compete with many companies possessing similar or greater financial and technical resources.

Metal Prices

The Company's financial flexibility is highly dependent on the prevailing prices for the commodities it produces. While the Company's strategy is to remain unhedged, circumstances may arise where increased certainty of cash

flows is considered more important to long term value creation than providing investors short term exposure to the volatility of metal prices. In these circumstances, the Company may elect to fix prices within a contractual quotational period or to lock in future prices through the variety of financial derivative instruments available.

Environmental Protection

Capstone's operations (Pinto Valley and Cozamin) and development project (Santo Domingo) are subject to the national and local laws and regulations in respect of the construction, operating standards and the eventual abandonment and restoration costs applicable to each location. Since the Cozamin Mine is a relatively small tonnage, high-grade operation, the overall financial impact of the environmental protection requirements is minor relative to our overall financial performance. Each operation is subject to a reclamation and closure cost obligations review at year-end to assess the abandonment and restoration cost for the operation at that point. Any changes from the previous period are reflected in the balance sheet and could flow through the earnings statement. While the financial obligations will increase as disturbance increases, given the relatively modest amounts involved, such impacts are likely to be relatively minor from a capital and earnings perspective in the near term. Pinto Valley Mine has a long history of operations in an established mining district of Arizona. As such, there are significant reclamation liabilities. These were reviewed with regulators in 2013 at the time of the acquisition by Capstone and were also the subject of a detailed third-party assessment commissioned by the Company in 2015 and have been updated to reflect the current mine life.

In May 2016, Pinto Valley submitted a formal Mine Plan of Operations in support of the Pinto Valley Mine Life Extension – Phase 3 (“**PV3**”) mine plan to the US Forest Service, marking the first step of the permitting process, required under the National Environmental Policy Act (“**NEPA**”). The NEPA process was initiated in January 2017 after publishing a Notice of Intent to conduct an Environmental Impact Statement (“**EIS**”). The draft EIS was published for public comment in December 2019. The project is on track and anticipates issuance of a draft Record of Decision and final EIS in May 2020, a final Record of Decision in September 2020 and a Notice to Proceed in October 2020. Our assets are in mature and stable mining jurisdictions. The environmental protection requirements are not expected to be a significant cost or regulatory impediment to carrying on our business.

Employees

As of December 31, 2019, Capstone had 1,049 employees and 574 contractors.

There are approximately 371 hourly employees at the Pinto Valley Mine, a portion of whom are members of six unions, and whom are all governed by one collective bargaining agreement negotiated by the United Steelworkers Union which is in effect until May 29, 2022.

Foreign Operations

Capstone's material properties are in foreign jurisdictions, being the Pinto Valley Mine (US), and the Cozamin Mine (Mexico). We also have interests in exploration projects. and a mine development project in Chile.

All of the revenue from continuing operations in 2019 related to foreign operations. Foreign operations represented approximately 94% of our assets as at December 31, 2019.

Social and Environmental Policies

Capstone places great emphasis on providing a safe and secure working environment for all our employees and contractors as we recognize the importance of operating in a sustainable manner.

Our Values and Ethics – Code of Conduct (“**Code of Conduct**”) is our Company policy that sets out the standards which guide the conduct of our business and the behaviour of our employees, officers and our Board of Directors. The Code of Conduct is reviewed annually by the Board. Our Code of Conduct, amongst other things, sets out standards in areas relating to:

- Promotion and provision of a work environment in which individuals are treated with respect, provided

- with equal opportunity and is free of all forms of discrimination;
- Zero tolerance policy relating to use of prohibited substances;
- Ethical business conduct and legal compliance, including without limitation prohibition against accepting or offering bribes;
- Commitment to health and safety in our business operations, and the identification, elimination or control of workplace hazards;
- Commitment to maintain and improve sound environmental practices in all our activities.

Capstone's commitment to sustainable performance is defined in our Integrated Environment, Health, Safety and Sustainability ("EHS&S") Policy. The Technical, Health, Environmental, Safety and Sustainability ("THES&S") Committee of the Board has oversight of the EHS&S Policy. Annual corporate objectives for sustainable performance and improvement are approved by the Board and are linked to the objectives and compensation for employees at all levels of the organization. We measure our performance against these objectives.

Capstone regularly reviews and implements internal standards based on industry best practice to ensure continual improvement in key areas including health and safety, environmental management, tailings management, energy management and social aspects, including stakeholder engagement.

3.2 Material Mineral Properties

Pinto Valley Mine (US)

The Pinto Valley Mine is the subject of a report titled "Pinto Valley Mine Life Extension – Phase 3 (PV3) *Pre-Feasibility Study*" dated February 23, 2016 with an effective date of January 1, 2016. This technical report was compiled by Capstone Mining Corp, and authored by Gregg Bush, P.Eng., formerly of Capstone Mining Corp.; Tony J. Freiman, PE, Amec Foster Wheeler Environment & Infrastructure, Inc.; Corolla Hoag, CPG, SME-RM, SRK Consulting (U.S.), Inc.; Garth Kirkham, P.Geo., FGC, Kirkham Geosystems Ltd.; Kenneth W. Major, P.Eng., KWM Consulting Inc.; and John Marek, PE, SME-RM, Independent Mining Consultants, Inc., each a Qualified Person as defined by NI 43-101. The description of the Pinto Valley Mine in this document is based on assumptions, qualifications and procedures which are set out in the PV3 PFS. Reference should be made to the full text of this report, which is available in its entirety on SEDAR at www.sedar.com under Capstone's profile. The scientific and technical information below which is not contained in these reports has been reviewed and approved by Claydon Craig, P.Eng., Superintendent of Mine Technical Services at our Pinto Valley Mine and a Qualified Person under NI 43-101.

Description and Location

The property is located at the west end of the Globe-Miami mining district, approximately 130 km east of Phoenix and 10 km west of the town of Miami, in Gila County, Arizona, at 33°23'32"N and 100°58'15"W. The Pinto Valley property consists of approximately 5,130 ha of contiguous claims. These comprise 69 patented lode mining claims, 53 patented mill sites, 451 unpatented lode mining claims and mill sites, and seven parcels of fee (private) land.

Capstone acquired the Pinto Valley Mine and associated railroad operations (San Manuel Arizona Railroad Company) on October 11, 2013 for a cost of \$650 million. A 2% NSR applies to 26 of the unpatented mining claims that are not in the current mine plan.

Pinto Valley is an open pit mine producing copper and molybdenum concentrates and copper cathode. The administration, ore processing, tailings, waste rock storage, and maintenance facilities are located on the property, in close proximity to the pit. The processing facility consists of three crushing stages, ball mills, copper flotation stages, a molybdenum flotation circuit, and associated thickeners for concentrates and tailings. Two tailings storage facilities ("TSF") are currently operational ([Figure 1](#)) and two former tailings facilities are no longer in service but remain part of our on-going inspection, maintenance and surveillance program. Pinto Valley also has an SX/EW facility that processes pregnant leach solution from low copper grade material that is leached. The SX/EW accounts for less than 5% of production.

Pinto Valley has an inspection, maintenance and surveillance program in place to ensure that its tailings storage facilities continue to perform safely and as intended. The Engineer of Record (“**EOR**”) for the TSFs is Tony J. Freiman, PE of Wood Environment & Infrastructure Solutions, Inc. The EOR is responsible for the design of the active TSFs and provides guidance on construction and operational practices. Pinto Valley site personnel monitor performance of the active TSFs daily and prepare weekly and monthly internal reports for Pinto Valley Mine management and engineering groups. Pinto Valley site personnel communicate with the EOR at least weekly. The EOR performs a formal on-site inspection of the active TSFs each quarter and the inactive TSFs annually. Ad-hoc on-site inspections by the EOR occur approximately every month. A report is prepared by the EOR for each of the formal inspections with a summary of the TSF performance, and recommendations are provided for current and future work as appropriate. Approximately every 3 years, an independent third party reviews the work performed by the EOR and the performance of the active and inactive TSFs. The most recent independent third-party review was completed in January 2018 by Haley & Aldrich, Inc.

Environmental liabilities at the Pinto Valley Mine relate to the heap leach facility, tailings impoundments and associated engineered containment infrastructure, waste rock dumps, surface water containment structures, as well as the removal of all operational infrastructures. A closure and post-closure strategy and a mined land reclamation plan detailing methods and costs associated with restoring the site to an acceptable environmental standard were most recently approved in 2019 and 2016 respectively. Surety Bonds totaling \$118.6 million have been filed with the Arizona Department of Environmental Quality (“**ADEQ**”) and the Arizona State Mine Inspector in accordance with the mandate of these agencies and associated regulations and policies. These financial security amounts represent the estimated interim closure and post-closure costs through 2023 for ADEQ-permitted facilities and through 2026 for surface reclamation overseen by the State Mine Inspector, on an undiscounted basis. Amounts are reviewed with each significant change in the mine plan or closure measures.

The Pinto Valley Mine requires 16 permits granted from various state and federal agencies; operations of the railroad requires five permits mainly from the State of Arizona. Pinto Valley Mine has all the necessary permits to conduct mining activities with the exception of consolidation/renewal of existing U.S. Forest Service (“**USFS**”) land use authorizations (Plan of Operations). Pinto Valley Mine is presently working with the USFS to develop an interim and a long-term renewal of its land use authorizations. An interim plan for existing disturbances to forest land will increase the reclamation bond by approximately \$3.35 million. The consolidated Plan of Operation was submitted to the USFS and deemed complete in 2016. Once approved, the Plan of Operations includes tailings storage on USFS land to accommodate the PV3 mine plan.

Accessibility, Climate, Local Resources, Infrastructure and Physiography

The Pinto Valley Mine is accessed from US Highway 60 (“**US 60**”), then 5 km on paved Forest Road (“**FR**”) 287. The site can also be accessed from Tucson, Arizona (160 km to the south) by travelling north on State Route (“**SR**”) 77. The mine is 10 km west of Miami, a town of approximately 1,800 residents, and 18 km west of Globe, the County seat, with approximately 7,500 residents. Because of a long-standing mining tradition in the area, many local services are in place to supply the mine's needs, with the remaining services coming from the greater Phoenix area. Medical facilities are available in Miami. Fire, police, public works, transportation and recreational facilities are in place and fully functioning.

Pinto Valley Mine's moderate, semi-arid regional climate allows for year-round operation. The average annual precipitation is 480 mm. May and June are typically the driest months of the year and may result in local drought conditions.

Pinto Valley Mine has sufficient surface rights for mining operations, mineral processing facilities and tailings storage to mine the pushbacks until 2026, as described in Capstone's “Pinto Valley Mine 2014 Pre-Feasibility Study” dated April 28, 2014 with an effective date of January 1, 2014 (“**PV2 PFS**”). The expanded PV3 PFS mine plan will require permit amendments. Off-site infrastructure includes the incoming electric power generation and transmission capacity provided by the Salt River Project, the local highway system provided by state and federal

governments, the local transportation services provided by various contractors, and the telephone and data communications systems.

Tailings are deposited in existing permitted tailings storage facilities. Tailings Dam No. 4 is the primary storage facility, with Tailings Dam No. 3 used during maintenance activities at Tailings Dam No. 4 (Figure 1). Pinto Valley Mine has several water sources including a private wellfield with three wells, a pipeline network connecting it to several neighboring mines, a system of water catchments with pumpback capabilities, and reclaim systems on operating tailings impoundments however, periodic drought remains a risk.

The Pinto Valley Mine is located in east-central Arizona in the structural transition zone between the Sonoran section of the Basin and Range physiographic province to the south-southwest, and the Colorado Plateau to the north. The terrain surrounding the mine is generally mountainous, dominated by sharp landforms and prolific exposures of a variety of bedrock formations present in the region. The Pinto Valley Mine is entirely within the Pinto Creek watershed, where local elevations range from about 900 m to 1,500 m above mean sea level.

The Pinto Valley Mine is near the boundary of areas mapped as the Interior Chaparral biotic community and the Arizona Upland subdivision of Sonoran Desert scrub biotic community, with plant species on the property characteristic of each group. Most of the animal species observed have wide environmental tolerances and are present in both plant communities on the property.

History

The Globe-Miami district is one of the oldest and most productive mining districts in the United States, with its first recorded production occurring in 1878. Since that time, more than 15 billion pounds of copper have been produced in the Globe-Miami mining district. Prior to the construction of Pinto Valley Mine, a chalcocite-enriched zone of the deposit was mined from 1943 until 1953 as the Castle Dome underground mine.

The Pinto Valley open pit mine and concentrator went into production in 1974. The SX/EW plant began processing PLS from the leach dumps in 1981. In February 1998, mining and milling operations were suspended and environmental permits were maintained during the suspension of operations, as were the water and electrical systems. SX/EW facilities and cathode copper production continued during the suspension of mining and milling operations.



**FIGURE 1:
PINTO VALLEY INFRASTRUCTURE AND LOCATION OF OPEN PIT**

The mine has had two restarts since the 1998 shutdown. The mine resumed sulphide operations in mid-2007 for 18 months to January 2009 and then went into care and maintenance with only leaching operations continuing. The second restart began in December 2012 and included extensive rehabilitation of the site and purchase of a new mining fleet.

Ownership of Pinto Valley has changed numerous times since its inception. At the time of construction and commissioning, it was owned by Cities Service Company, who had recently merged with Tennessee Corporation. Occidental Petroleum Corporation acquired Cities Service Company in late 1982 and sold the Miami operations to Newmont Mining Corporation in 1983. At this time, the company's name was changed to Pinto Valley Copper Corporation. In 1986, Newmont merged the Pinto Valley Copper assets into Magma Copper Company holdings, and Pinto Valley Copper became the Pinto Valley Mining Division of Magma Copper Company. In 1995, Broken Hill Proprietary Company Limited purchased Magma Copper Company. With the merger of Broken Hill Proprietary Company Limited and Billiton in 2001, the Pinto Valley Mining Division became Pinto Valley Operations of BHP Copper Inc. ("**BHP Copper**"). In 2013, Capstone purchased Pinto Valley Operations, now referred to as Pinto Valley Mine or Pinto Valley.

Pre-2006 Pinto Valley drilling programs comprised a combination of core, rotary, and churn drillholes. Drilling documentation was limited to BHP Copper internal reports and lacked descriptions for pre-2010 procedures. Churn holes defined much of the early Castle Dome mineralization, which has been mined out. Drilling since the 1986 block model includes 10 core holes and 3 Reverse Circulation ("**RC**") rotary holes drilled in 1992. From the beginning of 1996 to April 1997, 67 RC exploration and infill holes were drilled: 48 RC holes drilled in 1996, and 19 RC holes drilled in 1997. The 1997 holes were drilled in the interior pit and through the Gold Gulch and Continental faults. Seven of the exploration holes were drilled east of the existing pit and laid the ground work for future plans of an east pit expansion. All drillhole collar locations were surveyed. The majority of the drillholes are vertical and, therefore, do not have downhole surveys. However, most inclined holes have downhole surveys. From 2006 through 2008, there were drilling campaigns with various purposes, including delineation, exploration, geotechnical, and resource classification upgrade drilling. These include 39 drillholes in 2007 and 62 drillholes in 2008. Diamond drillhole programs in 2010 focused on exploration, while those in 2011 and 2012 focused on infill drilling for resource classification upgrade in support of restarting operations. Ten holes were drilled in 2010, 40 holes were drilled in 2011, and 64 holes were drilled in 2012. In 2013 BHP Copper drilled 12 in-pit infill diamond drillholes totaling 2,853 m, to close the drillhole spacing grid and 64 in-pit RC drillholes totaling 3,380 m to help characterize the mineralization directly beneath working levels of the mine. All drillhole logging data, including collar, survey, assay, lithology, alteration, and mineralization data were entered into an acQuire™ structured-query-language ("**SQL**") database system. All sample data were tagged and tracked using bar codes, which linked all assay information provided by the laboratory to the database, including the QAQC. The system was secured by BHP Copper using stringent protocols and procedures. Deviations and discrepancies from sample dispatch reports were reported and investigated.

A number of different companies and laboratories provided assay services to Pinto Valley over the years. Details of sampling and assaying procedures used during the earlier stages of operation are not readily available. Procedures used by outside labs that ran assays for some of the later drilling campaigns, such as those performed by Mountain States for the 1992 holes and Chemex for the 1996 holes, are also not readily available. The analytical procedures were in line with industry standards for total copper analyses, but BHP Copper-specific procedures were used to determine acid soluble copper concentrations. These involved digestion with 10% sulphuric acid, followed by placement in a hot bath at 40°C, and read after 40 minutes.

Independent audits of the Pinto Valley assays were conducted in 1992 and 2000. Results indicated the assay values in the Pinto Valley database have been reliably entered and that total copper assays in the Pinto Valley database were reproducible and could be considered representative within normally-accepted error limits.

As part of BHP's start-up Feasibility Study done in 2006, a QAQC program was conducted on 101 randomly selected drillhole assay interval pulp samples and 15 randomly selected drill core assay intervals. Samples were

sent to Skyline Assayers and Laboratories Inc. (“**Skyline Labs**”) in Tucson, Arizona for total copper and acid-soluble copper analyses. Skyline Labs was instructed to analyze the samples for acid soluble copper using BHP Copper lab procedures. Certified reference material standards from the National Institute of Standards and Technology (“**NIST**”) were inserted in sequential order for analysis preceding the 15th pulp sample in the analytical run. The results indicated that historical quality control measures used in the Pinto Valley Mine analytical laboratory were variable. At times they were extremely good, but at others they were less so, although still acceptable.

BHP Copper undertook surface mapping to provide additional data throughout the identification and selection phases of the PV2 mine planning project. Two drilling campaigns were conducted on separate occasions to improve both the geotechnical and geometallurgical knowledge of the deposit. The surface mapping for geotechnical information focused primarily on the bedding planes, major structures, and overall geological strength index. Various ore-types were confirmed using surface mapping and by reviewing core logs. Alteration zones and ore-types were identified in the pit wall and correlated against core samples taken in previous drill campaigns. Descriptions from the core logs were used to plot the correlation between rock type and alteration zone. The most important ore types were narrowed down to Ruin granite, quartz monzonite, and diabase. These ore types are based on relative abundance, gangue mineralogy, copper grade, alteration, and the potential impact on overall production (recovery, throughput, and consumption of reagents/energy). Capstone relied extensively on the BHP Copper’s PV2 project data to complete the Capstone PV2 PFS. The data provided by BHP Copper was reviewed by the QPs in the Capstone PV2 PFS to ensure it was applicable and sufficiently detailed to form the basis of assumptions in the study. Additional work was conducted where data gaps were found, including field mapping for pit wall geotechnical analysis, geotechnical drilling for tailings impoundment design and metallurgical testing to validate previous test results.

Geological Setting

The Globe-Miami mining district of central Arizona includes porphyry copper-molybdenum (“**Cu-Mo**”) deposits associated with Paleocene Epoch granodiorite to granite porphyry stocks (65-59 million years ago). Vein deposits and possible exotic copper deposits are also found within the district.

Precambrian basement rocks throughout southern Arizona and New Mexico largely consist of early Proterozoic Pinal Schist (~1,700 million years old) intruded by granites correlative with two-mica granite batholiths (~1,450 million years old). At the Pinto Valley Mine this is represented by the Ruin granite (also referred to as the Lost Gulch quartz monzonite) that hosts the Cu-Mo mineralization. The Late Proterozoic-aged (~1,420-1,150 million years old) Apache group, comprising conglomerate, limestone, quartzite, and minor basalt units overlying the basement rocks, was intruded by 1,150 million years old Apache diabase sills of varying thicknesses. These diabase units are represented at the Pinto Valley Mine as thin dikes and sills, and commonly contain higher copper concentrations than the surrounding Ruin granite. During the Paleozoic Era, various limestone units were deposited representing the shallow, marine environment present over much of the southwestern US at the time.

Subduction of the Farallon tectonic plate (80-50 million years ago) off the west coast of the southwestern US initiated arc magmatism responsible for generating the Cu-Mo-bearing intrusions in the region. Stocks emanating from the Schultze granite, the source of the mineral-bearing fluids to the Globe-Miami mining district, were emplaced at the Pinto Valley Mine between 60-59 million years ago.

Regional Tertiary-Era Basin and Range extension and faulting following cessation of subduction facilitated the dismemberment, tilting, and exposure of the Cu-Mo deposits. They were preserved through deposition of the Whitetail conglomerate (Oligocene Epoch) and the Apache Leap tuff (Miocene Epoch). Further extension in the Pliocene Epoch deposited the Gila conglomerate into basins.

The Pinto Valley Mine deposit is bound by faults that vary in age from the Pre-Cambrian to the Tertiary. These have controlled the emplacement of the Ruin granite, stocks of the Cu-Mo-bearing Schultze Granite, and subsequent post-mineralization Basin-and-Range extensional faulting.

Exploration

Capstone is not currently exploring the Pinto Valley property due to the large resource already identified, of which 33% are Mineral Reserves, resulting in a mine life to 2039. Additional Mineral Resources could potentially be brought into the Mineral Reserves in the future through operational improvements, cost reductions, and/or increased metals prices.

Mineralization

The primary sulphide minerals encountered at the Pinto Valley Mine are chiefly pyrite and chalcopyrite with minor amounts of molybdenite. Gold and silver are recovered as by-products when material containing sulphide minerals is processed. Sphalerite and galena occur locally in very small amounts. Alteration of silicate minerals of the host rocks to other groups of minerals due to the presence of hydrothermal fluids associated with the Cu-Mo-bearing intrusive rocks include potassic, argillic, sericitic, and propylitic alteration suites.

Sulphide minerals generally occur in veins and microfractures and less abundantly as disseminated grains, predominantly in biotite sites. The ore zone grades outward into a pyritic zone with higher total sulphide content. Molybdenum distribution generally reflects copper distribution, with higher molybdenum values usually found in the higher-grade copper zones. Oxide mineralization and a supergene enrichment blanket was developed at the Pinto Valley Mine, but these areas have since been mined.

Sulphide deposition at Pinto Valley is controlled to some extent by the host rock. The sulphide content decreases in Precambrian aplite intrusions. Aplite usually contains less than 0.25% copper, whereas adjacent Quartz Monzonite may have as much as 0.6% copper. The deficiency of copper in aplite is probably due to the absence of biotite, which makes up about 7% of Quartz Monzonite. Disseminated chalcopyrite shows an affinity for biotite, where it is disseminated through the biotite or partially replacing it. Additional chalcopyrite is also present in veins cutting both rock types.

Drilling

Recent drilling incorporated into the April 2019 Mineral Resource model consists of ten geotechnical holes in 2014, 43 infill RC holes and three geotechnical holes in 2015, four infill RC holes in 2016, 17 infill RC holes and one RC/core hole in 2017, 4 RC holes and 1 core hole in 2018 and, in 2019, 4 RC holes and 1 core hole.

Sampling and Analysis

Pinto Valley uses RC and diamond drillcore samples for Mineral Resources estimates. The majority of drilling is vertical with spacing commonly between 200ft and 400ft. Capstone employees and contractors are responsible for all on-site sampling of drill core and drill cuttings. Typical sample intervals are 10 feet. Drillcore samples are split by core saw and placed in marked bags and shipped to accredited external laboratories for sample preparation and analysis for copper, acid soluble copper, and molybdenum. A total of 94,328 RC and diamond drillhole samples were used for the April 2019 Mineral Resources estimate.

Sample quality of drillhole samples is monitored through regular insertion of reference material standards, blanks, and duplicate samples. Certified reference material (CRM) standards are purchased commercially, and in November 2017, CRM standards were also created from PV material. QAQC procedures include real-time monitoring of quality control data, thresholds for sample failures and sample batch reanalysis, and regular monthly reporting. QAQC results demonstrate that drillhole assay values are accurate, repeatable, and free from cross-contamination.

Database validation work comprises a check of 10% of all new records entered into the database. This includes verification of collar, downhole survey, lithology, and assay data. The most recent database validation was completed in April 2018.

Security of Samples

Only employees and contractors are permitted in the core logging facility when unsampled drillcore is ready to be cut and prepped RC cuttings and core are awaiting transport. A transmittal form which identifies the batch number and the corresponding sample number series is emailed to the external laboratory. The samples are delivered to the external laboratory by a laboratory representative transporting from site to laboratory.

Core and chip samples are stored on-site at a dedicated core storage facility.

Mineral Resource and Mineral Reserve Estimates

The April 2019 Mineral Resource estimate for Pinto Valley mineralization was completed by Pinto Valley's Chief Geologist and Qualified Person, Klaus Triebel, CPG. The Mineral Resources were estimated using accepted industry standards conforming to NI 43-101 requirements. Surfaces and solids were created by Pinto Valley Mine staff for the lithology and mineralization domains, and major faults. Drillhole samples were composited downhole to 13 m (45 feet) length to match the selective mining unit ("SMU") bench height and to reduce the influence of typically narrow, very high-grade samples. Thirteen lithology units were defined as domains, honouring fault traces; these domains were considered as hard boundaries during estimation. Nine sub-domains based on mineralization trends were modelled, with 6 forming soft boundaries where grade can be informed by nearby samples located in an adjacent domain and 3 formed hard boundaries. Ordinary kriging ("OK") was applied in all domains for the Cu estimation. To control the influence of high-grade Cu samples when estimating block grades, a combination of top-cutting and outlier search restriction was applied, with the resulting contained copper being within 1% of an uncapped model. For molybdenum ("Mo"), top cutting was not applied. Density was estimated in the April 2019 model using 300 density tests covering the five most important lithologies and 16 alteration types. The average estimated density for ore-grade mineralized rock, primarily Ruin Granite, is 2.61 t/m³. Grade variability is low, with nugget effects of less than 25% for both copper and molybdenum. The block model grades for copper and molybdenum were estimated using OK into blocks that were 30 m Easting × 30 m Northing × 14 m Elevation (100 ft × 100 ft × 45 ft) in size. During grade estimation, search orientations were designed to follow the general trend of the mineralization in each of the structural domains. The estimation plan for most domains involved a single search pass using a minimum of 2 composites and a maximum of 8 composites, with a maximum of 3 from any single drillhole. Confidence classification was modified slightly from 2018, by adjusting the average maximum distances to the closest two or three holes based on variography.

The reported Mineral Resources in [Table 1](#) are based on the April 2019 Mineral Resources estimate completed by Klaus Triebel, CPG., and reflect the mined topographic surface as at December 31, 2019. Mineral Resources are reported above a 0.17% Cu cut-off grade within a reasonable economic prospects pit that use the following parameters: \$3.30/lb Cu, \$10.00/lb Mo, 88% Cu recovery, 50% Mo recovery, \$1.50/ton mining costs, \$1.50/ton G&A costs, \$5.00/ton milling costs, and a pit slope angle of 45°. Mineral Resources are reported inclusive of Mineral Reserves, and Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability. Contained metals are reported at 100%.

TABLE 1: PINTO VALLEY MINERAL RESOURCES AT 0.17% CU CUTOFF, AT DECEMBER 31, 2019 (METRIC UNITS)

Classification	Tonnes (millions)	%Cu	%Mo	Contained Cu (Mt)	Contained Mo (Mt)
Measured (M)	567	0.33	0.006	1.89	0.034
Indicated (I)	791	0.28	0.005	2.24	0.040
Total M & I	1,357	0.30	0.005	4.13	0.074
Inferred	176	0.25	0.005	0.43	0.008

NOTE: Klaus Triebel, CPG., Chief Geologist at Pinto Valley, is the Qualified Person responsible for the Pinto Valley Mineral Resources estimate. Mineral Resources are not Mineral Reserves and do not have demonstrated economic viability. Mineral Resources are presented inclusive of Mineral Reserves. Mineral Resources are reported as at December 31, 2019 above a 0.17% Cu cut-off grade. The economic assumptions for the reasonable prospects pit include: \$3.30/lb Cu, \$10.00/lb Mo, 88% Cu recovery, 50% Mo recovery, \$1.50/ton mining costs, \$1.50/ton G&A costs, \$5.00/ton milling costs, and a pit slope of 45°. Totals may not tally due to rounding. Contained metals are reported at 100%.

The Mineral Reserve pit design was developed by John Marek, PE, President of Independent Mining Consultants, Inc. (“**IMC**”). Claydon Craig, P.Eng., estimated Mineral Reserves in accordance with industry guidelines by tabulating the contained measured and indicated (Proven and Probable) material inside of the designed pit. The schedule utilizes a variable cut-off grade to the mill that fluctuates between 0.17 to 0.18 % Cu, resulting in a low-grade stockpile that is processed at the end of the mine life. Stockpile material is included in the Mineral Reserve. The final pit design and the Mineral Reserve do not include the low-grade leach dump material in the economic analysis or Mineral Reserve. The Mineral Reserves design was completed at \$2.75/lb copper and \$12.50/lb molybdenum. The effective date of the Mineral Reserve is January 1, 2020. Claydon Craig, P.Eng., oversaw the production depletion of the Mineral Reserves model. To simplify the Mineral Reserve reporting process, the cut-off grade was changed from the variable 0.17-0.18% Cu to 0.175% Cu. This cut-off closely approximates the reported Mineral Reserves and will be used going forward.

TABLE 2: PINTO VALLEY MINERALS RESERVES, REMAINING AT DECEMBER 31, 2019 (METRIC UNITS)

Classification	Tonnes (millions)	%Cu	%Mo	Contained Cu (Mt)	Contained Mo (Mt)
Proven	246	0.33	0.006	0.81	0.016
Probable	153	0.29	0.006	0.44	0.009
Total P+P	399	0.31	0.006	1.24	0.025

NOTE: Claydon Craig, P.Eng., Superintendent of Mine Technical Services at Pinto Valley is the Qualified Person responsible for the Pinto Valley Mineral Reserves estimate. Economic inputs to the block model were USD\$2.75/lb Cu and USD\$12.50/lb Mo. Mineral Reserves are reported above 0.175% Cu cut-off grade. Summation errors due to rounding. Contained metals are reported at 100%.

Mining Operations

Run-of-mine ore is crushed through the primary crusher and conveyed to the fine crushing plant for further size reduction. The fine-crushed ore is fed to a conventional grinding and flotations circuit to produce a bulk copper concentrate and molybdenum concentrate. The concentrates are thickened and filtered to produce products suitable for transport. Tailings are thickened and deposited in one of the two active tailings storage facilities (TSF3 and TSF4). Low-grade mineralization is leached and the pregnant solution is processed through an SX/EW plant that exists on the property. However, no additional low-grade ore is being placed under leach in accordance with the mine plan.

The copper concentrates and cathodes produced from Pinto Valley Mine is sold to smelters and traders. The high quality of the concentrates makes it sought after by both smelters and traders. Pinto Valley has well-established environmental protocols that adhere to federal and state regulatory requirements and to internal corporate guidance to reduce impacts to the environment. Pinto Valley is subject to environmental regulations addressing groundwater; surface water; storm water management; air quality; well installation; water withdrawal from state aquifers; waste handling and disposal; handling and storage of toxic substances; surface reclamation; and cultural and biological resources. The Pinto Valley Mine has all the necessary permits to conduct mining activities through 2026 with the exception of the consolidated Plan of Operations that is currently under review by the USFS. The consolidated Plan of Operations is a compilation of prior authorizations and encroachments on federal lands.

The Pinto Valley Mine’s applicable taxes include the following:

- Corporate Taxes – The Tax Cuts and Jobs Act signed into law on December 22, 2017 significantly reformed the US tax system. Effective for the 2019 taxation year, the combined US Federal and Arizona state corporate income tax is calculated at a blended 21% rate applied on taxable income. The Alternative Minimum Tax was permanently repealed. Arizona allocates taxable income based on sales to customers in the state and Pinto Valley does not expect to have sales in Arizona in the foreseeable future.
- The Arizona state severance tax on metalliferous minerals is charged at a 2.5% rate on 50% of the difference between the gross value of production and production costs.

- The Arizona Department of Revenue exercises general supervision over county assessors in administering the property tax laws to ensure that all property is uniformly valued for property tax purposes. Gila County tax authorities are responsible for the billing and collection of property taxes.

Exploration and Development

We do not currently have any planned exploration activities at the Pinto Valley Mine but from time to time we do undertake in-pit drilling to better define Mineral Reserves for short-term planning purposes. This data is then incorporated periodically into the Mineral Resource block model. Our development activities are focused on execution of the PV3 mine plan.

Cozamin Mine (Mexico)

The Cozamin Mine is the subject of a report titled “Technical Report on the Cozamin Mine, Zacatecas, Mexico” dated January 24, 2019 with an effective date of October 24, 2018 (the “**Cozamin Report**”). This technical report was prepared by Gregg Bush, P.Eng. former COO of Capstone Mining Corp.; Jenna Hardy, P.Geo., Nimbus Management Ltd.; Tucker Jensen, P.Eng., Capstone Mining Corp.; Darren Kennard, P.Eng., Golder Associates Ltd.; Garth Kirkham, P.Geo., FGC, Kirkham Geosystems Ltd.; Chris Martin, CEng MIMMM, Blue Coast Metallurgy Ltd.; Vivienne McLennan, P.Geo., Capstone Mining Corp. and Humberto Preciado, PhD, P.E., Wood Environment & Infrastructure Solutions, Inc., each a Qualified Person as defined by NI 43-101. Reference should be made to the full text of this report, which is available in its entirety on SEDAR at www.sedar.com under Capstone’s profile.

All scientific and technical information in this summary relating to any updates to the Cozamin Mine since the date of the Cozamin Report, other than the Mineral Resource and Mineral Reserve estimates, has been reviewed and approved by Qualified Persons who supervised the preparation of updates to elements of the Cozamin Report. These Qualified Persons include those listed in Interests of Experts in this Annual Information Form.

Project Description and Location

The Cozamin Mine is an operating polymetallic mine with a 3,990 tonne per day milling capacity, located in the Morelos Municipality of the Zacatecas Mining District, near the south-eastern boundary of the Sierra Madre Occidental Physiographic Province in North-central Mexico. The mine and processing facilities are located near coordinates 22° 48’ N latitude and 102° 35’ W longitude on 1:250,000 Zacatecas topographic map sheet (F13-6). Currently, 91 Cozamin-owned concessions cover 4,210 hectares. Capstone acquired these concessions in January 2004, which is 100% owned by Capstone, subject to a 3% NSR payable to Grupo Bacis S.A. de C.V., a Mexican resource company. Mineral claims acquired in September 2009 from Minera Largo S de RL de CV, a wholly owned subsidiary of Golden Minerals Company (“**Golden Minerals**”), are subject to future cash payments of a NSR of 1.5% on the first one million tonnes of production and cash payments equivalent to a 3.0% NSR on production in excess of one million tonnes from the acquired claims. The NSR on production in excess of one million tonnes also escalates by 0.5% for each \$0.50 increment in copper price above \$3.00 per pound of copper. In 2014, we acquired 45 additional concessions from Golden Minerals totalling 775 ha that surround the Cozamin Mine’s existing concessions. A total of 17 of the claims are subject to a finder’s fee to be paid as a 1.0% NSR or Gross Proceeds Royalty to International Mineral Development and Exploration Inc. pursuant to existing agreements on the concessions dating back to October 1994 and August 2000.

In 2017, Capstone entered into an agreement with Endeavour Silver Corp. (“**Endeavour**”) allowing for the two companies to exchange access to certain of each other’s mining concessions that abut at the southern boundary of Capstone’s Cozamin Mine property. The agreement provides Capstone with exploration and exploitation rights on the Endeavour concessions below 2,000 metres above sea level (masl), a depth where copper-rich mineralization has been historically found and mined by Capstone and provides Endeavour with exploration and exploitation rights on the Capstone concessions above 2,000 masl, where more precious-metal dominant mineralization has historically been mined, in the historic Zacatecas district. The agreement provides for both parties to share information on the concession covered by the agreement and to jointly have access to explore for and exploit mineralization appropriate to each company’s core business; being base metals for Capstone and

precious metals for Endeavour. In certain instances, it also provides for a 1% NSR royalty for the entity electing not to produce. Additionally, and under certain well-defined circumstances, it provides flexibility around the 2,000 masl division.

The Cozamin property requires payment of mining duties to the Secretaria de Economía on the mining concessions semi-annually in January and July, plus annual land payments for surface use. Mining duties totaled \$64,167 in 2017, \$77,726 in 2018 and \$91,889 in 2019.

The Cozamin Mine lies within a regionally mineralized area that has seen extensive historic mining over more than 475 years. Host rocks surrounding the mineralized vein systems are anomalous in base and precious metals, providing a detectable halo of elevated metal values that extends a considerable distance beyond the known workings. Numerous old mine workings, excavations and dumps, and historic tailings are present, both on, and adjacent to, the Cozamin mine site; some lie on mining lands held by Capstone and others are held by third parties.

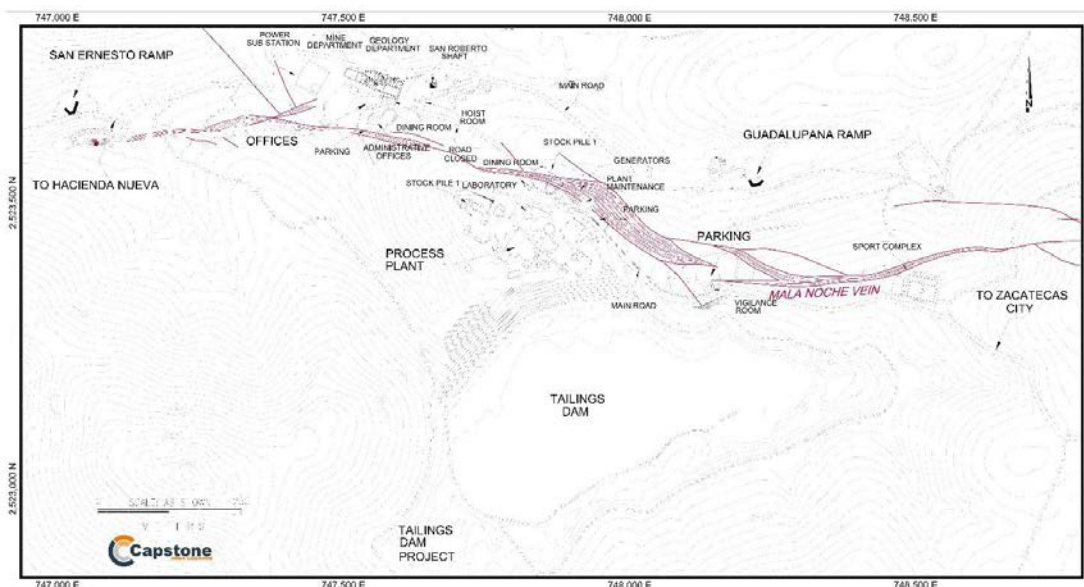
Cozamin Mine has an inspection, maintenance and surveillance program in place to ensure that its TSF continues to perform safely and as intended. Humberto Preciado, PE, of Wood Environment & Infrastructure Solutions, Inc., is the EOR, Engineer of Record, for Cozamin's TSF. The EOR is responsible for the design of the TSF and provides guidance on construction and operational practices. Cozamin Mine personnel monitor performance of the TSF daily and prepare weekly and monthly internal reports for site management and engineering groups. The EOR reviews the site reports monthly. At least three times per year, a representative from the EOR's firm, performs an inspection of the TSF, including one or two inspections per year by the EOR. Annually, the EOR summarizes TSF performance and operational practices, and provides recommendations for current and future work. Approximately every 2 years, an independent third party reviews the work completed by the EOR and the performance of the TSF. The most recent independent third-party review was completed in February 2018 by Norwest Corporation.

Prior to Capstone's involvement in the Cozamin Mine, several environmental studies had been carried out by previous owners. As the San Roberto Mine, the Cozamin Mine was previously fully permitted to operate at 750 tpd. Capstone formally received its operating permit on October 20, 2006. This is known in Mexico as a Licencia Ambiental Única ("LAU"). A LAU for a throughput expansion to 2,600 tpd was received on March 25, 2008. On January 19, 2009, application was made to modify the LAU to expand throughput to 3,000 tpd, which was granted in May of that year. In January of 2011, further application was made to increase the permitted throughput from 3,000 tpd to 4,000 tpd, which was granted in November of 2011. The permit to operate at throughput up to 4,500 tpd capacity was granted in June 2015.

The Cozamin Mine's Mineral Resources and Mineral Reserves are situated within a mineralized vein/fault structure known as the Mala Noche Vein ("MNV") that strikes east-west and dips to the north. This structure hosts the copper-rich San Roberto zone and adjacent to the east, the zinc-rich San Rafael zone. In 2010, we discovered the MNFWZ, a vein splay off the MNV vein on the footwall side oriented northwest-southeast. Capstone is currently exploring for extensions to mineralization found at MNV, San Rafael, and MNFWZ. [Figure 2](#) illustrates the location of project infrastructure and the surface projection of the MNV.

Environmental studies have shown that flotation tailings and some types of waste rock have the potential to generate acidic drainage. In addition, construction activities as a part of the expansions have already reduced identified sources of acidic drainage associated with the historic tailings impoundment as well as downstream contamination due to tailings spills by previous operators. An environmental management and monitoring program is currently underway and will be ongoing for the life of the mine. Data collected are being used to define an operational environmental management and monitoring program, which will include appropriate environmental management and mitigation plans based on the principle of continuous improvement. These will be reviewed and revised as necessary, on at least an annual basis, with results reported as required to Mexican regulators.

Other issues of environmental concern relate to potential impacts comparable to those in underground mines of similar size with flotation tailings impoundments. These include: dust, tailings handling/management, storm water diversion, combustibles and reagent management/handling, waste management and disposal and noise. Work to date indicates that environmental impacts are manageable. Cozamin was awarded the Clean Industry Certification from Mexico’s Federal Attorney for Environmental Protection (Procuraduría Federal de Protección al Ambiente or PROFEPA) for the third time in July 2018 for this management process and best practices and procedures. The Clean Industry Certification is valid until July 2020.



**FIGURE 2:
COZAMIN INFRASTRUCTURE AND LOCATION OF MINERAL RESOURCES AND RESERVES.**

Accessibility, Climate, Local Resources, Infrastructure and Physiography

The Cozamin Mine is located 3.6 km to the north-northwest of the city of Zacatecas, the Zacatecas state capital. The municipality of Zacatecas has a population of approximately 138,000 people. Other communities in the immediate vicinity of the project include Hacienda Nueva (3 km west), Morelos (5 km northwest) and Veta Grande (5 km north). The Cozamin Mine operates year-round and is accessible via paved roads to the project area boundary where good, all-weather roads provide access to the mine and most of the surrounding area. The mine area falls within the Hacienda Nueva and La Pimienta Ejidos.

The Cozamin Mine has excellent surrounding infrastructure including schools, hospitals, railroads, highways, and electrical power. The mine has access to a power line and substation that allows Capstone to draw up to 7.5 MW from the national power grid. Cozamin has requested an increase to 9.5 MW and is awaiting approval from El Centro Nacional de Control de Energía (“**CENACE**”). Generators (both operating and back-up) on site have a capacity of 1.0 MW. There is sufficient capacity to store all of the tailings from the processing of identified Mineral Reserves, assuming continued proper tailings management and construction of the permitted upstream raise. Employees and contractors are sourced from Zacatecas and other nearby communities with minimal foreign staff at the mine. Sufficient surface rights have been obtained to conduct all mining operations.

The climate in the region is semi-arid with maximum temperatures of approximately 30°C during the summer and minimum temperatures in the winter producing freezing conditions and occasional snow. The rainy season extends from June until September, with average annual precipitation totalling approximately 500 mm. As the certainty of runoff into the tailings pond cannot be predicted, additional water resources have been secured, with further water rights undergoing evaluation.

The Cozamin Mine is located in the Western Sierra Madre Physiographic Province near the boundary with the Mesa Central Province (Central Plateau Province). The Zacatecas area is characterized by rounded northwest trending mountains with the Sierra Veta Grande to the north and the Sierra de Zacatecas to the south. Elevations on the property vary from 2,400 m to 2,600 masl. The Zacatecas area is located between forested and sub-tropical regions to the southwest and desert conditions to the northeast. Vegetation consists of natural grasses, mesquite or huizache and crasicaule bushes. Standing bodies of water are dammed as most streams are intermittent.

History

In pre-Hispanic times, the area was inhabited by Huichol people who mined native silver from the oxidized zone of argentiferous vein deposits in the Zacatecas Mining District. During the Spanish Colonial era production commenced in 1548 at 3 mines: the Albarrada mine on the Veta Grande system, and the San Bernabe mine and Los Tajos del Panuco on the Mala Noche Vein system. The initial operations worked only the oxide minerals for silver and some gold, and later the sulphide-mineral zones were worked for base and precious metals.

From 1972, Consejo de Recursos Minerales worked mines in El Bote, La Purisima and La Valencia zones. A number of old workings are located throughout the mine area, but accurate records of early production are not available. Consejo de Recursos Minerales estimated Zacatecas district historic production until 1992 at 750 million ounces of silver from 20 million tonnes grading over 900 g/t Ag and approximately 2.5 g/t Au. Lead, zinc and copper have also been recovered but the production and grades were not estimated.

Minera Cozamin was established in 1982 by Jack Zaniewicki who consolidated concession holdings over much of the Mala Noche Vein and operated the San Roberto Mine and plant at 250 tpd until October 1996. During this period, Industrias Peñoles S.A. de C.V. ("**Peñoles**") undertook exploration in the district but did not buy any significant concessions. In all, it is estimated that 1.2 million tonnes of ore were mined and processed at the Cozamin Mine prior to October 1996.

In October 1996, Zaniewicki sold Cozamin to Minera Argenta, a subsidiary of Minera Bacis S.A. de C.V. ("**Bacis**"). Bacis expanded the mill to a 750 tpd flotation plant, and processed 250,000 tonnes of ore grading 1.2% Cu, 90 g/t Ag, 0.5 g/t Au, 1.8% Zn and 0.6% Pb from 1997 to the end of 1999, mainly from shallow, oxide zone workings. Bacis developed resources principally by drifting and raising on the Mala Noche Vein within the San Roberto zone. Diamond drilling was only used as an exploration tool to identify areas with mineralization peripheral to the developed mine workings. In 1999, Bacis closed the mine primarily due to low metal prices and under-capitalization of the asset. Capstone assumed ownership of the Cozamin Mine in 2004.

Geological Setting

The Zacatecas Mining District covers a belt of epithermal and mesothermal vein deposits that contain silver, gold and base metals (copper, lead and zinc). The district is in the Southern Sierra Madre Occidental Physiographic Province near the boundary with the Mesa Central Physiographic Province in north-central Mexico. The dominant structural features that localize mineralization are of Tertiary Era age and are interpreted to be related to the development of a volcanic centre and to northerly trending basin-and-range structures. It occurs in a structurally complex setting, associated with siliceous subvolcanic and volcanic rocks underlain by sedimentary and meta-sedimentary rocks. The geologic units in this area include Triassic-aged metamorphic rocks of the Zacatecas Formation and overlying basic volcanic rocks of the Upper Jurassic-aged or Lower Cretaceous-aged Chillitos Formation. The Tertiary rocks consists mainly of a red conglomerate unit deposited in the Paleocene Epoch and/or Eocene Epoch and overlying rhyolitic tuff and intercalated flows that were deposited from Eocene to Oligocene Epochs. Some Tertiary Era rhyolite bodies cut the Mesozoic Era and Tertiary Era units and have the appearance of flow domes.

The host rocks for the MNV are intercalated carbonaceous meta-sedimentary rocks and andesitic volcanic rocks ranging in age from Triassic to Cretaceous, and Tertiary-aged rhyolite intrusive rocks and flows. Mineralization in the MNV appears to have been episodic. A copper-silver dominant phase is interpreted as the first stage of mineralization and is considered to be the most important phase of mineralization at Cozamin. In general, this

copper-silver phase was emplaced then enveloped, overprinted or brecciated by moderate to strong zinc-lead-silver mineralization. Local rheology contrasts between rock units may have some control on vein emplacement, as well as metal content.

Exploration

Cozamin exploration geologists have systematically mapped a total of 1,694 ha throughout the Cozamin Mine property at scales of 1:1000 or 1:2000 since 2004. Regular surface exploration along the strike of the MNV system has occurred through channel sampling and chip sampling. Channel samples were cut perpendicular to the strike of the vein and weighed approximately 2 kg. The results of the surface channel and chip sampling programs have been used to assist with exploration drillhole planning, but not used for Mineral Resources estimation. In 2015, 150 hectares were remapped at a scale of 1:2000 predominantly in the San Rafael area.

Capstone undertook several geophysical surveys using contractors between 2004 and 2010. A ground magnetic survey completed by Zonge Engineering and Research Organization (“**Zonge**”) in 2004 collected total magnetic field data from 24 north-oriented lines spaced 25 m apart that permitted mapping of the linear east-west orientation of the Mala Noche system as well as other intrusive features. Also in 2004, Zonge undertook a resistivity study through measurement of magnetic response using Controlled Source Audio Magnetotellurics over 8 line-kilometres and Natural Source Audio Magnetotellurics over 16 line-kilometres indicated the presence of sulphide mineralization below known mineralized extents. These results were used to assist with exploration drillhole planning. During the summer of 2009, New Sense Geophysics Limited conducted an aeromagnetic survey over all of the Cozamin Mine concessions. The results revealed a broad magnetic high trending northwest. These data were later reprocessed in 2013 and used for tracking infrastructure such as power lines and pipe lines and the general structural and vein trends of the Mala Noche system. In some cases, the data were used as a secondary tool to help guide exploration and drill planning in new target areas. Between October 2009 and January 2010 Zonge completed resistivity and ground-induced polarization studies centered over Mala Noche West, Hacienda Nueva South, Mala Noche North, and Mala Noche East. Identified anomalies were followed up by drilling, but the results were poor. The presence of sulphide-rich and graphitic sedimentary rocks coupled with close proximity to populated areas (buried pipes, fences, etc.), likely precluded effective chargeability, resistivity, or conductivity surveys, and as such we have not explored using geophysical methods since 2010. In 2015, Condor Consulting Ltd. conducted a full review of all previous geophysical surveys and determined the most likely effective geophysical survey method for future exploration targeting is total field magnetics and derivative products.

Mineralization

All mineralization at the Cozamin mine occurs in veins and stockworks of veinlets. On surface, the MNV was mapped for 5.5 km across the property. It strikes approximately east-west and dips on average at 60° to the north. Several shafts provided access to historical workings at Cozamin. The largest mined area is the San Roberto zone with a strike length of 1.4 km and a vertical extent of 820m. Adjacent to the San Roberto zone is the San Rafael zone, a zinc-rich part of the deposit with the same mineralization characteristics as the San Roberto zone. Mineralization peripheral to the historical workings was the principal target of Capstone’s exploration at Cozamin. The MNFWZ, a splay off the footwall (south) side of MNV discovered in 2010, is not exposed at surface. Based on underground drilling, MNFWZ strikes ~145° over more than 2.5 km and dips on average 54° to the northeast. Known base metal mineralization at MNFWZ has a maximum vertical extent of approximately 800m. The MNFWZ comprises multiple veins in close spatial association with rhyolite dikes and locally cross-cut the intrusions themselves. The relative age of the copper mineralization ranges from contemporaneous with to perhaps slightly post the rhyolite magmatism.

The MNV system occupies a system of anastomosing faults. The mineralized bodies within the Mala Noche Fault System appear to be strongest where the individual faults coalesce into a single fault zone.

Currently mined mineralization at Cozamin is best described as intermediate sulphidation. The copper-rich intermediate sulphidation mineralization is an early phase that is enveloped, overprinted or brecciated by zinc-rich intermediate sulphidation mineralization. The copper veins are inferred to be higher temperature, have significantly

fewer vugs and can be massive pyrrhotite-pyrite-chalcopyrite with little gangue. Zinc-rich veins also tend to be sulphide rich, like the copper-rich ones, but with slightly more gangue. Well-banded quartz, or quartz-carbonate veins are inferred to be lower temperature and best classified as low sulphidation. They often have open space filling textures with quartz druse vug linings, are typically less sulphide rich and are gold and silver rich with lesser base metals and are generally not being mined on the property, but were historically important.

This transition from intermediate sulphidation copper-dominant mineralization to intermediate sulphidation zinc-dominant mineralization is thought to be the result of an evolving, telescoped hydrothermal system. Blocks or fragments of massive chalcopyrite-pyrite-pyrrhotite mineralization enveloped by zinc-dominant mineralization are observed in drill core and in mine workings. This telescoping system is closely associated with the district's largest center of rhyolite flow domes which may be the shallow expression of a hidden, inferred buried felsic stock.

Pyrite is the dominant vein sulphide, is highly variable in concentration but typically comprises approximately 15% of the MNV in the San Roberto zone. Pyrrhotite commonly occurs as an envelope to, or intermixed with, strong chalcopyrite mineralization. Chalcopyrite is the only copper sulphide recognized visually at the Cozamin mine. Like pyrrhotite, it is more common at intermediate and deeper levels of the mine. It occurs as disseminations, veinlets and replacement masses. Mineralization at the MNFWZ is chalcopyrite dominant in contrast to the polymetallic nature of the MNV. Sphalerite is the dominant economic sulphide in the upper levels in the San Roberto mine. Most of the sphalerite is marmatitic. It occurs as disseminations and coarse crystalline masses and is commonly marginal to the chalcopyrite-dominant portion of the vein. Argentiferous (silver-bearing) galena is less common than sphalerite but is generally associated with it as crystalline replacement masses. Arsenopyrite typically occurs as minor, microscopic inclusions in pyrite. Argentite is the most common silver mineral. It has been identified microscopically occurring as inclusions in chalcopyrite and pyrite. Gangue minerals in the intermediate sulphidation veins consist of quartz, silica, calcite, chlorite, epidote and minor disseminated sericite. The quartz occurs as coarse-grained druse crystalline masses, and a stockwork of quartz veinlets.

Drilling

In all, 1,103 diamond drillholes including 956 holes of HQ and/or NQ diameter and 147 holes of BQ diameter have been completed from surface and from underground locations at the Cozamin Mine since April 2004. A total of 17 phases of drilling have targeted resource definition and expansion along the MNV (San Roberto and San Rafael zones), MNFWZ (since discovery in 2010), and other exploration targets on our property.

In 2019, Capstone drilled a total of 56,572 m in 87 angled HQ diamond drillholes and 6,755 m in 52 angled BQ diamond drillholes at the MNFWZ, plus 2,358 m in 3 angled HQ diamond drillholes at other brownfield targets on our property. Drilling for 2018 totaled 75,988 m in 108 angled HQ diamond drillholes and 1,926m in 15 angled BQ diamond drillholes at the MNFWZ, plus 1,268 m in 11 holes in the San Rafael zone of MNV to define ore boundaries immediately before mining. In 2017, Capstone drilled a total of 32,662 m in 44 angled, HQ diameter, diamond drillholes at the MNFWZ, 10,215 m in 28 angled, HQ diameter, diamond drillholes at the San Rafael zone, 1,945 m in 16 angled, HQ diameter, diamond drillholes at the San Roberto Zinc zone, and 2,019 m in 3 angled, HQ diameter, diamond drillholes at a new brownfield target located east of San Rafael. Drillhole collars are located using a total station TRIMBLE instrument, model S6. Downhole survey readings were recorded using either an Eastman Single Shot, FLEXIT SensIT or Reflex EZShot instrument. Survey readings are generally taken every 50-150 m for surface holes and every 50-100 m for underground holes. Survey results were corrected for magnetic declination.

In the core logging facility, drillholes are assessed for drilling recovery, which has historically been very good. Drillholes are then logged for geology, alteration and mineralogy, followed by structural data measurements and rock quality (RQD) assessment. Next, the drillholes are marked for sampling by the geologist. This is followed by core photography before the core is sent for cutting.

Sampling and Analysis

We use diamond drillcore samples for Mineral Resources estimates. Diamond drillholes intersecting the MNV are spaced approximately 60 m along strike and down dip in the San Roberto zone. In 2017, infill drilling closed the drillhole spacing to approximately 40 m in the San Rafael zone. Mineralization is less continuous in the MNFWZ than in the MNV, thus drillholes are more closely spaced averaging approximately 45 m along strike and down dip. The entire vein width is sampled. Typical sample intervals for drillcore are 0.5 m in the vein and 2 m in the wallrock (waste). Very high-grade intervals are marked out and sampled separately from lower grade zones. Sample boundaries are based on mineral proportions and/or texture (e.g. massive versus disseminated). Drillcore samples are split by core saw and placed in marked bags and shipped to accredited external laboratories for sample preparation and analysis for copper, lead, zinc, silver, and sometimes gold. Samples from BQ diameter are whole core. There were a total of 63,969 diamond drillhole samples contained in the database used for the October 2018 Mineral Resources update of the MNFWZ and MNV block model. Capstone employees are responsible for all on-site sampling of drill core.

Sample quality of drillhole samples is monitored through regular insertion of reference material standards, blanks, and duplicate samples. Certified reference material standards are purchased commercially and are also created from MNV material. QAQC procedures include real-time monitoring of quality control data, thresholds for sample failures and sample batch reanalysis, and regular monthly reporting. QAQC results demonstrate that drillhole assay values are accurate and repeatable. In 2018, the cross contamination first observed in 2017 across all elements, particularly zinc, was intermittent. The impact of these blank failures on ore-waste classification is considered low. Investigation into the root cause and mitigation continues.

The Cozamin Mine collects bulk density measurements from mineralized and non-mineralized intercepts from each drillhole. All drillcore pieces greater than 10 cm in length within an assay sample length are selected from the core box and measured using a weight-in-air weight-in-water technique. A review of these data highlighted widely ranging values, which were reanalyzed as a part of a quality control check. The QAQC samples indicated the bulk density dataset was of sufficient quality for use in Mineral Resource estimation. There are 37,428 bulk density measurements in the database available to estimate density.

Database validation work comprises a check of 10% of all new records entered into the database as a part of the Mineral Resource update process. This includes verification of collar, downhole survey, lithology, assay, and bulk density data. This was completed twice in 2018 as part of the Mineral Resource update process. Other data checks included validations of the spatial locations of mineralized drillhole intercepts and the locations of production chip-channel sample data with respect to underground mapped geology. Errors were noted and corrected. There were 27 drillholes excluded from the geological modelling and Mineral Resource estimation process because either the logged vein intercepts fell outside of modelled vein structures, the hole twinned another intersection, or they intercepted the vein at a very shallow angle.

Security of Samples

Only employees of Capstone entities are permitted in the core shack when unsampled drillcore is ready to be cut. Approximately 10 samples are placed in a large sack and secured by a tamper proof seal. A transmittal form is then completed, which identifies the batch number, the serial numbers of the seals and the corresponding sample number series, and delivered to the sample preparation laboratory by a Cozamin representative.

Drill core containing intercepts of the MNV and MNFWZ structure is stored in a secured warehouse near the core shack. Waste hanging wall and footwall drill core is kept in a secure storage facility on the property and within the mine on Level 8. Access to the warehouse and storage facilities are controlled by the Mine Geology Department. No person other than the geologists responsible for logging is permitted to handle the core prior to sampling.

Mineral Resource and Mineral Reserve Estimates

In March and October 2018, the MNFWZ block model was updated to incorporate drilling at MNFWZ. The July 2017 MNV block model was updated to reflect the revised NSR formula and new cut-off NSR used in the updated MNFWZ model. Garth Kirkham, P.Geol., FGC, Kirkham Geosystems Ltd., an independent Qualified Person as defined by NI 43-101, is responsible for the Cozamin Mineral Resource estimates.

The NSR formula used to report Mineral Resources at MNV and MNFWZ is based on projected long-term metal prices of \$3.50/lb copper, \$18.00/oz silver, \$1.20/lb zinc, and \$1.00/lb lead with metal recoveries of 95% Cu, 78% Ag, 58% Zn, 40% Pb. Mineral Resources are reported at a cut-off of NSR \$50.

All geological modelling was undertaken using the Leapfrog® Geo implicit modelling software. It comprised a lithological model to assist with exploration targeting and mining planning activities, as well as a mineralization model defining the mineralized MNV and MNFWZ structures. The veins were defined using logged and underground-mapped contacts in combination with high NSR values as a guide where mineralization boundaries were not exclusively defined in a vein structure.

All MNV samples were composited to a 2 m length and MNFWZ samples were composited to 1 m. This was followed by an exploratory data analysis that showed a moderate correlation between copper and silver in the San Roberto zone, San Rafael zone, and MNFWZ. In the San Rafael zone, zinc and lead also showed a moderate correlation. The coefficient of variation (“COV”), which measures the spread of a distribution relative to its mean, was reviewed for each element to help assess the need for top cutting and to confirm the selected OK estimation method was appropriate. A COV of less than 1.5 is desired for OK grade estimation, which was found for copper, silver, and zinc. Minor top cuts were needed for these elements. Lead had a COV higher than 2 resulting from a longer high-grade tail of samples. This aligns with underground observations where lead can be found in high-grade patches. As such, a combination of top cutting and search restrictions were used to limit the influence of the high-grade lead samples. In MNFWZ, both lead and zinc had COV over 2, indicating higher variability. The impact of high-grade lead and zinc samples at MNFWZ was limited using top-cutting. The modelled mineralization triangulations were treated as hard boundaries at MNV and MNFWZ.

The three-dimensional spatial relationships of each element were assessed on the top-cut, composited data was undertaken using normal-score transformed semi-variograms. At MNV, search ellipses were set to vary dynamically during grade estimation to account for the local variations in strike and dip along the veins. The same variogram and search parameters were used for copper and silver in all domains to maintain the element correlations. At MNFWZ, the search ellipses were set as 100m spheres. At both MNV and MNFWZ, estimates do not cross the modelled mineralization triangulations.

Grades were estimated into 12 m Easting × 2 m Northing × 10 m Elevation blocks in a sub-blocked model (in the MNFWZ model the blocks were rotated parallel to the strike of the mineralization). Bulk density samples were composited to 1.0 m lengths downhole and estimated using inverse distance weighting. Model validation included visual validation of grades against composited drillhole samples, creation of swath plots along easting, northing and elevation sections to assess grade smoothing, assessment of element correlations in the blocks, as well as a global change of support to assess grade smoothing at various cut-off grades. Validation checks showed the model to be valid with an appropriate amount of grade smoothing.

The June 2016 MNV and MNFWZ Mineral Resource models were externally reviewed by SRK Consulting. No material issues were identified with the geological modelling, estimation, validation, or classification process. The July 2017 MNV update followed the same methodology employed in the 2016 estimates.

At MNV, grades were re-estimated in March 2018 and October 2018 using revised NSR formulae that included updated metallurgical recoveries and long-term outlook metal prices and updated NSR cut-offs of \$42 and \$50, respectively. In July 2017, the San Roberto zone geological interpretation was modified slightly, a zinc zone was broken out and grades were re-estimated. Zinc-oxide mineralization was identified in this zone during metallurgical test work and is estimated to represent on average 18% of the total zinc mineralization in the San Roberto zinc

zone. However, the highest concentrations of zinc-oxide mineralization are not spatially associated with the highest zinc grades. Additional metallurgical studies are on-going to determine whether this zone is economically viable. In the San Rafael zinc zone, zinc-oxide mineralization is not observed. The NSR formula used for zinc zones is the same formula used for copper zones, and used recoveries of 95% copper, 78% silver, 58% zinc, and 40% lead, and long-term estimated metal prices of \$3.50/lb copper, \$18.00/oz silver, \$1.20/lb zinc, and \$1.00/lb lead. NSR formulae are based on the blended ore stream received by the mill.

The updated Measured and Indicated Mineral Resources for the MNV and MNFWZ copper zones, after 2019 mining activities, total 14,091 kt with an average grade of 1.63% Cu above a \$50 per tonne NSR cut-off (Table 3). The NSR formula is stated in the table notes. Garth Kirkham, P.Geo., FGC, Kirkham Geosystems Ltd., an independent Qualified Person as defined by NI 43-101, is responsible for the Mineral Resource estimates at Cozamin. Mineral Resources are presented inclusive of Mineral Reserves. Mineral Resources are not Mineral Reserves and do not have demonstrated economic viability.

TABLE 3: COZAMIN MINE ESTIMATED MINERAL RESOURCES AS AT DECEMBER 31, 2019

Classification	Tonnes (kt)	Copper (%)	Silver (g/t)	Zinc (%)	Pb (%)	Copper Metal (kt)	Silver Metal (koz)	Zinc Metal (kt)	Lead Metal (kt)
Copper Zone – San Roberto									
Measured	407	1.24	53	1.23	0.40	5	698	5	2
Indicated	2,925	1.06	45	1.55	0.39	31	4,206	45	11
Measured + Indicated	3,332	1.08	46	1.51	0.39	36	4,903	50	13
Inferred	3,817	0.70	37	1.53	0.14	27	4,559	58	5
Copper Zone – Mala Noche Footwall									
Measured	-	-	-	-	-	-	-	-	-
Indicated	10,759	1.80	43	0.73	0.20	194	14,985	79	22
Measured + Indicated	10,759	1.80	43	0.73	0.20	194	14,985	79	22
Inferred	9,326	1.60	50	1.07	0.32	150	15,012	99	30
Total – Copper Zones									
Measured	407	1.24	53	1.23	0.40	5	698	5	2
Indicated	13,684	1.64	44	0.91	0.24	225	19,191	124	33
Measured + Indicated	14,091	1.63	44	0.91	0.25	230	19,888	129	35
Inferred	13,143	1.34	46	1.20	0.27	176	19,571	158	35
Zinc Zone – San Roberto Zinc									
Measured	-	-	-	-	-	-	-	-	-
Indicated	268	0.20	31	4.05	0.72	1	270	11	2
Measured + Indicated	268	0.20	31	4.05	0.72	1	270	11	2
Inferred	523	0.13	25	3.49	0.43	1	423	18	2
Zinc Zone – San Rafael									
Measured	-	-	-	-	-	-	-	-	-
Indicated	1,625	0.29	46	3.59	0.52	5	2,400	58	8
Measured + Indicated	1,625	0.29	46	3.59	0.52	5	2,400	58	8
Inferred	3,070	0.24	37	3.26	0.35	7	3,645	100	11
Total – Zinc Zones									
Measured	-	-	-	-	-	-	-	-	-
Indicated	1,893	0.28	44	3.66	0.55	5	2,670	69	10
Measured + Indicated	1,893	0.28	44	3.66	0.55	5	2,670	69	10
Inferred	3,593	0.22	35	3.29	0.36	8	4,068	118	13
Total Mineral Resources (Copper + Zinc Zones)									
Measured	407	1.24	53	1.23	0.40	5	698	5	2
Indicated	15,577	1.48	44	1.24	0.28	230	21,860	193	43
Measured + Indicated	15,984	1.47	44	1.24	0.28	235	22,558	198	45
Inferred	16,736	1.10	44	1.65	0.29	184	23,639	276	48

NOTE: The Cozamin Mineral Resource estimate was completed by Garth Kirkham, P.Geo., FGC, Kirkham Geosystems Ltd., and an independent Qualified Person as defined by NI 43-101. The NSR formula used is based on \$3.50/lb Cu, \$18/oz Ag, \$1.20/lb Zn, \$1.00/lb Pb and metallurgical recoveries of 95% Cu, 78% Ag, 58% Zn, 40% Pb. The resulting NSR formula is $Cu*65.024 + Ag*0.438 + Zn*10.755 + Pb*6.981$. Mineral Resources are reported above \$50/t NSR cut-off. Mineral Resources are presented inclusive of Mineral Reserves. Mineral Resources are not Mineral Reserves and do not have demonstrated economic viability. Figures may not sum due to rounding. Contained metals are reported at 100%.

The MNV and MNFWZ Mineral Reserve model was updated in October 2018, by Tucker Jensen, P.Eng., Senior Mining Engineer at Capstone and a Qualified Person as defined by NI 43-101, using the October 2018 Mineral Resource models updated by Garth Kirkham, P.Geo., FGC. The Mineral Reserve estimate was generated using base assumptions of \$2.75/lb copper, \$16.00/oz Ag, \$1.10/lb Zn, by longitudinal longhole open-stopping mining. The cut-off value used was \$50.00. Development and stope triangulations were generated in Maptek Stope Optimizer software (“MSO”). These triangulations were applied to the MNV and MNFWZ Mineral Resource block models after the models were depleted of past mining production and areas of geotechnical sterilization. The Mineral Reserve estimate also factors in unrecoverable geotechnical support pillars, 5% production losses and dilution. Mining widths of 2.0 to 9.0m were applied. Mineral Reserves were classified as Proven and Probable in accordance with CIM Definition Standards for Mineral Resources and Mineral Reserves (CIM, 2014).

A geotechnical study was completed 2017-2018 to improve confidence in the mining methodology and to consider the appropriateness or make modifications to the ground support methods continued in 2019. Further study on pillar recovery optimization is ongoing with an updated assessment to be completed in 2020. Dilution and mining recovery factors need to be continuously validated through annual reconciliations and adjusted as required, especially in lithologies where historical mining experience is low.

Proven and Probable Mineral Reserves, discounted for mine production to December 31, 2019, contain 5,166 kt at an average grade of 1.50% Cu above a \$50/t NSR cut-off (fully diluted and recovered) are detailed in the table below. Tucker Jensen, P.Eng., Senior Mining Engineer at Capstone and a Qualified Person as defined by NI 43-101, is responsible for the Mineral Reserve estimates at Cozamin.

TABLE 4: COZAMIN MINE ESTIMATED MINERAL RESERVES AS AT DECEMBER 31, 2019

Classification	Tonnes (kt)	Copper (%)	Silver (g/t)	Zinc (%)	Pb (%)	Copper Metal (kt)	Silver Metal (koz)	Zinc Metal (kt)	Lead Metal (kt)
Copper Zones – MNV San Roberto + Mala Noche Footwall									
Proven	0	0.00	0	0.00	0.00	0	0	0	0
Probable	4,518	1.64	39	0.39	0.08	74	5,691	18	3
Proven + Probable	4,518	1.64	39	0.39	0.08	74	5,691	18	3
Zinc Zones – MNV San Rafael + San Roberto									
Proven	0	0.00	0	0.00	0.00	0	0	0	0
Probable	648	0.56	49	2.42	0.55	4	1,020	16	4
Proven + Probable	648	0.56	49	2.42	0.55	4	1,020	16	4
Reserves Summary									
Proven	0	0.00	0	0.00	0.00	0	0	0	0
Probable	5,166	1.50	40	0.64	0.13	78	6,710	33	7
Proven + Probable	5,166	1.50	40	0.64	0.13	78	6,710	33	7

NOTE: Tucker Jensen, P.Eng., Senior Mining Engineer at Capstone Mining Corp., is the Qualified Person for the Cozamin Mineral Reserve. Disclosure of the Cozamin Mine Mineral Reserves as of December 31, 2019 was completed using fully diluted mineable stope shapes generated by the Maptek Vulcan Mine Stope Optimizer software and estimated using the 2018 MNFW and MNV resource block models completed by Garth Kirkham, P.Geo., FGC, Kirkham Geosystems Ltd. The Reserves are based on a \$50/t NSR cut-off. The NSR formula used for the Reserves was based \$2.75/lb Cu, \$16/oz Ag, \$1.10/lb Zn, and metallurgical recoveries of 96.5% Cu, 81% Ag, 44% Zn. The resulting NSR275 formula is $(\$50.707 * \%Cu + 0.366 * Ag \text{ ppm} + 7.276 * \%Zn) * (1 - NSR \text{ Royalty} \%)$. Note that zero value is attributed to Pb due to low concentrations. Tonnage and grade estimates include dilution and recovery allowances. The NSR royalty rate applied varies between 1% and 3% depending on the mining concession. Contained metals are reported as 100%. Figures may not sum due to rounding.

Mining Operations

The Cozamin Mine is an underground mining operation that commenced in 2006. Ore is extracted primarily using long-hole open stoping. The mine extends for a strike length of over 2 km and Mineral Reserves extend to a depth of 1,000 m. Access to the underground workings is via two service and haulage ramps and a hoisting shaft.

Run-of-mine ore is stockpiled on surface and sent to the crushing plant. The crushed ore is stored in two ore bins that feed parallel conventional grinding circuits. The resulting product is sent to the copper-lead rougher flotation where a copper-lead concentrate is produced. The tailings report to zinc conditioning tanks prior to zinc flotation, where reagents are added to activate zinc mineralization. The tailings go through zinc rougher and cleaning circuits to produce a zinc concentrate. Separate copper and lead concentrates are produced from the copper-lead concentrate via selective flotation. The concentrates are thickened and filtered to produce product suitable for transport. The concentrates are trucked to Manzanillo, Colima, Mexico. The current mine plans maintain the Cozamin Mine operations life to 2024.

A 2018 internal material handling study concluded the current hoisting and haulage resources were limiting mine production, and that the under-utilized plant is capable of an additional 842 tpd. A traffic study identified truck haulage capacity is reduced by about 35% because of the bi-directional use of one of Cozamin's two ramps for ore haulage. A one-way truck haulage loop will be created by connecting the two current ramps with ~1,600m of ramp development at -1:7 gradient. The one-way haulage loop is on schedule for completion before the end of 2020.

Permits required to conduct on-going mining work on the property have been obtained; permits required for the targeted production increase are under consideration. There are no known factors or risks that affect access, title or the ability to conduct mining. Environmental liabilities and issues are limited to those that are expected to be associated with an underground base metal operation. These include an underground mine, associated infrastructure, access roads and surface infrastructure including the process plant, waste and tailings disposal facilities situation within the area of disturbance.

The Cozamin Mine's applicable taxes include the following:

- Corporate Taxes - the Mexican corporate income tax is at a 30% rate applied on net income after depreciation.
- A value added tax is payable to the Mexican government. Any overpaid (credit) amount may be offset with receivable value added tax. .
- The 2013 Mexican Tax Reform introduced a 7.5% mining tax. The mining tax, effective January 1, 2014, is applied on the positive difference between income arising from sales related to mining and the deductions permitted by the Income Tax Law, not including deductions on investments (except those involved in mining prospecting and exploration), interest payable and the annual inflation adjustment. The Tax Reform also introduced a 0.5% mining tax on precious metals that is applied on gross taxable revenues.
- Property taxes are approximately \$20,000 per year.
- The State of Zacatecas introduced taxes effective January 1, 2017 for purposes of reducing the environmental impact created by industrial activities carried out in the state. These new taxes consist of the (i) Environmental Remediation Tax on the Extraction of Materials, (ii) Tax on Gas Emissions to the Atmosphere, (iii) Tax on Emissions of Pollutants to the Soil, Subsoil, and Water, and (iv) Tax on the Disposal of Wastes. Taxes are calculated based on a rate per tonne of gas emitted, waste deposited, and per meters of soil contaminated. The total environmental taxes paid by Cozamin were approximately \$37,000 in 2019, \$38,000 in 2018 and \$165,200 in 2017.

Exploration and Development

The 2020 exploration program includes a proposed 43,000 metres of infill drilling at MNFWZ and step-out exploration drilling to test for further extensions on the MNFWZ and additional structures splaying from the main Mala Noche fault system.

3.3 Other Properties

Santo Domingo Project (Chile)

The Santo Domingo copper-iron-gold project (“**Santo Domingo**” or “**the Project**”) is a fully-permitted development project located in Region III, Chile, and is owned 70% by Capstone and 30% by Korea Resources Corporation (“**KORES**”). The Project has all required construction permits and received final approval of the Mine Closure Plan in 2019.

In 2019, Capstone updated the economic model for the Project with more certain cost estimates, and studied the option to produce battery-grade cobalt sulphate. In March 2020 Capstone published an updated technical report for the Project titled “Santo Domingo Project, Region III, Chile, NI 43-101 Technical Report” (“**2020 Santo Domingo Technical Report**”) effective February 19, 2020. The 2020 Santo Domingo Technical Report was authored by Joyce Maycock, P.Eng., Amec Foster Wheeler Ingeniería y Construcción Ltda (doing business as Wood) (“**Wood**”), Antonio Luraschi, CMC, Wood, Marcial Mendoza, CMC, Wood, Mario Bianchin, P.Geo., Wood Canada Ltd., David Rennie, P.Eng., Roscoe Postle Associates Inc. (“**RPA**”), Carlos Guzman, CMC, NCL Ingeniería y Construcción SpA (“**NCL**”), Roger Amelunxen, P. Eng., Aminpro, Michael Gingles, QP MMSA, Sunrise Americas LLC, Tom Kerr, P.Eng., Knight Piésold Ltd., Roy Betinol, P.Eng., BRASS Chile SA, Lyn Jones, P.Eng., M.Plan International, each an independent Qualified Person as defined in NI 43-101, and Gregg Bush, P.Eng., non-independent consulting engineer. The following descriptions of the Santo Domingo Project are based on assumptions, qualifications and procedures which are set out in the 2020 Santo Domingo Technical Report filed on March 24, 2020. Reference should be made to the full text of this report which is available in its entirety on SEDAR at www.sedar.com under Capstone’s profile.

Capstone has two groups of concessions with a total of 116 claims (96 exploitation concessions totaling 27,597 ha and 20 exploration concessions totaling 1,300 ha) that cover a total of 28,897 ha and include the areas of the planned mine site, plant area, and auxiliary facilities including proposed port facilities. Easements to cover 100% of the facilities and infrastructure area are in progress. Current surface rights include 17 registered provisional surface rights (3,634 ha) and 16 definitive surface rights (3,856.78 ha); applications for an additional six definitive surface rights (239.84 ha) are in progress.

The centre of the Project is located at approximately 26°28'00”S and 70°00'30”W. Most areas of the proposed open pits are located on concessions subject to one or the other of two 2% NSR agreements with BHP and Empresa Nacional de Minería, commonly called ENAMI, a Chilean government corporation. On June 17, 2011, Capstone entered into a strategic relationship with KORES. The terms of this relationship provided for, amongst other things, a private placement in the equity of Capstone, representation on the Board of Directors of Capstone, the acquisition of a 30% interest in the project by KORES, participation in the financing of the project as well as an agreement to enter into a life of mine off-take agreement for 50% of the production of copper and iron from the project on prevailing market terms.

The currently proposed project uses desalinated water and will not require an application for water rights. An approved maritime concession will allow the extraction of sea water for processing in the desalination plant. Water for construction will be obtained from an authorized third-party provider.

Mineral Resource and Mineral Reserve Estimates

David Rennie, P.Eng., of RPA, is the Qualified Person responsible for the preparation of the Santo Domingo Mineral Resources estimates presented in the 2020 Santo Domingo Technical Report. The Mineral Resources estimates for Santo Domingo Sur, Iris, Iris Norte and Estrellita are presented in Table 5 and have an effective date of February 13, 2020.

Risk factors that could potentially affect these Mineral Resources estimates include changes to assumed long-term metal prices and exchange rates, densities, geotechnical and hydrogeological considerations, factors used in the preliminary pit optimization on the block models using a Lerchs–Grossmann algorithm (“**LG shell**”)

constraining Mineral Resources at Santo Domingo Sur, Iris, Iris Norte and Estrellita, metal recovery, concentrate and smelting/refining terms or changes to the interpretations of mineralization geometry and continuity of mineralization zones; delays or other issues in reaching agreements with local communities, and changes in permitting, surface rights and environmental assumptions.

TABLE 5: SANTO DOMINGO ESTIMATED MINERAL RESOURCES AS AT FEBRUARY 13, 2020

Deposit	Tonnes (Mt)	CuEq (%)	Cu (%)	Au (g/t)	Fe (%)	S (%)	Co (ppm)
Total Measured Resources	66	0.81	0.61	0.081	30.9	2.3	254
Santo Domingo Sur	64	0.82	0.62	0.082	31.1	2.4	254
Iris	2	0.42	0.39	0.047	23.6	1.4	250
Total Indicated Resources	471	0.48	0.26	0.034	25.0	1.9	225
Santo Domingo Sur	224	0.54	0.31	0.043	26.6	2.4	275
Iris	103	0.45	0.19	0.027	25.9	1.3	166
Iris Norte	89	0.44	0.12	0.014	26.7	2.6	231
Estrellita	55	0.40	0.38	0.039	13.7	0	125
Total M & I	537	0.52	0.30	0.039	25.7	2.0	229
Total Inferred Resources	48	0.41	0.19	0.025	23.6	2.2	197
Santo Domingo Sur	24	0.40	0.22	0.033	22.8	2.5	195
Iris	4	0.42	0.19	0.024	26.6	0.7	125
Iris Norte	14	0.45	0.09	0.009	28.1	2.8	256
Estrellita	5	0.32	0.31	0.030	12.3	0	108

NOTE: Mineral Resources are classified according to CIM (2014) standards. Mineral Resources are reported inclusive of Mineral Reserves. Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability. The Qualified Person for the estimates is Mr. David Rennie, P. Eng., an associate of Roscoe Postle Associates Inc. Mineral Resources for the Santo Domingo Sur, Iris, Iris Norte and Estrellita deposits have an effective date of 13 February 2020. Mineral Resources for the Santo Domingo Sur, Iris, Iris Norte and Estrellita deposits are reported using a cut-off grade of 0.125% copper equivalent (CuEq). CuEq grades are calculated using average long-term prices of US\$3.50/lb Cu, US\$1,300/oz Au and US\$99/dmt Fe conc. The CuEq equation is: % Cu Equivalent = (Cu Metal Value + Au Metal Value + Fe Metal Value) / (Cu Metal Value per percent Cu). The general equation for metal value is: Metal Value = Grade * Cm * R * (Price - TCRC - Freight) * (100 - Royalty) / 100, where Cm is a constant to convert the grade of metal to metal price units, R is metallurgical recovery, and TCRC is smelter treatment charges and penalties. Only copper, gold and iron were recognized in the CuEq calculation; cobalt and sulphur were excluded. Mineral Resources are constrained by preliminary pit shells derived using a Lerchs-Grossmann algorithm and the following assumptions: pit slopes averaging 45°; mining cost of US\$1.90/t, processing cost of US\$7.27/t (including G&A cost); processing recovery of 89% copper and 79% gold, iron recoveries are calculated based on magnetic susceptibility; and metal prices of US\$3.50/lb Cu, US\$1,300/oz Au and US\$99/dmt Fe concentrate. Rounding as required by reporting standards may result in apparent summation differences. Tonnage measurements are in metric units. Copper, iron and sulphur are reported as percentages, gold as grams per tonne and cobalt as parts per million.

Mr. Carlos Guzman, CMC, an employee of NCL, is the Qualified Person responsible for the preparation of the Santo Domingo Mineral Reserves estimate presented in the 2020 Santo Domingo Technical Report. The effective date of the Mineral Reserves estimate is November 14, 2018.

Pit optimization, mine design and mine planning were carried out by NCL using the 2012 block model prepared by RPA and did not include consideration of material classified as Inferred. Inferred Mineral Resources were treated as waste. A block size of 12.5 m Easting x 12.5 m Northing x 12 m Elevation was selected for the block model. The selected block size was based on the geometry of the domain interpretation and the data configuration. The mining cost estimate for the pit optimization process is based on studies developed by NCL during 2018. The estimated average project mining cost was separated into various components such as fuel, explosives, tires,

parts, salaries and wages, benchmarked against similar current operations in Chile. Each component was updated for third quarter 2018 prices and the exchange rate from Chilean Pesos to US dollars. This resulted in an estimated mining cost of approximately \$1.75/t. Estimated metal prices, processing costs, refining costs, and processing recoveries were provided to NCL by Capstone. A number of calculations were performed in the model in order to determine the NSR of each individual block. The internal (or mill) cut-off of \$7.53/t milled incorporates all operating costs except mining. This internal cut-off is applied to material contained within an economic pit shell, where the decision to mine a given block was determined by the pit optimization and was applied to all of the Mineral Reserve estimates. Marginal ore was calculated for the same \$7.53/t cut-off, but for a NSR determined at higher metal prices. Final slope angles used for the pit optimization process were a result of multiple iterations and analysis carried out by the NCL mining team and geotechnical specialists Derk Ingeniería y Geología Ltda (“Derk”). The original block model was based on an ore percentage with dimensions of 12.5 m x 12.5 m x 12 m, resulting in a 1,875 m³ block volume; this means that every block has a defined “ore” proportion with an ore density, and a corresponding “waste” proportion with a waste density. To accommodate selective mining methods, any resource block with an ore percentage that was less than 10% was treated as waste. Blocks with an ore percentage that was higher than 90% were diluted with waste such that all high-ore blocks were considered to contain only 90% ore. Selective mining therefore will be performed on those blocks that have an ore percentage of between 10% and 90%. The Santo Domingo Mineral Reserves estimate is summarized in Table 6.

In the opinion of NCL, the factors most likely to significantly affect the Mineral Reserves estimate are metallurgical recoveries and operating costs (fuel, energy and labour). NCL notes that the base price and changes in metals prices do not affect the Mineral Reserves estimate to any significant degree, despite being the most important factor for revenue calculation. A revenue factor of 0.84 was used for the LG shell that was employed as the guide for the practical design for both the Santo Domingo and Iris Norte pits. This revenue factor is relatively conservative, allowing for broad swings in metals prices without significantly impacting the Mineral Reserves estimate.

TABLE 6: SANTO DOMINGO ESTIMATE MINERAL RESERVES AS AT DECEMBER 31, 2019

Stage	Tonnes (Mt)	Grade			Contained Metal		
		Cu (%)	Au (g/t)	Fe (%)	Cu (kt)	Au (koz)	Magnetite Conc. (Mt)
Proven Reserves							
Santo Domingo Sur	65.4	0.61	0.08	30.9	398	169.9	8.2
Probable Reserves							
Santo Domingo Sur	252.1	0.27	0.04	27.8	674	300.8	48.2
Iris Norte	74.8	0.13	0.01	26.9	94	36	18.7
Total Probable	326.9	0.24	0.03	27.6	768	336.8	66.9
Total Mineral Reserves							
Proven + Probable	392.3	0.30	0.04	28.2	1167	506.7	75.1

NOTE: Mineral Reserves have an effective date of 14 November 2018 and were prepared by Mr. Carlos Guzman, CMC, an employee of NCL. Mineral Reserves are reported as constrained within Measured and Indicated pit designs and supported by a mine plan featuring variable throughput rates and cut-off optimization. The pit designs and mine plan were optimized using the following economic and technical parameters: metal prices of US\$3.00/lb Cu, US\$1,280/oz Au and US\$100/dmt of Fe concentrate; average recovery to concentrate is 93.4% for Cu and 60.1% for Au, with magnetite concentrate recovery varying on a block-by-block basis; copper concentrate treatment charges of US\$80/dmt, US\$0.08/lb of copper refining charges, US\$5.0/oz of gold refining charges, US\$33/wmt and US\$20/dmt for shipping copper and iron concentrates respectively; waste mining cost of \$1.75/t, mining cost of US\$1.75/t ore and process and G&A costs of US\$7.53/t processed; average pit slope angles that range from 37.6° to 43.6°; a 2% royalty rate assumption and an assumption of 100% mining recovery. Rounding as required by reporting standards may result in apparent summation differences between tonnes, grade and contained metal content. Tonnage measurements are in metric units. Copper and iron grades are reported as percentages, gold as grams per tonne. Contained gold ounces are reported as troy ounces, contained copper as million pounds and contained iron as metric million tonnes.

4 – RISK FACTORS

Capstone is subject to a number of significant risks due to the nature of our business which includes acquisition, financing, exploration, development and operation of mining properties. You should carefully consider the risks and uncertainties described below and other information contained in this Annual Information Form before deciding whether to invest in Capstone common shares. The risks and uncertainties described below could have a material adverse effect on our business, financial condition or results of operations, and the trading price of our common shares may decline and investors may lose all or part of their investment. We cannot give assurance that we can control or will successfully address these risks or other unknown risks that may affect our business. Additional risks or uncertainties not presently known to Capstone or that Capstone currently considers immaterial may also impair our business operations.

Mining is inherently dangerous and subject to conditions or events beyond Capstone's control.

Capstone's operations are subject to all the hazards and risks normally encountered in the exploration, development, care and maintenance of mining operations and production of copper and other metals, including, without limitation, workplace accidents, fires, including wildfires, power outages, labour disruptions, flooding, explosions, cave-ins, landslides, ground or stope failures, tailings dam failures and other geotechnical instabilities, weather events, access to water, equipment failure or structural failure, metallurgical and other processing problems and other conditions involved in the mining of minerals, any of which could result in damage to, or destruction of, our mines, mineral properties, plants and equipment, personal injury or loss of life, environmental damage, delays in mining, increased production costs, care and maintenance costs, asset write-downs, monetary losses, legal liability and governmental action. Our mines have large tailings dams which could fail as a result of extreme weather events, seismic activity or for other reasons. The occurrence of any of these events could result in a prolonged interruption in Capstone's operations, increased costs for asset protection or care and maintenance activities that would have a material adverse effect on Capstone's business, financial condition, results of operations and prospects.

Wildfires and inclement weather conditions, whether occurring at Capstone's sites, adjacent lands, or supplier and downstream sites, may impact our ability to operate, transport or access and supply sites, and increase overall costs or impact Capstone's financial performance. In severe circumstances, civil authorities may impose evacuation orders. Our sites in Arizona and Mexico are subject to drought conditions and create a higher exposure to wildfire risk.

Changes in the market price of copper and other metals could negatively affect the profitability of the Company's operations and financial condition and negatively impact Mineral Reserve estimations or render our business, or part thereof, no longer economically viable. Our business is largely concentrated in the copper mining industry, and, as a result, may be negatively impacted by fluctuation in the copper mining industry generally.

Capstone is concentrated in the copper mining industry, and as such our profitability will be sensitive to changes in, and our performance will depend, to a greater extent, on the overall condition of the copper mining industry. The commercial viability of Capstone's properties and Capstone's ability to sustain operations is dependent on, amongst other things, the market price of copper, zinc, lead, gold, silver and molybdenum. Depending on the expected price for any minerals produced, Capstone may determine that it is impractical to continue commercial production at the Pinto Valley Mine or the Cozamin Mine, or to develop the Santo Domingo Project. A reduction in the market price of copper, zinc, lead, gold, silver, iron, or molybdenum may prevent Capstone's properties from being economically mined or result in the write-down of assets whose value is impaired as a result of low metals prices. The market price of copper, zinc, lead, gold, silver, iron and molybdenum is volatile and is impacted by numerous factors beyond Capstone's control, including, amongst others:

- the supply/demand balance for any given metal;
- international economic and political conditions;
- tariffs or taxes imposed by governments;
- expectations of inflation or deflation;

- international currency exchange rates;
- interest rates;
- global or regional consumptive patterns;
- speculative activities;
- global or regional crises or breakout and spread of contagious illnesses or diseases;
- increased production due to new mine developments;
- decreased production due to mine closures;
- improved mining and production methods;
- availability and costs of metal substitutes;
- new technologies that use other materials in place of our products;
- metal stock levels maintained by producers and others; and
- inventory carry costs.

The effect of these factors on the price of base and precious metals cannot be accurately predicted and there can be no assurance that the market price of these metals will remain at current levels or that such prices will improve. A decrease in the market price of copper, zinc, lead, gold, silver or molybdenum would affect the profitability of the Pinto Valley Mine and the Cozamin Mine and could affect Capstone's ability to finance the exploration and development of our other properties, which would have a material adverse effect on Capstone's business, financial condition, results of operations and prospects.

Within this industry context, the Company's strategy is to maintain a cost structure that will allow it to achieve adequate levels of cash flow during the low point in the copper price cycle. Circumstances may arise, however, where increased certainty of cash flows is considered more important to long term value creation than providing investors short term exposure to the volatility of metal prices. In these circumstances, the Company may elect to fix prices within a contractual quotational period and/or to lock in future prices through the variety of financial derivative instruments available. There are, however, risks associated with programs to fix prices including, amongst other things, the potential risk that the counter party will not be able to meet their obligations, the risk of opportunity losses in the event of an increase in the world price of the commodity, the possibility that rising operating costs will make delivery into hedged positions uneconomic, and production interruption events.

A global pandemic could cause temporary closure of businesses in regions that are significantly impacted by the health crises, or cause governments to take preventative measures such as the closure of points of entry, including ports and borders. These restrictive measures along with market uncertainty could cause an economic slowdown resulting in a decrease in the demand for copper and have a negative impact on base metal prices. The recent outbreak of the novel coronavirus (COVID-19) has had a negative impact on copper prices and governmental actions to contain the outbreak may impact our ability to transport or market our concentrate or cause disruptions in our supply chains or interruption of production. A material spread of COVID-19 in jurisdictions where we operate could impact our ability to staff operations.

Financial covenant compliance risks

The terms of Capstone's amended senior secured corporate revolving credit facility requires that Capstone satisfy various affirmative and negative covenants and meet certain quarterly financial ratio tests. These covenants limit, amongst other things, Capstone's ability to incur further indebtedness if doing so would cause it to fail to meet certain financial ratio tests. They also limit the ability of Capstone to create certain liens on certain assets or to engage in certain types of transactions. A failure to comply with these covenants, including a failure to meet the financial tests or ratios, could result in an event of default and allow lenders to accelerate the debt repayment.

Surety bonding risks

Capstone secures its obligations for reclamation and closure costs with surety bonds provided by leading global insurance companies in favour of regulatory authorities in Arizona. The regulators could increase Capstone's bonding obligations for reclamation and closure activities. Further, these surety bonds include the right of the surety bond provider to terminate the relationship with Capstone on providing notice of up to 90 days. The surety

bond provider would, however, remain liable to the regulatory authorities for all bonded obligations existing prior to the termination of the bond in the event Capstone failed to deliver alternative security satisfactory to the regulator.

Capstone remains as an Indemnitor for Minto Explorations Ltd.'s surety bond obligations in the Yukon and could be liable for the bonded obligations in the event Minto Explorations Ltd. does not satisfy those obligations.

Financing requirement risks

Capstone may require substantial additional capital to accomplish its exploration and development plans and fund strategic growth and there can be no assurance that financing will be available on terms acceptable to Capstone, or at all. Capstone may require substantial additional financing to advance the Pinto Valley Mine, and the Cozamin Mine to achieve designed production rates, to finance potential strategic acquisitions required for growth and to accomplish any exploration and development plans for the Santo Domingo Project. These financing requirements could adversely affect Capstone's ability to access the capital markets in the future. Failure to obtain sufficient financing, or financing on terms acceptable to Capstone, may result in a delay or indefinite postponement of exploration, development or production at one or more of our properties. Additional financing may not be available when needed and the terms of any agreement could impose restrictions on the operation of our business. Failure to raise financing when needed could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our operations are subject to geotechnical challenges, which could adversely impact our production and profitability.

No assurances can be given that unanticipated adverse geotechnical and hydrological conditions such as landslides, cave-ins, rock falls, slump, ground or slope failures, tailings storage facility failures or releases and pit wall failures will not occur in the future or that such events will be detected in advance. Due to the age of our mines and more complex deposits, Capstone's pit is becoming deeper resulting in higher pitwalls and underground environments are becoming more complex, potentially increasing the exposure to geotechnical instabilities and hydrological impacts. Geotechnical instabilities can be difficult to predict and are often affected by risks and hazards outside of Capstone's control, such as seismic activity and severe weather events, which may lead to periodic floods, mudslides, and wall instability.

Capstone's mine sites have multiple active and inactive tailings storage facilities, including upstream raised dams and legacy facilities inherited through acquisition activities. Our tailings storage facilities have been designed by professional engineering firms specializing in this activity. Capstone continues to review and enhance existing practices in line with international best practices; however, no assurance can be given that these events will not occur in the future. Tailings storage facilities have the risk of failure due extreme weather events, seismic activity or for other reasons. The failure of tailings dam facilities or other impoundments could cause severe or catastrophic environmental and property damage or loss of life. Geotechnical or tailings storage facility failures could result in the suspension of our operations, limited or restricted access to sites, government investigations, remediation costs, increased monitoring costs and other impacts, which could result in a material adverse effect on our operational results and financial position.

Capstone's ability to acquire properties for growth.

The life of any mine is limited by its Mineral Reserves. As we seek to replace and expand our Mineral Reserves through exploration, acquisition of interests in new properties or of interests in companies which own the properties, we encounter strong competition from other companies in connection with the acquisition of properties. This competition may limit our ability to adequately replace Mineral Reserves.

The sale of our metals is subject to counterparty and market risks.

Capstone enters into concentrate off-take agreements whereby a percentage of planned production of copper concentrate produced from our mines is committed to various external parties throughout the calendar year. If any counterparty to any off-take or forward sales agreement does not honour such arrangement, or should any such

counterparty become insolvent, Capstone may incur losses on the production already shipped or be forced to sell a greater volume of our production in the spot market, which is subject to market price fluctuations. In addition, there can be no assurance that Capstone will be able to renew any of our off-take agreements at economic terms, or at all, or that Capstone's production will meet the qualitative and quantitative requirements under such agreements.

We may face market access restrictions or tariffs.

Capstone could experience market access interruptions or trade barriers due to policies or tariffs of individual countries, or the actions of certain interest groups to restrict the import of certain commodities. Regional and global crises including but not limited to the breakout of contagious illnesses and global pandemics could significantly impact our ability to or costs to market and transport our concentrate. Restrictions or interruptions in Capstone's ability to transport concentrate across country borders and globally could materially affect our business operations. Our exported copper concentrate, or the supplies we import may also be impacted, which may impair the competitiveness of our business.

Fluctuations in foreign currency exchange rates could have an adverse effect on Capstone's business, financial condition, results of operations and prospects.

Fluctuations in the Canadian dollar or Mexican peso relative to the US dollar could significantly affect our business, financial condition, results of operations and prospects. Exchange rate movements can have a significant impact on Capstone as all of Capstone's revenue is received in US dollars but a portion of the Company's operating and capital costs are incurred in Canadian dollars and Mexican pesos. Also, Capstone is exposed to currency fluctuations in the Chilean peso relating to expenditures for the Santo Domingo Project. As a result, a strengthening of these currencies relative to the US dollar will reduce Capstone's profitability and affect its ability to finance its operations. While Capstone does not currently have any foreign currency contracts in place to hedge against currency risk, circumstances may arise in the future where this may be an appropriate strategy to manage costs and risks.

General economic conditions or changes in consumption patterns may adversely affect Capstone's growth and profitability.

Many industries, including the base and precious metals mining industry, are impacted by global market conditions. Some of the key impacts of financial market turmoil include contraction in credit markets resulting in an increase in credit risk, devaluations and high volatility in global equity, commodity, foreign exchange and metals markets, and a lack of market liquidity. A slowdown in the financial markets or other economic conditions, including, but not limited to, reduced consumer spending, increased unemployment rates, deteriorating business conditions, inflation, deflation, volatile fuel and energy costs, increased consumer debt levels, lack of available credit, changes in interest rates and changes in tax rates may adversely affect Capstone's growth and profitability potential. Specifically:

- a global credit/liquidity issue could impact the cost and availability of financing and our overall liquidity;
- volatility of prices for copper, zinc, lead, gold, silver, iron and/or molybdenum may impact our future revenues, profits and cash flows;
- recessionary pressures could adversely impact demand for our production;
- volatile energy prices, commodity and consumables prices and currency exchange rates could negatively impact potential production costs; and
- devaluation and volatility of global stock markets could impact the valuation of Capstone's securities, which may impact Capstone's ability to raise funds through future issuances of equity.

These factors could have a material adverse effect on our business, financial condition, results of operations and prospects.

Capstone's Mineral Resources and Mineral Reserves are estimates and are subject to uncertainty.

Our Mineral Resources and Mineral Reserves are estimates and depend upon geological interpretation and statistical inferences drawn from drilling and sampling analysis, which may prove to be inaccurate. Actual recoveries of copper, zinc, lead, gold, silver, iron and molybdenum from mineralized material may be lower than those indicated by test work. Any material change in the quantity of mineralization, grade or stripping ratio, may affect the economic viability of Capstone's properties. In addition, there can be no assurance that metal recoveries in small-scale laboratory tests will be duplicated in larger scale tests under on-site conditions or during production. Notwithstanding pilot plant tests for metallurgy and other factors, there remains the possibility that the ore may not react in commercial production in the same manner as it did in testing. Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability. Mining and metallurgy are inexact sciences and, accordingly, there always remains an element of risk that a mine may not prove to be commercially viable.

Until a deposit is actually mined and processed, the quantity of Mineral Resources and Mineral Reserves and grades must be considered as estimates only. In addition, the quantity of Mineral Resources and Mineral Reserves may vary depending on, amongst other things, metal prices, cut-off grades and operating costs. Any material change in quantity of Mineral Reserves, Mineral Resources, grade, percent extraction of those Mineral Reserves recoverable by underground mining techniques or the stripping ratio for those Mineral Reserves recoverable by open pit mining techniques may affect the economic viability of Capstone's mining projects.

We face added risks and uncertainties of operating in foreign jurisdictions, including changes in regulation and policy, and community interest or opposition.

Capstone's business operates in a number of foreign countries where there are added risks and uncertainties due to the different economic, cultural and political environments. Our mineral exploration and mining activities may be adversely affected by political instability and changes to government regulation relating to the mining industry. Changes in governmental leadership in the US, Chile, and Mexico, could impact Capstone's operations and local societal conditions. Other risks of foreign operations include political or social unrest, labour disputes and unrest, invalidation of governmental orders and permits, corruption, organized crime, theft, war, civil disturbances and terrorist actions, arbitrary changes in law or policies of particular countries (including nationalization of mines), trade disputes, foreign taxation, price controls, delays in obtaining or renewing or the inability to obtain or renew necessary environmental permits, opposition to mining from local communities and environmental or other non-governmental organizations, social perception impacting our social license to operate, limitations on foreign ownership, limitations on the repatriation of earnings, limitations on mineral exports and increased financing costs. Local economic conditions, including higher incidences of criminal activity and violence in areas of Mexico can also adversely affect the security of our people, operations and the availability of supplies. Capstone may encounter social and community issues including but not limited to public expression against our activities, protests, road blockages, work stoppages, or other forms of expression, which may have a negative impact on our reputation and operations or projects. Opposition to our mining activities by local landowners, communities, or activist groups may cause significant delays or increased costs to operations, and the advancement of exploration or development projects, and could require Capstone to enter into agreements with such groups or local governments.

In addition, risks of operations in Mexico include extreme fluctuations in currency exchange rates, high rates of inflation, significant changes in laws and regulations including but not limited to tax regulations, hostage taking and expropriation. These risks may limit or disrupt Capstone's projects, reduce financial viability of local operations, restrict the movement of funds or result in the deprivation of contract rights or the taking of property by nationalization or expropriation without fair compensation. There can be no assurance that changes in the government or laws or changes in the regulatory environment for mining companies or for non-domiciled companies will not be made that would adversely affect Capstone's business, financial condition, results of operation and prospects.

Differences in interpretation or application of tax laws and regulations or accounting policies and rules and Capstone's application of those tax laws and regulations or accounting policies and rules where the tax impact to the Company is materially different than contemplated may occur and adversely affect Capstone's business, financial condition, results of operation and prospects.

Resource nationalism

Governments in certain jurisdictions struggle with depressed economies and as a result have targeted mining companies for additional revenue by way of increased economic rent for the exploitation of resources in their countries. Many countries including Chile and Mexico have recently implemented changes to their respective mining regimes. Future changes could include things such as, but not limited to, law affecting foreign ownership and take-overs, mandatory government participation, taxation and royalties, working conditions, export duties or repatriation of income or return of capital.

Our operations are subject to significant governmental regulation, which could significantly limit our exploration and production activities.

Capstone's mineral exploration, development and operating activities are subject to governmental approvals and various laws and regulations governing development, operations, taxes, labour standards and occupational health, mine safety, toxic substances, land use, water use and land claims affecting local communities, First Nations and Aboriginal populations. The liabilities and requirements associated with the laws and regulations related to these and other matters may be costly and time-consuming and may restrict, delay or prevent commencement or continuation of exploration or production operations. We cannot provide definitive assurance that we have been or will be at all times in compliance with all applicable laws and regulations and governmental orders. Failure to comply with applicable laws, regulations and governmental orders may result in the assessment of administrative, civil and criminal penalties, the imposition of cleanup and site restoration costs and liens, the issuance of injunctions to limit or cease operations, the suspension or revocation of permits or authorizations and other enforcement measures that could have the effect of limiting or preventing production from our operations. Capstone may incur material costs and liabilities resulting from claims for damages to property or injury to persons arising from Capstone's operations. If Capstone is pursued for sanctions, costs and liabilities in respect of these matters, Capstone's mining operations and, as a result, Capstone's financial performance, financial position and results of operations, could be materially and adversely affected.

In addition, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner that could limit or curtail our exploration, development or production. This risk may increase following changes to government leadership or governing parties, or through increasing societal pressures. Amendments to current laws, tax regimes, regulations and permits governing operations and activities of mining and exploration companies, or the more stringent implementation thereof, could have a material adverse impact on Capstone and increase our exploration expenses, capital expenditures, ability to attract funds, or production costs or reduce production at our producing properties or require abandonment or delays in exploring or developing our properties.

Capstone is required to obtain, maintain and renew environmental, construction and mining permits, which is often a costly, time-consuming and uncertain process.

Mining companies, including Capstone, need many environmental, construction and mining permits, each of which can be time-consuming and costly to obtain, maintain and renew. In connection with our current and future operations, we must obtain and maintain a number of permits that impose strict conditions, requirements and obligations on Capstone, including those relating to various environmental and health and safety matters. To obtain, maintain and renew certain permits, we are required to conduct environmental assessments pertaining to the potential impact of our current and future operations on the environment and to take steps to avoid or mitigate those impacts. For example, additional permits will be required to fully exploit the resources at Pinto Valley and Cozamin. There is a risk that Capstone will not be able to obtain such permits or that obtaining such permits will require more time and capital than anticipated.

Permit terms and conditions can also impose restrictions on how we operate and limits our flexibility in developing our mineral properties. Many of Capstone's permits are subject to renewal from time to time, and renewed permits may contain more restrictive conditions than Capstone's existing permits. In addition, we may be required to obtain new permits to expand our operations, and the grant of such permits may be subject to an expansive governmental review of our operations. Alternatively, we may not be successful in obtaining such permits, which could prevent Capstone from commencing, extending or expanding operations or otherwise adversely affect Capstone's business, financial condition, results of operation and prospects. Further, renewal of our existing permits or obtaining new permits may be more difficult if we are not able to comply with our existing permits. Applications for permits, permit area expansions and permit renewals may be subject to challenge by interested parties, which can delay or prevent receipt of needed permits. The permitting process can also vary by jurisdiction in terms of its complexity and likely outcomes.

Accordingly, permits required for Capstone's operations may not be issued, maintained or renewed in a timely fashion or at all, may be issued or renewed upon conditions that restrict Capstone's ability to operate economically, or may be subsequently revoked. Design and construction standards for tailings storage facilities may become more restricted in the future, impacting our mines' ability to expand, operate, or renew permits and as a result, considerable capital expenditures may be required to comply with new standards, regulations and permitting requirements. Any such failure to obtain, maintain or renew permits, or other permitting delays or conditions, including in connection with any environmental impact analyses, could have a material adverse effect on Capstone's business, results of operations, financial condition and prospects. At the end of 2018, Cozamin mine increased its Mineral Reserves and will require additional tailings capacity to support the extension of operations. Cozamin is studying several potential tailings storage facility design options which will require additional permits and regulatory approvals for construction activities. The proposed option could be more costly to design, construct, or operate, and may impact the footprint of the mine plan boundaries. The current tailings facility will eventually reach an optimal capacity limit, after which further expansion stages will not be pursued. This may result in additional requirements for maintaining the tailings dam post-operation and pre-reclamation activities.

Climatic conditions can affect our operations at the Pinto Valley and Cozamin Mines and our Santo Domingo Project, or current and future development projects.

The potential physical impacts of climate change on our operations are highly uncertain and are particular to the geographic circumstances in areas in which we operate. These may include changes in rainfall and storm patterns and intensities, water shortages, changing sea levels and changing temperatures. Additionally, global climatic conditions can impact the capacity for insurance available in the market which could have a negative effect on Capstone's financial condition or risk exposure.

Arizona can be subject to periods of drought. Operations at the Pinto Valley Mine require water for normal operations. Capstone has entered into a Water Supply Agreement with BHP Copper, but such agreement is subject to water availability and BHP Copper's own requirements. A lack of necessary water for a prolonged period of time could affect operations at the Pinto Valley Mine and materially adversely affect our results of operations. Arizona can also be subject to significant rainfall events which could result in excess water or flooding of the pit, tailings storage facilities or other significant areas at the Pinto Valley Mine adversely affecting our results of operations or causing adverse impacts.

Operations at the Cozamin Mine are also subject to extreme adverse weather conditions including, but not limited to, flooding and drought. The rainy season extends from June until September with an average annual precipitation of approximately 500mm. Drought has also been prevalent in Central Mexico for years and the effects of lack of water might disrupt normal process operations.

Extreme weather conditions in Chile, including but not limited to flooding, may have adverse effects on the ability of the Santo Domingo project to advance development.

Changes in climate change regulatory regime could adversely affect our business.

Climate change is an international concern and as a result poses risk of both climate changes and government policy in which governments are introducing climate change legislation and treaties at all levels of government that could result in increased costs, and therefore, decreased profitability at some of our operations or projects. As the regulatory requirements are evolving there is uncertainty to the requirements. Mining is an energy-intensive business and can result in an increased carbon footprint. Regulation specific to greenhouse gases, emission levels and energy efficiency is becoming more stringent. Carbon-pricing mechanisms may be introduced in the jurisdictions we operate or conduct business. New legislation and increased regulation could impose costs on our operations, customers, and suppliers, including increased energy, capital equipment, environmental monitoring and reporting and other costs to comply with such regulations. The trend towards more stringent regulations and carbon-pricing mechanisms aimed at reducing the effects of climate change could impact our decision to pursue future opportunities, or maintain our existing operations, which could have an adverse effect on our business.

Our operations are subject to stringent environmental laws and regulations that could significantly limit our ability to conduct our business.

Our operations are subject to various laws and regulations governing the protection of the environment, exploration, development, production, taxes, labour standards, occupational health, waste disposal, tailings facility management, safety and other matters. Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining operations, such as spills or excessive seepage or dust from tailings storage facilities, which could result in environmental pollution. A breach of such legislation may result in the imposition of fines and penalties. In addition, certain of our operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in the direction of stricter standards and enforcement, higher fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their directors, officers and employees. Compliance with changing environmental laws and regulations may require significant capital outlays, including but not limited to revisions to tailings facility designs, obtaining additional permits, installation of additional equipment, or remedial actions and may cause material changes or delays in, or the cancellation of, our exploration programs or current operations.

Land reclamation and mine closure requirements may be burdensome and costly.

Land reclamation and mine closure requirements are generally imposed on mining companies, which require Capstone, amongst other things, to minimize the effects of land disturbance. Additionally, Capstone has lease agreements, and may enter into agreements in the future, which may require environmental restoration activities at transportation, storage and shipping facilities such as the Skagway Ore Terminal and the San Manuel Transload Facility or other properties. Further, the San Manuel Arizona Railroad Company may have increased reclamation requirements as a rail transportation company. Such requirements may include controlling the discharge of potentially dangerous effluents from a site and restoring a site's landscape to its pre-exploration form. The actual costs of reclamation and mine closure are uncertain and planned expenditures may differ from the actual expenditures required. Through acquisition activities Capstone may discover or inherit historic tailings or waste deposits which may require further remediation activities, including but not limited to the historic mining and processing operations at Chiripa-La Gloria arroyo at the Cozamin Mine. Therefore, the amount that we are required to spend could be materially higher than current estimates. Any additional amounts required to be spent on reclamation and mine closure may have a material adverse effect on our financial performance, financial position and results of operations and may cause Capstone to alter Capstone's operations. Although we include liabilities for estimated reclamation and mine closure costs in our financial statements and Life of Mine models, it may be necessary to spend more than what is projected to fund required reclamation and mine closure activities.

There are uncertainties and risks related to the potential development of the Santo Domingo Project.

The development of the Santo Domingo Project will require securing financing and equity partnerships. Capstone's ability to raise its equity contribution to the Santo Domingo Project may be influenced by future prices of commodities and the market for project debt.

Various factors may influence the ability to further enhance the value of the Santo Domingo project including but not limited to the expected timing for commencement of construction, the realization of Mineral Reserve estimates, grade or recovery rates, an increase in capital requirements or construction expenditures, the timing and terms of a power purchase agreement, title disputes, claims and limitations on insurance coverage or extreme weather events. Delays to the development of the Santo Domingo project may be influenced by factors such as dependence on key personnel, availability of contractors, accidents, labour pool constraints, labour disputes, availability of infrastructure, objections by the communities or environmental lobby of the Santo Domingo Project and associated infrastructure and other risks of the mining industry. These events could have a material adverse effect on Capstone's financial condition, business, operating results and prospects.

Any changes in the Santo Domingo Project parameters or development and construction delays may impact the timing and amount of estimated future production, costs of production, success of mining operations, environmental compliance, and reclamation requirements.

The costs, timing and complexities of developing Capstone's projects may be greater than anticipated.

Cost estimates may increase significantly as more detailed engineering work is completed on a project. It is common in mining operations to experience unexpected costs, problems and delays during construction, development and mine start-up. Accordingly, we cannot provide assurance that our activities will result in profitable mining operations at our mineral properties. If there are significant delays in when these projects are completed and are producing on a commercial and consistent scale, or their capital costs were to be significantly higher than estimates, these events could have a significant adverse effect on Capstone's results of operation, cash flow from operations and financial condition.

Mineral rights or surface rights to our properties could be challenged, and, if successful, such challenges could have a material adverse effect on our production and our business, financial condition, results of operations and prospects.

Title to Capstone's properties may be challenged or impugned. Our property interests may be subject to prior unregistered agreements or transfers and title may be affected by undetected defects. Surveys have not been carried out on the majority of our properties and, therefore, in accordance with the laws of the jurisdiction in which such properties are situated, their existence and area could be in doubt.

A claim by a third party asserting prior unregistered agreements or transfer on any of Capstone's properties, especially where Mineral Reserves have been located, could result in Capstone losing a commercially viable property. Even if a claim is unsuccessful, it may potentially affect Capstone's current operations due to the high costs of defending against the claim and its impact on Capstone's resources. Title insurance is generally not available for mineral properties and Capstone's ability to ensure that Capstone has obtained a secure claim to individual mineral properties or mining concessions may be severely constrained. We rely on title information and/or representations and warranties provided by our grantors. If we lose a commercially viable property, such a loss could lower our future revenues or cause Capstone to cease operations if the property represented all or a significant portion of our Mineral Reserves at the time of the loss.

It may be difficult for Capstone to find and hire qualified people in the mining industry who are situated in Arizona, Mexico and Chile or to obtain all of the necessary services or expertise in Arizona, Mexico and Chile or to conduct operations on Capstone's projects at reasonable rates.

If qualified people and services or expertise cannot be obtained in Arizona, Mexico and Chile, we may need to seek and obtain those services from people located outside of these areas, which will require work permits and compliance with applicable laws and could result in delays and higher costs.

We are dependent on key management personnel.

We are very dependent upon the personal efforts and commitment of our existing management and our current operations and future prospects depend on the experience and knowledge of these individuals. Capstone does not maintain any “key person” insurance. To the extent that one or more of Capstone’s members of management are unavailable for any reason, or should Capstone lose the services of any of them, a disruption to Capstone’s operations could result, and there can be no assurance that Capstone will be able to attract and retain a suitable replacement.

Our directors and officers may have interests that conflict with Capstone’s interests.

Certain of Capstone’s directors and officers also serve as directors or officers, or have significant shareholdings in, other companies that are similarly engaged in the business of acquiring, developing and exploiting natural resource properties. To the extent that such other companies may participate in ventures which Capstone may participate in, or in ventures which Capstone may seek to participate in, our directors and officers may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. In all cases where our directors and officers have an interest in other companies, such other companies may also compete with Capstone for the acquisition of mineral property investments. As a result of these conflicts of interest, we may not have an opportunity to participate in certain transactions, which may have a material adverse effect on our business, financial condition, results of operation and prospects.

Corruption and bribery risk

Capstone is required to comply with anti-corruption and anti-bribery laws of various countries including, Canada, US, Mexico and Chile. In recent years there has been an increase in enforcement and severity of penalties under such laws. A company may be found liable for violations by employees, contractors and third party agents. Capstone has implemented policies and taken measures including training to mitigate the risk of non-compliance, however, such measures are not always effective in ensuring that Capstone, its employees, contractors and third party agents comply strictly with such laws. If Capstone is found to be in violation of such laws, this may result in significant penalties, fines and/or sanctions resulting in a material adverse effect on Capstone’s reputation and financial results.

Capstone’s insurance does not cover all potential losses, liabilities and damage related to Capstone’s business and certain risks are uninsured or uninsurable.

In the course of exploration, development and production of mineral properties and in the conduct of our operations, certain risks, including but not limited to rock bursts, cave-ins, environmental incidents, fires, flooding, earthquakes and cyber-attacks may occur. It is not always possible to fully insure against such risks. Capstone currently does not have insurance against all risks and may decide to or become required to accept higher deductibles or self-insure and not to take out insurance against certain risks as a result of high premiums or for other reasons. Further, insurance against certain risks, including but not limited to those related to certain environmental matters, is generally not available to Capstone or to other companies within the mining industry. Losses from these events may cause Capstone to incur significant costs that could have a material adverse effect on Capstone’s business, financial condition, results of operation and prospects.

Our operations will be adversely affected if we fail to maintain satisfactory labour relations.

Our workforce is not unionized with the exception of approximately 371 of the hourly employees at the Pinto Valley Mine which are represented by six unions, governed by one collective bargaining agreement negotiated by the United Steelworkers Union which was renewed on May 30, 2018. Additional groups of non-union employees may seek union representation in the future. Further, relations with employees may be affected by changes in the scheme of labour relations that may be introduced by the relevant governmental authorities in jurisdictions where Capstone conducts business. Changes in such legislation or otherwise in our relationship with our employees may result in higher ongoing labour costs, employee turnover, strikes, lockouts or other work stoppages, any of which could have a material adverse effect on our business, results of operations and financial condition.

Increased energy prices could adversely affect Capstone's results of operations and financial condition.

Mining operations and facilities are intensive users of electricity and carbon-based fuels. Energy prices can be affected by numerous factors beyond our control, including global and regional supply and demand, political and economic conditions, and applicable regulatory regimes. The prices of various sources of energy may increase significantly from current levels. An increase in energy prices for which Capstone is not hedged could materially adversely affect our results of operations and financial condition.

We may not be able to compete successfully with other mining companies.

The mining industry is competitive in all of its phases. Capstone faces strong competition from other mining companies in connection with the acquisition of properties producing or capable of producing metals. Many of these companies have greater liquidity, greater access to credit and other financial resources, newer or more efficient equipment, lower cost structures, more effective risk management policies and procedures and/or a greater ability than Capstone to withstand losses. Our competitors may be able to respond more quickly to new laws or regulations or emerging technologies or devote greater resources to the expansion or efficiency of their operations than we can. In addition, current and potential competitors may make strategic acquisitions or establish cooperative relationships amongst themselves or with third parties. Accordingly, it is possible that new competitors or alliances amongst current and new competitors may emerge and gain significant market share to our detriment. Capstone may also encounter increasing competition from other mining companies in our efforts to hire experienced mining professionals. Increased competition could adversely affect Capstone's ability to attract necessary capital funding, to acquire it on acceptable terms, or to acquire suitable producing properties or prospects for mineral exploration in the future. As a result of this competition, we may not be able to compete successfully against current and future competitors, and any failure to do so could have a material adverse effect on our business, financial condition, results of operations and prospects. Further, Capstone may become a target for a corporate takeover or may decide to engage in a strategic merger. Such activities may create uncertainty among shareholders and markets and therefore influence share prices.

Capstone may experience difficulties with Capstone's joint venture partners.

Capstone currently operates the Santo Domingo Project through a joint ownership arrangement with Korea Resources Corporate (**KORES**) and may in the future enter into additional joint ownership arrangements with other partners. Capstone is subject to the risks normally associated with the conduct of joint ownership arrangements, which include disagreements with Capstone's partners on how to develop, operate and finance Capstone's joint ownership activities, including future acquisitions or the Santo Domingo Project, and possible disputes with Capstone's partners regarding joint ownership arrangement matters. These disagreements and disputes may have an adverse effect on Capstone's ability to successfully pursue joint ownership arrangements, including the development of the Santo Domingo Project, which could affect our business, financial condition, results of operation and prospects.

Capstone acquired the Pinto Valley Mine on an "as is where is" basis, provided indemnities to BHP Copper and has limited recourse against BHP Copper with respect to many potential liabilities related to the Pinto Valley Mine.

The Pinto Valley Mine was acquired on an "as is where is" basis with limited representations and warranties. In addition, Capstone has provided indemnities to BHP Copper with respect to certain liabilities and have limited recourse against BHP Copper with respect to many potential liabilities related to the Pinto Valley Mine. As a result, the acquisition of mineral properties, such as the Pinto Valley Mine, may subject Capstone to unforeseen liabilities, including environmental liabilities.

Capstone may experience cybersecurity threats

We rely on secure and adequate operations of information technology systems in the conduct of our operations. Access to and security of the information technology systems are critical to our operations. To our knowledge, we have not experienced any material losses relating to disruptions to our information technology systems. We have enhanced and implemented ongoing policies, controls and practices to manage and safeguard Capstone and our

stakeholders from internal and external cybersecurity threats and to comply with changing legal requirements and industry practice. Given that cyber risks cannot be fully mitigated and the evolving nature of these threats, we cannot assure that our information technology systems are fully protected from cybercrime or that the systems will not be inadvertently compromised or are without failures or defects. Disruptions to our information technology systems, including, without limitation, security breaches, power loss, theft, computer viruses, cyber-attacks, natural disasters, and non-compliance by third party service providers and inadequate levels of cybersecurity expertise and safeguards of third party information technology service providers, may adversely affect the operations of Capstone as well as present significant costs and risks including, without limitation, loss or disclosure of confidential, proprietary, personal or sensitive information and third party data, material adverse effect on our financial performance, compliance with our contractual obligations, compliance with applicable laws, damaged reputation, remediation costs, potential litigation, regulatory enforcement proceedings and heightened regulatory scrutiny.

Reputational risk

Capstone is subject to public scrutiny and negative publicity which may impact our public image and reputation and ultimately impact our social license to operate. Our reputation can be damaged by the actual or perceived occurrence of any number of events or societal trends.

Legal proceedings

From time to time, Capstone is involved in routine legal matters, including but not limited to, regulatory investigations, claims, lawsuits, contract disputes and other proceedings in the ordinary course of our business. There can be no assurances that these matters will not have a material effect on our business.

5 – DIVIDENDS AND DISTRIBUTIONS

We have not declared or paid any dividends or distributions on our common shares in the last three financial years and have no present intention of doing so, as we anticipate that all available funds will be invested to finance the growth of our business.

6 – DESCRIPTION OF CAPITAL STRUCTURE

6.1 General Description of Capital Structure

Capstone has an authorized capital of an unlimited number of common shares without par value, 400,045,604 of which were issued and outstanding as of March 16, 2020.

Common Shares

The holders of the common shares are entitled to receive notice of and to attend and vote at all meetings of the shareholders of Capstone and each common share confers the right to one vote in person or by proxy at all meetings of the shareholders. The holders of the common shares, subject to the prior rights, if any, of the holders of any other class of shares of Capstone, are entitled to receive such dividends in any financial year as the Board of Directors of Capstone may determine. In the event of liquidation, dissolution or winding-up of Capstone, whether voluntary or involuntary, the holders of the common shares are entitled to receive, subject to the prior rights, if any, of the holders of any other class of shares, the remaining property and assets of Capstone.

7 – MARKET FOR SECURITIES

Trading Price and Volume – Common Shares

Capstone's common shares are listed for trading on the TSX under the symbol "CS". The following table sets out the monthly price ranges and volumes of Capstone common shares on all Canadian marketplaces, during the 12 months ended December 31, 2019 and up to the date of this Annual Information Form:

Month	Volume in all Canadian marketplaces	High (C\$) on the TSX	Low (C\$) on the TSX
March 2020*	12,758,524	0.66	0.39
February 2020	17,733,466	0.75	0.59
January 2020	18,502,005	0.92	0.68
December 2019	13,551,797	0.78	0.53
November 2019	13,819,723	0.63	0.50
October 2019	6,560,095	0.59	0.49
September 2019	13,293,962	0.60	0.49
August 2019	8,200,912	0.56	0.41
July 2019	10,135,537	0.60	0.51
June 2019	7,595,646	0.62	0.51
May 2019	14,160,568	0.66	0.52
April 2019	17,487,614	0.73	0.63
March 2019	13,893,125	0.73	0.57
February 2019	16,353,276	0.71	0.54
January 2019	14,655,632	0.72	0.56

* includes data from March 1 to March 17, inclusive.
Source: Bloomberg

8 – DIRECTORS AND OFFICERS

8.1 Name and Occupation

As of the date of this AIF, the directors and executive officers of Capstone are as follows:

Name and Address	Office held with Capstone	Principal Occupation during past five years	Director Since ^[1]
George L. Brack ^{[2][4]} British Columbia, Canada	Chairman and Director	Currently the Chairman of Capstone; and a director of Wheaton Precious Metals Corp. and Alio Gold Inc.	May 19, 2009
Robert J. Gallagher ^{[3][4]} British Columbia, Canada	Director	A director of Southern Arc Minerals Inc., Japan Gold Corp. and BC Hydro (a crown corporation); former director and President & CEO of New Gold Inc.; and former director of Dynasty Gold Corp. and Yamana Gold Inc.	November 1, 2016
Peter G. Meredith ^{[2][5]} British Columbia, Canada	Director	Chartered Professional Accountant, (CPA, CA), director of Ivanhoe Mines Ltd. and chairman of Great Canadian Gaming Corporation.	April 25, 2019
Dale C. Peniuk ^{[2][5]} British Columbia, Canada	Director	Chartered Professional Accountant (CPA, CA) and corporate director; a director of Argonaut Gold Inc., Lundin Mining Corporation and Miramont Resources Corp.	May 19, 2009
Darren M. Pylot British Columbia, Canada	President and CEO and Director	President and CEO and a director of the Company; and a director of Zena Mining Corp.	October 23, 2003
SeungWan Shon ^[6] Seoul, Korea	Director	Currently, team lead of Korea Resources Corporation (KORES) Copper Metal Team. Former Manager of Geology Department of Minera y Metalurgica Boleo Copper Mine, Senior Manager of KORES Corporate Partnership business, and Senior Manager, Exploration of non-metal mineral Deposits in South Korea.	February 12, 2020
Richard N. Zimmer ^{[3][4][5]} British Columbia, Canada	Director	A director of Alexco Resource Corp. and MG Capital Corporation and chairman of Ascot Resources Ltd.	June 20, 2011

^[1] Each director is appointed for a term of one year, which expires on the date of the annual meeting of shareholders of Capstone following his or her appointment. Capstone's next annual meeting is scheduled to be held on April 29, 2020

^[2] Member of the Human Resource & Compensation Committee

^[3] Member of the Technical, Health, Environmental, Safety & Sustainability Committee

^[4] Member of the Corporate Governance & Nominating Committee

^[5] Member of the Audit Committee

^[6] Replaced Min Geol Ryu on February 12, 2020

Name and Address	Office held with Capstone	Principal Occupation during past five years
Jerrold I. Annett Ontario, Canada	Vice President, Strategy & Capital Markets	Vice President, Strategy & Capital Markets since September 2019; previously CEO of Tethyan Resources from January 2019 to September 2019; SVP Corporate Development for Arizona Mining & Titan Mining from May 2017 to January 2019. Head of Mining Equities Sales at Scotiabank from June 2008 to May 2017.
Jason P. Howe British Columbia, Canada	Senior Vice President, Corporate Development	Senior Vice President since February 2020, Vice President, Corporate Development since October 2016; previously Vice President, Business Development from March 2009 to October 2016; President & CEO of Zena Mining since 2008.
Wendy A. King British Columbia, Canada	Senior Vice President, Legal, Risk and Governance and Corporate Secretary	Senior Vice President since February 2020, Vice President, Legal, Risk and Governance since February 2014 and Corporate Secretary since March 2015; previously Senior Vice President Government Relations, General Counsel, Chief Compliance Officer and Corporate Secretary for Central 1 Credit Union from March 2012 to February 2014.
Brad J. Mercer Alberta, Canada	Senior Vice President, Operations & Exploration	Senior Vice President, Operations & Exploration since January 2019; previously Senior Vice President, Exploration from March 2013 to December 2018.
Raman S. Randhawa British Columbia, Canada	Senior Vice President & Chief Financial Officer	Senior Vice President & Chief Financial Officer since February 2020; Chief Financial Officer since January 2019; previously Vice President, Finance, Financial Planning and Analysis from April 2018 to December 2018; previously Vice President of Business Planning, Vice President Business Performance & Reporting and Vice President Finance, Operations for Goldcorp Inc., from 2013 to 2018.

Note: Paul Jones held the position of Vice President, Business Development and Investor Relations from January 2019 to September 2019.

8.2 Ownership of Securities by Directors and Officers

As at March 16, 2020, the directors and executive officers as a group beneficially owned or exercised control or direction over, directly or indirectly, an aggregate of 11,543,732 Capstone common shares, representing approximately 3% of the issued and outstanding common shares of Capstone.

8.3 Cease Trade Orders, Bankruptcies, Penalties or Sanctions

To the knowledge of Capstone, after reasonable enquiry, no director or officer of Capstone is, as at the date of this Annual Information Form, or was within 10 years before the date of this Annual Information Form, a director, chief executive officer or chief financial officer of any company (including Capstone) that:

- a. was subject to a cease trade order, an order similar to a cease trade order, or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period for more than 30 consecutive days (together, an “order”), that was issued while the director or officer was acting in the capacity as director, chief executive officer or chief financial officer; or

- b. was subject to an order that was issued after the director or officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer, except:

Mr. Peter Meredith served as a director of Ivanhoe Energy Inc. ("Ivanhoe Energy") from December 2007 to December 2014. On February 20, 2015, Ivanhoe Energy filed a Notice of Intention to Make a Proposal under subsection 50.4(1) of the *Bankruptcy and Insolvency Act (Canada)*. Cease trade orders were issued against Ivanhoe Energy in Alberta (July 15, 2015), Quebec (May 7, 2015), Manitoba (May 6, 2015), Ontario (May 4, 2015) and British Columbia (April 14, 2015) in respect of the company failing to file its audited financial statements and annual management's discussion and analysis, annual information form and certification of annual filings for the year ended December 31, 2014. The foregoing cease trade orders remain in effect. On June 2, 2015, having failed to file a proposal, Ivanhoe Energy was assigned into bankruptcy. Ivanhoe Energy dissolved on May 16, 2017.

To the knowledge of Capstone, after reasonable enquiry, no director or officer of Capstone, or a shareholder holding a sufficient number of securities of Capstone to affect materially the control of Capstone:

- a. is as at the date of this Annual Information Form, or has been within the 10 years before the date of this Annual Information Form, a director or officer of any company that, while that person was acting in that capacity, or within a year of that person was acting in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
- b. has, within the 10 years before the date of this Annual Information Form, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

To the knowledge of Capstone, after reasonable enquiry, no director or officer of Capstone, or a shareholder holding a sufficient number of securities of Capstone to affect materially the control of Capstone has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, or any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

8.4 Conflicts of Interest

Certain of our directors and officers serve or may agree to serve as directors or officers of other reporting companies, including public companies as noted in 8.1 above, or have significant shareholdings in other reporting companies and, to the extent that such other companies may participate in ventures in which we may participate, our directors may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. In the event that such a conflict of interest arises at a meeting of our directors, a director who has a conflict abstains from voting for or against the approval of such participation or such terms and such director will not participate in negotiating and concluding terms of any proposed transaction. From time to time, several companies may participate in the acquisition, exploration and development of natural resource properties thereby allowing for their participation in larger programs, permitting involvement in a greater number of programs and reducing financial exposure in respect of any one program. It may also occur that a particular company will assign all or a portion of its interest in a particular program to another of these companies due to the financial position of the company making the assignment. Under the laws of the Province of British Columbia, the directors of Capstone are required to act honestly, in good faith and in the best interests of Capstone. In determining whether or not we will participate in a particular program and the interest therein to be acquired by it, the directors will primarily consider the degree of risk to which we may be exposed and our financial position at that time. See also Risk Factors.

9 – AUDIT COMMITTEE INFORMATION

9.1 Audit Committee Terms of Reference

The full text of our Audit Committee Terms of Reference is included as Schedule “A” to this Annual Information Form.

9.2 Composition of the Audit Committee and Relevant Education and Experience

As of the date of this AIF, our Audit Committee consists of three members all of whom are independent and financially literate as defined by National Instrument 52-110 - *Audit Committees* (“**NI 52-110**”). The name, relevant education and experience of each Audit Committee member is outlined below:

Dale C. Peniuk (Chair)

Mr. Peniuk is a Chartered Professional Accountant (CPA, CA) and corporate director. In addition to Capstone, Mr. Peniuk currently serves on the board and as Audit Committee Chair of Lundin Mining Corporation, Argonaut Gold Inc. and Miramont Resources Corp. and has been on the board and chair of the audit committee of numerous other Canadian public mining companies since 2006. Mr. Peniuk obtained a B.Comm from the University of British Columbia in 1982 and his Chartered Accountant designation from the Institute of Chartered Accountants of British Columbia (now the Chartered Professional Accountants of British Columbia) in 1986, and spent more than 20 years with KPMG LLP, Chartered Accountants (now KPMG LLP, Chartered Professional Accountants) and predecessor firms, the last 10 of which as an assurance partner with a focus on mining companies.

Peter G. Meredith

Mr. Meredith is a Chartered Professional Accountant (CPA, CA) and corporate director. Mr. Meredith currently serves as chairman of the board and as a member of the audit committee of Great Canadian Gaming Corporation and has been on the board and a member of the audit committee of numerous other Canadian public mining companies. Mr. Meredith spent thirty-one years with Deloitte LLP, Chartered Professional Accountants, and retired as a partner in 1996. Mr. Meredith held the offices of Chief Financial Officer of Ivanhoe Mines Ltd. and Chief Financial Officer of Ivanhoe Capital Corporation. Mr. Meredith is a member of the Chartered Professional Accountants of British Columbia and the Chartered Professional Accountants of Ontario.

Richard N. Zimmer

Mr. Zimmer is a corporate director. Mr. Zimmer has over 40 years of experience in the mining industry and amongst other degrees and designations, he has a Master of Business Administration from the University of Saskatchewan. Mr. Zimmer has held other various executive positions with both major and junior mining companies, including being the former President and Chief Executive Officer of Far West Mining Ltd. Mr. Zimmer currently serves as the Chair of Ascot Resources Ltd. and a director of Alexco Resources Corp. and MG Capital Corporation. Mr. Zimmer has extensive experience analyzing and evaluating financial statements and an understanding of internal controls and procedures for financial reporting as both a director and senior executives of both private and public companies.

9.3 Audit Committee Oversight

At no time since the commencement of our most recently completed financial year was a recommendation of the Committee to nominate or compensate an external auditor not adopted by the Board of Directors.

9.4 Pre-Approval Policies and Procedures

The Audit Committee pre-approves all non-audit services provided by our external auditor and has established policies and procedures accordingly. When a new service is proposed by Capstone’s external auditor, management confirms with the audit engagement partner that there is no independence concern related to the

proposed service. Once it is confirmed by the audit engagement partner and the Chair of the Audit Committee that the proposed service(s) would not impair the auditor's independence, the matter is raised to the Audit Committee for approval before management proceeds with engaging the external auditor to perform the proposed service(s).

9.5 External Auditors Service Fees (By Category)

The aggregate fees billed by our external auditors in the last two fiscal years ended December 31, 2019 and 2018 are as follows:

Year Ending	Audit Fees ¹	Audit-Related Fees ²	Tax Fees ³	All Other Fees ⁴
December 31, 2019	C\$892,000	C\$nil	C\$99,000	C\$35,000
December 31, 2018	C\$912,000	C\$144,000	C\$160,000	C\$345,000

¹ This amount includes the fees billed for the audit of the annual consolidated financial statements and for the interim review of the interim condensed consolidated financial statements.

² This amount relates to the Minto Mine specified procedures and standalone audit work during 2018. These fees were pre-approved by the Audit Committee.

³ The aggregate fees billed for professional services rendered for tax compliance, tax advice and tax planning. All fees for tax compliance, tax advice and tax planning were pre-approved by the Audit Committee.

⁴ The aggregate fees billed that are not "Audit Fees", "Audit-Related Fees" or "Tax Fees". These fees in 2019 related primarily to Human Resources and Finance strategy advisory services, and the fees in 2018 related primarily to IT and Human Resources strategy advisory services. All fees for other professional services were pre-approved by the Audit Committee.

10 – LEGAL PROCEEDINGS AND REGULATORY ACTIONS

Legal Proceedings

Capstone was not subject to any material legal proceedings throughout the recently completed financial year. Capstone is, from time to time, involved in legal claims, proceedings and complaints arising in the ordinary course of business. While the outcome of these legal proceedings cannot be predicted with certainty, we believe that any adverse decision in such proceedings or complaints will not have a material adverse effect on the financial condition or operations of Capstone. The directors and management know of no contemplated or pending proceedings against anyone that might materially adversely affect our financial condition or results of operations.

Regulatory Actions

Capstone is not subject to:

- any penalties or sanctions imposed against Capstone by a court relating to securities legislation or by a securities regulatory authority during the financial year ended December 31, 2019; or
- any other penalties or sanctions imposed by a court or regulatory body against Capstone that would likely be considered important to a reasonable investor in making an investment decision; or
- settlement agreements Capstone entered into before a court relating to securities legislation or with a securities regulatory authority during the financial year ended December 31, 2019.

11 – INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Except as otherwise disclosed herein, no director, executive officer or principal shareholder of Capstone, or any associate or affiliate of the foregoing, have had any material interest, direct or indirect, in any transaction within the three most recently completed financial years or during the current financial year prior to the date of this Annual Information Form that has materially affected or will materially affect Capstone.

12 – TRANSFER AGENT AND REGISTRAR

Computershare Investor Services Inc., at 3rd Floor, 510 Burrard Street, Vancouver, British Columbia V6C 3B9, is the transfer agent and registrar of our common shares, and Computershare Investor Services Inc., at 11th Floor, 100 University Avenue, Toronto, Ontario M5J 2Y1, is the co-transfer agent and registrar.

13 – MATERIAL CONTRACTS

Material contracts, other than contracts entered into in the ordinary course of business, that were entered into by Capstone between January 1, 2019 and as of the date of this AIF, or before that time, but that are still in effect are listed below:

1. Shareholders' Agreement between the Company, KORES, Korea Chile Mining Corporation and 0908113 BC Ltd. dated June 17, 2011 with respect to the ownership of the Santo Domingo Project. This agreement governs the conduct of the business and affairs of 0908113 B.C. Ltd. and the relationship of the parties, and provides restrictions on transfer of title and ownership of shares. A copy of the Shareholders' Agreement is available on SEDAR at www.sedar.com.
2. The Third Amended and Restated Credit Agreement ("**the RCF**") between Capstone, Canadian Imperial Bank of Commerce, The Bank of Nova Scotia, Wells Fargo Bank N.A., Canadian Branch, Citibank, N.A., Canadian Branch, Bank of Montreal, Export Development Canada, National Bank of Canada, and ING Capital LLC was amended on April 19, 2017 and further amended effective July 25, 2019. The RCF was amended in 2019 as follows
 - The Bank of Nova Scotia will retire as Administrative Agent and Canadian Imperial Bank of Commerce will become the successor Administrative Agent;
 - The maturity of the RCF was extended to July 25, 2022;
 - Removal of 50 basis point increase in the pricing grid;
 - Removal of future amortizations of the credit limit on each anniversary of the facility; and
 - Rate will remain at LIBOR plus 2.75% based on current net debt to EBITDA ratio.

A copy of the RCF and the related amendments are available on SEDAR at www.sedar.com.

14 – INTERESTS OF EXPERTS

14.1 Names of Experts

Deloitte LLP, Chartered Professional Accountants ("**Deloitte**"), Capstone's independent auditors, have prepared an auditors' report dated February 11, 2020, on Capstone's annual consolidated financial statements as of and for the years ended December 31, 2019 and December 31, 2018 which have been filed on SEDAR. Deloitte have confirmed they are independent of Capstone within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of British Columbia.

The following persons or companies have prepared or certified a statement, report or valuation in this Annual Information Form, and whose profession or business gives authority to the statement, report or valuation made by the person or company: Chris Martin, CEng MIMMM, Gregg Bush, P.Eng., Jenna Hardy, P.Geo., Humberto Preciado, PhD, P.E., Kenneth Major, P.Eng., Darren Kennard, P.Eng., Tucker Jensen, P.Eng., Vivienne McLennan, P.Geo., Corolla Hoag, CPG, SME-RM, Garth Kirkham, P.Geo., FGC, Claydon Craig, P.Geo., Klaus Triebel, CPG, John Marek, PE, Tony Freiman, PE, Carlos Guzman, CMC, David W. Rennie, P.Eng., Joyce Maycock, P.Eng., Antonio Luraschi, CMC, Marcial Mendoza, CMC, Dr. Mario Bianchin, P. Geo., Roy Betinol, P.Eng., Roger Amelunxen, P. Eng., Lyn Jones, P.Eng., Michael Gingles, QP MMSA and Tom Kerr, P.Eng.

14.2 Interests of Experts

Except as listed below, none of the experts named under “Names of Experts”, when or after they prepared the statement, report or valuation, has received or holds any registered or beneficial interests, direct or indirect, in any securities or other property of Capstone or of one of Capstone’s associates or affiliates (based on information provided to us by the experts) or is expected to be elected, appointed or employed as a director, officer or employee of Capstone or of any of our associates or affiliates.

Tucker Jensen, Vivienne McLennan and Gregg Bush beneficially own, directly or indirectly, less than one percent of the outstanding common shares of the Company.

Tucker Jensen, Klaus Triebel and Claydon Craig are employees of Pinto Valley Mining Corp, Vivienne McLennan is an employee of Capstone and Gregg Bush is a consultant to Capstone (Non-Independent per NI 43-101).

15 – ADDITIONAL INFORMATION

Additional information relating to Capstone may be found on SEDAR at www.sedar.com, including financial and other information in our consolidated financial statements and management’s discussion and analysis for the year ended December 31, 2019, under “Capstone Mining Corp.”

Additional information, including directors’ and officers’ remuneration and indebtedness, principal holders of Capstone’s securities, and securities authorized for issuance under equity compensation plans is contained in Capstone’s Information Circular for our most recent annual general meeting of security holders that involved the election of directors.

SCHEDULE A

AUDIT COMMITTEE TERMS OF REFERENCE FOR THE AUDIT COMMITTEE

1. PURPOSE

The overall purpose of the Audit Committee of Capstone Mining Corp. (“Capstone”) is to assist the Board of Directors (the “Board”) in fulfilling its oversight responsibilities related to the quality and integrity of financial reporting, including ensuring fair presentation of the financial position and results of operations of Capstone in accordance with Canadian generally accepted accounting principles. The Audit Committee will also ensure that management has designed and implemented an effective system of internal financial controls and review their compliance with regulatory and statutory requirements as they relate to consolidated financial statements, taxation matters and disclosure of material facts.

2. COMPOSITION

- A. The Audit Committee shall consist of at least three members of the Board, all of whom shall be “independent directors”, as that term is defined in National Instrument 52-110, “Audit Committees”.
- B. The Board, at its organizational meeting held in conjunction with each annual general meeting of the shareholders, shall appoint the members of the Audit Committee for the ensuing year. The Board may at any time remove or replace any member of the Audit Committee and may fill any vacancy in the Audit Committee.
- C. The Board shall have appointed the chair of the Audit Committee on an annual basis.
- D. All of the members of the Audit Committee shall be “financially literate” (i.e. able to read and understand a set of financial statements that present a breadth and level of complexity of the issues that can reasonably be expected to be raised by Capstone’s consolidated financial statements).
- E. The secretary of the Audit Committee shall be designated from time to time from one of the members of the Audit Committee or, failing that, shall be the Corporate Secretary, unless otherwise determined by the Audit Committee.
- F. The quorum for meetings shall be a majority of the members of the Audit Committee, present in person or by telephone or other telecommunication device that permits all persons participating in the meeting to speak and to hear each other.

3. CORE RESPONSIBILITIES

- A. The overall duties and responsibilities of the Audit Committee shall be as follows:
 - i. To assist the Board in the discharge of its responsibilities relating to accounting principles, reporting practices and internal controls and its approval of Capstone’s annual and quarterly consolidated financial statements;
 - ii. To ensure that management has designed, implemented and is maintaining an effective system of internal financial controls;
 - iii. To assist the Board in the fulfilment of its enterprise risk management oversight specifically relating to financial risks affecting Capstone, including but not limited to the significant financial risks identified by management in Capstone’s corporate risk register and the significant financial risks disclosed in Capstone’s continuous and other public disclosure documents such as the interim and annual financial statements, the interim and annual management’s discussion and analysis, and the annual information form; and
 - iv. To report regularly to the Board in the fulfilment of its duties and responsibilities.
- B. The duties and responsibilities of the Audit Committee as they relate to the external auditors shall, in general, be to oversee the work of the external auditors engaged for the purpose of preparing or issuing an auditor’s report or performing other audit, review or attest services for Capstone, including the

resolution of disagreements between management and the external auditor regarding financial reporting. Specifically, these duties and responsibilities include the following:

- i. To recommend to the Board a firm of external auditors to be engaged by Capstone, and to consider the independence of such external auditors;
 - ii. To review and pre-approve the audit and any other services rendered by the external auditors and review the fee, scope and timing of these services;
 - iii. To review the audit plan of the external auditors prior to the commencement of the audit;
 - iv. To review with the external auditors, upon completion of their audit, the following:
 - a) content of their report to the Audit Committee;
 - b) scope and quality of the audit work performed;
 - c) adequacy of Capstone's financial and auditing personnel;
 - d) co-operation received from Capstone's personnel during the audit;
 - e) significant transactions outside of the normal business of Capstone;
 - f) significant proposed adjustments and recommendations for improving internal accounting controls, accounting principles or management systems;
 - g) any significant changes to their audit plan; and
 - h) any serious difficulties or disputes with management encountered during the audit;
 - v. To discuss with the external auditors the quality and not just the acceptability of accounting principles;
 - vi. To implement structures and procedures to ensure that the Audit Committee meets the external auditors on a regular basis in the absence of management;
 - vii. To review the performance of the external auditors, making recommendations to the auditors, to management and/or to the Board as appropriate; and
 - viii. To review and approve hiring policies for employees or former employees of the past and present external auditors.
- C. The duties and responsibilities of the Audit Committee as they relate to the internal control procedures are to:
- i. Review and approve the internal control assessment plan;
 - ii. Review any significant findings and recommendations, and management's response thereto;
 - iii. Review the appropriateness and effectiveness of the policies and business practices which impact on the financial integrity of Capstone, including those relating to internal auditing, accounting, information services and systems and financial controls, management reporting and risk management;
 - iv. Review any unresolved issues between management and the external auditors that could affect the financial reporting or internal controls;
 - v. Review all material written communications between the external auditors and management; and
 - vi. Periodically review the financial and auditing procedures and the extent to which recommendations made by the internal audit staff or by the external auditors have been implemented.
- D. The Audit Committee is also charged with the responsibility to:
- i. Review the quarterly financial statements and associated MD&A and earnings release and recommend approval to the Board with respect thereto;

- ii. Review and approve the financial sections of:
 - a) the annual report to shareholders;
 - b) the annual information form;
 - c) prospectuses and other offering documents; and
 - d) other public reports requiring approval by the Board and report to the Board with respect thereto;
- iii. Review regulatory filings and decisions as they relate to the consolidated financial statements;
- iv. Review the appropriateness of the policies and procedures used in the preparation of the consolidated financial statements and other required disclosure documents, and consider recommendations for any material change to such policies;
- v. Review and report on the integrity of the consolidated financial statements;
- vi. Review the minutes of any audit committee meetings of subsidiary companies;
- vii. Review with management, the external auditors and, if necessary, with legal counsel, any litigation, claim or other contingency, including tax assessments that could have a material effect upon the financial position or operating results and the manner in which such matters have been disclosed in the consolidated financial statements;
- viii. Review the compliance with regulatory and statutory requirements as they relate to consolidated financial statements, tax matters and disclosure of material facts;
- ix. Receive a report annually from management of all accounting firms employed, other than the principal external auditors, with such report to include the nature of the services performed and the fees charged;
- x. Develop a calendar of activities to be undertaken by the Audit Committee for each ensuing year and to submit the calendar in the appropriate format to the Board following each annual general meeting of shareholders;
- xi. Establish and periodically review procedures for:
 - a) the receipt, retention and treatment of complaints received regarding accounting, internal accounting controls, or auditing matters; and
 - b) the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters; and
- xii. Review the adequacy of the Terms of Reference annually, proposing modifications as appropriate.

4. RESPONSIBILITIES OF THE COMMITTEE CHAIR

The fundamental responsibility of the Audit Committee Chair is to be responsible for the management and effective performance of the Audit Committee and provide leadership to the Audit Committee in fulfilling its core responsibilities and any other matters delegated to it by the Board. To that end, the Audit Committee Chair's responsibilities shall include:

- A. Working with the Chairman of the Board, the Chief Financial Officer and the Corporate Secretary to establish the frequency of the Audit Committee meetings;
- B. Providing leadership to the Audit Committee and presiding over Audit Committee meetings;
- C. Facilitating the flow of information to and from the Audit Committee and fostering an environment in which Audit Committee members may ask questions and express their viewpoints;
- D. Reporting to the Board with respect to the significant activities of the Audit Committee and any recommendations of the Audit Committee;

- E. Leading the Audit Committee in annually reviewing and assessing the adequacy of its terms of reference and evaluating its effectiveness in fulfilling its terms of reference; and
- F. Taking such other steps as are reasonably required to ensure that the Audit Committee carries out its core responsibilities under its terms of reference.

5. AUTHORITY

- A. The Audit Committee shall have access to such officers and employees and to such information respecting Capstone, as it considers to be necessary or advisable in order to perform its duties and responsibilities.
- B. The external auditors shall have a direct line of communication to the Audit Committee through its Chair and may bypass management if deemed necessary. The Audit Committee, through its Chair, may contact directly any Capstone employee as it deems necessary, and any employee may bring before the Audit Committee any matter involving questionable, illegal or improper financial practices or transactions.
- C. The Audit Committee shall have authority to engage independent counsel, consultants and other advisors at the expense of Capstone, as it determines to be necessary or advisable to carry out its duties and responsibilities, including setting and authorizing the payment of the compensation for any advisors employed by the Audit Committee, and to communicate directly with the internal and external auditors.

6. ACCOUNTABILITY

- A. The Audit Committee Chair has the responsibility to make periodic reports to the Board, as requested, on financial reporting and internal financial control matters relative to Capstone.
- B. The Audit Committee shall report its discussions to the Board by maintaining minutes of its meetings and providing an oral report at the next Board meeting.

7. MEETINGS

Meetings of the Audit Committee shall be conducted as follows:

- A. The Audit Committee shall meet at least four times annually at such times and at such locations as may be requested by the Chair of the Audit Committee. The external auditors or any member of the Audit Committee may request a meeting of the Audit Committee;
- B. Notice of the time and place of every meeting of the Audit Committee shall be given in writing to each member of the Audit Committee a reasonable time before the meeting;
- C. The external auditors shall receive notice of and have the right to attend all meetings of the Audit Committee;
- D. Agendas for meetings of the Audit Committee shall be developed by the Chair of the Audit Committee in consultation with management and the Corporate Secretary, and should be circulated to Audit Committee members one week prior to Audit Committee meetings;
- E. The following management representatives shall be invited to attend all meetings, except executive sessions and private sessions with the external auditors:
 - i. Chief Executive Officer; and
 - ii. Chief Financial Officer;
- F. Other management representatives shall be invited to attend as necessary;
- G. A member of the Audit Committee may be designated as the liaison member to report on the deliberations of the Audit Committee to the Board; and
- H. All meetings shall include an in-camera session of independent directors without management present.