



**MANAGEMENT'S
DISCUSSION AND ANALYSIS
AND
CONSOLIDATED FINANCIAL
STATEMENTS**

For the Year Ended
December 31, 2018
(Expressed in US Dollars)



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MANAGEMENT'S DISCUSSION AND ANALYSIS OF CAPSTONE MINING CORP. FOR THE YEAR ENDED DECEMBER 31, 2018

Capstone Mining Corp. ("Capstone" or the "Company") has prepared the following management's discussion and analysis (the "MD&A") as of February 12, 2019 and it should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2018. All financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") and all dollar amounts presented are US dollars unless otherwise stated.

Cautionary Note Regarding Forward-Looking Information

This document 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 the Company 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 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. In this document certain forward-looking statements are identified by words including "anticipation", "guidance", "plan" and "expected". 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 and closure of mining projects, future prices of copper and other metals, compliance with financial covenants, surety bonding, our ability to raise capital, Capstone's ability to acquire properties for growth, counterparty risks associated with sales of our metals, use of financial derivative instruments and associated counterparty risks, 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, compliance with governmental regulations, compliance with environmental laws and regulations, reliance on approvals, licences and permits from governmental authorities, impact of climatic conditions on our Pinto Valley, Cozamin and Minto operations, aboriginal title claims and rights to consultation and accommodation, 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, maintaining ongoing social license to operate, 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, legal proceedings, and other risks of the mining industry as well as those factors detailed from time to time in the Company's interim and annual financial statements and MD&A of those statements, all of which are filed and available for review under the Company's profile on SEDAR at www.sedar.com. Although the Company

has 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.

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Nature of Business

Capstone, a Canadian mining company publicly listed on the Toronto Stock Exchange, is engaged in the production of and exploration for base metals centered in the Americas, with a focus on copper. Pinto Valley Mining Corp., a wholly owned US subsidiary, owns and operates the copper Pinto Valley Mine located in Arizona, US. Capstone Gold, S.A. de C.V., a wholly owned Mexican subsidiary, owns and operates the polymetallic Cozamin Mine located in Zacatecas, Mexico, and has a portfolio of exploration properties in Mexico. Minto Explorations Ltd. (“Minto”), a wholly owned Canadian subsidiary, owns the copper Minto Mine located in Yukon, Canada. The Minto mine has been classified and accounted for it as a disposal group held for sale and as a discontinued operation (see the Minto – Discontinued operation section below). Capstone Mining Chile SpA, a wholly owned Chilean subsidiary, is performing exploration for base metal deposits in Chile.

0908113 B.C. Ltd. (“Acquisition Co.”) is a 70% owned subsidiary of Capstone and 30% owned by Korea Resources Corp. (“KORES”). Through Acquisition Co.’s wholly-owned Canadian subsidiary, Far West Mining Ltd. (“Far West”), the Company is engaged in the exploration for base metals primarily in Chile. Minera Santo Domingo SCM (“Santo Domingo”), a 100% owned subsidiary of Far West, holds the Santo Domingo copper-iron project in Chile.

Minto – Discontinued Operation

In February 2018, Capstone and Pembridge Resources plc (“Pembridge”) entered into an agreement for the sale of the Minto Mine (the “Transaction”). Due to unfavorable equity market conditions, Capstone and Pembridge have elected to terminate the Transaction. To preserve Minto's value, Capstone put Minto on care and maintenance during the fourth quarter of 2018 (“Q4 2018”), while continuing to explore value maximizing alternatives, including discussions with other potentially interested parties.

Capstone continues to account for Minto as held for sale as at December 31, 2018 and as a discontinued operation for the year then ended for financial reporting purposes in accordance with IFRS 5 Non-current assets held for sale and discontinued operations (“IFRS 5”).

To comply with the disclosure requirements of IFRS 5, the presentation of the Company's results has been adjusted to exclude amounts related to Minto in certain cases. Consolidated figures have been presented as follows (unless otherwise stated):

Consolidated amounts reported	Current periods	Comparative periods
Statement of income (loss) related amounts		
Revenue and expense line items (other than net income (loss) from discontinued operations) Net income from continuing operations	Excludes Minto	Excludes Minto
Net income (loss) Net income (loss) from discontinued operations	Includes Minto	Includes Minto
Statement of cash flow related amounts		
Cash flow statement amounts	Includes Minto	Includes Minto
Balance sheet related amounts		
Assets, liabilities and equity (other than assets held for sale and liabilities directly associated with assets held for sale)	Excludes Minto	Includes Minto
Assets held for sale and liabilities directly associated with assets held for sale	Includes Minto	n/a
Other		
Production statistics Sales volumes Guidance C1 cash cost per payable pound produced ¹ All-in sustaining cost per payable pound produced ¹ Adjusted net income from continuing operations ¹ Adjusted EBITDA from continuing operations ¹	Excludes Minto	Excludes Minto
Net debt ¹ Operating cash flow before changes in working capital ¹	Includes Minto	Includes Minto

¹ These are alternative performance measures. Refer to the MD&A section entitled "Alternative Performance Measures". Certain prior period alternative performance measures have been restated to conform with current period classification.

Strategy

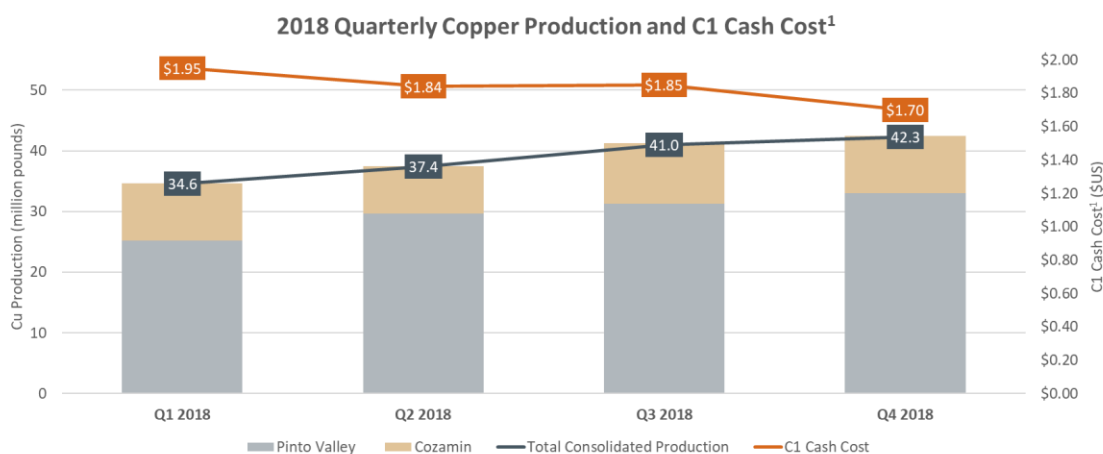
Capstone's vision is to be the best managed copper company within our peer group, delivering industry leading returns. We are focused on profitability, a growing production profile and operating in a safe and responsible manner. Our approach is to focus on operations, development projects and exploration opportunities in politically safe jurisdictions, with an emphasis on the Americas. Copper is our expertise and we believe the long-term prospects to be positive due to continued growth in demand and scarcity of new supply.

We manage our Company conservatively, blending a disciplined and measured approach to capital allocation with an entrepreneurial operating model. We lever a rigorous enterprise risk management system to manage our business and maintain a financing level which we can sustain through the low points in the commodity cycle. Throughout 2019, our intention is to continue to use excess cash to reduce the Company's debt and re-invest in high rate of return capital opportunities.

Capstone's values are simple and key to our future success: safety is non-negotiable, always accountable, execute with excellence, focus on delivering results and work responsibly. Our annual scorecard, available in our annual Management Information Circulate on our website and SEDAR, sets targets for operational performance, strategic initiatives and sustainable performance.

Highlights – Q4 2018

- **Capstone achieved 2018 guidance from continuing operations** with consolidated production of 155.2 million pounds of copper and C1 cash cost¹ of \$1.83 per pound payable produced.
- **Q4 2018 copper production from continuing operations of 42.3 million pounds and C1 cash cost¹ of \$1.70 per payable pound produced.** Q4 was the third consecutive quarterly performance improvement in 2018.



- **Operating cash flow before changes in working capital¹ of \$19.1 million.** A reduction in net debt during Q4 2018 of \$20.2 million and a \$15.0 million repayment on the Revolving Credit Facility (“RCF”) for a total of \$55.0 million in RCF repayments during 2018. Q4 2018 operating cash flow before changes in working capital¹ was impacted by lower sales volumes in Q4 2018 than Q3 2018.
- **Adjusted net income from continuing operations¹ of \$7.9 million (\$0.02 per share)** and net loss from continuing operations of \$15.2 million ((\$0.04) per share). Net loss included non-recurring restructuring charges and non-cash deferred tax asset write-downs. Refer to the Alternative Performance Measures section for details.
- **Cozamin reserves increased by ~90% and targeting 30% increase in production by end of 2020.**
- **Positive technical report with strong economics released for Santo Domingo and strategic process launched:**
 - NPV (after-tax) of \$1.0 billion and IRR of 22%.

¹ These are alternative performance measures. Refer to the MD&A section entitled “Alternative Performance Measures”. Certain prior period alternative performance measures have been restated to conform with current period classification.

- Robust, permitted copper-iron oxide-gold project; shovel-ready by early-2020.
- Strategic process launched to optimize the ownership structure to align with Capstone's financing capabilities and maximize the value of the project for Capstone's shareholders.
- **Minto mine placed on temporary care and maintenance** to preserve value while the Company continues to run a strategic sale process.

Operational Overview

	Q4 2018	Q4 2017	2018	2017
Copper Production (million pounds)				
Pinto Valley	33.0	35.6	119.0	126.4
Cozamin	9.3	9.4	36.2	36.9
Total from continuing operations	42.3	45.0	155.2	163.3
C1 Cash Cost¹ (\$/lb) Produced				
Pinto Valley	1.97	1.79	2.16	1.95
Cozamin	0.75	1.04	0.75	1.16
Consolidated from continuing operations	1.70	1.63	1.83	1.77

Consolidated copper production from continuing operations of 155.2 million pounds and C1 cash cost¹ of \$1.83 per pound produced for 2018 was in line with guidance.

Pinto Valley Mine:

Pinto Valley's Q4 2018 production increased from the third quarter on planned higher throughput. Throughput improved due to increased stabilization of operations and reliability improvements in the crushing and milling circuits. Average grade of 0.34% during the quarter was in accordance with the mine plan.

Cozamin Mine:

At Cozamin, Q4 2018 copper production increased from the third quarter on higher throughput of 3,030 tonnes per day. Production from the San Rafael zinc zone ramped up to planned levels during Q3 2018, resulting in the highest quarterly zinc production in Q4 2018. Zinc production in 2018 totaled 15 million pounds.

¹ These are alternative performance measures. Refer to the MD&A section entitled "Alternative Performance Measures". Certain prior period alternative performance measures have been restated to conform with current period classification.

Financial Overview

	Q4 2018	Q4 2017	2018	2017	2016
Revenue from continuing operations ² (\$ millions)	98.0	126.5	415.9	430.4	374.6
Net (loss) income from continuing operations (\$ millions)	(15.2)	37.4	7.4	44.6	(223.9)
Net (loss) income from continuing operations attributable to shareholders (\$ millions)	(15.1)	37.5	8.3	44.7	(166.6)
<i>Net (loss) income from continuing operations attributable to shareholders per common share – basic and diluted (\$)</i>	<i>(0.04)</i>	<i>0.10</i>	<i>0.02</i>	<i>0.12</i>	<i>(0.43)</i>
Adjusted net income (loss) from continuing operations ¹ (\$ millions)	7.9	11.2	31.5	(3.3)	(0.5)
Adjusted net income from continuing operations attributable to shareholders ¹ (\$ millions)	8.0	11.3	32.4	(3.2)	0.1
<i>Adjusted net income (loss) from continuing operations attributable to shareholders per common share¹ – basic and diluted (\$)</i>	<i>0.02</i>	<i>0.03</i>	<i>0.08</i>	<i>(0.01)</i>	<i>(0.00)</i>
Net income (loss) (\$ millions)	(39.0)	29.5	(23.6)	55.1	(197.4)
Net income (loss) attributable to shareholders (\$ millions)	(38.9)	29.6	(22.7)	55.2	(140.0)
<i>Net income (loss) attributable to shareholders per common share – basic and diluted (\$)</i>	<i>(0.10)</i>	<i>0.08</i>	<i>(0.06)</i>	<i>0.14</i>	<i>(0.37)</i>
Adjusted EBITDA ¹ from continuing operations (\$ millions)	31.2	38.7	126.5	94.9	89.4
Cash flow from operating activities ² (\$ millions)	54.2	44.8	131.1	112.5	125.3
<i>Cash flow from operating activities per common share^{1,2} - basic (\$)</i>	<i>0.14</i>	<i>0.12</i>	<i>0.34</i>	<i>0.29</i>	<i>0.33</i>
Operating cash flow before changes in working capital ^{1,2} (\$ millions)	19.1	38.2	100.4	129.7	156.9
<i>Operating cash flow before changes in working capital per common share^{1,2} – basic (\$)</i>	<i>0.05</i>	<i>0.10</i>	<i>0.26</i>	<i>0.34</i>	<i>0.41</i>
Total assets (\$ millions)	1,336.1	1,400.5	1,336.1	1,400.5	1,395.0
Long term debt (excluding financing fees) (\$ millions)	219.9	274.9	219.9	274.9	328.9
Total non-current financial liabilities (\$ millions)	217.0	270.7	217.0	270.7	324.9
Net debt ¹ (\$ millions)	150.1	158.7	150.1	158.7	198.6

² In accordance with IFRS 5, Minto's results are excluded from revenue but included within cash flow amounts in both the current and comparative period.

Streamlined Management Structure

During Q4 2018, the Company streamlined its organizational structure, including reductions to its senior executive team. This is designed to improve financial and operating performance by further empowering mine general managers and their teams to deliver profitable, safe and sustainable production within their respective business units. Capstone eliminated 35% of positions from its head office in Vancouver and expects to reduce annual corporate expenses by approximately \$5 million per year.

¹ These are alternative performance measures. Refer to the MD&A section entitled "Alternative Performance Measures". Certain prior period alternative performance measures have been restated to conform with current period classification.

Selected Quarterly Financial Information

(\$ millions, except per share data)	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017*	Q2 2017	Q1 2017
Revenue	98.0	112.7	101.5	103.7	126.5	118.0	88.0	97.9
Earnings from mining operations	16.7	14.4	25.5	21.8	43.0	29.8	17.1	16.6
Net income (loss) from continuing operations attributable to shareholders	(15.1)	4.3	8.5	10.5	37.4	8.9	11.5	(13.3)
Income (loss) from continuing operations attributable to shareholders per share - basic and diluted	(0.04)	0.01	0.02	0.02	0.10	0.02	0.03	(0.03)
Net income (loss) attributable to shareholders	(39.0)	1.5	7.7	7.0	29.5	20.3	12.9	(7.5)
Net income (loss) per share attributable to shareholders - basic and diluted	(0.10)	0.00	0.02	0.02	0.08	0.05	0.03	(0.02)
Operating cashflow before changes in non-cash working capital ¹	19.1	25.9	30.7	24.6	38.2	41.4	26.0	24.2
Capital expenditures (including capitalized stripping)	29.1	23.8	27.7	24.3	24.1	16.5	20.6	15.1

*The net income attributable to shareholders in Q3 2017 included an impairment reversal of \$20.6 million related to Minto mineral property, plant and equipment.

Revenue and earnings from mining operations above excludes the results of Minto.

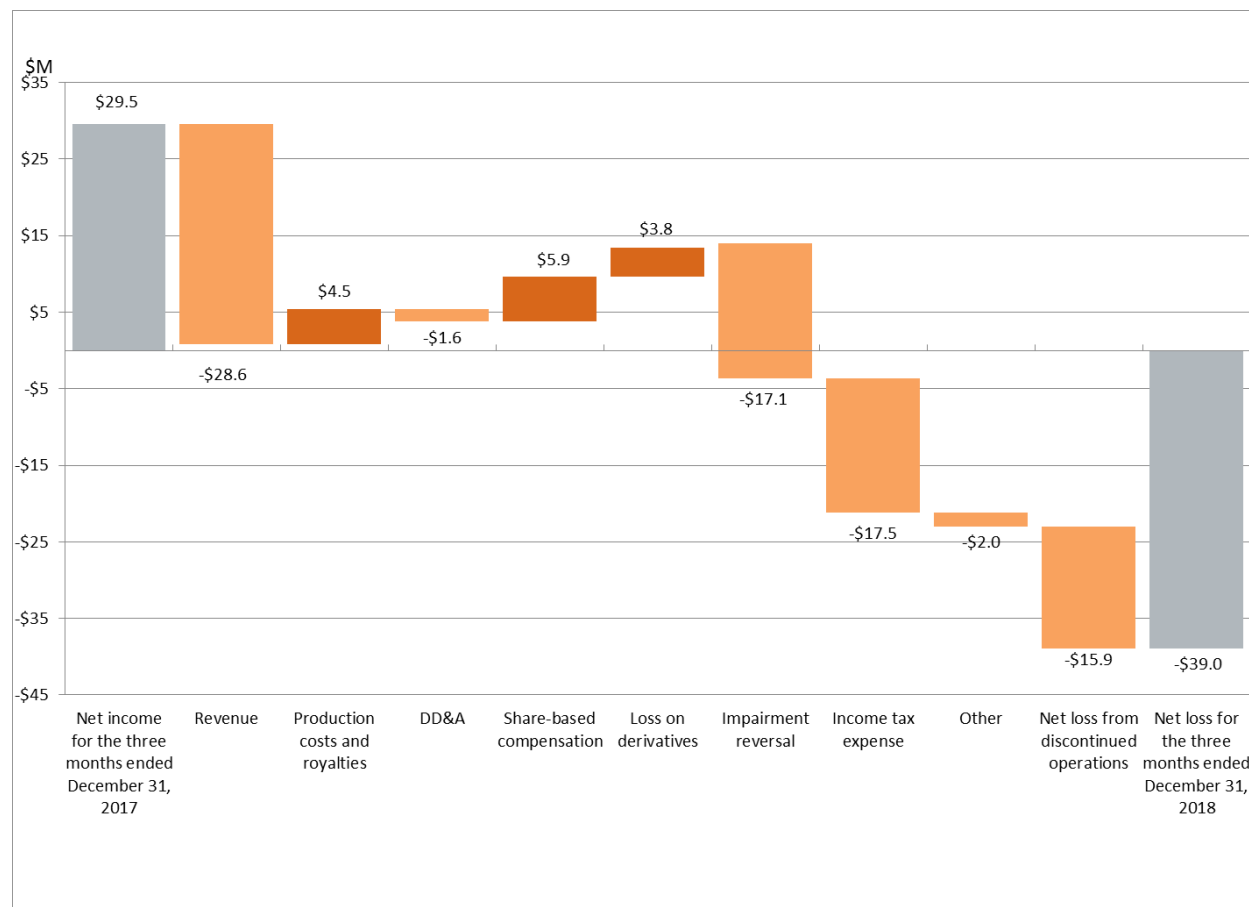
Effective January 1, 2018, the Company has adopted IFRS 15 *Revenue from contracts with customers* ("IFRS 15") using the modified retrospective method which applies the standard retrospectively to only the most current period presented and as such, figures above related to 2017 have not been restated to conform to IFRS 15. Refer to the Accounting Changes section of this MD&A for more information.

Consolidated Results

Consolidated Net Income (Loss) Analysis

Net Income (Loss) for the Quarters Ended December 31, 2018 and 2017

The Company recorded a net loss of \$39.0 million in Q4 2018 compared with net income of \$29.5 million in Q4 2017. The major differences are outlined below:



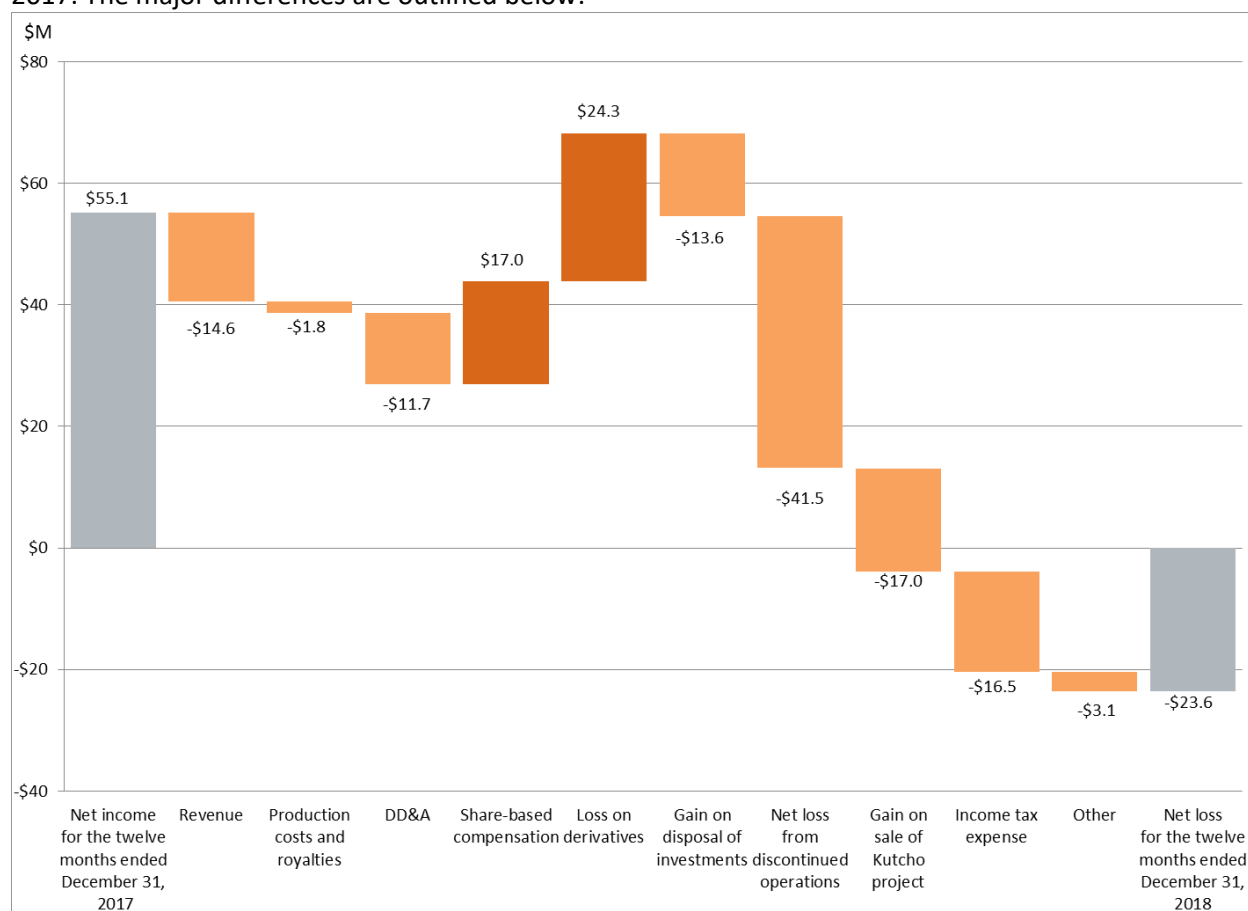
The difference quarter-over-quarter was driven by:

- Decrease in revenue from continuing operations of \$28.6 million, resulted from a decrease in Pinto Valley’s revenue of \$29.6 million offset by an increase in Cozamin’s revenue of \$1.0 million. Lower realized copper prices of \$2.66 per pound compared to \$3.18 per pound in 2017 as well as lower volumes of copper sold (35.1 million pounds vs. 40.9 million pounds).
 - The decrease in Pinto Valley’s revenue was driven by lower realized copper prices (\$2.65 vs. \$3.21) and lower sales volume (26.4 million pounds vs. 32.3 million pounds). Q4 2018 was impacted by sales cutoff as not all production was shipped by year resulting in inventory buildup.
 - The increase in Cozamin’s revenue was driven by higher by-product credits and lower treatment and selling costs, partially offset by lower copper prices.
- Decrease in production costs of \$3.6 million, primarily due to:
 - Pinto Valley’s production costs decreased by \$6.3 million, primarily due to the fewer tonnes sold; and
 - Cozamin’s production costs increased by \$2.7 million, primarily due to the increase to unit production costs from higher power costs.
- Increase in depletion and amortization of \$1.6 million, primarily due to a larger depletable mineral property, plant and equipment balance at Cozamin in 2018;

- Increase in share-based compensation recovery of \$5.9 million. The recovery is driven primarily by decreases in Capstone’s share price and the corresponding impact on the fair value of the deferred share units (“DSU’s), restricted share units (“RSU’s), performance share units (“PSU’s);
- Decrease in commodity derivative loss in 2018 of \$3.8 million. All outstanding commodity derivatives contracts expired in 2017;
- No impairment reversal in 2018;
- Increase in income taxes of \$17.5 million. Q4 2018 included a deferred income tax expense of \$17.8 million, primarily associated with the non-cash write-down of a deferred tax assets associated with reclamation liabilities for \$20.2 million;
- Increase in net loss from discontinued operations of \$15.9 million. Net loss from Minto was higher than Q4 2017 primarily due to restructuring costs and care and maintenance costs starting November 1, 2018 in addition to lower sales volume (8.1 million pounds vs. 8.8 million pounds) and a lower realized copper price (\$2.70 vs. \$3.11). Restructuring costs in 2018 include \$6.1 million for supplies inventory write down (non-cash) and \$4.1 million for ore stockpile write down (non-cash). Minto also recorded \$5.8 million related to the non-cash write down of an embedded derivative.

Net Income (Loss) for the Years Ended December 31, 2018 and 2017

The Company recorded a net loss of \$23.6 million in 2018 compared with net income of \$55.1 million in 2017. The major differences are outlined below:



The difference year-over-year was driven by:

- Decrease in revenue from continuing operations of \$14.6 million resulted from a decrease in Pinto Valley’s revenue of \$27.3 million offset by an increase at Cozamin’s of \$12.7 million. Lower revenue was the result of lower volume of copper sold (143.5 million pounds vs. 154.6 million pounds).
 - The decrease in Pinto Valley’s revenue was driven by lower realized copper prices (\$2.86 vs. \$2.91) and lower sales volume (109.7 million pounds vs. 119.5 million pounds).

¹ These are alternative performance measures. Refer to the MD&A section entitled “Alternative Performance Measures”. Certain prior period alternative performance measures have been restated to conform with current period classification.

- The increase in Cozamin’s revenue was primarily driven by higher by-product credits and higher realized copper prices (\$2.89 vs. \$2.79), partially offset by lower sales volume (33.8 million pounds vs. 35.1 million pounds);
- Increase in production costs of \$1.8 million relate primarily to Cozamin due to higher power costs and a larger number of development meters. Royalties remained consistent year-over-year;
- Increase in depletion and amortization of \$11.7 million, primarily due to a larger depletable mineral property, plant and equipment balance in Cozamin in 2018;
- Increase in share-based compensation recovery of \$17.0 million. The recovery is driven primarily by changes in Capstone’s share price and the corresponding impact on the fair value of the DSUs, RSUs, and PSUs;
- Decrease in commodity derivative loss of \$24.3 million. All outstanding commodity derivatives contracts expired in 2017;
- No gain or loss on disposal of investments (2017 – \$13.6 million);
- Decreased net income from discontinued operations of \$41.5 million. Net loss from Minto was higher than 2017 primarily due to lower sales volume (24.5 million pounds vs. 39.2 million pounds) partially offset by higher realized copper price (\$2.91 vs. \$2.77). In addition, there were non-cash write-off of supplies and stockpile inventory of \$10.1 million as well as restructuring costs and care and maintenance expenses starting in Q4’18,
- No gain on sale on Kutcho project in 2018;
- Increased income taxes of \$16.5 million, 2018 included a deferred income tax expense of \$20.2 million, primarily associated with write-down of a deferred tax asset.
- Other includes Corporate restructuring costs of \$2.6 million (2017 – nil). 2018 General and administrative expenses included \$0.8 million in non-recurring expenses

¹ These are alternative performance measures. Refer to the MD&A section entitled “Alternative Performance Measures”. Certain prior period alternative performance measures have been restated to conform with current period classification.

Revenue from Continuing Operations

Revenue decreased from Q4'17 to Q4'18 due to lower realized copper prices (\$2.66 per pound vs. \$3.18 per pound) and lower volumes sold (35.1 million vs 40.9 million), despite higher gross revenue from by-product sales (\$13.2 million vs \$8.0 million) and lower treatment, refining and selling costs (\$8.7 million vs \$11.8 million).

Revenue decreased year-over-year due to lower volumes sold (143.5 million vs 154.6 million) and negative provisional adjustments (\$7.7 million vs \$2.0 million), despite higher realized copper prices (\$2.87 per pound vs. \$2.79 per pound), higher gross revenue from by-product sales by \$9.6 million and lower treatment, refining and selling costs by \$11.0 million.

Realized Copper Prices

	2018				2017			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Pinto Valley	\$ 2.65	\$ 2.72	\$ 3.15	\$ 2.96	\$ 3.21	\$ 3.01	\$ 2.59	\$ 2.77
Cozamin	\$ 2.69	\$ 2.72	\$ 3.12	\$ 3.09	\$ 3.09	\$ 2.88	\$ 2.57	\$ 2.62
Total	\$ 2.66	\$ 2.72	\$ 3.15	\$ 2.98	\$ 3.18	\$ 2.98	\$ 2.58	\$ 2.73
LME Average	\$ 2.80	\$ 2.77	\$ 3.12	\$ 3.16	\$ 3.09	\$ 2.88	\$ 2.57	\$ 2.64
LME Close	\$ 2.71	\$ 2.80	\$ 3.01	\$ 3.03	\$ 3.25	\$ 2.94	\$ 2.68	\$ 2.65

Pinto Valley's realized price in the first quarter of 2018 was reduced by negative price adjustments on shipments made but not finalized at December 31, 2017.

Revenue by Mine

	Q4 2018 ²		Q4 2017 ²		2018 ²		2017 ²	
	\$ millions	%	\$ millions	%	\$ millions	%	\$ millions	%
Pinto Valley	66.8	68.2%	96.3	76.1%	294.7	70.9%	322.0	74.8%
Cozamin	31.2	31.8%	30.2	23.9%	121.2	29.1%	108.4	25.2%
Total revenue from continuing operations	98.0	100%	126.5	100%	415.9	100%	430.4	100%

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

Gross Revenue by Metal

	Q4 2018 ²		Q4 2017 ²		Change \$ millions	2018 ²		2017 ²		Change \$ millions
	\$ millions	%	\$ millions	%		\$ millions	%	\$ millions	%	
Copper	93.5	87.6%	130.3	94.1%	(36.8)	411.2	91.1%	445.8	93.6%	(34.6)
Zinc	4.7	4.4%	3.2	2.3%	1.5	13.8	3.0%	10.6	2.2%	3.2
Lead	1.0	0.9%	-	0.0%	1.0	2.3	0.5%	0.2	0.0%	2.1
Molybdenum	0.8	0.8%	-	0.0%	0.8	2.5	0.5%	0.1	0.0%	2.4
Silver ³	5.2	4.9%	4.8	3.5%	0.4	19.3	4.3%	16.7	3.5%	2.6
Gold ³	1.5	1.4%	0.1	0.1%	1.4	2.2	0.5%	3.0	0.6%	(0.8)
Total gross revenue from continuing operations ^{4,5}	106.7	100%	138.4	100%	(31.7)	451.3	100%	476.4	100%	(25.1)

² The current and subsequent periods may include final settlement quantity and/or price adjustments from prior shipments.

³ Gold and silver revenue include non-cash amounts for deferred revenue amortization related to the precious metal stream sales.

⁴ Treatment and selling costs of \$8.7 million (Q4 2017 - \$11.8 million) are deducted from gross revenue of \$106.7 million (Q4 2017 - \$138.4 million) resulting in reported revenue of \$98.0 million (Q4 2017 - \$126.5 million) as per the Consolidated Statement of Income (Loss).

⁵ Treatment and selling costs of \$35.4 million (2017 - \$45.9 million) are deducted from gross revenue of \$451.3 million (2017 - \$476.4 million) resulting in reported revenue of \$415.9 million (2017 - \$430.4 million) as per the Consolidated Statements of Income (Loss).

Provisionally Priced Copper

Gross revenue for the twelve-month period ended December 31, 2018 included 45.0 million pounds of copper sold subject to final settlement. Of this, the prices for 2.5 million pounds are final at a weighted average price of \$2.82 per pound. The remaining 42.5 million pounds are subject to price change upon final settlement at the end of the applicable quotational period, as follows:

Quotational Period	Millions of Pounds of Copper			Provisional Price (\$/pound)
	Pinto Valley	Cozamin	Total	
Jan-19	25.3	3.0	28.3	\$2.70
Feb-19	2.9	2.9	5.8	\$2.71
Mar-19	2.9	2.9	5.8	\$2.71
Apr-19	2.6	-	2.6	\$2.71
TOTAL	33.7	8.8	42.5	

Reconciliation of Realized Copper Price

The analysis of realized copper price in the table below excludes the results of Minto.

	Q4 2018 \$ millions	Q4 2017 \$ millions	2018 \$ millions	2017 \$ millions
Gross copper revenue on new shipments	95.6	129.2	418.9	443.9
Provisional adjustments on prior shipments	(2.1)	1.1	(7.7)	2.0
Gross copper revenue	93.5	130.3	411.2	445.9
Plus: gross revenue from other metals	13.2	8.0	40.1	30.5
Less: treatment and selling costs	(8.7)	(11.8)	(35.4)	(45.9)
Revenue	98.0	126.5	415.9	430.5
Payable copper sold (000s pounds)	35,146	40,947	143,528	154,609
	\$/lb	\$/lb	\$/lb	\$/lb
Gross copper revenue on new shipments	\$ 2.72	\$ 3.16	\$ 2.92	\$ 2.87
Provisional adjustments on prior shipments	(0.06)	0.03	(0.05)	0.01
Foreign currency translation	-	-	-	-
Realized copper price	\$ 2.66	\$ 3.19	\$ 2.87	\$ 2.88
Adjustment for realized gain (loss) on zero cost collar contracts	-	-	-	(0.20)
Adjusted realized copper price	\$ 2.66	\$ 3.19	\$ 2.87	\$ 2.68
LME average copper price	\$ 2.80	\$ 3.09	\$ 2.96	\$ 2.80

¹ These are alternative performance measures. Refer to the MD&A section entitled "Alternative Performance Measures". Certain prior period alternative performance measures have been restated to conform with current period classification.

Consolidated Cash Flow Analysis

\$ millions	Q4 2018	Q4 2017	2018	2017
Cash flow from operating activities before change in working capital ¹				
Pinto Valley	17.6	41.0	80.0	108.1
Cozamin	12.9	15.7	57.3	47.2
Minto	(8.0)	(19.6)	(15.4)	4.8
Other	(3.2)	1.0	(21.3)	(30.3)
<i>Subtotal cash flow from operating activities before change in working capital¹</i>	<i>19.1</i>	<i>38.2</i>	<i>100.4</i>	<i>129.7</i>
Changes in working capital	35.1	6.6	30.7	(17.2)
Total cash flows from operating activities	54.2	44.8	131.1	112.5
Capital expenditures	(25.5)	(12.9)	(69.6)	(42.6)
Capitalized stripping	(3.8)	(7.4)	(27.2)	(31.8)
Sale of Kutcho Project	-	22.9	-	22.9
Purchase of short-term investments	(23.3)	(1.6)	(35.9)	(1.6)
Sale of shares in marketable securities	-	-	-	17.2
Other investing cash flows	0.1	-	0.1	1.9
Repayment of debt	(15.0)	(24.0)	(55.0)	(54.0)
Payments for settlement of derivatives	-	(13.8)	(4.9)	(21.7)
Other financing cash flows	(3.5)	(5.2)	(18.7)	(19.8)
Effect of FX rates on cash	(1.3)	(0.8)	(2.2)	2.8
Net change in cash	(18.1)	2.0	(82.3)	(14.2)
Opening cash	52.0	114.2	116.2	130.4
Closing cash (including cash held by discontinued operations. 2018 - \$3.8 million, 2017 – nil)	33.9	116.2	33.9	116.2

Changes in Cash Flows for the Three Months Ended December 31, 2018 and 2017

The net change in cash was \$(18.1) million in Q4 2018 compared to \$2.0 million in Q4 2017. The change was primarily due to:

- The RCF repayment of \$15.0 million in Q4 2018;
- Decrease in cash flow from operating activities, primarily due to lower sales volumes at reduced realized copper price (\$2.65 vs. \$3.21) at Pinto Valley and an increase in changes in non-cash working capital, impacted primarily by the reduction in inventory held at Minto due to placing the mine on care and maintenance in Q4 2018;
- Decrease in cash from the purchase short term investments short-term in bankruptcy remote, AAA rated treasury market funds and exchange traded funds which are not considered cash equivalents for reporting purposes. Management's treatment and use of these investments is analogous to cash given their highly liquid nature;
- Decrease in cash from higher capital spending at Pinto Valley for deferred stripping and sustaining capital related to planned mining equipment component replacements; and
- Absence of cash outflow on payments for settlement of derivatives in Q4 2018.

¹ These are alternative performance measures. Refer to the MD&A section entitled "Alternative Performance Measures". Certain prior period alternative performance measures have been restated to conform with current period classification.

Changes in Cash Flows for the Years Ended December 31, 2018 and 2017

The net change in cash was \$(82.3) million in 2018 compared to \$(14.2) million in 2017. The change was primarily due to:

- Increased purchases of short term investments of \$34.3 million;
- Decrease in cash inflow from operating activities at Pinto Valley due to lower volumes and realized price of copper at Pinto Valley;
- Increase in cash inflow from operating activities at Cozamin due to higher by-product credits from zinc sales and lower treatment and selling costs at Cozamin;
- Decrease in cash flow relating to Minto as result lower to lower volumes sold (2018 - 24.5 million pounds v. 2017 - 39.2 million pounds) and realized price of copper in addition to care & maintenance expenditure in Q4'18;
- Absence of payment on settlement of forward contracts in 2018 (included in Other); offset by the absence of proceeds on disposal of investments of \$17.2 million; offset by
- Higher RCF repayments in 2018 compared to 2017; and
- Increased planned sustaining capital expenditures.

Consolidated Production from Continuing Operations (Contained Metal) - Overview

	2018					2017				
	Total	Q4	Q3	Q2	Q1	Total	Q4	Q3	Q2	Q1
Copper (000's pounds) ²										
Pinto Valley	119,067	32,990	31,312	29,586	25,179	126,395	35,628	31,706	34,150	24,912
Cozamin	36,155	9,359	9,591	7,758	9,447	36,888	9,378	9,352	9,052	9,105
Total	155,222	42,349	40,903	37,344	34,626	163,282	45,006	41,058	43,202	34,017
Zinc (000's pounds)										
Cozamin	14,900	5,225	4,510	3,412	1,753	9,330	2,238	2,586	1,733	2,773
Lead (000's pounds)										
Cozamin	3,150	1,457	968	679	46	110	2	26	40	42
Molybdenum (000's pounds)										
Pinto Valley	181	40	35	42	64	71	55	-	15	-
Gold (ounces)										
Pinto Valley ³	1,717	1,170	(28)	401	174	3,687	188	79	620	2,800
Cozamin	68	68	-	-	-	-	-	-	-	-
Silver (000s ounces)										
Cozamin	1,165	339	322	253	250	1,001	263	242	234	262
Pinto Valley ⁴	324	95	82	77	70	316	89	79	93	55
Total	1,489	434	404	330	320	1,317	352	321	327	317

² Adjustments based on final settlements will be made in future periods

³ Pinto Valley gold production reaches payable levels from time to time. Any payable gold production will be reported in the period revenue is received.

⁴ Silver is not assayed on site, resulting in a significant lag time in receiving this data. As such, this figure is an estimate.

Results and Outlook by Mine/Project Site

Pinto Valley Mine – Miami, Arizona (Copper)

Operating Statistics

	2018					2017				
	Total	Q4	Q3	Q2	Q1	Total	Q4	Q3	Q2	Q1
Production (contained metal and cathode) ²										
Copper (000's pounds)	119,067	32,990	31,312	29,586	25,179	126,393	35,627	31,705	34,150	24,912
Molybdenum (Mo) (000's pounds)	181	40	35	42	64	70	55	-	14	-
Silver (000s ounces) ³	324	95	82	77	70	316	89	79	93	55
Gold (ounces) ⁴	1,717	1,170	(28)	401	174	3,687	188	79	620	2,800
Mining										
Waste (000s tonnes)	27,687	8,041	6,042	6,815	6,789	26,165	6,556	6,465	6,792	6,352
Ore (000s tonnes)	19,290	4,907	4,755	4,562	5,066	20,605	5,347	5,210	5,611	4,437
Total (000s tonnes)	46,977	12,948	10,797	11,377	11,855	46,770	11,903	11,675	12,403	10,789
Milling										
Milled (000s tonnes)	19,246	5,026	4,758	4,628	4,834	19,655	5,165	4,974	5,339	4,177
Tonnes per day	52,728	54,627	51,715	50,856	53,716	53,849	56,140	54,068	58,667	46,412
Copper grade (%)	0.32	0.34	0.34	0.33	0.27	0.32	0.32	0.31	0.33	0.31
Molybdenum grade (%)	0.01	0.01	0.01	0.01	0.01	0.01	0.01	-	0.01	-
Recoveries										
Copper (%)	84.6	84.3	84.8	86.2	83.1	89.2	95.1	91.0	86.1	83.8
Concentrate Production										
Copper (dmt)	201,747	58,813	51,206	47,881	43,847	196,583	55,204	49,406	53,697	38,276
Copper (%)	26.0	24.8	27.1	27.3	25.0	28.2	28.4	28.1	27.9	28.3
Molybdenum (dmt)	148	20	32	38	58	64	50	7	7	-
Site operating costs ^{1,5} (\$/t milled)	\$10.22	\$9.59	\$10.89	\$10.65	\$9.78	\$9.67	\$9.27	\$9.92	\$8.74	\$10.85
Payable copper produced (000's pound)	115,018	31,866	30,241	28,579	24,332	122,117	34,416	30,632	32,994	24,075
Copper C1 cash cost ¹ (\$/lb payable copper produced)	\$2.16	\$1.97	\$2.15	\$2.15	\$2.41	\$1.95	\$1.79	\$2.06	\$1.84	\$2.18
All-in sustaining cost ¹ (\$/lb payable copper produced)	\$2.70	\$2.52	\$2.61	\$2.79	\$2.96	\$2.33	\$2.17	\$2.37	\$2.16	\$2.76
Adjusted EBITDA ¹ (\$ millions)	\$80.8	\$17.7	\$20.1	\$25.2	\$17.8	\$ 106.5	\$ 41.3	\$ 29.7	\$ 18.9	\$ 16.6

² Adjustments based on final settlements will be made in future quarters.

³ Gold and silver are not assayed on site, resulting in a significant lag time in receiving this data. As such, this figure is an estimate

⁴ Pinto Valley gold production reaches payable levels from time to time. Any payable gold production will be reported in the period revenue is received.

⁵ Site operating costs is cash production costs of metal produced (excluding cathode production costs) ¹

Operational and C1 Cash Cost¹ Update

At Pinto Valley, production increased in the fourth quarter compared to the third quarter as result of higher throughput. As a result of improvements in the maintenance program the mill operated at 54,627 tonnes per day at average copper grade of 0.34%.

Copper production for Q4 2018 was lower than Q4 2017, due to lower recoveries and lower mill throughput, partially offset by higher grades.

Copper production for 2018 was lower than 2017, primarily due to lower recoveries and lower throughput. Throughput in 2018 was lower than 2017 primarily due to the higher downtime in 2018, primarily in experienced in Q2 2018 and Q3 2018.

Pinto Valley's C1 cash cost¹ per payable pound produced in Q4 2018 and 2018 increased from Q4 2017 and 2017 primarily due to lower production, higher diesel costs in Q4 2018 and higher processing plant maintenance costs.

Investing Activities

Sustaining capital in Q4 2018 focused primarily on planned mining equipment component replacements and mine infrastructure. Sustaining capital in 2018 was focused primarily on planned mining equipment component replacements, mine infrastructure and included the purchase of an additional haul truck.

Total capital spending for 2018, excluding \$6.3 million of non-cash depreciation allocated to capitalized stripping of \$60.9 million, represents 90% of 2018 forecast capital expenditures of \$68.0 million.

(\$ millions)	Q4 2018		Q4 2017		2018		2017	
Deferred stripping - cash	\$	8.1	\$	6.0	\$	27.2	\$	25.9
Deferred stripping - non cash		1.9		1.4		6.3		5.9
Deferred stripping as reported in the financials	\$	10.0	\$	7.4	\$	33.5	\$	31.8
Sustaining capital		8.8		6.0		33.7		19.1
Total	\$	18.8	\$	13.4	\$	67.2	\$	50.9

¹ These are alternative performance measures. Refer to the MD&A section entitled "Alternative Performance Measures". Certain prior period alternative performance measures have been restated to conform with current period classification.

Cozamin Mine – Zacatecas, Mexico (Polymetallic)

Operating Statistics

	2018					2017				
	Total	Q4	Q3	Q2	Q1	Total	Q4	Q3	Q2	Q1
Production (contained metal) ²										
Copper (000's pounds)	36,155	9,359	9,591	7,758	9,447	36,888	9,378	9,352	9,052	9,105
Zinc (000's pounds)	14,900	5,225	4,510	3,412	1,753	9,330	2,238	2,586	1,733	2,773
Lead (000's pounds)	3,150	1,457	968	679	46	109	2	26	39	42
Silver (000s ounces)	1,164	340	321	253	250	1,001	263	242	234	262
Gold (ounces)	68	68	-	-	-	-	-	-	-	-
Mining										
Ore (000s tonnes)	989	280	266	228	215	912	220	224	231	237
Milling										
Milled (000s tonnes)	986	279	270	224	213	912	224	223	231	234
Tonnes per day	2,702	3,030	2,939	2,464	2,366	2,499	2,430	2,429	2,536	2,602
Copper grade (%) ³	1.75	1.61	1.70	1.66	2.09	1.91	1.98	1.98	1.85	1.84
Zinc grade (%) ³	1.04	1.29	1.13	1.04	0.62	0.71	0.71	0.80	0.55	0.78
Lead grade (%) ³	0.28	0.41	0.32	0.29	0.08	0.07	0.06	0.08	0.07	0.07
Silver grade (g/t) ³	47.5	50.2	48.7	45.3	44.9	43.4	46.0	42.2	39.6	45.7
Recoveries ³										
Copper (%)	95.0	94.3	94.7	94.6	96.3	96.1	96.2	96.0	96.1	95.9
Zinc (%)	65.6	65.9	67.1	66.4	59.8	65.5	64.2	65.7	62.0	68.8
Lead (%)	51.1	58.5	51.3	48.1	12.4	8.0	0.9	7.0	11.4	12.3
Silver (%)	77.2	75.5	75.9	77.5	81.4	78.7	79.7	79.7	79.6	76.0
Concentrate Production										
Copper (dmt)	62,949	16,783	16,775	13,581	15,810	61,473	15,881	15,689	14,874	15,029
Copper (%)	26.1	25.8	25.9	25.9	27.1	27.2	26.8	27.0	27.6	27.5
Silver (g/t)	508	511	516	517	487	502	515	476	483	534
Zinc (dmt)	14,300	5,068	4,306	3,259	1,667	8,919	2,200	2,463	1,621	2,635
Zinc (%)	47.3	46.8	47.5	47.5	47.7	47.5	46.1	47.6	48.5	47.7
Lead (dmt)	2,305	1,055	718	494	38	81	2	20	29	30
Lead (%)	62.0	62.6	61.2	62.3	54.4	61.7	58.5	62.1	58.9	64.4
Silver (g/t)	1,842	1,868	1,874	1,717	2,109	2,996	2,532	2,392	2,904	3,526
Site operating costs ^{1,4} (\$/t milled)	\$49.39	\$49.58	\$52.37	\$48.55	\$46.02	\$50.46	\$53.10	\$51.93	\$49.85	\$47.13
Payable copper produced (000's pounds)	34,666	8,964	9,194	7,436	9,072	35,442	9,004	8,984	8,702	8,753
Copper C1 cash cost ¹ (\$/lb payable copper produced)	\$0.75	\$0.75	\$0.87	\$0.67	\$0.71	\$1.16	\$1.04	\$1.10	\$1.19	\$1.33
All-in sustaining cost ¹ (\$/lb payable copper produced)	\$1.50	\$1.58	\$1.54	\$1.43	\$1.43	\$1.76	\$1.95	\$1.66	\$1.61	\$1.83
Adjusted EBITDA ¹ (\$ millions)	\$66.5	\$16.6	\$16.2	\$15.4	\$18.3	\$53.8	\$16.7	\$16.0	\$10.6	\$10.5

² Adjustments based on final settlements will be made in the future quarters.

³ Grade and recoveries were estimated based on concentrate production and may be impacted by settlements from prior production periods.

⁴ Site operating costs is cash production costs of metal produced ¹

Operational and C1 Cash Cost¹ Update

At Cozamin, copper production for the quarter exceeded the plan. Zinc production increased from the prior quarter as expected from the San Rafael zinc zone from the ramp up during Q3 2018. The addition of San Rafael ore resulted in the mill operating at the highest level for 2018 at 3,030 tonnes per day. Copper grades in 2018 were impacted by blending the San Rafael zinc ore.

During Q4 2018, the Company released the results of an updated Technical Report which included:

- Proven and Probable Mineral Reserves increasing by 89%, over the Mineral Reserves as at December 31, 2017, to 6.2 million tonnes grading 1.60% copper.

- Results of the Materials Handling Study shows an approximate 30% increase in expected throughput to 3,780 tonnes per day ("tpd") by the end of 2020, with an estimated investment of less than \$5 million. The anticipated result is an increase in annual production to between 40 to 45 million pounds of copper.
- Inferred Mineral Resources increasing 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"). This area of the MNFWZ is a shallower and thicker zone of mineralization than the current Indicated Mineral Resources, and the target for a multi-year infill drill program with the goal of converting more mineral resources to mineral reserves.

Copper production for Q4 2018 was lower than Q4 2017, primarily due to slightly lower copper grades in the MNFWZ and recoveries (94.3% vs. 96.2%), offset by much higher throughput (3,030 tpd vs. 2,430 tpd) using a blend of copper ore from the MNFWZ and zinc ore from the San Rafael zinc deposit to take advantage of underutilized mill capacity; overall copper grade is 1.61 % (blended vs. 1.98% unblended in Q3

Copper production for 2018 was lower than 2017, driven by lower grade (1.75% vs. 1.91%) and lower recovery, partially offset by higher mill throughput (2,702 tpd vs. 2,499 tpd).

C1 cash cost¹ in Q4 2018 was lower than in Q4 2017 primarily due to higher by-product credits and lower treatment and selling costs.

C1 cash cost¹ in 2018 was lower than in 2017, primarily due to higher by-product credits resulting from the expiration of the precious metals stream in April 2017, partially offset by higher treatment and selling costs.

Investing Activities

Capital spending at Cozamin totaled \$6.0 million for Q4 2018 and \$20.1 million for 2018 relating primarily to mine development.

Capitalized exploration expenditures totaled \$2.2 million for Q4 2018 and \$8.3 million for 2018. This was spent primarily on mineral resource drilling of the MNFWZ, associated with infill drilling from underground using two rigs and step-out drilling from surface to extend the mineral resource along strike to the southeast and up-dip using four rigs.

Santo Domingo Project – Chile (Copper and Iron)

The Company owns a 70% interest in the Santo Domingo project, located 130 kilometers north north-east of Copiapó in Region III, Chile, near the town of Diego de Almagro.

During Q4 2018, the Company announced the results of an updated technical report and launched a strategic process.

The technical report included an improved NPV, compared with the previous technical report, of \$1.03 Billion (after-tax, 8% discount rate). The project valuation benefitted from significantly lower power costs and several engineering changes, including the use of desalinated water in lieu of seawater. The report also includes the addition of cobalt to the mineral resources. The technical report indicated the following:

Santo Domingo – 2018 Technical Report summary of results	
Life of mine (years)	17.9
Initial construction cost (\$ billion)	\$1.51
NPV (after-tax, 8% discount) (\$ billions)	\$1.03
IRR (after-tax) (%)	21.8
Payback period (after-tax) (years)	2.8
Annual average production for life of mine	
Copper (million pounds)	134
Iron concentrate (million tonnes)	4.2
Gold (ounces)	17,000

The strategic process is aimed at evaluating several alternatives, primarily including sale of a portion of the project and/or streaming by-products, to maximize the value of the project for Capstone's shareholders whilst maintaining financial flexibility for continued growth and financial security for the Company's existing operations.

Investing Activities

Project development costs on a 100% basis of \$1.4 million (Capstone's 70% share was \$1.0 million) were recorded in Q4 2018 and related primarily to the updated Technical Report. Project development costs are capitalized within mineral properties.

Costs incurred up to September 30, 2018 were recorded as care and maintenance expenses in the statement of income (loss). Subsequent to the positive updated technical report, the Company now is capitalizing Santo Domingo costs going forward. Project holding costs on a 100% basis at Santo Domingo totaled nil during Q4 2018 and \$2.0 million for 2018 (Capstone's 70% share was nil and \$1.4 million, respectively), and were recorded as care and maintenance expenses.

Minto Mine (Discontinued Operation) – Yukon, Canada (Copper)

In accordance with IFRS 5, Minto is considered a discontinued operation for financial reporting purposes for the year ended December 31, 2018.

Operating Statistics

	2018					2017				
	Total	Q4	Q3	Q2	Q1	Total	Q4	Q3	Q2	Q1
Production (contained metal) ²										
Copper (000's pounds)	22,974	2,204	6,175	6,812	7,782	36,005	6,620	7,502	9,713	12,170
Gold (ounces) ³	9,251	1,439	2,594	2,562	2,656	25,205	3,112	8,484	4,982	8,627
Silver (000s ounces)	98	9	24	30	35	171	30	43	42	56
Mining - Open Pit										
Waste (000s tonnes)	1,315	-	-	2	1,313	7,890	2,382	1,188	2,312	2,008
Ore (000s tonnes)	547	-	-	72	475	941	141	224	533	43
Total (000s tonnes)	1,862	-	-	74	1,788	8,831	2,523	1,412	2,845	2,051
Mining - Underground										
Ore (000s tonnes)	284	19	94	80	91	328	107	61	92	68
Milling										
Milled (000s tonnes)	907	39	213	288	367	1,439	350	342	379	368
Tonnes per day	2,983	1,258	2,313	3,170	4,073	3,943	3,803	3,720	4,163	4,092
Copper grade (%) ⁵	1.31	2.70	1.43	1.23	1.16	1.37	1.06	1.31	1.43	1.68
Gold grade (g/t) ^{3,5}	0.44	1.80	0.41	0.38	0.35	0.79	0.41	0.62	0.59	1.51
Silver grade (g/t) ^{3,5}	4.3	7.7	4.5	4.2	4.0	4.8	3.7	5.0	4.5	5.8
Recoveries ⁵										
Copper (%)	87.5	94.9	92.3	86.8	82.9	82.6	81.1	76.0	81.5	89.3
Gold (%) ³	61.1	59.2	67.9	63.8	55.2	59.3	64.3	73.8	69.5	48.3
Silver (%)	77.3	87.9	78.7	76.4	75.0	77.6	71.9	77.2	76.3	82.3
Concentrate Production										
Copper (dmt)	27,371	2,608	7,621	8,152	8,990	37,372	7,642	8,090	9,743	11,897
Copper (%)	38.1	38.3	36.7	37.9	39.3	43.7	39.3	42.1	45.2	46.4
Gold (g/t) ³	8.8	16.0	7.7	8.6	7.9	18.0	12.1	19.5	15.9	22.6
Silver (g/t)	111	101	100	113	123	142	122	164	133	147
Site operating costs ^{1,4,6} (\$/t milled)	\$69.79	\$118.80	\$68.52	\$69.79	\$66.35	\$61.11	\$75.01	\$61.67	\$45.11	\$63.82
Payable copper produced (000's pounds)	22,228	2,132	5,975	6,592	7,529	34,833	6,404	7,258	9,397	11,774
Copper C1 cash cost ^{1,4} (\$/lb produced)	\$3.12	\$2.69	\$2.66	\$3.29	\$3.46	\$2.60	\$4.29	\$2.87	\$1.93	\$2.05
All-in sustaining cost ^{1,4} (\$/lb produced)	\$3.44	\$3.05	\$3.15	\$3.46	\$3.77	\$2.75	\$4.80	\$3.01	\$1.95	\$2.10

² Adjustments based on final settlements will be made in future quarters.

³ Gold is not assayed on site, resulting in a significant lag time in receiving this data. As such, Q4 2018 figure is an estimate. This amount represents gold contained in copper concentrate and gold contained in gold concentrate produced.

⁴ Minto's operating costs are adjusted to exclude the cost of mining ore and waste which is not related to concentrate produced in the quarter; these costs are capitalized or inventoried in the financial statements, and then expensed when the associated ore is processed.

⁵ Grade and recoveries were estimated based on concentrate production and may be impacted by settlements from prior production periods.

⁶ Site operating costs is cash production costs of metal produced ¹

Minto – Discontinued Operations Reporting

Capstone put the Minto mine on temporary care and maintenance in Q4 2018. Milling ceased in October 2018 as the stockpile was processed.

Operational and C1 Cash Cost¹ Update

Copper production in Q4 2018 was lower than Q4 2017, as processing ceased in October 2018, which was partially offset by higher grades (2.70% vs. 1.06%) and higher recoveries (94.9% vs. 81.1%).

Copper production in 2018 was lower than 2017, driven primarily by production being completed in October 2018, reduced throughput (2,983 tpd vs. 3,943 tpd) and lower grades from the processing of the

low grade stockpile (1.31% vs. 1.37%). 2017 copper production benefited from processing stockpiled higher grade Minto North ore.

C1 cash cost¹ of \$2.69 per pound of payable copper produced in Q4 2018 was lower than Q4 2017 primarily due higher grade and recovery.

C1 cash cost¹ of \$3.12 per pound of payable copper produced in 2018 was higher than 2017 primarily due to lower production.

Investing Activities

Capital spending at Minto totaled \$0.3 million during Q4 2018 and \$7.2 million 2018 primarily for underground infrastructure development.

¹ These are alternative performance measures. Refer to the MD&A section entitled "Alternative Performance Measures". Certain prior period alternative performance measures have been restated to conform with current period classification.

Outlook

2019 Production, Cost and Capital Guidance

In 2019, Capstone expects to produce between 145 million and 160 million pounds of copper at a C1 cash cost¹ of between \$1.80 and \$2.00 per pound payable copper produced.

2019 Guidance	Pinto Valley	Cozamin	Santo Domingo	Total
Production and Cost				
Copper production (million pounds)	115 – 125	30 – 35	-	145 - 160
C1 Cash Cost^{(1),(2)}	\$2.10 - \$2.25	\$0.90 - \$1.05	-	\$1.80 - \$2.00
Capital Expenditure (\$ millions, rounded)				
Sustaining	26.5	29.0	-	55.5
Capitalized Stripping ⁽³⁾	13.5	-	-	13.5
Expansionary	6.0	4.0	10.5 ⁽⁴⁾	20.5
Total Capital Expenditure	46.0	33.0	10.5	89.5
Exploration (\$ millions, rounded)				
Brownfield ⁽⁵⁾	-	6.0	-	6.0
Greenfield ⁽⁶⁾	-	-	-	6.0
Total Exploration	-	6.0	-	12.0

² Per pound of payable copper produced, net of by-product credits and treatment and selling costs.

³ Capitalized stripping is included as an operating cost in the PV3 PFS; however, under IFRS accounting guidelines, stripping costs are capitalized when certain criteria are met.

⁴ On a 100% basis, the total is approximately \$15 million; ownership is 70% Capstone and 30% KORES.

⁵ Brownfield exploration is capitalized.

⁶ Greenfield exploration is expensed.

Pinto Valley

Pinto Valley forecasts 2019 production of between 115 to 125 million pounds of copper at C1 cash cost¹ of \$2.10 to \$2.25 per pound of payable copper produced. Quarterly copper production will fluctuate throughout the year given anticipated grade variability. The average copper grade in 2019 is expected to be approximately 0.32%, with grades at 0.28% during Q2.

Pinto Valley forecasts 2019 capital of \$46.0 million, broken down as \$26.5 million of sustaining capital, \$6.0 million for PV3 development and \$13.5 for capitalized stripping. The largest category of sustaining capital in 2019 is \$14.7 million for mining fleet component replacements.

In 2019, a scoping level study examining the potential economics of the overall reserve and resource base is planned. As at December 31, 2017², Pinto Valley had a Measured and Indicated Resource Estimate of over 1.35 billion tonnes grading 0.30% copper inclusive of total Reserve Estimate of 430 million tonnes grading at 0.31% copper.

² See Capstone's Annual Information Form for the year ended December 31, 2017 for full details.

Cozamin

Cozamin forecasts 2019 production of between 30 to 35 million pounds of copper at C1 cash cost¹ of \$0.90 to \$1.05 per pound of payable copper produced.

Cozamin forecasts 2019 capital of \$33.0 million, broken down as \$29.0 million of sustaining capital and \$4.0 million of expansionary capital, and brownfield exploration of \$6.0 million.

Expansionary capital is related to the underground haulage network from a two-way single ramp to a one-way ramp, to eliminate the production bottleneck and fill the mill to nameplate capacity. This is expected to result in an approximate 30% increase in expected throughput, to 3,780 tonnes per day by the end of 2020, increasing annual production to between 40 to 45 million pounds of copper.

Santo Domingo

Santo Domingo forecasts project development costs in 2019 of \$15.0 million (Capstone's 70% share at \$10.5 million), which are expected to be capitalized as project development costs within mineral properties. Key activities for 2019 include:

- Completion of the strategic process, announced in the fourth quarter of 2018, to evaluate alternatives relating to the ownership of the Santo Domingo Project. Alternatives under review include selling a portion of the Project, as well as the potential for streaming opportunities given the gold reserve and cobalt resource to help finance the Project.
- Develop the technical and financial feasibility of producing cobalt as a by-product by conducting a preliminary economic assessment for the cobalt opportunity.
- Continue to advance the Project to be construction ready by early 2020; secure the final two long lead permits required for construction and advance project engineering to 60% to 65% completion.

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Liquidity and Financial Position Review

Discontinued Operation

In accordance with IFRS 5, the Minto mine was considered a discontinued operation for the year ended December 31, 2018 for financial reporting purposes. All Minto related assets and liabilities are classified as assets held for sale or liabilities directly associated with assets held for sale at December 31, 2018. Balance sheet presentation for December 31, 2017 is unchanged.

Working Capital

Working capital was \$103.9 million at December 31, 2018 compared with \$189.4 million at December 31, 2017, as follows:

<i>(millions)</i>	Dec. 31, 2018	Dec. 31, 2017
Current assets		
Cash and cash equivalents	\$ 30.1	\$ 116.2
Short-term investments	35.9	-
Receivables	22.3	39.2
Inventories	66.5	89.4
Other assets	2.5	4.4
Assets classified as held for sale	49.8	-
Total current assets	\$ 207.1	\$ 249.2
Current liabilities		
Accounts payable and accrued liabilities	\$ 50.0	\$ 53.9
Other liabilities	11.4	5.9
Liabilities directly associated with assets classified as held for sale	41.8	-
Total current liabilities	\$ 103.2	\$ 59.8
Working capital	\$ 103.9	\$ 189.4

Cash and cash equivalents and short-term investments decreased by \$82.5 million when adjusted for \$3.8 million of cash in Minto that is included in assets classified as held for sale. The decrease is primarily due to the \$55.0 million repayment made on the RCF and transfer of \$35.9 million of cash into higher yielding short term investments. Management reevaluated the level of cash required to manage short term liquidity needs and as a result the Company was able to pay down the RCF which will result in a lower interest expense going forward. In addition, the short-term investments in bankruptcy remote, AAA rated treasury market funds and exchange traded funds of \$35.9 million are not considered cash equivalents for reporting purposes. Management's treatment and use of these investments is analogous to cash given their highly liquid nature.

Refer to the Statement of Cash Flows within the Company's consolidated financial statements for the year ended December 31, 2018 for further details surrounding the movement in the cash balance.

There were no significant changes to total assets during the year ended December 31, 2018.

Credit Facilities

Capstone has a senior secured corporate revolving credit facility (“RCF”) which matures on April 19, 2021 with a credit limit to \$325 million, reducing by \$25 million each April 19 on the anniversary of the facility to \$275 million on April 19, 2020. The facility pricing grid, starting at LIBOR + 2.5% and increasing to LIBOR + 3.5% based on the total leverage ratio, is in effect until March 31, 2019, after which date pricing increases to LIBOR + 3.0% (adjustable to LIBOR + 4.5% depending on the total leverage ratio).

The interest rate at December 31, 2018 and December 31, 2017 was US LIBOR plus 2.75% with a standby fee of 0.62% payable on the undrawn balance (adjustable in certain circumstances).

Repayments of \$55.0 million were made on the RCF during the year ended December 31, 2018. These payments reduced the outstanding balance to \$219.9 million at December 31, 2018. In 2017, repayments of \$54.0 million were made on the RCF.

During 2018, a total of \$1.3 million (2017 – \$1.5 million) was amortized and recorded in other interest expense. In 2017, the Company incurred \$1.7 million in fees associated with the RCF amendment; the fees incurred in 2017 were capitalized and are being amortized to the consolidated statement of income (loss) over the term of the facility.

The RCF is secured against the present and future real and personal property, assets and undertakings of Capstone (excluding certain assets, which include Acquisition Co., Far West, Santo Domingo, and Far West Exploration S.A., and subject to certain exclusions for Capstone Mining Chile SpA and Capstone Exploraciones, S. A. de C. V.). The credit facility requires the Company to maintain certain financial ratios relating to debt and interest coverage. Capstone was in compliance with these covenants as at December 31, 2018.

At December 31, 2018, there were five Surety Bonds totaling \$177.3 million to support various reclamation obligation bonding requirements. This comprises C\$72.1 million securing reclamation obligations at the Minto Mine, \$118.6 million securing reclamation obligations at Pinto Valley, \$4.0 million provided as security as part of a power supply agreement at Pinto Valley, and \$1.9 million related to the construction of a port for Santo Domingo in Chile. In addition, the Company has two letters of credit with Scotiabank for a total of \$0.5 million.

Provisions

Provisions of \$95.5 million at December 31, 2018 includes the following:

- \$90.0 million for reclamation and closure cost obligation at Capstone’s operating mines;
- \$3.0 million related other long term provisions at the Cozamin mine; and
- \$2.4 million for the long term portion of the share-based payment obligation associated with the DSUs, RSUs and PSUs.

Financial Capability

The Company’s ability to service its ongoing obligations and cover anticipated corporate, exploration and development costs associated with its existing operations is dependent on the Pinto Valley and Cozamin mines generating positive cash flow and available liquidity. Based on reasonable expectations for our operating performance and flexible capital plan, we believe we have ample financial capacity to manage our current requirements for the foreseeable future, even with a return to more challenging market conditions.

Capital Management

Capstone’s capital management objectives are intended to safeguard the Company’s ability to support its normal operating requirements on an ongoing basis as well as continue the development and exploration of its mineral properties and support any expansion plans. As part of the Company’s treasury policy, the

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Company will only hold deposits in Canadian and international Tier 1 banks, Canadian and US government bonds, or bankruptcy remote treasury market or exchange traded funds of AAA rating.

Commitments

Agreements with the Grupo Bacis

Under the terms of the December 2003 option agreement with Grupo Minera Bacis S.A. de C.V. (“Bacis”), Capstone assumed a 100% interest in the Cozamin Mine with a 3% net smelter royalty paid to Bacis on all payable metal sold from production on the property covered by the agreement.

Off-take agreements

The Company has a concentrate off-take agreement with a third party whereby it will purchase 100% of the copper concentrate produced by the Cozamin Mine up to the end of November 2019.

The Company has a concentrate off-take agreement with a third party whereby it will purchase 100% of the zinc concentrate produced by the Cozamin Mine up to the end of November 2019.

The Company has a concentrate off-take agreement with a third party whereby it will purchase 100% of the lead concentrate produced by the Cozamin Mine up to the end of December 2020.

The Company has a number of annual and multi-year concentrate off-take agreements with a third parties for purchase of the copper concentrate produced by the Pinto Valley Mine.

The Company has entered into various lease agreements for office space with terms that expire between 2019 and 2024. The total remaining lease commitments as at December 31, 2018 are \$4.4 million (2017 - \$6.7 million).

Capital expenditure contracted for at the end of the reporting period but not yet incurred was \$6.4 million (2017 - \$2.6 million).

Risks and Uncertainties

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 and ownership of a rail transportation company. You should carefully consider the risks and uncertainties described below and other information contained in this MD&A 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, the occurrence of which could have a material adverse effect on Capstone’s business, financial condition, results of operations and prospects.

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, power outages, labour disruptions, flooding, explosions, cave-ins, landslides, ground or stope failures and other geotechnical instabilities, weather events, access to water, equipment failure or structural failure, metallurgical and other processing

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problems and other conditions involved in the mining of minerals, any of which could result in damage to, or destruction of, our mines, plants and equipment, personal injury or loss of life, environmental damage, delays in mining, increased production costs, asset write-downs, monetary losses and legal liability. Our mines have large tailings dams or deposits which could fail as a result of seismic activity or for other reasons. The occurrence of any of these events could result in a prolonged interruption in Capstone's operations that would have a material adverse effect on Capstone's business, financial condition, results of operations and prospects.

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-off 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 imposed by governments;
- expectations of inflation or deflation;
- international currency exchange rates;
- interest rates;
- global or regional consumptive patterns;
- speculative activities;
- 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

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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 counterparty 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.

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 Yukon and 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.

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.

Capstone's ability to acquire properties for growth.

The life of any mine is limited by its ore Reserves. As we seek to replace and expand our 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 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 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

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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. Restrictions or interruptions in Capstone's ability to transport concentrate across country borders could materially affect our business operations. Our exported copper concentrate, or the supplies we import may also be subject to tariffs, 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 and/or molybdenum prices 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 calculations of Mineral Resources and Mineral Reserves are estimates and are subject to uncertainty.

Our calculations of 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 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

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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.

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. Recent 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 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 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 operations and the availability of supplies. 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 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.

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

Capstone's mineral exploration and development 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, 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. Failure to comply with applicable laws and regulations 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.

Climatic conditions can affect our operations at the Pinto Valley and Cozamin mines and our Minto mine on care and maintenance.

Arizona can be subject to periods of drought. Operations at the Pinto Valley Mine require water for normal operations. Capstone has entered to 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 flooding of the pit at the Pinto Valley Mine adversely affecting our results of operations.

Operations at the Cozamin Mine are also subject to extreme adverse weather conditions. Drought has been prevalent in Central Mexico for years and the effects of lack of water might disrupt normal process operations. As a proactive measure, Cozamin has made agreements with local government and water rights owners for the purchase and use of water from offsite sources.

The Minto Mine may be subject to extreme weather conditions. Unseasonable weather conditions may preclude normal work patterns resulting in additional costs. In the past, Yukon experienced extreme weather conditions that resulted in abnormally high run-off at the Minto Mine, exceeding the normal containment capacity of the mine site. Future extreme weather in Yukon could again result in excess run-off at the mine site, could have an adverse effect on the financial condition at the Minto Mine and on our business.

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

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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. As the regulatory requirements are evolving there is uncertainty to the requirements. Regulation specific to emission levels and energy efficiency is becoming more stringent. The trend towards more stringent regulations 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.

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 Minto. 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. 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.

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, 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 seepage from tailings disposal areas, which would 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

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responsibility for companies and their directors, officers and employees. Compliance with changing environmental laws and regulations may require significant capital outlays, including obtaining additional permits, and may cause material changes or delays in, or the cancellation of, our exploration programs or current operations.

Aboriginal title claims and rights to consultation and accommodation may affect Capstone's existing operations as well as development projects and future acquisitions.

The nature and extent of First Nations rights and title remains the subject of active debate, claims and litigation in Canada. The Minto Mine lies on Category A land in Yukon where the Selkirk First Nation own both surface and subsurface rights. In many cases, environmental assessment, subsequent permitting, development and operation of proposed projects is only possible with the support of the local First Nations group. In order to secure such support, we may have to take measures to limit the adverse impact to and ensure that some of the economic benefits of the construction and mining activity will be enjoyed by, the local First Nations group. There is a risk that the First Nations may publicly oppose a proposed project at any stage and this potential opposition may adversely affect a project or Capstone's public image. Further, Canadian law related to aboriginal rights, including aboriginal title rights, is in a period of change. There is a risk that future changes to the law may adversely affect Capstone's rights to the Minto Mine.

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. 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. 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, 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 obtaining and finalizing all permits and approvals as well as securing financing and equity partnerships. Capstone's ability to raise its equity contribution to the 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 project including but not limited to the timing of the receipt of approvals and permits, 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 or claims and limitations on insurance coverage. Delays to the development of the 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 project parameters or development and construction delays may impact timing and amount of estimated future production, costs of production, success of mining operations, environmental

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compliance, and reclamation requirements. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended.

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, Yukon and Chile or to obtain all of the necessary services or expertise in Arizona, Mexico, Yukon 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, Yukon 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

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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 rock bursts, cave-ins, 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 not to take out insurance against all risks as a result of high premiums or other reasons. Further, insurance against certain risks, including those related to 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 404 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

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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.

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

Capstone currently operates the Santo Domingo Project through a joint ownership arrangement with 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 may experience problems integrating new acquisitions into Capstone's existing operations.

Capstone's success at completing acquisitions will depend on a number of factors, including, but not limited to, identifying acquisitions that fit Capstone's strategy, negotiating acceptable terms with the seller of the business or property to be acquired and obtaining approval from regulatory authorities in the jurisdictions of the business or property to be acquired. Any positive effect on Capstone's results from Capstone's acquisitions will depend on a variety of factors, including, but not limited to, assimilating the operations of an acquired business or property in a timely and efficient manner, maintaining Capstone's financial and strategic focus while integrating the acquired business or property, implementing uniform standards, controls, procedures and policies at the acquired business, as appropriate, and to the extent that Capstone makes an acquisition outside of markets in which Capstone has previously operated, conducting and managing operations in a new operating environment. 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 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

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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 the 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 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

Transactions with Related Parties

Capstone has related party relationships, as defined by IFRS, with its key management personnel and with KORES, which owns 30% of Acquisition Co.. Acquisition Co., through its subsidiaries, owns the Santo Domingo copper-iron project in Chile. Related party transactions and balances are disclosed in the annual consolidated financial statements.

Off Balance Sheet Arrangements

At December 31, 2018, the Company had no off-balance-sheet arrangements other than the following:

- those disclosed under Contractual Obligations in the 2018 audited financial statements;
- those disclosed in the section Contractual Obligations and Commitments in the 2018 MD&A;
- Five surety bonds totaling \$177.3 million;
- Non-cancellable equipment purchase commitments of \$6.4 million related to Pinto Valley and Pinto Valley; and
- Letters of credit for \$0.5 million.

Critical Accounting Estimates and Judgments

Critical judgments exercised in applying accounting policies, apart from those involving estimates, that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

i. Economic recoverability and probability of future economic benefits of mineral exploration, evaluation and development costs

The Company has determined that exploratory drilling, evaluation, development, and related costs incurred, which were capitalized, have future economic benefits and are economically recoverable. In making this judgment, the Company has assessed various sources of information including, but not limited to, the geologic and metallurgic information, history of conversion of mineral deposits to proven and probable reserves, scoping and feasibility studies, proximity to existing ore bodies, existing permits, and life of mine plans.

ii. Functional currency

The functional currency of each of the Company's subsidiaries is the currency of the primary economic environment in which the entity operates (*Note 2(c)(i)*).

Determination of functional currency may involve certain judgments to determine the primary economic environment and the Company reconsiders the functional currency of its entities if there

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is a change in events and conditions which determined the primary economic environment. The US dollar is Capstone's functional currency.

iii. Control over Acquisition Co.

Management assessed whether or not the Company has control over Acquisition Co. based on whether the Company is exposed, or has rights, to variable returns from its involvement in Acquisition Co., and has the ability to affect those returns through its power over Acquisition Co. In making their judgment, management considered the Company's absolute size of holding in Acquisition Co. and the relative size of the shareholding owned by KORES, in addition to the Company's existing rights and KORES' protective rights that allow the Company to direct and control the relevant activities which affect returns to Capstone.

Management concluded that the Company has a sufficiently dominant voting interest to direct the relevant activities of Acquisition Co. and the protective voting rights provided to KORES do not preclude the Company from having this power, and therefore Capstone has control over Acquisition Co.

iv. Financial instruments

Financial assets and liabilities are designated upon inception to various classifications. The designation determines the method by which the financial instruments are carried on the consolidated statement of financial position subsequent to inception and how changes in value are recorded. The designation may require the Company to make certain judgments, taking into account management's intention of the use of the financial instruments.

v. Held for sale classification

Management has determined that Minto is classified as a disposal group held for sale as its carrying value will be mainly recovered through a sale transaction rather than through continuing use. In making this judgment, management assessed whether Minto is available for immediate sale in its present condition, subject only to terms that are usual and customary, and that the sale is highly probable.

Key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are:

i. Estimated reclamation and closure costs

The Company's provision for reclamation and closure cost obligations represents management's best estimate of the present value of the future cash outflows required to settle the liability. The provision reflects estimates of future costs directly attributable to remediating the liability, inflation, movements in foreign exchange rates and assumptions of risks associated with the future cash outflows, and the applicable risk-free interest rates for discounting future cash outflows. Changes in the factors above can result in a change to the provision recognized by the Company. To the extent the carrying value of the related mining property is not increased above its recoverable amount, changes to reclamation and closure cost obligations are recorded with a corresponding change to the carrying amounts of related mining properties.

ii. Share-based compensation

The Company uses the Black-Scholes Option Pricing Model for valuation of share-based payments. Option pricing models require the input of subjective assumptions including the volatility, expected life, and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate, the Company's earnings, and equity reserves.

iii. Income taxes

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Deferred tax assets and liabilities are determined based on differences between the financial statement carrying values of assets and liabilities and their respective income tax bases (“temporary differences”), and losses carried forward.

The determination of the ability of the Company to utilize tax loss carry-forwards to offset deferred tax liabilities requires management to exercise judgment and make certain assumptions about the future performance of the Company. Management is required to assess whether it is probable that the Company will benefit from these prior losses and other deferred tax assets. The tax rates expected to be in effect when temporary differences reverse are 21% for US, 27% for Canada, and 30% for Mexico. The Company is subject to certain mining royalties which are referenced in Note 15. The tax rate on the mining royalties in Mexico is 7.5%. Changes in economic conditions, metal prices and other factors could result in revisions to the estimates of the benefits to be realized or the timing of utilizing the losses.

iv. *Mineral reserve and resource estimates*

The figures for mineral reserves and mineral resources are determined in accordance with National Instrument 43-101, “Standards of Disclosure for Mineral Projects”, issued by the Canadian Securities Administrators. There are numerous uncertainties inherent in estimating mineral reserves and mineral resources, including many factors beyond the Company’s control. Such estimation is a subjective process, and the accuracy of any mineral reserve or mineral resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Differences between management’s assumptions, including economic assumptions such as metal prices, and the market conditions could have a material effect in the future on the Company’s financial position and results of operation.

v. *Estimated permitted reserves*

The carrying amounts of the Company’s producing mining properties are depleted based on permitted reserves. Changes to estimates of permitted reserves and depletable costs including changes resulting from revisions to the Company’s mine plans and changes in metal price forecasts can result in a change to future depletion rates.

vi. *Depreciation and amortization rate for property, plant and equipment and depletion rates for mining interests*

Depletion, depreciation, and amortization expenses are allocated based on estimated asset lives. Should the asset life, depletion rates, or depreciation rates differ from the initial estimate, an adjustment would be made in the consolidated statement of (loss) income on a prospective basis.

vii. *Impairment of mineral properties, plant and equipment*

Management considers both external and internal sources of information in assessing whether there are any indications that the Company’s mineral properties, plant and equipment are impaired and whether previously recorded impairments should be reversed. External sources of information management considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable amount of its mineral properties, plant and equipment. Internal sources of information that management considers include the manner in which mineral properties, plant and equipment are being used or are expected to be used and indications of economic performance of the assets.

In determining the recoverable amounts of the Company’s mineral properties, plant and equipment, management makes estimates of the future operating results and discounted net cash flows expected to be derived from the Company’s mining properties, costs to sell the mining properties and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future non-expansionary capital

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expenditures, reductions in the amount of recoverable mineral reserves, mineral resources, and exploration potential, and/or adverse current economics can result in a write-down of the carrying amounts of the Company's mineral properties, plant and equipment.

viii. *Deferred stripping costs*

In determining whether stripping costs incurred during the production phase of a mining property relate to mineral reserves and mineral resources that will be mined in a future period and therefore should be capitalized, the Company makes estimates of the proportion of stripping activity which relates to extracting ore in the current period versus the proportion which relates to obtaining access to ore reserves which will be mined in the future.

ix. *Inventory valuation*

Consumable parts and supplies, ore stockpiles and concentrates, are valued at the lower of cost and net realizable value. Estimates in the carrying values of inventories arise due to the nature of the valuation of ore stockpiles and concentrates based on an appropriate allocation of direct mining costs, direct labour and material costs, mine site overhead, and depletion and amortization.

x. *Valuation of financial instruments, including estimates used in provisional pricing calculations*

Financial instrument estimates are based on either unadjusted quoted prices in active markets or direct or indirect observable inputs in accordance with the definitions of the financial instruments. Provisional pricing calculations are determined based on the change in the value of forward commodity prices of metals. To account for the change in metal prices from the total contract value to the 90% of the provisional value amount that has been received, estimates of the value of concentrates are used to determine the provisionally priced concentrate receivables at each period.

Accounting Changes

During the year, the Company adopted IFRS 15, Revenue from contracts with customers and IFRS 9, financial instruments. Refer to the consolidated financial statements for more information.

IFRS 16, Leases is effective January 1, 2019. Refer to the consolidated financial statements for an update on the Company's progress preparing to apply this new standard.

Alternative Performance Measures

Alternative performance measures are furnished to provide additional information. These non-GAAP performance measures are included in this MD&A because these statistics are key performance measures that management uses to monitor performance, to assess how the Company is performing, to plan and to assess the overall effectiveness and efficiency of mining operations. These performance measures do not have a standard meaning within IFRS and, therefore, amounts presented may not be comparable to similar data presented by other mining companies. These performance measures should not be considered in isolation as a substitute for measures of performance in accordance with IFRS.

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Breakdown of C1 Cash Cost and All-in Sustaining Cost Per Pound of Payable Copper Produced

In accordance with IFRS 5, Minto is considered a discontinued operation at December 31, 2018 for financial reporting purposes.

Quarters Ended December 31, 2018 and 2017

	Q4 2018					Q4 2017				
	Pinto Valley	Cozamin	Total from Continuing Operations	Minto	Total	Pinto Valley	Cozamin	Total from Continuing Operations	Minto	Total
Payable copper produced (000s lbs)	31,866	8,964	40,830	2,132	42,962	34,416	9,004	43,420	6,404	49,824
Production costs of metal produced (per financials, \$M)	\$ 48.9	\$ 14.8	\$ 63.8	\$ 21.2	\$ 85.0	\$ 55.3	\$ 12.1	\$ 67.4	\$ 26.9	\$ 94.3
Transportation cost to point of sale (\$M)	(5.7)	(1.1)	(6.8)	(0.0)	(6.8)	(4.1)	(0.9)	(5.0)	(0.1)	(5.1)
Inventory write-down (\$M)	0.3	-	0.3	1.2	1.5	-	-	-	-	-
Supplies obsolescence (\$M)	(0.6)	(0.1)	(0.7)	-	(0.7)	(0.5)	0.1	(0.4)	1.1	0.7
Reversal of write-down on concentrate sales (\$M)	-	-	-	-	-	-	-	-	1.6	1.6
Inventory working capital adjustments (\$M)	7.2	0.2	7.4	(16.9)	(9.5)	(1.2)	0.5	(0.7)	(3.2)	(3.9)
Cash production costs of metal produced (\$M)	\$ 50.2	\$ 13.8	\$ 64.0	\$ 5.5	\$ 69.5	\$ 49.5	\$ 11.8	\$ 61.3	\$ 26.3	\$ 87.6
Production costs (\$/lb)										
Mining	\$ 0.45	\$ 0.97	\$ 0.56	\$ 1.68	\$ 0.62	\$ 0.36	\$ 0.85	\$ 0.46	\$ 2.55	\$ 0.73
Milling/Processing	0.91	0.34	0.78	0.37	0.76	0.85	0.25	0.72	0.90	0.75
G&A	0.22	0.23	0.23	0.53	0.24	0.23	0.22	0.23	0.65	0.28
C1P sub-total	1.58	1.54	1.57	2.58	1.62	1.44	1.32	1.41	4.10	1.76
By-product credits (\$/lb)	(0.07)	(1.11)	(0.30)	(0.22)	(0.30)	(0.05)	(0.62)	(0.17)	(0.16)	(0.16)
Treatment and selling costs (\$/lb)	0.46	0.32	0.43	0.32	0.43	0.40	0.34	0.39	0.35	0.38
C1 cash cost (\$/lb PRODUCED)	\$ 1.97	\$ 0.75	\$ 1.70	\$ 2.68	\$ 1.75	\$ 1.79	\$ 1.04	\$ 1.63	\$ 4.29	\$ 1.98
NSR royalties	-	0.10	0.02	0.40	0.04	-	0.11	0.02	0.09	0.03
Non-cash deferred revenue	-	-	-	(0.23)	(0.01)	-	-	-	-	-
Production-phase capitalized stripping	0.26	-	0.20	-	0.19	0.18	-	0.13	-	0.12
Sustaining capital	0.25	0.66	0.34	0.14	0.34	0.17	0.78	0.30	0.38	0.31
PV3 development	0.03	-	0.02	-	0.02	0.02	-	0.02	-	0.01
Accretion of reclamation obligation	0.01	0.01	0.01	0.05	0.01	0.01	-	0.01	0.02	0.01
Amortization of reclamation asset	-	0.06	0.02	-	0.02	-	0.02	0.01	0.02	0.01
Corporate G&A, excluding depreciation			0.09		0.08			0.10		0.09
Corporate sustaining capital			-		-			-		-
All-in sustaining cost adjustments	0.55	0.83	0.70	0.36	0.69	0.38	0.91	0.59	0.51	0.58
All-in sustaining cost (\$/lb PRODUCED)	\$ 2.52	\$ 1.58	\$ 2.40	\$ 3.04	\$ 2.44	\$ 2.17	\$ 1.95	\$ 2.22	\$ 4.80	\$ 2.56

NOTE: Items that are greyed out in the table above represent cost categories that have not been allocated across the mine operations but rather applied against the consolidated total for pounds PRODUCED.

Years Ended December 31, 2018 and 2017

	2018					2017				
	Pinto Valley	Cozamin	Total from Continuing Operations*	Minto	Total	Pinto Valley	Cozamin	Total from Continuing Operations*	Minto	Total
Payable copper produced (000s lbs)	115,018	34,666	149,684	22,228	171,912	122,118	35,442	157,560	34,833	192,393
Production costs of metal produced (per financials, \$M)	\$ 214.1	\$ 51.0	\$ 265.1	\$ 75.8	\$ 340.9	\$ 213.8	\$ 49.5	\$ 263.3	\$ 82.8	\$ 346.1
Transportation cost to point of sale (\$M)	(20.1)	(3.2)	(23.3)	(1.9)	(25.2)	(17.5)	(3.6)	(21.1)	(2.4)	(23.5)
Inventory write-down (\$M)	-	-	-	(0.1)	(0.1)	(1.1)	-	(1.1)	(1.6)	(2.7)
Supplies obsolescence (\$M)	(1.0)	(0.1)	(1.1)	-	(1.1)	(0.5)	0.1	(0.4)	1.1	0.7
Reversal of write-down on concentrate sales (\$M)	0.2	-	0.2	-	0.2	1.0	-	1.0	1.6	2.6
Inventory working capital adjustments (\$M)	10.7	1.0	11.7	(9.3)	2.4	1.0	-	0.9	6.5	7.5
Cash production costs of metal produced (\$M)	\$ 203.9	\$ 48.7	\$ 252.6	\$ 64.5	\$ 317.1	\$ 196.7	\$ 46.0	\$ 242.6	\$ 88.0	\$ 330.7
Production costs (\$/lb)										
Mining	\$ 0.50	\$ 0.88	\$ 0.59	\$ 1.72	\$ 0.74	\$ 0.40	\$ 0.85	\$ 0.51	\$ 1.43	\$ 0.68
Milling/Processing	1.04	0.30	0.87	0.63	0.84	0.95	0.25	0.79	0.64	0.76
G&A	0.23	0.22	0.23	0.55	0.27	0.26	0.20	0.24	0.46	0.28
C1P sub-total	1.77	1.40	1.69	2.90	1.85	1.61	1.30	1.54	2.53	1.72
By-product credits (\$/lb)	(0.06)	(0.94)	(0.27)	(0.14)	(0.25)	(0.08)	(0.50)	(0.17)	(0.24)	(0.18)
Treatment and selling costs (\$/lb)	0.45	0.29	0.41	0.36	0.40	0.42	0.36	0.40	0.31	0.38
C1 cash cost (\$/lb PRODUCED)	\$ 2.16	\$ 0.75	\$ 1.83	\$ 3.12	\$ 2.00	\$ 1.95	\$ 1.16	\$ 1.77	\$ 2.60	\$ 1.92
NSR royalties	-	0.10	0.02	0.03	0.02	-	0.10	0.02	0.05	0.03
Non-cash deferred revenue	-	-	-	(0.06)	(0.01)	-	(0.04)	(0.01)	(0.01)	(0.01)
Production-phase capitalized stripping	0.23	-	0.18	-	0.16	0.21	-	0.17	-	0.13
Sustaining capital	0.27	0.58	0.35	0.32	0.35	0.14	0.51	0.22	0.08	0.20
PV3 development	0.02	-	0.01	-	0.01	0.03	-	0.01	-	0.01
Accretion of reclamation obligation	0.02	0.01	0.01	0.02	0.01	0.01	0.01	0.01	0.02	0.01
Amortization of reclamation asset	-	0.06	0.03	0.01	0.02	-	0.02	0.01	0.01	0.01
Corporate G&A, excluding depreciation			0.12		0.11			0.10		0.08
Corporate sustaining capital			-		-			-		-
All-in sustaining cost adjustments	0.54	0.75	0.72	0.32	0.67	0.39	0.60	0.53	0.15	0.46
All-in sustaining cost (\$/lb PRODUCED)	\$ 2.70	\$ 1.50	\$ 2.55	\$ 3.44	\$ 2.67	\$ 2.34	\$ 1.76	\$ 2.30	\$ 2.75	\$ 2.38

NOTE: Items that are greyed out in the table above represent cost categories that have not been allocated across the mine operations but rather applied against the consolidated total for pounds PRODUCED.

* YTD All-in sustaining costs⁽¹⁾ from continuing operations include corrected Q1, Q2 and Q3 figures.

¹ These are alternative performance measures. Refer to the MD&A section entitled "Alternative Performance Measures". Certain prior period alternative performance measures have been restated to conform with current period classification.

Reconciliation of Net Debt

	2018	2017
Long term debt (per financials, \$M), excl. deferred financing costs of \$3.0M and \$4.2M	\$ 219.9	274.9
<i>Less:</i>		
Cash and cash equivalents (per financials, \$M)	(30.1) \$	(116.2)
Short term investments (per financials, \$M)	(35.9)	-
Cash held by discontinued operation (per financials, \$M)	(3.8)	-
Net debt	\$ 150.1	\$ 158.7

Reconciliation of Cash Flow from Operating Activities per Common Share

(\$ millions, except share and per share amounts)	Q4 2018	Q4 2017	2018	2017
Cash flow from operating activities (per financials)	\$ 54.2	\$ 44.8	\$ 131.1	\$ 112.5
Weighted average common shares - basic (per financials)	387,040,362	382,804,650	386,690,981	382,374,835
Cash flow from operating activities per share	\$ 0.14	\$ 0.12	\$ 0.34	\$ 0.29

Reconciliation of Operating Cash Flow before Working Capital Changes per Common Share

(\$ millions, except share and per share amounts)	Q4 2018	Q4 2017	2018	2017
Operating cash flow (per financials)	\$ 54.2	\$ 44.8	\$ 131.1	\$ 112.5
Adjustment for changes in working capital (per financials)	(35.1)	(6.6)	(30.7)	17.2
Operating cash flow before working capital changes	\$ 19.1	\$ 38.2	\$ 100.4	\$ 129.7
Weighted average common shares - basic (per financials)	387,040,362	382,804,650	386,690,981	382,374,835
Operating cash flow before working capital changes per share	\$ 0.05	\$ 0.10	\$ 0.26	\$ 0.34

¹ These are alternative performance measures. Refer to the MD&A section entitled "Alternative Performance Measures". Certain prior period alternative performance measures have been restated to conform with current period classification.

Reconciliation of Adjusted Net Income (Loss) from Continuing Operations

(\$ millions, except share and per share amounts)	Q4 2018	Q4 2017	2018	2017
Net income from continuing operations (per financials)	\$ (15.2)	\$ 37.4	\$ 7.4	\$ 44.6
Inventory write-down	0.4	0.5	1.5	0.6
Gain on sale of Kutcho	-	(17.0)	-	(17.0)
Gain on sale of marketable securities	-	-	-	(13.6)
Unrealized (gain) loss on derivative contracts	-	(10.9)	0.1	(21.0)
Shares issued as option payments for exploration properties	-	-	-	2.0
Corporate restructuring costs	2.6	-	2.6	-
Deferred income tax expense (recovery) related to US tax reforms	20.2	(5.9)	20.2	(5.9)
Tax effect of the above adjustments	(0.1)	7.1	(0.3)	7.0
Adjusted net income (loss) from continuing operations	\$ 7.9	\$ 11.2	\$ 31.5	\$ (3.3)
Adjusted net income (loss) from continuing operations attributable to:				
Shareholders of Capstone Mining Corp.	\$ 8.0	\$ 11.3	\$ 32.4	\$ (3.2)
Non-controlling interests	(0.1)	(0.1)	(0.9)	(0.1)
	\$ 7.9	\$ 11.2	\$ 31.5	\$ (3.3)
Weighted average common shares - basic (per financials)	387,040,362	382,804,650	386,690,981	382,374,835
Adjusted net income from continuing operations attributable to shareholders of Capstone Mining Corp. per common share - basic	\$ 0.02	0.03	\$ 0.08	\$ (0.01)
Weighted average common shares - diluted (per financials)	387,040,362	390,048,926	386,690,981	389,012,193
Adjusted net income from continuing operations attributable to shareholders of Capstone Mining Corp. per common share - diluted	\$ 0.02	\$ 0.03	\$ 0.08	\$ (0.01)

Reconciliation of Adjusted Net Income (Loss)

(\$ millions, except share and per share amounts)	Q4 2018	Q4 2017	2018	2017
Net income (loss) (per financials)	\$ (39.0)	\$ 29.5	\$ (23.6)	\$ 55.1
Inventory write-down	(0.9)	(0.7)	1.6	1.2
Gain on sale of Kutcho	-	(17.0)	-	(17.0)
(Gain) on sale of marketable securities	-	-	-	(13.6)
Unrealized (gain) loss on derivative contracts	-	(6.8)	0.1	(16.9)
Mineral property impairment reversal	-	-	-	(20.6)
Minto restructuring costs (reversal of restructuring costs)	4.5	(1.5)	4.5	(1.5)
Shares issued as option payments for exploration properties	-	-	-	2.0
Corporate restructuring costs	2.6	-	2.6	-
Minto inventory write down	10.1	-	10.1	-
Minto embedded derivative write down	5.8	-	3.5	-
Deferred income tax expense (recovery) related to US tax reforms	20.2	(5.9)	20.2	(5.9)
Tax effect of the above adjustments	(0.1)	6.8	(0.3)	8.6
Adjusted net income (loss)	\$ 3.2	\$ 4.4	\$ 18.7	\$ (8.6)
Adjusted net income (loss) attributable to:				
Shareholders of Capstone Mining Corp.	\$ 3.3	\$ 4.5	\$ 19.6	\$ (8.5)
Non-controlling interests	(0.1)	(0.1)	(0.9)	(0.1)
	\$ 3.2	\$ 4.4	\$ 18.7	\$ (8.6)
Weighted average common shares - basic (per financials)	387,040,362	382,804,650	386,690,981	382,374,835
Adjusted net income attributable to shareholders of Capstone	\$ 0.01	0.01	\$ 0.05	\$ (0.02)
Weighted average common shares - diluted (per financials)	387,040,362	390,048,926	386,690,981	389,012,193
Adjusted net income attributable to shareholders of Capstone	\$ 0.01	\$ 0.01	\$ 0.05	\$ (0.02)

¹ These are alternative performance measures. Refer to the MD&A section entitled "Alternative Performance Measures". Certain prior period alternative performance measures have been restated to conform with current period classification.

Reconciliation of Adjusted EBITDA

(\$ millions)	Q4 2018	Q4 2017	2018	2017
Net income from continuing operations (per financials)	\$ (15.2)	\$ 37.4	\$ 7.4	\$ 44.6
Net finance costs	3.9	4.4	17.2	16.9
Taxes	23.4	5.9	33.2	16.7
Depletion and amortization	17.6	15.1	69.9	57.2
EBITDA - from continuing operations	29.7	62.8	127.7	135.4
Inventory write-down	0.4	0.5	1.1	0.7
Share-based compensation expense (recovery)	(2.6)	3.3	(7.0)	10.1
Deferred revenue	-	-	-	(1.3)
Unrealized (loss) on derivative instruments	-	(10.9)	0.1	(21.0)
Non-recurring G&A	2.6	-	3.4	-
Gain on disposal of investments mineral property and PP&E	-	(17.0)	-	(30.6)
Shares issued as option payment on exploration properties	-	-	-	2.0
Unrealized loss on foreign exchange	1.1	-	1.2	(0.4)
Adjusted EBITDA - from continuing operations	\$ 31.2	\$ 38.7	\$ 126.5	\$ 94.9
<i>Adjusted EBITDA by segment</i>				
Pinto Valley	17.7	41.3	80.8	106.5
Cozamin	16.6	16.7	66.5	53.8
Other	(3.1)	(19.2)	(20.8)	(65.4)
Adjusted EBITDA - from continuing operations	\$ 31.2	\$ 38.8	\$ 126.5	\$ 94.9

¹ These are alternative performance measures. Refer to the MD&A section entitled "Alternative Performance Measures". Certain prior period alternative performance measures have been restated to conform with current period classification.

Additional Information and Reconciliations

Sales from Continuing Operations

In accordance with IFRS 5, Minto is considered a discontinued operation at December 31, 2018 and as such, Minto sales volumes are excluded from the following table:

	2018					2017				
	Total	Q4	Q3	Q2	Q1	Total	Q4	Q3	Q2	Q1
Copper (tonnes)										
Pinto Valley	49,754	11,968	14,465	11,190	12,131	54,195	14,662	14,591	12,539	12,403
Cozamin	15,349	3,974	4,350	3,194	3,831	15,933	3,911	4,185	3,774	4,064
Total	65,103	15,942	18,815	14,384	15,962	70,128	18,573	18,776	16,313	16,467
Zinc (tonnes)										
Cozamin	5,123	1,952	1,443	1,215	513	3,582	981	740	805	1,056
Lead (tonnes)										
Cozamin	1,140	508	440	192	-	72	-	17	40	15
Molybdenum (tonnes)										
Pinto Valley	117	38	-	35	44	3	-	-	-	3
Silver (000s ounces)										
Cozamin	1,030	291	333	206	200	895	222	232	212	229
Pinto Valley	235	60	67	48	60	260	66	66	64	64
Total	1,265	351	400	254	260	1,155	288	298	276	293
Gold (ounces)										
Pinto Valley *	1,717	1,170	(28)	401	174	3,687	188	79	580	2,840
Cozamin	68	68	-	-	-	-	-	-	-	-

¹ These are alternative performance measures. Refer to the MD&A section entitled "Alternative Performance Measures". Certain prior period alternative performance measures have been restated to conform with current period classification.

Continuity Schedule of Concentrate and Cathode Inventories

	Pinto Valley			Cozamin			Minto
	Copper (dmt)	Cathode (tonnes)	Molybdenum (dmt)	Copper (dmt)	Zinc (dmt)	Lead (dmt)	Copper (dmt)
Dec. 31, 2016	13,668	172	16	6,056	997	76	8,285
Production	38,280	462	-	15,029	2,635	30	11,897
Sales	(45,350)	(160)	(8)	(15,797)	(2,766)	(32)	(9,950)
Mar. 31, 2017	6,598	474	8	5,288	866	74	10,232
Production	53,695	499	3	14,874	1,621	30	9,742
Sales	(45,159)	(362)	-	(14,217)	(2,051)	(79)	(10,222)
Jun. 30, 2017	15,134	611	11	5,945	436	25	9,752
Production	48,441	479	-	15,688	2,463	20	8,090
Sales	(52,915)	(763)	-	(16,158)	(1,856)	(35)	(10,569)
Sep. 30, 2017	10,660	327	11	5,475	1,043	10	7,273
Production	54,475	462	29	15,881	2,199	2	7,709
Sales	(54,321)	(462)	-	(15,024)	(2,607)	-	(9,782)
Dec. 31, 2017	10,814	327	40	6,332	635	12	5,200
Reclassification*	-	-	-	-	-	-	(5,200)
IFRS 15 adjustment**	-	-	-	(4,871)	(412)	-	-
Production	44,570	457	28	15,810	1,667	38	-
Sales	(48,514)	(281)	(44)	(14,791)	(1,717)	-	-
Mar. 31, 2018	6,870	503	24	2,480	173	50	-
Production	48,202	350	19	13,581	3,259	494	-
Sales	(41,631)	(542)	(35)	(12,991)	(3,127)	(361)	-
Jun. 30, 2018	13,441	311	8	3,070	305	183	-
Production	46,813	338	17	16,774	4,305	717	-
Sales	(53,787)	(448)	-	(17,810)	(3,772)	(763)	-
Sep. 30, 2018	6,467	201	25	2,034	838	137	-
Production	60,784	386	22	16,782	5,068	1,055	-
Sales	(46,922)	(422)	(38)	(16,630)	(5,013)	(894)	-
Dec. 31, 2018	20,329	165	9	2,186	893	298	-

* Minto was considered a discontinued operation at December 31, 2018 and as such the inventory held at Minto at December 31, 2018 was reclassified from inventories to assets held for sale.

** Opening balance sheet adjustments were required due to the application of IFRS 15 impacting Cozamin's opening inventory. Refer to the consolidated financial statements for the year ended December 31, 2018 for more information.

*** Reported copper concentrate production at Pinto Valley noted in the "Pinto Valley mine" section of this document includes copper produced in concentrate and in circuit and therefore differs from the copper concentrate production amount noted above.

Capstone's mining operations at Pinto Valley and Cozamin are not subject to any seasonality with respect to shipping, and as a result the reported sales volumes are not expected to vary significantly from quarter to quarter.

Outstanding Share Data and Dilution Calculation

The Company is authorized to issue an unlimited number of common shares, without par value. The table below summarizes the Company's common shares and securities convertible into common shares as at February 12, 2019:

Issued and outstanding	399,597,765
Share options outstanding at a weighted average exercise price of \$1.21	21,695,825
Fully diluted	421,293,590

¹ These are alternative performance measures. Refer to the MD&A section entitled "Alternative Performance Measures". Certain prior period alternative performance measures have been restated to conform with current period classification.

Management's Report on Internal Controls

Disclosure Controls and Procedures ("DC&P")

Management performed an evaluation of the design and operating effectiveness of the Company's DC&P, as defined by National Instrument 52-109. This evaluation was performed under the supervision of and with participation by Capstone's Chief Executive Officer and Chief Financial Officer. Management concluded the Company's DC&P were effective as at December 31, 2018.

Internal Control Over Financial Reporting ("ICFR")

Capstone's management, with the participation of its Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR"). Any system of ICFR, no matter how well designed, has inherent limitations and cannot provide absolute assurance that all misstatements and instances of fraud, if any, within the Company have been prevented or detected.

The Company uses the 2013 Internal Control – Integrated Framework published by The Committee of Sponsoring Organizations of the Treadway Commission ("2013 COSO framework") as the basis for assessing its ICFR. Management performed an evaluation of Capstone's ICFR and concluded that, as at December 31, 2018, ICFR were designed and operating effectively so as to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with International Financial Reporting Standards ("IFRS").

There were no changes in the Company's ICFR that materially affected, or are reasonably likely to materially affect, ICFR during the three month period ended December 31, 2018.

Other Information

Approval

The Board of Directors of Capstone approved the disclosure contained in this MD&A. A copy of this MD&A will be provided to anyone who requests it from the Company.

Additional Information

Additional information is available for viewing at the Company's website at www.capstonemining.com or on the Company's profile on the SEDAR website at www.sedar.com.

National Instrument 43-101 Compliance

Unless otherwise indicated, Capstone has prepared the technical information in this MD&A (“Technical Information”) based on information contained in the technical reports and news releases (collectively the “Disclosure Documents”) available under Capstone Mining Corp.’s company profile on SEDAR at www.sedar.com. Each Disclosure Document was prepared by or under the supervision of a qualified person (a “Qualified Person”) as defined in National Instrument 43-101 – *Standards of Disclosure for Mineral Projects* of the Canadian Securities Administrators (“NI 43-101”). Readers are encouraged to review the full text of the Disclosure Documents which qualifies the Technical Information. Readers are advised that mineral resources that are not mineral reserves do not have demonstrated economic viability. The Disclosure Documents are each intended to be read as a whole, and sections should not be read or relied upon out of context. The Technical Information is subject to the assumptions and qualifications contained in the Disclosure Documents.

The disclosure of Technical Information in this MD&A was reviewed and approved by Brad Mercer, P. Geol., Senior Vice President, Operations and Exploration (Technical Information related to mineral exploration activities), Clay Craig, P.Eng, Superintendent Mine Technical Services – Pinto Valley Mine (Technical information related to reserves and resources at Pinto Valley) and Tucker Jensen, Senior Mining Engineer, P.Eng (Technical information related to reserves at Cozamin), all Qualified Persons under NI 43-101.



CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

(Expressed in US Dollars)

Management's Report

The accompanying consolidated financial statements of Capstone Mining Corp. (the "Company" or "Capstone") and other information contained in the management's discussion and analysis are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards and include some amounts that are based on management's estimates and judgment.

The Board of Directors carries out its responsibility for the consolidated financial statements principally through its Audit Committee, which is comprised solely of independent directors. The Audit Committee reviews the Company's annual consolidated financial statements and recommends its approval to the Board of Directors. The Company's auditors have full access to the Audit Committee, with and without management being present. These consolidated financial statements have been audited by Deloitte LLP.

(Signed) Darren M. Pylot
President and Chief Executive Officer

(Signed) Raman Randhawa
Chief Financial Officer

Vancouver, British Columbia, Canada
February 12, 2019

Independent Auditor's Report

To the Shareholders of Capstone Mining Corp.

Opinion

We have audited the consolidated financial statements of Capstone Mining Corp. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of (loss) income, comprehensive (loss) income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud

or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Kevin Gray.

/s/ Deloitte LLP

Chartered Professional Accountants

Vancouver, British Columbia

February 12, 2019

Capstone Mining Corp.
Consolidated Statements of Financial Position
As at December 31, 2018 and 2017
(expressed in thousands of US dollars)

ASSETS	2018	2017
Current		
Cash and cash equivalents	\$ 30,072	\$ 116,201
Short-term investments (Note 5)	35,918	-
Receivables (Note 6)	22,278	39,195
Inventories (Note 7)	66,508	89,423
Other assets (Note 12)	2,452	4,423
Assets classified as held for sale (Note 9)	49,870	-
	207,098	249,242
Mineral properties, plant and equipment (Note 8)	1,083,179	1,093,255
Promissory note receivable (Note 11)	36,793	40,842
Other assets (Note 12)	9,052	17,145
Total assets	\$ 1,336,122	\$ 1,400,484
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 49,979	\$ 53,902
Other liabilities (Note 13)	11,465	5,908
Liabilities directly associated with assets classified as held for sale (Note 9)	41,819	-
	103,263	59,810
Long term debt (Note 14)	216,972	270,707
Deferred income tax liabilities (Note 15)	63,153	44,457
Provisions (Note 16)	95,496	130,444
Other liabilities (Note 13)	4,887	7,071
Total liabilities	483,771	512,489
EQUITY		
Share capital	\$ 838,351	\$ 837,428
Reserve for equity settled share based transactions	52,541	51,876
Share purchase reserve	(10,705)	(7,067)
Investment revaluation reserve	2,581	1,561
Foreign currency translation reserve	(20,922)	(44,139)
Amounts recognized directly in equity relating to assets classified as held for sale (Note 9)	(27,036)	-
Retained deficit	(92,901)	(63,011)
Total equity attributable to equity holders of the Company	741,909	776,648
Non-controlling interest	110,442	111,347
Total equity	852,351	887,995
	\$ 1,336,122	\$ 1,400,484

Commitments (Note 24)

Contingencies (Note 26)

ON BEHALF OF THE BOARD:

(Signed) Darren M. Pylot, Director

(Signed) Dale C. Peniuk, Director

See accompanying notes to these consolidated financial statements.

Capstone Mining Corp.
Consolidated Statements of (Loss) Income
Years Ended December 31, 2018 and 2017
(expressed in thousands of US dollars, except share and per share amounts)

	2018	2017 (Note 9)
Revenue (Note 18)	\$ 415,887	\$ 430,471
Operating costs		
Production costs	(265,102)	(263,306)
Royalties	(3,540)	(3,551)
Depletion and amortization	(68,882)	(57,196)
Earnings from mining operations	78,363	106,418
General and administrative expenses	(19,011)	(16,770)
Exploration expenses (Note 8)	(3,307)	(4,522)
Gain on sale of Kutcho Project (Note 10)	-	16,991
Care and maintenance expense (Note 8)	(3,043)	(2,688)
Restructuring expense	(2,574)	-
Share-based compensation recovery (expense) (Note 17)	6,952	(10,060)
Earnings from operations	57,380	89,369
Other income (expense)		
Foreign exchange gain	1,379	591
Loss on derivatives (Note 4)	(233)	(24,479)
Gain on disposal of investments (Note 12)	-	13,639
Other expense	(684)	(1,367)
Income before finance costs and income taxes	57,842	77,753
Interest on long term debt	(14,784)	(13,161)
Other interest expense	(2,455)	(3,356)
Income from continuing operations before income taxes	40,603	61,236
Income tax expense (Note 15)	(33,203)	(16,657)
Net income from continuing operations	\$ 7,400	\$ 44,579
Net (loss) income from discontinued operations (Note 9)	(30,977)	10,506
Net (loss) income	\$ (23,577)	\$ 55,085
Net income from continuing operations attributable to:		
Shareholders of Capstone Mining Corp.	\$ 8,305	\$ 44,726
Non-controlling interest	(905)	(147)
	\$ 7,400	\$ 44,579
Net (loss) income attributable to:		
Shareholders of Capstone Mining Corp.	\$ (22,672)	\$ 55,232
Non-controlling interest	(905)	(147)
	\$ (23,577)	\$ 55,085
Net income per share from continuing operations		
Earnings per share - basic	\$ 0.02	\$ 0.12
Weighted average number of shares - basic (Note 19)	386,690,981	382,374,835
Earnings per share - diluted	\$ 0.02	\$ 0.11
Weighted average number of shares - diluted (Note 19)	392,269,476	389,012,193
Net (loss) income per share		
(Loss) earnings per share - basic (Note 19)	\$ (0.06)	\$ 0.14
Weighted average number of shares - basic (Note 19)	386,690,981	382,374,835
(Loss) earnings per share - diluted (Note 19)	\$ (0.06)	\$ 0.14
Weighted average number of shares - diluted (Note 19)	386,690,981	389,012,193

See accompanying notes to these consolidated financial statements.

Capstone Mining Corp.
Consolidated Statements of Comprehensive (Loss) Income
Years Ended December 31, 2018 and 2017
(expressed in thousands of US dollars)

	2018	2017
Net (loss) income	\$ (23,577)	\$ 55,085
Other comprehensive (loss) income		
Items that will not be reclassified subsequently to profit or loss		
Change in fair value of marketable securities, net of tax of \$nil (2017 - \$757)	(1,344)	9,188
Revaluation of retirement benefit plans, net of tax of \$679 (2017 - \$74)	2,364	541
	1,020	9,729
Items that may be reclassified subsequently to profit or loss		
Reclassification of change in marketable securities to earnings upon disposal <i>(Note 12)</i>	-	(13,639)
Reclassification of accumulated foreign currency translation adjustment to earnings upon disposal of Kutcho Project <i>(Note 10)</i>	-	8,182
Foreign currency translation adjustment	(3,819)	3,903
	(3,819)	(1,554)
Total other comprehensive (loss) income for the period	(2,799)	8,175
Total comprehensive (loss) income	\$ (26,376)	\$ 63,260
Total comprehensive (loss) income attributable to:		
Shareholders of Capstone Mining Corp.	\$ (25,471)	\$ 63,407
Non-controlling interest	(905)	(147)
	\$ (26,376)	\$ 63,260

See accompanying notes to these consolidated financial statements.

Capstone Mining Corp.

Consolidated Statements of Cash Flows

Years Ended December 31, 2018 and 2017

(expressed in thousands of US dollars)

	2018	2017
Cash provided by (used in):		
Operating activities		
Net (loss) income	\$ (23,577)	\$ 55,085
Adjustments for:		
Depletion and amortization	71,571	78,600
Income and mining tax expense	33,964	28,904
Inventory write-down	13,953	1,427
Impairment reversal on mineral properties (Note 9)	-	(20,617)
Shares issued as option payments for exploration properties	-	2,000
Shares issued as compensation	156	-
Share-based compensation (recovery) expense	(6,952)	10,060
Restructuring provision	5,853	-
Net finance costs	19,374	17,983
Unrealized gain on foreign exchange	(7,734)	(2,420)
Loss on derivatives	3,712	9,595
Gain on sale of Kutcho Project (Note 10)	-	(16,991)
Gain on disposal of investments (Note 12)	-	(13,639)
Loss on disposal of equipment	112	2,159
Amortization of deferred revenue	(1,402)	(1,880)
Rehabilitation provision (Note 16)	539	69
Interest received	130	55
Income taxes paid	(17,588)	(17,862)
Income taxes received	8,434	1,966
Payments on reclamation and closure cost obligations (Note 16)	(125)	(4,718)
Changes in non-cash working capital (Note 22)	30,677	(17,269)
	131,097	112,507
Investing activities		
Purchase of marketable securities	-	(1,575)
Mineral properties, plant and equipment additions	(96,775)	(74,447)
Proceeds on sale of Kutcho Project (Note 10)	-	22,855
Purchase of short-term investments	(35,880)	-
Proceeds on disposal of equipment	188	1,914
Proceeds from disposal of marketable securities (Note 12)	-	17,247
Other assets	(51)	64
	(132,518)	(33,942)
Financing activities		
Repayment of bank borrowings (Note 14)	(55,000)	(54,000)
KORES payment against promissory note (Note 11)	1,209	597
Repayment of finance lease obligations	-	(98)
Purchase of treasury shares (Note 17)	(4,938)	(5,430)
Share issue costs	-	(16)
Proceeds from issuance of share capital	548	1,040
Payments for settlement of derivatives (Note 4)	(4,865)	(21,698)
Financing fees (Note 14)	-	(1,680)
Interest paid	(15,650)	(14,243)
	(78,696)	(95,528)
Effect of exchange rate changes on cash and cash equivalents	(2,198)	2,810
Decrease in cash and cash equivalents	(82,315)	(14,153)
Cash and cash equivalents - beginning of period	116,201	130,354
Cash and cash equivalents - end of period		
<i>(includes \$3,814 (2017 - \$nil) cash held for sale (Note 9))</i>	\$ 33,886	\$ 116,201

Supplemental cash flow information (Note 21)

See accompanying notes to these consolidated financial statements.

Capstone Mining Corp.

Consolidated Statements of Changes in Equity Years Ended December 31, 2018 and 2017

(expressed in thousands of US dollars, except share amounts)

	Attributable to equity holders of the Company										
	Number of shares	Share capital	Reserve for equity settled share based transactions	Revaluation reserve	Foreign currency translation reserve	Share purchase reserve	Retained (deficit) earnings	Total - attributable to equity holders	Non-controlling interest	Total equity	
January 1, 2018 (as reported)	398,355,278	\$ 837,428	\$ 51,876	\$ 1,561	\$ (44,139)	\$ (7,067)	\$ (63,011)	\$ 776,648	\$ 111,347	\$ 887,995	
Adjustment on initial application of IFRS 15 (Note 3)	-	-	-	-	-	-	(6,939)	(6,939)	-	(6,939)	
January 1, 2018	398,355,278	837,428	51,876	1,561	(44,139)	(7,067)	(69,950)	769,709	111,347	881,056	
Shares issued on exercise of options (Note 17)	1,058,385	767	(218)	-	-	-	-	549	-	549	
Share-based compensation (Note 17)	-	-	883	-	-	-	-	883	-	883	
Settlement of share units	-	-	-	-	-	1,299	(279)	1,020	-	1,020	
Shares issued as compensation	166,666	156	-	-	-	-	-	156	-	156	
Change in fair value of marketable securities	-	-	-	(1,344)	-	-	-	(1,344)	-	(1,344)	
Remeasurements for retirement benefit plans	-	-	-	2,364	-	-	-	2,364	-	2,364	
Purchase of treasury shares (Note 17)	-	-	-	-	-	(4,937)	-	(4,937)	-	(4,937)	
Net loss	-	-	-	-	-	-	(22,672)	(22,672)	(905)	(23,577)	
Foreign currency translation	-	-	-	-	(3,819)	-	-	(3,819)	-	(3,819)	
December 31, 2018	399,580,329	\$ 838,351	\$ 52,541	\$ 2,581	\$ (47,958)	\$ (10,705)	\$ (92,901)	\$ 741,909	\$ 110,442	\$ 852,351	
January 1, 2017	387,437,068	\$ 826,451	\$ 51,078	\$ 5,471	\$ (55,397)	\$ (2,084)	\$ (118,374)	\$ 707,145	\$ 111,494	\$ 818,639	
Shares issued on exercise of options (Note 17)	2,125,878	1,493	(453)	-	-	-	-	1,040	-	1,040	
Share-based compensation (Note 17)	-	-	1,251	-	-	-	-	1,251	-	1,251	
Settlement of share units	-	-	-	-	-	448	131	579	-	579	
Share issue costs	-	(16)	-	-	-	-	-	(16)	-	(16)	
Shares issued as option payments for exploration properties (Note 17)	1,985,664	2,000	-	-	-	-	-	2,000	-	2,000	
Shares issued to Wheaton Precious Metals (Note 17)	6,806,668	7,500	-	-	-	-	-	7,500	-	7,500	
Change in fair value of marketable securities	-	-	-	9,188	-	-	-	9,188	-	9,188	
Reclassification of OCI to earnings on disposal of marketable securities (Note 10)	-	-	-	(13,639)	-	-	-	(13,639)	-	(13,639)	
Reclassification of foreign currency translation to earnings on sale of Kutcho Project (Note 8)	-	-	-	-	8,182	-	-	8,182	-	8,182	
Remeasurements for retirement benefit plans	-	-	-	541	-	-	-	541	-	541	
Purchase of treasury shares (Note 17)	-	-	-	-	-	(5,431)	-	(5,431)	-	(5,431)	
Net income (loss)	-	-	-	-	-	-	55,232	55,232	(147)	55,085	
Foreign currency translation	-	-	-	-	3,076	-	-	3,076	-	3,076	
December 31, 2017	398,355,278	\$ 837,428	\$ 51,876	\$ 1,561	\$ (44,139)	\$ (7,067)	\$ (63,011)	\$ 776,648	\$ 111,347	\$ 887,995	

See accompanying notes to these consolidated financial statements.

Capstone Mining Corp.

Notes to Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

(tabular amounts expressed in thousands of US dollars, except share amounts)

1. Nature of Operations

Capstone Mining Corp. (“Capstone” or the “Company”), a Canadian mining company publicly listed on the Toronto Stock Exchange, is engaged in the production of and exploration for base metals in the United States (“US”), Mexico, Canada and Chile, with a focus on copper. Pinto Valley Mining Corp., a wholly owned US subsidiary, owns and operates the copper Pinto Valley Mine located in Arizona, US. Capstone Gold, S.A. de C.V. (“Capstone Gold”), a wholly owned Mexican subsidiary, owns and operates the polymetallic Cozamin Mine located in Zacatecas, Mexico, and has a portfolio of exploration properties in Mexico. Minto Explorations Ltd. (“Minto”), a wholly owned Canadian subsidiary, owns and operates the copper Minto Mine located in Yukon, Canada. The Minto Mine has been classified and accounted for as a disposal group held for sale and as a discontinued operation, and a decision was made in October 2018 to place the mine on care and maintenance (Note 9). Capstone Mining Chile SpA, a wholly owned Chilean subsidiary, is performing exploration for base metal deposits in Chile. 0908113 B.C. Ltd. (“Acquisition Co.”) is a 70% owned subsidiary of Capstone and 30% owned by Korea Resources Corp. (“KORES”). Through Acquisition Co.’s wholly-owned Canadian subsidiary, Far West Mining Ltd. (“Far West”), the Company is engaged in the exploration for base metals primarily in Chile. Minera Santo Domingo SCM (“Santo Domingo”), a 100% owned subsidiary of Far West, holds the Santo Domingo copper-iron project in Chile.

The head office, registered and records office and principal address of the Company are located at 510 West Georgia Street, Vancouver, British Columbia, Canada and the Company is incorporated in British Columbia.

The consolidated financial statements were approved by the Board of Directors and authorized for issuance on February 12, 2019.

2. Basis of Presentation, Significant Accounting Judgements and Estimates, and Significant Accounting Policies

a) Basis of preparation and consolidation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial instruments which are measured at fair value.

These consolidated financial statements have been prepared in accordance with the accounting policies presented below and are based on IFRS and IFRS Interpretations Committee (“IFRIC”) interpretations issued and effective as of December 31, 2018. The policies set out below were consistently applied to all the periods, except for the application of IFRS 15 Revenue from Contracts with Customers (“IFRS 15”) and IFRS 9 Financial Instruments (“IFRS 9”), and are included in Note 2(c). Capstone has adopted IFRS 15 and IFRS 9 effective January 1, 2018.

b) Use of estimates and judgments

The preparation of the consolidated financial statements requires management to select accounting policies and make estimates and judgments that may have a significant impact on the consolidated financial statements. Estimates are continuously evaluated, and are based on management’s experience and expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Capstone Mining Corp.

Notes to Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

(tabular amounts expressed in thousands of US dollars, except share amounts)

Critical judgments exercised in applying accounting policies, apart from those involving estimates, that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

i. Economic recoverability and probability of future economic benefits of mineral exploration, evaluation and development costs

The Company has determined that exploratory drilling, evaluation, development, and related costs incurred, which were capitalized, have future economic benefits and are economically recoverable. In making this judgment, the Company has assessed various sources of information including, but not limited to, the geologic and metallurgic information, history of conversion of mineral deposits to proven and probable reserves, scoping and feasibility studies, proximity to existing ore bodies, existing permits, and life of mine plans.

ii. Functional currency

The functional currency of each of the Company's subsidiaries is the currency of the primary economic environment in which the entity operates (*Note 2(c)(i)*).

Determination of functional currency may involve certain judgments to determine the primary economic environment and the Company reconsiders the functional currency of its entities if there is a change in events and conditions which determined the primary economic environment. The US dollar is Capstone's functional currency.

iii. Control over Acquisition Co.

Management assessed whether or not the Company has control over Acquisition Co. based on whether the Company is exposed, or has rights, to variable returns from its involvement in Acquisition Co., and has the ability to affect those returns through its power over Acquisition Co. In making their judgment, management considered the Company's absolute size of holding in Acquisition Co. and the relative size of the shareholding owned by KORES, in addition to the Company's existing rights and KORES' protective rights that allow the Company to direct and control the relevant activities which affect returns to Capstone.

Management concluded that the Company has a sufficiently dominant voting interest to direct the relevant activities of Acquisition Co. and the protective voting rights provided to KORES do not preclude the Company from having this power, and therefore Capstone has control over Acquisition Co.

iv. Financial instruments

Financial assets and liabilities are designated upon inception to various classifications. The designation determines the method by which the financial instruments are carried on the consolidated statement of financial position subsequent to inception and how changes in value are recorded. The designation may require the Company to make certain judgments, taking into account management's intention of the use of the financial instruments.

v. Held for sale classification

Management has determined that Minto is classified as a disposal group held for sale as its carrying value will be mainly recovered through a sale transaction rather than through continuing use. In making this judgment, management assessed whether Minto is available for immediate sale in its

Capstone Mining Corp.

Notes to Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

(tabular amounts expressed in thousands of US dollars, except share amounts)

present condition, subject only to terms that are usual and customary, and that the sale is highly probable.

Key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are:

i. Estimated reclamation and closure costs

The Company's provision for reclamation and closure cost obligations represents management's best estimate of the present value of the future cash outflows required to settle the liability. The provision reflects estimates of future costs directly attributable to remediating the liability, inflation, movements in foreign exchange rates and assumptions of risks associated with the future cash outflows, and the applicable risk-free interest rates for discounting future cash outflows. Changes in the factors above can result in a change to the provision recognized by the Company. To the extent the carrying value of the related mining property is not increased above its recoverable amount, changes to reclamation and closure cost obligations are recorded with a corresponding change to the carrying amounts of related mining properties.

ii. Share-based compensation

The Company uses the Black-Scholes Option Pricing Model for valuation of share-based payments. Option pricing models require the input of subjective assumptions including the volatility, expected life, and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate, the Company's earnings, and equity reserves.

iii. Income taxes

Deferred tax assets and liabilities are determined based on differences between the financial statement carrying values of assets and liabilities and their respective income tax bases ("temporary differences"), and losses carried forward.

The determination of the ability of the Company to utilize tax loss carry-forwards to offset deferred tax liabilities requires management to exercise judgment and make certain assumptions about the future performance of the Company. Management is required to assess whether it is probable that the Company will benefit from these prior losses and other deferred tax assets. The tax rates expected to be in effect when temporary differences reverse are 21% for US, 27% for Canada, and 30% for Mexico. The Company is subject to certain mining royalties which are referenced in Note 15. The tax rate on the mining royalties in Mexico is 7.5%. Changes in economic conditions, metal prices and other factors could result in revisions to the estimates of the benefits to be realized or the timing of utilizing the losses.

iv. Mineral reserve and resource estimates

The figures for mineral reserves and mineral resources are determined in accordance with National Instrument 43-101, "Standards of Disclosure for Mineral Projects", issued by the Canadian Securities Administrators. There are numerous uncertainties inherent in estimating mineral reserves and mineral resources, including many factors beyond the Company's control. Such estimation is a subjective process, and the accuracy of any mineral reserve or mineral resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Differences between management's assumptions, including economic assumptions such as metal prices, and the market conditions

Capstone Mining Corp.

Notes to Consolidated Financial Statements

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(tabular amounts expressed in thousands of US dollars, except share amounts)

could have a material effect in the future on the Company's financial position and results of operation.

v. *Estimated permitted reserves*

The carrying amounts of the Company's producing mining properties are depleted based on permitted reserves. Changes to estimates of permitted reserves and depletable costs including changes resulting from revisions to the Company's mine plans and changes in metal price forecasts can result in a change to future depletion rates.

vi. *Depreciation and amortization rate for property, plant and equipment and depletion rates for mining interests*

Depletion, depreciation, and amortization expenses are allocated based on estimated asset lives. Should the asset life, depletion rates, or depreciation rates differ from the initial estimate, an adjustment would be made in the consolidated statement of (loss) income on a prospective basis.

vii. *Impairment of mineral properties, plant and equipment*

Management considers both external and internal sources of information in assessing whether there are any indications that the Company's mineral properties, plant and equipment are impaired and whether previously recorded impairments should be reversed. External sources of information management considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable amount of its mineral properties, plant and equipment. Internal sources of information that management considers include the manner in which mineral properties, plant and equipment are being used or are expected to be used and indications of economic performance of the assets.

In determining the recoverable amounts of the Company's mineral properties, plant and equipment, management makes estimates of the future operating results and discounted net cash flows expected to be derived from the Company's mining properties, costs to sell the mining properties and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future non-expansionary capital expenditures, reductions in the amount of recoverable mineral reserves, mineral resources, and exploration potential, and/or adverse current economics can result in a write-down of the carrying amounts of the Company's mineral properties, plant and equipment.

viii. *Deferred stripping costs*

In determining whether stripping costs incurred during the production phase of a mining property relate to mineral reserves and mineral resources that will be mined in a future period and therefore should be capitalized, the Company makes estimates of the proportion of stripping activity which relates to extracting ore in the current period versus the proportion which relates to obtaining access to ore reserves which will be mined in the future.

ix. *Inventory valuation*

Consumable parts and supplies, ore stockpiles and concentrates, are valued at the lower of cost and net realizable value. Estimates in the carrying values of inventories arise due to the nature of the valuation of ore stockpiles and concentrates based on an appropriate allocation of direct mining costs, direct labour and material costs, mine site overhead, and depletion and amortization.

Capstone Mining Corp.

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(tabular amounts expressed in thousands of US dollars, except share amounts)

- x. *Valuation of financial instruments, including estimates used in provisional pricing calculations*
Financial instrument estimates are based on either unadjusted quoted prices in active markets or direct or indirect observable inputs in accordance with the definitions of the financial instruments. Provisional pricing calculations are determined based on the change in the value of forward commodity prices of metals. To account for the change in metal prices from the total contract value to the 90% of the provisional value amount that has been received, estimates of the value of concentrates are used to determine the provisionally priced concentrate receivables at each period.

c) *The significant accounting policies of the Company are as follows:*

i. Translation of foreign currencies

The functional currency and presentation currency of the Company is the US dollar. The functional currency of the Company's subsidiaries is listed in Note 21.

Financial statements of subsidiaries are maintained in their functional currencies and converted to US dollars for consolidation of the Company's results. The functional currency of each entity is determined after consideration of the primary economic environment of the entity.

Transactions denominated in foreign currencies (currencies other than the functional currency of an entity) are translated at the exchange rates on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at reporting date exchange rates and any gain or loss on translation is recorded in the consolidated statement of (loss) income as a foreign exchange gain (loss).

On translation of entities with functional currencies other than the US dollar, consolidated statement of (loss) income items are translated at average rates of exchange where this is a reasonable approximation of the exchange rate at the dates of the transactions. Consolidated statement of financial position items are translated at closing exchange rates as at the reporting date. Exchange differences on the translation of the foreign currency entities at closing rates, together with differences between consolidated statement of (loss) income translated at average and closing rates, are recorded in the foreign currency translation reserve in equity.

ii. Cash, and cash equivalents

Cash and cash equivalents is comprised of cash on hand, demand deposits and short-term investments with a maturity less than 90 days on acquisition that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value.

iii. Inventories

Inventories for consumable parts and supplies, ore stockpiles and concentrates, are valued at the lower of cost and net realizable value. Costs allocated to consumable parts and supplies are based on average costs and include all costs of purchase, conversion and other costs in bringing these inventories to their existing location and condition. Costs allocated to ore stockpiles and concentrates are based on average costs, which include an appropriate share of direct mining costs, direct labour and material costs, mine site overhead, depletion and amortization. If carrying value exceeds net realizable amount, a write down is recognized. The write down may be reversed in a subsequent period if the circumstances which caused it no longer exist.

Capstone Mining Corp.

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(tabular amounts expressed in thousands of US dollars, except share amounts)

iv. *Investments*

Investments in shares of companies over which the Company exercises neither control, joint control nor significant influence are designated as available-for-sale and recorded at fair value. Fair values are determined by reference to quoted market prices at the reporting date. Unrealized gains and losses on available-for-sale investments are recognized in the revaluation reserve. When available-for-sale investments are sold, the cumulative fair value adjustments previously recorded in the revaluation reserve are recognized in the consolidated statement of (loss) income as gain or loss of investments. When available-for-sale investments are derecognized or determined to be impaired, the cumulative gain or loss previously recognized in the revaluation reserve is transferred to the consolidated statement of (loss) income.

v. *Mineral properties, plant and equipment*

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing historical characteristic of many properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties is in good standing.

vi. *Producing mineral properties*

Producing mineral properties are recorded at cost less accumulated depletion and impairment charges. The costs associated with producing mineral properties include acquired interests in production stage properties representing the fair value at the time they were acquired. Producing mineral properties also include additional capitalized costs after initial acquisition. Upon sale or abandonment of producing mineral properties, the carrying value is derecognized and any gains or losses thereon are included in the consolidated statement of (loss) income.

Commercial production is deemed to have commenced when management determines that the operational commissioning of major mine and plant components is complete, operating results are being achieved consistently for a period of time and that there are indicators that these operating results will continue. At the date commercial production is reached, the Company ceases capitalization of any applicable borrowing costs and commences amortization of the associated assets. The Company determines commencement of commercial production based on several factors, which indicate that planned principal operations have commenced. These include the following:

- a significant portion of plant capacity is achieved;
- a significant portion of available funding is directed towards operating activities;
- a pre-determined, reasonable period of time has passed; and
- a development project significant to the primary business objectives of the enterprise has been completed as to significant milestones being achieved.

vii. *Deferred stripping*

Stripping costs are accounted for as variable production costs and included in the costs of inventory produced during the period that the stripping costs are incurred. However, stripping costs are capitalized and recorded on the consolidated statement of financial position as a component of mineral properties, plant and equipment when the stripping activity provides access to sources of mineral reserves that will be produced in future periods that would not have otherwise been accessible in the absence of this activity. The capitalized deferred stripping assets

Capstone Mining Corp.

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(tabular amounts expressed in thousands of US dollars, except share amounts)

are amortized on a units of production basis over the mineral reserves that directly benefited from the stripping activity as those mineral reserves are actually mined.

viii. Mineral exploration and development properties

The carrying amount of mineral exploration and development properties comprise costs that are directly attributable to:

- researching and analysing existing exploration data;
- conducting geological studies, exploratory drilling and sampling;
- examining and testing extraction and treatment methods; and
- activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.

The costs associated with mineral exploration and development properties include acquired interests in development and exploration stage properties representing the fair value at the time they were acquired. Mineral exploration and development properties related to greenfield properties, which are prospective in nature and not yet supported by an internal economic assessment, are expensed in the consolidated statement of (loss) income, except for acquisition costs and mining interest rights. Exploration and development expenses related to brownfield mineral properties are capitalized provided that one of the following conditions is met:

- Such costs are expected to be recouped in full through successful development and exploitation of the area of interest or alternatively, by its sale; or
- Exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence of economically recoverable reserves, however active and significant operations in relation to the area are continuing, or planned for the future.

The carrying values of capitalized amounts of mineral exploration and development properties are reviewed when there are indicators of impairment at each reporting date. In the case of undeveloped projects, there may be only inferred mineral resources to allow management to form a basis for the impairment review. The review is based on the Company's intentions for development of such a project. If a project does not prove viable, all unrecoverable costs associated with the project are charged to the consolidated statement of (loss) income at the time the determination is made.

Once management has determined that the development potential of the property is economically viable and the necessary permits are in place for its development, and the criteria in Note 2(c)(vii) are met, the costs of the exploration asset are reclassified to producing mineral properties.

ix. Mill development costs

Mill development costs are recorded at cost less accumulated amortization and impairment losses. Mill development costs includes in its purchase price, any costs directly attributable to the development of the mill. Upon abandonment, the cost and related accumulated amortization and impairment losses, are written off and any gains or losses thereon are included in the consolidated statement of (loss) income.

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x. *Plant and equipment*

Plant and equipment are recorded at cost less accumulated amortization and impairment losses. Plant and equipment includes in its purchase price, any costs directly attributable to bringing plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management and the estimated close down and restoration costs associated with dismantling and removing the asset. Upon sale or abandonment of any plant and/or equipment, the cost and related accumulated amortization and impairment losses, are written off and any gains or losses thereon are included in the consolidated statement of (loss) income.

xi. *Construction in progress*

Mineral property development and plant and equipment construction commences when approved by management and/or the Board and the Company has obtained all regulatory permissions to proceed. Development and construction expenditures are capitalized and classified as construction in progress. Once completed, the costs associated with all applicable assets related to the development and construction are reclassified to the appropriate category within mineral properties or plant and equipment.

xii. *Depletion and amortization of mineral properties, plant and equipment*

The carrying amounts of mineral properties, plant and equipment are depleted or amortized to their estimated residual value over the estimated economic life of the specific assets to which they relate, using the depletion or amortization methods and rates as indicated below. Estimates of residual values and useful lives are reassessed annually and any change in estimate is taken into account in the determination of the remaining amortization rate. Amortization commences on the date the asset is available for its use as intended by management.

Depletion and amortization is computed using the following rates:

Item	Methods	Rates
Producing mineral properties	Units of production	Proven and probable mineral reserves
Deferred stripping costs	Units of production	Proven and probable mineral reserves accessible due to stripping activity
Mill development costs	Units of production	Proven and probable mineral reserves
Plant & equipment	Straight line, units of production	4 – 10 years, Proven and probable mineral reserves

xiii. *Borrowing costs*

Interest and other financing costs directly related to the acquisition, development and construction, and production of qualifying assets are capitalized as construction in progress or in mineral properties until they are complete and available for use, at which time they are transferred to the appropriate category within mineral properties, plant and equipment.

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Borrowing costs incurred after the asset has been placed into service as well as all other borrowing costs are charged to the consolidated statement of (loss) income when incurred.

xiv. *Impairment of long-lived assets*

At each reporting date, the Company reviews the carrying amounts of its assets to determine whether there are any indicators of impairment. If any such indicator exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any.

Where the asset does not generate cash inflows that are independent from other assets, the Company estimates the recoverable amount of the cash generating unit ("CGU") to which the asset belongs. The recoverable amount is determined as the higher of fair value less direct costs to sell and the asset or CGU's value in use. In assessing recoverable amount, the estimated future cash flows are discounted to their present value. Estimated future cash flows are calculated using estimated recoverable mineral reserves, estimated future commodity prices and the expected future operating and capital costs. The projected cash flows are affected by changes in assumptions about metal selling prices, future capital expenditures, production cost estimates, discount rates, and exchange rates. The discount rate applied to the estimated future cash flows reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. Determining the discount rate includes appropriate adjustments for the risk profile of the country in which the individual asset or CGU operates.

If the carrying amount of an asset or CGU exceeds its recoverable amount, the carrying amount of the asset or CGU is reduced to its recoverable amount and an impairment loss is recognized in the consolidated statement of (loss) income. Assets that have been impaired are tested for possible reversal of the impairment whenever events or changes in circumstance indicate that the impairment may have reversed. Where an impairment subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but only so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortization or depletion) had no impairment loss been recognized for the asset or CGU in prior periods. A reversal of impairment is recognized in the consolidated statement of (loss) income.

xv. *Income taxes*

Current tax

Current tax for each taxable entity in the Company is based on the local taxable income at the local statutory tax rate enacted or substantively enacted at the reporting date, and includes adjustments to tax payable or recoverable in respect of previous periods.

Deferred tax

Deferred tax is accounted for using the consolidated statement of financial position liability method, providing for the tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their respective tax bases.

Deferred income tax liabilities are recognized for all taxable temporary differences except where the deferred income tax liability arises from the initial recognition of goodwill, or the initial

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recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax losses and unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax losses and unused tax credits can be utilized, and except where the deferred income tax asset related to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at each reporting date and is adjusted to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be utilized. To the extent that an asset not previously recognized fulfils the criteria for recognition, a deferred income tax asset is recorded.

Deferred tax is measured on an undiscounted basis using the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on tax rates and tax laws enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis. Current and deferred taxes relating to items recognized directly in equity are recognized in equity and not in the consolidated statement of (loss) income.

Mining taxes and royalties are treated and disclosed as current and deferred taxes if they have the characteristics of an income tax. This is considered to be the case as they are imposed under government authority and the amount payable is calculated by reference to revenue derived (net of any allowable deductions) after adjustment for items comprising temporary differences.

xvi. Taxes receivable

Taxes receivable are comprised of recoverable value added taxes in Canada, US, Mexico and Chile.

xvii. Embedded derivatives

Derivatives may be embedded in other financial instruments (the “host instrument”). Embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host instrument, the terms of the embedded derivative are the same as those of a stand-alone derivative, and the combined contract is not held for trading or designated at fair value. These embedded derivatives are measured at fair value with subsequent changes recognized in gains or losses on derivative instruments in the consolidated statement of (loss) income.

xviii. Compound instruments

The component parts of compound instruments are classified separately as financial liabilities and equity in accordance with the substance of the contractual agreement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar debt instruments. This amount is recorded as a liability on an amortized cost basis until extinguished upon conversion or at the instrument’s maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the

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compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured.

xix. Financial instruments

On initial recognition, financial assets are recognized at fair value and are subsequently classified and measured at: (i) amortized cost; (ii) fair value through other comprehensive income ("FVOCI"); or (iii) fair value through profit or loss ("FVTPL"). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. A financial asset is measured at fair value net of transaction costs that are directly attributable to its acquisition except for financial assets at FVTPL where transaction costs are expensed. All financial assets not classified and measured at amortized cost or FVOCI are measured at FVTPL. On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI.

The classification determines the method by which the financial assets are carried on the consolidated statement of financial position subsequent to inception and how changes in value are recorded. Accounts receivable are measured at amortized cost with subsequent impairments recognized in the consolidated statement of (loss) income. Short-term investments, concentrate receivables, promissory note receivables, and derivative assets are measured at FVTPL with subsequent changes recognized in the consolidated statement of (loss) income.

Short-term investments include investments in bankruptcy remote, AAA rated money market funds, and exchange traded funds. The mark-to-market adjustments for provisional pricing changes on concentrate receivables are based on forward commodity prices of metals and are included in revenues until final settlement. Investments in marketable securities are measured at FVOCI with subsequent changes recognized in OCI.

Financial liabilities are designated as either: (i) fair value through profit or loss; or (ii) amortized cost. All financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities at FVTPL. The classification determines the method by which the financial liabilities are carried on the consolidated statement of financial position subsequent to inception and how changes in value are recorded. Accounts payable and accrued liabilities and long-term debt are classified as amortized cost and carried on the consolidated statement of financial position at amortized cost.

xx. Impairment and uncollectibility of financial assets

An 'expected credit loss' impairment model applies which requires a loss allowance to be recognized based on expected credit losses. This applies to financial assets measured at amortized cost. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in the consolidated statement of (loss) income for the period.

In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through the

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consolidated statement of (loss) income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

xxi. Deferred revenue

Deferred revenue consists of payments received by the Company in consideration for future commitments to deliver payable gold and silver contained in concentrate at contracted prices. In addition, it includes the fair value of such commitments acquired by way of business combination. As deliveries are made, the Company records a portion of the deferred revenue as sales, based on a proportionate share of deliveries made compared with the total estimated contractual commitment.

xxii. Leases

Assets held under leases which result in the Company receiving substantially all the risks and rewards of ownership of the asset (finance leases) are capitalized at the lower of the fair value of the plant and equipment or the estimated present value of the minimum lease payments. The corresponding liability is recognized as a finance lease obligation. The interest element is allocated to accounting periods during the lease term to reflect the rate of interest on the remaining balance of the obligation. Operating lease assets are not capitalized and operating lease payments are included in the consolidated statement of (loss) income on a straight-line basis over the lease term.

xxiii. Employee Future Benefits

The Company sponsors defined benefit pension plans, post-retirement medical plans, and defined contribution pension plans.

The asset or liability recognized on the consolidated statement of financial position is the present value of the obligation of the plans at the consolidated statement of financial position date less the fair value of plan assets. In addition, the liability includes the present value of the obligations as determined by discounting the estimated future required contributions using interest rates of high-quality long-term corporate bonds. All actuarial gains and losses that arise in calculating the present value of the obligations and the fair value of plan assets are recognized immediately in the consolidated statement of comprehensive income (loss).

The cost of defined benefit and defined contribution pensions and other post-retirement benefits that relate to employees' current service is charged to earnings annually. The cost for the defined benefit plans is computed on an actuarial basis using the projected unit credit method prorated on services and management's best estimate of salary escalation, retirement ages of employees and expected health care costs. For calculating the expected return on plan assets, the assets are valued at fair value.

The discount rate used to measure the interest cost on the accrued employee future benefit obligation is set with reference to market interest rates on high-quality debt instruments.

Actuarial gains and losses arising from the employee future benefit plans are recognized immediately in other comprehensive income. Past service costs are recognized immediately to the extent that the benefits are already vested and otherwise are amortized on a straight-line basis over the average period until the benefits become vested.

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The Company's portion of the cost of defined contribution pensions is expensed as earned by employees.

xxiv. Reclamation and closure cost obligations

A reclamation and closure cost obligation is recognized for close down, restoration and environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the financial period when the related environmental disturbance occurs, based on the estimated future costs using information available at the consolidated statement of financial position date. At the time of establishing the provision, a corresponding asset is capitalized, where it gives rise to a future benefit, and amortized over future production from the operations to which it relates. The provision is discounted using a current market-based pre-tax discount rate and the unwinding of the discount is included in the consolidated statement of (loss) income as interest expense from discounting reclamation and closure cost obligations.

The obligation is reviewed each reporting period for changes to obligations, legislation or discount rates that impact estimated costs or lives of operations. The cost of the related asset is adjusted for changes in the provision resulting from changes in the estimated cash flows or discount rate and the adjusted cost of the asset is amortized prospectively.

xxv. Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive), as a result of past events, and it is probable that an outflow of resources that can be reliably estimated will be required to settle the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where the effect is material, the provision is discounted to net present value using an appropriate current market-based pre-tax discount rate and the unwinding of the discount is included in the consolidated statement of (loss) income as interest expense from discounting obligations.

xxvi. Share capital

The proceeds from the exercise of stock options or warrants together with amounts previously recorded over the vesting periods are recorded as share capital.

Share capital issued for non-monetary consideration is recorded at an amount based on fair market value of the shares on the date of issue.

The proceeds from the issue of units is allocated between common shares and common share purchase warrants on a pro-rata basis based on relative fair values as follows: the fair value of the common shares is based on the market close on the date the units are issued and the fair value of the common share purchase warrants is determined using the Black-Scholes Option Pricing Model.

Where any group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

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xxvii. Share-based payments

The Company makes periodic grants of share-based awards to selected directors, officers, employees and others providing similar service. Contributions to the Company's employee share purchase plan ("ESPP") are recorded on a payroll cycle basis as the Company's obligation to contribute is incurred.

The fair value of the equity-settled awards is determined at the date of the grant by using the Black-Scholes Option Pricing Model. At each reporting date prior to vesting, the cumulative expense representing the extent to which the vesting period has expired and management's best estimate of the awards that are ultimately expected to vest is computed. The movement in cumulative expense is recognized in the consolidated statement of (loss) income with a corresponding entry within equity, against the reserve for equity settled share based transactions. No expense is recognized for awards that do not ultimately vest.

xxviii. Revenue recognition

Sales of metal concentrates and cathode are recognized and revenue is recorded at market prices following the transfer of control to the customer, provided that the Company has a present right to payment, has transferred physical possession of the asset to the customer, and the customer has the significant risks and rewards of ownership. Capstone satisfies its performance obligations upon delivery of the metal concentrates and cathode. The Company's metal concentrates are sold under a pricing arrangement where final prices are determined by quoted market prices in a period subsequent to the date of sale. Until prices are final, revenues are recorded based on forward commodity prices of metals for the expected period of final settlement. Also, subsequent variations in the final determination of the metal concentrate weight, assay and price are recognized as revenue adjustments as they occur until finalized.

xxix. Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing net earnings available (attributable) to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted earnings (loss) per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings (loss) per share.

The dilutive effect of convertible securities is reflected in diluted earnings (loss) per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings (loss) per share by application of the treasury stock method.

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3. Adoption of New and Revised IFRS and IFRS Not Yet Effective

Impact of application of IFRS 15 Revenue from Contracts with Customers

Effective January 1, 2018, the Company has adopted IFRS 15 using the modified retrospective method which applies the standard retrospectively to only the most current period presented. Capstone has recognized the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained deficit at the date of initial application.

The Company has analyzed its contracts with customers for the application of IFRS 15. Minto's streaming arrangement has been affected by the adoption of IFRS 15 as (i) a significant financing component has been identified which increases finance costs and (ii) the application of the variable consideration constraint is expected to slow the rate at which deferred revenue is amortized to the consolidated statement of (loss) income. Under IAS 18, deferred revenue was amortized to income using the reserves in the current mine plan as the denominator. Under IFRS 15, deferred revenue is amortized to income using both reserves in the current mine plan and additional reserves and resources not included in the mine plan. As a result, upon transition, the Company's deferred revenue balance increased by \$11.1 million, deferred tax liabilities decreased by \$1.0 million, and retained deficit increased by \$10.1 million. The impact of the change to deferred revenue is included in liabilities directly associated with assets classified as held for sale.

In addition, for customer contracts with Delivered At Place ("DAP") terms, the point at which revenue is recognized for concentrate sales changed from the provisional payment date to the point at which control has passed (when goods are delivered). The impact of this is that for certain sales close to the December 31, 2017 consolidated statement of financial position date delivered in December, and the provisional payment was made in January 2018, these would have been recognized as revenue in 2017 under IFRS 15. As a result, upon transition, the Company's receivables increased by \$9.9 million, inventories decreased by \$5.0 million, deferred income tax liabilities increased by \$1.7 million, and retained deficit decreased by \$3.2 million.

The cumulative effect of the changes made to the January 1, 2018 consolidated statement of financial position for the adoption of IFRS 15 is as follows:

	Balance at December 31, 2017 (as reported)	Minto Deferred Revenue	Revenue Recognition Timing	Balance at January 1, 2018
Assets				
Receivables	\$ 39,195	\$ -	\$ 9,877	\$ 49,072
Inventories	89,423	-	(4,990)	84,433
Liabilities				
Deferred revenue	\$ 251	\$ 11,102	\$ -	\$ 11,353
Deferred income tax liabilities	44,457	(999)	1,723	45,181
Equity				
Retained deficit	\$ (63,011)	\$ (10,103)	\$ 3,164	\$ (69,950)

Impact of change in accounting policy

The impact of this change in accounting policy is that revenue is recognized sooner under IFRS 15, for certain customer contracts with DAP terms, than under IAS 18. Previously, revenue was recognized after the receipt of the payment for the provisional invoice, which was based on a transfer of risk and rewards approach. IFRS 15 instead focuses on when control of the assets have transferred to the customer; control passes to

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the customer upon delivery, which precedes the timing of the payment receipt on the provisional invoice, for certain customers contracts with DAP terms.

Impact of application of IFRS 9 Financial Instruments

Effective January 1, 2018, the Company has adopted IFRS 9 retrospectively. Prior periods were not restated and no material changes resulted from adopting this new standard. IFRS 9 introduced a revised model for classification and measurement, and while this has resulted in several financial instrument classification changes as presented in Note 4, there were no quantitative impacts from adoption.

Impact of change in accounting policy

There are several financial asset classification and measurement impacts as a result of this change in accounting policy:

- a) Capstone made an irrevocable election to present in other comprehensive income subsequent changes in the fair value of investments in marketable securities, which is substantially consistent with the accounting treatment prior to adoption. These financial assets are classified as FVOCI.
- b) The promissory note receivable has changed classification from amortized cost to FVTPL. The carrying value is equal to its fair value given the on demand nature of the note. Therefore, there is no change in the carrying value as a result of the change in classification.

The impairment model now focuses on expected losses rather than incurred losses. However, there is no impact on adoption. There are no transitional impacts regarding financial liabilities in regards to classification and measurement.

Adoption of IFRS 16 Leases

IFRS 16 was issued in January 2016 (effective January 1, 2019) and provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The Company plans on adopting IFRS 16 using the modified retrospective application method, where the 2018 comparatives are not restated and a cumulative catch up adjustment is recorded on January 1, 2019 for any differences identified, including adjustments to opening retained earnings balance. In addition, Capstone will apply the recognition exemptions in IFRS 16 for 'low value' leases and leases that end within 12 months of the date of initial application, and account for them as low value and short-term leases, respectively. Capstone has also chosen to apply the practical expedient of accounting for non-lease components and lease components as a single lease component.

The Company has analyzed its contracts to identify whether they are or contain a lease arrangement for the application of IFRS 16. This analysis has identified contracts that will have an equivalent increase to both the Company's right-of-use lease assets and lease liabilities. The lease liability and right-of-use asset expected to be recognized on adoption is approximately \$6 million. Subsequent to the date of initial application, the lease liability and right-of-use asset are expected to increase with the renewals of existing contracts that currently fall into the short-term lease exemption, or with new contracts entered into that are or contain a lease arrangement.

Subsequent to transition, amortization expense and finance costs will also increase accordingly, with an offset to operating cost and general and administrative expenses.

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4. Financial Instruments

Fair value of financial instruments

IFRS 13 establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

Level 1 – Fair values measured using unadjusted quoted prices in active markets for identical instruments

Level 2 – Fair values measured using directly or indirectly observable inputs, other than those included in level 1

Level 3 – Fair values measured using inputs that are not based on observable market data

As of December 31, 2018 the Company's classification of financial instruments within the fair value hierarchy are summarized below:

	Level 1	Level 2	Level 3	Total
Short-term investments	\$ 6,087	\$ 29,831	-	\$ 35,918
Concentrate receivables (Note 6)	-	8,523	-	8,523
Promissory note receivable (Note 11)	-	-	41,402	41,402
Derivative asset - current (Note 12)	-	114	-	114
Investment in marketable securities (Note 12)	1,698	-	-	1,698
	\$ 7,785	\$ 38,468	\$ 41,402	\$ 87,655

As of December 31, 2017 the Company's classification of financial instruments within the fair value hierarchy is summarized below:

	Level 1	Level 2	Level 3	Total
Concentrate receivables (Note 6)	\$ -	\$ 12,860	-	\$ 12,860
Derivative asset - current (Note 12)	-	366	-	366
Derivative asset - long-term (Note 12)	-	-	3,309	3,309
Investment in marketable securities (Note 12)	3,386	-	-	3,386
	\$ 3,386	\$ 13,226	\$ 3,309	\$ 19,921

The Company's policy for determining when a transfer occurs between levels in the fair value hierarchy is to assess the impact at the date of the event or the change in circumstances that could result in a transfer. There were no transfers between Level 1 and Level 2 during the year ended December 31, 2018. As described in Note 3, Capstone has reclassified the promissory note receivable from amortized cost to FVTPL, and this is classified in Level 3 as at January 1, 2018. There are no observable market data for valuing the promissory note receivable but the carrying value approximates its fair value due to its demand nature.

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Set out below are the Company's financial assets by category:

December 31, 2018				
	Fair value through profit or loss	Fair value through OCI	Amortized cost	Total
Cash and cash equivalents	\$ -	\$ -	\$ 30,072	\$ 30,072
Short-term investments	35,918	-	-	35,918
Concentrate receivables (Note 6)	8,523	-	-	8,523
Other receivables (Note 6)	-	-	930	930
Promissory note receivable (Note 11)	41,402	-	-	41,402
Derivative asset - current (Note 12)	114	-	-	114
Investments in marketable securities (Note 12)	-	1,698	-	1,698
	\$ 85,957	\$ 1,698	\$ 31,002	\$ 118,657

December 31, 2017				
	Fair value through profit or loss	Fair value through OCI	Amortized cost	Total
Cash and cash equivalents	\$ -	\$ -	\$ 116,201	\$ 116,201
Concentrate receivables (Note 6)	12,860	-	-	12,860
Other receivables (Note 6)	-	-	1,051	1,051
Promissory note receivable (Note 11)	-	-	42,611	42,611
Derivative asset - current (Note 12)	366	-	-	366
Derivative asset - long-term (Note 12)	3,309	-	-	3,309
Investments in marketable securities (Note 12)	-	3,386	-	3,386
	\$ 16,535	\$ 3,386	\$ 159,863	\$ 179,784

Set out below are the Company's financial liabilities by category:

December 31, 2018			
	Fair value through profit or loss	Amortized cost	Total
Accounts payable and accrued liabilities	\$ -	\$ 49,979	\$ 49,979
Long term debt (Note 14)	-	216,972	216,972
	\$ -	\$ 266,951	\$ 266,951

December 31, 2017			
	Fair value through profit or loss	Amortized cost	Total
Accounts payable and accrued liabilities	\$ -	\$ 53,902	\$ 53,902
Long term debt (Note 14)	-	270,707	270,707
	\$ -	\$ 324,609	\$ 324,609

There have been no changes during the year ended December 31, 2018 as to how the Company categorizes its financial assets and liabilities by FVTPL, FVOCI, and amortized cost, except for the classification change for the promissory note receivable from amortized cost to FVTPL upon adoption of IFRS 9.

At December 31, 2018, the carrying amounts of accounts receivable not arising from sales of metal concentrates, accounts payable and accrued liabilities, and other current assets and current liabilities are considered to be reasonable approximations of their fair values due to the short-term nature of these instruments. The carrying value of the promissory note receivable approximates its fair value due to its demand nature. The fair value of the Company's long term debt is approximated by their carrying values as the contractual interest rates are comparable to current market interest rates.

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Valuation methodologies for Level 2 financial instruments

The short-term investments in money market funds are valued using direct observable inputs of the underlying investments within the funds.

The key inputs to the valuation of the concentrate receivable balance are payable metal and future metal prices. The Company's metal concentrate sales contracts are subject to provisional pricing with the selling price adjusted at the end of the quotational period based on final settlement weights and assays. At each reporting date, the Company's accounts receivable on these contracts are marked-to-market based on a quoted forward price for which there exists an active commodity market.

The Company's derivative assets are warrants that are marked-to-market based on a valuation model which uses quoted observable inputs.

Commodity price risk

The Company is exposed to commodity price risk as its revenues are derived from the sale of metals, the prices for which have been historically volatile. It sometimes manages this risk by entering into forward sale agreements with various counterparties to mitigate price risk when management believes it a prudent decision.

Derivative contracts

The Company had previously entered into a series of forward and put and call contracts, which are derivative instruments and are marked-to-market at the end of each reporting period with the adjustment recorded as a gain or loss on commodity derivatives in the consolidated statement of (loss) income. These derivative contracts have all settled during 2017 and no derivative contracts were entered into during 2018. During 2017, Capstone made cash payments of \$21.7 million related to the settlement of 2016 zero cost collar call contracts for January 2017 through November 2017. In January 2018, a \$4.9 million cash payment was made related to the settlement of the zero cost collar contract for December 2017. The Company has not applied hedge accounting to these derivative instruments.

Details are as follows:

	2017
Forward contracts	
Reversal of unrealized loss (gain) from prior period	\$ 13,355
Realized loss	(19,020)
Put and Call contracts	
<i>2016 zero cost collar</i>	
Reversal of unrealized loss from prior period	\$ 7,382
Realized loss	(26,563)
Net loss on commodity derivatives	\$ (24,846)

Capstone Mining Corp.

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(tabular amounts expressed in thousands of US dollars, except share amounts)

Breakdown of total loss on derivatives is as follows:

	Year ended December 31,	
	2018	2017
Net loss on commodity derivatives	\$ -	\$ (24,846)
Unrealized (loss) gain on share purchase warrants	(233)	367
Total loss on derivatives	\$ (233)	\$ (24,479)

Credit risk

The Company is exposed to credit risk through its trade receivables on concentrate sales with various counterparties under the terms of off-take agreements. The Company manages this risk by requiring provisional payments of at least 90 percent of the value of the concentrate shipped. Taxes receivable are not considered to be subject to significant credit risk as these balances are receivable from government authorities.

The credit risk on cash and cash equivalents is limited because the funds are held with banks with high credit ratings as assigned by international credit rating agencies. Similarly, the credit risk on the short-term investments is limited as the investments are in highly liquid, bankruptcy remote, AAA rated money market funds, and exchange traded funds.

To mitigate exposure to credit risk on the promissory note from KORES (Note 11), the unsecured demand promissory note is being repaid through cash calls at the Acquisition Co. level, where the failure to make a cash call results in the option to dilute the shareholdings of the non-contributing shareholder.

As at December 31, 2018, the Company's maximum exposure to credit risk is the carrying value of its cash and cash equivalents, short-term investments, receivables, other assets and promissory note receivable.

Foreign exchange risk

The Company is exposed to foreign exchange risk as the Company's operating costs will be primarily in US dollars, Canadian dollars ("C\$") and Mexican Pesos, while revenues are received in US dollars. Hence, any fluctuation of the US dollar in relation to these currencies may affect the profitability of the Company and the value of the Company's assets and liabilities. The Company currently does not enter into foreign exchange hedging arrangements.

As at December 31, 2018, the Company is exposed to foreign exchange risk through the following financial assets and liabilities denominated in currencies other than the functional currency of the applicable subsidiary:

	US dollar	Canadian dollar	Mexican peso
Cash	\$ -	\$ 667	\$ 1,178
Receivables and other current assets	-	56	8,090
Deposits and other long-term assets	-	95	109
Financial assets held for sale	2,047	-	-
Total assets	2,047	818	9,377
Accounts payable and accrued liabilities	-	4,794	6,611
Financial liabilities held for sale	964	-	-
Total liabilities	964	4,794	6,611
Net assets	\$ 1,083	\$ (3,976)	\$ 2,766

Capstone Mining Corp.

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Based on the above net exposures at December 31, 2018, a 10% appreciation in the US dollar against the Canadian dollar would result in a \$0.1 million decrease to the Company's earnings before income taxes. A 10% appreciation in the Canadian dollar against the US dollar would result in a \$0.4 million decrease in the Company's earnings before income taxes. A 10% appreciation of the Mexican peso against the US dollar would result in a \$0.2 million increase in the Company's earnings before income taxes.

Liquidity risk

The Company has in place a planning and budgeting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. The Company maintains adequate cash balances and credit facilities to meet short and long term business requirements, after taking into account cash flows from operations and believes that these sources will be sufficient to cover the likely short and long term cash requirements. The Company's cash is held in business accounts with US and Canadian Tier 1 Banks with a Standard & Poor's rating of A or better and with Mexican banks with credit ratings of A- or better. The cash is available on demand for the Company's programs. In addition, the Company's short-term investments are highly liquid and can be readily convertible to cash.

As of December 31, 2018, the Company's liabilities that have contractual maturities are as follows:

	Total	2019	2020	2021	2022	After 2023
Accounts payable and accrued liabilities*	\$ 49,979	\$ 49,979	\$ -	\$ -	\$ -	\$ -
Long term debt	219,925	-	-	219,925	-	-
Operating leases and other contracts	4,423	748	735	735	735	1,470
	<u>\$ 274,327</u>	<u>\$ 50,727</u>	<u>\$ 735</u>	<u>\$ 220,660</u>	<u>\$ 735</u>	<u>\$ 1,470</u>

* Amounts above do not include payments related to the Company's reclamation and closure cost obligations and other long term provisions (Note 17).

Interest rate risk

Currently, the Company's long term debt is based on variable interest rates. Variable interest rates are based on both US dollar and Canadian dollar London Inter-bank Offered Rates ("LIBOR") plus a fixed margin. The Company has not entered into derivative contracts to manage this risk. Based on the utilized credit facility balance of \$219.9 million at December 31, 2018, for every 0.1% increase in LIBOR rates (10 basis point increase), annual net earnings before taxes would decrease by \$0.2 million. The Company is also exposed to interest rate risk with respect to the interest it earns on its cash balances and short-term investments.

5. Short-Term Investments

Details are as follows:

	December 31, 2018	December 31, 2017
Exchange traded funds	\$ 6,087	\$ -
Money market funds	29,831	-
Total short-term investments	<u>\$ 35,918</u>	<u>\$ -</u>

Short-term investments are investments in highly liquid, bankruptcy remote, AAA rated money market funds, and exchange traded funds.

Capstone Mining Corp.

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6. Receivables

Details are as follows:

	December 31, 2018	December 31, 2017
Concentrates	\$ 8,523	\$ 12,860
Value added taxes and other taxes receivable	7,838	20,873
Income taxes receivable	378	2,642
Other	930	1,051
Current portion of KORES promissory note (Note 11)	4,609	1,769
Total receivables	\$ 22,278	\$ 39,195

7. Inventories

Details are as follows:

	December 31, 2018	December 31, 2017
Consumable parts and supplies	\$ 31,915	\$ 42,959
Ore stockpiles	1,317	6,700
Concentrate	32,441	38,676
Cathode	835	1,088
Total inventories	\$ 66,508	\$ 89,423

During the year ended December 31, 2018, concentrate and cathode inventories recognized as production costs, including depletion and amortization, amounted to \$334.0 million (2017 – \$320.5 million).

During the year ended December 31, 2018, the Company recorded total non-cash charges of \$1.7 million (2017 - \$0.8 million) in production costs related to write-downs of \$1.6 million (2017 - \$0.9 million) for Pinto Valley's supplies and concentrate inventory, and charges (reversals) of \$0.1 million (2017 – (\$0.1 million)) for Cozamin's supplies inventory.

Capstone Mining Corp.

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8. Mineral Properties, Plant and Equipment

Details are as follows:

	Mineral properties			Plant and equipment				Total
	Depletable	Non-depletable	Subject to amortization	Depletable	Non-depletable	Subject to amortization	Subject to amortization	
	Producing mineral properties	Deferred stripping	Mineral exploration and development properties	Mill development costs	Plant & equipment	Construction in progress		
At January 1, 2018, net	\$ 398,227	\$ 76,496	\$ 284,860	\$ 20,231	\$ 289,730	\$ 23,711	\$	1,093,255
Additions	-	33,475	24,838	-	157	46,404		104,874
Disposals	-	-	(63)	-	721	-		658
Rehabilitation provision adjustments (Note 16)	1,752	-	-	-	-	-		1,752
Reclassifications	19,278	-	(19,278)	3,501	30,629	(34,130)		-
Held for sale (Note 9)	(4,293)	-	(18,299)	(5)	(6,641)	(4,835)		(34,073)
Depletion and amortization	(33,249)	(8,294)	-	(1,376)	(37,709)	-		(80,628)
Currency translation adjustments	(237)	-	(1,600)	-	(412)	(410)		(2,659)
At December 31, 2018, net	\$ 381,478	\$ 101,677	\$ 270,458	\$ 22,351	\$ 276,475	\$ 30,740	\$	1,083,179
At December 31, 2018:								
Cost	\$ 620,897	\$ 115,557	\$ 270,458	\$ 30,364	\$ 465,440	\$ 30,740	\$	1,533,456
Accumulated amortization	(239,419)	(13,880)	-	(8,013)	(188,965)	-		(450,277)
Net carrying amount	\$ 381,478	\$ 101,677	\$ 270,458	\$ 22,351	\$ 276,475	\$ 30,740	\$	1,083,179

	Mineral properties			Plant and equipment					Total
	Depletable	Non-depletable	Subject to amortization	Depletable	Non-depletable	Subject to amortization	Facilities & equipment under leases	Construction in progress	
	Producing mineral properties	Deferred stripping	Mineral exploration and development properties	Mill development costs	Plant & equipment	Facilities & equipment under leases	Construction in progress		
At January 1, 2017, net	\$ 409,474	\$ 49,833	\$ 253,198	\$ 6,454	\$ 320,897	\$ 339	\$ 30,756	\$ 1,070,951	
Additions	-	31,811	20,834	-	130	-	23,538	76,313	
Disposals	-	-	(112)	-	(3,395)	-	(1,356)	(4,863)	
Rehabilitation provision adjustments (Note 16)	5,526	-	-	-	-	-	-	5,526	
Reclassifications	6,862	-	(8,175)	14,679	15,936	(39)	(29,263)	-	
Impairment reversal	1,420	-	19,197	-	-	-	-	20,617	
Depletion and amortization	(25,109)	(5,148)	-	(907)	(44,222)	(298)	-	(75,684)	
Currency translation adjustments	54	-	(82)	5	375	7	36	395	
At December 31, 2017, net	\$ 398,227	\$ 76,496	\$ 284,860	\$ 20,231	\$ 289,721	\$ 9	\$ 23,711	\$ 1,093,255	
At January 1, 2017:									
Cost	\$ 628,076	\$ 68,146	\$ 253,198	\$ 19,349	\$ 541,620	\$ 9,138	\$ 30,756	\$ 1,550,283	
Accumulated amortization	(218,602)	(18,313)	-	(12,895)	(220,723)	(8,799)	-	(479,332)	
Net carrying amount	\$ 409,474	\$ 49,833	\$ 253,198	\$ 6,454	\$ 320,897	\$ 339	\$ 30,756	\$ 1,070,951	
At December 31, 2017:									
Cost	\$ 644,503	\$ 82,082	\$ 284,860	\$ 34,532	\$ 558,185	\$ 8,609	\$ 23,711	\$ 1,636,482	
Accumulated amortization	(246,276)	(5,586)	-	(14,301)	(268,464)	(8,600)	-	(543,227)	
Net carrying amount	\$ 398,227	\$ 76,496	\$ 284,860	\$ 20,231	\$ 289,721	\$ 9	\$ 23,711	\$ 1,093,255	

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The Company's exploration costs were as follows:

	Year ended December 31,	
	2018	2017
Exploration capitalized to mineral properties	\$ 8,296	\$ 5,614
Greenfield exploration expensed to the statement of income (loss)	3,307	4,522
Total exploration costs	\$ 11,603	\$ 10,136

Exploration capitalized to mineral properties in 2018 relates primarily to brownfield exploration at the Cozamin mine. Greenfield exploration expenses in 2018 relate primarily to exploration efforts in Chile and Mexico. During the year ended December 31, 2017, 1,985,664 common shares, with a value of \$2.0 million, were issued related to exploration properties in Chile. No common shares were issued during the year ended December 31, 2018 related to exploration properties.

The Company's care and maintenance costs incurred during the year were as follows:

	Year ended December 31,	
	2018	2017
Santo Domingo	\$ 2,044	\$ 1,605
San Manuel Arizona Railroad Company	999	1,048
Kutcho	-	35
Total care and maintenance costs	\$ 3,043	\$ 2,688

At December 31, 2018, construction in progress relates to capital costs incurred in connection with sustaining capital at the Pinto Valley and Cozamin mines.

As at December 31, 2018, bank borrowings (Note 14) were secured by mineral properties, plant and equipment with a net carrying value of \$876.2 million (December 31, 2017 – \$853.6 million).

9. Assets Classified as Held for Sale and Discontinued Operations

Minto is classified and accounted for as a disposal group held for sale as at December 31, 2018 and as a discontinued operation for the year ended December 31, 2018. During the fourth quarter of 2018, to preserve Minto's value, Capstone decided to put Minto on care and maintenance, while continuing to explore value maximizing alternatives. Capstone is committed to selling Minto and there are active plans and ongoing discussions with several interested parties.

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The major classes of assets and liabilities of Minto at December 31, 2018 classified as held for sale were as follows:

	December 31, 2018	
Cash	\$	3,814
Receivables		1,788
Inventory		7,742
Mineral properties, plant, and equipment		34,073
Other assets		2,453
Assets classified as held for sale	\$	49,870
Accounts payable and accrued liabilities	\$	6,482
Deferred income tax liabilities		1,681
Deferred revenue		10,054
Reclamation and closure cost obligations (Note 16)		23,602
Total liabilities associated with assets classified as held for sale	\$	41,819
Net assets classified as held for sale	\$	8,051

The \$27.0 million recognized directly in equity relating to assets classified as held for sale comprises the accumulated exchange differences held in equity relating to the Minto operations.

The results of the discontinued operations included in net income for the period are set out below. The comparative net (loss) income from discontinued operations has been re-presented to include the Minto operations as classified as discontinued in the current period.

(Loss) income for the period from discontinued operations:

	Year ended December 31,	
	2018	2017
Revenue	\$ 69,980	\$ 111,468
Production costs	(75,809)	(82,772)
Royalties	(678)	(1,811)
Depletion and amortization	(1,024)	(15,771)
(Loss) earnings from mining operations	(7,531)	11,114
Impairment reversal on mineral properties, plant & equipment	-	20,617
Care & maintenance	(3,056)	-
Restructuring expense	(14,641)	-
(Loss) earnings from operations	(25,228)	31,731
Other expense	(2,853)	(7,512)
Net finance costs	(2,135)	(1,466)
(Loss) income before income taxes	(30,216)	22,753
Income tax expense	(761)	(12,247)
Net (loss) income from discontinued operations (attributable to shareholders of Capstone)	\$ (30,977)	\$ 10,506

As Minto was put on care and maintenance during the fourth quarter of 2018, this triggered a restructuring provision, and restructuring expense includes demobilization of equipment of \$3.4 million, severance of \$1.1 million, and write-down of inventory \$10.1 million.

The comparative cash flows have been not been re-presented to include Minto as classified as discontinued in that period. The results of cash flows from discontinued operations for the period are set out below.

Capstone Mining Corp.

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Cash flows from discontinued operations:

	Year ended December 31,	
	2018	2017
Net cash outflows from operating activities	\$ (7,809)	\$ (20,636)
Net cash outflows from investing activities	(7,219)	(2,586)
Net cash outflows from financing activities	(808)	(1,018)
Net cash outflows	\$ (15,836)	\$ (24,240)

10. Sale of Kutcho Project

On December 15, 2017, Capstone completed the sale of its Kutcho development project to Kutcho Copper Corp. ("KC"). Capstone received \$23.0 million in cash and 4,646,892 common shares of KC with a value of \$2.4 million, under the terms of the sale agreement. Concurrently, Capstone acquired an additional 3,076,923 KC shares and 1,538,461 KC share purchase warrants pursuant to a private placement for C\$2.0 million.

Breakdown of the gain on sale is as follows:

	December 31, 2017	
Proceeds		
Cash	\$	22,956
Shares in KC		2,408
Less:		
Carrying value of Kutcho Project		(90)
Cumulative foreign currency translation adjustments related to Kutcho Project re-classified to net income		(8,183)
Costs to sell		(100)
Gain on sale of Kutcho Project	\$	16,991

11. KORES Promissory Note

In June 2011, the Company issued a promissory note to KORES for C\$81.8 million. Under the terms of the shareholders' agreement between Capstone and KORES, it is acknowledged that cash calls for the Santo Domingo project will be funded, to the extent possible, first by way of repayment of the promissory note. Since September 2011, KORES has funded cash calls through a reduction of its outstanding balance on the promissory note.

Details of changes in the balance of the promissory note receivable are as follows:

Balance, December 31, 2016	\$	43,208	
Cash calls against the promissory note		(597)	
Balance, December 31, 2017	\$	42,611	
Cash calls against the promissory note		(1,209)	
Balance, December 31, 2018	\$	41,402	
		December 31, 2018	December 31, 2017
KORES promissory note	\$	41,402	\$ 42,611
Less: current portion (Note 6)		(4,609)	(1,769)
Long-term portion	\$	36,793	\$ 40,842

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The current portion of the promissory note represents management's best estimate of the portion of the note that will be repaid within 12 months of the consolidated statement of financial position date.

12. Other Assets

Details are as follows:

	December 31, 2018	December 31, 2017
<i>Current:</i>		
Prepays and other	\$ 2,338	\$ 4,057
Derivative assets	114	366
Total other assets - current	\$ 2,452	\$ 4,423
<i>Non-current:</i>		
Taxes receivable	\$ 5,914	\$ 6,411
Investments in marketable securities	1,698	3,386
Deferred income tax assets (Note 15)	1,222	1,323
Derivative assets	-	3,309
Deposits	218	2,716
Total other assets - non-current	\$ 9,052	\$ 17,145

During the year ended December 31, 2017, the Company disposed of certain investments in marketable securities for total cash proceeds of \$17.2 million. A gain on sale of marketable securities was recorded for \$13.6 million, and the cumulative mark-to-market gains recorded in other comprehensive income in prior periods were reclassified to income.

13. Other Current Liabilities

Details are as follows:

	December 31, 2018	December 31, 2017
<i>Current:</i>		
Income taxes payable	\$ 8,105	\$ 3,431
Current portion of share-based payment obligation	3,360	2,477
Total other liabilities - current	\$ 11,465	\$ 5,908
<i>Non-current:</i>		
Retirement benefit liabilities	\$ 4,222	\$ 5,982
Deferred revenue	-	251
Other	665	838
Total other liabilities - non-current	\$ 4,887	\$ 7,071

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14. Long-Term Debt

Details are as follows:

	December 31, 2018	December 31, 2017
Long term debt	\$ 219,925	\$ 274,925
Financing fees	(2,953)	(4,218)
Total long term debt	\$ 216,972	\$ 270,707

Details of the changes in long-term debt, including both cash and non-cash changes are as follows:

Balance, December 31, 2016	\$ 324,884
Repayments	(54,000)
RCF amendment financing fees	(1,680)
Amortization of financing fees	1,503
Balance, December 31, 2017	\$ 270,707
Repayments	(55,000)
Amortization of financing fees	1,265
Balance, December 31, 2018	\$ 216,972

Capstone has a senior secured corporate revolving credit facility (“RCF”) which matures on April 19, 2021 with a credit limit to \$325 million, reducing by \$25 million each April 19 on the anniversary of the facility to \$275 million on April 19, 2020. The facility pricing grid, starting at LIBOR + 2.5% and increasing to LIBOR + 3.5% based on the total leverage ratio, is in effect until March 31, 2019, after which date pricing increases to LIBOR + 3.0% (adjustable to LIBOR + 4.5% depending on the total leverage ratio).

The interest rate at December 31, 2018 and December 31, 2017 was US LIBOR plus 2.75% with a standby fee of 0.62% payable on the undrawn balance (adjustable in certain circumstances).

Repayments of \$55.0 million were made on the RCF during the year ended December 31, 2018. These payments reduced the outstanding balance to \$219.9 million at December 31, 2018. In 2017, repayments of \$54.0 million were made on the RCF.

In 2017, the Company incurred \$1.7 million in fees associated with the RCF amendment; the fees incurred in 2017 were capitalized and are being amortized to the consolidated statement of (loss) income over the term of the facility. During 2018, a total of \$1.3 million (2017 – \$1.5 million) was amortized and recorded in other interest expense.

The RCF is secured against the present and future real and personal property, assets and undertakings of Capstone (excluding certain assets, which include Acquisition Co., Far West, Santo Domingo, and Far West Exploration S.A., and subject to certain exclusions for Capstone Mining Chile SpA and Capstone Exploraciones, S. A. de C. V.). The credit facility requires the Company to maintain certain financial ratios relating to debt and interest coverage. Capstone was in compliance with these covenants as at December 31, 2018.

At December 31, 2018, there were five Surety Bonds totaling \$177.3 million to support various reclamation obligation bonding requirements. This comprises C\$72.1 million securing reclamation obligations at the Minto Mine, \$118.6 million securing reclamation obligations at Pinto Valley, \$4.0 million provided as security as part of a power supply agreement at Pinto Valley, and \$1.9 million related to the construction of

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a port for Santo Domingo in Chile. In addition, the Company has two letters of credit with Scotiabank for a total of \$0.5 million.

15. Income Taxes

Details of the income tax expense are as follows:

	Year ended December 31, 2018				
	Canada	US	Mexico	Other	Total
Current income and mining tax expense	\$ -	\$ 544	\$ 14,086	\$ 187	\$ 14,817
Deferred income tax expense	-	16,134	2,252	-	18,386
Income tax expense	\$ -	\$ 16,678	\$ 16,338	\$ 187	\$ 33,203

	Year ended December 31, 2017				
	Canada	US	Mexico	Other	Total
Current income and mining tax expense	\$ -	\$ 1,297	\$ 9,047	\$ 165	\$ 10,509
Deferred income tax expense	238	3,870	2,040	-	6,148
Income tax expense	\$ 238	\$ 5,167	\$ 11,087	\$ 165	\$ 16,657

Income tax expense differs from the amount that would result from applying the Canadian federal and provincial income tax rates to earnings before income taxes. These differences result from the following items:

	Year ended December 31,	
	2018	2017
Income from continuing operations before income taxes	\$ 40,603	\$ 61,236
Canadian federal and provincial income tax rates	27.00%	26.00%
Income tax expense based on the above rates	10,963	15,921
Increase (decrease) due to:		
Non-deductible expenditures	532	839
Effects of different statutory tax rates on losses of subsidiaries	(4,225)	(525)
Change in income tax rates	-	(5,883)
Mexican mining royalty tax	3,256	1,740
Current period losses for which no deferred tax assets were recognized	3,444	10,977
Derecognition of tax assets previously recognized	20,268	-
Recognition of tax assets which were previously unrecognized	-	(1,013)
Non-taxable portion of capital gains	81	(4,221)
Foreign exchange and other translation adjustments	(206)	(582)
Adjustment to tax estimates in prior years	(819)	(812)
Other	(91)	216
Income tax expense	\$ 33,203	\$ 16,657

Capstone Mining Corp.

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Continuity of the changes in the Company's net deferred tax position is as follows:

	2018	2017
Net deferred tax liability, January 1 (as reported)	\$ 43,134	\$ 30,119
Change in accounting policy charged to retained earnings (Note 3)	724	-
Net deferred tax liability, January 1	\$ 43,858	\$ 30,119
Deferred income tax expense (recovery) for the year	18,386	14,175
Reclassification to discontinued operations	(1,026)	-
Deferred income tax charged against other comprehensive income	713	(920)
Currency translation adjustments	-	(240)
Net deferred tax liability, December 31	\$ 61,931	\$ 43,134

The composition of the deferred tax assets and liabilities are as follows:

	December 31, 2018	December 31, 2017
<i>Deferred income tax assets</i>		
Non-capital losses	\$ 13,487	\$ 8,356
Receivables and other current items	7,324	7,907
Share issue costs and other	-	1,584
Mineral properties, plant and equipment	-	1,082
Reclamation and closure cost obligations	-	21,477
Deferred income tax assets	20,811	40,406
<i>Deferred income tax liabilities</i>		
Mineral properties, plant and equipment	79,776	77,023
Inventories and other	1,516	4,172
Derivatives	-	894
Unrealized foreign exchange gains	1,450	1,451
Deferred income tax liabilities	82,742	83,540
<i>Net deferred income tax liability</i>	\$ 61,931	\$ 43,134
<i>Breakdown of net deferred income tax liability</i>		
Asset (Note 12)	\$ (1,222)	\$ (1,323)
Liability	63,153	44,457
	\$ 61,931	\$ 43,134

Deferred taxes are recorded on a net basis by legal entity where the right of offset exists (as shown in the table below) while the above table discloses the consolidated assets and liabilities on a gross basis.

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The composition of the deferred tax expense is as follows:

	Year ended December 31,	
	2018	2017
<i>Deferred income tax assets</i>		
Non-capital losses	\$ (5,131)	\$ 12,468
Receivables and other current items	(132)	1,621
Share issue costs and other	-	83
Reclamation and closure cost obligations	21,477	9,644
<i>Deferred income tax liabilities</i>		
Mineral property, plant and equipment	4,582	(17,919)
Inventories and other	(2,410)	196
Unrealized foreign exchange gains	-	55
<i>Deferred tax expense</i>	\$ 18,386	\$ 6,148

At December 31, 2018, \$1.2 million (2017 – \$1.3 million) was recognized as a deferred tax asset based on management’s forecasts of future income.

As at December 31, 2018, the Company had tax losses of \$176.2 million (2017 - \$142.8 million) with a tax benefit of \$47.6 million (2017– \$37.2 million) that are not recognized as deferred tax assets. The Company recognizes the benefit of tax losses only to the extent that it anticipates future taxable income that can be reduced by the tax losses. \$137.6 million (2017 - \$95.2 million) of the tax losses for which a tax benefit has not been recorded expire from 2024 to 2038 while the remaining \$44.0 million (2017 - \$47.5 million) of the tax losses have no expiry date.

The summary of unrecognized deductible temporary differences is as follows:

	Year ended December 31,	
	2018	2017
Accounts payable and other	\$ 14,297	\$ 18,375
Mineral, property, plant and equipment	138,158	143,319
Unrealized foreign exchange losses	11,613	2,964
Investments	2,563	656
Reclamation and closure cost obligations	113,636	22,355
	\$ 280,267	\$ 187,669

As at December 31, 2018, the Company has \$280.3 million (2017 - \$187.7 million) of deductible temporary differences with a tax benefit of \$71.8 million (2017 – \$50.2 million) that are not recognized as deferred tax assets. It is not probable that future taxable income will be available against which the Company can utilize these benefits. The majority of these benefits do not have an expiry date.

As at December 31, 2018, the Company had tax credits of \$15.8 million (2017 – \$17.0 million) that have not been recognized and expire between 2023 and 2037.

As at December 31, 2018, the Company has not recognized deferred taxes on approximately \$164.5 million (2017 - \$150.7 million) of retained earnings of its foreign subsidiaries, as it is the Company’s intention to invest these earnings to maintain and expand the business of these subsidiaries.

As at December 31, 2018, the Company has \$35.6 million (2017 – \$32.9 million) of capital losses that are unrecognized and available to be utilized against future capital gains.

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16. Provisions

The reclamation and closure cost obligations relate to the operations of the Pinto Valley and Cozamin mines, and other exploration and development properties.

Details of changes in the balances are as follows:

	Reclamation & closure cost obligations	Other long term provisions	Share-based payment obligations	Total
Balance, January 1, 2018	\$ 111,853	\$ 3,057	\$ 18,011	\$ 132,921
Share-based payment expense (recovery) (Note 17)	-	-	(7,834)	(7,834)
Change in estimates	1,212	195	-	1,407
Interest expense from discounting obligations	2,544	-	-	2,544
Payments during the year	(125)	(199)	(3,309)	(3,633)
Held for sale (Note 9)	(23,602)	-	-	(23,602)
Currency translation adjustments	(1,848)	(24)	(1,075)	(2,947)
Balance, December 31, 2018	\$ 90,034	\$ 3,029	\$ 5,793	\$ 98,856
Less: Current portion of Share-based payment obligation included within Other liabilities (Note 13)	-	-	(3,360)	(3,360)
Total Provisions - Non-current	\$ 90,034	\$ 3,029	\$ 2,433	\$ 95,496
Balance, January 1, 2017	\$ 106,831	\$ 2,366	\$ 10,172	\$ 119,369
Share-based payment expense (recovery) (Note 17)	-	-	8,810	8,810
Change in estimates	5,457	606	-	6,063
Interest expense from discounting obligations	2,489	-	-	2,489
Payments during the year	(4,719)	(17)	(1,597)	(6,333)
Sale of Kutcho Project	(39)	-	-	(39)
Currency translation adjustments	1,834	102	626	2,562
Balance, December 31, 2017	\$ 111,853	\$ 3,057	\$ 18,011	\$ 132,921
Less: Current portion of Share-based payment obligation included within Other liabilities (Note 13)	-	-	(2,477)	(2,477)
Total Provisions - Non-current	\$ 111,853	\$ 3,057	\$ 15,534	\$ 130,444

The change in estimate related to the reclamation and closure cost obligation of \$1.2 million (2017 - \$5.4 million) was recorded as an increase to mineral properties of \$1.7 million (2017 - \$5.5 million) (Note 8) and to consolidated statement of (loss) income of (\$0.5 million) (2017 - (\$0.1 million)).

A reclamation and closure cost obligation has been recognized in respect of the mining operations of the Pinto Valley Mine, including associated infrastructure and buildings as well as the rail operations. The estimated undiscounted cash flows required to satisfy the Pinto Valley reclamation and closure cost obligation as at December 31, 2018 were \$84.5 million (2017 - \$81.3 million), which have been adjusted for inflation and uncertainty of the cash flows and then discounted using current market-based pre-tax discount

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rates ranging from 2.69% to 3.02% (2017 – 2.35% to 2.88%) depending on the estimated timing of the future cash outflows. The resulting reclamation and closure cost obligation for the Pinto Valley Mine at December 31, 2018 totalled \$76.0 million (2017 - \$77.3 million), of which an amount of \$102.9 million is secured by a surety bond from Zurich Insurance in favour of the Arizona Department of Environmental Quality and \$15.7 million is secured by a surety bond from Liberty Mutual in favour of the Arizona State Mine Inspector.

A reclamation and closure cost obligation has been recognized in respect of the mining operations of the Cozamin Mine, including associated infrastructure and buildings. The estimated undiscounted cash flows required to satisfy the Cozamin reclamation and closure cost obligation as at December 31, 2018 were 243.6 million Mexican pesos (2017 – 211.6 million Mexican pesos), which were adjusted for inflation and uncertainty of the cash flows and then discounted using current market-based pre-tax discount rates ranging from 2.04% to 2.28% (2017 – 1.68% to 2.30%). The resulting reclamation and closure cost obligation for Cozamin at December 31, 2018 totalled \$14.0 million (2017 - \$12.2 million), with an additional \$2.8 million (2017 - \$2.8 million) of other mine closure costs related primarily to severance.

The Company expects that the cash outflows in respect to the balances accrued as at the financial statement dates will occur proximate to the dates these long term assets are retired.

In view of uncertainties concerning reclamation and closure cost obligations, the ultimate costs could be materially different from the amounts estimated. The estimate of future reclamation and closure cost obligations is also subject to change based on amendments to applicable laws and legislation. Future changes in reclamation and closure cost obligations, if any, could have a significant impact.

17. Share Capital

Authorized

An unlimited number of common voting shares without par value.

Stock options

Pursuant to the Company's amended stock option plan, directors may authorize the granting of options to directors, officers, employees and consultants of the Company to a maximum of 10% of the issued and outstanding common shares at the time of grant, with a maximum of 5% of the Company's issued and outstanding shares reserved for any one person annually. Options granted under the plan have a term not to exceed 5 years and vesting periods that range from zero to 3 years.

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The continuity of stock options issued and outstanding is as follows:

	Options outstanding	Weighted average exercise price (C\$)
Outstanding, December 31, 2016	28,336,274	\$ 1.44
Granted	2,912,240	\$ 1.62
Exercised	(2,125,878)	0.64
Expired	(3,758,599)	2.45
Forfeited	(233,563)	0.73
Outstanding, December 31, 2017	25,130,474	\$ 1.38
Granted	3,858,745	1.32
Exercised	(1,058,385)	0.66
Expired	(4,586,590)	2.22
Forfeited	(975,461)	1.35
Outstanding, December 31, 2018	22,368,783	\$ 1.24

As at December 31, 2018, the following options were outstanding and outstanding and exercisable:

Exercise prices (C\$)	Outstanding			Outstanding & exercisable		
	Number of options	Weighted average exercise price (C\$)	Weighted average remaining life (years)	Number of options	Weighted average exercise price (C\$)	Weighted average remaining life (years)
\$0.33	8,089,753	\$ 0.33	2.1	8,089,753	\$ 0.33	2.1
\$0.54 - \$0.91	434,059	0.65	4.8	-	-	-
\$1.20 - \$1.68	10,434,547	1.46	2.4	6,046,952	1.42	1.4
\$2.59 - \$2.88	3,410,424	2.79	0.5	3,410,424	2.79	0.5
	22,368,783	\$ 1.24	2.0	17,547,129	\$ 1.18	1.5

The Company uses the fair value method of accounting for all share-based payments to directors, officers, employees and consultants. During the year ended December 31, 2018, the Company recorded a share-based compensation expense of \$0.9 million (2017 – \$1.3 million) related to stock options. The portion of share-based compensation recorded is based on the vesting schedule of the options.

During 2018, the total fair value of options granted was \$1.8 million (2017 – \$1.5 million) and had a weighted average grant-date fair value of C\$0.67 (2017 – C\$0.66) per option. The fair values of the stock options granted were estimated on the respective grant dates using the Black-Scholes Option Pricing Model. Volatility was determined using the Company's historical daily volatility over the expected life of the options.

Weighted average assumptions used in calculating fair value of options granted during the year were as follows:

	December 31, 2018	December 31, 2017
Risk-free interest rate	2.05%	1.51%
Expected dividend yield	nil	nil
Expected share price volatility	67%	59%
Expected forfeiture rate	4.95%	4.80%
Expected life	3.8 years	3.8 years

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Option pricing models require the input of subjective assumptions including the expected price volatility. Changes in the assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

Other share-based compensation plans

The Company has other share-based compensation plans in the form of Deferred Share Units ("DSUs"), Restricted Share Units ("RSUs") and Performance Share Units ("PSUs"). Units granted under these share-based compensation plans are recorded at fair value on the grant date and are adjusted for changes in fair value each reporting period until settled. The expense, and any changes which arise from fluctuations in the fair value of the grants, is recognized in share-based compensation in the consolidated statement of (loss) income with the corresponding liability recorded on the consolidated statement of financial position in provisions (Note 16).

Deferred Share Units

The Company has established a Deferred Share Unit Plan (the "DSU Plan") whereby DSUs are issued to directors as long term incentive compensation. DSUs issued under the DSU Plan are fully vested upon issuance and entitle the holder to a cash payment only following cessation of service on the Board of Directors. The value of the DSUs when converted to cash will be equal to the number of DSUs granted multiplied by the quoted market value of a Capstone common share at the time the conversion takes place.

Compensation expense related to DSUs is recorded immediately and is adjusted at each reporting period to reflect the change in quoted market value of the Company's common shares.

Restricted Share Units and Performance Share Units

The Company has established a Share Unit Plan (the "Plan") whereby RSUs and PSUs are issued to executives as long term incentive compensation.

RSUs issued under the Plan entitle the holder to a cash payment at the end of the three-year vesting period equal to the number of RSUs granted, multiplied by the quoted market value of a Capstone common share on the completion of the vesting period.

PSUs issued under the Plan entitle the holder to a cash payment at the end of a three-year performance period equal to the number of PSUs granted, adjusted for a performance factor and multiplied by the quoted market value of a Capstone common share on the completion of the performance period. The performance factor can range from 0% to 150% and is determined by comparing the Company's total shareholder return to those achieved by a peer group of companies.

Compensation expense related to RSUs and PSUs is recorded over the three-year vesting period. The amount of compensation expense is adjusted at each reporting period to reflect the change in quoted market value of the Company's common shares, the number of RSUs and PSUs expected to vest, and in the case of PSUs, the expected performance factor.

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The continuity of DSUs, RSUs, and PSUs issued and outstanding is as follows:

	DSUs	RSUs	PSUs
Outstanding, December 31, 2016	3,512,790	12,499,638	5,447,332
Granted	630,208	1,673,544	1,397,154
Forfeited	-	(806,113)	(132,102)
Settled	(471,930)	(1,305,048)	(306,029)
Outstanding, December 31, 2017	3,671,068	12,062,021	6,406,355
Granted	526,045	3,385,118	1,629,924
Forfeited	-	(1,024,572)	(1,292,997)
Settled	(563,579)	(5,577,546)	(741,585)
Outstanding, December 31, 2018	3,633,534	8,845,021	6,001,697

During 2018, the Company recorded share-based compensation (recovery) expense of (\$7.8 million) (2017 – \$8.8 million) related to DSUs, RSUs, and PSUs.

During 2018, the total fair value of DSUs, RSUs, and PSUs granted during the year was \$5.9 million (2017 - \$4.7 million) and had a weighted average grant-date fair value of C\$1.35 (2017 – C\$1.66) per unit.

RSU and PSU obligations, under the Share Unit Plan, can be settled in cash, shares delivered from a Share Purchase Trust or a combination thereof, as determined by and at the discretion of the Human Resources and Compensation Committee of the Company's Board of Directors. DSU obligations, under the Deferred Share Unit Plan, are redeemed in cash. During the year ended December 31, 2018 Capstone's Share Purchase Trust purchased 5.4 million (2017 – 5.6 million) Capstone shares for \$4.9 million (2017 – \$5.4 million) to settle outstanding RSUs and PSUs.

18. Revenue

The Company's revenue breakdown by metal is as follows:

	Year ended	
	December 31, 2018	December 31, 2017
Copper	\$ 411,216	\$ 445,822
Zinc	13,761	10,555
Lead	2,336	163
Molybdenum	2,481	80
Silver	19,308	16,733
Gold	2,221	2,987
Total gross revenue	451,323	476,340
Less: treatment and selling costs	(35,436)	(45,869)
Revenue	\$ 415,887	\$ 430,471

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Revenue recognized in the reporting period for provisional pricing changes:

	Year ended December 31,	
	2018	2017
Copper	\$ (5,955)	\$ (2,149)
Silver	224	(49)
Zinc	(183)	87
Lead	(3)	-
Molybdenum	-	73
Gold	663	(1,257)
Revenue adjustments from provisional pricing arrangements	\$ (5,254)	\$ (3,295)

Customer details are as follows:

	Year ended December 31,					
	2018			2017		
	Pinto Valley USA	Cozamin Mexico	Total	Pinto Valley USA	Cozamin Mexico	Total
Customer #1	\$ 48,754	\$ 21,421	\$ 70,175	\$ 52,714	\$ 101,999	\$ 154,713
Customer #2	46,164	104,229	150,393	34,461	-	34,461
Customer #3	62,229	-	62,229	50,514	-	50,514
Customer #5	32,133	3,824	35,957	77,087	163	77,250
Customer #13	64,718	-	64,718	31,699	-	31,699
Other	67,732	119	67,851	108,786	18,917	127,703
Total gross revenue	\$ 321,730	\$ 129,593	\$ 451,323	\$ 355,261	\$ 121,079	\$ 476,340

19. (Loss) Earnings Per Share

(Loss) earnings per share, calculated on a basic and diluted basis, is as follows:

	Year ended December 31,	
	2018	2017
(Loss) income per share		
Basic and diluted	\$ (0.06)	\$ 0.14
<i>Net (loss) income</i>		
Net (loss) income attributable to common shareholders - basic and diluted	\$ (22,672)	\$ 55,232
<i>Weighted average shares outstanding</i>		
Weighted average shares outstanding - basic	386,690,981	382,374,835
Dilutive securities		
Stock options	-	6,637,358
Weighted average shares outstanding - diluted	386,690,981	389,012,193
<i>Weighted average shares excluded (as anti-dilutive)</i>		
Stock options	23,368,783	18,493,116

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20. Related Party Balances and Transactions

The immediate parent and ultimate controlling party of the group is Capstone Mining Corp. (incorporated in British Columbia, Canada).

The details of the Company's material entities, ownership interests, and functional currency are as follows:

Name	Location	Ownership	Status	Functional Currency
Pinto Valley	US	100%	Consolidated	US dollar
Capstone Gold	Mexico	100%	Consolidated	US dollar
Minto	Canada	100%	Consolidated	Canadian dollar
Santo Domingo	Chile	70%	Consolidated	US dollar

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

Any transactions with other related parties in the normal course of operations are measured at the fair value amount of consideration established and agreed to by the related parties. Any amounts due to/receivable from related parties are unsecured, non-interest bearing and have no specific repayment terms.

The details of the Company's subsidiaries with material non-controlling interests are as follows:

Acquisition Co. is a 70% owned subsidiary of Capstone and 30% owned by KORES. Through Acquisition Co.'s wholly-owned Canadian subsidiary, Far West, the Company is engaged in the exploration for base and precious metals in Chile, and the country of incorporation is Canada. For the year ended December 31, 2018, a loss of \$0.9 million (2017 - \$0.1 million) has been allocated to non-controlling interests of Acquisition Co. As at December 31, 2018, Acquisition Co. has accumulated losses of \$371.1 million (2017 - \$368.1 million).

Summarized financial information about Acquisition Co. is as follows:

	December 31, 2018	December 31, 2017
Current assets	\$ 19,010	\$ 7,904
Non-current assets	369,504	382,168
Current liabilities	7,991	6,558
Non-current liabilities	114	87
Net loss	3,017	490
Total comprehensive loss	3,017	490
Mineral properties, plant and equipment additions	1,378	-
Repayment of KORES promissory note	1,209	597
Repayment of Capstone promissory note *	2,820	1,394

* The Capstone promissory note is eliminated on consolidation in the Company's consolidated financial statements

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Compensation of Key Management Personnel

During the year, compensation of key management personnel was as follows:

	Year ended December 31,	
	2018	2017
Salaries and short-term benefits	\$ 4,222	\$ 3,500
Share-based payments*	(3,832)	5,713
	\$ 390	\$ 9,213

*Share-based payments compensation is negative due to the decline in value of the RSUs and PSUs during the year and the corresponding recovery recorded in the consolidated statement of (loss) income.

Capstone's key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and consist of its directors and senior officers.

The total salaries and benefits incurred by the Company during 2018 were \$95.3 million (2017 - \$93.8 million).

21. Supplemental Cash Flow Information

The significant non-cash financing and investing transactions during the period are as follows:

	Year ended December 31,	
	2018	2017
Mineral property, plant and equipment addition for change in estimate of reclamation and closure cost obligations (Note 8)	\$ (1,752)	\$ (5,526)
Decrease in accounts payable and accrued liabilities related to mineral property, plant and equipment	\$ (3,764)	\$ (1,615)
Depreciation of mining equipment capitalized to deferred stripping assets	\$ (6,296)	\$ (5,892)
Fair value of shares issued to Wheaton Precious Metals	\$ -	\$ 7,500
Fair value of stock options allocated to share capital upon exercise	\$ 218	\$ 1,251

As at December 31, 2018, cash on hand was \$29.8 million (2017 - \$111.5 million) and cash equivalents was \$0.3 million (2017 - \$4.7 million).

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22. Changes in Non-Cash Working Capital

The changes in non-cash working capital items are comprised as follows:

	Year ended December 31,	
	2018	2017
Receivables	\$ 27,527	\$ 3,480
Inventories	2,465	(15,524)
Other assets	1,591	(1,604)
Accounts payable and accrued liabilities	(913)	(3,617)
Other liabilities	7	(4)
Net change in non-cash working capital	\$ 30,677	\$ (17,269)

23. Capital Management

The Company's capital consists of the items included in shareholders' equity, long term debt, net of cash and cash equivalents, short-term investments, and investments in marketable securities. The Company manages the capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the Company's assets.

To effectively manage its capital requirements, the Company has in place a planning and budgeting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. The Company ensures that there are sufficient committed loan facilities to meet its short term business requirements, taking into account its anticipated operational cash flows and its cash and cash equivalents, short-term deposits and long-term investments.

The RCF contains various financial covenants, including: a) an interest coverage ratio and b) leverage ratios. As at December 31, 2018, the Company was in compliance with these covenants.

24. Commitments

Agreements with the Grupo Bacis

Under the terms of the December 2003 option agreement with Grupo Minera Bacis S.A. de C.V. ("Bacis"), Capstone assumed a 100% interest in the Cozamin Mine with a 3% net smelter royalty paid to Bacis on all payable metal sold from production on the property covered by the agreement.

Off-take agreements

The Company has a concentrate off-take agreement with a third party whereby it will purchase 100% of the copper concentrate produced by the Cozamin Mine up to the end of November 2019.

The Company has a concentrate off-take agreement with a third party whereby it will purchase 100% of the zinc concentrate produced by the Cozamin Mine up to the end of November 2019.

The Company has a concentrate off-take agreement with a third party whereby it will purchase 100% of the lead concentrate produced by the Cozamin Mine up to the end of December 2020.

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The Company has a number of annual and multi-year concentrate off-take agreements with a third parties for purchase of the copper concentrate produced by the Pinto Valley Mine.

The Company has entered into various lease agreements for office space with terms that expire between 2019 and 2024. The total remaining lease commitments as at December 31, 2018 are \$4.4 million (2017 - \$6.7 million).

Capital expenditure contracted for at the end of the reporting period but not yet incurred was \$6.4 million (2017 - \$2.6 million).

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25. Segmented information

The Company is engaged in mining, exploration and development of mineral properties, and has operating mines in the US and Mexico. The Company has four reportable segments as identified by the individual mining operations of Pinto Valley (US), Cozamin (Mexico), as well as the Santo Domingo development project (Chile) and Other. Segments are operations reviewed by the CEO, who is considered to be the chief operating decision maker. Minto operations have been classified as held for sale and a discontinued operation.

Operating segment details are as follows:

	Year ended December 31, 2018				
	Pinto Valley	Cozamin	Santo Domingo	Other	Total
Revenue					
Copper	\$ 313,478	\$ 97,738	\$ -	\$ -	\$ 411,216
Silver	3,634	15,674	-	-	19,308
Zinc	-	13,761	-	-	13,761
Lead	-	2,336	-	-	2,336
Molybdenum	2,481	-	-	-	2,481
Gold	2,136	85	-	-	2,221
Treatment and selling costs	(27,022)	(8,414)	-	-	(35,436)
Net revenue	294,707	121,180	-	-	415,887
Production costs	(214,104)	(50,998)	-	-	(265,102)
Royalties	-	(3,540)	-	-	(3,540)
Depletion and amortization	(43,508)	(25,374)	-	-	(68,882)
Earnings from mining operations	37,095	41,268	-	-	78,363
Exploration expenses	-	(1,087)	(48)	(2,172)	(3,307)
Care and maintenance	(999)	-	(2,044)	-	(3,043)
Restructuring expense	-	-	-	(2,574)	(2,574)
General and administrative expenses, and share-based compensation	(765)	(476)	-	(10,818)	(12,059)
Earnings (loss) from operations	35,331	39,705	(2,092)	(15,564)	57,380
Other income (expense)	448	(74)	(535)	623	462
Earnings (loss) before finance costs and income taxes	35,779	39,631	(2,627)	(14,941)	57,842
Net finance costs	(2,963)	178	-	(14,454)	(17,239)
Earnings (loss) before income taxes	32,816	39,809	(2,627)	(29,395)	40,603
Income tax expense	(16,866)	(15,434)	-	(903)	(33,203)
Net income (loss) from continuing operations	\$ 15,950	\$ 24,375	\$ (2,627)	\$ (30,298)	\$ 7,400
Net loss from discontinued operations (Note 9)	-	-	-	-	(30,977)
Total net income (loss)	\$ 15,950	\$ 24,375	\$ (2,627)	\$ (30,298)	\$ (23,577)

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	Year ended December 31, 2017					Total
	Pinto Valley	Cozamin	Santo Domingo	Other		
Revenue						
Copper	\$ 347,712	\$ 98,110	\$ -	\$ -	\$ -	\$ 445,822
Silver	4,482	12,251	-	-	-	16,733
Zinc	-	10,555	-	-	-	10,555
Lead	-	163	-	-	-	163
Molybdenum	80	-	-	-	-	80
Gold	2,987	-	-	-	-	2,987
Treatment and selling costs	(33,229)	(12,640)	-	-	-	(45,869)
Net Revenue	322,032	108,439	-	-	-	430,471
Production costs	(213,779)	(49,527)	-	-	-	(263,306)
Royalties	-	(3,551)	-	-	-	(3,551)
Depletion and amortization	(41,905)	(15,291)	-	-	-	(57,196)
Earnings from mining operations	66,348	40,070	-	-	-	106,418
Exploration expenses	(60)	(1)	(75)	(4,386)	-	(4,522)
Gain on sale of Kutcho Project	-	-	-	16,991	-	16,991
Care and maintenance	(1,048)	-	(1,605)	(35)	-	(2,688)
General and administrative expenses, and share-based compensation	(605)	(529)	-	(25,696)	-	(26,830)
Earnings (loss) from operations	64,635	39,540	(1,680)	(13,126)	-	89,369
Other income (expense)	(1,190)	(152)	585	(10,859)	-	(11,616)
Earnings (loss) before finance costs, and income taxes	63,445	39,388	(1,095)	(23,985)	-	77,753
Net finance costs	(2,830)	(150)	-	(13,537)	-	(16,517)
Earnings (loss) before income taxes	60,615	39,238	(1,095)	(37,522)	-	61,236
Income tax recovery (expense)	(5,331)	(11,087)	-	(239)	-	(16,657)
Net income (loss) from continuing operations	55,284	28,151	(1,095)	(37,761)	-	44,579
Net income from discontinued operations (Note 9)	-	-	-	-	-	10,506
Total net income (loss)	\$ 55,284	\$ 28,151	\$ (1,095)	\$ (37,761)	\$ -	\$ 55,085
Mineral properties, plant & equipment additions	\$ 50,879	\$ 23,108	\$ -	\$ (391)	\$ -	\$ 73,596

	As at December 31, 2018					Total
	Pinto Valley	Cozamin	Minto	Santo Domingo	Other	
Mineral properties, plant and equipment	\$ 710,817	\$ 129,562	\$ -	\$ 240,933	\$ 1,867	\$ 1,083,179
Total assets	\$ 802,440	\$ 174,066	\$ 49,870	\$ 247,790	\$ 61,956	\$ 1,336,122
Total liabilities	\$ 141,800	\$ 69,771	\$ 41,819	\$ 1,106	\$ 229,275	\$ 483,771

Capstone Mining Corp.

Notes to Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

(tabular amounts expressed in thousands of US dollars, except share amounts)

	As at December 31, 2017					Total
	Pinto Valley	Cozamin	Minto	Santo Domingo	Other	
Mineral properties, plant and equipment	\$ 699,362	\$ 124,968	\$ 27,166	\$ 239,602	\$ 2,157	\$ 1,093,255
Total assets	\$ 806,776	\$ 180,489	\$ 86,575	\$ 246,401	\$ 80,243	\$ 1,400,484
Total liabilities	\$ 123,356	\$ 57,733	\$ 32,551	\$ 329	\$ 298,520	\$ 512,489

26. Contingencies

In the normal course of business, the Company is aware of certain claims and potential claims. The outcome of these claims and potential claims is not determinable at this time, although the Company does not believe these claims and potential claims will have a material adverse effect on the Company's results of operations or financial position.