capstone MINING CORP

MANAGEMENT'S DISCUSSION AND ANALYSIS

AND

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended
December 31, 2019

(Expressed in US Dollars)

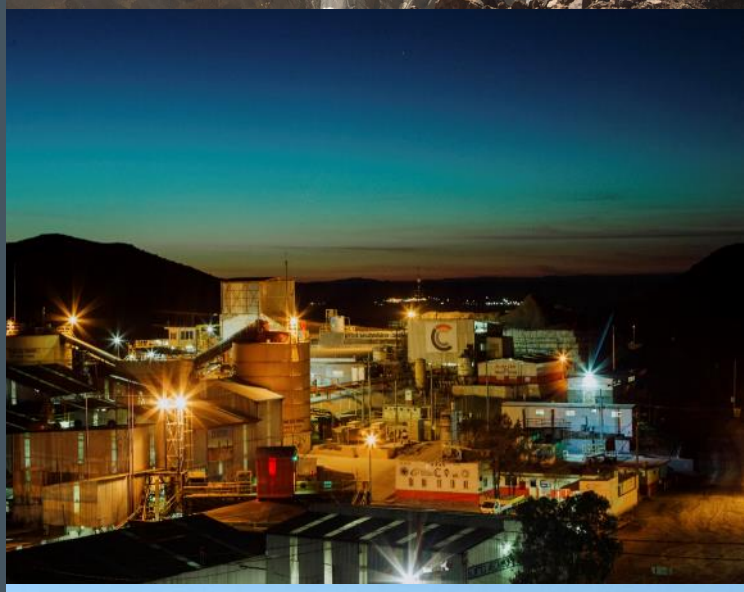


TABLE OF CONTENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS OF CAPSTONE MINING CORP. FOR THE YEAR ENDED DECEMBER 31, 2019

Capstone Mining Corp. ("Capstone" or the "Company") has prepared the following management's discussion and analysis (the "MD&A") as of February 11, 2020 and it should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2019. All financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") and all dollar amounts presented are United States ("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, the continuing success of mineral exploration, Capstone's ability to fund future exploration activities, 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 "anticipated", "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, market access restrictions or tariffs, 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, licenses and permits from governmental authorities, acting as Indemnitor for Minto Exploration Ltd.'s surety bond obligations post divestiture, impact of climatic conditions on our Pinto Valley and Cozamin 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.

Table of Contents

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. 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 Corporation. ("KORES"). Through Acquisition Co.'s wholly-owned Canadian subsidiary, Far West Mining Ltd. ("Far West"), Acquisition Co. is engaged in exploration for and development of base metal deposits 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.

On June 3, 2019, Capstone completed the sale of its 100% interest in the Minto mine, previously classified as an asset held for sale, to Pembridge Resources PLC ("Pembridge").

Q4 2019 Highlights and Significant Items

- **Capstone achieves higher than the mid-point of 2019 production guidance and delivers costs below the low end of C1 cash costs[1] guidance.** 2019 production of 153.4 million pounds of copper is in the top half of the guidance range of 145-160 million pounds and consolidated C1 cash costs[1] of $1.78 per payable pound of copper is lower than guidance of $1.80-$2.00 per payable pound.
- **Q4 2019 copper production of 35.4 million pounds and C1 cash costs[1] of $1.97 per payable pound produced.** Copper sales were higher at 40.3 million pounds due to the inventory drawdown at Pinto Valley. Pinto Valley Q4 2019 copper production was impacted by downtime in the fine crushing plant which enabled the Company to perform maintenance upgrades and then perform an operational test in December, see below.
- **In December, Pinto Valley conducted a test to push throughput levels a minimum of 10% higher and was able to achieve 18 days in excess of 60,000 tonnes per day ("tpd") and reached an all-time record daily tonnage of 70,334 tpd on December 21, 2019.** The objective of the test was to generate a list of bottlenecks that could potentially be overcome with low capital projects or operational improvements. A PV3 Optimization report is expected to be announced in H2 2020 along with a PV4 100,000+ tpd expansion study. Refer to the Corporate Update section for details.
- **Q4 2019 net income of $13.4 million from continuing operations** (Q4 2018 – net loss from continuing operations of ($15.2) million), which was positively impacted by higher sales volumes and a lower income tax expense (driven primarily by the recognition of $23.2 million of deferred tax assets associated with previously unrecognized corporate tax pools).
- **Q4 2019 operating cash flow before changes in working capital of $20.3 million** (Q4 2018 of $11.2 million).
- **The Company achieved its goal of removing $27.5 million of annualized costs out of the business.** Pinto Valley delivered an additional $2.5 million in sustainable annualized cost savings in Q4 2019 totalling $15 million in reductions on a full year basis, which is a reduction in overall site operating costs of approximately $0.80 per tonne milled. Refer to the Corporate Update section for details.
- **In Q4 2019, the Board approved the first phase of the PV3 Optimization study with a $15 million capital investment to improve mill reliability and overall performance at Pinto Valley.** The expected result is increased and sustainable throughput to between 56,000 to 57,000 tpd in 2021 and beyond. The one-year payback is calculated based on expected higher throughput, reduced maintenance and power costs, as well as increased copper recovery associated with improved copper mineral liberation prior to flotation.
- **In Q4 2019, Cozamin's raisebore project Phase 1 was completed two months ahead of schedule.** Ventilation to the upper section of the one-way ramp immediately improved when the reaming head broke through to surface in December 2019. The project is expected to be completed in early 2020.
- **Cozamin has announced the results from 150 holes of a 200 hole 2019/2020 infill drilling program, aiming to double the current reserve base.** Positive drill results pointing to potentially higher grades and wider intercepts than in the current reserve, as well as an expanded high grade resource, were released on November 5, 2019, December 2, 2019 and January 16, 2020. Mineral Resource and Mineral Reserve estimates will be updated in late 2020.

[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.*

Corporate Update

Cost Reduction Program

Capstone has achieved its cost reduction target range of $25 to $30 million, using 2018 as a baseline. The Company has now removed $27.5 million of costs out of the business with $15 million in savings at Pinto Valley, resulting in a decrease in site operating costs of approximately $0.80 per tonne milled. Other areas of sustainable annualized savings include $3.5 million related to the new revolver terms and improved cash management, $4 million from downsizing of corporate administration and $5 million related to the disposition of Minto.

Cozamin: Near-Term Expansion Update

Development work on the one-way ramp system at Cozamin to debottleneck mine haulage continues on budget and on schedule for completion by the end of 2020. The concurrent development of the raisebore to improve ventilation in the southeast part of the mine is ahead of schedule and is expected to be completed in early 2020. Phase 1 completed ahead of schedule when the reaming head broke through to surface in December 2019, and immediately improved ventilation to the upper section of the new one-way ramp. Once these two underground expansion projects are completed, Cozamin's annual production for 2021 and beyond is expected to increase to approximately 50 – 55 million pounds of copper and 1.5 million ounces of silver.

Cozamin: Doubling the Mine Life

The 2019/2020 infill drilling program is progressing well and is approximately two months ahead of schedule, allowing flexibility to add more holes than originally planned. The drill program is aiming to upgrade Inferred Mineral Resources to Indicated category and subsequent conversion to Mineral Reserves to support doubling the mine life. Positive drill results pointing to higher grades and wider intercepts than in the current Mineral Reserve were released on November 5, 2019, December 2, 2019 and January 16, 2020. Mineral Resource and Mineral Reserve estimates are expected to be updated in late 2020.

During Q4 2019, Cozamin started drilling into the Portree claimblock ("Portree") it acquired earlier in the year. Prior to this, Portree was an untested inlier within Cozamin's land position covering the Mala Noche Footwall Zone ("MNFWZ") area. Portree is surrounded by high grade Inferred Mineral Resources that future drilling is expected to increase to Indicated categorization. Mining has already started within the newly acquired Portree claim.

Pinto Valley: Crushing Plant Modernization

In Q4 2019, the Board approved a $15 million capital project as part of the PV3 Optimization study to improve mill reliability and overall performance at Pinto Valley. The expected result is for throughput to reliably achieve between 56,000 to 57,000 tpd in 2021. The one-year payback is calculated based on expected higher throughput, reduced maintenance and power costs, as well as increased copper recovery associated with improved copper mineral liberation prior to flotation. Pinto Valley's 2020 guidance of between 110 to 120 million pounds of copper production accounts for scheduled downtime for secondary crusher and ball mill shell installations as part of this capital project.

Pinto Valley: PV3 Optimization & PV4 Expansion

Capstone is focused on incremental low capital investments and operational improvements to increase the mill tonnage beyond the 56,000 to 57,000 tpd, noted above. An operational test conducted in December 2019, aimed at pushing throughput levels up 15% to 60,000 tpd or more, was successfully executed. The test realized an all-time daily throughput record of 70,334 tpd and an all-time weekly throughput record of 63,517 tpd. Data from this test is currently being studied to determine what is the peak capacity run rate tied to a low capital expansion of Pinto Valley. The focus of the PV3 Optimization report is to maximize production by systematically debottlenecking the operation with a series of quick payback projects. All required permits are in place to operate at levels up to 79,500 tpd.

[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.*

Preliminary work on the Pinto Valley future expansion to 100,000+ tpd ("PV4 Expansion") continues, with an update expected in H2 2020. The study is focused on evaluating potential scenarios to take advantage of the one billion tonnes of Mineral Resources not currently scheduled in the current mine plan pit shell ("PV3").

Santo Domingo Project Progress

The Santo Domingo project is now "shovel-ready" as Capstone has obtained all permits and approvals for the start of construction from the Chilean authorities. An updated technical report that will include the opportunity to recover battery-grade cobalt is expected before the end of Q1 2020. Capital expenditures for the fully permitted project will be kept to a minimum in 2020 to preserve the optionality of the project as we continue the strategic process to right size or monetize Capstone's ownership.

Board Appointment

Capstone is also announcing the appointment of SeungWan Shon to the Company's Board of Directors as KORES' nominee, effective February 12, 2020. Min Geol Ryu will be stepping down from the Board of Directors, also effective February 12, 2020.

Mr. Shon currently leads KORES' Metals Team, managing overseas copper projects. Mr. Shon has been with KORES since 2001 and held numerous positions which include Mine Manager, Senior Manager of KORES Corporate Partnership Team and Senior Manager of the Exploration Team for Nonmetal Mineral Deposits in South Korea. Mr. Shon holds a Master of Science in Geology from Kyungpook National University, Korea.

[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.*

Operational Overview

	Q4 2019	Q4 2018	2019	2018
Copper production (million pounds)				
Pinto Valley	26.0	33.0	117.6	119.0
Cozamin	9.4	9.3	35.8	36.2
Total from continuing operations[2]	**35.4**	**42.3**	**153.4**	**155.2**
Copper sales				
Total from continuing operations[2] (million pounds)	40.3	35.1	152.4	143.5
Realized copper price[2] ($/lb.)	2.77	2.66	2.71	2.87
C1 cash costs[1] ($/lb.) produced				
Pinto Valley	2.35	1.97	2.05	2.16
Cozamin	0.91	0.75	0.90	0.75
Consolidated from continuing operations[2]	**1.97**	**1.70**	**1.78**	**1.83**

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

Consolidated

For the year ended December 31, 2019, C1 cash costs[1] of $1.78 per pound produced were lower than 2018 as well as lower than the guided range. Production was in the top half of the guidance range.

The realized copper price in Q4 2019 of $2.77 per pound was higher than the LME average of $2.67 per pound due to four provisionally priced shipments at December 31, 2019, which were priced at an average of $2.79 per pound. The realized copper price in 2019 was $2.71 per pound, compared to $2.87 per pound in 2018 primarily due to lower gross copper revenue on new shipments of $2.76 per pound in 2019 (2018 was $2.92). Both periods had the same ($0.05 per pound) provisional adjustments on prior shipments.

Pinto Valley Mine

2019 C1 cash costs[1] of $2.05 per pound were lower than 2018, primarily due to the cost reduction program which lowered site operating costs to $216 million versus $231 million (including capitalized stripping costs). Copper production in 2019 was similar to 2018.

In Q4 2019, C1 cash costs[1] of $2.35 per pound were higher than Q4 2018, driven by lower production. Pinto Valley undertook downtime in November to perform maintenance in the fine crushing plant prior to conducting an operational test in December, aimed at running at significantly higher throughput rates. By pushing the operational limits at Pinto Valley, the information from this test is currently being analyzed to generate a number of debottlenecking projects from the mine through the mill. As a result of this test, Pinto Valley delivered 18 days in excess of 60,000 tpd in December, culminating in an all-time record day of 70,334 tpd and an all-time weekly record of 444,622 tonnes (~63,517 tpd average). The focus now will be to deliver a PV3 Optimization Study in H2 2020 that will identify low capital, high impact and quick payback projects to systematically debottleneck the entire operation so that Pinto Valley can perform at sustainably higher rates while maximizing recoveries, production and minimizing costs.

Cozamin Mine

C1 cash costs[1] increased in Q4 2019 and 2019 compared with the same periods last year. This increase was primarily driven by an increase in development in 2019 (11,050 metres versus 9,934 metres) as the mine builds an inventory of areas to be available for longhole stoping in preparation to support increased mining rates planned to start in 2021. Production in 2019 was consistent with 2018 results.

[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 2019[3]	Q4 2018[3]	2019[3]	2018[3]	2017[3,4]
Revenue from continuing operations[2] ($ millions)	**113.6**	**98.0**	**418.7**	**415.9**	**430.4**
Net income (loss) from continuing operations ($ millions)	**13.4**	**(15.2)**	**10.9**	**7.4**	**44.6**
Net income (loss) from continuing operations attributable to shareholders ($ millions)	**13.4**	**(15.1)**	**11.0**	**8.3**	**44.7**
Net income (loss) from continuing operations attributable to shareholders per common share – basic and diluted ($)	*0.03*	*(0.04)*	*0.03*	*0.02*	*0.12*
Net income (loss) ($ millions)	**13.4**	**(39.0)**	**(16.2)**	**(23.6)**	**55.1**
Net income (loss) attributable to shareholders ($ millions)	**13.4**	**(38.9)**	**(16.0)**	**(22.7)**	**55.2**
Net income (loss) attributable to shareholders per common share – basic and diluted ($)	*0.03*	*(0.10)*	*(0.04)*	*(0.06)*	*0.14*
Adjusted net income (loss)[1] ($ millions) [5]	**(7.8)**	**3.1**	**(6.0)**	**13.4**	**6.1**
Adjusted net income (loss)[1] **attributable to shareholders** ($ millions) [5]	**(7.8)**	**3.2**	**(5.8)**	**14.3**	**6.2**
Adjusted net income (loss) attributable to shareholders per common share – basic and diluted ($)	*(0.02)*	*0.01*	*(0.01)*	*0.04*	*0.02*
Adjusted EBITDA[1] from continuing operations[2,5] ($ millions)	**22.5**	**31.3**	**102.5**	**126.6**	**95.9**
Cash flow from operating activities[2] ($ millions)	**22.1**	**54.2**	**92.9**	**131.1**	**112.5**
Cash flow from operating activities per common share[1,2] - basic ($)	*0.06*	*0.14*	*0.24*	*0.34*	*0.29*
Operating cash flow before changes in working capital[1,2] ($ millions)	**20.3**	**11.2**	**79.8**	**97.5**	**129.7**
Operating cash flow before changes in working capital per common share[1,2] – basic ($)	*0.05*	*0.03*	*0.20*	*0.25*	*0.34*
Total assets ($ millions)	**1,331.4**	**1,336.1**	**1,331.4**	**1,336.1**	**1,400.5**
Long term debt (excluding financing fees) ($ millions)	**209.9**	**219.9**	**209.9**	**219.9**	**274.9**
Total non-current financial liabilities ($ millions)	**207.1**	**217.0**	**207.1**	**217.0**	**270.7**
Total non-current liabilities ($ millions)	**404.6**	**380.5**	**404.6**	**380.5**	**452.7**
Net debt[1] ($ millions)	**165.5**	**150.1**	**165.5**	**150.1**	**158.7**

[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. The Minto mine was sold on June 3, 2019.

[3] Effective January 1, 2019, the Company adopted IFRS 16 Leases ("IFRS 16") using the modified retrospective method which applies the standard prospectively, and as such, figures above related to 2018 and 2017 have not been restated to conform to IFRS 16. Refer to the Accounting Changes section of this MD&A for more information.

[4] 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.

[5] Certain prior period amounts have been restated to conform with current period classification.

[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 2019*	Q3 2019	Q2 2019**	Q1 2019	Q4 2018***	Q3 2018	Q2 2018	Q1 2018
Revenue	113.6	82.9	113.3	108.9	98.0	112.7	101.5	103.7
Earnings from mining operations	6.0	0.1	6.4	29.9	16.7	14.4	25.5	21.8
Net income (loss) from continuing operations attributable to shareholders	13.4	(9.9)	(4.6)	12.0	(15.1)	4.3	8.5	10.5
Income (loss) from continuing operations attributable to shareholders per share - basic and diluted	0.03	(0.03)	(0.01)	0.03	(0.04)	0.01	0.02	0.02
Net income (loss) attributable to shareholders	13.4	(10.6)	(27.2)	8.34	(39.0)	1.5	7.7	7.0
Net income (loss) per share attributable to shareholders - basic and diluted	0.03	(0.03)	(0.07)	0.02	(0.10)	0.00	0.02	0.02
Operating cashflow before changes in non-cash working capital[1]	20.3	9.5	19.2	30.7	19.1	25.9	30.7	24.6
Capital expenditures (including capitalized stripping)	28.5	28.5	32.6	23.2	29.1	23.8	27.7	24.3

* The net income (loss) figures in Q4 2019 includes a recognition of $23.2 million of corporate tax losses recorded as a deferred income tax recovery.
** The net income (loss) figures in Q2 2019 included a non-cash loss on the sale of Minto of $24.5 million.
*** The net income (loss) attributable to shareholders in Q4 2018 included a deferred income tax expense of $17.8 million, primarily associated with the non-cash write-down of deferred tax assets associated with reclamation liabilities of $20.2 million.

Revenue and earnings from mining operations above excludes the results of Minto, but operating cash flow and capital expenditures includes Minto up until the date of sale.

Effective January 1, 2019, the Company has adopted IFRS 16 *Leases* ("IFRS 16") using the modified retrospective method which applies the standard prospectively, and as such, figures above related to 2018 have not been restated to conform to IFRS 16. Refer to the Accounting Changes section of this MD&A for more information.

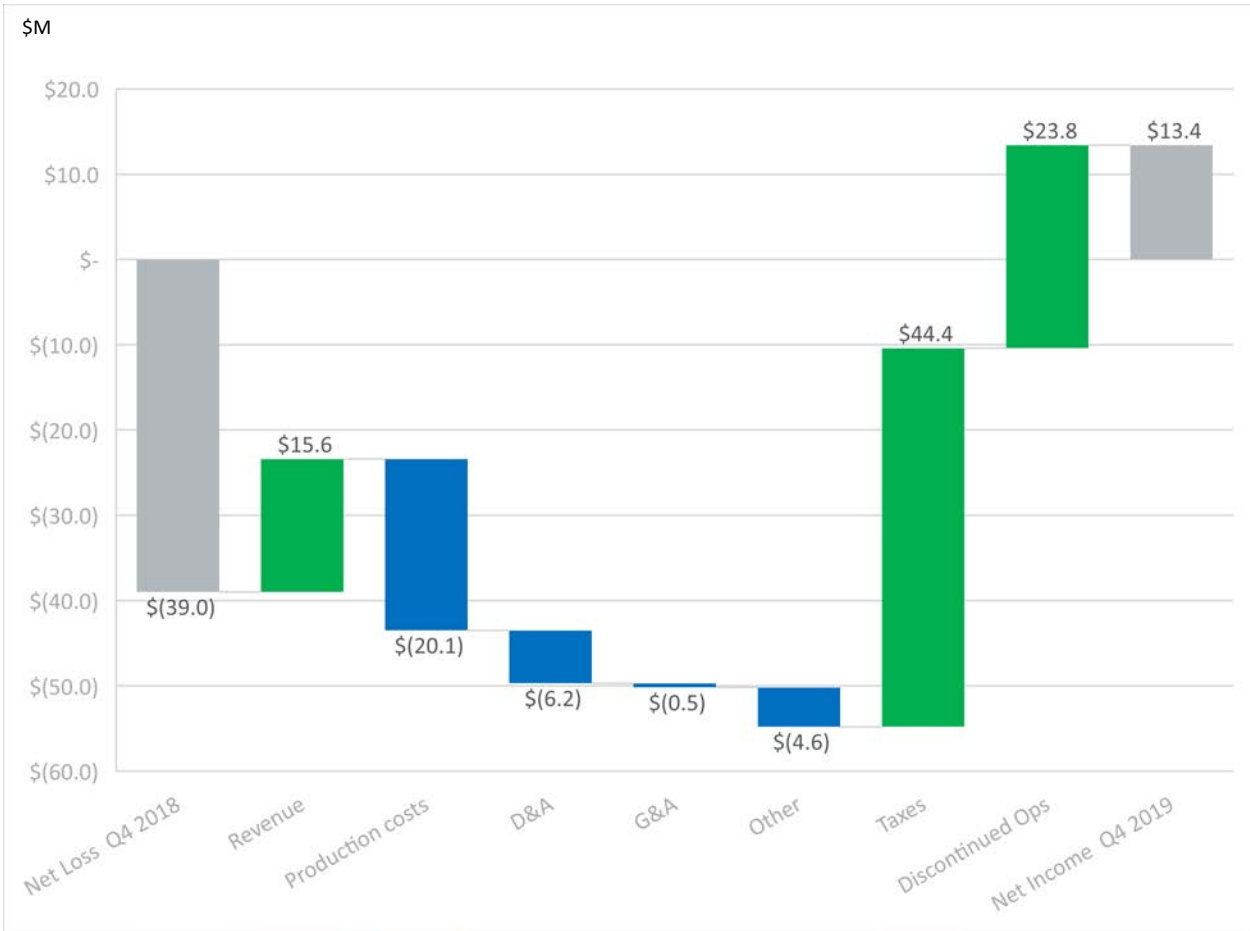
[1] *These are alternative performance measures. Refer to the MD&A section entitled "Alternative Performance Measures". Certain prior period alternative performance measures have been restated to conform with current period classification.*

Consolidated Results

Consolidated Net Income (Loss) Analysis

Net Income (Loss) for the Three Months Ended December 31, 2019 and 2018

The Company recorded net income of $13.4 million in Q4 2019 compared with net loss of $39.0 million in Q4 2018. The major differences are outlined below:



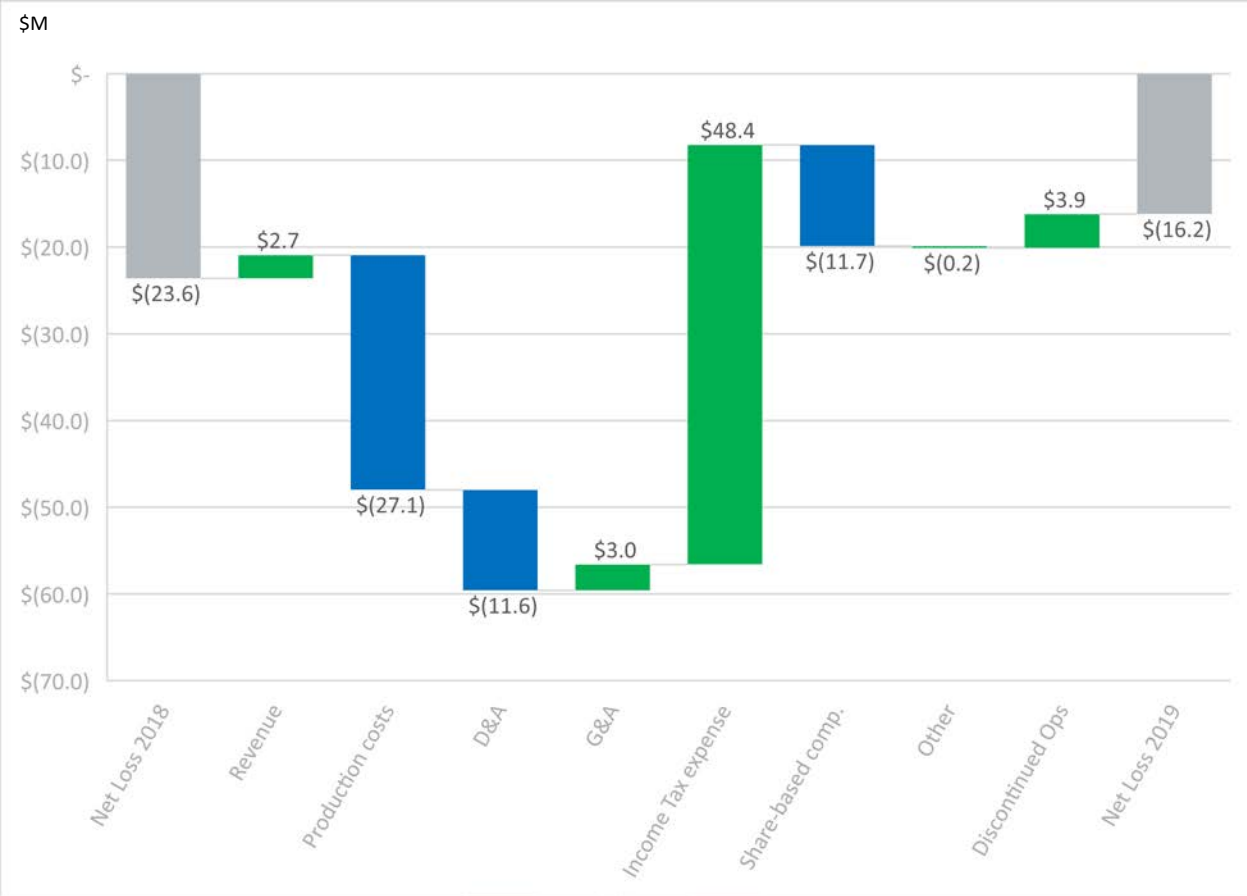
The difference quarter-over-quarter was driven by:

- A $15.6 million or 16% increase in revenue from continuing operations related to a 5.2 million (15%) increase in copper volumes sold (Q4 2019 – 40.3 million pounds, Q4 2018 – 35.1 million pounds) as well as higher realized copper prices (Q4 2019 - $2.77 per pound, Q4 2018 - $2.66 per pound).
- A $20.1 million increase in production costs, primarily due to the increase in sales volume.
- A $6.2 million increase in depletion and amortization (D&A) was primarily due to the increase in sales volumes.
- Decrease in income taxes due to a recovery of income taxes in Q4 2019 as a result of recognition of deferred tax assets related to the recognition of previously unrecognized corporate tax pools.
- Decrease in loss from discontinued operations due to the fact that there was no loss or gain recognized in discontinued operations as the Minto mine was sold in Q2 2019.

[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.*

Net Income (Loss) for the Years Ended December 31, 2019 and 2018

The Company recorded a net loss of $16.2 million for the year ended December 31, 2019 compared with net loss of $23.6 million in 2018. The major differences are outlined below:



The difference year-over-year was driven by:

- A $2.7 million increase in revenue from continuing operations primarily related to an increase in sales volumes sold (152.4 million pounds versus 143.5 million pounds). This was offset by a lower realized copper price in 2019 ($2.71 per pound versus $2.87 per pound).
- A $27.1 million increase in production costs on a sales basis, primarily due to higher sales volumes.
- A $11.6 million increase in D&A primarily as a result of higher sales volumes.
- A decrease in general and administrative expense ("G&A") of $3.0 million resulting primarily from the corporate restructuring in Q4 2018.
- A $48.4 million decrease in income tax expense as a result of an income tax recovery of $15.2M during 2019 primarily as a result of recognition of deferred tax assets during the year.
- A $11.7 million increase in share-based compensation expense. In 2018 there was a recovery which was driven by decreases in Capstone's share price. In 2019, the share price has steadily increased, resulting in a mark to market expense as well as an expense in the regular course of vesting.
- A $3.9 million decrease in loss from discontinued operations due to the fact that Minto was sold in Q2 2019.

[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

The increase in revenue quarter-on-quarter ($113.6 million versus $98.0 million) relates to increased copper revenue on increased copper volumes sold of 5.2 million pounds (40.3 million pounds versus 35.1 million pounds) at a higher realized price ($2.77 per pound versus $2.66 per pound). Q4 2019 realized price was higher than the LME average of $2.67 per pound primarily due to four provisionally priced shipments at December 31, 2019, which were priced at an average of $2.79 per pound.

During Q4 2019, there was a drawdown of inventory at Pinto Valley related to timing of shipments, which contributed to increased copper volumes sold. In Q4 2018, Pinto Valley had a buildup of inventory of approximately 14,000 tonnes of copper concentrate.

Revenue increased slightly in 2019 versus 2018 ($418.7 million versus $415.9 million) due to higher sales volumes (152.4 million pounds versus 143.5 million pounds) as a result of a large drawdown on inventory at Pinto Valley (compared to a build-up of inventory in 2018), partially offset by lower realized copper prices ($2.71/lb. versus $2.87/lb.). Zinc and silver revenue at Cozamin were also higher due to increased volumes and increased silver prices.

Realized Copper Prices

	2019				2018			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Pinto Valley	$ 2.97	$ 2.56	$ 2.49	2.78	$ 2.96	$ 3.15	$ 2.72	$ 2.65
Cozamin	$ 3.03	$ 2.56	$ 2.58	2.73	$ 3.09	$ 3.12	$ 2.72	$ 2.69
Total	$ 2.99	$ 2.56	$ 2.52	2.77	$ 2.98	$ 3.15	$ 2.72	$ 2.66
LME Average	$ 2.82	$ 2.77	$ 2.63	$ 2.67	$ 3.16	$ 3.12	$ 2.77	$ 2.80
LME Close	$ 2.94	$ 2.71	$ 2.60	$ 2.79	$ 3.03	$ 3.01	$ 2.80	$ 2.71

Realized prices in 2019 were impacted by negative price adjustments on prior period shipments of ($7.1) million. Each quarter the Company's realized price is subject to provisional pricing adjustments which can be negative or positive depending on the forward copper price at the end of the quarter.

Revenue by Mine

	Q4 2019 [2]		Q4 2018 [2]		2019 [2]		2018 [2]	
	$ millions	%	$ millions	%	$ millions	%	$ millions	%
Pinto Valley	84.1	74.0%	66.8	68.2%	300.3	71.7%	294.7	70.9%
Cozamin	29.5	26.0%	31.2	31.8%	118.4	28.3%	121.2	29.1%
Total revenue from continuing operations	113.6	100%	98.0	100%	418.7	100%	415.9	100%

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

[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.*

Provisionally Priced Copper

Gross revenue for the twelve-month period ended December 31, 2019 included 44.9 million pounds of copper sold subject to final settlement. Of this, the prices for 24.2 million pounds are final at a weighted average price of $2.69 per pound. The remaining 20.7 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-20	8.1	2.0	10.1	$2.79
Feb-20	10.6	-	10.6	$2.79
TOTAL	18.7	2.0	20.7	$2.79

Reconciliation of Realized Copper Price

	Q4 2019 $ millions	Q4 2018 $ millions	2019 $ millions	2018 $ millions
Gross copper revenue on new shipments	111.1	95.6	419.4	418.9
Provisional adjustments on prior shipments	0.5	(2.1)	(7.1)	(7.7)
Gross copper revenue	111.6	93.5	412.3	411.2
Plus: gross revenue from other metals	13.6	13.2	49.6	40.1
Less: treatment and selling costs	(11.6)	(8.7)	(43.2)	(35.4)
Revenue	113.6	98.0	418.7	415.9
Payable copper sold (000s pounds)	40,265	35,146	152,354	143,528
	$/lb	$/lb	$/lb	$/lb
Gross copper revenue on new shipments	$ 2.76	$ 2.72	$ 2.76	$ 2.92
Provisional adjustments on prior shipments	0.01	(0.06)	(0.05)	(0.05)
Realized copper price	$ 2.77	$ 2.66	$ 2.71	$ 2.87
LME average copper price	$ 2.67	$ 2.80	$ 2.72	$ 2.96

[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 2019	Q4 2018[2]	2019 [2]	2018 [2]
Operating cash flow before changes in working capital[1]	20.3	11.2	79.8	97.5
Changes in working capital	1.8	43.0	13.1	33.6
Total cash flows from operating activities	**22.1**	**54.2**	**92.9**	**131.1**
Cash flows used in investing activities	(23.4)	(52.5)	(65.5)	(132.5)
Cash flows used in financing activities	(0.6)	(18.6)	(21.7)	(78.7)
Effect of foreign exchange rates on cash	0.4	(1.2)	0.3	(2.2)
Net change in cash	**(1.5)**	**(18.1)**	**6.0**	**(82.3)**
Opening cash	41.4	52.0	33.9	116.2
Closing cash	**39.9**	**33.9**	**39.9**	**33.9**

[2] The consolidated cash flow analysis includes amounts from Minto in both the current and comparative periods. The Minto mine was sold in Q2 2019.

Changes in Cash Flows for the Three Months Ended December 31, 2019 and 2018

The net change in cash was ($1.5) million in Q4 2019 compared to ($18.1) million in Q4 2018. The change was primarily due to:

- Cash flow from operating activities before changes in working capital[1] was higher by $9.1 million primarily due to the absence of operating cash flow before changes in working capital[1] related to Minto (Q4 2018 – outflow of $8.0 million).
- Changes in working capital was lower by $41.2 million, primarily due to:
  - In Q4 2018, there was a reduction in inventory at Minto due to placing the mine on care and maintenance during the quarter which resulted in large cash inflows.
  - In Q4 2019 there was an increase in receivables at Pinto Valley, primarily due to timing of payments, partially offset by a reduction of inventory at Pinto Valley due to increased sales of copper during the quarter due to shipment timing.
- Cash flows used in investing activities in Q4 2018 included $23.3 million of purchases of short-term investments and capital expenditures of $29.3 million, compared to capital expenditures of $23.5 million and purchases of short-term investments of $0.1 million in Q4 2019.
- Cash flows used in financing activities in Q4 2018 included a repayment of debt of $15 million.

Changes in Cash Flows for the Years Ended December 31, 2019 and 2018

The net change in cash was $6.0 million in 2019 compared to ($82.3) million in 2018. The change was primarily due to:

- Cash flow from operating activities before changes in working capital[1] was lower by $17.7 million primarily due to lower copper prices.
  - Pinto Valley benefited from 5% lower C1 cash costs[1] in 2019 because of improved cost control, offset by lower realized copper prices ($2.70 per pound versus $2.86 per pound).
  - Cash flow was lower at Cozamin due to increased mining costs (primarily increased development metres) and lower realized copper prices ($2.72 per pound versus $2.89 per pound)
- Changes in working capital was lower by $20.5 million primarily due to:
  - Minto being put on care and maintenance in Q4 2018 and the associated reduction in inventory.

[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.*

- There was a change in receivables at Cozamin during the year due to timing differences.

- Cash flows used in investing activities in 2019 was lower by $67.0 million and the change is primarily due to the sale of short-term investments for proceeds of $31.4 million in 2019 compared to the purchase of short-term investments of $35.9 million in 2018. Capital expenditures comprise the majority of investing cash flows (2019: $96.7 million, 2018: $96.8 million).
- Cash flows used in financing activities in 2019 included net debt repayments of $10 million plus interest of $15.6 million compared to debt repayments of $55 million and interest of $15.6 million in 2018. 2018 also included outflows of $4.9 million for purchase of treasury shares as well as $4.9 million for derivative settlement.

[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.*

Operational Results

Pinto Valley Mine – Miami, Arizona

Operating Statistics

	2019					2018				
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
Production (contained metal and cathode) [2]										
Copper (000's pounds)	32,699	28,973	29,936	26,021	117,629	25,179	29,586	31,312	32,990	119,067
Mining										
Waste (000s tonnes)	7,876	7,889	7,285	7,051	30,101	6,789	6,815	6,042	8,041	27,687
Ore (000s tonnes)	4,999	4,545	4,663	4,681	18,888	5,066	4,562	4,755	4,907	19,290
Total (000s tonnes)	12,875	12,434	11,948	11,732	48,989	11,855	11,377	10,797	12,948	46,977
Milling										
Milled (000s tonnes)	4,933	4,470	4,658	4,604	18,665	4,834	4,628	4,758	5,026	19,246
Tonnes per day	54,811	49,121	50,630	50,043	51,137	53,716	50,856	51,715	54,627	52,728
Copper grade (%)	0.35	0.33	0.33	0.30	0.33	0.27	0.33	0.34	0.34	0.32
Recoveries										
Copper (%)	84.3	87.0	85.6	83.5	85.1	83.1	86.2	84.8	84.3	84.6
Concentrate Production										
Copper (dmt)	56,146	46,490	48,676	45,248	196,560	43,847	47,881	51,206	58,813	201,747
Copper (%)	25.7	27.4	26.9	25.1	26.3	25.0	27.3	27.1	24.8	26.0
Site operating costs [1,3] ($/t milled)	$8.82	$10.11	$10.73	$10.54	$10.03	$9.78	$10.65	$10.89	$9.59	$10.22
Payable copper produced (000's pounds)	31,584	27,991	28,926	25,144	113,645	24,332	28,579	30,241	31,866	115,018
Copper C1 cash cost [1] ($/lb payable copper produced)	$1.79	$2.00	$2.13	$2.35	$2.05	$2.41	$2.15	$2.15	$1.97	$2.16
Adjusted EBITDA [1,4] ($ millions)	$28.4	$18.4	$5.0	$15.8	$67.6	$17.6	$25.2	$20.1	$17.7	$80.6

[2] *Adjustments based on final settlements will be made in future quarters*
[3] *Site operating costs is cash production costs of metal produced (excluding cathode production costs)* [1]
[4] *Certain prior period amounts have been restated to conform with current period classification*

Operational and C1 Cash Costs[1] Update

2019 C1 cash costs[1] of $2.05 per pound were lower than 2018 primarily due to lower site costs of $216 million versus $231 million in 2018 (including capitalized stripping costs). Cost reductions were primarily driven by the revised Collective Bargaining Agreement signed in 2018 (which allowed Pinto Valley to reduce contractor costs), lower diesel costs as result of strategic purchasing program, improved power pricing and benefits from the cost reduction program which commenced in 2019. Production was slightly lower in 2019 primarily on lower throughput. In Q4 2019, the Board approved a $15 million capital project aimed at improving processing plant throughput and reliability.

In Q4 2019, C1 cash costs[1] of $2.35 per pound were higher than Q4 2018, primarily driven by lower grade ore due to anticipated mine sequencing and lower throughput. Pinto Valley undertook downtime in November to perform maintenance in the fine crushing plant prior to conducting an operational test in December aimed at running at significantly higher throughput rates. By pushing the operational limits at Pinto Valley the information from this test is currently being analyzed to generate a number of debottlenecking projects from the mine through the mill. The result - Pinto Valley delivered 18 days in excess of 60,000 tpd in December, culminating in an all-time record day of 70,334 tpd and an all-time weekly record of 444,622 tonnes (~63,517 tpd average). The focus now will be to identify low capital, high impact, and quick payback projects to systematically debottleneck the entire

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operation so that the Operation can perform at sustainably higher rates while maximizing recoveries, production and minimizing costs.

Investing Activities

Sustaining capital in Q4 2019 focused primarily on planned mining equipment component replacements and mine infrastructure and was $0.4 million more than Q4 2018.

($ millions)	**Q4 2019**	Q4 2018	**2019**	2018
Deferred stripping - cash	**3.3**	8.1	**20.8**	27.2
Deferred stripping - non cash	**1.0**	1.9	**5.7**	6.3
Deferred stripping as reported in the financials	**4.3**	10.0	**26.5**	33.5
Sustaining capital	**8.3**	7.9	**26.1**	31.6
Expansionary capital	**0.8**	0.9	**3.3**	2.1
Total	**13.4**	18.8	**55.9**	67.2

[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

Operating Statistics

	2019					2018				
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
Production (contained metal) [2]										
Copper (000's pounds)	8,672	8,723	9,085	9,362	35,842	9,447	7,758	9,591	9,359	36,155
Zinc (000's pounds)	5,525	3,842	4,526	4,570	18,463	1,753	3,412	4,510	5,225	14,900
Silver (000s ounces)	326	323	352	365	1,366	250	253	321	340	1,164
Mining										
Ore (000s tonnes)	271	289	296	287	1,143	215	228	266	280	989
Milling										
Milled (000s tonnes)	273	284	295	294	1,146	213	224	270	279	986
Tonnes per day	3,038	3,121	3,204	3,196	3,140	2,366	2,464	2,939	3,030	2,702
Copper grade (%) [3]	1.53	1.48	1.48	1.53	1.50	2.09	1.66	1.70	1.61	1.75
Zinc grade (%) [3]	1.32	0.96	1.01	1.00	1.07	0.62	1.04	1.13	1.29	1.04
Silver grade (g/t) [3]	47.9	45.0	46.1	47.8	46.7	44.9	45.3	48.7	50.2	47.5
Recoveries [3]										
Copper (%)	94.2	94.1	94.5	94.6	94.4	96.3	94.6	94.7	94.3	95.0
Zinc (%)	69.3	64.2	68.8	70.2	68.2	59.8	66.4	67.1	65.9	65.6
Silver (%)	77.5	77.3	77.0	78.7	77.7	81.4	77.5	75.9	75.5	77.2
Concentrate Production										
Copper (dmt)	15,163	15,484	15,505	15,118	61,270	15,810	13,581	16,775	16,783	62,949
Copper (%)	25.9	25.6	26.6	28.1	26.5	27.1	25.9	25.9	25.8	26.1
Silver (g/t)	576	604	620	627	607	487	517	516	511	508
Zinc (dmt)	5,383	3,651	4,090	4,173	17,297	1,667	3,259	4,306	5,068	14,300
Zinc (%)	46.6	47.7	50.2	49.7	48.4	47.7	47.5	47.5	46.8	47.3
Site operating costs [1,4] ($/t milled)	$47.64	$47.71	$47.36	$51.80	$48.65	$46.02	$48.55	$52.37	$49.58	$49.39
Payable copper produced (000's lb's)	8,321	8,365	8,725	9,010	34,421	9,072	7,436	9,194	8,964	34,666
Copper C1 cash cost [1] ($/lb payable copper produced)	$0.70	$1.06	$0.94	$0.91	$0.90	$0.71	$0.67	$0.87	$0.75	$0.75
Adjusted EBITDA [1,4] ($ millions)	$17.6	$9.1	$14.3	$11.0	$52.0	$18.3	$15.4	$16.2	$16.6	$66.5

[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]
[5] *Certain prior period amounts have been restated to conform with current period classification*

Operational and C1 Cash Costs[1] Update

In 2019, ore from the San Rafael zinc zone was mined and processed to take advantage of surplus mill capacity, however, this resulted in dilution of the reported copper grades when compared to the same periods in 2018 when less zinc ore was mined.

Overall 2019 copper production was slightly lower compared to total 2018 production. Lower recoveries and lower blended grades were a result of the mill feed being diluted with additional tonnes from the predominately zinc zone (San Rafael). San Rafael contributed 286 thousand tonnes or 25% to the mill feed at 0.34% copper grade (2018 was 136 thousand tonnes or 14% at 0.36% copper grade). Q4 2019 copper head grade from areas other than San Rafael was also lower than the same period last year (1.91% versus 2.04%).

2019 C1 cash costs[1] increased 20% when compared to 2018. This is primarily a result of increased mine operating expenses as a result of increased development metres mined during 2019 to prepare for 2021 and the planned increased mining rates.

[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.*

Q4 2019 copper production overall remained flat when compared to Q4 2018. The primary reason for this is lower grade during the quarter and was offset by higher milled tonnes.

C1 cash costs[1] increased 21% in Q4 2019 when compared to the same period last year. This increase is primarily driven by an increase in mine development as the mine builds areas available for longhole stoping to support increased mining rates planned for 2021.

Investing Activities

Capital spending at Cozamin totaled $8.6 million for Q4 2019 and $30.6 million for 2019 and related primarily to mine development. Also included within yearly capital spending of $30.6 million was expansionary capital of $3.6 million spent on the one-way ramp system as part of the Cozamin expansion project as well as the acquisition costs associated with the Portree claimblock that lays within the Mala Noche Footwall Zone.

Capitalized exploration expenditures totaled $2.2 million for Q4 2019 and $6.1 million for the year 2019. This was spent primarily on Mineral Resource drilling of the Mala Noche Footwall Zone, associated with infilling regions of Inferred Mineral Resource category of the Mineral Resource estimate from underground using one rig and from surface using five rigs. The drill program is aiming to upgrade Inferred Mineral Resources to the Indicated category and subsequent conversion to Mineral Reserves to support doubling the mine life. Positive drill results pointing to higher grades and wider intercepts than in the current Mineral Reserve were released on November 5, 2019, December 2, 2019 and January 16, 2020. Mineral Resource and Mineral Reserve estimates are expected to be updated in late 2020.

Santo Domingo Project – Chile (Copper and Iron)

Investing Activities

During 2019, Capstone updated the feasibility study on Santo Domingo which included a mine life of 18 years, production of 259 million pounds of copper per year for the first five years plus 3.3 million tonnes of iron with a net present value (after tax, 8%) of $1 billion and 22% internal rate of return. Refer to news release dated November 26, 2018 for more information.

($ millions)	**Q4 2019**	Q4 2018	**2019**	2018
Capitalized project costs (100%) per financials	**4.2**	1.4	**18.3**	1.4
Capstone's share (70%)	**2.9**	1.0	**12.8**	1.0
Project care and maintenance costs (100%) per financials	**-**	-	**-**	2.0
Capstone's share (70%)	**-**	-	**-**	1.4

2019 project development costs related to permitting, detailed engineering, land tenure costs and further metallurgical testing. Project development costs incurred during 2019 are capitalized within mineral properties. During 2018 these costs up to September 30, 2018 were recorded as care and maintenance expenses and recorded as project development costs starting in Q4 2018.

The Santo Domingo project is now “shovel-ready” as Capstone has obtained all permits and approvals for the start of construction from the Chilean authorities including an approved Mine Closure Plan. In Q1 2020, the Company is expected to release updated project economics, including a preliminary business case for recovering and producing cobalt. Capital expenditures for the fully permitted Santo Domingo project will be kept to a minimum in 2020 to preserve the optionality of the project, as we continue the strategic process to right size or monetize Capstone’s ownership.

[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.*

Minto – Discontinued Operations Reporting

On June 3, 2019, Capstone completed the sale of its 100% interest in the Minto mine, previously classified as an asset held for sale, to Pembridge Resources PLC ("Pembridge"). Under the terms of the agreement, Capstone will receive up to $20 million in cash in staged payments ("contingent consideration"), as follows:

- $5 million within 60 days of reaching commercial production, or January 31, 2021;
- $5 million within 90 days, following two consecutive quarters of commercial production in which the average London Metals Exchange Cash Copper Bid Price ("Average LME Price") is greater than $3.00 per pound within the three years following commercial production; and
- $10 million, within 90 days following two consecutive quarters of commercial production in which the Average LME Price is greater than $3.50 per pound within the three years following commercial production.

In conjunction with sale of Minto, Pembridge has posted a surety bond to cover potential future reclamation liabilities. In addition, Pembridge is required to post C$10 million (Canadian dollars) in cash collateral over time against the bond and conduct prescribed progressive reclamation activities to reduce the overall future closure cost. While this surety bond is outstanding, Capstone will act as an indemnitor to the surety bond provider and for certain other obligations, and Pembridge will indemnify Capstone for environmental liabilities at the mine. If Pembridge defaults on the surety bond, Capstone may be required to recognize a liability related to Minto's asset retirement obligation.

On June 3, 2019, the contingent consideration had a fair value of $8.4 million, which is marked-to-market at the end of each reporting period with the change recorded in other income (expense). As at December 31, 2019, the contingent consideration had a fair value of $9.6 million, with the change in the copper price.

As a result of the sale, the Company recognized a net loss on disposal of $24.5 million in Q2 2019. This loss consisted of a gain of $5.8 million when deducting the book value of assets from the fair value of the contingent consideration received of $8.4 million. This was offset by the reclassification of $30.3 million cumulative non-cash foreign exchange losses related to Minto from a separate component of shareholders' equity to net income (loss). This reclassification is due to the fact that Minto (which has a functional currency of Canadian dollars) has had a weakening Canadian dollar relative to the US dollar causing foreign currency adjustments to be included in a separate component of shareholders' equity until the sale.

[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

2020 Production, Cost and Capital Guidance

In 2020, Capstone expects to produce between 140 and 155 million pounds of copper at C1 cash costs[1] of between $1.85 and $2.00 per pound of payable copper produced.

2020 Guidance	Pinto Valley	Cozamin	Santo Domingo	Total
Production and Cost				
Copper production (million pounds)	**110 – 120**	**30 – 35**	-	**140 - 155**
C1 cash cost[1,2]	**$2.10 - $2.25**	**$0.95 - $1.10**	-	**$1.85 - $2.00**
Capital Expenditure ($ millions, rounded)				
Sustaining	28.0	24.0	-	52.0
Capitalized stripping[3]	8.0	-	-	8.0
Expansionary	19.0	2.0	9.0[4]	30.0
Total Capital Expenditure	**55.0**	**26.0**	**9.0**	**90.0**
Exploration ($ millions, rounded)				
Brownfield [5]	-	6.0	-	6.0
Greenfield [6]	-	-	-	4.0
Total Exploration	**-**	**6.0**	**-**	**10.0**

[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 $13 million; ownership is 70% Capstone and 30% KORES.
[5] Brownfield exploration is capitalized.
[6] Greenfield exploration is expensed.

[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.*

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 and during 2019 up until the mine was sold on June 3, 2019. Minto related assets and liabilities were classified as assets held for sale or liabilities directly associated with assets held for sale as at December 31, 2018.

Working Capital

Working capital was $68.0 million at December 31, 2019 compared with $103.9 million at December 31, 2018, as follows:

(millions)		**Dec. 31, 2019**		Dec. 31, 2018
Current assets				
Cash and cash equivalents	**$**	**39.9**	$	30.1
Short-term investments		**4.5**		35.9
Receivables		**28.6**		22.3
Inventories		**47.9**		66.5
Other assets		**2.5**		2.5
Assets classified as held for sale		**-**		49.8
Total current assets	**$**	**123.4**	$	207.1
Current liabilities				
Accounts payable and accrued liabilities	**$**	**52.5**	$	50.0
Other liabilities		**2.9**		11.4
Liabiliites directly associated with assets classified as held for sale		**-**		41.8
Total current liabilities	**$**	**55.4**	$	103.2
Working capital	**$**	**68.0**	$	103.9

Cash and cash equivalents and short-term investments from continuing operations combined, decreased by $21.6 million from December 31, 2018 to December 31, 2019. Refer to the Statement of Cash Flows within the Company's annual consolidated financial statements for further details surrounding the movement in the cash balance.

As at December 31, 2019, the Company held $4.5 million of highly liquid short-term investments in exchange traded funds. Given their highly liquid nature, management liquidates these short-term investments to meet cash demands on an as-needed basis.

Short term investments decreased due to redemption of short-term investments of $31.4 million during the current year.

Inventories decreased primarily due to a drawdown of concentrate inventory at Pinto Valley in 2019.

Other liabilities decreased primarily due to the timing of income tax payments as well as changes in share-based payments obligations.

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Credit Facilities

On July 25, 2019 Capstone amended the corporate revolving credit facility ("RCF") which now matures on July 25, 2022 with a credit limit to $300 million. The facility pricing grid, starting at LIBOR + 2.5% and increasing to LIBOR + 3.5% based on the total leverage ratio, will remain in effect until maturity.

The interest rate at December 31, 2019 was LIBOR + 2.75% with a standby fee of 0.62% payable on the undrawn balance (adjustable in certain circumstances).

A drawdown of $25.0 million and a repayment of $35.0 million were made on the RCF during the year ended December 31, 2019, resulting in an outstanding balance of $209.9 million. A repayment of $55.0 million was made on the RCF during the year ended December 31, 2018.

The corporate revolving 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, 2019.

Provisions

Provisions of $120.2 million at December 31, 2019 includes the following:

- $112.6 million for reclamation and closure cost obligations at Capstone's operating mines;
- $3.2 million related to other long-term provisions at the Cozamin mine; and
- $4.4 million for the long-term portion of the share-based payment obligations associated with the Deferred Share Units ("DSUs"), Restricted Share Units ("RSUs") and Performance Share Units ("PSUs").

Reclamation and closure cost obligations increased by $22.5 million during the year. The increase was primarily related to changes in estimates ($19.9 million) driven primarily by decreases in discount rate assumptions.

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 and exploration 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 Company will only hold deposits in Canadian Tier 1 banks, International Commercial Banks with a rating of A- or greater, Canadian and US government bonds, or bankruptcy remote treasury market or exchange traded funds of AAA rating.

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Commitments

Agreements with the Grupo Minera Bacis S.A. de C.V. ("Bacis")

Under the terms of the December 2003 option agreement with 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 2021.

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 2021.

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 third parties whereby they will purchase the copper concentrate produced by the Pinto Valley Mine.

Capital expenditure contracted for at the end of the reporting period but not yet incurred was $16.3 million for expenditures at Pinto Valley and Santo Domingo (2018 – $6.4 million).

Risks and Uncertainties

For full details on the risks and uncertainties affecting the Company, please refer to the Company's Annual Information Form ("AIF") (see section entitled "Risk Factors") for the year ended December 31, 2018 and the MD&A for the three and nine months ended September 30, 2019 (see section entitled "Risks and Uncertainties"). These documents are available for viewing on the Company's website at www.capstonemining.com or on the Company's profile on the SEDAR website at www.sedar.com.

The following updates to the risk factors disclosures in the AIF for the year ended December 31, 2018 and MD&A for the three and nine months ended September 30, 2019 are relevant:

A global pandemic could cause temporary closure of businesses in regions that are significantly impacted by the health crises, or cause governments to take preventative measures such as the closure of points of entry, including ports and borders. These restrictive measures along with market uncertainty could cause an economic slowdown resulting in a decrease in the demand for copper and have a negative impact on base metal prices. The recent outbreak of the novel coronavirus (2019-nCoV) has had a negative impact on copper prices and governmental actions to contain the outbreak may impact our ability to transport or market our concentrate or cause disruptions in our supply chains.

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, 2019, the Company had no off-balance-sheet arrangements other than the following:

- those disclosed under Contractual Obligations in the 2019 audited financial statements;
- the indemnification referred to in the Minto – Discontinued Operations Reporting section;
- Four surety bonds totaling $124.3 million; and
- Letters of credit for $0.3 million.

[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.*

Accounting Changes

In 2018, the Company adopted IFRS 15, Revenue from contracts with customers and IFRS 9, Financial Instruments. Refer to the consolidated financial statements for the year ended December 31, 2018 for more information.

In 2019, the Company adopted IFRS 16, Leases, effective January 1, 2019. Refer to the consolidated financial statements for the year ended December 31, 2019 for more information.

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, and to plan and 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.

As a result of adopting IFRS 16 Leases, cash paid related to sustaining leases is included within All-in sustaining cost[1] from 2019 on a prospective basis. Prior to adoption of IFRS 16 Leases, cash payments related to operating leases were included within C1 cash costs[1] (operating mines) and general and administrative expenses.

Effective January 1, 2019, the Company has adopted IFRS 16 using the modified retrospective application method, where the 2018 comparatives are not restated and the cumulative effect of initially applying IFRS 16 has been recorded on January 1, 2019 for any differences identified, including adjustments to opening retained earnings balance.

[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.*

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

In accordance with IFRS 5, Minto was considered a discontinued operation for the three and twelve months ended December 31, 2018 and up until its sale on June 3, 2019 for financial reporting purposes. Minto was placed on care and maintenance in Q4 2018.

Three Months Ended December 31, 2019 and 2018

	Q4 2019			Q4 2018				
	Pinto Valley	Cozamin	Total	Pinto Valley	Cozamin	Total from Continuing Operations	Minto	Total
Payable copper produced (000s lbs)	25,144	9,010	34,154	31,866	8,964	40,830	2,132	42,962
Production costs of metal produced (per financials, $M)	$ 69.0	$ 15.0	$ 84.0	$ 48.9	$ 14.8	$ 63.8	$ 21.2	$ 85.0
Transportation cost to point of sale ($M)	(5.2)	(1.0)	$ (6.2)	(5.7)	(1.1)	(6.8)	-	(6.8)
Inventory write-down ($M)	(0.7)	-	(0.7)	0.3	-	0.3	1.2	1.5
Supplies obsolescence ($M)	-	-	-	(0.6)	(0.1)	(0.7)	-	(0.7)
Inventory working capital adjustments ($M)	(12.8)	1.2	(11.6)	7.3	0.2	7.4	(16.9)	(9.5)
Cash production costs of metal produced ($M)	$ 50.3	$ 15.2	$ 65.5	$ 50.2	$ 13.8	$ 64.0	$ 5.5	$ 69.5
Production costs ($/lb)								
Mining	$ 0.59	$ 1.09	$ 0.72	$ 0.45	$ 0.97	0.56	$ 1.68	$ 0.62
Milling/Processing	1.20	0.36	0.99	0.91	0.34	0.78	0.37	0.76
G&A	0.21	0.24	0.21	0.22	0.23	0.23	0.53	0.24
C1P sub-total	2.00	1.69	1.92	1.58	1.54	1.57	2.58	1.62
By-product credits ($/lb)	(0.09)	(1.10)	(0.36)	(0.07)	(1.11)	(0.30)	(0.22)	(0.30)
Treatment and selling costs ($/lb)	0.44	0.32	0.41	0.46	0.32	0.43	0.32	0.43
C1 cash cost ($/lb PRODUCED)	**$ 2.35**	**$ 0.91**	**$ 1.97**	**$ 1.97**	**$ 0.75**	**$ 1.70**	**$ 2.68**	**$ 1.75**
NSR royalties	-	0.10	0.03	-	0.10	0.02	0.40	0.04
Non-cash deferred revenue	-	-	-	-	-	-	(0.23)	(0.01)
Production-phase capitalized stripping	0.13	-	0.10	0.26	-	0.20	-	0.19
Sustaining capital	0.35	0.76	0.46	0.25	0.66	0.34	0.14	0.34
PV3 development	-	-	-	0.03	-	0.02	-	0.02
Accretion of reclamation obligation	0.02	0.01	0.01	0.01	0.01	0.01	0.05	0.01
Amortization of reclamation asset	-	0.03	0.01	-	0.06	0.02	-	0.02
Corporate sustaining capital	-	-		-	-	-	-	-
Corporate G&A, excluding depreciation			0.11			0.09		0.08
All-in sustaining cost adjustments	0.50	0.90	0.72	0.55	0.83	0.70	0.36	0.69
All-in sustaining cost ($/lb PRODUCED)	**$ 2.85**	**$ 1.81**	**$ 2.69**	**$ 2.52**	**$ 1.58**	**$ 2.40**	**$ 3.04**	**$ 2.44**

[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.*

Years Ended December 31, 2019 and 2018

	2019			2018				
	Pinto Valley	Cozamin	Total	Pinto Valley	Cozamin	Total from Continuing Operations	Minto	Total
Payable copper produced (000s lbs)	113,644	34,422	148,066	115,018	34,666	149,684	22,228	171,912
Production costs of metal produced (per financials, $M)	$ 233.6	$ 58.6	$ 292.2	$ 214.1	$ 51.0	$ 265.1	$ 75.8	$ 340.9
Transportation cost to point of sale ($M)	(21.3)	(3.3)	$ (24.6)	(20.1)	(3.2)	(23.3)	(1.9)	(25.2)
Inventory write-down ($M)	(1.5)	-	(1.5)	-	-	-	(0.1)	(0.1)
Supplies obsolescence ($M)	-	-	-	(1.0)	(0.1)	(1.1)	-	(1.1)
Reversal of write-down on concentrate sales ($M)	-	-	-	0.2	-	0.2	-	0.2
Inventory working capital adjustments ($M)	(15.9)	0.4	(15.5)	10.7	1.0	11.7	(9.3)	2.4
Cash production costs of metal produced ($M)	$ 194.9	$ 55.7	$ 250.6	$ 203.9	$ 48.7	$ 252.6	$ 64.5	$ 317.1
Production costs ($/lb)								
Mining	$ 0.50	$ 1.02	$ 0.62	$ 0.50	$ 0.88	0.59	$ 1.72	$ 0.74
Milling/Processing	1.03	0.37	0.87	1.04	0.30	0.87	0.63	0.84
G&A	0.19	0.23	0.20	0.23	0.22	0.23	0.55	0.27
C1P sub-total	1.72	1.62	1.69	1.77	1.40	1.69	2.90	1.85
By-product credits ($/lb)	(0.09)	(1.07)	(0.32)	(0.06)	(0.94)	(0.27)	(0.14)	(0.25)
Treatment and selling costs ($/lb)	0.42	0.35	0.41	0.45	0.29	0.41	0.36	0.40
C1 cash cost ($/lb PRODUCED)	**$ 2.05**	**$ 0.90**	**$ 1.78**	**$ 2.16**	**$ 0.75**	**$ 1.83**	**$ 3.12**	**$ 2.00**
NSR royalties	-	0.10	0.02	-	0.10	0.02	0.03	0.02
Non-cash deferred revenue	-	-	-	-	-	-	(0.06)	(0.01)
Production-phase capitalized stripping	0.18	-	0.14	0.23	-	0.18	-	0.16
Sustaining capital	0.23	0.78	0.36	0.27	0.58	0.35	0.32	0.35
PV3 development	-	-	-	0.02	-	0.01	-	0.01
Sustaining leases	-	0.01	0.01	-	-	-	-	-
Accretion of reclamation obligation	0.02	0.01	0.02	0.02	0.01	0.01	0.02	0.01
Amortization of reclamation asset	-	0.04	0.01	-	0.06	0.03	0.01	0.02
Corporate G&A, excluding depreciation			0.10			0.12		0.11
All-in sustaining cost adjustments	0.43	0.94	0.66	0.54	0.75	0.72	0.32	0.67
All-in sustaining cost ($/lb PRODUCED)	**$ 2.48**	**$ 1.84**	**$ 2.44**	**$ 2.70**	**$ 1.50**	**$ 2.55**	**$ 3.44**	**$ 2.67**

[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

	31-Dec-19	31-Dec-18
Long term debt (per financials, $M), excl. deferred financing costs of $2.8M and $3.0M	$ 209.9	219.9
Less:		
Cash and cash equivalents (per financials, $M)	(39.9)	$ (30.1)
Short term investments (per financials, $M)	(4.5)	(35.9)
Cash held by discontinued operation (per financials, $M)	-	(3.8)
Net debt	**$ 165.5**	**$ 150.1**

Reconciliation of Cash Flow from Operating Activities per Common Share

($ millions, except share and per share amounts)	Q4 2019	Q4 2018	2019	2018
Cash flow from operating activities (per financials)	$ 22.1	$ 54.2	$ 92.9	$ 131.1
Weighted average common shares - basic (per financials)	391,487,393	387,040,362	391,303,393	386,690,981
Cash flow from operating activities per share	**$ 0.06**	**$ 0.14**	**$ 0.24**	**$ 0.34**

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

($ millions, except share and per share amounts)	Q4 2019	Q4 2018	2019	2018
Operating cash flow (per financials)	$ 22.1	$ 54.2	$ 92.9	$ 131.1
Adjustment for changes in working capital (per financials)	(1.8)	(43.0)	(13.1)	(33.6)
Operating cash flow before working capital changes	**$ 20.3**	**$ 11.2**	**$ 79.8**	**$ 97.5**
Weighted average common shares - basic (per financials)	391,487,393	387,040,362	391,303,393	386,690,981
Operating cash flow before working capital changes per share	**$ 0.05**	**$ 0.03**	**$ 0.20**	**$ 0.25**

[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 2019	Q4 2018[2]	2019	2018[2]
Net income (loss) from continuing operations (per financials)	$ 13.4	$ (15.2)	$ 10.8	$ 7.4
Inventory write-down	0.6	0.4	1.5	0.9
Unrealized loss on derivative contracts	-	-	-	0.1
Non-recurring G&A	0.6	-	0.6	0.8
Corporate restructuring costs	-	2.6	-	2.6
Deferred income tax expense (recovery)	(23.2)	20.2	(23.2)	20.2
Share based compensation	1.9	(2.6)	4.7	(7.0)
Loss on disposal of assets	0.8	0.1	1.0	0.2
Unrealized foreign exhange (gain)/loss	(0.1)	1.1	0.9	1.3
Change in fair value of contingent receivable (RE: Minto)	(1.4)	-	(1.2)	-
Tax effect on the above adjustments	(0.4)	(0.1)	(0.8)	(0.2)
Adjusted net income (loss) from continuing operations	**$ (7.8)**	**$ 6.5**	**$ (5.7)**	**$ 26.3**
Adjusted net income (loss) from continuing operations attributable to:				
Shareholders of Capstone Mining Corp.	$ (7.8)	$ 6.6	$ (5.5)	$ 27.2
Non-controlling interests	-	(0.1)	(0.2)	(0.9)
	$ (7.8)	**$ 6.5**	**$ (5.7)**	**$ 26.3**
Weighted average common shares - basic (per financials)	391,487,393	387,040,362	391,303,393	386,690,981
Adjusted net income from continuing operations attributable to shareholders of Capstone Mining Corp. per common share - basic	**$ (0.02)**	**$ 0.02**	**$ (0.01)**	**$ 0.07**
Weighted average common shares - diluted (per financials)	395,185,246	387,040,362	395,159,192	386,690,981
Adjusted net income from continuing operations attributable to shareholders of Capstone Mining Corp. per common share - diluted	**$ (0.02)**	**$ 0.02**	**$ (0.01)**	**$ 0.07**

[2] *Certain prior period amounts have been restated to conform with current period classification.*

[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)

($ millions, except share and per share amounts)	Q4 2019	Q4 2018[2]	2019	2018[2]
Net income (loss) (per financials)	$ 13.4	$ (39.0)	$ (16.2)	$ (23.6)
Inventory write-down	0.6	0.4	1.5	1.0
Minto restructuring costs	-	4.5	0.3	4.5
Other one-time Minto costs	-	-	0.6	-
Non-recurring G&A	0.6	-	0.6	0.8
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)	(23.2)	20.2	(23.2)	20.2
Unrealized (gain) loss on derivative contracts	-	-	-	0.1
Change in fair value of contingent receivable (RE:Minto)	(1.4)	-	(1.2)	-
Changes in deferred revenue	-	-	1.3	-
Loss on sale of Minto	-	-	24.5	-
Share based compensation	1.9	(2.6)	4.7	(7.0)
Loss on disposal of assets	0.8	0.1	1.0	0.2
Unrealized foreign exchange (Gain)/Loss	(0.1)	1.1	0.9	1.2
Tax effect of the above adjustments	(0.4)	(0.1)	(0.8)	(0.2)
Adjusted net income (loss)	**$ (7.8)**	**$ 3.1**	**$ (6.0)**	**$ 13.4**
Adjusted net income (loss) attributable to:				
Shareholders of Capstone Mining Corp.	$ (7.8)	$ 3.2	$ (5.8)	$ 14.3
Non-controlling interests	-	(0.1)	(0.2)	(0.9)
	$ (7.8)	**$ 3.1**	**$ (6.0)**	**$ 13.4**
Weighted average common shares - basic (per financials)	391,487,393	387,040,362	391,303,393	386,690,981
Adjusted net income attributable to shareholders of Capstone Mining Corp. per common share - basic	**$ (0.02)**	**$ 0.01**	**$ (0.01)**	**$ 0.04**
Weighted average common shares - diluted (per financials)	395,185,246	387,040,362	392,223,443	386,690,981
Adjusted net income attributable to shareholders of Capstone Mining Corp. per common share - diluted	**$ (0.02)**	**$ 0.01**	**$ (0.01)**	**$ 0.04**

[2] *Certain prior period amounts have been restated to conform with current period classification.*

[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 2019	Q4 2018[2]	2019	2018[2]
Net income from continuing operations (per financials)	$ 13.4	$ (15.2)	$ 10.8	$ 7.4
Net finance costs	4.4	3.9	16.7	17.2
Taxes	(21.0)	23.4	(15.1)	33.2
Depletion and amortization	23.3	17.6	82.5	69.9
EBITDA - from continuing operations	**20.1**	**29.7**	**94.9**	**127.7**
Share-based compensation expense (recovery)	1.9	(2.6)	4.7	(7.0)
Inventory write-down	0.6	0.4	1.5	0.9
Unrealized gain on derivative instruments	-	-	-	0.1
Loss on disposal of mineral properties, plant and equipment	0.8	0.1	1.1	0.2
Unrealized foreign exchange (gain)/ loss	(0.1)	1.1	0.9	1.3
Non-recurring G&A	0.6	-	0.6	0.8
Restructuring costs	-	2.6	-	2.6
Change in fair value of contingent receivable (RE: Minto)	(1.4)	-	(1.2)	-
Adjusted EBITDA - from continuing operations	**$ 22.5**	**$ 31.3**	**$ 102.5**	**$ 126.6**
Adjusted EBITDA by mine				
Pinto Valley	15.8	17.7	67.6	80.6
Cozamin	11.0	16.6	52.0	66.5
Other	(4.3)	(3.0)	(17.1)	(20.5)
Adjusted EBITDA - from continuing operations	**$ 22.5**	**$ 31.3**	**$ 102.5**	**$ 126.6**

[2] *Certain prior period amounts have been restated to conform with current period classification.*

[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

	2019					2018				
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
Copper (000 lbs)										
Pinto Valley	27,574	37,297	21,791	32,050	118,712	26,745	24,670	31,891	26,385	109,691
Cozamin	7,732	8,249	9,446	8,215	33,642	8,446	7,041	9,591	8,761	33,839
Total	35,306	45,546	31,237	40,265	152,354	35,191	31,711	41,482	35,146	143,530
Zinc (000 lbs)										
Cozamin	4,261	1,611	5,402	4,264	15,538	1,132	2,679	3,181	4,303	11,295
Lead (000 lbs)										
Cozamin	1,358	393	341	917	3,009	-	422	971	1,120	2,513
Molybdenum (tonnes)										
Pinto Valley	45	2	26	33	106	44	35	-	38	117
Silver (000s ounces)										
Cozamin	273	280	333	294	1,180	200	206	333	291	1,030
Pinto Valley	54	82	48	81	265	60	48	67	60	235
Total	327	362	381	375	1,445	260	254	400	351	1,265
Gold (ounces)										
Pinto Valley*	(98)	784	489	912	2,087	174	401	(28)	1,170	1,717
Cozamin	29	12	40	46	127	-	-	-	68	68

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

[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, 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	-
Production	54,236	384	38	15,163	5,383	801	-
Sales	(49,883)	(422)	(45)	(14,366)	(5,330)	(1,010)	-
Mar.31, 2019	24,682	127	2	2,983	946	89	-
Production	48,442	405	21	15,484	3,651	268	-
Sales	(66,752)	(282)	-	(15,442)	(1,782)	(357)	-
Jun.30, 2019	6,372	250	23	3,025	2,815	0	-
Production	46,715	486	22	15,505	4,090	386	-
Sales	(37,199)	(404)	(26)	(17,336)	(6,206)	(302)	-
Sep.30, 2019	15,888	332	19	1,194	699	84	-
Production	45,166	437	23	15,118	4,174	911	-
Sales	(57,372)	(564)	(33)	(13,997)	(4,701)	(670)	-
Dec. 31, 2019	3,682	205	9	2,315	172	325	-

** Minto was considered a discontinued operation at March 31, 2018 and as such the inventory held at Minto at December 31, 2017 was re-classified from inventories to assets held for sale. Minto was sold during Q2 2019.*
*** 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 copper production does not vary significantly from quarter to quarter. 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 11, 2020:

Issued and outstanding	400,045,604
Share options outstanding at a weighted average exercise price of $0.93	23,257,683
Fully diluted	423,303,287

[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 President and Chief Executive Officer and Chief Financial Officer. Management concluded the Company's DC&P were effective as at December 31, 2019.

Internal Control Over Financial Reporting ("ICFR")

Capstone's management, with the participation of its President & 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, 2019, 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-months ended December 31, 2019.

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.

[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.*

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, Annual Information Form 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.

Disclosure Documents include the National Instrument 43-101 compliant technical reports titled "NI 43-101 Technical Report on the Cozamin Mine, Zacatecas, Mexico" effective October 24, 2018, "Pinto Valley Mine Life Extension – Phase 3 (PV3) Pre-Feasibility Study" effective January 1, 2016 and "Santo Domingo Project, Region III, Chile, NI 43-101 Technical Report on Feasibility Study Update" effective November 26, 2018.
"Santo Domingo Project, Region III, Chile, NI 43-101 Technical Report on Feasibility Study Update" effective November 26, 2018.

The disclosure of scientific and 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 and to Mineral Resources at Cozamin), Clay Craig, P.Eng, Superintendent Mine Technical Services – Pinto Valley Mine (technical information related to Mineral Reserves and Mineral Resources at Pinto Valley), Tucker Jensen, Senior Technical Advisor – Cozamin Mine, P.Eng (technical information related to Mineral Reserves at Cozamin) and Albert Garcia III, PE, Vice President, Projects (technical information related to project updates at Santo Domingo) all Qualified Persons under NI 43-101.

[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 FINANCIAL STATEMENTS

December 31, 2019 and 2018

(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 & Chief Executive Officer

(Signed) Raman Randhawa
Chief Financial Officer

Vancouver, British Columbia, Canada
February 11, 2020

Independent Auditor's Report

To the Shareholders of Capstone Mining Corp.

Opinion
We have audited the consolidated financial statements of Capstone Mining Corp. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of loss, comprehensive income (loss), 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, 2019 and 2018, 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 Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do 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 David Macdonald.

/s/ Deloitte LLP

Chartered Professional Accountants

Vancouver, British Columbia

February 11, 2020

Capstone Mining Corp.
Consolidated Statements of Financial Position
As at December 31, 2019 and 2018
(expressed in thousands of US dollars)

ASSETS		**2019**		2018 *(Note 3)*
Current				
Cash and cash equivalents	**$**	**39,939**	$	30,072
Short-term investments *(Note 5)*		**4,549**		35,918
Receivables *(Note 6)*		**28,554**		22,278
Inventories *(Note 7)*		**47,888**		66,508
Other assets *(Note 11)*		**2,451**		2,452
Assets classified as held for sale *(Note 9)*		**-**		49,870
		123,381		207,098
Mineral properties, plant and equipment *(Note 8)*		**1,132,164**		1,083,179
Promissory note receivable *(Note 10)*		**31,594**		36,793
Deferred income tax asset *(Note 15)*		**24,655**		1,222
Other assets *(Note 11)*		**19,586**		7,830
Total assets	**$**	**1,331,380**	$	1,336,122
LIABILITIES				
Current				
Accounts payable and accrued liabilities	**$**	**52,493**	$	49,979
Other liabilities *(Note 12)*		**2,899**		11,465
Liabilities directly associated with assets classified as held for sale *(Note 9)*		**-**		41,819
		55,392		103,263
Long term debt *(Note 14)*		**207,093**		216,972
Provisions *(Note 16)*		**120,180**		95,496
Deferred income tax liabilities *(Note 15)*		**64,021**		63,153
Other liabilities *(Note 12)*		**8,136**		4,887
Lease liabilities *(Note 13)*		**5,170**		-
Total liabilities		**459,992**		483,771
EQUITY				
Share capital	**$**	**838,523**	$	838,351
Other reserves *(Note 9)*		**32,386**		(3,541)
Accumulated deficit		**(109,806)**		(92,901)
Total equity attributable to equity holders of the Company		**761,103**		741,909
Non-controlling interest		**110,285**		110,442
Total equity		**871,388**		852,351
Total liabilities and equity	**$**	**1,331,380**	$	1,336,122

Commitments *(Note 24)*
Contingencies *(Note 9 and 27)*

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
Years Ended December 31, 2019 and 2018
(expressed in thousands of US dollars, except share and per share amounts)

		2019		2018 *(Note 3)*
Revenue *(Note 18)*	**$**	**418,663**	$	415,887
Operating costs				
Production costs		**(292,234)**		(265,102)
Royalties		**(3,482)**		(3,540)
Depletion and amortization		**(80,514)**		(68,882)
Earnings from mining operations		**42,433**		78,363
General and administrative expenses *(Note 25)*		**(15,973)**		(19,011)
Exploration expenses *(Note 8)*		**(6,468)**		(3,307)
Care and maintenance expense *(Note 8)*		**(1,018)**		(3,043)
Restructuring expense		**-**		(2,574)
Share-based compensation recovery (expense) *(Note 17)*		**(4,780)**		6,952
Earnings from operations		**14,194**		57,380
Other income (expense)				
Foreign exchange (loss) gain		**(1,369)**		1,379
Other expense		**(373)**		(917)
Income before finance costs and income taxes		**12,452**		57,842
Interest on long term debt		**(13,320)**		(14,784)
Other interest expense		**(3,439)**		(2,455)
(Loss) income from continuing operations before income taxes		**(4,307)**		40,603
Income tax recovery (expense) *(Note 15)*		**15,163**		(33,203)
Net income from continuing operations	**$**	**10,856**	$	7,400
Net loss from discontinued operations *(Note 9)*		**(27,056)**		(30,977)
Net loss	**$**	**(16,200)**	$	(23,577)
Net income (loss) from continuing operations attributable to:				
Shareholders of Capstone Mining Corp.	**$**	**11,013**	$	8,305
Non-controlling interest		**(157)**		(905)
	$	**10,856**	$	7,400
Net loss attributable to:				
Shareholders of Capstone Mining Corp.	**$**	**(16,043)**	$	(22,672)
Non-controlling interest		**(157)**		(905)
	$	**(16,200)**	$	(23,577)
Net income per share from continuing operations				
Earnings per share - basic	**$**	**0.03**	$	0.02
Weighted average number of shares - basic *(Note 19)*		**391,303,393**		386,690,981
Earnings per share - diluted	**$**	**0.03**	$	0.02
Weighted average number of shares - diluted *(Note 19)*		**395,159,192**		392,269,476
Net loss per share				
Loss per share - basic *(Note 19)*	**$**	**(0.04)**	$	(0.06)
Weighted average number of shares - basic *(Note 19)*		**391,303,393**		386,690,981
Loss per share - diluted *(Note 19)*	**$**	**(0.04)**	$	(0.06)
Weighted average number of shares - diluted *(Note 19)*		**391,303,393**		386,690,981

See accompanying notes to these consolidated financial statements.

Capstone Mining Corp.

Consolidated Statements of Comprehensive Income (Loss)

Years Ended December 31, 2019 and 2018

(expressed in thousands of US dollars)

		2019		2018 *(Note 3)*
Net loss	**$**	**(16,200)**	$	(23,577)
Other comprehensive income (loss)				
Items that will not be reclassfied subsequently to profit or loss				
Change in fair value of marketable securities, net of tax of $nil (2018 - $757)		**(339)**		(1,344)
Remeasurement for retirement benefit plans, net of tax of $(116) (2018 - $74)		**236**		2,364
		(103)		1,020
Items that may be reclassfied subsequently to profit or loss				
Foreign currency translation adjustment		**838**		(3,819)
		838		(3,819)
Items that were reclassified to profit or loss				
Reclassification of accumulated foreign currency translation adjustment to earnings upon disposal of Minto *(Note 9)*		**30,362**		-
		30,362		-
Total other comprehensive income (loss) for the period		**31,097**		(2,799)
Total comprehensive income (loss)	**$**	**14,897**	$	(26,376)

Total comprehensive income (loss) attributable to:				
Shareholders of Capstone Mining Corp.	**$**	**15,054**	$	(25,471)
Non-controlling interest		**(157)**		(905)
	$	**14,897**	$	(26,376)

See accompanying notes to these consolidated financial statements.

Capstone Mining Corp.
Consolidated Statements of Cash Flows
Years Ended December 31, 2019 and 2018
(expressed in thousands of US dollars)

	2019	2018 *(Note 3)*
Cash provided by (used in):		
Operating activities		
Net loss	**$ (16,200)**	$ (23,577)
Adjustments for:		
Depletion and amortization	**82,540**	71,571
Income and mining tax (recovery) expense	**(14,953)**	33,964
Inventory write-down	**2,038**	13,953
Loss on sale of Minto *(Note 9)*	**24,489**	-
Shares issued as compensation	**42**	156
Share-based compensation expense (recovery)	**4,780**	(6,952)
Restructuring provision	**-**	5,853
Net finance costs	**18,113**	19,374
Unrealized gain on foreign exchange	**(2,820)**	(7,734)
(Gain) loss on derivatives	**(28)**	3,712
Loss on disposal of assets	**513**	112
Changes in deferred revenue	**597**	(1,402)
Changes in contingent consideration	**(1,240)**	-
Interest received	**99**	130
Income taxes paid	**(17,742)**	(17,588)
Income taxes received	**329**	8,434
Payments on reclamation and closure cost obligations *(Note 16)*	**(445)**	(125)
Changes in other assets	**(296)**	(2,357)
Changes in non-cash working capital *(Note 22)*	**13,068**	33,573
	92,884	131,097
Investing activities		
Mineral properties, plant and equipment additions	**(96,746)**	(96,775)
Proceeds (purchase) of short-term investments	**31,369**	(35,880)
Proceeds on disposal of assets	**684**	188
Purchase of investments	**(148)**	-
Other assets	**(647)**	(51)
	(65,488)	(132,518)
Financing activities		
Proceeds from bank borrowings *(Note 14)*	**25,000**	-
Repayment of bank borrowings *(Note 14)*	**(35,000)**	(55,000)
KORES payment against promissory note *(Note 10)*	**6,015**	1,209
Repayment of lease obligations	**(1,047)**	-
Purchase of treasury shares *(Note 17)*	**-**	(4,938)
Proceeds from issuance of share capital	**91**	548
Payments for settlement of derivatives	**-**	(4,865)
Financing fees *(Note 14)*	**(1,077)**	-
Interest paid	**(15,636)**	(15,650)
	(21,654)	(78,696)
Effect of exchange rate changes on cash and cash equivalents	**311**	(2,198)
increase (decrease) in cash and cash equivalents	**6,053**	(82,315)
Cash and cash equivalents - beginning of year	**33,886**	116,201
Cash and cash equivalents - end of year		
(includes $nil (2018 - $3,814) cash held for sale (Note 9))	**$ 39,939**	$ 33,886

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, 2019 and 2018

(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	Accumulated deficit	Total - attributable to equity holders	Non-controlling interest	Total equity
January 1, 2019 (as reported)	399,580,329	$ 838,351	$ 52,541	$ 2,581	$ (47,958)	$ (10,705)	$ (92,901)	$ 741,909	$ 110,442	$ 852,351
Adjustment on initial application of IFRS 16 *(Note 3)*	-	-	-	-	-	-	665	665	-	665
January 1, 2019	399,580,329	838,351	52,541	2,581	(47,958)	(10,705)	(92,236)	742,574	110,442	853,016
Shares issued on exercise of options *(Note 17)*	366,590	130	(39)	-	-	-	-	91	-	91
Share-based compensation *(Note 17)*	-	-	1,469	-	-	-	-	1,469	-	1,469
Settlement of share units	-	-	-	-	-	3,400	(1,527)	1,873	-	1,873
Shares issued as compensation	98,685	42	-	-	-		-	42	-	42
Change in fair value of marketable securities	-	-	-	(339)	-	-	-	(339)	-	(339)
Reclassification of foreign currency translation adjustment to earnings (loss) on sale of Minto *(Note 9)*	-	-	-	-	30,362	-	-	30,362	-	30,362
Remeasurements for retirement benefit plans	-	-	-	236	-	-	-	236	-	236
Net loss	-	-	-	-	-	-	(16,043)	(16,043)	(157)	(16,200)
Foreign currency translation	-	-	-	-	838	-	-	838	-	838
December 31, 2019	400,045,604	$ 838,523	$ 53,971	$ 2,478	$ (16,758)	$ (7,305)	$ (109,806)	$ 761,103	$ 110,285	$ 871,388
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

See accompanying notes to these consolidated financial statements.

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, 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. In June 2019, Capstone sold its 100% interest in Minto Explorations Ltd. ("Minto"), which owns the copper Minto Mine located in Yukon, Canada (*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 Corporation ("KORES"). Through Acquisition Co.'s wholly-owned Canadian subsidiary, Far West Mining Ltd. ("Far West"), Acquisition Co is engaged in the exploration and development of 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 2100 - 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 11, 2020.

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, 2019. The policies set out below were consistently applied to all the periods, except for the application of IFRS 16 Leases ("IFRS 16"), and are included in Note 2(c). Capstone has adopted IFRS 16 effective January 1, 2019.

Certain comparative figures have been reclassified to conform with changes in the presentation of the current year.

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.

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.

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 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. *Amortization rate for property, plant and equipment and depletion rates for mining interests*
Depletion and amortization expenses are allocated based on estimated asset lives. Should the asset life, depletion rates, or amortization rates differ from the initial estimate, an adjustment would be made in the consolidated statement of loss 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. Management concluded that there were no impairment indicators or indicators of impairment reversal for the year ended December 31, 2019.

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 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.

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 20.

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 as a foreign exchange gain (loss).

On translation of entities with functional currencies other than the US dollar, consolidated statement of loss 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 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.

iv. Investments

Investments in shares of companies over which the Company exercises neither control, joint control nor significant influence are designated as fair value through OCI and recorded at fair value. Fair values are determined by reference to quoted market prices at the reporting date. Unrealized gains and losses on investments in marketable securities are recognized in the revaluation reserve. When investments in marketable securities are sold, derecognized, or determined to be impaired, the cumulative fair value adjustments would remain within equity.

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.

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 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, 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 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.

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.

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.

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 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 and mineral resources, 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. 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.

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 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

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.

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.

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

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. Short-term investments, concentrate receivables, promissory note receivables, derivative assets, and the contingent consideration on sale of Minto are measured at FVTPL with subsequent changes recognized in the consolidated statement of loss.

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 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 consolidated statement of loss 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*

The Company assesses whether a contract is or contains a lease, at inception of a contract. The Company recognizes a right-of-use asset ("ROU asset") and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, at the commencement of the lease, with the following exceptions: (i) the Company has elected not to recognize ROU assets and liabilities for leases where the total lease term is less than or equal to 12 months, or (ii) for leases of low value. The payments for such leases are recognized in the consolidated statement of loss on a straight-line basis over the lease term.

The ROU asset is initially measured based on the present value of lease payments, lease payments made at or before the commencement day, and any initial direct costs. They are subsequently measured at cost less accumulated amortization and impairment losses. The ROU asset is depreciated over the shorter of the lease term or the useful life of the underlying asset. The ROU asset is subject to testing for impairment if there is an indicator of impairment.

The lease liability is initially measured at the present value of lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate. Lease payments include fixed payments less any lease incentives, and any variable lease payments where variability depends on an index or rate.

When the lease contains an extension or purchase option that the Company considers reasonably certain to be exercised, the cost of the option is included in the lease payments.

ROU assets are included in mineral properties, plant and equipment, and the lease liability is presented as a separate line in the consolidated statement of financial position.

Variable lease payments that do not depend on an index or rate are not included in the measurement of the ROU asset and lease liability. The related payments are recognized as an expense in the period in which the triggering event occurs and are included in the consolidated statement of loss.

xxiii. *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 the estimated economic life of the specific assets to which they relate. 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 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.

xxiv. *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 as interest expense from discounting obligations.

xxv. *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.

xxvi. *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 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.

xxvii. *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.

xxviii. *Earnings (loss) per share*

Basic earnings (loss) per share is computed by dividing net earnings (loss) 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.

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

Impact of application of IFRS 16 Leases

Effective January 1, 2019, the Company has adopted IFRS 16 using the modified retrospective application method, where the 2018 comparatives are not restated and the cumulative effect of initially applying IFRS 16 has been recorded on January 1, 2019 for any differences identified, including adjustments to opening accumulated deficit balance.

IFRS 16 introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset ("ROU asset") and a lease liability at the lease commencement for all leases, except for short-term leases (lease terms of 12 months or less) and leases of low value assets.

In applying IFRS 16 for all leases, except as noted above, Capstone (i) recognizes the ROU asset and lease liabilities in the statement of financial position, initially measured at the present value of future lease payments; (ii) recognizes the amortization of ROU assets and interest on lease liabilities in the consolidated statement of loss; and (iii) separates the total amount of cash paid into a principal portion (presented in financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows. For short-term leases and leases of low value assets, Capstone has opted to recognize a lease expense on a straight-line basis, and this expense is presented within production costs and general and administrative expenses in the consolidated statement of loss.

The Company has made use of the following practical expedients available on transition to IFRS 16:

- Measure the ROU assets equal to the lease liability calculated for each lease;
- Apply the recognition exemptions 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;
- Accounting for non-lease components and lease components as a single lease component.

In transitioning to IFRS 16, the Company analyzed its contracts to identify whether they are or contain a lease arrangement. This analysis identified contracts containing leases that have an equivalent increase to both the Company's ROU assets and lease liabilities, which resulted in a $5.9 million adjustment. In addition, $0.7 million of leasehold inducements was written-off to opening accumulated deficit balance, as the ROU asset was not reduced by any lease incentives received. The incremental borrowing rate for lease liabilities initially recognized on adoption of IFRS 16 was 6%.

The cumulative effect of the changes made to the consolidated January 1, 2019 balance sheet for the adoption of IFRS 16 is as follows:

Assets	**Balance at December 31, 2018 (as reported)**	**IFRS 16 adjustments**	**Balance at January 1, 2019**
Mineral properties, plant and equipment	$ 1,083,179	$ 5,877	$ 1,089,056
Liabilities			
Lease liabilities	$ -	$ 5,877	$ 5,877
Other liabilities	665	(665)	-
Equity			
Retained deficit	$ (92,901)	$ 665	$ (92,236)

The operating lease obligations as at December 31, 2018 are reconciled as follows to the recognized lease liabilities as at January 1, 2019:

		January 1, 2019
Operating lease obligation as at December 31, 2018	$	**4,423**
Current leases with a lease term of 12 months or less (short-term leases)		(45)
Leases identified as a result of IFRS 16 implementation		4,718
Effect from discounting at the incremental borrowing rate as at January 1, 2019		(3,219)
Lease liabilities due to initial application of IFRS 16 as at January 1, 2019	$	**5,877**

As a result of the implementation of IFRS 16, the Company revisited previous determinations under IFRIC 4 when determining whether a contract is or contains a lease. The Company identified certain contracts that were previously determined to be service contracts that were in fact operating leases. The misclassification did not result in differences to the pattern of recognition in prior periods of these costs.

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, 2019 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 *(Note 5)*	$ 8	$ 4,541	$ -	$ 4,549
Concentrate receivables *(Note 6)*	-	19,946	-	19,946
Promissory note receivable *(Note 10)*	-	-	35,387	35,387
Derivative asset - current *(Note 11)*	-	147	-	147
Investment in marketable securities *(Note 11)*	1,679	-	-	1,679
Contingent consideration on sale of Minto *(Note 11)*	-	-	9,611	9,611
	$ 1,687	$ 24,634	$ 44,998	$ 71,319

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

	Level 1	Level 2	Level 3	Total
Short-term investments *(Note 5)*	$ 6,087	$ 29,831	$ -	$ 35,918
Concentrate receivables *(Note 6)*	-	8,523	-	8,523
Promissory note receivable *(Note 10)*	-	-	41,402	41,402
Derivative asset - current *(Note 11)*	-	114	-	114
Investment in marketable securities *(Note 11)*	1,698	-	-	1,698
	$ 7,785	$ 38,468	$ 41,402	$ 87,655

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, Level 2 and Level 3 during the year ended December 31, 2019.

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

	December 31, 2019			
	Fair value through profit or loss	**Fair value through OCI**	**Amortized cost**	**Total**
Cash and cash equivalents	**$ -**	**$ -**	**$ 39,939**	**$ 39,939**
Short-term investments *(Note 5)*	**4,549**	**-**	**-**	**4,549**
Concentrate receivables *(Note 6)*	**19,946**	**-**	**-**	**19,946**
Other receivables *(Note 6)*	**-**	**-**	**1,102**	**1,102**
Promissory note receivable *(Note 10)*	**35,387**	**-**	**-**	**35,387**
Derivative asset - current *(Note 11)*	**147**	**-**	**-**	**147**
Investments in marketable securities *(Note 11)*	**-**	**1,679**	**-**	**1,679**
Contingent consideration on sale of Minto *(Note 11)*	**9,611**	**-**	**-**	**9,611**
	$ 69,640	**$ 1,679**	**$ 41,041**	**$ 112,360**

	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 *(Note 5)*	35,918			35,918
Concentrate receivables *(Note 6)*	8,523	-	-	8,523
Other receivables *(Note 6)*	-	-	930	930
Promissory note receivable *(Note 10)*	41,402	-	-	41,402
Derivative asset - current *(Note 11)*	114	-	-	114
Investments in marketable securities *(Note 11)*	-	1,698	-	1,698
	$ 85,957	$ 1,698	$ 31,002	$ 118,657

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

	December 31, 2019		
	Fair value through profit or loss	**Amortized cost**	**Total**
Accounts payable and accrued liabilities	**$ -**	**$ 52,493**	**$ 52,493**
Long term debt *(Note 14)*	**-**	**207,093**	**207,093**
	$ -	**$ 259,586**	**$ 259,586**

	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

There have been no changes during the year ended December 31, 2019 as to how the Company categorizes its financial assets and liabilities by FVTPL, FVOCI, and amortized cost.

At December 31, 2019, 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.

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.

Valuation methodologies for Level 3 financial instruments

The promissory note receivable is valued based on its carrying value, as given its demand nature, the carrying value approximates its fair value. The contingent consideration on sale of Minto is marked-to-market based on a valuation model which uses inputs including copper forward curves, interest rate curves, credit ratings, and timing of the start of commercial production.

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.

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 10)*, 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.

The Company monitors the exposure to the credit risk on the contingent consideration on sale of Minto by assessing Minto's financial and operational performance.

As at December 31, 2019, the Company's maximum exposure to credit risk is the carrying value of its cash and cash equivalents, short-term investments, receivables, derivative assets, contingent consideration on sale of Minto, investment in marketable securities, 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, 2019, 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:

	Canadian dollar	Mexican peso
Cash	$ 415	$ 1,550
Receivables and other current assets	420	3,685
Deposits and other long-term assets	2,192	761
Total assets	3,027	5,996
Accounts payable and accrued liabilities	3,754	8,660
Total liabilities	3,754	8,660
Net assets	**$ (727)**	**$ (2,664)**

Based on the above net exposures at December 31, 2019, a 10% appreciation in the Canadian dollar against the US dollar would result in a $0.07 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 $0.3 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, 2019, the Company's liabilities that have contractual maturities are as follows:

	Total	2020	2021	2022	2023	After 2024
Accounts payable and accrued liabilities*	$ 52,493	$ 52,493	$ -	$ -	$ -	$ -
Long term debt	207,093	-	-	207,093	-	-
Leases and other contracts	7,680	1,136	1,142	1,142	1,142	3,118
	$ 267,266	$ 53,629	$ 1,142	$ 208,235	$ 1,142	$ 3,118

* Amounts above do not include payments related to the Company's reclamation and closure cost obligations and other long term provisions *(Note 16)* .

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 $209.9 million at December 31, 2019, 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, 2019	December 31, 2018
Exchange traded funds	**$ 4,541**	$ 6,087
Money market funds	**8**	29,831
Total short-term investments	**$ 4,549**	$ 35,918

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

6. Receivables

Details are as follows:

	December 31, 2019	December 31, 2018
Concentrates	**$ 19,946**	$ 8,523
Value added taxes and other taxes receivable	**186**	7,838
Income taxes receivable	**3,201**	378
Other	**1,102**	930
Current portion of finance lease receivable	**326**	-
Current portion of KORES promissory note *(Note 10)*	**3,793**	4,609
Total receivables	**$ 28,554**	$ 22,278

7. Inventories

Details are as follows:

	December 31, 2019	December 31, 2018
Consumable parts and supplies	**$ 32,543**	$ 31,915
Ore stockpiles	**1,594**	1,317
Concentrate	**12,791**	32,441
Cathode	**960**	835
Total inventories	**$ 47,888**	$ 66,508

During the year ended December 31, 2019, concentrate and cathode inventories recognized as production costs, including depletion and amortization, amounted to $372.7 million (2018 – $334.0 million).

During the year ended December 31, 2019, the Company recorded total non-cash charges of $2.0 million (2018 – $1.7 million) in production costs related to write-downs of $2.0 million (2018 – $1.6 million) for Pinto Valley's inventory, and charges of $nil (2018 – $0.1 million) for Cozamin's supplies inventory.

8. Mineral Properties, Plant and Equipment

Details are as follows:

	Mineral properties			Plant and equipment				
	Depletable		Non-depletable	Subject to amortization				
	Producing mineral properties	Deferred stripping	Mineral exploration and development properties	Mill development costs	Plant & equipment	Right of use assets	Construction in progress	Total
At January 1, 2019, net (as reported)	$ 381,478	$ 101,677	$ 270,458	$ 22,351	$ 276,475	$ -	$ 30,740	$ 1,083,179
Adjustment on initial application of IFRS 16 *(Note 3)*	-	-	-	-	-	5,877	-	5,877
At January 1, 2019, net	$ 381,478	$ 101,677	$ 270,458	$ 22,351	$ 276,475	$ 5,877	$ 30,740	$ 1,089,056
Additions	-	26,480	48,204	-	159	1,966	36,031	112,840
Disposals	-	-	(622)	-	224	(3,357)	-	(3,755)
Rehabilitation provision adjustments *(Note 16)*	19,442	-	-	-	-		-	19,442
Reclassifications	28,664	-	(28,554)	130	30,266		(30,506)	-
Depletion and amortization	(29,815)	(15,513)	-	(1,267)	(37,859)	(965)	-	(85,419)
At December 31, 2019, net	$ 399,769	$ 112,644	$ 289,486	$ 21,214	$ 269,265	$ 3,521	$ 36,265	$ 1,132,164
At December 31, 2019:								
Cost	$ 669,003	$ 142,037	$ 289,486	$ 30,493	$ 491,981	4,135	$ 36,265	$ 1,663,400
Accumulated amortization	(269,234)	(29,393)	-	(9,279)	(222,716)	(614)	-	(531,236)
Net carrying amount	$ 399,769	$ 112,644	$ 289,486	$ 21,214	$ 269,265	$ 3,521	$ 36,265	$ 1,132,164

	Mineral properties			Plant and equipment			
	Depletable		Non-depletable	Subject to amortization			
	Producing mineral properties	Deferred stripping	Mineral exploration and development properties	Mill development costs	Plant & equipment	Construction in progress	Total
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

At December 31, 2019, construction in progress relates to capital costs incurred in connection with sustaining capital at the Pinto Valley and Cozamin mines.

As at December 31, 2019, bank borrowings *(Note 14)* were secured by mineral properties, plant and equipment with a net carrying value of $874.3 million (December 31, 2018 – $876.2 million).

The Company's exploration costs were as follows:

	Year ended December 31,	
	2019	2018
Exploration capitalized to mineral properties	**$ 6,068**	$ 8,296
Greenfield exploration expensed to the statement of income (loss)	**6,468**	3,307
Total exploration costs	**$ 12,536**	$ 11,603

Exploration capitalized to mineral properties in 2019 and 2018 relates primarily to brownfield exploration at the Cozamin mine. Greenfield exploration expenses in 2019 and 2018 relate primarily to exploration efforts in Chile and Mexico.

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

	Year ended December 31,	
	2019	2018
Santo Domingo	**$ -**	$ 2,044
San Manuel Arizona Railroad Company	**1,018**	999
Total care and maintenance costs	**$ 1,018**	$ 3,043

Project development costs incurred since October 1, 2018 related to Santo Domingo are capitalized within mineral properties.

9. Disposal of Assets Classified as Held for Sale

On June 3, 2019, Capstone completed the sale of its 100% interest in the Minto mine, previously classified as an asset held for sale, to Pembridge Resources PLC ("Pembridge"). Under the terms of the agreement, Capstone will receive up to $20 million in cash in staged payments ("contingent consideration"), as follows:

- $5 million within the later of 60 days of reaching commercial production, or January 31, 2021;
- $5 million within 90 days, following two consecutive quarters of commercial production in which the average London Metals Exchange Cash Copper Bid Price ("Average LME Price") is greater than $3.00 per pound within the three years following commercial production; and
- $10 million, within 90 days following two consecutive quarters of commercial production in which the Average LME Price is greater than $3.50 per pound within the three years following commercial production.

On June 3, 2019, the contingent consideration had a fair value of $8.4 million. As at December 31, 2019, the contingent consideration had a fair value of $9.6 million *(Note 11)*, with a mark-to-market change of $1.2 million recorded in other income for the year ended December 31, 2019.

In conjunction with completion of the sale, Pembridge has posted a surety bond to cover potential future reclamation liabilities. While this surety bond is outstanding, Capstone will act as an indemnitor to the surety bond provider and for certain other obligations. If Pembridge defaults on the surety bond, Capstone may be required to recognize a liability related to Minto's asset retirement obligation.

The Company recognized a loss on disposal of $24.5 million calculated as follows:

		June 3, 2019
Consideration		
Contingent consideration	$	**8,371**
Transaction costs		**(142)**
Total consideration	$	**8,229**
Net assets sold and derecognized:		
Cash	$	**1**
Inventory		**2,394**
Mineral properties, plant & equipment		**35,861**
Other assets		**2,442**
Total assets		**40,698**
Deferred income tax liabilities		**1,663**
Deferred revenue		**11,530**
Reclamation and closure cost obligations		**24,846**
Other liabilities		**303**
Total liabilities		**38,342**
Net assets	$	**2,356**
Cumulative foreign currency translation adjustments related to Minto re-classified to net income (loss)	$	**30,362**
Loss on disposition	$	**(24,489)**

The results of the discontinued operations included in net (loss) income for the period are set out below.

Loss for the period from discontinued operations:

	Year ended December 31,	
	2019	2018
Revenue	**$ 8,674**	$ 69,980
Production costs	**(5,603)**	(75,809)
Royalties	**(848)**	(678)
Depletion and amortization	**(13)**	(1,024)
Earnings (loss) from mining operations	**2,210**	(7,531)
Care & maintenance	**(4,726)**	(3,056)
Restructuring recovery (expense)	**551**	(14,641)
Loss from operations	**(1,965)**	**(25,228)**
Other income (expense)	**961**	(2,853)
Net finance costs	**(1,353)**	(2,135)
Loss on disposition	**(24,489)**	-
(Loss) income before income taxes	**(26,846)**	**(30,216)**
Income tax expense	**(210)**	(761)
Net loss from discontinued operations (attributable to shareholders of Capstone)	**$ (27,056)**	$ (30,977)

The results of cash flows from discontinued operations for the period are set out below.

Cash flows from discontinued operations:

	Year ended December 31,	
	2019	2018
Net cash outflows from operating activities	**$ (3,414)**	$ (7,809)
Net cash inflows (outflows) from investing activities	**167**	(7,219)
Net cash outflows from financing activities	**(746)**	(808)
Net cash outflows	**$ (3,993)**	$ (15,836)

10. 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, 2017	$ 42,611
Cash calls against the promissory note	(1,209)
Balance, December 31, 2018	**$ 41,402**
Cash calls against the promissory note	**(6,015)**
Balance, December 31, 2019	**$ 35,387**

	December 31, 2019	December 31, 2018
KORES promissory note	**$ 35,387**	$ 41,402
Less: current portion *(Note 6)*	**(3,793)**	(4,609)
Non-current portion	**$ 31,594**	$ 36,793

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.

11. Other Assets

Details are as follows:

		December 31, 2019		December 31, 2018
Current:				
Prepaids and other	**$**	**2,304**	$	2,338
Derivative assets		**147**		114
Total other assets - current	**$**	**2,451**	$	2,452
Non-current:				
Contingent consideration on sale of Minto *(Note 9)*	**$**	**9,611**	$	-
Taxes receivable		**5,864**		5,914
Investments in marketable securities		**1,679**		1,698
Finance lease receivable		**1,553**		-
Deposits		**879**		218
Total other assets - non-current	**$**	**19,586**	$	7,830

12. Other Liabilities

Details are as follows:

		December 31, 2019		December 31, 2018
Current:				
Income taxes payable	**$**	**1,257**	$	8,105
Current portion of lease liabilities		**769**		-
Current portion of share-based payment obligation		**873**		3,360
Total other liabilities - current	**$**	**2,899**	$	11,465
Non-current:				
Retirement benefit liabilities	**$**	**4,771**	$	4,222
Other		**3,365**		665
Total other liabilities - non-current	**$**	**8,136**	$	4,887

13. Lease Liabilities

Details are as follows:

		December 31, 2019		December 31, 2018
Lease liabilities	**$**	**5,170**	$	-
Less: current portion *(Note 12)*		**(769)**		-
Non-current portion	**$**	**4,401**	$	-

Undiscounted lease payments:

		December 31, 2019
Not later than 1 year	$	1,104
Later than 1 year and not later than 5 years		4,091
Later than 5 years		3,888
	$	9,083

Capstone leases several assets including buildings, land and equipment. Interest expense on the lease liabilities amounted to $0.3 million for the year ended December 31, 2019 (December 31, 2018 - $nil). The cost relating to variable lease payments that do not depend on an index or a rate amounted to $0.4 million for the year ended December 31, 2019 (December 31, 2018 - $nil). There were no leases with residual value guarantees or leases not yet commenced to which Capstone is committed. The expense relating to short-term leases and low value leases amounted to $0.3 million for the year ended December 31, 2019 (December 31, 2018 - $nil).

14. Long-Term Debt

Details are as follows:

		December 31, 2019		December 31, 2018
Long term debt	**$**	**209,925**	$	219,925
Financing fees		**(2,832)**		(2,953)
Total long term debt	**$**	**207,093**	$	216,972

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

Balance, December 31, 2017	$	270,707
Repayments		(55,000)
Amortization of financing fees		1,265
Balance, December 31, 2018	**$**	**216,972**
Repayments		**(35,000)**
Drawdowns		**25,000**
RCF amendment financing fees		**(1,077)**
Amortization of financing fees		**1,198**
Balance, December 31, 2019	**$**	**207,093**

On July 25, 2019, Capstone amended its corporate revolving credit facility ("RCF") which now matures on July 25, 2022 and has a credit limit of $300 million. The facility pricing grid, starting at LIBOR + 2.5% and increasing to LIBOR + 3.5% based on the total leverage ratio, will remain in effect until maturity.

The interest rate at December 31, 2019 and December 31, 2018 was US LIBOR plus 2.75% (2019 – 4.5% and 2018 – 5.2%) with a standby fee of 0.62% payable on the undrawn balance (adjustable in certain circumstances).

A drawdown of $25.0 million and a repayment of $35.0 million were made on the RCF during the year ended December 31, 2019, resulting in an outstanding balance of $209.9 million. A repayment of $55.0 million was made on the RCF during the year ended December 31, 2018.

$1.1 million of fees associated with the RCF amendment were capitalized and are being amortized to the consolidated statement of loss over the term of the facility. During the year ended December 31, 2019, a total of $1.2 million (2018 – $1.3 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). 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, 2019.

At December 31, 2019, there were four Surety Bonds totaling $124.3 million to support various reclamation obligation bonding requirements. This comprises $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 $1.7 million related to the construction of a port for Santo Domingo in Chile. In addition, the Company has a letter of credit with Scotiabank for $0.3 million.

15. Income Taxes

Details of the income tax (recovery) expense are as follows:

	Year ended December 31, 2019				
	Canada	**US**	**Mexico**	**Other**	**Total**
Current income and mining tax expense	**$ -**	**$ 178**	**$ 7,258**	**$ 82**	**$ 7,518**
Deferred income tax (recovery) expense	**(23,183)**	**(2,031)**	**2,533**	**-**	**(22,681)**
Income tax (recovery) expense	**$ (23,183)**	**$ (1,853)**	**$ 9,791**	**$ 82**	**$ (15,163)**

	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

Income tax (recovery) 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,	
	2019	2018
(Loss) income from continuing operations before income taxes	**$ (4,307)**	$ 40,603
Canadian federal and provincial income tax rates	**27.00%**	27.00%
Income tax (recovery) expense based on the above rates	**(1,163)**	10,963
Increase (decrease) due to:		
Non-deductible expenditures	**1,887**	532
Effects of different statutory tax rates on losses of subsidiaires	**1,037**	(4,225)
Mexican mining royalty tax	**1,538**	3,256
Current period losses for which no deferred tax assets were recognized	**9,416**	3,444
(Recognition) derecognition of tax assets previously recognized	**(27,793)**	20,268
Non-taxable portion of capital gains	**-**	81
Withholding taxes	**355**	-
Foreign exchange and other translation adjustments	**(465)**	(206)
Adjustment to tax estimates in prior years	**(30)**	(819)
Other	**55**	(91)
Income tax (recovery) expense	**$ (15,163)**	$ 33,203

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

	2019	2018
Net deferred tax liability, January 1	**$ 61,931**	$ 43,858
Deferred income tax expense (recovery) for the year	**(22,681)**	18,386
Reclassification to discontinued operations	**-**	(1,026)
Deferred income tax charged against other comprehensive income	**116**	713
Net deferred tax liability, December 31	**$ 39,366**	$ 61,931

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

		December 31, 2019		December 31, 2018
Deferred income tax assets				
Non-capital losses	**$**	**39,706**	$	13,487
Receivables and other current items		**8,448**		7,324
Share issue costs and other		**864**		-
Mineral properties, plant and equipment		**1,579**		-
Deferred income tax assets		**50,597**		20,811
Deferred income tax liabilities				
Mineral properties, plant and equipment		**87,755**		79,776
Inventories and other		**758**		1,516
Unrealized foreign exchange gains		**1,450**		1,450
Deferred income tax liabilities		**89,963**		82,742
Net deferred income tax liability	**$**	**39,366**	$	61,931
Breakdown of net deferred income tax liability				
Asset	**$**	**(24,655)**	$	(1,222)
Liability		**64,021**		63,153
	$	**39,366**	$	61,931

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.

The composition of the deferred tax (recovery) expense is as follows:

		Year ended December 31,		
		2019		2018
Deferred income tax assets				
Non-capital losses	**$**	**(26,219)**	$	(5,131)
Receivables and other current items		**(1,238)**		(132)
Share issue costs and other		**(864)**		-
Mineral properties, plant and equipment		**(1,579)**		-
Reclamation and closure cost obligations		**-**		21,477
Deferred income tax liabilities				
Mineral properties, plant and equipment		**7,979**		4,582
Inventories and other		**(760)**		(2,410)
Deferred tax (recovery) expense	**$**	**(22,681)**	$	18,386

At December 31, 2019, $24.7 million (2018 – $1.2 million) was recognized as a deferred tax asset based on management's forecasts of future income in certain entities.

As at December 31, 2019, the Company had tax losses of $54.9 million (2018 – $176.2 million) with a tax benefit of $14.9 million (2018 – $47.6 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. $11.7 million (2018 – $137.6 million) of the tax losses for which a tax benefit has

not been recorded expire from 2031 to 2039 while the remaining $43.1 million (2018 – $44.0 million) of the tax losses have no expiry date.

The summary of unrecognized deductible temporary differences is as follows:

	Year ended December 31,	
	2019	2018
Accounts payable and other	**$ 7,071**	$ 14,297
Mineral properties, plant and equipment	**75,284**	138,158
Unrealized foreign exchange losses	**11,348**	11,613
Investments	**2,334**	2,563
Reclamation and closure cost obligations	**105,786**	113,636
	$ 201,823	$ 280,267

As at December 31, 2019, the Company has $201.8 million (2018 – $280.3 million) of deductible temporary differences with a tax benefit of $48.3 million (2018 – $71.8 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, 2019, the Company had tax credits of $nil (2018 – $15.8 million).

As at December 31, 2019, the Company has not recognized deferred taxes on approximately $142.0 million (2018 – $164.5 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, 2019, the Company has $198.5 million (2018 – $35.6 million) of capital losses that are unrecognized and available to be utilized against future capital gains.

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, 2019	**$ 90,034**	**$ 3,029**	**$ 5,793**	**$ 98,856**
Share-based payment expense *(Note 17)*	**-**	**-**	**3,311**	**3,311**
Change in estimates	**19,946**	**192**	**-**	**20,138**
Interest expense from discounting obligations	**2,328**	**-**	**-**	**2,328**
Payments during the year	**(445)**	**(129)**	**(4,036)**	**(4,610)**
Currency translation adjustments	**713**	**93**	**224**	**1,030**
Balance, December 31, 2019	**$ 112,576**	**$ 3,185**	**$ 5,292**	**$ 121,053**
Less: Current portion of share-based payment obligation included within other liabilities *(Note 13)*	**-**	**-**	**(873)**	**(873)**
Total provisions - non-current	**$ 112,576**	**$ 3,185**	**$ 4,419**	**$ 120,180**
Balance, January 1, 2018	$ 111,853	$ 3,057	$ 18,011	$ 132,921
Share-based payment 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	(23,602)	-	-	(23,602)
Currency translation adjustments	(1,848)	(24)	(1,075)	(2,947)
Balance, December 31, 2019	$ 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

The change in estimate related to the reclamation and closure cost obligation of $19.9 million (2018 – $1.2 million), mainly driven by the changes in the pre-tax discount rates used, was recorded as an increase to mineral properties of $19.4 million (2018 – $1.7 million) *(Note 8)* and to the consolidated statement of loss of $0.5 million (2018 – ($0.5 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, 2019 were $89.2 million (2018 – $84.5 million), which have been adjusted for inflation and uncertainty of the cash flows and then discounted using current market-based pre-tax discount rates ranging from 1.92% to 2.39% (2018 – 2.69% to 3.02%) 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, 2019 totalled $91.8 million (2018 – $76.0 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, 2019 were 320.3 million Mexican pesos (2018 – 243.6 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 1.59% to 1.69% (2018 – 2.04% to 2.28%). The resulting reclamation and closure cost obligation for Cozamin at December 31, 2019 totalled $20.8 million (2018 – $14.0 million), with an additional $2.9 million (2018 – $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 1 to 3 years.

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

	Options outstanding	Weighted average exercise price (C$)
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
Granted	4,940,422	0.58
Exercised	(366,590)	0.33
Expired	(3,117,589)	2.68
Forfeited	(515,114)	0.93
Outstanding, December 31, 2019	23,309,912	$ 0.93

As at December 31, 2019, the following options were outstanding and outstanding and exercisable:

	Outstanding			Outstanding & exercisable		
Exercise prices (C$)	Number of options	Weighted average exercise price (C$)	Weighted average remaining life (years)	Number of options	Weighted average exercise price (C$)	Weighted average remaining life (years)
$0.33	7,723,163	$ 0.33	1.1	7,723,163	$ 0.33	1.1
$0.54 - $0.91	4,975,830	0.58	4.2	100,309	0.54	3.9
$1.20 - $1.68	9,996,819	1.46	1.4	7,434,969	1.44	0.9
$2.59	614,100	2.59	0.2	614,100	2.59	0.2
	23,309,912	$ 0.93	1.9	15,872,541	$ 0.94	1.0

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, 2019, the Company recorded a share-based compensation expense of $1.5 million (2018 – $0.9 million) related to stock options. The portion of share-based compensation recorded is based on the vesting schedule of the options.

During 2019, the total fair value of options granted was $1.0 million (2018 – $1.8 million) and had a weighted average grant-date fair value of C$0.29 (2018 – C$0.67) 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 the fair values of options granted during the year were as follows:

	December 31, 2019	December 31, 2018
Risk-free interest rate	**1.79%**	2.05%
Expected dividend yield	**nil**	nil
Expected share price volatility	**66%**	67%
Expected forfeiture rate	**5.01%**	4.95%
Expected life	**3.8 years**	3.8 years

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 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 200% 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.

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

	DSUs	RSUs	PSUs
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
Granted	1,089,366	5,117,083	2,928,211
Forfeited	-	(522,549)	(1,522,808)
Settled	(1,171,534)	(5,590,665)	(2,138,500)
Outstanding, December 31, 2019	3,551,366	7,848,890	5,268,600

During 2019, the Company recorded share-based compensation expense (recovery) of $3.3 million (2018 – ($7.8 million)) related to DSUs, RSUs, and PSUs.

During 2019, the total fair value of DSUs, RSUs, and PSUs granted during the year was $4.3 million (2018 – $5.9 million) and had a weighted average grant-date fair value of C$0.62 (2018 – C$1.35) 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. No Capstone shares were purchased during the year ended December 31, 2019. During the year ended December 31, 2018, Capstone's Share Purchase Trust purchased 5.4 million Capstone shares for $4.9 million to settle outstanding RSUs and PSUs in the future.

18. Revenue

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

	Year ended	
	December 31, 2019	December 31, 2018
Copper	**$ 412,278**	$ 411,216
Zinc	**17,621**	13,761
Lead	**2,706**	2,336
Molybdenum	**2,264**	2,481
Silver	**23,799**	19,308
Gold	**3,179**	2,221
Total gross revenue	**461,847**	451,323
Less: treatment and selling costs	**(43,184)**	(35,436)
Revenue	**$ 418,663**	$ 415,887

Adjustments to revenue recognized in the reporting period for provisional pricing changes recorded in the above table:

	Year ended December 31,	
	2019	2018
Copper	**$ 6,411**	$ (5,955)
Silver	**(170)**	224
Zinc	**(116)**	(183)
Lead	**(35)**	(3)
Molybdenum	**(4)**	-
Gold	**54**	663
Revenue adjustments from provisional pricing arrangements	**$ 6,140**	$ (5,254)

Customer details are as follows:

	Year ended December 31,					
	2019			2018		
	Pinto Valley USA	**Cozamin Mexico**	**Total**	Pinto Valley USA	Cozamin Mexico	Total
Customer #1	**$ 31,202**	**$ 126,191**	**$ 157,393**	$ 48,754	$ 21,421	$ 70,175
Customer #2	**43,150**	**341**	**43,491**	46,164	104,229	150,393
Customer #3	**15,406**	**-**	**15,406**	62,229	-	62,229
Customer #4	**80,477**	**4,871**	**85,348**	32,133	3,824	35,957
Customer #5	**40,594**	**-**	**40,594**	64,718	-	64,718
Other	**119,615**	**-**	**119,615**	67,732	119	67,851
Total gross revenue	**$ 330,444**	**$ 131,403**	**$ 461,847**	$ 321,730	$ 129,593	$ 451,323

19. Loss Per Share

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

	Year ended December 31,	
	2019	2018
Loss per share		
Basic and diluted	**$ (0.04)**	$ (0.06)
Net loss		
Net loss attributable to common shareholders - basic and diluted	**$ (16,043)**	$ (22,672)
Weighted average shares outstanding - basic and diluted	**391,303,393**	**386,690,981**
Weighted average shares excluded (as anti-dilutive)		
Stock options	**23,309,912**	23,368,783

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	Fuctional Currency
Pinto Valley	US	100%	Consolidated	US dollar
Capstone Gold	Mexico	100%	Consolidated	US 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, 2019, a loss of $0.2 million (2018 – $0.9 million) has been allocated to non-controlling interests of Acquisition Co. As at December 31, 2019, Acquisition Co. has accumulated losses of $371.6 million (2018 – $371.1 million).

Summarized financial information about Acquisition Co. is as follows:

	December 31, 2019	December 31, 2018
Current assets	**$ 19,045**	$ 19,010
Non-current assets	**374,801**	369,504
Current liabilities	**10,448**	7,991
Non-current liabilities	**3,512**	114
Net loss	**523**	3,017
Total comprehensive loss	**523**	3,017
Mineral properties, plant and equipment additions	**18,339**	1,378
Repayment of KORES promissory note	**6,015**	1,209
Repayment of Capstone promissory note *	**9,515**	2,820

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

Compensation of Key Management Personnel

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

	Year ended December 31,	
	2019	2018
Salaries and short-term benefits	**$ 2,957**	$ 4,222
Share-based payments*	**2,227**	(3,832)
	$ 5,184	$ 390

**Share-based payments compensation is negative in 2018 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.*

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 2019 were $82.0 million (2018 – $95.3 million).

21. Supplemental Cash Flow Information

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

	Year ended December 31,	
	2019	2018
Mineral properties, plant and equipment addition for change in estimate of reclamation and closure cost obligations *(Note 8)*	**$ (19,442)**	$ (1,752)
Increase in accounts payable and accrued liabilities related to mineral properties, plant and equipment	**$ (3,300)**	$ (3,764)
Amortization of mining equipment capitalized to deferred stripping assets	**$ (5,673)**	$ (6,296)
Fair value of stock options allocated to share capital upon exercise	**$ 39**	$ 218

As at December 31, 2019, cash on hand was $37.5 million (2018 – $29.8 million) and cash equivalents was $2.4 million (2018 – $0.3 million).

22. Changes in Non-Cash Working Capital

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

	Year ended December 31,	
	2019	2018
Receivables	**$ 6,174**	$ 29,884
Inventories	**20,110**	2,465
Other assets	**(9,097)**	1,591
Accounts payable and accrued liabilities	**(4,165)**	(374)
Other liabilities	**46**	7
Net change in non-cash working capital	**$ 13,068**	$ 33,573

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, 2019, the Company was in compliance with these covenants.

24. Commitments

Agreements with the Grupo Minera Bacis S.A. de C.V. ("Bacis")

Under the terms of the December 2003 option agreement with 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 2021.

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 2021.

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 third parties whereby they will purchase the copper concentrate produced by the Pinto Valley Mine.

Included in Note 13 are various lease agreements the Company has entered into with terms that expire between 2024 and 2029. The total remaining lease commitments associated with these lease agreements as at December 31, 2019 are $7.7 million (2018 – $4.4 million).

Capital expenditure contracted for at the end of the reporting period but not yet incurred was $16.3 million (2018 – $6.4 million).

25. General & Administrative Expenses

Details are as follows:

	Year ended December 31,	
	2019	2018
General & administrative	**$ 14,035**	$ 17,974
Tax restructure costs	**551**	44
Corporate depreciation	**1,387**	993
	$ 15,973	$ 19,011

26. 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 a discontinued operation.

Operating segment details are as follows:

	Year ended December 31, 2019				
	Pinto Valley	Cozamin	Santo Domingo	Other	Total
Revenue					
Copper	$ 320,812	$ 91,466	$ -	$ -	$ 412,278
Silver	4,372	19,427	-	-	23,799
Zinc	-	17,621	-	-	17,621
Lead	-	2,706	-	-	2,706
Molybdenum	2,264	-	-	-	2,264
Gold	2,997	182	-	-	3,179
Treatment and selling costs	(30,136)	(13,048)	-	-	(43,184)
Net revenue	300,309	118,354	-	-	418,663
Production costs	(233,626)	(58,608)	-	-	(292,234)
Royalties	-	(3,482)	-	-	(3,482)
Depletion and amortization	(57,333)	(23,181)	-	-	(80,514)
Earnings from mining operations	9,350	33,083	-	-	42,433
General and administrative expenses	(323)	(743)	(10)	(14,897)	(15,973)
Exploration expenses	-	(2,552)	(46)	(3,870)	(6,468)
Care and maintenance	(1,018)	-	-	-	(1,018)
Share-based compensation expense	-	-	-	(4,780)	(4,780)
Earnings (loss) from operations	8,009	29,788	(56)	(23,547)	14,194
Other income (expense)	(292)	(1,767)	(65)	382	(1,742)
Earnings (loss) before finance costs and income taxes	7,717	28,021	(121)	(23,165)	12,452
Net finance costs	(4,241)	(259)	(14)	(12,245)	(16,759)
Earnings (loss) before income taxes	3,476	27,762	(135)	(35,410)	(4,307)
Income tax recovery (expense)	1,772	(9,436)	-	22,827	15,163
Net income (loss) from continuing operations	$ 5,248	$ 18,326	$ (135)	$ (12,583)	$ 10,856
Net loss from discontinued operations *(Note 9)*	-	-	-	-	(27,056)
Total net income (loss)	$ 5,248	$ 18,326	$ (135)	$ (12,583)	$ (16,200)
Mineral properties, plant & equipment additions	$ 55,892	$ 36,703	$ 18,339	$ 1,906	$ 112,840

	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
General and administrative expenses	(765)	(476)	-	(17,770)	(19,011)
Exploration expenses	-	(1,087)	(48)	(2,172)	(3,307)
Care and maintenance	(999)	-	(2,044)	-	(3,043)
Restructuring expense	-	-	-	(2,574)	(2,574)
Share-based compensation recovery	-	-	-	6,952	6,952
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)
Mineral properties, plant & equipment additions	$ 67,180	$ 28,373	$ 1,378	$ 702	$ 97,633

	As at December 31, 2019				
	Pinto Valley	**Cozamin**	**Santo Domingo**	**Other**	**Total**
Mineral properties, plant and equipment	**$ 719,300**	**$ 151,047**	**$ 259,086**	**$ 2,731**	**$ 1,132,164**
Total assets	**$ 788,729**	**$ 185,061**	**$ 267,335**	**$ 90,255**	**$ 1,331,380**
Total liabilities	**$ 153,250**	**$ 80,849**	**$ 5,557**	**$ 220,336**	**$ 459,992**

	As at December 31, 2018					
	Pinto Valley	Cozamin	Minto	Santo Domingo	Other	Total
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

27. 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.