CAPSTONE
MINING CORP.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008 and 2007

(Expressed in U.S. Dollars)

Auditors' report

To the Shareholders of
Capstone Mining Corp.

We have audited the consolidated balance sheets of Capstone Mining Corp. as at December 31, 2008, and 2007, and the consolidated statements of income (loss), comprehensive income (loss), shareholders' equity and cash flows for the years ended December 31, 2008 and 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statement present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007, and the results of its operations and its cash flows for the years ended December 31, 2008 and 2007 in accordance with Canadian generally accepted accounting principles.

(Signed) Deloitte & Touche LLP

Chartered Accountants
Vancouver, British Columbia
March 30, 2009

Capstone Mining Corp.

Consolidated Balance Sheets

(expressed in thousands of U.S. dollars)

		December 31, 2008 *(Note 2)*		December 31, 2007 *(Note 2)*
Current				
Cash	**$**	**27,267**	$	6,280
Restricted cash		**14,345**		-
Receivables *(Notes 6)*		**12,768**		2,760
Inventories *(Notes 7)*		**37,005**		24,695
Prepaids and other		**954**		411
Future income tax asset *(Notes 19)*		**2,665**		-
Current portion of derivative instruments asset *(Note 14)*		**48,522**		-
		143,526		34,146
Investments *(Note 8)*		**8,064**		-
Property, plant and equipment *(Note 9)*		**118,124**		163,425
Notes receivable *(Note 10)*		**571**		-
Taxes receivable		**2,271**		-
Mineral property costs *(Notes 11 & 12)*		**161,024**		26,410
Future income tax asset *(Note 19)*		**7,100**		-
Other assets *(Note 13)*		**350**		739
Derivative instruments asset *(Note 14)*		**56,822**		-
	$	**497,852**	$	224,720
LIABILITIES				
Current				
Accounts payable and accrued liabilities	**$**	**12,884**	$	17,141
Taxes payable		**669**		-
Advance on concentrates		**20,632**		9,603
Current portion of other liabilities *(Note 15)*		**73,904**		37,594
		108,089		64,338
Long term debt *(Note 16)*		**22,048**		74,001
Capital lease obligations *(Note 17)*		**16,654**		10,275
Deferred revenue *(Note 18)*		**82,854**		-
Derivative instruments		**-**		53,101
Future income tax liability *(Note 19)*		**39,143**		5,232
Asset retirement obligations and other *(Note 20)*		**4,821**		3,061
		273,609		210,008
SHAREHOLDERS' EQUITY				
Share capital *(Note 21)*		**146,314**		60,400
Contributed surplus		**12,559**		7,713
Convertible debentures – equity component *(Note 16)*		**8,191**		8,191
Accumulated other comprehensive loss *(Note 23)*		**(8,840)**		4,210
Retained earnings (deficit)		**66,019**		(65,802)
		224,243		14,712
	$	**497,852**	$	224,720

Continuing operations ***(Note 1)***
Commitments ***(Note 28)***
Subsequent events ***(Note 30)***

ON BEHALF OF THE BOARD:

(Signed) Colin K. Benner, Director   *(Signed) Larry Bell*, Director

See accompanying notes to these consolidated financial statements.

Capstone Mining Corp.

Consolidated Statements of Income (Loss)

(expressed in thousands of U.S. dollars except share and per share amounts)

	Twelve months ended December 31, 2008 *(Note 2)*	Twelve months ended December 31, 2007 *(Note 2)*
Gross sales revenues *(Note 2)*	**$ 122,838**	$ 855
Treatment and selling costs	**(16,886)**	(125)
Net revenue	**105,952**	730
Operating costs		
Cost of sales	**(62,599)**	(2,275)
Royalty	**(587)**	(4)
Depletion and amortization	**(22,734)**	(538)
Accretion of asset retirement obligations	**(178)**	(182)
Income (loss) from mining operations	**19,854**	(2,269)
General and administrative expenses	**(6,517)**	(2,075)
Stock-based compensation (*Note 14*)	**(3,259)**	(4,627)
Income (loss) from operations	**10,078**	(8,971)
Other income (expense)		
Interest on long term debt	**(7,547)**	(3,892)
Interest on capital lease obligations	**(938)**	(168)
Financing fees	**(1,465)**	(1,366)
Foreign exchange gain (loss)	**(7,463)**	8,553
Gain (loss) on derivative instruments *(Note 14)*	**123,591**	(36,405)
Gain on sale of mineral claim	**1,118**	-
Interest and other income *(net)*	**361**	921
Impairment charges *(Note 12)*	**(53,435)**	-
Gain on acquisition of Capstone Mining Corp. *(Note 4)*	**72,043**	-
Income (loss) before income taxes	**136,343**	(41,328)
Income and mining taxes	**(667)**	-
Future income tax (expense) recovery	**(3,855)**	626
Net income (loss)	**$ 131,821**	$ (40,702)
Earnings (loss) per share – basic	**$ 1.47**	$ (0.59)
Weighted average number of shares - basic	**89,825,636**	68,825,846
Earnings (loss) per share – diluted	**$ 1.31**	$ (0.59)
Weighted average number of shares - diluted	**103,752,580**	68,825,846

See accompanying notes to these consolidated financial statements.

Capstone Mining Corp.

Consolidated Statements of Comprehensive Income (Loss)

(expressed in thousands of U.S. dollars)

		Twelve months ended December 31, 2008 *(Note 2)*		Twelve months ended December 31, 2007 *(Note 2)*
Net income (loss)	**$**	**131,821**	$	(40,702)
Change in fair value of available-for-sale securities, net of taxes		**(1,024)**		-
Currency translation adjustment		**(12,026)**		3,883
Comprehensive income (loss)	**$**	**118,771**	$	(36,819)

See accompanying notes to these consolidated financial statements.

Capstone Mining Corp.

Consolidated Statements of Cash Flows

(expressed in thousands of U.S. dollars)

	Twelve months ended December 31, 2008 *(Note 2)*	Twelve months ended December 31, 2007 *(Note 2)*
Cash provided by (used in):		
Operating activities		
Net income (loss) for the period	**$ 131,821**	$ (40,702)
Depletion, amortization and accretion	**24,264**	1,972
Amortization of deferred revenue	**(458)**	-
Non-cash cost of sales	**1,148**	-
Stock-based compensation	**3,259**	4,627
Future income taxes	**3,855**	(626)
Financing fees	**1,387**	-
Gain on sale of exploration properties	**(1,093)**	-
Gain on acquisition of Capstone Mining Corp. *(Note 4)*	**(72,043)**	-
Impairment charges *(Note 12)*	**53,435**	-
Unrealized (gain) loss on derivative instruments	**(126,272)**	36,739
Unrealized (gain) loss on foreign exchange	**8,758**	(8,655)
Equity component of financing fees	**-**	(410)
Changes in non-cash working capital *(Note 26)*	**(9,327)**	(10,549)
	18,734	(17,604)
Investing activities		
Short term deposits	**-**	9,418
Restricted cash	**(15,499)**	1,124
Reclamation and other deposits	**(14)**	593
Property, plant and equipment additions	**(19,845)**	(67,995)
Mineral property cost additions	**(12,541)**	(4,651)
Proceeds from forward sale of metal production *(Note 18)*	**37,500**	-
Acquisition of Capstone Mining *(Note 4)*	**31,789**	-
Acquisition of mineral property, *net of cash acquired (Note 4)*	**(356)**	-
	21,034	(61,511)
Financing activities		
Short term credit facility	**1,374**	-
Repayments of capital lease obligations	**(2,594)**	(1,578)
Project loan facility (repayment) drawdown	**(27,757)**	26,793
Subordinated loan facility drawdown	-	10,192
Proceeds from issuance of convertible debentures	-	37,211
Proceeds from private placements, options and warrants	**9,965**	6,942
	(19,012)	79,560
Effect of exchange rate changes on cash balances	**231**	3,499
Net increase in cash	**20,987**	3,944
Cash position - beginning of period	**6,280**	2,336
Cash position - end of period	**$ 27,267**	$ 6,280

Supplemental cash flow information *(Note 25)*

See accompanying notes to these consolidated financial statements.

Capstone Mining Corp.

Consolidated Statements of Shareholders' Equity

December 31, 2008 and 2007

(expressed in U.S. dollars., except share amounts)

	Number of shares	Share capital	Contributed surplus	Equity component of convertible debentures	Accumulated other comprehensive income	Retained earnings (deficit)	Total
December 31, 2006	42,227,066	$ 51,707	$ 3,646	$ -	$ 327	$ (25,100)	$ 30,580
Private placements	845,000	4,255	-	-	-	-	4,255
Exercise of options	1,146,933	3,249	(1,283)	-	-	-	1,966
Exercise of warrants	457,250	951	(168)	-	-	-	783
Share issue costs	-	(61)	-	-	-	-	(61)
Stock-based compensation		-	5,518	-	-	-	5,518
Shares issued as contract incentive	138,200	925	-	-	-	-	925
Future income tax on flow-through shares		(626)	-	-	-	-	(626)
Equity - convertible debentures issued		-	-	8,191	-	-	8,191
Net income		-	-	-	-	(40,702)	(40,702)
Effects of foreign currency translation		-	-	-	3,883	-	3,883
December 31, 2007	44,814,449	60,400	7,713	8,191	4,210	(65,802)	14,712
Private placements	1,205,000	7,196	-	-	-	-	7,196
Exercise of options	875,100	3,611	(1,453)	-	-	-	2,158
Exercise of warrants	331,175	831	(172)	-	-	-	659
Share issue costs		(57)	-	-	-	-	(57)
Acquisition of mineral property *(Note 4)*	6,606,874	32,205	1,179	-	-	-	33,384
Debt financing fees	19,000	100	1,287	-	-	-	1,387
Property payment	1,600	8	-	-	-	-	8
Acquisition of Capstone Mining *(Note 4)*							
Sherwood shares exchanged	(53,853,198)	-	-	-	-	-	-
Capstone shares received in exchange for Sherwood ahares	84,334,104	-	-	-	-	-	-
Outstanding shares of Capstone acquired in reverse takeover	80,370,781	43,658	651	-	-	-	44,309
Stock-based compensation		-	3,354	-	-	-	3,354
Future income tax on flow-through shares		(1,638)	-	-	-	-	(1,638)
Change in fair value of available-for-sale securities		-	-	-	(1,024)	-	(1,024)
Net income		-	-	-	-	131,821	131,821
Effects of foreign currency translation		-	-	-	(12,026)	-	(12,026)
December 31, 2008	164,704,885	$ 146,314	$ 12,559	$ 8,191	$ (8,840)	$ 66,019	$ 224,243

See accompanying notes to these consolidated financial statements.

1. Continuing operations

Capstone Mining Corp. (the “Company”) is a Canadian mining company engaged in the exploration for and production of strategic metals in Canada and Mexico. On November 24, 2008, the Company completed a reverse takeover transaction with Sherwood Copper Corporation (“Sherwood”) *(Note 4(a))*.

Minto Explorations Ltd. (“MintoEx”), a wholly owned Canadian subsidiary of the Company, owns and operates the high-grade copper-gold Minto mine located in Yukon Territory, Canada. Capstone Gold, S.A. de C.V. (“Capstone Gold”), a wholly owned Mexican subsidiary of the Company, owns and operates the high-grade copper-silver-zinc-lead Cozamin mine located in Zacatecas, Mexico. Kutcho Copper Corp., (“Kutcho Copper”), another wholly owned Canadian subsidiary of the Company, formerly Western Keltic Mines Inc. (“Western Keltic”), is advancing the high-grade Kutcho project in British Columbia a towards production decision *(Note 4(b))*.

These financial statements have been prepared on a going concern basis, which assumes the realization of assets and satisfaction of liabilities in the normal course of operations. During the current and prior year the Company recorded income from operations of $10.1 million and a loss from operations of $9.0 million respectively, and had working capital of $35.4 million at December 31, 2008. In addition, the Company recorded an impairment charge at the Minto mine in the amount of $53.4 million in 2008. Subsequent to December 31, 2008, the Company redeemed convertible debentures for an aggregate cost of $31.8 million and received proceeds of $40.0 million as a result of entering into a new credit facility as described in Note 30.

At this time, based on the forecasted cash flow from the 2009 production from both the Minto and Cozamin mines, combined with its available credit facilities, the Company believes it has the financial capability in 2009 to fund its debt obligations, planned exploration activities, and operational and corporate activities including the Kutcho Creek technical work. There can be no assurance, however, that the forecasted cash flow from operations and available credit facilities will be realized as expected. In the event that the going concern assumption was not appropriate for these financial statements, then material changes would be required to the carrying value of assets and liabilities and the balance sheet classifications used.

2. Significant accounting policies

Basis of presentation and consolidation

The consolidated financial statements of the Company have been prepared in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”) and include the accounts of the Company and its wholly owned subsidiaries. All significant inter-company transactions and balances have been eliminated.

Effective November 24, 2008, Capstone completed the 100% acquisition of the outstanding shares of Sherwood *(Note 4)*. As the shareholders of Sherwood obtained control of the Company through the exchange of their shares of Sherwood for shares of Capstone, the acquisition of Sherwood has been accounted for in these financial statements as a reverse takeover. Consequently, the consolidated statements of income and loss and cash flows reflect the results from the operations and cash flows of Sherwood, the legal subsidiary, for the years ended December 31, 2008 and 2007, combined with those of Capstone, the legal parent, from the acquisition on November 24, 2008 to December 31, 2008, in accordance with generally accepted accounting principles for reverse takeovers.

Change in reporting currency

Effective December 31, 2008, the Company changed its reporting currency from the Canadian dollar to the U.S. dollar. As a result of the reverse takeover of Sherwood, combined with the fact that the Company's concentrate revenues and certain of its long-term liabilities are denominated in U.S. dollars, management believes that this change will result in more useful information to the financial statement users. For the year ended December 31, 2007 and for all prior periods, the Company reported its financial statements in Canadian dollars. The comparative figures disclosed in these financial statements have been restated to the U.S. dollar as if the U.S. dollar had been used as the reporting currency for all prior periods.

The Company has used the current rate method to translate the financial statements and corresponding notes prior to January 1, 2007 presented for comparison in these financial statements. All assets and liabilities have been translated into U.S. dollars at the exchange rates prevailing at the respective balance sheet dates, and all revenue, expense and cash flow items have been translated using the average rates in effect in the period in which the transactions occurred. All resulting exchange differences have been reported in accumulated other comprehensive income (loss), with an opening adjustment of $0.3 million recorded on January 1, 2007.

Use of estimates

The preparation of consolidated financial statements in accordance with generally accepted accounting principles requires management to select accounting policies and make estimates. Such estimates may have a significant impact on the consolidated financial statements. The Company regularly reviews its estimates; however, actual amounts could differ from the estimates used and, accordingly, affect the results of operations. These estimates include:

- purchase price allocation on business combinations,
- the carrying values of inventories,
- the carrying values of mineral properties and property, plant and equipment,
- rates of amortization of mineral properties and property, plant and equipment,
- the assumptions used for the determination of asset retirement obligations,
- the valuation of future income taxes and allowances
- the valuation of financial instruments,
- the carrying values of the receivables,
- the valuation of stock-based compensation.

Translation of foreign currencies

The Company considers the currency of measurement of its Canadian operation to be the Canadian dollar and the currency of measurement of its self-sustaining Mexican mining operations to be the US dollar. The reporting currency of the Company is the US dollar.

The accounts of self-sustaining foreign operations are translated into Canadian dollars at year-end exchange rates, and revenues and expenses and cash flows are translated at the average exchange rates. Differences arising from these foreign currency translations are recorded as cumulative translation adjustments within other comprehensive income and as accumulated other comprehensive income until they are realized by a reduction in the investment.

For integrated foreign operations, monetary assets and liabilities are translated into Canadian dollars at year-end exchange rates and non-monetary assets and liabilities are translated at historical rates. Revenues, expenses and cash flows are translated at average exchange rates, except for items related to non-monetary assets and liabilities which are translated at historical rates. Gains or losses on translation of monetary assets and monetary liabilities are included in earnings.

Cash

Cash is comprised of cash on hand and demand deposits.

Short-term deposits

The Company considers short-term deposits to include amounts held in banks and highly liquid investments with maturities at the point of purchase of more than 90 days and less than one year.

Inventories

Inventories for consumable parts and supplies, ore stockpile, and ore concentrate, are valued at the lower of cost and net realizable value. Costs allocated to consumable parts and supplies are based on average costs. Costs allocated to stockpile and concentrate are based on average costs, which include an appropriate share of direct mining costs, direct labour and material costs, mine site overhead, depreciation and depletion.

Investments

Investments in shares of companies over which the Company exercises neither control nor significant influence are designated as available-for-sale and recorded at fair value. Fair values are determined by reference to quoted market prices at the balance sheet date. Unrealized gains and losses on available-for-sale investments are recognized in other comprehensive income, other than unrealized losses considered other than temporary, which are recorded in the statement of income (loss).

Investments in shares of associated companies over which the Company exercises significant influence are accounted for by the equity method whereby the investment is initially recorded at cost, adjusted to recognize the Company's share of earnings or loss in the investment and reduced by dividends received.

Property, plant and equipment

Items are recorded at cost. Amortization is computed using the following rates:

Item	Methods	Rates
Property, plant & equipment	Straight line, Units of Production	4 – 10 years, Estimated proven and probable reserves
Development costs	Units of Production	Estimated proven and probable reserves
Equipment and facilities under capital leases	Straight line	7 years
Deferred stripping costs	Units of Production	Estimated proven and probable reserves accessible due to stripping

Amortization begins when the asset is placed into service.

Mineral property costs

The Company capitalizes acquisition and exploration expenditures related to mineral properties on an individual prospect basis until such time as an economic ore body is defined or a prospect is abandoned. Amortization of assets used in connection with capitalized mineral property costs is also capitalized. Unrecoverable costs for projects determined not to be commercially feasible are expensed in the period in which the determination is made. Holding costs to maintain a property on a care and maintenance basis are expensed as incurred.

The recoverability of the amounts capitalized for the undeveloped mineral properties is dependent upon the determination of economically recoverable ore reserves, confirmation of the Company's interest in the underlying mineral claims, the ability to obtain the necessary financing to complete their development and future profitable production or proceeds from the disposition thereof.

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 history characteristic of many mineral 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.

Taxes receivable

Taxes receivable are comprised of value added taxes in Mexico and GST in Canada that the Company has paid. The Company has classified certain value added taxes in Mexico as non-current due to delays in review and assessment by the taxation authorities.

Intangible assets

Intangible assets are recorded at cost. Amortization is computed using units of production and begins when the expected future benefits of the asset flow to the Company.

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.

Capital lease obligations

Leases are classified as either capital or operating. Leases that transfer substantially all of the benefits and risks of ownership of property to the Company are accounted for as capital leases. At the time a capital lease is entered into, an asset is recorded with its obligation. Payments made under operating leases are expensed as incurred or capitalized, if applicable.

Income and mining taxes

The asset and liability method is used for determining future taxes. Under the asset and liability method, the change in the net future tax asset or liability is included in income. Future tax assets and liabilities are determined based on the differences between the tax basis of assets and liabilities and the amount reported in the financial statements. Future tax assets also result from unused loss carry forwards, resource-related pools, and other deductions. Future tax assets and liabilities are measured using substantively enacted rates that are expected to apply in the years in which temporary differences are expected to be recovered or settled. The amount of future tax assets recognized is limited to the amount that is more likely than not to be realized. The valuation of future tax assets is adjusted, if necessary, by the use of a valuation allowance to reflect the estimated realizable amount.

Asset retirement obligations

The Company's asset retirement obligation ("ARO") relates to required mine reclamation and closure activities. An ARO is recognized initially at fair value with a corresponding increase in related assets. The ARO is accreted to full value over time through periodic accretion charges recorded to operations using the Company's credit adjusted risk free rate. In subsequent periods, the Company adjusts the carrying amounts of the ARO and the related asset for changes in estimates of the amount or timing of underlying future cash flows.

Share capital

The proceeds from the exercise of stock options or warrants together with amounts previously recorded on grant date or issue date are recorded as share capital.

Share capital issued for non-monetary consideration is recorded at an amount based on fair market value 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.

Stock-based compensation

Contributions to the Company's employee share purchase plan ("ESPP") are recorded on a payroll cycle basis as the employer's obligation to contribute is incurred.

The fair value of stock options granted under the Company's stock option plan is estimated at the grant date using the Black-Scholes option pricing model. Compensation expense is recognized on a straight-line basis over the stock option vesting period.

Revenue recognition

Sales are recognized and revenue is recorded at market prices following the transfer of title and risk of ownership provided that collection is reasonably assured, and the price is reasonably determinable. 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 upon delivery based on forward market prices for the expected period of final settlement. Subsequent variations in the final determination of the metal concentrate weight, assay, and price are recognized as revenue adjustments as they occur until finalized. Under the terms of the Company's off-take agreements it may request advances from its customers which are recorded as advances on concentrate until the related revenue is recognized.

Earnings per share

Basic earnings per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the year. The computation of diluted earnings 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 per share. The dilutive effect of convertible securities is reflected in diluted earnings 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 per share by application of the treasury stock method.

Impairment of long-lived assets

The Company assesses the possibility of impairment in the net carrying value of its long-lived assets when events or circumstances indicate impairment may have occurred. Management calculates the estimated undiscounted future net cash flows relating to the asset or asset group using estimated future prices, proven and probable reserves and other mineral resources, and operating, capital and reclamation costs. When the carrying value of an asset exceeds the related undiscounted cash flows, the asset is written down to its estimated fair value, which is usually determined using discounted cash flows.

Derivative instruments

The Company uses derivative instruments to reduce the potential impact of changing metal prices and foreign exchange rates as required under lending agreements. Derivative instruments are marked to market at the end of each period and recorded as a gain or loss on derivative instruments on the Consolidated Statements of Income (Loss). The Company does not apply hedge accounting to its derivative transactions.

Capitalized interest

Interest and other financing costs relating to the construction of property, plant and equipment are capitalized as construction in progress until they are complete and available for use, at which time they are transferred to property, plant and equipment. Interest costs incurred after the asset has been placed into service are charged to operations.

Flow-through shares

Under the terms of Canadian flow-through share legislation, the tax attributes of qualifying expenditures are renounced to subscribers. To recognize the foregone tax benefits, share capital is reduced and a future income tax liability is recognized as the related expenditures are renounced. This future income tax liability may then be reduced by the recognition of previously unrecorded future income tax assets on unused tax losses and deductions.

Commercial and pre-commercial production

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. The Company determines commencement of commercial production based on the following factors, which indicate that planned principal operations have commenced. These include one or more of the following:

(i) a significant portion of plant/mill capacity is achieved;
(ii) a significant portion of available funding is directed towards operating activities;
(iii) a pre-determined, reasonable period of time has passed; and
(iv) a development project significant to the primary business objective of the enterprise has been completed as to significant milestones being achieved.

Financial instruments

Financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as “held-for-trading”, “available-for-sale”, “held-to-maturity”, “loans and receivables”, or “other financial liabilities” as defined by the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3855, Financial Instruments – Recognition and Measurement.

Financial assets and financial liabilities “held-for-trading” are measured at fair value with changes in those fair values recognized in net earnings. Financial assets “available-for-sale” are measured at fair value, with changes in those fair values recognized in other comprehensive income (“OCI”) except for other-than-temporary impairment which is recorded as a charge to other expenses. Financial assets "held-to-maturity", "loans and receivables" and "other financial liabilities" are measured at amortized cost.

Cash, restricted cash, and short-term deposits are designated as "held-for-trading" and are measured at fair value. Receivables and long-term deposits are designated as "loans and receivables". Accounts payable and accrued liabilities, long term debt, and capital lease obligations are designated as "other financial liabilities". Derivative financial instruments are classified as "held-for-trading".

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 will be capitalized and recorded on the balance sheet as deferred stripping, as a component of property, plant and equipment, if the stripping activity can be shown to represent a betterment to the mineral property. Betterment occurs when the stripping activity provides access to sources of reserves that will be produced in future periods that would not have otherwise been accessible in the absence of this activity. The deferred stripping will be amortized on a unit of production basis over the reserves that directly benefited from the deferred stripping when they are actually mined.

Comparative figures

Certain of the 2007 figures have been reclassified to conform to the 2008 presentation.

3. Changes in accounting policies

Accounting policies implemented effective January 1, 2008

On January 1, 2008, the Company adopted Section 3862, Financial Instruments – Disclosures ("Section 3862") and Section 3863, Financial Instruments – Presentation ("Section 3863"). Section 3862 requires disclosure of financial and market risks, including detail by financial asset and liability categories. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. Section 3863 deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. These sections have been adopted effective January 1, 2008 *(Note 5)*.

On January 1, 2008, the Company adopted Section 1535, Capital Disclosures. This section establishes standards for disclosing information about an entity's objectives, policies, and processes for managing its capital (*Note 27)*.

On January 1, 2008, the Company adopted Section 3031, Inventories, which provides more guidance on the measurement and disclosure requirements for inventories. Specifically the new pronouncement requires inventories to be measured at the lower of cost and net realizable value, and provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. Upon adoption of this standard there were no resulting material changes to the Company's financial position or results of operations.

Effective January 1, 2008, the Company elected to early adopt CICA Section 1582, Business Combinations, Section 1601, Consolidations, and Section 1602, Non-controlling Interests. These new standards are harmonized with International Financial Reporting Standards (IFRS). Section 1582 specifies a number of changes, including: an expanded definition of a business, a requirement to measure all business acquisitions at fair value, a requirement to measure non-controlling interests at fair value, and a requirement to recognize acquisition-related costs as expenses. Section 1601 establishes the standards for preparing consolidated financial statements. Section 1602 specifies that non-controlling interests be treated as a separate component of equity, not as a liability or other item outside of equity. As a result of adopting the new standards, the Company has recorded a gain of $72.0 million on the acquisition of Capstone Mining (*Note 4*), the result of acquiring net assets with a fair market value in excess of the consideration paid.

Future Accounting Pronouncements

The CICA issued new accounting standard, Section 3064, Goodwill and Intangible Assets, that establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This standard, which is effective beginning January 1, 2009, is not expected to materially impact the consolidated financial position or results of operations for the Company.

International Financial Reporting Standards

The Canadian Accounting Standards Board recently confirmed that International Financial Reporting Standards ("IFRS") will replace Canadian standards and interpretations on January 1, 2011. The process of changing from current Canadian GAAP to IFRS will be a significant undertaking that may materially affect reported financial position and results of operations, and also affect certain business functions.

The Company has not yet completed a full evaluation of the adoption of IFRS and its impact on its financial position and results of operations. The full evaluation and an implementation plan will be completed during 2009. The progress of the evaluation and implementation plan will be addressed in the Company's 2009 quarterly and annual MD&A's. The evaluation and implementation plan will address the impact of IFRS on:

- Accounting policies, including choices among policies permitted under IFRS and implementation decisions such as whether changes will be applied on a retrospective or a prospective basis;
- Information technology and data systems;
- Internal control over financial reporting;
- Disclosure controls and procedures, including investor relations and external communications plans;
- Financial reporting expertise, training requirements and the need for assistance from outside expertise;
- Post implementation monitoring to access any future developments of IFRS.

4. Acquisitions

Sherwood Copper Corporation

Pursuant to a share exchange agreement with an effective date of November 24, 2008, Capstone acquired all of the issued and outstanding shares of Sherwood. Capstone issued 84,334,104 common shares in exchange for 53,853,198 shares of Sherwood, with the effect that subsequent to the transaction the former shareholders of Sherwood controlled 51.20% of the outstanding common shares. Prior to this exchange, Capstone had 80,370,781shares outstanding. Taking into account the composition of the Board and senior management and the relative ownership percentages of Sherwood and Capstone shareholders in the newly combined enterprise, from an accounting perspective Sherwood is considered to have acquired Capstone, and hence the transaction has been recorded as a reverse takeover.

For financial reporting purposes, the Company is considered to be a continuation of Sherwood, the legal subsidiary, except with regard to the authorized and issued share capital, which is that of Capstone, the legal parent. The consolidated statements of operations and cash flows for the year ended December 31, 2008 include the results of operations and cash flows of Sherwood for the period from January 1, 2008 to November 23, 2008, and the results of operations and cash flows of both Capstone and Sherwood for the period from November 24, 2008 to December 31, 2008. The primary reason for the business combination was to create a well-funded, low-cost, growth-oriented copper company with two producing mines in politically stable and mining friendly jurisdictions.

The acquisition has been accounted for as a business combination using the purchase method of accounting. The purchase price has been determined based on the number of share that Sherwood would have had to issue on the date of closing to give the owners of Capstone the same percentage equity (48.80%) of the combined entity as they hold subsequent to the reverse takeover.

The costs of the acquisition have been allocated as follows *(expressed in thousands, except share amounts)*:

Consideration transferred:		
Deemed issuance of Sherwood shares*	$	43,657
Deemed issuance of Sherwood options and warrants		651
	$	44,308
Net assets acquired:		
Cash	$	31,789
Non-cash current assets**		26,658
Investments		8,200
Property, plant and equipment		21,540
Mineral property		102,348
Derivative instruments asset		16,704
Other assets**		2,840
Current liabilities		(7,833)
Concentrate advances		(6,231)
Unfavourable contract to deliver silver *(Note 18)*		(45,700)
Capital lease obligations		(117)
Asset retirement obligation		(2,102)
Future income taxes		(31,745)
Gain on acquisition		(72,043)
	$	44,308

** Based on the deemed issuance of 51,328,829 common shares of Sherwood at a price of CAD $1.05 per share, converted at the exchange rate of 1.2345 USD/CAD on the date of transaction.*

*** Included in the net assets acquired are receivables totaling $11.5 million, against which management has not provided any allowance for bad debt.*

As part of the acquisition, Capstone issued 7,178,512 and 4,142,546 options and warrants, respectively, in exchange for 4,637,667 and 2,645,306 options and warrants of Sherwood, respectively. Those issued by Capstone were on the same terms and conditions as those exchanged by Sherwood holders. No amount has been recorded in respect of these actual issuances of options and warrants. Rather, given that this business combination has been accounted for as a reverse takeover of Capstone by Sherwood, from an accounting perspective it is Sherwood that is deemed to have issued options and warrants to Capstone holders. At November 24, 2008, Capstone had 3,194,000 and 3,835,986 options and warrants outstanding, respectively. The fair value of the deemed issuance of 3,194,000 options and 3,835,986 and warrants of Capstone was $0.7 million, and this amount has been included as a component of the purchase price. Costs related to the transaction were $5.2 million, and were expensed as incurred.

During the fourth quarter of 2008 the price of copper declined sharply, resulting in a decline in market prices for the shares of Sherwood and Capstone. Given that the acquisition was effected by way of a pre-determined share exchange ratio negotiated in September 2008, the effect of recording the share consideration exchanged using market prices for the shares on the closing date of the transaction resulted in an excess of $72.0 million with respect to the fair value of identifiable net assets over the fair value of the consideration transferred, which has been recorded as a gain during the period in other income.

Had the acquisition occurred on January 1, 2008, the unaudited pro forma net revenue and net income of the combined Company for the year ended December 31, 2008 would have been $163.1 million and $152.1 million, respectively. Unaudited pro forma net income for the year ended December 31, 2008 includes the gain on acquisition of Capstone Mining Corp. in the amount of $72.0 million and business combination expenses relating to the acquisition of $5.2 million.

The pro forma results of operations give effect to certain adjustments including the increase in depletion and amortization resulting from adjustments to carrying values of mining assets upon acquisition. This information may not necessarily be indicative of the future combined results of operations of the Company.

Western Kelitc Mines Inc.

In November 2007 Sherwood entered into an agreement with Western Keltic, owner of the Kutcho project, under which Sherwood offered to acquire all of Western Keltic's shares through the issuance of 0.08 of a share of Sherwood for each share of Western Keltic. On February 11, 2008 Sherwood acquired a controlling interest in Western Keltic, and its results of operations and cash flows have been consolidated with those of Sherwood since that date. On May 27, 2008 Sherwood acquired, by plan of arrangement, the remaining outstanding shares of Western Keltic. Western Keltic and a wholly owned subsidiary of Sherwood were then amalgamated and named Kutcho Copper Corp. The Company is continuing advancement of the Kutcho project in north-western British Columbia towards a production decision.

The transaction has been recorded as an asset purchase of mineral property interests with the costs of the acquisition allocated as follows *(expressed in thousands, except share amounts)*:

Purchase price:		
Common shares of Sherwood issued (6,606,874 shares)	$	32,205
Warrants and options exchanged		1,179
Transaction costs		1,020
	$	34,404
Net assets acquired:		
Cash	$	657
Investments		24
Equipment		36
Mineral property interest		44,720
Other assets		51
Non-cash operating working capital *(net)*		(5,629)
Asset retirement obligation		(50)
Future income and mining tax liability		(5,405)
	$	34,404

As part of the acquisition, Sherwood issued 323,640 and 1,134,496 options and warrants, respectively, in exchange for 4,045,500 and 14,181,200 options and warrants of Western Keltic, respectively. Those issued by Sherwood were on the same terms and conditions as those exchanged by Western Keltic holders. As a result of these exchanges, Sherwood recorded the fair value of the vested options and warrants of $1.2 million as a cost of the transaction *(Note 21)*.

5. Financial instruments

Overview

The Company's activities expose it to financial risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth and shareholder returns. The principal financial risks to which the Company is exposed are commodity price risk, credit risk, foreign exchange rate risk, and liquidity risk. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's policies on an ongoing basis.

Commodity price risk

The Company is exposed to commodity price risk given that its revenues are derived from the sale of metals, the prices for which have been historically volatile. It manages this risk by entering into forward sale agreements with various counterparties, both as a condition of certain debt facilities as well as to mitigate price risk when management believes it a prudent decision. Currently the Company has in place derivative contracts for the sale of copper from both its Minto and Cozamin mines. Additionally, it has sold forward to Silverstone Resources Corp. the gold and silver production from the Minto mine and silver production from the Cozamin mine *(Note 18)*.

For the year ended December 31, 2008, with all other variables unchanged, an increase of $0.10 in the price of copper would have increased pre-tax earnings by $4.2 million, not taking into consideration any changes with respect to price participation of smelters on changes to the commodity price or the derivative financial instruments. An increase of $0.10 in the forward price of copper for all future periods would decrease the unrealized gain on derivative instruments and income before income taxes by $9.6 million.

Credit risk

The Company is exposed to trade credit risk through its trade receivables on concentrate sales. The Company manages this risk by requiring provisional payments of 90 percent of the value of the concentrate shipped. The Company enters into derivative instruments with a number of counterparties. These counterparties are large, well diversified multinational corporations, and credit risk is considered to be minimal.

As at December 31, 2008, the Company's maximum exposure to credit risk is the carrying value of its cash and restricted cash, receivables, note receivables and derivative instruments asset.

Foreign exchange risk

The Company is exposed to foreign exchange risk as the Company's operating costs will be primarily in Canadian dollars and Mexican Pesos, while revenues will be received in US dollars, hence any fluctuation of the US dollar in relation to these currencies may impact the profitability of the Company and may also affect the value of the Company's assets and liabilities. The Company currently does not enter in to financial instruments to manage this risk but the draws on debt facilities are made in US dollars to mitigate the risk on loan repayments if available.

As at December 31, 2008, the Company is exposed to currency risk through the following assets and liabilities denominated in currencies other than the measurement currency of the applicable subsidiary *(expressed in thousands)*:

	US dollar	Mexican peso
Cash and restricted cash	$ 21,813	$ 604
Accounts receivable & other current assets	410	9,342
Derivative instruments asset	69,659	-
Accounts payable & accrued liabilities	(17,745)	(1,114)
Long term debt	(29,926)	-
Future income tax liabilities	-	(14,809)
Capital lease obligations	(9,410)	-
Total	$ 34,801	$ (5,977)

Based on the above net exposures at December 31, 2008 a 10% appreciation of the US dollar relative to the Canadian dollar would result in a $3.5 million increase in the Company's income before income taxes. A 10% appreciation of the Mexican peso would result in a $0.6 million decrease in the Company's income 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 in order 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 invested in business accounts with quality financial institutions and which is available on demand for the Company's programs, and is not invested in any asset backed commercial paper.

Interest rate risk

Currently the Company's long term liabilities are based on both fixed and variable interest rates. The Company is exposed to interest rate risk on its variable rate debt facilities. Variable interest rates are based on both US dollar and Canadian dollar London Inter-bank Offered Rates ("LIBOR") plus a fixed margin. The Company does not enter into derivative contracts to manage this risk.

The Company's project loan facility carries an interest rate of US dollar LIBOR plus 2.25% while its subordinated loan facility carries an interest rate of Canadian LIBOR plus 2.65%. At December 31, 2008, with all other variables unchanged, a 1% increase in interest rates would result in a pre-tax interest expense of $0.4 million on an annualized basis on the Company's variable rate debt facilities.

Financial instruments carrying value and fair value

The Company's financial instruments consist of cash, restricted cash, receivables, long term investments, accounts payable and accrued liabilities, concentrate advances, debt facilities, convertible debentures, capital lease obligations, and derivative instruments.

Cash, restricted cash, and derivative instruments are classified as "held-for-trading" and measured at fair value. Certain of the Company's long term investments that are not accounted for using the equity method are classified as "available-for-sale". Receivables and long-term deposits are designated as "loans and receivables". Long term investments are designated as "available for sale". Accounts payable and accrued liabilities, advances on concentrate sales, loan facilities, convertible debentures, and capital lease obligations are designated as "other financial liabilities".

The carrying value of receivables, and accounts payable and accrued liabilities approximate their fair values due to their immediate or short-term maturity. Investments that are available-for-sale are recorded at fair value based on quoted market prices at the balance sheet date. Management believes that the fair value of the Company's loan facilities and capital lease obligations are approximated by their carrying values given that the facilities bear interest at variable rates or, in the case of capital lease obligations, the interest rates have not changed materially. The fair value of the convertible debentures based on the market price at December 31, 2008 was $35.8 million. The fair value of the derivative contracts is based on quoted market prices for comparable contracts and approximates the amount the Company would have received from (or paid to) a counterparty to settle the contract at the market rates in effect at the balance sheet date.

As of December 31, 2008 the Company's liabilities have contractual maturities which are summarized below (expressed in thousands):

	Total	2009	2010 - 2011	2012 - 2013	After 2013
Accounts payable & accrued liabilities	$ 12,884	$ 12,884	$ -	$ -	$ -
Taxes payable	669	669	-	-	-
Long-term debt	84,745	60,156	17,379	2,797	4,413
Capital lease obligations	25,618	4,871	7,419	6,816	6,512
Total*	$ 123,916	$ 78,580	$ 24,798	$ 9,613	$ 10,925

* Amounts above do not include payments related to the Company's asset retirement obligations and other mine closure costs (*Note 20*).

6. Receivables

Details are as follows (expressed in thousands):

	December 31, 2008	December 31, 2007
Taxes	**$ 8,631**	$ 2,025
Other	**3,536**	735
Current portion of notes receivable *(Note 10)*	**601**	-
Total receivables	**$ 12,768**	$ 2,760

7. Inventories

Details are as follows (expressed in thousands):

	December 31, 2008	December 31, 2007
Consumable parts and supplies	**$ 7,807**	$ 1,987
Ore stockpile	**10,953**	7,843
Concentrate	**18,245**	14,865
Total inventories	**$ 37,005**	$ 24,695

8. Investments

Details are as follows (expressed in thousands):

	December 31, 2008	December 31, 2007
Investments in available-for-sale securities	**$ 198**	$ -
Equity investment in Silverstone Resources Corp.	**7,866**	-
Total investments	**$ 8,064**	$ -

a) Available-for-sale investments

Investments in available-for-sale securities consist of marketable securities in companies over which the Company does not exercise significant influence. They are recorded at fair value, with any unrealized gains and losses recognized in other comprehensive income.

In accordance with an agreement effective May 23, 2008 between MintoEx and Northern Tiger Resources Inc. ("Northern Tiger"), MintoEx transferred to Northern Tiger a 100% interest in four exploration properties and an exploration database of the region. In consideration for the exploration properties and database, Northern Tiger issued to MintoEx 4,343,878 common shares, representing approximately 17.81% of the outstanding common shares of Northern Tiger, at a fair value of $0.30 per share. The shares are held in escrow for a period of three years pursuant to a TSX Venture Exchange Form 5D Value Security Escrow Agreement. A gain of $1.2 million, representing the difference between the fair value of the Northern Tiger shares received and the carrying value of the exploration properties disposed, was recorded with respect to the disposition of the properties.

b) Equity investment in Silverstone Resources Corp.

On November 24, 2008, the Company acquired Capstone Mining *(Note 4)*, owner of an equity investment in Silverstone Resources Corp. ("Silverstone"). As part of the purchase price equation, the Company allocated $8.2 million of fair value to the investment.

The investment in Silverstone resulted from the forward sale of silver production from the Cozamin mine in 2007 *(Note 18)*, for which the upfront consideration received was 19,155,310 special warrants of Silverstone with a value of $24.0 million. These special warrants are convertible into common shares of Silverstone at no additional cost. At the date of acquisition, 16,407,882 special warrants have been converted into common shares, which when added to the other common shares acquired in the reverse takeover results in a total ownership of 24,042,340 shares and 2,747,428 special warrants. As at December 31, 2008, the Company held approximately 19.5% of the issued and outstanding common shares in Silverstone, excluding the special warrants.

Details are as follows *(expressed in thousands):*

	Shares		Amount
Investment in common shares			
At January 1, 2008	-	$	-
Acquisition of Capstone Mining *(Note 4)*	24,042,340		7,359
Foreign currency translation adjustments	-		(300)
At December 31, 2008	24,042,340	$	7,059
Investment in special warrants			
At January 1, 2008	-		-
Acquisition of Capstone Mining *(Note 4)*	2,747,428		841
Foreign currency translation adjustments	-		(34)
At December 31, 2008	2,747,428	$	807
Total investment		$	7,866

9. Property, plant and equipment

Details are as follows (expressed in thousands):

	December 31, 2008							
		Cost		**Accumulated amortization**		**Impairment** *(Note 12)*		**Net book value**
Property, plant and equipment	**$**	**86,095**	**$**	**(12,297)**	**$**	**(9,319)**	**$**	**64,479**
Development costs		**59,638**		**(6,741)**		**(30,699)**		**22,198**
Equipment and facilities under capital leases		**20,982**		**(2,918)**		**-**		**18,064**
Deferred stripping costs		**18,293**		**(6,771)**		**-**		**11,522**
Construction in progress		**1,861**		**-**		**-**		**1,861**
	$	**186,869**	**$**	**(28,727)**	**$**	**(40,018)**	**$**	**118,124**

	December 31, 2007							
		Cost		Accumulated amortization		Impairment *(Note 12)*		Net book value
Property, plant and equipment	$	74,277	$	(1,791)	$	-	$	72,486
Development costs		54,226		(930)		-		53,296
Equipment and facilities under capital leases		14,582		(1,595)		-		12,987
Deferred stripping costs		6,143		(131)		-		6,012
Construction in progress		18,644		-		-		18,644
	$	167,872	$	(4,447)	$	-	$	163,425

At December 31, 2008, construction in progress relates to capital costs incurred in connection with sustaining capital at the Minto mine site. At December 31, 2007, construction in progress related to capital costs incurred in connection with further development of the Minto mine site which at December 31, 2008 are included in property, plant and equipment costs.

10. Notes receivable

On November 24, 2008, the Company acquired Capstone Mining *(Note 4)*, owner of notes receivable in respect of agreements with a contractor at the Cozamin mine. As part of the purchase price equation, the Company allocated $0.6 million of fair value to the notes receivable. Under the terms of the agreement, the contractor has agreed to purchase mining equipment which the Company holds under capital lease through monthly payments over a three year period, such payments inclusive of interest at 8% per annum.

Details are as follows (expressed in thousands):

	December 31, 2008	December 31, 2007
Total notes receivable	**$ 601**	$ -
Current portion	**(601)**	-
Long term portion	**$ -**	$ -

11. Mineral property costs

Details are as follows (expressed in thousands):

	December 31, 2008			
	Cost	**Accumulated amortization**	**Impairment** *(Note 12)*	**Net book value**
MintoEx	**$ 32,063**	**$ (2,981)**	**$ (13,417)**	**$ 15,665**
Cozamin	**108,774**	**(6,612)**	**-**	**102,162**
Kutcho Copper	**43,197**	**-**	**-**	**43,197**
	$ 184,034	**$ (9,593)**	**$ (13,417)**	**$ 161,024**

	December 31, 2007			
	Cost	Accumulated amortization	Impairment *(Note 12)*	Net book value
MintoEx	$ 26,804	$ (394)	$ -	$ 26,410
Kutcho Copper	-	-	-	-
Cozamin	-	-	-	-
	$ 26,804	$ (394)	$ -	$ 26,410

	December 31, 2008			December 31, 2007		
	Depletable	**Non-depletable**	**Total**	Depletable	Non-depletable	Total
MintoEx	**$ 7,353**	**$ 8,312**	**$ 15,665**	$ 22,012	$ 4,398	$ 26,410
Cozamin	**102,162**	**-**	**102,162**	-	-	-
Kutcho Copper	**-**	**43,197**	**43,197**	-	-	-
	$ 109,515	**$ 51,509**	**$ 161,024**	$ 22,012	$ 4,398	$ 26,410

12. Asset impairment

An asset impairment charge of $53.4 million was recorded against the Minto mine at December 31, 2008. Due to the significant reduction in the copper price over the period, the Company, following CICA Section 3063 -

Impairment of Long Lived Assets, performed an undiscounted life of mine cash flow the analysis using management's best estimate of future commodity prices, reserves and resources, recovery rates and future operating costs. As the undiscounted cash flows were not sufficient to recover the net book value of the long lived assets, the cash flows were discounted at a rate of 15%, with the differential to the net book value being recorded as the impairment. The Minto mine undiscounted cash flows are very sensitive to the copper price, the US dollar exchange rate, copper grade, reserves and resources and other estimates and there would be material adjustments to the amount of the impairment if different estimates were assumed.

13. Other assets

Details are as follows (expressed in thousands):

	December 31, 2008	December 31, 2007
Deferred acquisition costs re: Western Keltic Mines Inc.	**$ -**	$ 389
Security deposit on port facility	**350**	350
Total other assets	**$ 350**	$ 739

14. Derivative instruments

As a condition of the loans with Macquarie *(Note 16)* the Company must maintain a price protection program of forward metal sales contracts as they relate to the Minto mine. Additionally, the Company uses forward sales contracts for its Cozamin mine in order to manage price risk on its future production.

Details of the Company's forward sales contracts at December 31, 2008 are as follows:

Metal	**Maturity**	**Quantity (pounds 000's)**	**Forward Price (per pound)**
Copper	2009	43,054	$ 2.61
	2010	34,412	$ 2.38
	2011	22,293	$ 2.41
	2012	2,646	$ 3.22
	2013	1,984	$ 3.12
		104,389	$ 2.52

As at December 31, 2008, the Company has a mark-to-market derivative instruments asset of $105.3 million (December 31, 2007 – $59.8 million liability) recorded against these forward sales contracts, of which $48.5 million (December 31, 2007 – $6.7 million liability) relates to derivative contracts due in less than one year and $56.8 million (December 31, 2007 – $53.1 million liability) relates to derivative contracts with a due date greater than one year.

During 2008 the Company closed out all of its gold and silver forward sales contracts as a condition of the Precious Metal Sale with Silverstone *(Note 18)*.

15. Current portion of other liabilities

Details are as follows *(expressed in thousands):*

		December 31, 2008		December 31, 2007
Current portion of:				
Long term debt *(Note 16)*	**$**	**52,010**	$	28,764
Capital lease obligations *(Note 17)*		**3,497**		2,153
Derivative instruments liability *(Note 14)*		**-**		6,677
Future income tax liability *(Note 19)*		**18,397**		-
Total current portion of other liabilities	**$**	**73,904**	$	37,594

16. Long term debt

Details are as follows (expressed in thousands):

		December 31, 2008		December 31, 2007
Macquarie Bank Ltd – project loan facility	**$**	**29,926**	$	57,530
Macquarie Bank Ltd – subordinated loan facility		**8,211**		10,088
Yukon Energy Corporation – capital cost contribution		**5,911**		-
Convertible debentures		**30,010**		35,147
Total long term debt		**74,058**		102,765
Current portion		**(52,010)**		(28,764)
Long term portion	**$**	**22,048**	$	74,001

As of December 31, 2008 the long term debt repayments for each of the next five years ending December 31 are as follows (expressed in thousands):

		2009		2010		2011		2012		2013
Macquarie - PLF	$	22,000	$	7,926	$	-	$	-	$	-
Macquarie - SLF		-		8,210		-		-		-
Yukon Energy Corporation		-		-		-		147		1,836
Convertible debentures		35,796		-		-		-		-
Total	$	57,796	$	16,136	$	-	$	147	$	1,836

Macquarie Bank Limited loan facility

In October 2006, Minto, received credit approval from Macquarie Bank Limited (“Macquarie”) for a debt package comprised of a $57.8 million Project Loan Facility (“PLF”) and a C$20.0 million subordinated loan facility (“SLF”). The PLF carries an interest rate of US dollar LIBOR plus 2.25% and is repayable over three years with the first payment due April 1, 2008 and the final payment due on May 31, 2010. During the current period of the PLF, US dollar LIBOR ranged from 2.4 – 5.1%. The PLF was drawn in US dollars to mitigate the Minto mine’s potential exposure to currency fluctuations, given that mine revenues are being generated in US dollars. The total amount drawn against the PLF at December 31, 2008 was $29,926,073, consisting of $22,000,000 current and $7,926,073 long-term. The SLF carries an interest rate of Canadian dollar LIBOR plus 2.65% with the first payment due October 1, 2010 and the final payment due May 31, 2011. As at December 31, 2008, CAD $10,000,000 had been drawn against the SLF, all of which is long term. During the current period LIBOR ranged from 3.2 – 5.8%.

The PLF and SLF are secured against the Minto mine, and are guaranteed by the Company, which has pledged its shares in MintoEx as security for the loans. The lender requires certain minimum debt service reserves and ratios relating to projected debt service coverage and ratios. Failure to meet certain of these tests could result in a possible acceleration of the loan repayments.

Yukon Energy Corporation capital cost contribution

In February 2007, MintoEx executed the Power Purchase Agreement ("PPA") with Yukon Energy Corporation ("YEC"). Under the terms of the agreement, MintoEx agreed to make payments representing its capital cost contribution on the Carmacks-Minto Landing portion of the main line. These payments carry an implied interest rate of 7.5% on a stated principal of C$7.2 million. As per the repayment schedule, the monthly payments during the first 48 months will represent interest only on the principal followed by equal blended payments of interest and principal during the ensuing 36 months such that the principal is fully repaid at the end of seven years, respectively. Minto's connection to the YEC's electrical grid in November 2008 triggered the first of 72 monthly payments to commence in December 2008.

Convertible debentures

In February 2007, the Company issued convertible senior unsecured debentures (the "Debentures") to a syndicate of underwriters, led by BMO Capital Markets, for gross proceeds of C$43.6 million. The Debentures, due March 31, 2012, bear interest at a rate of 5.0% per annum payable semi-annually in arrears on March 31 and September 30 of each year commencing on September 30, 2007. Each Debenture is convertible at the option of the holder at anytime into common shares of the Company at a conversion rate of 158.7302 common shares per C$1000 principal amount of Debentures, which is equal to a Conversion Price of C$6.30 per common share. The Company may redeem the Debentures on or after April 1, 2010 at a redemption price equal to their principal amount, provided that the weighted average trading price of the common shares of the Company for 20 consecutive days is at least 125% of the Conversion Price. The Company may repay the principal amount in common shares at the then market price or cash.

Generally accepted accounting principles for compound financial instruments require the Company to allocate the proceeds received from the Debentures between; (i) the estimated fair value of the holder's option to convert the debentures into common shares and (ii) the estimated fair value of the future cash outflows related to the debentures. At issuance, the Company estimated the fair value of the conversion option by deducting the present value of the future cash outflows of the convertible debentures, calculated using a risk-adjusted discount rate of 11.5%, from the face value of the principal of the convertible debentures. The residual value allocated to the conversion option is added to the face value of the convertible debentures over the life of the debentures by a charge to earnings, using the effective interest rate method.

The financial liability component of the convertible debentures at December 31, 2008 is as follows *(expressed in thousands)*:

Principal amount of convertible debentures	$	37,211
Less: residual value allocated to the conversion option*		(8,601)
Financial liability component at issuance (present value of future cash outflows)		28,610
Accretion of the residual value allocated to the conversion option		2,867
Foreign currency translation adjustments		(1,467)
Balance of financial liability component		30,010
Less: current portion of financial liability component		(30,010)
Long term balance of financial liability component	$	-

* Excludes issue expenses allocated to the equity component of the conversion option in the amount of $0.4 million.

The principal amount of the convertible debentures plus accrued interest to December 31, 2008 amounted to $36.2 million. Subsequent to year-end, the Company redeemed the majority of its outstanding convertible debentures as part of a requirement to make an offer to all convertible debenture holders upon a change of control *(Note 30)*.

17. Capital lease obligations

The Company has certain assets that are classified as capital leases, with the applicable costs included in property and equipment. Future minimum lease payments are as follows *(expressed in thousands)*:

		December 31, 2008
2009	$	4,871
2010		3,821
2011		3,598
2012		3,408
2013		3,408
Thereafter until 2017		6,512
Total minimum lease payments		25,618
Less: interest at rates from 7.0% to 9.4%		(5,467)
Balance of unpaid obligations		20,151
Less: current portion		(3,497)
Long term portion	$	16,654

18. Deferred revenue

(a) Minto mine

During 2008, the Company sold all of its gold and silver production from the Minto mine over the life of mine to Silverstone in consideration for an upfront payment of $37.5 million and a further payment of the lesser of US$300 per ounce of gold and US$3.90 per ounce of silver (subject to a 1% inflationary adjustment after three years and each year thereafter) and the prevailing market price on the London Metal Exchange for each ounce delivered. If production from the Minto Mine exceeds 50,000 oz of gold in the first two years of the agreement or 30,000 oz of gold per year thereafter, Silverstone will be entitled to purchase only 50% of the amount in excess of those thresholds. The Company has recorded the proceeds received as deferred revenue and will recognize this amount as an adjustment to revenue as the appropriate ounces are delivered.

(b) Cozamin mine

As part of the reverse takeover transaction between Capstone and Sherwood during 2008 *(Note 4)*, the Company acquired a commitment to sell the Cozamin mine's silver production over a 10 year period to Silverstone. Under the terms of the arrangement, Silverstone agreed to pay for each ounce of refined silver from the mine the lesser of $4.00 per ounce of silver and the prevailing market price on the London Metal Exchange for each ounce of silver. Further, the Company agreed to deliver a minimum of 10 million ounces of silver to Silverstone over a ten year period. If, at the end of ten years, the Company has not delivered the agreed upon 10 million ounces of silver, then it has agreed to pay Silverstone $1.00 per ounce of silver not delivered. From the date of the reverse takeover on November 24, 2008 to the end of the year, the Company delivered concentrate containing 0.1 million ounces (2007 – nil) of silver to Silverstone. To date, a total of 1.6 million ounces have been delivered against the contract since its inception. The Company has recorded this commitment (which represents an obligation to deliver silver at other than market rates) at its estimated fair value on the date of acquisition of the Cozamin mine. The value assigned to the commitment will be recorded as an adjustment to revenue as the related ounces are delivered.

Details of deferred revenue are as follows *(expressed in thousands)*:

	December 31, 2008	December 31, 2007
Deferred revenue on sale of Minto production	**$ 37,500**	$ -
Fair value of commitment to deliver silver on acquisition of Capstone Mining *(Note 4)*	**45,700**	-
Amortization on delivery of gold and silver	**(458)**	-
Foreign currency translation adjustments	**112**	-
Total deferred revenue	**$ 82,854**	$ -

19. Income and mining taxes

Income tax expense differs from the amount that would result from applying the Canadian federal and territorial income tax rates to earnings before income taxes. These differences result from the following items *(expressed in thousands)*:

	Twelve months ended	
	December 31, 2008 *(Note 2)*	December 31, 2007 *(Note 2)*
Earnings (loss) before income items	**$ 136,343**	$ (41,327)
Canadian federal and provincial income tax rates	**34.50%**	37.12%
Income tax expense (recovery) based on the above rates	**47,038**	(15,341)
Increase (decrease) due to:		
Non-deductible stock based compensation & other	1,264	1,440
Non-deductible (non-taxable) foreign exchange	2,533	(1,694)
Non-deductible interest accretion	363	477
Difference between Canadian and foreign tax rates	(523)	-
Losses and temporary differences for which no future income tax asset has been recognized	-	15,118
Yukon mining taxes	(3,905)	-
Income tax benefit recognition from issuance of flow-through shares	-	(626)
Gain on acquisition of Capstone not subject to tax	(24,855)	-
Benefit of previously unrecognized future income tax assets	(17,393)	-
Income tax expense/(recovery)	**$ 4,522**	$ (626)
Breakdown of income tax expense/(recovery)		
Current	667	-
Future	3,855	(626)
	$ 4,522	**$ (626)**

The components of future income taxes are as follows *(expressed in thousands)*:

	Twelve months ended	
	December 31, 2008 *(Note 2)*	December 31, 2007 *(Note 2)*
Future income and mining tax assets		
Non-capital losses	$ 1,810	$ 4,555
Accounts receivable and other current items	281	-
Share issue costs and other	3,640	1,463
Derivative instruments	-	19,727
Property, plant and equipment	9,653	-
Mineral property costs	8,171	-
Capital leases and long term debt	888	4,101
Asset retirement obligations	1,279	1,010
Future income and mining tax assets	25,722	30,856
Valuation allowance	(1,195)	(21,607)
Net future income and mining tax assets	24,527	9,249
Future income and mining tax liabilities		
Inventory	4,439	951
Property, plant and equipment	9,729	10,680
Derivative instruments	31,773	1,407
Mineral property costs	26,361	-
Long term debt	-	1,443
Future income and mining tax liabilities	72,302	14,481
Net future income and mining tax liability	$ 47,775	$ 5,232
Breakdown of net future income and mining tax liability		
Current asset	(2,665)	-
Long term asset	(7,100)	-
Current liability	18,397	-
Long term liability	39,143	5,232
	$ 47,775	$ 5,232

The Company has non-capital loss carry-forwards of approximately $7.0 million that may be available for tax purposes. The loss carry-forwards are all in respect of Canadian operations and expire as follows *(expressed in thousands)*:

2011	$ 321
2012	321
2013	423
2024	746
2025	2,013
2026	1,154
2028	2,002
	$ 6,980

A valuation allowance has been recorded against the net potential future income tax assets associated with certain deductible temporary differences as their utilization is not considered more likely than not at this time.

20. Asset retirement obligations and other provisions

The asset retirement obligations relate to the operations of the Minto and Cozamin mines, as well as the Kutcho development project.

Details are as follows (expressed in thousands):

	Asset Retirement Obligations	Other Long Term Obligations	Total
Balance, December 31, 2006	$ 1,623	$ -	$ 1,623
Changes in estimates	824	-	824
Accretion expense	182	-	182
Foreign currency translation adjustments	432	-	432
Balance, December 31, 2007	3,061	-	3,061
Accretion expense	178	-	178
Obligations assumed on acquisition of Capstone Mining *(Note 4)*	1,673	428	2,101
Obligations assumed on acquisition of Western Keltic assets *(Note 4)*	50	-	50
Accretion expense	-	9	9
Foreign currency translation adjustments	(583)	5	(578)
Balance, December 31, 2008	$ 4,379	$ 442	$ 4,821

Asset retirement obligations have been recognized in respect of the mining operations of the Minto mine, including associated infrastructure and buildings. The estimated undiscounted cash flows required to satisfy the Minto Project asset retirement obligations as at December 31, 2008 was $4.5 million Canadian dollars, which have then been discounted using credit-adjusted risk free rates ranging from 4.0% to 6.4%. The asset retirement obligations for the Minto mine at December 31, 2008 totalled $2.6 million, virtually all of which is secured by a letter of credit from Macquarie Bank Ltd. in favour of the Yukon Government. The remaining unsecured amount is covered by a short term deposit of $0.1 million.

On November 24, 2008, the Company acquired Capstone Mining, owner of the Cozamin mine in Mexico (*Note 4*). As part of the purchase price equation, the Company allocated $2.2 million for future site restoration and other mine closure costs. The restoration costs were determined based on the current life of mine plan, estimated on an undiscounted basis to be 23.3 million Mexican pesos, and then discounted using a credit-adjusted risk-free interest rate of 6.2%. The asset retirement obligations for the Cozamin mine at December 31, 2008 totalled $1.7 million, with an additional $0.4 million to other mine close costs related to severance.

On February 11, 2008, the Company acquired the Kutcho project in Canada (*Note 4*). As part of the purchase price equation, the Company allocated $50,000 for future site restoration costs. The restoration costs were determined based on the known disturbance to date, the full amount of which has been provided for in the form of a term deposit in favour of the regulatory authorities. These deposits will be released to the Company on satisfactory reclamation of the properties.

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

21. Share capital

Authorized

An unlimited number of common voting shares without par value.

Issued and outstanding

On November 24, 2008 Sherwood acquired Capstone in a reverse takeover transaction whereby shareholders of Sherwood exchanged their shares at a rate of 1.566 shares of Capstone for each share of Sherwood *(Note 4)*. The share capital of each company prior to the business combination was as follows *(expressed in thousands, except share amounts)*:

	Shares outstanding		Share capital
Capstone Mining Corp.			
August 31, 2006	81,732,351	$	64,031
Exercise of options	20,000		35
Exercise of agent's options	6,625		6
Exercise of warrants	496,539		657
Issued as compensation	2,500		5
Shares repurchased and cancelled	(815,500)		(790)
December 31, 2007	81,442,515		63,944
Exercise of options	614,500		1,028
Exercise of agent's options	75,629		102
Exercise of warrants	541,187		734
Issued as compensation	242,000		578
Shares repurchased and cancelled	(2,545,050)		(2,341)
Balance as at November 24, 2008 prior to business combination with Sherwood	80,370,781	$	64,045

	Shares outstanding		Share capital
Sherwood Copper Corporation			
December 31, 2006	42,227,066	$	51,707
Private placement	845,000		4,255
Share issue costs	-		(61)
Exercise of options	1,146,933		3,249
Exercise of warrants	457,250		951
Shares issued as contract incentive	138,200		925
Future income tax on flow-through shares	-		(626)
December 31, 2007	44,814,449		60,400
Private placement	1,205,000		7,196
Share issue costs	-		(57)
Exercise of options	875,100		3,611
Exercise of warrants	331,175		831
Acquisition of mineral property *(Note 4)*	6,606,874		32,205
Debt financing fees	19,000		100
Property payment	1,600		8
Future income tax on flow-through shares	-		(1,638)
Balance as at November 24, 2008 prior to business combination with Capstone	53,853,198	$	102,656

Subsequent to the reverse takeover, the share capital of the Company was as follows *(expressed in thousands, except share amounts)*:

	Shares outstanding		Share capital
Capstone Mining Corp.			
Balance as at November 24, 2008 prior to business combination with Sherwood	80,370,781	$	64,045
Increase in the share capital to that of Sherwood upon reverse takeover *(Note 4)*	-		38,611
	80,370,781		102,656
Issued pursuant to reverse takeover in exchange for shares of Sherwood *(Note 4)*	84,334,104		43,658
December 31, 2008	164,704,885	$	146,314

Shares issuances

In March 2008 Sherwood completed a non-brokered private placement of 1,205,000 flow through shares priced at C$6.00 for aggregate proceeds of $7.2 million. Proceeds were to be used to incur Canadian Exploration Expenditures in advancing the Kutcho Copper project in British Columbia towards a production decision and at the Minto mine in the Yukon.

During fiscal year 2008 up to November 24, 2008, a total of 875,100 common shares of Sherwood were issued upon the exercise of options at prices between C$1.00 and C$4.05 per option for total cash proceeds of $2.2 million. As a result of these exercises, $1.4 million was transferred from contributed surplus to share capital.

(expressed in U.S. dollars., except share amounts)

During fiscal year 2008 up to November 24, 2008, a total of 331,175 common shares of Sherwood were issued upon the exercise of warrants at C$2.00 per warrant for total cash proceeds of $0.6 million. As a result of these exercises, $0.2 million was transferred from contributed surplus to share capital.

On November 24, 2008, the date of the reverse takeover transaction, a total of 84,334,104 common shares of Capstone were issued in exchange for 53,853,198 shares of Sherwood. These shares were added to the then current Capstone shares outstanding balance of 80,370,781 for a total shares outstanding of 164,704,885.

Stock options

Pursuant to the Company's stock option plan, directors may, from time to time, authorize the issuance 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 on a yearly basis. Options granted under the plan have a term not to exceed 5 years and vesting periods that range from zero to 2.5 years.

The outstanding options of each company prior to the business combination was as follows:

	Options outstanding		Weighted average exercise price ($C)
Capstone Mining Corp.			
August 31, 2006	2,582,000	$	1.45
Exercised	(20,000)		1.25
December 31, 2007	2,562,000		1.45
Issued	1,269,000		2.93
Exercised	(614,500)		3.16
Cancelled	(22,500)		1.30
Balance as at November 24, 2008 prior to business combination with Sherwood	3,194,000	$	2.15
Sherwood Copper Corporation			
December 31, 2006	3,559,400	$	2.22
Issued	2,035,000		5.02
Exercised	(1,146,933)		1.84
Forfeited	(11,700)		2.00
December 31, 2007	4,435,767		3.61
Issued	1,582,000		5.10
Exchanged for Western Keltic options *(Note 4)*	291,640		5.81
Exercised	(855,100)		2.48
Cancelled	(125,000)		4.05
Expired	(341,640)		5.62
Forfeited	(400,000)		5.31
Balance as at November 24, 2008 prior to business combination with Capstone	4,587,667	$	4.20

(expressed in U.S. dollars., except share amounts)

Subsequent to the reverse takeover, the options outstanding of the Company were as follows:

	Options outstanding	Weighted average exercise price ($C)
Capstone Mining Corp.		
Balance as at November 24, 2008 prior to business combination with Sherwood	3,194,000	$ 2.15
Issued pursuant to reverse takeover in exchange for options of Sherwood *(Note 4)*	7,178,512	2.66
Issued	78,300	0.78
Expired	(366,700)	3.10
December 31, 2008	10,084,112	$ 2.47

As at December 31, 2008, the following options were outstanding:

Exercise prices ($C)	Number of options	Weighted average exercise price ($C)	Weighted average remaining life (years)
$0.64 - $0.95	1,155,234	$ 0.74	1.8
$1.05 - $1.95	2,445,685	1.58	2.4
$2.32 - $2.98	1,891,039	2.54	3.0
$3.16 - $3.99	4,592,154	3.35	4.1
	10,084,112	$ 2.47	3.2

As at December 31, 2008, the following options were both outstanding and exercisable:

Exercise prices ($C)	Number of options	Weighted average exercise price ($C)	Weighted average remaining life (years)
$0.64 - $0.95	1,010,379	$ 0.73	1.4
$1.05 - $1.95	2,445,685	1.58	2.4
$2.32 - $2.98	1,887,907	2.54	3.0
$3.16 - $3.99	2,922,284	3.34	4.0
	8,266,255	$ 2.32	3.0

The Company uses the fair value method of accounting for all stock-based payments to employees, directors and officers. During the year ended December 31, 2008, the stock-based compensation had a total fair value of $4.1 million (2007 – $5.5 million). Of this total, $3.3 million (2007 – $4.6 million) was recorded as an expense, $0.1 million (2007 – $0.9 million) was capitalized to mineral property costs and construction in progress, $0.1 million (2007 – $nil) related to the consideration paid to acquire the Kutcho project *(Note 4)*, and $0.6 million (2007 – $nil) related to the consideration transferred in the reverse takeover of Capstone *(Note 4)*. The portion of stock-based compensation recorded is based on the vesting schedule of the options.

(expressed in U.S. dollars., except share amounts)

During the year ended December 31, 2008, the exercise price of options granted was based on the closing stock price on the date of grant. The total fair value of options granted or exchanged was $4.5 million (2007 – $5.2 million) and had a weighted average grant-date fair value of C$0.75 (2006 – C$2.74) per option. The fair values of the stock options granted were estimated on the respective issue dates using the Black-Scholes option pricing model, with the following ranges of assumptions:

	December 31, 2008	December 31, 2007
Risk-free interest rate	1.68 - 3.57%	4.00%
Expected dividend yield	nil	nil
Expected stock price volatility	51 - 129%	72%
Expected life	0.1 - 4.7 years	4.2 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.

Share purchase warrants

	Warrants outstanding	Weighted average exercise price (C$)
Capstone Mining Corp.		
August 31, 2006	4,332,463	$ 1.39
Issued	3,312	1.30
Exercised	(496,539)	1.33
Expired	(3,250)	1.30
December 31, 2007	3,835,986	1.40
Exercised	(541,187)	1.40
Balance as at November 24, 2008 prior to business combination with Sherwood	3,294,799	$ 1.40
Sherwood Copper Corporation		
December 31, 2006	1,715,452	$ 2.88
Issued	755,405	6.75
Exercisd	(457,250)	1.86
December 31, 2007	2,013,607	4.56
Issued	755,405	5.25
Exchanged for Western Keltic options *(Note 4)*	1,134,496	5.63
Exercised	(331,175)	2.00
Expired	(927,027)	3.70
Balance as at November 24, 2008 prior to business combination with Capstone	2,645,306	$ 5.84

(expressed in U.S. dollars., except share amounts)

Subsequent to the reverse takeover, the warrants outstanding of the Company was as follows:

	Warrants outstanding	Weighted average exercise price (C$)
Capstone Mining Corp.		
Balance as at November 24, 2008 prior to business combination with Sherwood	3,294,799	$ 1.40
Issued pursuant to reverse takeover in exchange for warrants of Sherwood *(Note 4)*	4,142,546	3.73
Expired	(3,294,799)	1.40
December 31, 2008	4,142,546	$ 3.73

As at December 31, 2008, the following warrants were outstanding:

Expiry date	Warrants outstanding	Exercise price (C$)
February 20, 2009	1,776,618	$ 3.59
November 23, 2009	1,182,964	4.31
March 7, 2010	1,182,964	3.35
	4,142,546	$ 3.73

During 2008, warrants issued or exchanged had a total fair value of $2.4 million. Of this total, $1.3 million was expensed as financing fees related to the establishment of a corporate credit facility with Macquarie, $1.1 million related to the acquisition costs of Western Keltic *(Note 4)*, and $0.1 million related to the reverse takeover costs of Capstone *(Note 4)*. The fair values were estimated on the respective issue dates using the Black-Scholes option pricing model, with the following ranges of assumptions:

	December 31, 2008	December 31, 2007
Risk-free interest rate	1.85 - 3.44%	3.67%
Expected dividend yield	nil	nil
Expected stock price volatility	47 - 125%	51%
Expected life	0.1 - 2 years	1 year

Warrant 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.

Employee share purchase plan

The Company has an ESPP which allows employees of the Company to purchase the Company's shares through payroll deductions. Employees may contribute up to a maximum of 7% of their annual base salary and the Company will match 50% of the employee's contribution.

22. Earnings (loss) per share

Earnings (loss) per share, calculated on a basic and diluted basis, is as follows *(expressed in thousands, except share and per share amounts)*:

	December 31, 2008	December 31, 2007
Earnings (loss) per share		
Basic	$ 1.47	$ (0.59)
Diluted	$ 1.31	$ (0.59)
Net income (loss)		
Net income (loss) available to common shareholders - basic	$ 131,821	$ (40,702)
Interest obtainable upon conversion of debentures, net of tax	3,656	-
Net income (loss) available to common shareholders - diluted	$ 135,477	$ (40,702)
Weighted average shares outstanding		
Weighted average shares outstanding - basic	89,825,636	68,825,846
Dilutive securities		
Stock options	3,089,227	-
Share purchase warrants	-	-
Convertible securities	10,837,717	-
Weighted average shares outstanding - diluted	103,752,580	68,825,846
Weighted average shares excluded		
Stock options	5,246,742	6,946,411
Share purchase warrants	2,645,306	3,153,309
Convertible securities	-	10,837,717

23. Accumulated other comprehensive loss

Details are as follows (expressed in thousands):

	December 31, 2008	December 31, 2007
Accumulated other comprehensive income (loss)		
Mark-to-market losses on available-for-sale securities, net of tax of $nil	$ (1,024)	$ -
Currency translation adjustment	(7,816)	4,210
	$ (8,840)	$ 4,210

24. Related party balances and transactions

The Company entered into the following transactions with related parties:

a. The Company has a management and cost sharing agreement with International Northair Mines Ltd. ("Northair"), a company with directors and officers in common. The agreement is automatically renewed from year to year and either party can terminate the agreement by giving three months written notice prior to the anniversary date of September 1. During the year ended December 31, 2008 the Company incurred management fees with Northair of $0.1 million (2007 – $0.1 million). Also during the year ended

December 31, 2008, the Company incurred costs for the services of a director of $0.1 million (2007 – $0.1 million), an amount that was included in salaries and benefits. Included in accounts payable as at December 31, 2008 is $0.2 million (December 31, 2007 - $0.2 million) due to Northair.

b. During the year ended December 31, 2008 the Company sold silver of $0.8 million (2007 - $nil) to our affiliate Silverstone *(Note 8)*. At December 31, 2008, the Company has an amount payable of $0.3 million (December 31, 2008 – $nil) related to these silver sales. Additionally, the Company received from this public company exploration services for $nil (2007 - $nil) and at December 31, 2008 has an amount included in accounts payable $1.1 million (December 31, 2007 – $nil) related to such services provided prior to the acquisition of Capstone on November 24, 2008 (*Note 4*).

These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties. Amounts due to related parties are unsecured, non-interest bearing and have no specific repayment terms.

25. Supplemental cash flow information

The significant non-cash financing and investing transactions during the period *(expressed in thousands):*

		2008 *(Note 2)*		2007 *(Note 2)*
Common shares issued to acquire Capstone Mining *(Note 4)*	$	43,657	$	-
Options and warrants issued to acquire Capstone Mining *(Note 4)*	$	651	$	-
Common shares issued to acquire Kutcho project *(Note 4)*	$	32,205	$	-
Options and warrants issued to acquire Kutcho project *(Note 4)*	$	1,179	$	-
Equipment and vehicles acquired under capital lease obligations	$	10,005	$	10,642
Exploration expenditures included in accounts payable	$	395	$	208
Construction in progress expenditures included in accounts payable	$	14	$	3,483
Reclamation liability capitalized to mineral property costs	$	-	$	902
Future income tax capitalized to property, plant and equipment	$	-	$	1,590
Fair value of stock options and warrants allocated to share capital upon exercise	$	1,625	$	1,446
Deferred financing charges included in construction in progress	$	-	$	2,989
Stock-based compensation capitalized to property, plant and equipment	$	-	$	704
Shares issued as contractual inventive included in construction in progress	$	-	$	903
Promissory note cancelled	$	-	$	545

Operating activities during the period included the following cash payments *(expressed in thousands):*

		2008 *(Note 2)*		2007 *(Note 2)*
Interest paid	$	8,268	$	2,752
Income taxes paid		2		-

26. Changes in non-cash working capital

The changes in non-cash working capital items are comprised of *(expressed in thousands)*:

(expressed in U.S. dollars., except share amounts)

	December 31, 2008	December 31, 2007
Receivables	**$ (3,361)**	$ 86
Inventories	**151**	(24,695)
Prepaids	**(175)**	(227)
Accounts payable and accured liabilities	**(12,812)**	14,287
Taxes payable	**558**	-
Advances on concentrate sales	**6,312**	-
Net change in non-cash working capital	**$ (9,327)**	$ (10,549)

27. Capital Management

The Company considers that its capital consists of the items included in shareholders' equity, short term credit facilities, long term debt, and capital lease obligations. 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.

The Company's capital management objectives are intended to safeguard the entity's ability to support the Company's normal operating requirements on an ongoing basis as well as continue the development and exploration of its mineral properties and support any expansionary plans.

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 balances.

The PLF and SLF contains various covenants, including ratios of estimated future cash flows to total debt; debt coverage ratios with respect to minimum proven and probable reserves for the life of mine plan approved by Macquarie; and a tangible net worth.

28. Commitments

Agreements with the Selkirk First Nation

Under the terms of a co-operation agreement between Minto and the Selkirk First Nation ("Selkirk") dated September 16, 1997, the Company has various commitments to Selkirk, including a net sales royalty of 0.5% on production from the Minto mine, various job commitments, as well as training and scholarship opportunities.

In June 2006, the Company entered into five leases with the Selkirk for the use of the surface areas in and around the planned development of the Minto Project. The leases have a term of ten years and three months, expiring June 30, 2016. The total annual rent payable under the terms of these leases is C$52,044.

Off-take agreements

The Company has a concentrate off-take agreement with MRI Trading AG ("MRI") whereby MRI will purchase 100% of the concentrate produced by the Minto mine up to the end of June 2010. As part of the agreement, MRI has provided Minto with an inventory financing facility.

The Company has a concentrate off-take agreement with Trafigura Beheer B.V. ("Trafigura") whereby Trafigura will purchase 100% of the copper concentrate produced by the Cozamin mine up to the end of December 2011.

The Company has a concentrate off-take agreement with Louis Dreyfus Commodities Metals Suisse SA ("Louis Dreyfus") whereby Louis Dreyfus will purchase 100% of the lead concentrate produced by the Cozamin mine up to the end of December 2011.

The Company has a concentrate off-take agreement with MRI Trading AD ("MRI") whereby MRI will purchase 100% of the zinc concentrate produced by the Cozamin mine up to the end of December 2011.

Power purchase agreement

In February 2007, Minto signed a Purchase Power Agreement (the "PPA") with the Yukon Energy Corp. ("YEC"), which was subsequently amended and approved by the Yukon Utilities Board in May 2007, whereby the YEC will deliver grid power to the Minto mine by constructing the Carmacks/Minto main line and the spur line to the mine site. Minto is obligated to repay C$7.2 million of the costs of the main line and C$10.8 million for the cost of the spur line. The repayment terms will be over seven years at an interest rate of 7.5%, starting on the commencement of power delivery, which occurred in November 2008. Minto is obligated to purchase a minimum of C$3.0 million of power for each of the first four years of the agreement, to a maximum of C$12.0 million. Power pricing is fixed at C$15.00/KVA and C$0.076/KWH as per YEC Rate Schedule 39 (Industrial Primary) until December 31, 2009, then subject to escalation once each calendar year, starting January 1, 2010, based on the latest percentage increase in the 12 month implicit chain price index for gross domestic product at market for Canada as reported by Stats Canada. After four years (post take-or-pay period), YEC will perform its normal cost of service analysis to set go forward rates. The Company is obligated to fund the mine spur line reclamation costs on the closure of the mine.

29. Segmented information

The Company is engaged in mining, exploration and development of mineral properties, and has operating mines in Canada and Mexico. The Company has two reportable segments as identified by the individual mining operations at each of the Minto and Cozamin mines. Segments are operations reviewed by the executive management. Each segment is identified based on quantitative factors whereby its revenues or assets comprise 10% or more of the total revenues or assets of the Company.

Sales from the Company's Minto mine are to a single customer as per the off-take agreement, whereby sales from its Cozamin mine are to different customers depending on the nature of the concentrate (copper, lead or zinc).

Operating segment details are as follows *(expressed in thousands)*:

	December 31, 2008			
	Minto	Cozamin	Other	Total
Net revenue	$ 103,387	$ 2,565	$ -	$ 105,952
Cost of sales	(56,700)	(5,899)	-	(62,599)
Royalty	(578)	(9)	-	(587)
Depletion and amortization	(21,712)	(1,020)	(2)	(22,734)
Accretion of asset retirement obligations	(178)	-	-	(178)
Income (loss) from mining operations	24,219	(4,363)	(2)	19,854
Interest expense	(4,454)	-	(4,031)	(8,485)
Impairment charges	(53,435)	-	-	(53,435)
Gain on acquisition of Capstone	-	-	72,043	72,043
Other corporate income (expense)	124,264	12,136	(30,034)	106,366
Income (loss) before income taxes	90,594	7,773	37,976	136,343
Income taxes	(3,459)	(2,069)	1,006	(4,522)
Net income	87,135	5,704	38,982	131,821
Total assets	244,681	188,713	64,458	497,852

	December 31, 2007			
	Minto	Cozamin	Other	Total
Net revenue	$ 730	$ -	$ -	$ 730
Cost of sales	(2,275)	-	-	(2,275)
Royalty	(4)	-	-	(4)
Depletion and amortization	(538)	-	-	(538)
Accretion of asset retirement obligations	(182)	-	-	(182)
Income (loss) from mining operations	(2,269)	-	-	(2,269)
Interest expense	(1,234)	-	(2,826)	(4,060)
Other corporate income (expense)	(31,557)	-	(3,442)	(34,999)
Income (loss) before income taxes	(35,060)	-	(6,268)	(41,328)
Income taxes	-	-	626	626
Net income	(35,060)	-	(5,642)	(40,702)
Total assets	223,486	-	1,234	224,720

Geographic segment details are as follows *(expressed in thousands)*:

	December 31, 2008			
	Canada	Mexico	United States	Total
Net revenue	$ 103,387	$ 2,565	$ -	$ 105,952
Property, plant & equipment	88,358	22,024	7,742	118,124
Mineral property costs	59,122	102,162	-	161,284

	December 31, 2007			
	Canada	Mexico	United States	Total
Net revenue	$ 730	$ -	$ -	$ 730
Property, plant & equipment	151,755	-	11,670	163,425
Mineral property costs	26,410	-	-	26,410

30. Subsequent events

Redemption of Convertible Debentures

The 5% convertible debentures (the “debentures”) issued by Sherwood in 2007 include a provision whereby within 30 days of the occurrence of a change of control, an offer to purchase all debentures then outstanding must be made. Following the change of control on November 24, 2008 as a result of the reverse takeover transaction with Sherwood, the Company made an offer on December 24, 2008 to purchase all outstanding debentures at a price equal to the 101% of the principal amount of the debentures, plus accrued and unpaid interest. On January 22, 2009, the Company paid $31.3 million (C$39.3 million) for debentures tendered under the offer with an aggregate book value at the date of redemption of $33.4 million (C$41.3 million), consisting of the debt component of $26.1 million (C$32.7 million) and the equity component of $7.3 million (C$8.6 million). As a result the Company will recognize a gain during the period ending March 31, 2009 on settlement of the debt component of $0.6 million and a gain on the settlement of the equity component of $1.1 million. The outstanding debentures have therefore been reduced from $37.5 million (C$46.3 million) to $4.1 million (C$5.0 million) at the date of redemption.

New Credit Facility

Subsequent to year end, Capstone completed a $40 million corporate revolving term credit facility with The Bank of Nova Scotia (the "RT Facility"). Under the terms of the RT Facility, the funds are re-drawable over a three year term, subject to a reduction of $8 million every six months commencing on the first anniversary, and it attracts an interest rate of US LIBOR plus 3.5% (adjustable in certain circumstances). The one-month US LIBOR rates have averaged between 0.3% and 0.5% to date during 2009.

Silverstone Shares

Subsequent to year end, Capstone entered into a voting agreement with Silver Wheaton Corp. whereby it has agreed to vote its shares in favour of the proposed plan of arrangement between Silverstone and Silver Wheaton Corp. whereby Silver Wheaton will acquire all of Capstone’s shares and special warrants in Silverstone at a ratio of 0.185 shares of Silver Wheaton Corp. per common share or special warrant of Silverstone held by Capstone. Capstone currently holds 24,042,340 shares and 2,747,428 warrants of Silverstone *(Note 8)*.