CAPSTONE MINING CORP.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010 and 2009

(Expressed in US Dollars)

Independent Auditor's Report

To the Shareholders of
Capstone Mining Corp.

We have audited the accompanying consolidated financial statements of Capstone Mining Corp., which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of earnings (loss), comprehensive earnings, cash flows and shareholders' equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Capstone Mining Corp. as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) Deloitte & Touche LLP

Chartered Accountants
March 10, 2011
Vancouver, British Columbia

Capstone Mining Corp.

Consolidated Balance Sheets
At December 31
(expressed in thousands of US dollars)

ASSETS		2010		2009
Current				
Cash	$	**165,945**	$	115,931
Restricted cash		**6,377**		2,496
Short-term deposits *(Note 5)*		**20,039**		-
Receivables *(Note 6)*		**16,392**		6,946
Inventories *(Note 7)*		**67,210**		44,438
Prepaids and other		**1,581**		1,404
Future income tax asset *(Note 18)*		**2,766**		7,567
Derivative instrument asset *(Note 13)*		**11,602**		-
		291,912		178,782
Investments *(Note 8)*		**2,718**		39,105
Property, plant and equipment *(Note 9)*		**146,596**		144,525
Notes receivable *(Note 10)*		**502**		872
Mineral property costs *(Note 11)*		**182,997**		176,667
Future income tax asset *(Note 18)*		**2,695**		10,625
Other assets *(Note 12)*		**670**		505
Derivative instrument asset *(Note 13)*		**3,635**		-
	$	**631,725**	$	551,081

LIABILITIES				
Current				
Accounts payable and accrued liabilities	$	**22,277**	$	19,782
Taxes payable		**8,524**		8,041
Advances on concentrate inventories		**33,260**		16,702
Current portion of other liabilities *(Note 14)*		**51,058**		48,288
		115,119		92,813
Long term debt *(Note 15)*		**11,573**		10,821
Capital lease obligations *(Note 16)*		**10,280**		18,425
Derivative instrument liability *(Note 13)*		**8,812**		21,757
Deferred revenue *(Note 17)*		**60,677**		73,465
Future income tax liability *(Note 18)*		**34,973**		39,137
Asset retirement obligations and other *(Note 19)*		**12,795**		9,072
		254,229		265,490
SHAREHOLDERS' EQUITY				
Share capital *(Note 20)*		**205,536**		195,861
Contributed surplus		**18,496**		16,275
Convertible debentures - equity component *(Note 15)*		**1,283**		1,311
Accumulated other comprehensive income		**30,822**		23,378
Retained earnings		**121,359**		48,766
		377,496		285,591
	$	**631,725**	$	551,081

Commitments ***(Note 26)***
Contingencies ***(Note 28)***
Subsequent event ***(Note 15)***

ON BEHALF OF THE BOARD:

(Signed) Colin K. Benner, Director   *(Signed) Dale C. Peniuk*, Director

See accompanying notes to these consolidated financial statements.

Capstone Mining Corp.

Consolidated Statements of Earnings (Loss)

Years Ended December 31

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

		2010		2009
Gross sales revenue	**$**	**301,322**	$	250,404
Treatment and selling costs		**(27,369)**		(31,111)
Net revenue		**273,953**		219,293
Operating costs				
Cost of sales		**(105,623)**		(92,463)
Royalty		**(6,715)**		(4,338)
Depletion and amortization		**(43,084)**		(40,787)
Accretion of asset retirement obligations		**(602)**		(325)
Earnings from mining operations		**117,929**		81,380
General and administrative expenses		**(10,069)**		(7,999)
Stock-based compensation *(Note 20)*		**(5,144)**		(2,791)
Earnings from operations		**102,716**		70,590
Other income (expense)				
Interest on long term debt		**(1,683)**		(2,563)
Interest on capital lease obligations		**(1,418)**		(1,318)
Financing fees		**-**		(600)
Foreign exchange (loss) gain		**(2,358)**		1,221
Loss on derivative instruments *(Note 13)*		**(15,459)**		(142,074)
Gain on disposal of investments *(Note 8)*		**26,117**		46,391
Loss on disposal of property, plant & equipment		**(63)**		(474)
Gain on redemption of convertible debentures *(Note 15)*		**-**		571
Loss in equity investment		**-**		(1,505)
Interest and other income		**867**		228
Earnings (loss) before income taxes		**108,719**		(29,533)
Current income and mining tax expense		**(25,707)**		(19,857)
Future income tax (expense) recovery		**(10,419)**		31,064
Net earnings (loss)	**$**	**72,593**	$	(18,326)
Earnings (loss) per share - basic *(Note 21)*	**$**	**0.36**	$	(0.10)
Weighted average number of shares - basic		**198,996,825**		185,691,755
Earnings (loss) per share - diluted *(Note 21)*	**$**	**0.36**	$	(0.10)
Weighted average number of shares - diluted		**202,453,289**		185,691,755

See accompanying notes to these consolidated financial statements.

Capstone Mining Corp.

Consolidated Statements of Comprehensive Earnings
Years Ended December 31
(expressed in thousands of US dollars)

		2010		2009
Net earnings (loss)	**$**	**72,593**	$	(18,326)
Other comprehensive income (loss)				
Change in fair value of available-for-sale securities, net of tax of $914 (2009 - $1,298)		**6,859**		12,023
Gains reclassified to net earnings on realization, net of tax of $2,443 (2009 - $333)		**(15,697)**		(2,086)
Currency translation adjustment		**16,282**		22,281
		7,444		32,218
Comprehensive earnings	**$**	**80,037**	$	13,892

See accompanying notes to these consolidated financial statements.

Capstone Mining Corp.

Consolidated Statements of Cash Flows
Years Ended December 31
(expressed in thousands of US dollars)

	2010	2009
Cash provided by (used in):		
Operating activities		
Net earnings (loss)	**$ 72,593**	$ (18,326)
Items not affecting cash		
Depletion, amortization and accretion	**44,002**	41,380
Amortization of deferred revenue	**(14,410)**	(14,549)
Stock-based compensation	**5,144**	2,791
Shares issued for compensation	**309**	-
Future income tax expense (recovery)	**10,419**	(31,064)
Gain on disposal of investments	**(26,117)**	(46,391)
Loss on disposal of property, plant & equipment	**63**	474
Unrealized (gain) loss on derivative instruments	**(18,503)**	159,808
Unrealized loss (gain) on foreign exchange	**1,475**	(1,596)
Non-cash cost of sales	**-**	651
Loss in equity investment	**-**	1,505
Gain on redemption of convertible debentures	**-**	(571)
Other	**175**	118
Payments on asset retirement obligations	**(125)**	(158)
Changes in non-cash working capital *(Note 24)*	**11,268**	18,027
	86,293	112,099
Investing activities		
Restricted cash	**(3,544)**	11,881
Short-term deposits	**(20,000)**	-
Other deposits	**(856)**	(76)
Property, plant and equipment additions	**(39,875)**	(35,218)
Mineral property additions	**(15,651)**	(17,204)
Proceeds on sale of investments	**60,912**	40,672
Purchase of investments	**(8,228)**	(11,137)
	(27,242)	(11,082)
Financing activities		
Project loan facility repayment	**-**	(29,927)
Subordinated loan facility repayment	**(9,800)**	-
Repayments of capital lease obligations	**(11,026)**	(4,317)
Redemption of convertible debentures	**-**	(31,315)
Proceeds from equity financings and exercise of options	**6,322**	50,902
Share issue costs	**-**	(2,752)
	(14,504)	(17,409)
Effect of exchange rate changes on cash	**5,467**	5,056
Increase in cash	**50,014**	88,664
Cash - beginning of year	**115,931**	27,267
Cash - end of year	**$ 165,945**	$ 115,931

Supplemental cash flow information ***(Note 23)***

See accompanying notes to these consolidated financial statements.

Capstone Mining Corp.

Consolidated Statements of Shareholders' Equity
Years ended December 31, 2010 and 2009

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

	Number of shares	Share capital	Contributed surplus	Convertible debentures - equity component	Accumulated other comprehensive income	Retained earnings	Total
December 31, 2008	164,704,885	$ 146,314	$ 12,559	$ 8,191	$ (8,840)	$ 66,019	$ 224,243
Equity financing	31,165,000	50,457	(981)	-	-	-	49,476
Share issue costs	-	(3,732)	981	-	-	-	(2,751)
Future income tax on share issue costs	-	743	-	-	-	-	743
Exercise of options	1,187,417	2,054	(629)	-	-	-	1,425
Stock-based compensation	-	-	2,791	-	-	-	2,791
Purchase of mineral properties	600,000	1,554	1,554	-	-	-	3,108
Bonus shares cancelled	(11,500)	(20)	-	-	-	-	(20)
Redemption of convertible debentures	-	-	-	(6,880)	-	1,073	(5,807)
Future income tax on flow-through shares	-	(1,509)	-	-	-	-	(1,509)
Change in fair value of available-for-sale securities, net of tax of $1,298	-	-	-	-	12,023	-	12,023
Gains reclassified to loss on realization, net of tax of $333	-	-	-	-	(2,086)	-	(2,086)
Net loss	-	-	-	-	-	(18,326)	(18,326)
Effects of foreign currency translation	-	-	-	-	22,281	-	22,281
December 31, 2009	197,645,802	195,861	16,275	1,311	23,378	48,766	285,591
Exercise of options	3,560,753	8,986	(2,664)	-	-	-	6,322
Stock-based compensation	-	-	5,144	-	-	-	5,144
Issued for compensation	123,390	309	-	-	-	-	309
Purchase of mineral properties	100,000	259	(259)	-	-	-	-
Issued on conversion of convertible debt	24,857	121	-	(28)	-	-	93
Change in fair value of available-for-sale securities, net of tax of $914	-	-	-	-	6,859	-	6,859
Gains reclassified to earnings on realization, net of tax of $2,443	-	-	-	-	(15,697)	-	(15,697)
Net earnings	-	-	-	-	-	72,593	72,593
Effects of foreign currency translation	-	-	-	-	16,282	-	16,282
December 31, 2010	201,454,802	$ 205,536	$ 18,496	$ 1,283	$ 30,822	$ 121,359	$ 377,496

See accompanying notes to these consolidated financial statements.

1. Nature of operations

Capstone Mining Corp. (the "Company") is a Canadian mining company engaged in the exploration for and production of base and precious metals in Canada and Mexico. Minto Explorations Ltd. ("MintoEx"), a wholly owned Canadian subsidiary of the Company, owns and operates the high-grade copper-gold-silver 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, is advancing the high-grade Kutcho copper-zinc-silver-gold project in British Columbia towards a production decision.

2. Significant accounting policies

Basis of presentation and consolidation

These 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.

Use of estimates

The preparation of consolidated financial statements in accordance with GAAP 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, materially affect the results of operations.
These estimates include:

- purchase price allocation on business combinations;
- mineral resources and mineral reserves;
- the carrying values of inventories;
- estimated tonnes of waste material mined for calculation of deferred stripping costs;
- 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;
- estimates used in the assessment of impairment of mineral properties and property, plant and equipment;
- the valuation of financial instruments, including estimates used in provisional pricing calculations;
- the carrying values of the receivables; and
- the valuation of stock-based compensation.

Translation of foreign currencies

The Company considers the currency of measurement of its Canadian operations 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 the currency of measurement of the operation 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.

Business combinations

Effective January 1, 2008, the Company elected to early adopt CICA Section 1582, Business Combinations, Section 1601, Consolidation, and Section 1602, Non-controlling Interests. Under these standards the Company measures all business acquisitions at fair value, measures non-controlling interests at fair value, and recognizes acquisition-related costs of business combinations as expenses. Non-controlling interests are classified as a separate component of equity, not as a liability or other item outside of equity. The excess of the cost of the business combination over the fair value of the net assets acquired is recorded as goodwill. If the cost of the business combination is less than the fair value of the net assets acquired, the difference is recognized directly in the income statement as a gain on acquisition.

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 date of purchase of more than 90 days and less than one year.

Inventories

Inventories for consumable parts and supplies, ore stockpiles, and ore concentrates, 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 ore stockpiles and ore concentrates are based on average costs, which include an appropriate share of direct mining costs, direct labour and material costs, mine site overhead, depletion and amortization.

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 earnings (loss).

Investments in warrants of companies over which the Company exercises neither control nor significant influence are designated as derivatives despite the fact they are held for long-term investment purposes. Warrants are recorded at fair value, with fair values determined by a Black-Scholes option pricing model at the balance sheet date. Unrealized gains and losses on warrants are recognized in the statement of earnings (loss).

Investments in shares and warrants 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.

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 stripping activity when they are actually mined.

Capitalized interest

Interest and other financing costs relating to the construction of property, plant and equipment or development of mineral properties are capitalized as construction in progress or in mineral properties until they are complete and available for use, at which time they are transferred to property, plant and equipment or to depletable mineral properties. Interest costs incurred after the asset has been placed into service are charged to earnings (loss).

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:

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

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 future net cash flows, the asset is written down to its estimated fair value, which is usually determined using discounted future net cash flows.

Taxes receivable

Taxes receivable are comprised of value added taxes in Mexico and goods and services tax and harmonized sales tax in Canada that the Company has paid.

Derivative instruments

The Company uses derivative instruments to reduce the potential impact of changing metal prices and foreign exchange rates. Derivative instruments are marked to market at the end of each reporting period and the mark-to-market adjustment is recorded as a gain or loss on derivative instruments in earnings (loss). The Company does not apply hedge accounting to its derivative transactions.

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 CICA Section 3855, Financial Instruments – Recognition and Measurement.

Financial assets and financial liabilities classified as “held-for-trading” are measured at fair value with changes in those fair values recognized in net earnings (loss). Financial assets classified as “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 net earnings (loss). Financial assets classified as “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, notes receivable and long-term deposits are designated as “loans and receivables”. Accounts payable and accrued liabilities, advances on concentrate inventories, long term debt, and capital lease obligations are designated as “other financial liabilities”. Derivative financial instruments are classified as “held-for-trading”.

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, plant and equipment 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 earnings. 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 obligations ("ARO") relate 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 and throughout the vesting terms 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.

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.

Stock-based compensation

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

The fair value of 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 inventories until the related revenue is recognized.

Earnings per share

Basic earnings per share is computed by dividing net earnings (loss) available (attributable) to common shareholders by the weighted average number of common shares outstanding during the 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.

3. Future changes in accounting policies

International Financial Reporting Standards

The Canadian Accounting Standards Board 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 may also affect certain business functions.

The Company is nearing the completion of its evaluation of the adoption of IFRS and its impact on its financial position and results of operations and its auditors are in the process of reviewing the adjustments required upon conversion. The transition from GAAP to IFRS will be applicable for the Company for the first quarter of 2011 when the Company will report both the current and comparative information using IFRS.

4. 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 risk, liquidity risk, and interest rate 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 its Minto Mine and for the sale of copper, lead and zinc from its Cozamin Mine. Additionally, it has sold forward to Silver Wheaton Corp. the gold and silver production from the Minto Mine and silver production from the Cozamin Mine *(Note 17)*.

For the year ended December 31, 2010, with all other variables unchanged, an increase of $0.10 in the price of copper would have increased pre-tax earnings by $7.3 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 earnings before income taxes by $1.8 million.

Credit risk

The Company is exposed to credit risk through its concentrate 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, diversified multinational corporations, and credit risk is considered to be minimal.

As at December 31, 2010, the Company's maximum exposure to credit risk is the carrying value of its cash and restricted cash, short-term deposits, receivables, note receivables, and derivative instrument assets.

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 into financial instruments to manage this risk but the draws on debt facilities are made in US dollars to mitigate the risk on loan repayments.

As at December 31, 2010, the Company is exposed to foreign exchange 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 short-term deposits	$ 86,300	$ 9,473
Accounts receivable and other current assets	3,050	2,907
Deposits and other long-term assets	350	631
Derivative instrument asset	15,237	-
Total Assets	104,937	13,011
Accounts payable & accrued liabilities	5,284	2,507
Taxes payable	-	3,972
Advances on concentrate inventories	33,260	-
Derivative instrument liability	37,458	-
Future income tax liabilities	-	10,591
Asset retirement obligations	-	4,638
Total Liabilities	76,002	21,708
Net Assets (Liabilities)	**$ 28,935**	**$ (8,697)**

Based on the above net exposures at December 31, 2010 a 10% appreciation of the Canadian dollar vis-à-vis the US dollar would result in a $2.9 million decrease in the Company's earnings before income taxes. A 10% appreciation of the Mexican peso vis-à-vis the US dollar would result in a $0.9 million increase in the Company's earnings before income taxes.

Liquidity risk

The Company has in place a planning and budgeting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. The Company maintains adequate cash balances and credit facilities 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 US 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 revolving term credit facility carries an interest rate of Canadian LIBOR plus 3.5% (adjustable in certain circumstances). At December 31, 2010, a 1% increase in interest rates would result in no additional pre-tax interest expense given that the Company's variable rate debt facilities have been extinguished as at year end.

The Company is also exposed to interest rate risk with respect to the interest it earns on its cash balances.

Financial instruments carrying value and fair value

The Company's financial instruments consist of cash, restricted cash, short-term deposits, receivables, notes receivable, investments, accounts payable and accrued liabilities, advances on concentrate inventories, 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. Receivables are designated as "loans and receivables". Investments are designated as "available for sale". Accounts payable and accrued liabilities, advances on concentrate inventories, debt facilities, convertible debentures, and capital lease obligations are designated as "other financial liabilities".

The carrying value of receivables, and accounts payable and accrued liabilities, taxes payable and advances on concentrate inventories 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. 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, 2010 was $5.3 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.

During 2009, CICA Handbook Section 3862, Financial Instruments – Disclosures was amended to require disclosures about the inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measure. The three levels of the fair value hierarchy are as follows:

Level 1 – Fair values measured using unadjusted quoted prices in active markets for identical instruments
Level 2 – Fair values measured using directly or indirectly observable inputs, other than those included in Level 1
Level 3 – Fair values measured using inputs that are not based on observable market data

As of December 31, 2010 the Company's classification of financial instruments within the fair value hierarchy are summarized below (expressed in thousands):

	Level 1	Level 2	Level 3	Total
Cash	$ 165,945	$ -	$ -	$ 165,945
Restricted cash	6,377	-	-	6,377
Short-term deposits	-	20,039	-	20,039
Provisionally prices concentrate	-	8,957	-	8,957
Investments	2,718	-	-	2,718
Derivative instrument asset	-	15,237	-	15,237
Total Assets	175,040	44,233	-	219,273
Derivative instrument liability	-	51,128	-	51,128
Total Liabilities	-	51,128	-	51,128

The Company uses valuation models to determine the fair value of its derivative instruments. The inputs to these models are primarily external observable inputs such as forward prices for metal contracts and the market price of underlying securities for warrants.

As of December 31, 2010 the Company's liabilities that have contractual maturities are summarized below (expressed in thousands):

	Total	2011	2012-2013	2014-2015	After 2015
Accounts payable & accrued liabilities	$ 22,277	$ 22,277	$ -	$ -	$ -
Taxes payable	8,524	8,524	-	-	-
Long-term debt	11,893	-	6,029	2,809	3,055
Capital lease obligations	13,581	900	3,227	4,827	4,626
Total*	$ 56,275	$ 31,701	$ 9,256	$ 7,636	$ 7,681

* Amounts above do not include payments related to the Company's asset retirement obligations and other mine closure costs (*Note 19*).

5. Short-term deposits

During 2010, the Company invested $20.0 million in a 6-month 5.85% Dual Currency Note ("DCN") by way of a private placement with the Bank of Montreal ("BMO"). At maturity on March 1, 2011, the DCN is payable in either US dollars ("USD") or Canadian dollars ("CAD") depending on the Bank of Canada USD/CAD foreign exchange rate at the valuation date of February 22, 2011. If the US dollar weakens against the 1.0642 USD/CAD strike level on the date of acquisition, then the principal and interest will be repaid in US dollars (US$20.6 million); conversely, if the US dollar strengthens against the 1.0642 USD/CAD strike level at the date of acquisition, then the principal and interest will be repaid in Canadian dollars at the predetermined rate of 1.0642 USD/CAD (C$21.9 million).

At December 31, 2010, the DCN is valued in US dollars based on the forward rate of 0.9966 USD/CAD at maturity.

6. Receivables

Details are as follows (expressed in thousands):

	December 31, 2010	December 31, 2009
Concentrate	**$ 8,957**	$ 2,999
Taxes	**2,926**	3,060
Other	**3,433**	62
Current portion of notes receivable *(Note 10)*	**1,076**	825
Total receivables	**$ 16,392**	$ 6,946

7. Inventories

Details are as follows (expressed in thousands):

	December 31, 2010	December 31, 2009
Consumable parts and supplies	**$ 8,681**	$ 7,378
Ore stockpiles	**24,559**	14,259
Concentrates	**33,970**	22,801
Total inventories	**$ 67,210**	$ 44,438

The amount of inventory recognized as an expense during 2010 is $148.7 million (2009 – $133.3 million), which corresponds to cost of sales of $105.6 million (2009 – $92.5 million) and depletion and amortization of $43.1 million (2009 – $40.8 million).

8. Investments

Details are as follows (expressed in thousands):

	December 31, 2010	December 31, 2009
Available-for-sale investment in Silver Wheaton Corp. (a)	**$ -**	$ 21,900
Available-for-sale investment in Nevada Copper Corp. (a)	**-**	14,850
Other available-for-sale investments (a)	**2,718**	446
Derivative investment in Nevada Copper Corp. (b)	**-**	1,909
Total investments	**$ 2,718**	$ 39,105

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 earnings. Losses considered to be other than temporary are recognized in earnings.

During 2010 the Company disposed of its remaining 1,456,106 shares of Silver Wheaton Corp. ("Silver Wheaton") for total cash proceeds of $29.2 million. The cost base of the shares disposed was $15.2 million, resulting in a gain of $14.0 million.

On November 16, 2010, the Company acquired 2.25 million shares in Nevada Copper Corp. ("Nevada Copper") through the exercise of its share purchase warrants *(Note 8(b))* for a total purchase price of $7.6 million. Capstone subsequently disposed of its investment of 7,670,031 shares of Nevada Copper during 2010 for total cash proceeds of $30.4 million. The cost base of the shares disposed was $19.1 million, resulting in a gain of $11.3 million.

During 2010 the Company disposed of 1,654,500 shares of Northern Tiger Resources Inc. for total cash proceeds of $1.2 million. The cost base of the shares disposed was $0.4 million, resulting in a gain of $0.8 million.

b) Derivative investment

The derivative investment in Nevada Copper consisted of warrants to purchase 2.25 million common shares for C$3.00 per share until November 3, 2011. The warrants were recorded at fair value, with any mark-to-market gains and losses recognized in earnings.

On November 16, 2010 the Company exercised its warrants, reversing all cumulative unrealized gains through earnings. As a result, during 2010 the Company recorded an unrealized loss of $1.0 million (2009 – unrealized gain of $0.9 million) in respect of its derivative investment in Nevada Copper. The shares received as a result of the exercise were subsequently sold during 2010.

9. Property, plant and equipment

Details are as follows (expressed in thousands):

	December 31, 2010			December 31, 2009		
	Cost	**Accumulated amortization**	**Net book value**	Cost	Accumulated amortization	Net book value
Property, plant and equipment	**$ 119,584**	**$ (37,079)**	**$ 82,505**	$ 98,604	$ (22,887)	$ 75,717
Development costs	**18,328**	**(6,660)**	**11,668**	18,395	(4,042)	14,353
Equipment and facilities under capital leases	**27,028**	**(10,812)**	**16,216**	25,575	(6,111)	19,464
Deferred stripping costs	**75,111**	**(47,277)**	**27,834**	45,820	(20,820)	25,000
Construction in progress	**8,373**	**-**	**8,373**	9,991	-	9,991
	$ 248,424	**$ (101,828)**	**$ 146,596**	$ 198,385	$ (53,860)	$ 144,525

At December 31, 2010, construction in progress relates to capital costs incurred in connection with capital programs at the Minto and Cozamin mine sites.

During the year ended December 31, 2010, additions of $39.2 million and a currency translation adjustment of $6.6 million on Canadian dollar denominated property, plant and equipment were offset by amortization of $43.7 million.

During the year ended December 31, 2010, the Company wrote off certain mobile equipment associated with its Cozamin operations. At the time of the write down the assets had a net book value of $0.5 million, which has been included as a loss in “Loss on disposal of property, plant & equipment”.

During the year ended December 31, 2009, amortization of $27.6 million was offset by additions of $38.2 million and a currency translation adjustment of $15.8 million on Canadian dollar denominated property, plant and equipment.

During the year ended December 31, 2009, the Company wrote off certain camp assets associated with its Minto operations. At the time of the write down the assets had a net book value of $0.7 million, which has been included as a loss in “Loss on disposal of property, plant & equipment”.

10. Notes receivable

Under the terms of certain agreements, contractors have agreed to purchase certain mining equipment 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, 2010	December 31, 2009
Total notes receivable	**$ 1,578**	$ 1,697
Less: current portion	**(1,076)**	(825)
Long-term portion	**$ 502**	$ 872

11. Mineral property costs

Details are as follows (expressed in thousands):

	December 31, 2010			December 31, 2009		
	Cost	**Accumulated depletion**	**Net book value**	Cost	Accumulated depletion	Net book value
Minto	**$ 44,686**	**$ (6,469)**	**$ 38,217**	$ 34,304	$ (2,203)	$ 32,101
Cozamin	**116,023**	**(30,505)**	**85,518**	112,381	(18,744)	93,637
Kutcho Copper	**59,111**	**-**	**59,111**	50,929	-	50,929
Other	**151**	**-**	**151**	-	-	-
	$ 219,971	**$ (36,974)**	**$ 182,997**	$ 197,614	$ (20,947)	$ 176,667

	December 31, 2010			December 31, 2009		
	Depletable	**Non-depletable**	**Total**	Depletable	Non-depletable	Total
Minto	**$ 10,302**	**$ 27,915**	**$ 38,217**	$ 12,271	$ 19,830	$ 32,101
Cozamin	**79,339**	**6,179**	**85,518**	88,336	5,301	93,637
Kutcho Copper	**-**	**59,111**	**59,111**	-	50,929	50,929
Other	**-**	**151**	**151**	-	-	-
	$ 89,641	**$ 93,356**	**$ 182,997**	$ 100,607	$ 76,060	$ 176,667

During the year ended December 31, 2010, additions of $17.0 million and a currency translation adjustment of $5.1 million on Canadian dollar denominated mineral properties were offset by depletion of $15.8 million.

During the year ended December 31, 2009, depletion of $14.2 million was offset by additions of $21.1 million and a currency translation adjustment of $8.8 million on Canadian dollar denominated mineral properties.

Included in the additions for the year ended December 31, 2009 was the purchase of three mineral claims immediately adjacent to its Cozamin Mine. The purchase price was comprised of: a) an upfront payment of $1.0 million; b) future cash payments equivalent to a 1.5% net smelter return royalty on the first one million tonnes of ore produced from the acquired claims; and c) future cash payments equivalent to a 3.0% net smelter return royalty on ore production in excess of one million tonnes from the acquired claims, the calculation of which is subject to escalation at a rate of 0.5% for each $0.50 increment in the copper price above $3.00 per pound.

12. Other assets

Details are as follows (expressed in thousands):

	December 31, 2010	December 31, 2009
Security deposit on port facility	**$ 350**	$ 350
Other	**320**	155
Total other assets	**$ 670**	$ 505

13. Derivative instruments

As a condition of the loans with Macquarie Bank Limited ("Macquarie") *(Note 15)*, the Company maintains a price protection program of copper forward sales contracts as they relate to the Minto mine. Additionally, the Company has used forward sales contracts for metals produced at its Cozamin mine in order to manage price risk on its future production.

During the third quarter of 2010, the Company entered into copper forward purchase contracts at the corporate level to offset its outstanding copper forward sales contracts. This decision was made to allow the Company to participate in any future copper price increases. As at December 31, 2010, approximately 15.6 million pounds or 46% of the 34.2 million pounds of the outstanding copper forward sales contracts had been offset. The Company expects to continue to enter into offsetting copper forward purchase contracts as favourable market conditions exist. Details of all forward contracts are in the table below.

Details of the Company's forward metal contracts at December 31, 2010 are as follows:

		Forward Sales		**Forward Purchases**		**Net Forward Sales**	
Metal	**Maturity**	**Quantity (pounds 000's)**	**Forward Price (per pound)**	**Quantity (pounds 000's)**	**Forward Price (per pound)**	**Quantity (pounds 000's)**	**Forward Price (per pound)**
Copper	2011	22,293	$ 2.41	10,990	$ 3.26	11,303	$ 2.32
	2012	5,291	3.23	2,646	3.23	2,645	3.25
	2013	4,630	3.19	1,984	3.23	2,646	3.24
	2014	1,984	3.18	-	-	1,984	3.18
		34,198	$ 2.69	15,620	$ 3.25	18,578	$ 2.67
Lead	2011	1,323	$ 1.04	-	$ -	1,323	$ 1.04

The offsetting copper forward purchase contracts locked in an approximate $8.7 million loss on an equivalent number of copper forward sales contracts but provide the Company exposure to any copper price movement going forward on the 17.8 million pounds of copper, of which 2.2 million pounds settled during 2010. The locked in loss is recognized in earnings in 2010.

As at December 31, 2010, the Company has a mark-to-market derivative instrument asset of $15.2 million and liability of $51.1 million (December 31, 2009 – $55.4 million liability) recorded for these forward metal contracts, of which a $11.6 million asset and $42.3 million liability (December 31, 2009 – $33.6 million liability) relate to derivative contracts maturing in less than one year and a $3.6 million asset and $8.8 million liability (December 31, 2009 – $21.8 million liability) relate to derivative contracts with a maturity date greater than one year.

During 2010, the Company recorded a realized loss of $34.0 million (2009 – gain of $17.7 million) on metal derivative contracts that were closed out and settled for cash. This is combined with an unrealized non-cash gain of $19.5 million (2009 – loss of $160.7 million) related to changes in the mark-to-market value of open metal derivative contracts at the end of the period, resulting in net loss on metal derivative instruments of $14.5 million (2009 – $143.0

million). The net loss on metal derivatives combined with an unrealized loss of $1.0 million (2009 – gain of $0.9 million) on the Nevada Copper Corp. warrants *(Note 8(b))* resulted in a total net loss on all derivative instruments of $15.5 million (2009 – $142.1 million).

14. Current portion of other liabilities

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

	December 31, 2010	December 31, 2009
Current portion of:		
Long term debt *(Note 15)*	**$ -**	$ 9,515
Capital lease obligations *(Note 16)*	**229**	2,201
Derivative instrument liability *(Note 13)*	**42,316**	33,648
Future income tax liability and other	**8,513**	2,924
Total current portion of other liabilities	**$ 51,058**	$ 48,288

15. Long term debt

Details are as follows (expressed in thousands):

	December 31, 2010	December 31, 2009
Macquarie Bank Limited – subordinated loan facility	**$ -**	$ 9,515
Yukon Energy Corporation – capital cost contribution	**7,239**	6,851
Convertible debentures	**4,334**	3,970
Total long term debt	**11,573**	20,336
Current portion	**-**	(9,515)
Long term portion	**$ 11,573**	$ 10,821

As of December 31, 2010, the long term debt repayments for each of the next five years ending December 31 are as follows (expressed in thousands):

	2011	2012	2013	2014	2015
Yukon Energy Corporation	$ -	$ 102	$ 1,273	$ 1,359	$ 1,450
Convertible debentures	-	4,654	-	-	-
Total	$ -	$ 4,756	$ 1,273	$ 1,359	$ 1,450

Macquarie Bank Limited loan facilities

In October 2006, Minto received credit approval from 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 was repaid in full during the year ended December 31, 2009 and the SLF was repaid in full during the year ended December 31, 2010. The SLF carried an interest rate of Canadian LIBOR plus 2.65% with the first C$5.0 million repayment due October 1, 2010 and the final C$5.0 million repayment due December 31, 2010. During the year ended December 31, 2010, Canadian LIBOR ranged from 0.30% to 0.83%. All security related to the Macquarie debt package remains in place until such time as the related price protection program of copper forward metal sales have been closed out.

The PLF and the SLF are secured against the Minto Mine and Kutcho project, and the Company has pledged its shares in MintoEx and Kutcho Copper 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.

Bank of Nova Scotia loan facility

On January 16, 2009, Capstone completed a $40.0 million corporate revolving term credit facility with The Bank of Nova Scotia (the "RTF"). Under the terms of the RTF, 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). At December 31, 2010, the available funds under the RTF were $24.0 million, of which C$10.0 million was used to support a Letter of Credit in favour of the Yukon Territory Government for the Company's reclamation obligations at the Minto mine.

The RTF is secured against the present and future real and personal property, assets and undertakings of Capstone other than the security already pledged against the PLF, SLF and the Power Purchase Agreement ("PPA") with Yukon Energy Corporation ("YEC"). The lender requires certain ratios related to debt and interest coverage. Failure to meet these covenants could result in repayment and termination of the RTF.

Yukon Energy Corporation capital cost contribution

In February 2007, Minto executed the PPA with YEC. Under the terms of the agreement, Minto agreed to make payments representing its capital cost contribution on the Carmacks-Minto Landing portion of the main power line. These payments carry an interest rate of 6.5% 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 60 months such that the principal is fully repaid at the end of nine years. Minto's connection to the YEC's electrical grid in November 2008 triggered the first of the monthly payments commencing December 2008.

In addition, the Company classified its obligation for the C$10.8 million cost of the spur power line to the Minto Mine site as a capital lease *(Note 16)*. This amount will be repaid over the same terms as the main power line.

The PPA is secured against a charge over all assets of Minto, subject only to the security already pledged against the PLF and SLF.

On January 17, 2011, Minto repaid in full its spur line capital lease and main line capital cost contribution to the YEC for a total payment of $17.5 million.

Convertible debentures

In February 2007, Sherwood Copper Corporation ("Sherwood", a predecessor company to Capstone Mining Corp.) issued convertible senior unsecured debentures (the "Debentures") 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 any time into common shares of the Company at a conversion rate of 248.5715 common shares per C$1,000 principal amount of Debentures, which is equal to a Conversion Price of C$4.02 per common share. The Company may redeem the Debentures 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 the date of issuance the Company estimated the fair value of the conversion option by deducting the present value of the future cash outflows of the Debentures, calculated using a risk-adjusted discount rate of 11.5%, from the face value of the principal of the Debentures. The residual value allocated to the conversion option is added to the face value of the Debentures over the life of the debentures by a charge to earnings, using the effective interest rate method.

The Debentures 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 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 recognized a gain during 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 financial liability component of the convertible debentures at December 31, 2010 is as follows *(expressed in thousands)*:

	December 31, 2010	December 31, 2009
Principal amount of Debentures	**$ 4,036**	$ 4,036
Less: residual value allocated to the conversion option	**(1,311)**	(933)
Financial liability component at issuance	**2,725**	3,103
Accretion of the residual value allocated to the conversion option	**718**	494
Conversion of $0.1M of face value of debt into shares	**(93)**	-
Foreign currency translation adjustments	**984**	373
Balance of financial liability component	**4,334**	3,970
Less: current portion of financial liability component	**-**	-
Long term balance of financial liability component	**$ 4,334**	$ 3,970

The principal of the convertible debentures plus accrued interest to December 31, 2010 amounted to $4.7 million.

16. Capital lease obligations

The Company has certain assets that are classified as capital leases, with the applicable costs included in property, plant and equipment. Future minimum lease payments as at December 31, 2010 are as follows *(expressed in thousands)*:

2011	$ 900
2012	814
2013	2,414
2014	2,414
2015	2,413
Thereafter until 2017	4,626
Total minimum lease payments	13,581
Less: interest at rates from 6.5% to 9.5%	(3,072)
Balance of unpaid obligations	10,509
Less: current portion	(229)
Long term portion	$ 10,280

17. 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 Silver Wheaton (formerly Silverstone Resources Corp.) 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 per year in the first two years of the agreement or 30,000 oz of gold per year thereafter, Silver Wheaton 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. During 2010 the Company delivered concentrates containing 25,500 ounces of gold (2009 – 26,600 ounces) and 0.2 million ounces of silver (2009 – 0.2 million ounces) to Silver Wheaton. To date, concentrates containing a total of 52,100 ounces of gold and 0.4 million ounces of silver have been delivered against the contract since its inception.

(b) Cozamin mine

As part of the reverse takeover transaction between Capstone and Sherwood during 2008, the Company acquired a commitment to sell the Cozamin Mine's silver production to Silver Wheaton over a 10 year period expiring April 30, 2017. Under the terms of the arrangement, Silver Wheaton agreed to pay for each ounce of refined silver from the mine the lesser of $4.00 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 of silver. Further, the Company agreed to deliver a minimum of 10 million ounces of silver to Silver Wheaton 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 Silver Wheaton $1.00 per ounce of silver not delivered. During 2010 the Company delivered concentrates containing 1.4 million ounces of silver to Silver Wheaton. To date, concentrates containing a total of 4.5 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 changes in the balance of deferred revenue are as follows *(expressed in thousands)*:

Balance, December 31, 2008	$	82,854
Amortization on delivery of gold and silver		(14,549)
Foreign currency translation adjustments		5,160
Balance, December 31, 2009		73,465
Amortization on delivery of gold and silver		(14,410)
Foreign currency translation adjustments		1,622
Balance, December 31, 2010	$	60,677

18. Income taxes

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

	December 31, 2010	December 31, 2009
Earnings (loss) before income taxes	**$ 108,719**	$ (29,533)
Canadian federal and provincial income tax rates	**33.00%**	34.00%
Income tax expense (recovery) based on the above rates	**35,877**	(10,041)
Increase (decrease) due to:		
Non-deductible stock based compensation & other	74	3,263
Non-deductible (non-taxable) foreign exchange	293	(137)
Non-deductible interest accretion	64	82
Difference between Canadian and foreign tax rates	(1,706)	104
Yukon mining taxes	5,198	3,385
Income tax benefit recognized on changes in tax legislation	-	(463)
Non-taxable portion of capital gains	(3,674)	(7,400)
Income tax expense/(recovery)	**$ 36,126**	$ (11,207)
Breakdown of income tax expense/(recovery)		
Current	25,707	19,857
Future	10,419	(31,064)
	$ 36,126	$ (11,207)

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

	December 31, 2010	December 31, 2009
Future income and mining tax assets		
Non-capital losses	$ 2,288	$ 2,046
Accounts receivable and other current items	898	389
Share issue costs and other	6,464	6,311
Derivative instruments	17,325	19,247
Investments	-	16
Property, plant and equipment	501	2,139
Capital leases and long term debt	5,591	-
Asset retirement obligations	3,330	2,487
Future income and mining tax assets	36,397	32,635
Valuation allowance	(229)	(217)
Net future income and mining tax assets	36,168	32,418
Future income and mining tax liabilities		
Inventory	15,718	7,596
Property, plant and equipment	18,891	13,268
Derivative instruments	3,983	-
Investments	287	3,431
Mineral property costs	29,743	29,269
Capital leases and long term debt	-	87
Future income and mining tax liabilities	68,622	53,651
Net future income and mining tax liability	$ 32,454	$ 21,233
Breakdown of net future income and mining tax liability		
Current asset	(2,766)	(7,567)
Long term asset	(2,695)	(10,625)
Current liability	2,942	288
Long term liability	34,973	39,137
	$ 32,454	$ 21,233

The Company has non-capital loss carry-forwards of approximately $9.2 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	$ 395
2012	521
2023	1,376
2024	2,569
2025	1,420
2026	1,171
2027	635
2028	203
2029	398
2030	465
	$ 9,153

A valuation allowance has been recorded against the net potential future income tax assets associated with non-capital losses expiring in 2011 and 2012 as their utilization is not considered more likely than not at this time.

19. Asset retirement obligations and other

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

Details of changes in the balances are as follows *(expressed in thousands)*:

	Asset Retirement Obligations	Other Long Term Obligations	Total
Balance, December 31, 2008	$ 4,379	$ 442	$ 4,821
Change in estimates	3,331	137	3,468
Accretion expense	325	-	325
Payments during the year	(158)	-	(158)
Foreign currency translation adjustments	596	20	616
Balance, December 31, 2009	8,473	599	9,072
Change in estimates	1,829	840	2,669
Accretion expense	602	-	602
Payments during the year	(125)	-	(125)
Foreign currency translation adjustments	539	38	577
Balance, December 31, 2010	$ 11,318	$ 1,477	$ 12,795

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 asset retirement obligations as at December 31, 2010 were C$9.3 million, which were then discounted using credit-adjusted risk free rates ranging from 6.2% to 6.3%. The asset retirement obligations for the Minto Mine at December 31, 2010 totalled $8.1 million, of which $3.8 million is secured by a letter of credit from Macquarie Bank Limited in favour of the Yukon Government and a further $6.4 million cash has been placed in a performance bond.

Asset retirement obligations have been recognized in respect of the mining operations of the Cozamin Mine, including associated infrastructure and buildings. The estimated undiscounted cash flows required to satisfy the Cozamin asset retirement obligations as at December 31, 2010 was 39.9 million Mexican pesos, and then discounted using a credit-adjusted risk-free interest rates ranging from 6.2% to 7.1%. The asset retirement obligations for Cozamin at December 31, 2010 totalled $3.2 million, with an additional $1.5 million to other mine closure costs related to severance.

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.

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

20. Share capital

Authorized

An unlimited number of common voting shares without par value.

Rights plan

During 2010, the Company's Board of Directors approved the adoption of a Shareholder Rights Plan ("Rights Plan"). The Rights Plan has been conditionally approved by the Toronto Stock Exchange and is subject to the approval of the Company's shareholders at a meeting to be held no later than March 16, 2011.

The purpose of the Rights Plan is to provide shareholders and the Company's Board of Directors with adequate time to consider and evaluate any unsolicited bid made for the Company, to provide the Board with adequate time to identify, develop and negotiate value-enhancing alternatives (if considered appropriate) to any such unsolicited bid, to encourage the fair treatment of shareholders in connection with any takeover bid for the Company and to ensure that any proposed transaction is in the best interests of the Company's shareholders.

Shares issuances

During 2010, a total of 3,560,753 common shares of Capstone were issued upon the exercise of options at prices between C$0.64 and C$3.57 per option for total cash proceeds of $6.3 million. As a result of these exercises, $2.7 million was transferred from contributed surplus to share capital.

During 2010, a total of 123,390 common shares of the Company were issued for compensation at prices between C$2.13 and C$3.03 per share for total consideration of $0.3 million.

During 2010, a total of 100,000 common shares of Capstone previously reserved for issuance were issued for the purchase of mineral property interests. As a result of this issuance, $0.3 million of fair value was transferred from contributed surplus to share capital.

Stock options

Pursuant to the Company's stock option plan, directors may, from time to time, authorize the granting of options to directors, officers, employees and consultants of the Company to a maximum of 10% of the issued and outstanding common shares at the time of grant, with a maximum of 5% of the Company's issued and outstanding shares reserved for any one person 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 3 years.

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

	Options	Weighted average exercise price (C$)
Outstanding, December 31, 2008	10,084,112	$ 2.47
Granted	3,383,000	1.38
Exercised	(1,187,424)	1.30
Expired	(160,058)	3.39
Forfeited	(322,622)	2.75
Outstanding, December 31, 2009	11,797,008	2.25
Granted	4,600,000	2.91
Exercised	(3,560,753)	1.81
Expired	(796,400)	3.20
Forfeited	(610,122)	2.80
Outstanding, December 31, 2010	11,429,733	$ 2.56

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

As at December 31, 2010, the following options were outstanding:

Exercise prices (C$)	Number of options		Weighted average exercise price (C$)	Weighted average remaining life (years)
$0.78	13,225	$	0.78	3.0
$1.28 - $1.95	3,034,904		1.45	2.1
$2.13 - $2.99	5,694,750		2.78	3.3
$3.03 - $3.99	2,636,854		3.33	2.1
$4.59	50,000		4.59	5.0
	11,429,733	$	2.56	2.7

As at December 31, 2010, the following options were both outstanding and exercisable:

Exercise prices (C$)	Number of options		Weighted average exercise price (C$)	Weighted average remaining life (years)
$0.78	13,225	$	0.78	3.0
$1.28 - $1.95	2,120,908		1.51	1.7
$2.13 - $2.99	2,892,394		2.70	2.4
$3.03 - $3.99	2,542,688		3.33	2.0
$4.59	16,666		4.59	5.0
	7,585,881	$	2.58	2.7

The Company uses the fair value method of accounting for all stock-based payments to directors, officers, employees and consultants. During 2010, the Company recorded a stock-based compensation expense of $5.1 million (2009 – $2.8 million). The stock-based compensation expense recorded is based on the vesting schedule of the options.

During 2010, the total fair value of options granted was $6.4 million (2009 – $2.1 million) and had a weighted average grant-date fair value of C$1.44 (2009 – C$0.75) 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 weighted average assumptions:

	December 31, 2010	December 31, 2009
Risk-free interest rate	2.28%	1.61%
Expected dividend yield	nil	nil
Expected stock price volatility	71%	77%
Expected life	3.5 years	3.5 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

The continuity of share purchase warrants issued and outstanding is as follows:

	Warrants		Weighted average exercise price (C$)
Outstanding, December 31, 2008	4,142,546	$	3.73
Expired	(2,959,582)		3.88
Outstanding, December 31, 2009	1,182,964		3.35
Expired	(1,182,964)		3.35
Outstanding, December 31, 2010	-	$	-

There were no warrants issued during 2010 and 2009. The fair value of any warrants issued is estimated on the issue date using the Black-Scholes option pricing model. 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 share purchase warrants.

Employee share purchase plan ("ESPP")

The Company has an ESPP which allows certain employees of Minto to purchase the Company's shares in the market 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.

21. 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, 2010	December 31, 2009
Earnings (loss) per share		
Basic	$ 0.36	$ (0.10)
Diluted	$ 0.36	$ (0.10)
Net income (loss)		
Net earnings (loss) available (attributable) to common shareholders - basic	$ 72,593	$ (18,326)
Interest obtainable upon conversion of debentures, net of tax	322	-
Net earnings (loss) available (attributable) to common shareholders - diluted	$ 72,915	$ (18,326)
Weighted average shares outstanding		
Weighted average shares outstanding - basic	198,996,825	185,691,755
Dilutive securities		
Stock options	2,305,827	-
Share purchase warrants	-	-
Convertible securities	1,150,637	-
Weighted average shares outstanding - diluted	202,453,289	185,691,755
Weighted average shares excluded		
Stock options	2,671,854	11,797,008
Share purchase warrants	-	1,182,964
Convertible securities	-	1,175,495

22. Related party balances and transactions

During the year ended December 31, 2010, the Company paid consulting fees of $0.06 million (2009 – $0.1 million) to two directors of the Company.

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.

23. Supplemental cash flow information

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

	December 31, 2010	December 31, 2009
Silverstone shares exchanged for Silver Wheaton shares	**$ -**	$ 46,637
Equipment and vehicles acquired under capital lease obligations	**-**	3,329
Capitalized exploration expenditures included in accounts payable	**768**	369
Construction in progress expenditures included in acounts payable	**472**	1,444
Mineral property addition for change in estimate to Minto and Cozamin asset retirement obligations *(Note 19)*	**1,829**	3,331
Common shares issued and reserved for issuance related to mineral property additions *(Note 20)*	**-**	3,108
Fair value of shares reserved for issuance allocated to share capital upon issuance *(Note 20)*	**259**	-
Common shares issued upon the conversion of convertible debentures *(Note 15)*	**93**	-
Fair value of equity portion of convertible debentures allocated to share capital upon conversion *(Note 15)*	**28**	-
Fair value of stock options and warrants allocated to share capital upon exercise *(Note 20)*	**2,664**	629

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

	December 31, 2010	December 31, 2009
Interest paid	**$ 2,885**	**$ 3,860**
Income taxes paid	**25,772**	**9,420**

24. Changes in non-cash working capital

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

	December 31, 2010	December 31, 2009
Receivables	**$ (7,492)**	$ 9,729
Inventories	**(3,551)**	(2,320)
Prepaids	**(219)**	(452)
Accounts payable and accrued liabilities	**2,835**	5,491
Taxes payable	**2,767**	9,509
Advances on concentrate inventories	**16,928**	(3,930)
Net change in non-cash working capital	**$ 11,268**	$ 18,027

25. Capital management

The Company considers that its capital consists of the items included in shareholders' equity, short term credit facilities, long term debt, capital lease obligations, cash and long-term investments. 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, SLF and RTF contain various covenants, including: a) ratios of estimated future cash flows to total debt; b) debt coverage ratios with respect to minimum proven and probable reserves for the life of mine plan approved by Macquarie; and c) a tangible net worth requirement.

26. Commitments

Agreements with the Selkirk First Nation

Under the terms of a revised co-operation agreement between Minto and the Selkirk First Nation ("Selkirk") dated October 15, 2009, the Company has made various commitments to Selkirk to enhance Selkirk participation in the Minto Mine, including a variable net sales royalty on production from the Minto Mine that fluctuates with the price of copper, as well as various commitments in respect of employment, contracting, 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 $0.1 million.

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 December 2013. As part of the agreement, MRI has provided Minto with a $30.0 million 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 2013.

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 PPA with the 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. 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 was 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 twelve month implicit chain price index for gross domestic product at market for Canada as reported by Stats Canada. The rates for 2011 (the third year) are C$15.42/KVA and C$0.0781/KWH. 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.

27. 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 three reportable segments as identified by the individual mining operations at each of the Minto and Cozamin mines as well as the Kutcho development project. 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. Kutcho is a project that management reviews on an individual basis despite the fact that it does not meet the quantitative thresholds as set out above.

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

	December 31, 2010				
	Minto	**Cozamin**	**Kutcho**	**Corporate**	**Total**
Net revenue	**$ 134,212**	**$ 139,741**	**$ -**	**$ -**	**$ 273,953**
Cost of sales	**(48,099)**	**(57,524)**	**-**	**-**	**(105,623)**
Royalty	**(2,246)**	**(4,469)**	**-**	**-**	**(6,715)**
Depletion and amortization	**(27,611)**	**(15,473)**	**-**	**-**	**(43,084)**
Accretion of asset retirement obligations	**(426)**	**(176)**	**-**	**-**	**(602)**
Earnings from mining operations	**55,830**	**62,099**	**-**	**-**	**117,929**
Interest expense	**(2,334)**	**-**	**-**	**(767)**	**(3,101)**
Other income (expense)	**(17,560)**	**(12,170)**	**(117)**	**23,738**	**(6,109)**
Earnings (loss) before income taxes	**35,936**	**49,929**	**(117)**	**22,971**	**108,719**
Income taxes	**(17,131)**	**(13,305)**	**(572)**	**(5,118)**	**(36,126)**
Net earnings (loss)	**$ 18,805**	**$ 36,624**	**$ (689)**	**$ 17,853**	**$ 72,593**
Total assets	**$ 251,287**	**$ 193,431**	**$ 57,065**	**$ 129,942**	**$ 631,725**
Capital expenditures	**$ 42,489**	**$ 7,966**	**$ 4,694**	**$ 377**	**$ 55,526**

	December 31, 2009				
	Minto	Cozamin	Kutcho	Corporate	Total
Net revenue	$ 124,628	$ 94,665	$ -	$ -	$ 219,293
Cost of sales	(50,301)	(42,162)	-	-	(92,463)
Royalty	(1,482)	(2,856)	-	-	(4,338)
Depletion and amortization	(27,206)	(13,581)	-	-	(40,787)
Accretion of asset retirement obligations	(218)	(107)	-	-	(325)
Earnings from mining operations	45,421	35,959	-	-	81,380
Interest expense	(2,532)	(28)	-	(1,321)	(3,881)
Other income (expense)	(109,020)	(34,935)	(37)	36,960	(107,032)
Earnings (loss) before income taxes	(66,131)	996	(37)	35,639	(29,533)
Income taxes	17,775	(2,430)	487	(4,625)	11,207
Net earnings (loss)	$ (48,356)	$ (1,434)	$ 450	$ 31,014	$ (18,326)
Total assets	$ 235,208	$ 185,768	$ 49,714	$ 80,391	$ 551,081
Capital expenditures	$ 41,339	$ 9,525	$ 1,549	$ 9	$ 52,422

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

	December 31, 2010			
	Canada	**Mexico**	**United States**	**Total**
Net revenue	**$ 134,212**	**$ 139,741**	**$ -**	**$ 273,953**
Property, plant & equipment	**120,536**	**26,060**	**-**	**146,596**
Mineral property costs	**97,479**	**85,518**	**-**	**182,997**

	December 31, 2009			
	Canada	Mexico	United States	Total
Net revenue	$ 124,628	$ 94,665	$ -	$ 219,293
Property, plant & equipment	110,010	24,122	10,393	144,525
Mineral property costs	83,030	93,637	-	176,667

28. Contingencies

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

Management's Discussion and Analysis
For
Capstone Mining Corp.
("Capstone" or the "Company")

The following management's discussion and analysis of the Company has been prepared as of March 10, 2011 and should be read in conjunction with the Company's audited consolidated financial statements and notes for the year ended December 31, 2010. All financial information has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and all dollar amounts disclosed are United States dollars unless otherwise stated.

Nature of Business

Capstone is a Canadian mining company engaged in the production of and the exploration for base and precious metals in Canada and Mexico. Minto Explorations Ltd. ("MintoEx"), a wholly-owned Canadian subsidiary of the Company, owns and operates a high-grade copper-gold-silver mine located in Yukon Territory, Canada (the "Minto Mine"). Capstone Gold S.A. de C.V. ("Capstone Gold"), a wholly-owned Mexican subsidiary of the Company, owns and operates a high-grade copper-silver-zinc-lead mine located in Zacatecas, Mexico (the "Cozamin Mine"). Kutcho Copper Corp. ("Kutcho Copper"), a wholly-owned Canadian subsidiary of the Company, is advancing the high-grade Kutcho copper-zinc-silver-gold project (the "Kutcho Project") in British Columbia towards a production decision.

2010 Overview

	Total 2010	**Total 2009**
Gross sales revenue ($ millions)	**301.3**	**250.4**
Payable copper produced (millions lbs)	**73.0**	**86.6**
Total cash cost per payable pound of copper produced (1) ($)	*1.40*	*1.03*
Copper sold - (millions lbs)	**72.8**	**85.3**
Net earnings (loss) for the period ($ millions)	**72.6**	**(18.3)**
Earnings (loss) per common share ($)	*0.36*	*(0.10)*
Adjusted net earnings (1) ($ millions)	**45.1**	**65.7**
Adjusted Earnings (1) per common share ($)	*0.23*	*0.35*
Cash flow from operating activities ($ millions)	**86.3**	**112.1**
Cash flow from operating activities per common share ($)	*0.43*	*0.60*
Cash, restricted cash & short-term deposits ($ millions)	**192.4**	**118.4**

2010 Highlights

Financial and Production Highlights for the Years Ended December 31, 2010 & 2009

- Recorded net earnings of $72.6 million or $0.36 per common share (2009 – net loss $18.3 million or $0.10 per common share) which included:
  - Earnings from mining operations of $117.9 million (2009 - $81.4 million),
    - Realized copper price of $3.42 per pound (2009- $2.31 per pound)
  - Gains on disposal of investments of $26.1 million (2009 - $46.4 million),
  - Net loss of $15.5 million on derivative instruments (2009 - $142.1 million), and
  - $36.1 million in current and future tax expenses (2009 - net recovery of $11.2 million).
- Adjusted net earnings[1] were $45.1 million or $0.23 per common share after making adjustments for certain non-cash and non-recurring items (2009 - $65.7 million or $0.35 per common share).
- Generated cash flow from operating activities of $86.3 million or $0.43 per common share (2009 - $112.1 million or $0.60 per common share).
  - Includes a realized loss on derivative instruments of $34.0 million (2009 - realized gain of $17.7 million).

[1] *These are non-GAAP performance measures: please see "Non-GAAP Performance Measures" below.*

- Working capital increased to $176.8 million at December 31, 2010 (which included $192.4 million of cash, restricted cash and short-term deposits) from $86.0 million at December 31, 2009.
- Produced a total of 73.0 million pounds of payable copper at an estimated total cash cost[1] of $1.40 per pound of payable copper (2009 – 86.6 million pounds of payable copper at $1.03 per pound).
- Recorded gross sales revenue of $301.3 million on the sale of 72.8 million pounds of copper, 15.0 million pounds of zinc, 9.4 million pounds of lead, 25,460 ounces of gold and 1,582,033 ounces of silver (2009 - $250.4 million on the sale of 85.3 million pounds of copper, 15.0 million pounds of zinc, 9.3 million pounds of lead, 31,571 ounces of gold and 1,719,548 ounces of silver).

Additional Highlights

- Cozamin
  - Updated the mineral reserve estimates for the Cozamin Mine, incorporating a new mineral resource estimate, resulting in more than an eight year life.
  - Discovered and expanded the Mala Noche Footwall Zone (MNFWZ), located in close proximity to the current mineral reserve and active mine haulage. Exploration is continuing with a new mineral resource estimate expected in 2011.
  - Drove a cross-cut into the MNFWZ and lateral drifting was conducted on one of several veins within the MNFWZ structure to determine strike continuity and to conduct face and back mapping. The lateral drifting has 170 metres of advance at 4 metres wide and a 2% copper grade. This work is continuing during Q1 2011.
- Minto
  - Reported a 44% increase in the measured and indicated mineral resources contained in the undeveloped deposits (i.e. excluding the "Main" deposit currently being mined) based on drilling to the end of April 2010.
  - Reported a first-time mineral resource estimate for the Minto East discovery.
  - Completed a Titan-24 survey over more than 85% of the property identifying 73 anomalies for further exploration potential.
  - Made two new exploration discoveries, Wildfire and Inferno. These discoveries were the result of testing a combination of Titan-24 geophysical anomalies and geological models.
  - The Phase V Prefeasibility Study (Phase V-PFS) was substantially completed in 2010 and released in March 2011, extending the Minto Mine life to 2020, at an average annual production of 43.0 million pounds of copper in concentrates, at a total cost per pound of payable copper of $1.34, net of by-products.
  - The Yukon Water Board hearing for the amended Water Use License ("WUL") was completed in December 2010. The amended license is anticipated before the end of the first quarter of 2011.
  - The Yukon Environmental and Socio-Economic Assessment Board ("YESA") evaluation for the Phase IV Permit application was completed in 2010 and the Quartz Mining License ("QML") is expected by the end of the first quarter of 2011.
- Kutcho
  - Issued an updated Preliminary Economic Assessment ("PEA") that significantly enhanced the economic return of the project.
  - Mineral resource definition drilling within the Esso deposit intersected some exceptionally high copper-zinc-silver-gold values.
  - Issued a new NI43-101 compliant Mineral Resource for the Esso deposit in December 2010 with increases in resource classification and substantial increases in metal grades.
  - Commenced the work required to support completion of a Preliminary Feasibility Study ("PFS"), which was completed in February of 2011, providing a 12 year mine life, with an IRR of 27%, NPV of C$155 million at a 10% discount rate and a 3.4 year payback
- Adopted a Shareholder Rights Plan to provide the Company with adequate time to:
  - Consider and evaluate any unsolicited bid made for the Company;

[1] *These are non-GAAP performance measures: please see "Non-GAAP Performance Measures" below.*

- Identify, develop and negotiate value-enhancing alternatives (if considered appropriate) to any such unsolicited bid;
- Encourage the fair treatment of shareholders in connection with any takeover bid for Capstone; and
- Ensure that any proposed transaction is in the best interest of Capstone's shareholders.

- Appointed Gregg Bush as Chief Operating Officer.
- Appointed Chantal Gosselin to the Board of Directors.
- Debt repaid:
  - Fully repaid in October 2010 the final C$10.0 million of the Minto Project debt, three months ahead of schedule,
  - Fully repaid in December 2010 the $8.5 million owing to Alaska Industrial Development & Export Authority ('AIDEA") related to the refurbishment of the Skagway Port facilities five years ahead of schedule.
  - Fully repaid in January 2011 the C$17.4 million owing to Yukon Electric Corporation ('YEC") related to the spur and main power lines servicing the Minto Mine, seven years ahead of schedule.
  - The above debt repayment will provide an approximate cash interest savings of $1.8 million in 2011.
- Provided the following production guidance for 2011:

	Cozamin	**Minto**	**Total**
Tonnes milled (millions)	1.14	1.26	2.40
Copper grade (%)	1.9%	1.6%	1.7%
Copper recovery (%)	92%	92%	92%
Copper contained concentrates (millions pounds)	41 to 44	39 to 41	80 to 85
Total cash cost per pound of payable copper*	$0.95 to $1.05	$1.60 to $1.70	$1.30 to $1.35

*Basis US$1.00 equals C$1.05

  - Production is scheduled to ramp up over the four quarters of 2011 at the Minto Mine as crushing modifications are completed to increase throughput.
  - Full production from the Avoca stopes at the Cozamin Mine will be delayed until late in the first quarter as rehabilitation work is completed as a result of the rock fall incident in late 2010, but is not expected to impact annual production.

[1] *These are non-GAAP performance measures: please see "Non-GAAP Performance Measures" below.*

Selected Annual Information

($ millions except for shares, per share amounts, production & production costs)	Years Ended December 31		
	2010	**2009**	**2008***
Payable pounds of copper produced (million)	73.0	86.6	71.3
Cash cost per payable pound of copper produced	1.40	1.03	1.25
Net revenues	273.9	219.3	106.0
Operating costs	(156.0)	(137.9)	(86.1)
Earnings from mining operations	**117.9**	**81.4**	**19.9**
General and administrative expenses	(10.1)	(8.0)	(6.5)
Stock-based compensation	(5.1)	(2.8)	(3.3)
Gain (loss) on derivative instruments	(15.5)	(142.1)	123.6
Gain on disposal of investments	26.1	46.4	nil
Asset impairment charge	nil	nil	(53.4)
Non-recurring gain on acquisition of Capstone	nil	nil	72.0
Current & future taxes recovery (expense)	(36.1)	11.2	(4.5)
Other expenses	(4.6)	(4.4)	(16.0)
Net earnings (loss) for the period	**72.6**	**(18.3)**	**131.8**
- Basic earnings (loss) per share	0.36	(0.10)	1.47
Weighted average number of shares - basic	198,996,825	185,691,755	89,825,636
Net cash provided by operating activities	**86.3**	**112.1**	**18.7**
Cash, restricted cash & short-term deposits	**192.4**	**118.4**	**41.6**
Working capital	**176.8**	**86.0**	**35.4**
Total assets	**631.7**	**551.1**	**497.9**
Total long term debt	**11.6**	**20.3**	**74.1**
Total liabilities	**254.2**	**265.5**	**273.6**
Shareholders' equity	**377.5**	**285.6**	**224.2**

**The 2008 information only includes results from the Cozamin Mine from acquisition on November 24, 2008 to December 31, 2008, except for the payable copper produced and the cash cost per pounds of payable copper which are for the full year.*

Results of Operations

The Company recorded net earnings of $72.6 million for the year ended December 31, 2010 (the "Current Period") compared with a net loss of $18.3 million for the year ended December 31, 2009 (the Comparative Period"). The principal contributors to the swing to net earnings were:

- Significantly higher realized copper price ($3.42 per pound versus $2.31), despite less copper sold, and
- Significantly smaller loss on derivative instruments with fewer positions outstanding, a smaller year over year increase in metal prices and the entering into forward purchase contracts capping the loss on a portion of the outstanding forward sales positions, partially offset by:
  - Lower gains on disposal of investments, and
  - Higher tax expenses on higher taxable earnings.

Gross sales revenue of $301.3 million was generated in the Current Period on the sale of copper, zinc, lead, gold and silver as detailed below. These net sales generated earnings from mining operations of $117.9 million. Gross revenue in the Comparative Period of $250.4 million generated earnings from mining operations of $81.4 million. Metal prices were significantly higher in the Current Period but a lower volume of metal was sold by Minto as barge transportation across the Yukon River closed earlier than normal due to low water levels in the fourth quarter of 2010, resulting in insufficient concentrate trucked to the Port of Skagway to schedule a ship before the end of the year.

[1] *These are non-GAAP performance measures: please see "Non-GAAP Performance Measures" below.*

Sales Quantities by Metal

	Current Period	Comparative Period
Copper – pounds		
Cozamin	33,747,545	33,141,849
Minto	39,039,953	52,169,720
	72,787,498	85,311,569
Realized copper price	$3.42	$2.31
Average copper price	$3.42	$2.34
Zinc – pounds		
Cozamin	15,041,613	15,018,716
Lead - pounds		
Cozamin	9,381,526	9,316,986
Gold – ounces		
Minto	25,460	31,571
Silver – ounces		
Cozamin	1,421,777	1,475,633
Minto	160,256	243,915
	1,582,033	1,719,548

The current and subsequent periods may include final settlement quantity adjustments from prior shipments

Gross Sales Revenue by Metal

	Current[3] Period ($ 000's)	Current Period %	Comparative Period ($ 000's)	Comparative Period %
Copper	248,845	82.6	197,098	78.7
Zinc	14,992	5.0	11,607	4.6
Lead	9,174	3.0	7,708	3.1
Gold[2]	15,116	5.0	19,463	7.8
Silver[2]	13,195	4.4	14,528	5.8
Total	**301,322**	**100.0**	**250,404**	**100.0**

[1]*Gold and silver revenue include non-cash amount for deferred revenue amortization related to the precious metal stream sales.*
[2]*The current and subsequent periods may include final settlement price adjustments from prior shipments*

At December 31, 2010 the following metal quantities were provisionally priced and included in gross sales revenue. The provisional prices are subject to change on final price settlement (QP):

- Copper – 3,534,912 pounds provisionally priced at $4.34 with a June 2011 QP.

All of the Company's concentrate sales are covered by off take agreements with terms of 12 months to 36 months.

[1] *These are non-GAAP performance measures: please see "Non-GAAP Performance Measures" below.*

Concentrate production, sales and inventory is provided in the table below:

	Copper (dmt)	**Zinc** (dmt)	**Lead** (dmt)
Cozamin Mine			
Inventory – December 31, 2008	7,751	3,378*	1,378
Production	66,978	15,011	6,575
Sales	(68,280)	(16,571)*	(6,771)
Inventory – December 31, 2009	6,449	1,818	1,182
Production	64,356	16,448	6,282
Sales	(67,816)	(17,256)	(7,030)
Inventory – December 31, 2010	2,989	1,010	434
Minto Mine			
Inventory – December 31, 2008	13,285	-	-
Production	59,830	-	-
Sales	(59,460)	-	-
Inventory – December 31, 2009	13,655	-	-
Production	46,633	-	-
Sales	(45,762)	-	-
Inventory – December 31, 2010	14,526	-	-

**Does not include 2,015 tonnes of low grade zinc carried at no value that was sold in Q2 2009.*

The Company's revenue recognition policy requires that title and risk pass to the customer and that the settlement price be reasonably determinable in accordance with the Company's off-take agreements in order to record revenue in the period. As final metal price settlement may occur a number of months after the initial revenue recognition, changes in metal prices during that time may have a material impact on the final revenue recognition.

Truck transport is not available for two periods of eight to ten weeks beginning in April and in October of each year as the Yukon River freeze-up and breakup prevents access to the Minto Mine. Up to 20,000 dmt of copper concentrate produced during these periods can be stored at the mine site. As a result, the Company's reported revenue from the Minto Mine may vary significantly from period to period.

Production from the Cozamin Mine is trucked to the Port of Manzanillo on a regular, almost daily basis, resulting in only minor concentrate inventory build ups at the mine.

Cost of sales in the Current Period were $105.6 million or 38.6% of net revenue compared with $92.5 million or 42.2% of net revenue in the Comparative Period. Despite the lower volumes of metal sold, the increase is due to higher unit operating costs in the Current Period from higher total production costs and lower production levels. The lower percent of net revenue is due to higher unit costs of the metals sold partially offset by the higher realized metal prices in the Current Period.

Royalties were higher in the Current Period at $6.7 million compared with $4.3 million the Comparative Period due to the higher revenues on higher metal prices.

Depletion and amortization was higher in the Current Period at $43.1 million compared with $40.8 million in the Comparative Period. Fewer tonnes of concentrate were sold but the unit costs were higher due to a higher depreciable cost base on plant property and equipment additions at both mines and deferred stripping additions at the Minto Mine.

Administrative costs in the Current Period were $10.1 million compared with $8.0 million in Comparative Period. The addition to the corporate employee complement, general salary increases and higher investor relation expense contributed to higher Administrative costs in the Current Period

Stock-based compensation, a non-cash cost, was $5.1 million in Current Period compared with $2.8 million in Comparative Period, due mainly to a higher fair value of options granted during the Current Period.

Interest expense of $3.1 million was incurred in the Current Period related to the interest and accretion on debentures issued in February 2007 and interest on capital leases and bank debt. This amount is lower than the $3.9 million interest expense recorded in the Comparative Period due to lower interest rates and lower balances on bank debt and lease obligations. With the repayments of the bank debt and the AIDEA and YEC obligations, the Company expects to realize an approximate cash interest savings of $1.8 million in 2011.

The Company recorded a foreign exchange loss of $2.4 million in the Current Period mainly related to US dollar denominated deposits and short term investments partially offset by gains on US dollar denominated liabilities, due to the strengthening of the Canadian dollar. In the Comparative Period, a gain of $1.2 million was recorded mainly related to the PLF, the RTF and the capital lease on the Skagway Port facility all denominated in US Dollars, due to the strengthening of the Canadian dollar.

During the Current Period, the Company recorded a net loss on derivative instruments of $15.5 million, comprised of a realized loss of $34.0 million and an unrealized gain of $19.5 million. This compares with a net loss of $142.1 million in the Comparative Period, comprised of a realized gain of $17.7 million and an unrealized loss of $160.7 million.

- The realized loss in the Current Period resulted from settling copper forward contracts at contractual prices that were below the spot price of copper. This compares with the realized gain in the Comparative Period when copper forward contracts were settled at contractual prices that exceeded the spot price of copper.
- The unrealized gain in the Current Period is the sum of an unrealized gain of $32.8 million on the reversal of the unrealized loss on copper forward contracts that closed during the year and an unrealized loss of $13.3 million on copper forward contracts outstanding at the end of the year, the latter driven by an increase in the price of copper during the year from $3.39 to $4.42. This compares with the unrealized loss in the Comparative Period which is the sum of an unrealized loss of $110.0 million on copper forward sale contracts that closed during the year and an unrealized loss of $50.7 million on copper forward contracts outstanding at the end of the year, the latter driven by an increase in the price of copper during the year from $1.39 to $3.39.
- The unrealized loss on the derivative investment in warrants of Nevada Copper Corp. ("NCU") in the Current Period is simply a reversal of the unrealized gain on the same investments in the Comparative Period. The reversal occurred in Q4 '10 when the Company exercised the warrants and sold the shares.

	December 31, 2010	December 31, 2009
Realized gain/(loss) on metal hedging	**$ (33,962)**	$ 17,734
Unrealized gain/(loss) on metal hedging		
Reversal of unrealized loss on contracts closed out during the year	**32,823**	(109,993)
Hedge contracts open at the end of the year	**(13,309)**	(50,755)
Unrealized gain/(loss) on NCU warrants	**(1,011)**	940
Total loss on derivative instruments	**$ (15,459)**	$ (142,074)

A gain of $26.1 million on the disposal of investments was recorded in the Current Period on the sale of all the shares of Silver Wheaton Corp. ("SLW"), all the shares and warrants of NCU and a portion of the shares of Northern Tiger Resources ("NTR") held by the Company. This compared with a $46.4 million non-cash gain on the disposal of investments in the Comparative Period with the conversion of the Silverstone Resources Inc. ("SST") shares held by the Company to SLW shares on the acquisition of SST by SLW.

Income and mining tax expense of $25.7 million was recorded in the Current Period related to an estimate of the Yukon Quartz Mining Act Royalty (the "QMAR") payable of $4.9 million, income taxes payable related to the Cozamin Mine of $18.1 million and $2.7 million related to investment sales in Canada. This compares with $19.9 million recorded in the Comparative Period related to an estimate of the Yukon Quartz Mining Act Royalty (the "QMAR") payable of $5.6 million, income taxes payable related to the Cozamin Mine of $11.8 million and $2.5 million related to securities sales in Canada in the Comparative Period.

The future income tax expense of $10.4 million recorded in the Current Period is primarily a result of recording a future income tax expense related to income from the Minto Mine which is not yet subject to current income tax. This expense is partially offset by a future income tax recovery in the Mexican operations as their taxable income exceeded their accounting income in the Current Period.

Fourth Quarter 2010

The Company had net earnings for the three months ended December 31, 2010 (the "Current Quarter") of $8.4 million, the main contributors to the net earnings were:

- Earnings from mining operations were $20.9 million and a gain on the disposal of investments of $12.2 million was partially offset by a loss on derivative instruments of $15.4 million.

The Company had a net loss for the three months ended December 31, 2009 (the "Comparative Quarter") of $17.6 million, the main reason for this loss was:

- A loss of $37.4 million on derivative instruments with the increase in metal prices during the Current Quarter, partially offset by earnings from mining operations of $16.4 million and the gain on the sale of investments of $5.6 million.

The main reasons for the improvement to net earnings were higher metal prices generating higher earnings from mining operations despite less metal being sold, a higher gain on investments as the Company sold its holding in NCU and a lower loss on derivative instruments with fewer positions outstanding.

Production Results

Minto Mine

The Minto Mine is a high-grade copper-gold mine located in Yukon Territory of Canada.

The proposed revisions to Minto's water use license were submitted to the Yukon Water Board and a public hearing was held in early December. The public hearings were positive and the revised license is anticipated by the end of first quarter of 2011. The revised license would facilitate water management on site in a manner more consistent with the natural flow peaks during freshet and avoid the current requirements to store large volumes of water during the spring and early-summer.

The process of obtaining approvals for the Phase IV mine plan advanced through the environmental and socio-economic process in 2010. By late January 2011 the public view and comment period was closed and the evaluation report was issued by Yukon Environmental and Socio-Economic Assessment Board ("YESAB") in late February 2011. No issues have arisen that would prevent the issuance of the amended QML that will permit the stripping of Area 2 in the second quarter of 2011. The Phase IV mine plan will also require additional modification to the water use license before the tailings disposal method can be modified from the current dry stack system to an in-pit tailing disposal system in the mined out Main Pit.

Work on the Phase V PFS, the next phase of development at Minto progressed throughout 2010 and was completed in March 2011. The Phase V PFS incorporates the Ridgetop, Minto North open pits as well as underground resources in the Area 2/118 and Minto East. In anticipation of a positive economic assessment, certain elements of the underground development of the Area 2/118 deposit were included in the Phase IV assessment application. Highlights of the Phase V PFS are as follows:

- Net present value, at a constant US$2.75 per pound of copper for un-hedged production and a 7.5% discount rate, of $284 million before tax and $206 million after tax;
- Proven and probable Open Pit and Underground mineral reserves have increased to 12.9 million tonnes grading 1.53% copper, 0.60 g/t gold, and 5.2 g/t silver, for a contained 435 million lbs of copper, 247,000 oz of gold, and 2.2 million oz of silver;
- Mine life extended to 2020 with an average of 43 million pounds of copper production per year, with additional upside opportunities identified, as discussed below;
- Life-of-mine capital cost of $76.0 million (excluding a closure cost allowance of $16 million), primarily based on an assumption of conversion to self-mining, which decision will be subject to a cost-benefit analysis vs. remaining with contract mining; and
- Life-of-mine cash costs of US$1.34 per pound of payable copper, after by-product credits (with gold at US$300/oz and silver at US$3.90/oz, as per the agreement with Silver Wheaton).

Additional information can be obtained in the Company's press release dated March 14, 2011 or in the technical report which will be filed on SEDAR by the end of April 2011.

With the Phase V PFS in hand, MintoEx can now proceed towards submission of the Phase V permit, developing an underground access decline and constructing supporting infrastructure such as surface ventilation systems.

Production Results

Issues in the tailing filtration plant that limited production during the first three quarters of 2010 were definitively resolved in October 2010 with the rebuilds of the filters and dressing the filters with a higher performance filter cloth. With the elimination of the filter plant restriction, SAG mill throughput became the limiting factor in mill throughput. Mill throughput averaged just over 2,800 tonnes per day for Q4 2010 and 2,850 tonnes per day for December 2010.

Maintenance issues in the pre-crushing continue to contribute to restricted SAG mill throughput. The pre-crushing circuit design is not adequate to maintain production levels at planned levels. Design issues will be addressed by modifications to the flow sheet and maintenance issues are being addressed by a reorganization of activities and reassessment of the maintenance strategy.

[1] *These are non-GAAP performance measures: please see "Non-GAAP Performance Measures" below.*

Operating costs were impacted primarily by elevated mining costs related to material shifted in the mine plan from the 2nd and 3rd quarters due to pit flooding. The Main Pit was dewatered in late August and mining of the remaining ore in Stage 4 of the main pit began. Drilling and blasting costs were elevated due to saturated conditions.

Milling costs were elevated early in the fourth quarter as the remaining costs associated with rebuilds in the filter plant were realized. Subsequently, milling costs were within plan.

Overall in 2010, mining costs were very close to plan while milling costs were $3.0 million higher due primarily to unplanned costs related to the overhaul of the tailing filters and high filter media usage. These costs have been controlled and are not expected to impact 2011. High water treatment costs were also a factor in elevated expenditures in 2010. The anticipated modifications to the WUL prior to the 2011 freshet would significantly reduce this impact going forward.

Key operating statistics for the Minto Mine for the Current and Comparative Quarters and of Current and Comparative Periods are presented below:

	Current Quarter	**Comparative Quarter**	**Current Period**	**Comparative Period**
Production *(contained in concentrates)*				
- Copper (000s pounds)	10,672	15,772	40,454	53,657
- Gold (ounces) (2)	2,234	8,790	22,284	28,579
- Silver (ounces)	36,426	89,218	206,838	299,767
Mining				
- Waste (tonnes)	1,764,509	2,689,363	7,873,049	11,132,511
- Ore (tonnes)	484,907	561,786	1,494,752	1,151,088
- Total material mined (tonnes)	2,249,416	3,251,149	9,367,801	12,283,599
Milling				
- Tonnes processed	258,121	260,996	915,051	1,031,190
- Tonnes processed per day	2,806	2,837	2,507	2,825
- Copper grade (%)	2.03	2.95	2.22	2.55
- Gold grade (g/t) (2), (3)	0.46	1.14	0.93	1.14
- Silver grade (g/t)	6.6	12.7	8.7	11.0
Recoveries				
- Copper (%)	92.5	92.4	90.3	92.6
- Gold (%) (2), (3)	58.1	83.7	81.1	75.3
- Silver (%)	66.1	83.4	80.6	81.9
Concentrate				
- Dry tonnes produced	12,082	17,079	46,633	59,863
- Copper grade (%)	40.1	41.9	39.3	40.7
- Gold grade (g/t) (2), (3)	5.8	16.0	14.9	14.9
- Silver grade (g/t)	94	163	138	156
On site Operating Costs ($/t milled) (4)	$48.55	$55.42	$58.24	$47.64
Payable pounds of copper produced (000s lbs)	10,328	15,252	38,866	51,913
Total cash cost per pound (1) of payable copper (4)	$1.47	$1.10	$1.53	$1.12

(2) *Gold is not assayed on site, resulting in a significant lag in receiving this data.*

(3) *Adjustments based on final settlements will be made in future periods.*

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

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Exploration - Minto

A program of infill drilling at Minto East; Area 2/118 and Copper Keel (where contiguous with Area 2) was completed as planned in order to update the NI-43-101 mineral resource estimates in time for inclusion into the Phase V PFS. On August 30, 2010 the Company announced a significant increase in mineral resources with new estimates for Area 2/118; Ridgetop and Minto East resulting in a 44% increase in contained copper, 35% in contained gold and 42% in contained silver in the Measured and

1 *These are non-GAAP performance measures: please see "Non-GAAP Performance Measures" below.*

Indicated ("M&I") class. The Company completed 167 holes for a total of 47,084 meters of drilling in 2010, significantly more than originally planned. Additional meters were added because of the discovery of two new mineralized areas called Wildfire and Inferno. These new copper discoveries resulted from drill testing several Titan-24 geophysical anomalies generated in a property wide geophysical survey completed in 2010; an additional 62 line kilometres was added to the approximately 21 line kilometer test survey completed in 2009. Approximately 23,419 metres of drilling was completed at Wildfire and 1,733 metres at Inferno to position the Company to execute significant exploration drill programs planned for 2011 that are aimed at further mineral resource increases.

Outlook

Minto is projected to produce 39 to 41 million pounds of copper contained in concentrates at a cost of $1.60 to $1.70 per pound of payable copper in 2011. The production schedule is based on mining the remaining ore in Stage 5 of the Main pit, which will augment stockpile grades. The majority of the ore processed in 2011 will come from lower grade stockpiles as the Area 2/118 pit is stripped. The Area 2/118 pit will not produce any mill feed during 2011. Permitting timeline risk is present both for the issuance of the proposed WUL modification as well as the amended QML for the Phase IV mine plan. A significant delay in the issuance of the QML would compromise the long-term mine plan. Delay in the approval of the proposed WUL would imply an increase in water management costs in 2011.

The mill processing rate is projected to increase over the year to the 3,700 tonnes per day level by Q4 2011, resulting in a total of 1.25 million tonnes milled in 2011 at an average grade of 1.59% Cu. The increase is expected to result from modification to the pre-crushing circuit that will permit finer crushing of a portion of the SAG feed. Until this modification is completed in August of 2011, there is a risk of lower than expected mill throughput. This risk will be mitigated by bringing in a portable crushing unit if necessary, to augment the capacity of the existing crushing circuit.

Per tonne costs are projected to decline over the course of 2011 as a result of increased throughput and by the cost savings that will be realized by conversion to in-pit tailing disposal. Due to the lower grades processed in 2011, the savings will not translate in to lower unit copper production costs.

$17.2 million of capital expenditures are anticipated in 2011; $12.0 million on underground mine development and equipment, $2.3 million on permitting and $2.9 million on sustaining capital. As well an estimated $26.0 million is expected to be incurred related to the pre-stripping of the Area 2 open pit.

The Phase V PFS will trigger an application to YESAB for the environmental and socio-economic assessment of the Phase V project in the second quarter of 2011.

A preliminary mineral resource estimate for the vertically stacked Wildfire/Copper Keel system is underway and is expected in Q2 of 2011. Multiple horizons of high grade copper-gold mineralization still remain open on several elevations and drilling is planned to resume in early 2011 to support a subsequent mineral resource estimate to be completed in 2011. A total of $5.2 million is projected to be spent on exploration during 2011, focusing on (a) step out and infill drilling at Wildfire / Copper Keel (b) step out drilling at Inferno and (c) continuing the exploration on the balance of the prospective Minto Mine property, focusing primarily on drill testing targets generated from the 2009 Titan-24 geophysical survey.

The success in the exploration program in 2010 has triggered a Phase VI pre-feasibility study which is anticipated to be completed in Q1 2012 aimed at incorporating Copper Keel and Wildfire resources into the reserve base.

Cozamin Mine

The Cozamin Mine is a high-grade copper-silver-zinc-lead mine located in Zacatecas, Mexico.

Production Results

Production at Cozamin in 2010 was hampered by continued stability issues in the Avoca section of the mine which had been scheduled to produce a significant portion of the 2010 production. A rock fall in November precipitated a shutdown of operations in late-November and early-December while ground

[1] *These are non-GAAP performance measures: please see "Non-GAAP Performance Measures" below.*

conditions and safety practices were evaluated throughout the mine. Capstone decided to halt operations while engineering standards, mining practices, and safety procedures were reevaluated. As a result, the production during Q4 2010 was 69% of plan.

Costs per unit of copper production were impacted by lower production and by several wage provisions that had not been adequately accounted for earlier in the year.

Claims related to wages and benefits with the employees of the Cozamin Mine were settled or accrued for in December 2010.

Key operating statistics for the Cozamin Mine for the Current and Comparative Quarters and the Current and Comparative Periods are presented below:

	Current Quarter	Comparative Quarter	Current Period	Comparative Period
Production *(contained in concentrates)* (1)				
Copper (000s) pounds	8,209	8,934	35,552	36,121
- Lead (000s pounds)	1,496	3,452	9,142	10,134
- Zinc (000s pounds)	3,694	4,704	17,348	15,476
- Silver (ounces)	334,751	387,665	1,403,170	1,520,806
Mine				
- Tonnes of ore mined	214,689	243,795	978,954	972,599
Mill				
- Tonnes processed	215,503	240,490	981,682	975,728
- Tonnes processed per day	2,342	2,614	2,690	2,673
- Copper grade (%)	1.88	1.83	1.80	1.84
- Lead grade (%)	0.42	0.93	0.63	0.69
- Zinc grade (%)	1.15	1.33	1.27	1.17
- Silver grade (g/t)	67.1	69	62	66
Recoveries				
- Copper (%)	92.0	92.0	91.2	91.2
- Lead (%)	74.1	70.0	67.6	68.4
- Zinc (%)	67.8	66.7	63.0	61.7
- Silver (%)	72.0	73.1	71.7	73.1
Concentrate				
- Copper concentrate produced (dmt)	14,187	16,221	64,356	66,977
- Copper (%)	26.2	25.0	25.1	24.5
- Silver (g/t)	582	569	536	571
- Lead concentrate produced (dmt)	1,015	2,233	6,282	6,575
- Lead (%)	66.9	70.2	66.0	69.9
- Silver (g/t)	2,119	1,264	1,391	1,382
- Zinc concentrate produced (dmt)	3,534	4,499	16,448	15,008
- Zinc (%)	47.4	47.4	47.8	46.8
On site Operating Costs ($/t milled)	$78.26	$51.60	$53.84	$39.79
Payable pounds of copper produced (000s lbs)	7,896	8,577	34,133	34,645
Total cash cost per pound of payable copper (2)	$1.91	$0.94	$1.25	$0.90

[2] *Adjustments based on final settlements will be made in future periods.*

Exploration

In 2010 the Company discovered a new zone of high grade copper-silver mineralization called the Mala Noche Footwall Zone ("MNFWZ"). Located in a structure that splays from the main mineralization, the Mala Noche Vein ("MNV") at about 30^{o} was tested in 2010 in a program of 24 holes for 7,400 metres of

[1] *These are non-GAAP performance measures: please see "Non-GAAP Performance Measures" below.*

drilling along 700 metres of strike and locally between 200-500 metres in the dip direction. The structure is still open up dip but it appears to be transitioning to more zinc dominated mineralization and thus presents a lower value target in that direction. In the west the MNFWZ merges with the MNV and is considered largely closed in that area. The zone is open toward the east and down dip, where copper grades over minable widths show exceptional potential at Cozamin. This is a significant exploration target and the biggest driver for the 2011 exploration program. A minimum program of 40-50 holes is warranted in 2011. Because the new zone splays obliquely from the MNV, where it is being mined, this new structure is in close proximity to the main haulage ways of the Cozamin Mine and presents an attractive exploration target that could transition quickly into the development stage. A cross-cut was driven from the producing mine into the MNFWZ and a drift was driven east and west for 60 and 103 metres respectively. By December 31, 2010 more than 7,000 tonnes of ore grade material have been mined from this drift, opening up the structure for mapping continuity of grade and providing material for metallurgical testing.

Outlook

Cozamin is projected to produce 41 to 44 million pounds of copper contained concentrate in 2011 at a cash cost of $0.95 to $1.05 per pound of payable copper. With the exception of minor exploration development ore in the MNFWZ, all of the production is projected to come from the main Mala Noche Vein during the period. Significant rehabilitation requirements in the Avoca, East, and Central sections of the system were identified in the mine safety audit conducted during December of 2010. Completing this rehabilitation work in a timely manner is a risk to completion to the 2011 plan.

External consultants have been employed to review planning processes and rock mechanics issues on an ongoing basis until it is proven that the mine can carry forward the planning process in a reliable manner.

The priority to improve safety performance at the mine is ongoing. This activity is focused on improving the mine planning process and improving the integration of geological, geo-mechanical, and operations into the mine planning cycle.

Engineering activities are planned for 2011 include work aimed at the development of mine reserves in the Mala Noche Footwall Zone and development of preliminary block plans for the subsequent mining in this new zone.

Exploration expenditures for 2011 are expected to be approximately $5.4 million and will focus mainly on drill testing exploration targets in three broad categories (a) extending the MNFWZ by drill testing (b) exploring for further splays off of the MNV of a similar nature as the recently discovered MNFWZ and (c) drill testing the main MNV along strike to the east and west of the current mine. A total of $6.6 million is expected to be incurred on sustaining capital.

Kutcho Copper

In 2008, the Company acquired Western Keltic Mines Inc. and renamed that company "Kutcho Copper Corp.". Kutcho Copper owns a 100% interest, subject to certain third party rights, in the Kutcho Project, a high-grade copper-zinc-silver-gold property in British Columbia.

During the Current Period, the Company completed a 35-hole, 17,970 meter drill program on the Esso deposit at the Kutcho Project. The program was aimed at (a) infilling gaps in the previous mineral resource model (b) better define higher-grade trends within the overall resource and (c) provide sufficient samples to conduct metallurgical testing on Esso mineralization to feasibility standards. Success in these objectives provided impetus to re-assess potential development options for the Kutcho Project including consideration of underground extraction of ore from Esso much earlier in the development schedule than was outlined in the 2009 Preliminary Economic Assessment ("PEA").

The successful drilling program led to the completion of a new mineral resource estimate. The drilling program also produced 13 tonnes of core sample for metallurgical test work at the Company's laboratory at the Cozamin Mine in Mexico. The results of which are included in the new PFS aimed at a lower cost, underground mine with a significantly reduced environmental footprint than the project described in the 2009 PEA. The study was completed in February 2011, with highlights as follows:

- NI 43-101 reserve of 10.4 million tonnes with an average grade of 2.01% copper, 3.19% zinc 34.61 grams per tonne ("g/t") silver and 0.37g /t gold as completed by JDS Energy and Mining Inc.
- Net Present Value (after tax) at a 10% discount rate is $155 million at US$2.75 per pound of copper.
- IRR (after tax) is 27%, with a payback period of 3.4 years.
- Total cash costs of US$0.75 per pound of payable copper, net of by-product credits and including selling costs.
- A 12 year mine life.
- Pre-production capital costs of $187.3 million, including a 10% contingency.
- Average throughput of 2,500 tonnes per day producing separate copper and zinc concentrates, with by-product gold and silver reporting to the copper concentrate.
- Average annual production of 34.7 million pounds of contained copper, 54.5 million pounds of zinc, 4,664 ounces of gold and 671,800 ounces of silver in concentrates.
- Recommends commencing with the environmental permitting and First Nations discussions.

Additional information can be obtained in the Company's press release dated February 24, 2011 or in the technical report which will be posted on SEDAR by the end of March 2011.

Outlook

With completion of the PFS, Kutcho is entering the next phase of development. Development activities in 2011 will be focused on carrying the environmental and socio-economic assessment process forward and consultations with the goal of obtaining all necessary permits for mine development by mid-2012.

Exploration efforts now focus more on exploring for new mineral deposits within the project area. Exploration expenditures for 2011 are expected to be approximately $2.2 million and will focus on identifying and drill testing geophysical targets within the main Kutcho mineralized horizon. An independent compilation of all previous geophysical surveying (mostly conducted using outdated technology) at Kutcho is being completed by an outside consultant and is expected to include recommendations for further surveying with more modern technology.

Summary of Quarterly Results

The following table sets out selected quarterly unaudited interim consolidated financial information of the Company and is derived from unaudited interim consolidated financial statements prepared by the Company's management. The Company's interim financial statements are prepared in accordance with Canadian GAAP.

Period	Net Revenues ($ millions)	Gain (loss) on derivative instruments	Gain on disposal of investments	Net income (loss) for the period ($ millions)	Basic earnings (loss) per share ($)
4th Quarter 2010	47.9	(15.4)	12.2	8.4	0.04
3rd Quarter 2010	84.4	(21.2)	3.0	5.3	0.03
2nd Quarter 2010	63.4	29.1	11.0	45.4	0.23
1st Quarter 2010	78.3	(8.0)	-	13.5	0.07
4th Quarter 2009	51.5	$37.4	5.6	(17.6)	(0.09)
3rd Quarter 2009	70.2	(38.0)	-	(10.3)	(0.05)
2nd Quarter 2009	43.1	(31.3)	40.7	25.8	0.14
1st Quarter 2009	54.5	(35.5)	-	(16.2)	(0.10)

Over the last eight quarters a general increase in metal prices has provided higher net revenues, but this metal price increase has resulted in the recording of a loss on the mark-to-market of derivative instruments which has had a negative impact on the Company's net earnings (loss). Revenue in the 4th

Quarter 2010 was negatively impacted as a lower volume of metal was sold by Minto as barge transportation across the Yukon River closed earlier than normal due to low water levels. The Company has also recorded gains on the disposal of investments in SLW, NTR and NCU shares in certain quarters.

Liquidity and Financial Position Review

Working Capital

Working capital was $176.8 million at December 31, 2010 compared with $86.0 million at December 31, 2009. The major components of the working capital at December 31, 2010 included $192.4 million of cash, restricted cash and short-term deposits and $67.2 million of inventories offset by $22.3 million in accounts payable and accrued liabilities, $33.3 million of advances on concentrate inventories and $42.3 million of unrealized derivative liabilities.

Current Assets

Current assets were $113.1 million higher at $291.9 million at the end of the Current Period compared with $178.8 million at December 31, 2009. The largest component of the increase was in cash, restricted cash and short-term deposits which increased to $192.4 million from $118.4 million due to cash flow from operations and the sale of investments. Receivables increased to $16.4 million from $6.9 million on higher concentrate receivables due to higher metal prices. Inventories increased by $22.7 million with the higher production costs, a buildup of concentrate inventory as there were no sales from Minto in the Current Quarter and the buildup of the ore stock pile at the Minto Mine. As well, the derivative instrument asset of $11.6 million was recorded related to the forwarded purchase contract entered into during the Current Period.

During the Current Quarter the Company invested $20.0 million in a 6-month 5.85% Dual Currency Note ("DCN") by way of a private placement with the Bank of Montreal ("BMO"). At maturity on March 1, 2011, the DCN is payable in either US dollars ("USD") or Canadian dollars ("C$") depending on the Bank of Canada USD/C$ foreign exchange rate at the valuation date of February 22, 2011. If the US dollar weakens against the 1.0642 USD/C$ strike level on the date of acquisition, then the principal and interest will be repaid in US dollars (USD$20.6 million); conversely, if the US dollar strengthens against the 1.0642 USD/C$ strike level at the date of acquisition, then the principal and interest will be repaid in Canadian dollars at the predetermined rate of 1.0642 USD/C$ (C$21.9 million). The DCN was repaid in US dollars.

Investments

The investment balance at December 31, 2010 was $2.7 million compared with $39.1 million at December 31, 2009. The investment consisted of 6,839,378 shares of Northern Tiger Resources.

During the year the Company disposed of all the shares held of Silver Wheaton, all the shares and warrants held of Nevada Copper Corp and a portion of the shares held of Northern Tiger Resources for net proceeds of $53.2 million for a gain of $26.1 million.

Property, Plant and Equipment

Property, plant and equipment ("PP&E") increased to $146.6 million in the Current Period from $144.5 million at December 31, 2009. The increase included:

- Additions of $39.2 million, comprised mainly of $4.7 million for sustaining capital and mine development at the Cozamin Mine and $34.3 million at the Minto Mine including: $25.8 million for deferred stripping, $2.0 million for Phase IV permitting, $2.4 million in First Nation community payments and $4.1 million of sustaining capital,
- Amortization of $43.7 million, and
- A positive cumulative translation adjustment ("CTA") of $6.6 million due to the stronger Canadian dollar and the translation of Canadian denominated assets owned by Minto.

Mineral Property Costs

Mineral property costs increased to $183.0 million in the Current Period from $176.9 million at December 31, 2009. The increase included:

- Additions of $17.0 million, primarily related to exploration activity, $6.8 million for mine site exploration and a $1.3 million increase in asset retirement obligations at the Minto, exploration and development work of $5.1 million at Kutcho and exploration and mine development of $3.6 million at the Cozamin,
- Depletion of $15.8 million, and
- A positive CTA of $5.1 million due to the effects of the stronger Canadian dollar on the translation of Canadian denominated mineral properties owned by Minto and Kutcho.

Future Income Tax Asset

The future income tax asset of $5.5 million at December 31, 2010 ($2.8 million current and $2.7 million long-term) is related mainly to the excess of accounting values over the tax basis of the derivative liability.

Current Liabilities

Current liabilities increased by $22.3 million to $115.1 million during the Current Period from $92.8 million at December 31, 2009. The increase was mainly due to higher advances on the Minto inventory concentrate advance facility ($16.6 million) as Minto had no sales in the last quarter of the Current Period due to shipping constraints, increased derivative instruments ($8.7 million) due to higher metal prices, and higher taxes ($5.6 million) with the in increase taxable earnings, partially offset by debt repayments to Macquarie and AIDEA ($11.7 million).

Derivative Instruments

At December 31, 2010, the Company had a net derivative instrument liability on its metal hedging program of $35.9 million compared with a $55.4 million liability at December 31, 2009. The lower liability resulted from fewer hedge positions outstanding even though metal prices were higher at the end of the Current Period and because the Company locked a portion of the liability by entering into forward purchase contracts on some of the outstanding forward sales positions. As these derivative instruments mature over the next four years, the actual realized gain or loss on the final settlement could be significantly different from the amount currently recorded.

Deferred Revenue

The Company's deferred revenue at the end of the Current Period of $60.7 million ($73.5 million at December 31, 2009) relates to the two precious metal sales agreements that were entered into with Silverstone (now a subsidiary of Silver Wheaton). This amount will be amortized to revenue as the related delivery obligations under these agreements are met. During the Current Period, $14.4 million was amortized to gross sales revenue, offset by a positive foreign currency translation adjustment of $1.6 million.

Project Bank Debt

In October 2006, MintoEx received credit approval from Macquarie Bank for a debt package totaling C$85 million, which was comprised of a C$65 million PLF (which was converted at the time of the draw down to $57.8 million equivalent) and a C$20 million subordinated loan facility ("SLF"). The PLF was fully repaid December 31, 2009.

The SLF carried an interest rate of Canadian LIBOR plus 2.65% with the first payment due October 1, 2010 and the final payment due May 31, 2011.The SLF was fully repaid October 1, 2010. During the Current Period Canadian LIBOR on the SLF ranged from 0.30 % to 0.83%.

Security on the Minto Mine held by Macquarie Bank will remain in place until the forward sales contracts outstanding related to the debt package are closed out. The current schedule has these contracts being closed out in October 2011.

Bank of Nova Scotia Loan Facility

On January 16, 2009, the Company completed a $40 million corporate revolving tern credit facility ("RTF") with The Bank of Nova Scotia. Under the terms of the RTF, 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, it attracts an interest rate of US LIBOR plus 3.5% (adjustable in certain circumstances). The RTF is secured against the present and future real and personal property, assets and undertakings of Capstone other than the security already pledged against the PLF, SLF and the Power Purchase Agreement ("PPA") with Yukon Energy Corporation ("YEC"). The Lender requires certain ratios related to debt and interest coverage. At December 31, 2010, the available funds under the RTF were $24.0 million of which C$10.0 million was used to support a Letter of Credit in favour of the Yukon Territory Government for the Company's reclamation obligations at the Minto Mine.

Yukon Energy Corporation capital cost contribution

In February 2007, MintoEx executed the purchase power agreement ("PPA") with YEC. Under the terms of the PPA, MintoEx agreed to make payments representing its capital cost contribution of C$7.2 million for the Carmacks-Minto Landing portion of the main power line. The implied interest rate on the contribution was revised to 6.5% from the original 7.5%, and the original repayment schedule was revised from 60 months of interest and principal, to interest only during the first 48 months, followed by equal blended payments of interest and principal during the ensuing 60 months such that the principal is to be fully repaid at the end of nine years. MintoEx's connection to the YEC's electrical grid in November 2008 triggered the first monthly payment commencing December 2008.

In addition, the Company classified its obligation for the C$10.8 million cost of the spur power line to the Minto Mine site as a capital lease. This amount is to be repaid over the same terms as the main power line. The PPA is secured against a charge over all assets of MintoEx, subject only to the security already pledged against the PLF and SLF.

The Company fully repaid the main line and spur line construction obligations in January 2011, 7 years ahead of schedule. The Company's remaining obligations related to the PPA are $5.5 million for the power take or pay component to November 2012 and the reclamation obligation for the spur line at the end of the mine life.

Convertible Debenture

In February 2007, Sherwood Copper Corporation ("Sherwood", a predecessor company to Capstone Mining Corp.) issued convertible senior unsecured debentures (the "Debentures") 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 any time into common shares of the Company at a conversion rate of 248.5715 common shares per C$1,000 principal amount of Debentures, which is equal to a Conversion Price of C$4.02 per common share. The Company may redeem the Debentures 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 the date of issuance the Company estimated the fair value of the conversion option by deducting the present value of the future cash outflows of the Debentures, calculated using a risk-adjusted discount rate of 11.5%, from the face value of the principal of the Debentures. The residual value allocated to the conversion option is added to the face value of the Debentures over the life of the debentures by a charge to earnings, using the effective interest rate method.

The Debentures included 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 recognized a gain during 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 financial liability component of the convertible debentures at December 31, 2010 is as follows *(expressed in thousands)*:

	December 31, 2010
Principal amount of Debentures	$ 4,036
Less: residual value allocated to the conversion option	(1,311)
Financial liability component at issuance	2,725
Accretion of the residual value allocated to the conversion option	718
Conversion of $0.1M of face value of debt into shares	(93)
Foreign currency translation adjustments	984
Balance of financial liability component	4,334
Less: current portion of financial liability component	-
Long term balance of financial liability component	$ 4,334

The principal of the convertible debentures plus accrued interest to December 31, 2010 amounted to $4.7 million.

Capital Leases
Total capital lease obligations at December 31, 2010 were $10.5 million compared with $20.6 million at the end of December 31, 2009. $10.2 million of the Current Period amount includes the Minto Spur Line, which has subsequently been fully repaid. The AIDEA obligation for the Skagway Port facility of $8.5 million, which was included in the December 31, 2009 was fully repaid in December 2010.

Future Income Tax Liability
The future income tax liability of $37.9 million at December 31, 2010, ($2.9 million current and $35.0 million long-term) is related mainly to the excess of accounting values over tax basis resulting from the past acquisition of Western Keltic and the merger between Capstone and Sherwood. In addition, the excess of accounting values over the tax basis of the derivative asset contributed to the amount of the future income tax liability.

Asset Retirement Obligations and Funding
Asset retirement obligations of $12.8 million represents the present value of the future reclamation and severance costs of the Cozamin Mine of $4.7 million, the future reclamation costs at the Minto Mine of $8.0 million and the Kutcho Property of $0.1 million.

The Cozamin Mine closure plan does not have formal approval of the regulatory authorities. There is currently no regulatory mechanism in Mexico which contemplates formal approval of closure plans or for a formal sign-off on completion of planned closure activities. The closure plan for the Cozamin Mine has been provided to the Mexican government, and both closure cost updates and a report on reclamation completed are submitted annually or each six months, respectively, to the regulators. The estimated undiscounted value of the reclamation obligation at December 31, 2010 was $3.2 million. At present, funding of the obligation is not required.

The Minto Mine submitted a revised closure plan to the regulatory authorities in September 2009 which received approval in the third quarter of 2010. The revised plan includes a water treatment plant that was not considered in the previous plan, longer post closure water treatment and monitoring and an increase in surface disturbance. At December 31, 2010, the estimated undiscounted value of the obligation was

C$9.2 million. C$10.0 million in funding by way of a letter of credit has been provided to the Yukon Territory Government for security related to this obligation.

Shareholders' Equity

Shareholders' equity at December 31, 2010 increased to $377.5 million from $285.6 million at December 31, 2009. The $91.9 million increase was due to:

- Share capital increased by $9.7 million with the exercise of share purchase options,
- Contributed surplus increased by $2.2 million related to stock-based compensation;
- Accumulative comprehensive income increased by $7.4 million, due to currency translation adjustment on the strengthening of the Canadian dollar, partially offset by the transfer of realized gains on the sale of investments to earnings, and
- Retained earnings increase increased by $72.6 million on the net earnings in the Current Period.

Financial Capability

The Company's long term success and ability to service its ongoing obligations and cover anticipated corporate, exploration and future development costs is dependent on the Cozamin and Minto mines continuing to generate positive cash flow. At this time, based on the current metal prices and production forecasts and current working capital, the Company believes it has the financial capability to meet its obligations, planned exploration, capital expenditures, operational and corporate activities for the next twelve months.

Capital management

The Company considers that its capital consists of the items included in shareholders' equity, short term credit facilities, long term debt, capital lease obligations, cash and long-term investments. 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, SLF and RTF contain various covenants, including: a) ratios of estimated future cash flows to total debt; b) debt coverage ratios with respect to minimum proven and probable reserves for the life of mine plan approved by Macquarie; and c) a tangible net worth requirement.

Contractual Obligations and Commitments

The following table summarizes at December 31, 2010 certain contractual obligations for the periods specified:

	2011	2012	2013	2014	2015	2016+	Total
($ millions)							
Debt[2]	-	4.8	1.3	1.4	1.4	3.2	12.0
Leases[3]	1.7	1.6	2.6	2.4	2.4	4.6	15.3
Purchase Obligations	3.0	2.5	-	-	-	-	5.5
Reclamation	0.6	0.9	1.6	2.9	1.3	9.1	16.4
Total	5.2	9.8	5.5	6.7	5.1	16.8	49.2

[2] In January 2011 the obligation owing to YEC of C$7.2 million was fully repaid.

[3] Leases include interest amounts. In January 2011 the amount owing to YEC of $10.8 in lease obligations were fully repaid.

Commitments

Agreements with the Selkirk First Nation

Under the terms of a revised co-operation agreement between Minto and the Selkirk First Nation ("Selkirk") dated October 15, 2009, the Company has made various commitments to Selkirk to enhance Selkirk participation in the Minto Mine, including a variable net sales royalty on production from the Minto Mine that fluctuates with the price of copper, as well as various commitments in respect of employment, contracting, 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 $0.1 million.

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 December 2013. As part of the agreement, MRI has provided Minto with a $30.0 million 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 2013.

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 PPA with the 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. The Minto Mine 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. These amounts were fully repaid in January 2011.

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 was 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 twelve month implicit chain price index for gross domestic product at market for Canada as reported by Stats Canada. The rates for 2011 (the third year) are C$15.42/KVA and C$0.0781/KWH. 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 which is expected to be fully offset by its salvage value.

Forward Metal Sales Contracts
As a condition of the loans with Macquarie, the Company maintains a price protection program of copper forward sales contracts as they relate to the Minto Mine. Additionally, the Company has used forward sales contracts for metals produced at its Cozamin Mine in order to manage price risk on its future production.

Details of the Company's forward metal contracts at December 31, 2010 are as follows:

		Forward Sales		Forward Purchases		Net Forward Sales	
Metal	Maturity	Quantity (pounds 000's)	Forward Price (per pound)	Quantity (pounds 000's)	Forward Price (per pound)	Quantity (pounds 000's)	Forward Price (per pound)
Copper	2011	22,293	$ 2.41	10,990	$ 3.26	11,303	$ 2.32
	2012	5,291	3.23	2,646	3.23	2,645	3.25
	2013	4,630	3.19	1,984	3.23	2,646	3.24
	2014	1,984	3.18	-	-	1,984	3.18
		34,198	$ 2.69	15,620	$ 3.25	18,578	$ 2.67
Lead	2011	1,323	$ 1.04	-	$ -	1,323	$ 1.04

The offsetting copper forward purchase contracts locked in an approximate $8.7 million loss on an equivalent number of copper forward sales contracts but provide the Company exposure to any copper price movement going forward on the 17.8 million pounds of copper, of which 2.2 million pounds settled during 2010. The locked in loss was recognized in earnings in 2010.

As at December 31, 2010, the Company had a mark-to-market derivative instrument asset of $14.7 million and liability of $51.1 million (December 31, 2009 – $55.4 million liability) recorded for these forward metal contracts, of which a $11.3 million asset and $42.3 million liability (December 31, 2009 – $33.6 million liability) relate to derivative contracts maturing in less than one year and a $3.4 million asset and $8.8 million liability (December 31, 2009 – $21.8 million liability) relate to derivative contracts with a maturity date greater than one year.

During the Current Period, the Company recorded a realized loss of $34.0 million (Comparative Period – gain of $17.7 million) on metal derivative contracts that were closed out and settled for cash. This is combined with an unrealized non-cash gain of $19.0 million (Comparative Period – loss of $160.7 million) related to changes in the mark-to-market value of open metal derivative contracts at the end of the period, resulting in net loss on metal derivative instruments of $15.0 million (Comparative Period – $143.0 million). The net loss on metal derivatives combined with an unrealized loss of $1.0 million (Comparative Period – gain of $0.9 million) on the Nevada Copper Corp. warrants resulted in a total net loss on all derivative instruments of $16.0 million (Comparative Period – $142.1 million).

Precious Metals Streams
Minto Mine
Under its November 2008 agreement with Silverstone (now Silver Wheaton), the Company must sell all of the Minto Mine gold and silver production to Silver Wheaton for the lesser of $300 per ounce of gold and $3.90 per ounce of silver (subject to a 1% inflationary adjustment after three years and each year thereafter) and the prevailing market price 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, Silver Wheaton will be entitled to purchase only 50% of the amount in excess of those thresholds.

Cozamin Mine
Under its April 2007 agreement with Silverstone (now Silver Wheaton), the Company has a commitment to sell the Cozamin Mine's silver production over a 10 year period to Silver Wheaton. Under the terms of the arrangement, Silver Wheaton agreed to pay for each ounce of refined silver from the mine the lesser of $4.04 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 Silver Wheaton $1.00 per ounce of silver not delivered. To date concentrates containing a total of 4.5 million ounces have been delivered against the contract since its inception.

Risks and Uncertainties

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, lead and zinc. Additionally, it has sold forward to Silver Wheaton all the gold and silver production from the Minto Mine and silver production from the Cozamin Mine.

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.

Trade Credit Risk

The Company will be exposed to trade credit risk through its trade receivables on concentrate sales. The Company manages this risk by dealing with a number of different trade creditors and by requiring provisional payments of 90% 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, 2010, 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.

Derivative Instrument Risk

The Company manages its exposure to fluctuations in metal prices by entering into derivative instruments approved by the Company's board of directors. The Company does not hold or issue derivative instruments for speculation or trading purposes. These derivative instruments are mark-to-market at the end of each period and may not necessarily be indicative of the amounts the Company might pay or receive as the contracts are settled.

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 LIBOR plus a fixed margin. The Company does not enter into derivative contracts to manage this risk.

Mineral Reserve and Mineral Resource Risk

Mineral reserve and mineral resource figures are estimates, and the Company provides no assurance that the estimated tonnage and grades will be achieved or that the indicated level of recovery will be realized. Metal price fluctuations may make the ore reserves, including low grade stockpiles, uneconomical and require the Company to write down assets or discontinue operations. The Company's mineral resource and mineral reserves will be depleted as operations continue and, if the Company is unsuccessful in replacing the depleted materials, the mines will eventually run out of ore to process.

Operating Risk
The Company operates two mines, one open pit and one underground. The financial viability of these operations is dependent on many factors, and is subject to interruption or disruption as a result of factors including, but not limited to, weather, ground stability, changes in recoveries, increases in capital and operating costs, changing metal prices, personnel and equipment shortages, all of which may affect the viability of the mining operations.

Political and Country Risk
Political and related legal and economic uncertainty may exist in countries where the Company may operate. The Company's mineral exploration and mining activities may be adversely affected by political instability and changes to government regulation relating to the mining industry. Other risks of foreign operations include political unrest, labour disputes, invalidation of governmental orders and permits, corruption, war, civil disturbances and terrorist actions, arbitrary changes in law or policies of particular countries, foreign taxation, price controls, delays in obtaining or the inability to obtain necessary environmental permits, opposition to mining from environmental or other non-governmental organizations, limitations on foreign ownership, limitations on the repatriation of earnings, limitations on mineral exports and increased financing costs. These risks may limit or disrupt the Company's projects, restrict the movement of funds or result in the deprivation of contract rights or the taking of property by nationalization or expropriation without fair compensation. Presently, all of the Company's mineral properties are located in Mexico and Canada. While the Company believes that Mexico and Canada represent favourable environments for mining companies to operate, the Company provides no assurance that changes in the government or laws or changes in the regulatory environment for mining companies or for non-domiciled companies will not be made that would adversely affect the Company.

Title Risk
Although the Company has exercised the usual due diligence with respect to determining title to properties in which it has a material interest, there is no guarantee that title to such properties will not be challenged or impugned. The Company's mineral property interests may be subject to prior unregistered agreements or transfers and title may be affected by undetected defects. Surveys have not been carried out on the majority of the Company's mineral properties and therefore, in accordance with the laws of the jurisdictions in which such properties are situated, their existence and area could be in doubt.

Environmental Regulations
The Company's operations are subject to various laws and regulations governing the protection of the environment, exploration, development, production, taxes, labour standards, occupational health, waste disposal, safety and other matters. Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailings disposal areas, which would result in environmental pollution. A breach of such legislation may result in imposition of fines and penalties. In addition, certain types of operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in a direction of stricter standards, and enforcement, and higher fines and penalties for non-compliance. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of operations. The Company intends to fully comply with all environmental regulations.

Economic Conditions
Unfavourable economic conditions may negatively impact the Company's financial viability and could also increase the Company's financing costs, decrease net income, limit access to capital markets and negatively impact any of the availability of credit facilities to the Company.

Transactions with Related Parties
During the Current Period, the Company paid total consulting fees of $0.1 million (Comparative Period – $0.1 million) to two directors of the Company.

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/receivable from related parties are unsecured, non-interest bearing and have no specific repayment terms.

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.

Off Balance Sheet Arrangements
The Company has no off-balance-sheet arrangements other than those disclosed under Contractual Obligations.

Critical Accounting Estimates
The Company's significant accounting policies are presented in Note 2 of the audited consolidated statements for the year ended December 31, 2010. The preparation of consolidated financial statements in accordance with GAAP 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 these estimates; however, actual amounts could differ from the estimates used and accordingly affect the results of operations. These estimates include but are not limited to;

- purchase price allocation on business combinations;
- mineral resources and mineral reserves;
- the carrying values of inventories;
- estimated tonnes of waste material mined for calculation of deferred stripping costs;
- 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;
- estimates used in the assessment of impairment of mineral property, plant and equipment;
- the valuation of financial instruments, including estimates used in provisional pricing calculations;
- the carrying values of the receivables; and
- the valuation of stock-based compensation.

Changes in Accounting Policies
International Financial Reporting Standards
The Canadian Accounting Standards Board confirmed that International Financial Reporting Standards ("IFRS") will replace GAAP effective for fiscal years beginning on or after January 1, 2011. The impact of changing from GAAP to IFRS on the reported financial position and results of operations of the Company is detailed below. The Accounting Standards Board has ongoing projects and intends to issue new accounting standards; as a result, the final impact of IFRS on the Company's consolidated financial statements can only be measured once all the IFRS accounting standards are known. Management will continue to review new standards, as well as the impact of the new accounting standards. Most adjustments required on transition to IFRS will be made, retrospectively, against opening retained earnings.

Conversion Plan
In 2009, the Company completed a scoping study which identified the major areas of focus in the conversion from GAAP to IFRS. The Company's 2010 conversion plan is as follows:

- Complete a detailed evaluation and selection of the available IFRS exemptions – completed,

- Prepare position papers for each area of focus, assessing the differences between GAAP and IFRS; each paper includes a qualification and quantification of the impact on the Company's financial position and results of operations – completed,
- Prepare a January 1, 2010 opening balance sheet under IFRS– completed
- Prepare quarterly 2010 comparative data under IFRS – near completion,
- Prepare draft mock-up financial statements and notes under IFRS – near completion,
- Directors, management and staff training as required - ongoing, and
- Identify and implement any system or internal control changes required with conversion to IFRS - no material changes required.

All the activities above have or are currently being completed with the assistance of the Company's IFRS advisors and reviewed by the Company's external auditors.

Exemptions
IFRS 1 "First-Time Adoption of International Financial Reporting Standards", provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRS.

Mandatory Exemptions:
- Estimates - Applied at transition with no material difference from GAAP.
- De-recognition of financial assets and financial liabilities – Applied at transition with no material difference from GAAP.
- Hedge accounting – Not applicable
- Non-controlling interests – Not applicable
- Classification and measurement of financial assets – Applied at transition with no material difference from GAAP.

Optional Exemptions Elected:
- IFRS 3 Business Combinations – The Company did not restate prior business combinations.
- IAS 16 Property, Plant and Equipment – The Company elected to use the fair value of its mineral property at December 31, 2008 (the date of a revaluation under prior GAAP) as its deemed cost and use this fair value as the carrying value of the mineral property with effect from that date forward.
- IAS 21 Effects of Changes in Foreign Exchange Rates – The Company elected to reclassify the cumulative translation differences previously recorded under GAAP to retained earnings and reset the balance in the cumulative translation reserve to zero.
- IFRIC 4 Leases – The Company elected to take this exemption, though no arrangements have been identified which contain a lease that was not previously accounted for as a lease under GAAP.
- IAS 37 Decommissioning Liabilities – The Company elected to retrospectively recreate its decommissioning liabilities and as a result re-measured its asset retirement obligations at the Transition Date on a basis consistent with IFRS.
- IAS 23 Borrowing Costs – The Company elected to apply the requirement to capitalize borrowing costs in accordance with IFRS with effect from the Transition Date forward.

All other optional exemptions were not elected.

Transition Date Adjustments and Opening IFRS Balance Sheet
Set out below are the consolidated balance sheet line items and the impact the conversion to IFRS had on the Company at the Transition Date:
- Current portion of future income tax asset:
  - Reclassify to long-term.
- Property, plant and equipment:
  - Combine with Mineral property costs for a single line item called "Mineral properties, plant and equipment".

- Mineral property costs:
    - Combine with Property, plant and equipment for a single line item called "Mineral properties, plant and equipment".
    - Decrease of $5.2 million due to the reversal of the future income taxes recognized on purchase of Kutcho under GAAP when it was acquired in 2008.
    - Increase of $0.9 million related to the re-measurement of the Company's asset retirement obligations at the Transition Date.
- Future income tax asset:
    - Reclassify current portion to long-term and renaming the line item "Deferred income tax asset", resulting in an increase of $7.6 million.
- Current portion of future income tax liability:
    - Reclassify to long-term.
- Future income tax liability:
    - Reclassify current portion to long-term and renaming the line item "Deferred income tax liability", resulting in an increase of $0.3 million.
    - Decrease of $4.7 million due to the reversal of the future income taxes recognized on purchase of Kutcho under GAAP when it was acquired in 2008.
    - Decrease of $0.7 million due to the IFRS treatment of foreign exchange differences for Cozamin's deferred tax assets and liabilities.
    - Decrease of $0.2 million due to the IFRS treatment of the Company's asset retirement obligations at the Transition Date.
- Asset retirement obligation:
    - Increase of $1.4 million related to the re-measurement of the Company's asset retirement obligations at the Transition Date.
- Share capital:
    - Increase of $0.3 million related to the IFRS treatment of differences between the accounting and tax treatment of share issue costs.
- Contributed surplus;
    - Increase of $0.5 million related to IFRS treatment of expense recognition for stock based compensation as well as renaming of the line item to "Reserve for equity settled share based transactions".
- Convertible debenture – equity component:
    - Decrease of $0.1 million related to the recognition of a deferred tax liability on the difference between the book and face values of the convertible debenture.
- Accumulated other comprehensive income:
    - Splitting this line item into two new lines to be called "Investment revaluation reserve" and "Foreign currency translation reserve".
    - Reclassify all previously recognized currency translation differences from foreign currency translation reserve to Retained earnings, resulting in a decrease of $14.5 million.
- Retained earnings:
    - Various increases and decreases related to the adjustments noted above, the most significant of which is an increase of $14.5 million related to the re-class of currency translation differences under GAAP.

Unaudited	December 31, 2009	January 1, 2010	
ASSETS	Canadian GAAP	IFRS	Difference
Current			
Cash	$ 115,931	$ 115,931	$ -
Restricted cash	2,496	2,496	-
Receivables	6,946	6,946	-
Inventories	44,438	44,438	-
Prepaids and other	1,404	1,404	-
Future income tax asset	7,567	-	(7,567)
	178,782	171,215	(7,567)
Investments	39,105	39,105	-
Mineral property, plant and equipment	321,192	316,870	(4,322)
Notes receivable	872	872	-
Deferred income tax asset	10,625	18,192	7,567
Other assets	505	505	-
	$ 551,081	$ 546,759	$ (4,322)
LIABILITIES			
Current			
Accounts payable and accrued liabilities	$ 19,782	$ 19,782	$ -
Taxes payable	8,041	8,041	-
Advances on concentrate inventories	16,702	16,702	-
Current portion of other liabilities	48,288	47,999	(289)
	92,813	92,524	(289)
Long term debt	10,821	10,821	-
Capital lease obligations	18,425	18,425	-
Derivative instrument liability	21,757	21,757	-
Deferred revenue	73,465	73,465	-
Deferred income tax liability	39,137	33,857	(5,280)
Asset retirement obligations and other	9,072	10,472	1,400
	265,490	261,321	(4,169)
SHAREHOLDERS' EQUITY			
Share capital	195,861	196,115	254
Contributed surplus	16,275	16,737	462
Convertible debentures - equity component	1,311	1,174	(137)
Investment revaluation reserve	8,914	8,914	-
Foreign currency translation reserve	14,464	-	(14,464)
Retained earnings	48,766	62,498	13,732
	285,591	285,438	(153)
	$ 551,081	$ 546,759	$ (4,322)

Non-GAAP Performance Measures

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

Non-GAAP reconciliation of cash flow from operating activities per common share:

($ millions except per share amounts)	**Current Period**	**Comparative Period**
Cash flow from operating activities - per consolidated financial statements	86.3	112.1
Weighted average common shares – basic- per consolidated financial statements	198,996,825	185,691,755
Cash flow from operating activities per basic common share	**0.43**	**0.60**

[1] *These are non-GAAP performance measures: please see "Non-GAAP Performance Measures" below.*

Non-GAAP reconciliation of cash cost per pound of payable copper:

	Cozamin Mine	Minto Mine	Current Period	Comparative Period
Payable pounds of copper produced (000's)	34,133	38,867	73,000	86,558
Cash cost of sales - per consolidated financial statements ($ millions)	57.5	48.1	105.6	92.5
Inventory adjustment ($ millions)	(4.6)	5.2	0.4	(4.6)
Production costs ($ millions)	52.9	53.3	106.2	87.9
Production costs - $ per pound	1.55	1.37	1.45	1.02
- By-product credits - $ per pound - estimated	(0.61)	(0.14)	(0.36)	(0.32)
- Selling costs - $ per pound - estimated	0.31	0.31	0.31	0.33
Total Cash Cost per payable pound of copper produced - $ per pound - estimated	**1.25**	**1.54**	**1.40**	**1.03**

Non-GAAP reconciliation of adjusted net earnings:

($ millions except per share amounts)	Current Period	Comparative Period
Net earnings (loss) (per consolidated financial statements)	72.6	(18.3)
Stock-based compensation	5.1	2.8
Foreign exchange (gain) loss - unrealized	1.5	(1.6)
Derivative instrument (gain)loss - unrealized	(18.5)	159.8
Gain on disposal of investments	(26.1)	(46.4)
Loss on disposal of fixed assets	0.1	0.5
Future income tax (recovery) expense	10.4	(31.1)
Adjusted net earnings	**45.1**	**65.7**
Weighted average common shares (per consolidated financial statements)	199,452,114	185,691,755
Adjusted net earnings per common share	**0.23**	**0.35**

Non-GAAP reconciliation of cash cost per tonne of mill feed.

	Cozamin Mine 2010	Minto Mine 2010	Cozamin Mine 2009	Minto Mine 2009
Tonnes of mill feed processed	981,682	915,051	975,728	1,031,190
Cost of sales per consolidated financial statements ($ millions)	57.5	48.1	42.2	50.3
Inventory adjustment ($ millions)	(4.6)	5.2	(3.4)	(1.2)
Production costs ($ millions)	52.9	53.3	38.8	49.1
Cash cost per tonne of mill feed - $	**53.84**	**58.24**	**39.77**	**47.64**

Outstanding Share Data and Dilution Calculation

The Company is authorized to issue an unlimited number of common shares, without par value. The table below summarizes the Company's common shares and securities convertible into common shares as at March 10, 2011:

Issued and outstanding	203,918,053
Share options outstanding @ a weighted average exercise price of $3.22	12,774,814
Convertible debentures @ 248.5715 shares per C$1,000 principle amount, total debenture amount of C$4.6 million, expiry March 31, 2012	1,175,495
Fully Diluted	217,868,362

[1] *These are non-GAAP performance measures: please see "Non-GAAP Performance Measures" below.*

Disclosure Controls and Procedures
As of December 31, 2010, management has evaluated the design and the operating effectiveness of the disclosure controls and procedures as defined by National Instrument 52-109. This evaluation was performed under the supervision of and with the participation of the CEO and the CFO. Based on this evaluation, management, the CEO and the CFO concluded that the design and operation of the disclosure controls and procedures were effective as of December 31, 2010.

Internal Control over Financial Reporting
As of December 31, 2010, management has evaluated the design and the operating effectiveness of the internal control over financial reporting ("ICFR") as defined by National Instrument 52-109. This evaluation was performed under the supervision of and with the participation of the CEO and the CFO.
Based on this evaluation, management, the CEO and the CFO concluded that the design and operating effectiveness of ICFR were effective as of December 31, 2010. The Company uses the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") internal control framework to design ICFR. Due to its inherent limitations, ICFR may not prevent or detect misstatements on a timely basis as such systems can only be designed to provide reasonable as opposed to absolute assurance. Also projections of any evaluation of the effectiveness of ICFR to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Changes in Internal Control over Financial Reporting
National Instrument 52-109 also requires Canadian public companies to disclose in their MD&A any change in ICFR during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, ICFR. There were no changes in ICFR during the quarter ended December 31, 2010 that materially affected or are reasonably likely to materially affect the Company's ICFR.

Approval
The board of directors of Capstone has approved the disclosure contained in this Annual MD&A. A copy of this MD&A will be provided to anyone who requests it from the Company.

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

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

Forward-looking statements relate to future events or future performance and reflect Company management's expectations or beliefs regarding future events and include, but are not limited to, statements with respect to the effect of the shareholders rights plan, estimation of mineral reserves and mineral resources, the realization of mineral reserve estimates, the timing and amount of estimated future production, costs of production, capital expenditures, success of mining operations, environmental risks, unanticipated reclamation expenses, title disputes or claims and limitations on insurance coverage. In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved" or the negative of these terms or comparable terminology. In this document, certain forward-looking statements are identified by words including "may", "future", "expected", "intends" and "estimates". By their very nature forward-looking statements involve known and unknown risks,

[1] *These are non-GAAP performance measures: please see "Non-GAAP Performance Measures" below.*

uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, risks related to actual results of current exploration activities; changes in project parameters as plans continue to be refined; future prices of resources; possible variations in ore reserves, grade or recovery rates; accidents, labour disputes and other risks of the mining industry; delays in obtaining governmental approvals or financing or in the completion of development or construction activities; as well as those factors detailed from time to time in the Company's interim and annual financial statements and management's discussion and analysis of those statements, all of which are filed and available for review under the Company's profile on SEDAR at www.sedar.com.Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. The Company provides no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

National Instrument 43-101 Compliance

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

The disclosure in this MD&A of all technical information has been prepared under the supervision of Robert Barnes, Professional Engineer, Vice President Operations of the Company, and Brad Mercer, Professional Geologist, Vice President Exploration of the Company, both Qualified Persons under NI 43-101.