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# ANNUAL INFORMATION FORM

For the year ended December 31, 2014

March 16, 2015

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IN THIS ANNUAL INFORMATION FORM, UNLESS THE CONTEXT OTHERWISE REQUIRES, THE "COMPANY" OR "CAPSTONE" REFERS TO CAPSTONE MINING CORP. AND ITS SUBSIDIARIES. ALL INFORMATION CONTAINED HEREIN IS AS OF DECEMBER 31, 2014, UNLESS OTHERWISE STATED.

**Cautionary Statement Regarding Forward-Looking Information**

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

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

- inherent hazards associated with mining operations;
- future prices of copper and other metals;
- counterparty risks associated with sales of our metals;
- our ability to raise capital;
- foreign currency exchange rate fluctuations;
- accuracy of mineral resource and mineral reserve estimates;
- changes in general economic conditions;
- uncertainties and risks related to the potential development of the Santo Domingo Project;
- increased operating and capital costs;
- challenges to title to our mineral properties;
- operating in foreign jurisdictions with risk of changes to governmental regulation;
- compliance with governmental regulations;
- dependence on key management personnel;
- compliance with environmental laws and regulations;
- reliance on approvals, licences and permits from governmental authorities;
- impact of climatic conditions on our Pinto Valley, Cozamin and Minto operations;
- potential conflicts of interest involving our directors and officers;
- aboriginal title claims and rights to consultation and accommodation;
- limitations inherent in our insurance coverage;
- land reclamation and mine closure obligations;
- labour relations;
- increasing energy prices;
- competition in the mining industry;
- risks associated with joint venture partners; and
- our ability to integrate new acquisitions into our operations.

For a more detailed discussion of these factors and other risks, see "Risk Factors" beginning on page 59.

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

**Currency**

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

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

| | As at December 31 | | |
|---|---|---|---|
| **Canadian dollar** (C$)[(1)] | **2014** | **2013** | **2012** |
| Average | 1.1047 | 1.0298 | 0.9996 |
| High | 1.1533 | 1.0704 | 1.0418 |
| Low | 1.1074 | 0.9838 | 0.9710 |
| **Mexican peso** (MX$)[(2)] | **2014** | **2013** | **2012** |
| Average | 13.2985 | 12.7691 | 13.1456 |
| High | 14.7843 | 13.4394 | 14.1257 |
| Low | 12.8429 | 11.9807 | 12.6433 |

(1) Information on US$ to C$ exchange rates obtained from Bank of Canada daily noon exchange rates.
(2) Information on US$ to MX$ exchange rates obtained from oanda.com.

**Conversion Table**

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

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

**Compliance with NI 43-101**

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

**Classification of Mineral Reserves and Mineral Resources**

In this Annual Information Form and as required by NI 43-101, the definitions of proven and probable mineral reserves and measured, indicated and inferred mineral resources are those used by Canadian Provincial securities regulatory authorities and conform to the definitions utilized by the Canadian Institute of Mining, Metallurgy and Petroleum ("CIM") in the "CIM Standards on Mineral Resources and Reserves – Definitions and Guidelines" adopted on August 20, 2000 and amended December 11, 2005 and November 27, 2010 ("CIM Standards").

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

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

In particular, the SEC's Industry Guide 7 applies different standards in order to classify mineralization as a reserve. As a result, the definitions of proven and probable reserves used in NI 43-101 differ from the definitions in Industry Guide 7. Under SEC standards, mineralization may not be classified as a "reserve" unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve determination is made. Accordingly, mineral reserve estimates contained in this Annual Information Form may not qualify as "reserves" under SEC standards.

In addition, this Annual Information Form uses the terms "measured mineral resources", "indicated mineral resources" and "inferred mineral resources" to comply with the reporting standards in Canada. The SEC's Industry Guide 7 does not recognize mineral resources and US companies are generally not permitted to disclose resources in documents they file with the SEC. Investors are cautioned not to assume that any part or all of the mineral deposits in these categories will ever be converted into SEC defined mineral "reserves." Further, "inferred mineral resources" have a great amount of uncertainty as to their existence and as to whether they can be mined legally or economically. Therefore, investors are also cautioned not to assume that all or any part of an inferred mineral resource exists. In accordance with Canadian rules, estimates of "inferred mineral resources" cannot form the basis of feasibility or other economic studies, except in rare cases. In addition, disclosure of "contained ounces" in a mineral resource estimate is permitted disclosure under NI 43-101 provided that the grade or quality and the quantity of each category is stated; however, the SEC normally only permits issuers to report mineralization that does not constitute "reserves" by SEC standards as in place tonnage and grade without reference to unit measures. For the above reasons, information contained in this Annual Information Form containing descriptions of our mineral resource and mineral reserve estimates is not comparable to similar information made public by US companies subject to the reporting and disclosure requirements of the SEC.

**GLOSSARY OF TECHNICAL TERMS**

In this Annual Information Form, the following technical terms have the following meanings:

| | |
|---|---|
| AAS | atomic absorption spectroscopy. |
| Ag | silver. |
| alteration | chemical and mineralogical changes in a rock mass resulting from the passage of fluids. |
| anomaly | a deviation from uniformity. In the search for minerals, it is an area in which higher or lower than background concentrations of minerals may be found. |
| assay | an analysis of the contents of metals in mineralized rocks. |
| Au | gold. |
| biotite | a magnesium-iron mica widely distributed in igneous rocks. |
| breccia | a fragmental rock whose components are angular and not water-worn. |
| chlorite | the general term for hydrated silicates of aluminum, iron and magnesium. |
| CIM | Canadian Institute of Mining, Metallurgy and Petroleum and the CIM Standards on Mineral Resources and Reserves – Definitions and Guidelines" adopted on August 20, 2000 and amended December 11, 2005 and November 27, 2010. |
| COG | cut off grade. |
| Cu | copper. |
| deposit | a mineralized body which has been physically delineated by drilling, trenching and/or underground work and may contain a sufficient average grade of metal or metals to warrant further exploration and/or development expenditures. Such a deposit does not qualify as a commercially mineable reserve until final technical, legal and economic factors have been resolved. |
| diamond drillholes | holes drilled by a method whereby rock is drilled with a diamond impregnated, hollow drilling bit which produces a continuous, in situ record of the rock mass intersected in the form of solid cylinders of rock which are referred to as core. |
| disseminated | a texture in which minerals occur as scattered particles in the rock. |
| dmt | dry metric tonnes. |
| dmtu | dry metric tonne unit. |
| DFS | definitive feasibility study. |
| dyke | an introsive tabular body of igneous rock that cuts across the layering or fabric of the host rock. |
| fabric | the spatial arrangement and orientation of rock components, whether crystals or sedimentary particles, as determined by their sizes, shapes, etc. |
| fault | a fracture in a rock across which there has been displacement. |
| Fe | iron. |
| feldspar | one of a group of rock forming minerals which include microcline, orthoclase, plagioclase and anorthoclase. |
| foliation | the preferred planar orientation of minerals and mineral aggregates in metamorphic rocks. |
| g | gram. |
| grade | the amount of valuable mineral in each tonne of ore, expressed as ounces per ton or grams per tonne for precious metal and as a percentage by weight for other metals. |
| g/t | grams per metric tonne. |
| ha | hectares. |

| | |
|---|---|
| host rock | a volume of rock within which mineralization or an ore body occurs. |
| HQ | approximately 63mm diameter drill core. |
| hydrothermal | applied to metamorphic and magmatic emanations high in water content; the processes in which they are concerned; and the rocks or ore deposits, alteration products, and springs produced by them. |
| igneous | a type of rock that is crystallized from a liquid magma. |
| Indicated Mineral Resources | in accordance with CIM definitions, that part of a mineral resource for which quantity, grade or quality, densities, shape and physical characteristics can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parameters to support mine planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drillholes that are spaced closely enough for geological and grade continuity to be reasonably assumed. |
| Inferred Mineral Resources | in accordance with CIM definitions, that part of a mineral resource for which quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity. The estimate is based on limited information and sampling gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drillholes. |
| IOCG | iron oxide-copper-gold. |
| k | kilo (thousand). |
| Koz | thousands of ounces. |
| Kt | thousands of tonnes. |
| LOM | life of mine. |
| M | Mega (million). |
| mafic | ferromagnesian minerals and rocks where these minerals are abundant. |
| masl | metres above sea level. |
| Measured Mineral Resources | in accordance with CIM definitions, that part of a mineral resource for which quantity, grade or quality, densities, shape and physical characteristics are so well established that they can be estimated with confidence sufficient to allow the appropriate application of technical and economic parameters to support production planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drillholes that are spaced closely enough to confirm both geological and grade continuity. |
| mineral reserve | in accordance with CIM definitions, the economically mineable part of a Measured or Indicated Mineral Resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. A mineral reserve includes diluting minerals and allowances for losses that may occur when the material is mined. |
| mineral resource | in accordance with CIM definitions, a concentration or occurrence of diamonds, natural solid inorganic material, or natural solid fossilized organic material including base and precious metals, coal, and industrial minerals in or on the earth's crust in such form and quantity and of such a grade or quality that it has reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. |

| | |
|---|---|
| Mineralization | significant amounts of mineral(s) that is (are) of economic interest which may be established by prospecting, trenching and drilling. |
| Mlb | millions of pounds. |
| Mo | Molybdenum. |
| MS | magnetic susceptibility. |
| Mt | Megatonne (million tonnes). |
| MW | Megawatt (million watts). |
| NI 43-101 | National Instrument 43-101 - Standards of Disclosure for Mineral Projects. |
| NQ | approximately 47 millimetre diameter drill core. |
| NSR | net smelter return. |
| ore | rock that contains one or more minerals or metals, at least one of which has commercial value and which is estimated to be able to be recovered at a profit. |
| outcrop | an exposure of rock at the earth's surface. |
| Pb | lead. |
| pyrite | a common iron sulphide mineral commonly found in hydrothermal veins and systems and commonly associated with gold mineralization. |
| QAQC | quality assurance/quality control in a mineral exploration and mining context is the combination of quality assurance, the process or set of processes used to assure data quality, and quality control, the process of identifying data outside of established tolerance limits. |
| Qualified Person | has the meaning set out in NI 43-101. |
| quartz | a common rock forming mineral made up of silicon dioxide. |
| SAG | Semi-Autogenous grinding. |
| silica | silicon dioxide ($SiO_2$), which occurs in the crystalline forms as quartz, cristobalite, tridymite, as cryptocrystalline chalcedony, as amorphous opal, and as an essential constituent of the silicate groups of minerals. |
| tpd | tonnes per day. |
| vein | a sheet-like body of minerals formed by fracture-filling or replacement of the host rock. |
| volcanic | formed by volcanic activity. |
| WUL | water use licence. |
| Zn | zinc. |

## 1 - CORPORATE STRUCTURE

### 1.1 Name, Address and Incorporation

Capstone Mining Corp. ("Capstone") was incorporated pursuant to the *Company Act* (British Columbia) on July 17, 1987 under the name 330338 BC Ltd. We changed our name to Fire Star Resources Ltd. on April 21, 1989, to International Bancorp Ltd. on August 17, 1989 and to IBL Equities Ltd. on March 5, 1991. On January 2, 1996, we changed our name to Serena Resources Ltd. and consolidated our share capital on a 5:1 basis. On May 17, 2001, we changed our name to Consolidated Serena Resources Ltd. and consolidated our share capital on a 5:1 basis. On March 6, 2003, we changed our name to Capstone Gold Corp., and on February 8, 2006, we changed our name to our current name, Capstone Mining Corp. The Company is now governed by the *Business Corporations Act* (British Columbia). On January 12, 2005, Capstone amended its Notice of Articles to change it authorized capital from 100,000,000 common shares to an unlimited number of common shares and to reduce the threshold percentage of votes required to approve a special resolution from 75% to 66⅔%, amongst other things. On April 30, 2014, the Company amended its Articles to modify the means by which notice of meetings of shareholders and other shareholder information may be delivered to shareholders and revised the quorum requirements for meetings of shareholders.

Capstone's principal business and registered office is at 900 - 999 West Hastings Street, Vancouver, BC, V6C 2W2. As of March 30, 2015, Capstone's principal business and registered office will be at 2100 – 510 West Georgia Street, Vancouver, BC, V6B 0M3.

On November 24, 2008, Capstone and Sherwood Copper Corporation ("Sherwood") completed a court-approved plan of arrangement pursuant to which a Capstone wholly-owned subsidiary acquired all of the issued and outstanding common shares of Sherwood in exchange for common shares of Capstone, and the subsidiary and Sherwood amalgamated to form a new corporation named "Capstone Mining North Ltd." On January 1, 2009, Capstone and Capstone Mining North Ltd. were amalgamated to form Capstone Mining Corp.

On June 17, 2011, a wholly-owned subsidiary of Capstone acquired all of the issued and outstanding common shares of Far West Mining Ltd. ("Far West") by way of a court-approved plan of arrangement. Concurrent with the acquisition of Far West, the Company entered into an agreement with Korea Resources Corporation ("KORES"), pursuant to which Capstone sold KORES a 30% indirect interest in Far West.

On April 22, 2013, the Company incorporated 0968158 BC Ltd. under the *Business Corporations Act* (British Columbia) and on August 7, 2013, 0968158 BC Ltd. changed its name to Capstone PV Mining Corp. On April 22, 2013, the Company incorporated two indirect wholly-owned Delaware subsidiaries, which later changed their names to Capstone US Mining Corp. and Pinto Valley Mining Corp. On October 11, 2013, Pinto Valley Mining Corp. completed the acquisition of the Pinto Valley Mine and Capstone US Mining Corp completed the acquisition of 99.9% of all of the outstanding stock of San Manuel Arizona Railroad Company ("SMARRCO"). The remaining 0.1% of SMARRCO is held by the three directors of SMARRCO, as required under Arizona railroad law.

On September 16, 2013, the Company incorporated Capstone Finance Ltd. under the *Business Corporations Act* (British Columbia). On September 27, 2013, we established a branch in Luxembourg ("Luxembourg Branch") for purposes of investment and financing within the Capstone group of companies. The Luxembourg Branch incorporated a wholly-owned subsidiary, Capstone Luxembourg Finance Sarl ("Luxembourg Finance") to provide financial lending to Capstone subsidiary companies. On October 4, 2013, Luxembourg Finance provided a loan to Capstone US Mining Corp. for purposes of funding the acquisition of the Pinto Valley Mine.

The Company carries on our Mexican activities, primarily the operation of the Cozamin Mine in the State of Zacatecas, through Capstone Gold, S.A. de C.V. ("Capstone Mexico"), a company incorporated on December 31, 2003, pursuant to the laws of Mexico. The Company owns 99% of the issued and outstanding securities of Capstone Mexico; the remaining 1% is beneficially owned by the Company and held in trust by its attorney of law in Mexico. All salaried employees at the Cozamin Mine are employed through Capstone Services S.A. de C.V. and all employees paid on an hourly basis are employed through Capstone Mining S.A. de C.V.

The Company carries on additional Mexican activities through Capstone Exploraciones S.A. de C.V. ("Capstone Exploraciones"), a company incorporated on November 29, 2012, pursuant to the laws of Mexico. The Company owns 99%

of the issued and outstanding securities of Capstone Exploraciones; the remaining 1% is owned by 0807370 BC Ltd., a wholly-owned subsidiary of the Company.

On May 14, 2014, Capstone incorporated Capstone Netherlands Investment Cooperatie U.A. and Capstone Netherlands Mining B.V. under the laws of the Netherlands, for purposes of investment within the Capstone group of companies. On August 26, 2014 Capstone Netherlands Mining B.V. established Mining Opco, S.A. de C.V., a Mexican incorporated entity, holding a 99% interest in the entity with the remaining 1% interest held by Capstone Mexico Mining Corp. Mining Opco S.A. de C.V. carries on mining and mineral exploration activities in Mexico.

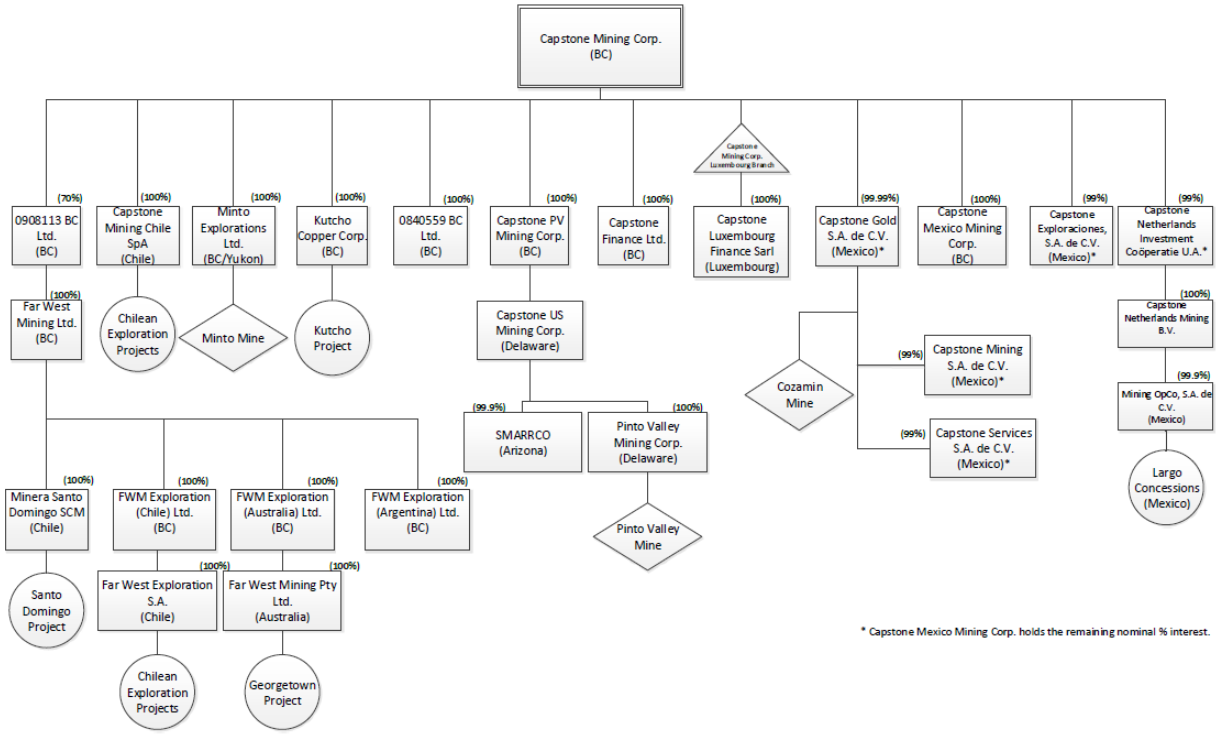
The Company carries on our Canadian activities, primarily the operation of the Minto Mine, located in Yukon through Minto Explorations Ltd. ("MintoEx"), a company incorporated on April 20, 1993, pursuant to the laws of the Province of British Columbia. The Company owns 100% of the issued and outstanding common shares of MintoEx.

The Company carries on its Chilean activities, primarily the development of the Santo Domingo Project, through partial indirect ownership of Minera Santo Domingo SCM (formerly, Minera Lejano Oeste, S.A.), a company incorporated pursuant to the laws of Chile on July 22, 2003. The Company owns 70% of the issued and outstanding common shares of 0908113 BC Ltd., which owns 100% of the issued and outstanding common shares of Far West, which in turn owns 100% of the issued and outstanding common shares of Minera Santo Domingo SCM. A subsidiary of KORES owns the remaining 30% of 0908113 BC Ltd.

The Company carries on additional Chilean mineral-related activities through Capstone Mining Chile SpA., a company incorporated pursuant to the laws of Chile on June 6, 2012. The Company owns 100% of the issued and outstanding common shares Capstone Mining Chile SpA. This activity, described in more detail below, is primarily focused on the exploitation of an option agreement with Sociedad Química y Minera de Chile S.A. ("SQM") to earn up to 70% of a property, Project Providencia, located in Region II of Chile.

### 1.2 Intercorporate Relationships

The following chart describes the intercorporate relationships among Capstone's subsidiaries and our percentage of ownership as at March 20, 2015:



## 2 - GENERAL DEVELOPMENT OF THE BUSINESS

Capstone is a Canadian base metals mining company, focused on copper in the Americas. We have grown through a combination of exploration, development and acquisition of mineral properties and currently operate three producing copper mines: Pinto Valley in the US, Cozamin in Mexico, and Minto in Canada. We have two development projects: Santo Domingo in Chile and Kutcho in Canada, as well as exploration properties in Chile, Mexico and Australia.

### 2.1 Three Year History

***2015 to date***

In February 2015 we announced the selection of POSCO E&C ("POSCO") as the preferred EPC fixed price lump sum contractor for the Santo Domingo project. While the final EPC contract has not been negotiated or concluded, we awarded POSCO a Limited Notice to Proceed ("LNTP") to the end of Stage-Gate 1, which will include confirmation of completeness of the engineering and contractual performance guarantee parameters. This award totaled approximately $4.5 million and is part of Capstone's previously announced 2015 base case budget of $16.9 million (of which Capstone's 70% share is $11.8 million). This work is expected to be completed before the end of the second quarter of 2015.

In January 2015 we announced a Senior Secured Corporate Revolving Credit Facility ("RCF") for up to $500 million. This facility amended our existing senior secured corporate revolving term facility and allowed us to repay and cancel our senior secured reducing revolving credit facility.

***2014***

Following the acquisition of the Pinto Valley Mine in 2013, we issued a Pre-Feasibility Study in March of 2014 converting Mineral Resources to Mineral Reserves to take the mine plan from 5 years to 12 years, extending the mine life to 2026. Immediately following that, a further study was undertaken to consider the remaining Mineral Resources and their potential. At year end Capstone announced that two cases will be advanced to the pre-feasibility study level ("PV3 PFS"). The base case will include a 10% to 15% increase in throughput and the possibility of a mine life extension beyond 2026 and a second case will evaluate a throughput increase to 90,000 tonnes per day combined with a potential mine life extension. The PV3 PFS is expected to be completed in the third quarter of 2015, at which time we will evaluate the two alternatives and the best use of capital.

Operating activities at the Pinto Valley Mine through the year focused on mill stability and cost reductions. Production was within the guided range for 2014 and nearing targeted operating levels by year end.

In August, we announced completion of an updated NI 43-101 compliant mineral resource estimate for the Cozamin Mine in Mexico. The estimate resulted in an immaterial reduction of both Mineral Reserves and Mineral Resources and a number of steps are now underway in early 2015 to potentially recover some reserve losses.

On June 5, 2014 there was a fatality at the Cozamin Mine. A contract miner was struck by a falling rock while working in an active mine face.

At the Minto Mine in Yukon, the mine plan was revised during the year to reflect the delay in receiving the Water Use Licence ("WUL") amendment which is required to bring additional reserves into the mine plan. Capstone made application to the Yukon Environmental Socio-Economic Assessment Board ("YESAB") for all remaining identified copper reserves on the property in July 2013 and YESAB recommended in favour of the proposed continuation of operation of the Mine in April 2014. Application was then made for the amended Quartz Mining and Water Use Licences on July 2, 2014. We had three rounds of information requests from the Yukon Water Board through the latter part of 2014, with the Yukon Water Board declaring "Adequacy" in December 2014. On December 10, 2014, our application went to the public comment period, which ended on January 21, 2015. For an update on the status of the WUL amendment application please see the heading *Minto Mine (Yukon)* below.

Development activities continued to advance at our Santo Domingo project in Chile. In June 2014 we completed a feasibility study for the project with capital costs within the range of $1.7 billion as previously guided (accuracy range of -10% to +15%) and an unlevered after-tax internal rate of return of 17.9%. We continued to advance the regulatory, social licence and technical development of the project.

A number of exploration activities were undertaken in 2014, both brownfield at our existing operation in Mexico and greenfield, primarily in Chile at Project Providencia, the earn in project with SQM.

***2013***

The most significant development in 2013 was our acquisition of the Pinto Valley Mine, which more than doubled our copper production.

On April 28, 2013, we announced a definitive agreement with BHP Copper Inc., a subsidiary of BHP Billiton Ltd. ("BHP"), to purchase BHP's wholly-owned Pinto Valley copper mining operation and associated SMARRCO in Arizona, US for $650M. The purchase price was paid in cash, satisfied from an existing $200M Senior Secured Revolving Credit Facility ($176M available at the time of the transaction), a new 2.5-year, $200M Senior Secured Reducing Revolving Credit Facility and cash on hand. The acquisition was completed on October 11, 2013.

The Pinto Valley property included a significant amount of mineralization not included in BHP's publicly-reported Mineral Reserve estimate. In conjunction with the acquisition, Capstone completed and filed a NI 43-101 report titled "Pinto Valley Property Mineral Resource Estimate" supporting the mineral resource estimate of the Pinto Valley copper mining operation.

Development activities progressed at our Santo Domingo Project in Chile, with the Environmental Impact Assessment filed and the port concession advanced.

Following the acquisition of Pinto Valley, Kutcho's production profile and mine life no longer fit within our growth strategy and we announced that strategic alternatives were being evaluated. As such, the assets and liabilities of Kutcho are classified as held for sale as at December 31, 2014.

Exploration activities advanced in 2013, both brownfield at our existing operation in Mexico and greenfield with the establishment of a significant new option agreement in Chile. In March we announced an updated NI 43-101 compliant mineral resource estimate for the Mala Noche Footwall Zone ("MNFWZ") at our Cozamin Mine in Mexico, updating the mineral resource estimate with drilling completed in the latter half of 2011 and most of 2012.

In August, we announced an option agreement with SQM to earn up to 70% of a property, Project Providencia. The initial option is on 350,000 hectares in Chile's II Region and is reduced over time to a maximum of 50,000 hectares if a joint venture is formed. Capstone is the operator of the project and have the right to withdraw from the project at any time.

***2012***

In 2012, we continued to advance on our organic growth strategy by completing the Phase VI Pre-Feasibility Study ("PFS") on the Minto Mine. This study built on the previous Phase V PFS by applying economic considerations to the most recently added resources and incorporating them into the mine plan, as well as optimizing, updating and improving on various other aspects of the operation. This Phase VI PFS formed the basis to commence the permitting activities for the extended mine life.

Following the Minto Phase VI PFS completion, additional drilling in 2012 continued to add to the Minto resource base with the first NI 43-101 compliant mineral resources estimate completed for two new areas, the Minto East Extension and Inferno North areas.

Brownfield exploration activities continued at the Cozamin Mine, with an updated NI 43-101 compliant mineral resource estimate for the MNFWZ at the Cozamin Mine incorporating follow up drilling.

In April 2012 we entered into a four year, $200M Senior Secured Revolving Corporate Credit Facility at US dollar London Inter-bank Offered Rates ("LIBOR") plus 1.75% with four banks. This facility replaced our previous $40M corporate revolving term credit facility.

On December 27, 2012, we announced a normal course issuer bid to purchase up to 34,014,871 of our common shares. Early in the first quarter of 2013, we purchased and cancelled 2,263,100 common shares in the open market. The program was suspended as we advanced discussions on the Pinto Valley purchase.

## 3 - DESCRIPTION OF THE BUSINESS

### 3.1 General

Capstone is a Canadian base metals mining company, focused on copper in politically safe and mining friendly jurisdictions in the Americas. Our principal product is copper, with zinc, lead, molybdenum, silver and gold produced and sold as by-products. We are focused on profitability, a growing production profile and operating in a safe and responsible manner. Our well defined growth strategy has two tiers. The first is organic growth of our existing development projects and extension of our existing mines. The second is through the acquisition of producing properties and early stage exploration properties. Capstone's material mineral properties consist of:

- Pinto Valley Mine, an open-pit, copper mine located in Arizona, USA;
- Cozamin Mine, an underground, copper-silver mine located in the State of Zacatecas, Mexico;
- Minto Mine, an open-pit and underground copper mine located in the Whitehorse Mining District, Yukon, Canada; and
- Santo Domingo Project, a large-scale, copper-iron project in Chile, in which Capstone holds a 70% interest.

In addition to ongoing exploration at the Cozamin Mine aimed at increasing mine life and throughput, we have a portfolio of early-stage, base metals exploration projects with the potential to add to production over the longer term. This exploration is focused in mining friendly jurisdictions, with preference given to areas where a team is in place and the permitting process is well understood. Capstone is actively pursuing additional exploration opportunities through earn-in and joint venture models.

The primary exploration project we are presently pursuing is Project Providencia in Region II, Chile, under an option agreement with SQM to earn up to 70% of the project. It is a very large under-explored land package in the world's most prolific copper jurisdiction.

*Principal Products and Operations*

The Company's principal product is copper (in concentrate as well as copper cathode), with zinc, lead, molybdenum, silver and gold produced as by-product. The following table summarizes Capstone's production for 2013 and 2014:

| **Operating Statistics** | **Pinto Valley** | | **Cozamin** | | **Minto** | |
|---|---|---|---|---|---|---|
| | **2014** | **Q4 2013** [1] | **2014** | **2013** | **2014** | **2013** |
| **Production** (contained metal) | | | | | | |
| Copper (tonnes) | 62,716 | 13,434 | 19,813 | 20,645 | 18,411 | 16,891 |
| Zinc (tonnes) | - | - | 6,509 | 8,085 | - | - |
| Lead (tonnes) | - | - | 1,148 | 1,237 | - | - |
| Molybdenum (tonnes) | 113 | 6 | - | - | - | - |
| Silver (000s ounces) [2] | 286 | 59 | 1,615 | 1,682 | 171 | 162 |
| Gold (ounces) [3] | - | - | - | - | 19,909 | 18,361 |
| **Cathode Production** | | | | | | |
| Copper (tonnes) | 2,413 | 645 | - | - | - | - |
| **Mining - Open Pit** | | | | | | |
| Waste (000s tonnes) | 932 | 10 | - | - | 2,858 | 9,696 |
| Ore (000s tonnes) | 20,931 | 4,538 | - | - | 517 | 2,013 |
| Total (000s tonnes) | 21,863 | 4,549 | - | - | 3,375 | 11,709 |
| **Mining - Underground** | | | | | | |
| Ore (000s tonnes) | - | - | 1,216 | 1,209 | 301 | - |
| **Milling** | | | | | | |
| Milled (000s tonnes) | 17,231 | 3,730 | 1,228 | 1,206 | 1,439 | 1,402 |
| Tonnes per day | 47,209 | 45,491 | 3,365 | 3,305 | 3,942 | 3,842 |
| Copper grade (%) | 0.41 | 0.42 | 1.74 | 1.86 | 1.37 | 1.31 |
| Zinc grade (%) | - | - | 0.85 | 1.12 | - | - |
| Lead grade (%) | - | - | 0.18 | 0.19 | - | - |
| Molybdenum grade (%) | 0.01 | 0.01 | - | - | - | - |
| Silver grade (g/t) [2] | - | - | 57.8 | 61.0 | 4.7 | 4.6 |
| Gold grade (g/t) [3] | - | - | - | - | 0.6 | 0.5 |
| **Recoveries** | | | | | | |
| Copper (%) | 88.9 | 85.0 | 92.7 | 92.1 | 93.2 | 92.3 |
| Zinc (%) | - | - | 62.0 | 60.1 | - | - |
| Lead (%) | - | - | 52.5 | 54.5 | - | - |
| Silver (%) | - | - | 70.8 | 71.1 | 78.5 | 78.5 |
| Gold (%) [1] | - | - | - | - | 77.5 | 78.4 |
| **Concentrate Production** | | | | | | |
| Copper (dmt) | 211,709 | 50,235 | 77,734 | 81,351 | 50,246 | 46,303 |
| Copper (%) | 29.6 | 26.8 | 25.5 | 25.4 | 36.6 | 36.5 |
| Silver (g/t) [2] | - | - | 583 | 574 | 106 | 109 |
| Gold (g/t) [3] | - | - | - | - | 12 | 12 |
| Zinc (dmt) | - | - | 14,100 | 16,928 | - | - |
| Zinc (%) | - | - | 46.2 | 47.8 | - | - |
| Lead (dmt) | - | - | 1,950 | 2,205 | - | - |
| Lead (%) | - | - | 58.8 | 56.1 | - | - |
| Silver (g/t) | - | - | 2,504 | 2,541 | - | - |
| Molybdenum (dmt) | 222 | 14 | - | - | - | - |

[1] *Pinto Valley's results for the 82 day period of Capstone ownership (Oct 11/13 to Dec 31/13).*

[2] *Silver is not assayed on site for Pinto Valley, resulting in a significant lag time in receiving this data.*

[3] *Gold is not assayed on site for Minto, resulting in a significant lag time in receiving this data.*

During the year ended December 31, 2014, we generated gross revenue of $739.9M on the sale of 354,361 dmt of copper concentrates, 15,085 dmt of zinc concentrates, 2,083 dmt of lead concentrates, 166 dmt of molybdenum concentrates and

2,598 tonnes of copper cathode. Payable metals sold included 103,947 tonnes of copper, 5,700 tonnes of zinc, 1,081 tonnes of lead, 97 tonnes of molybdenum, 1.9M ounces of silver and 31,116 ounces of gold.

The following table summarizes the gross sales revenue for 2014 and 2013:

**Gross Sales Revenue by Metal**

| | Year ended Dec. 31, 2014 ($ 000's) | Year ended Dec. 31, 2014 % | Year ended Dec. 31, 2013 ($ 000's) | Year ended Dec. 31, 2013 % |
|---|---|---|---|---|
| Copper | 694,470 | 93.9 | 329,853 | 89.5 |
| Zinc | 12,375 | 1.7 | 12,569 | 3.4 |
| Lead | 2,264 | 0.3 | 2,234 | 0.6 |
| Molybdenum | 2,069 | 0.3 | - | - |
| Silver | 17,347 | 2.3 | 13,855 | 3.8 |
| Gold | 11,346 | 1.5 | 9,911 | 2.7 |
| Total | 739,871 | 100.0 | 368,422 | 100.0 |

*Precious Metals Streams*

In 2008, we sold all of our gold and silver production from the Minto Mine over the life of mine to Silverstone Resources ("Silverstone"), which was subsequently bought by Silver Wheaton Corp. ("Silver Wheaton") in consideration for an upfront payment of $37.5M and a further payment of 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 30,000 ounces of gold per year, Silver Wheaton will be entitled to purchase only 50% of the amount in excess of that threshold. We have recorded the proceeds received as deferred revenue and recognize this amount as an adjustment to revenue as the ounces are delivered.

Under an April 2007 agreement we have committed to sell the Cozamin Mine's silver production over a 10 year period to a company subsequently acquired by Silverstone, now Silver Wheaton. Under that agreement, Silver Wheaton pays 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 for each ounce of silver, subject to price adjustments. Further, we agreed to deliver a minimum of 10.0M ounces of silver under the Agreement. To December 31, 2014 a total of 10.2M ounces have been delivered against the contract, thereby surpassing the minimum delivery requirement.

*Competitive Conditions*

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

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

*Environmental Protection*

The Company's operations (Pinto Valley, Cozamin and Minto) and development project (Santo Domingo) are in the US, Mexico, Canada and Chile and are subject to national and local laws and regulation in respect of the construction, operating standards and the eventual abandonment and restoration costs for the site. Since the Cozamin Mine, and

certain areas of the Minto Mine are relatively small tonnage and higher-grade operations, the overall financial impact of the environmental protection requirements is minor relative to our overall financial performance. Each operation is subject to an asset retirement obligation review at year-end, which assesses the abandonment and restoration cost for the operation at that point, and any changes are reflected in the balance sheet and could flow through the earnings statement. While the financial obligations will increase as disturbance increases, given the relatively modest amounts involved, such impacts are likely to be relatively minor from a capital and earnings perspective, in the near term. Pinto Valley Mine has a long history of operations in an established mining district of Arizona. As a low-grade, high tonnage operation the reclamation issues, while different from those at Capstone's other operations, were reviewed with regulators in 2013 and detailed local guidance and regulations around acceptable closure practices are well understood. In addition, the site has undergone significant progressive reclamation. The Santo Domingo project is currently unpermitted; the environmental protection requirements could affect the project's advancement by delaying or preventing approvals consistent with the economic development of the project. Chile has a well-defined permitting process and clear environmental protection objectives and timely approval is expected for a project of the scope of Santo Domingo in its environmental setting.

The Company's assets are in mature and stable mining jurisdictions and the environmental protection requirements are not anticipated to be a significant impediment to carrying out our business, nor should they result in an unsustainable burden on our earnings.

*Employees*

As of December 31, 2014, the Company had 1,345 employees and 475 contractors.

Our workforce at Minto and Cozamin is not unionized. There are approximately 368 hourly employees at the Pinto Valley Mine who are members of six unions, governed by one collective bargaining agreement negotiated by the United Steelworkers Union. The collective bargaining agreement at the Pinto Valley mine expired in June 2014 and negotiations have been ongoing since that time.

*Foreign Operations*

Three of the Company's material properties are located in foreign jurisdictions, being the Pinto Valley Mine located in the United States, Cozamin Mine located in Mexico and the Santo Domingo Project located in Chile. We also have interests in various exploration projects in Chile, Mexico and Australia.

Foreign operations accounted for approximately 79% of our 2014 revenue and represented approximately 83% of our assets as at December 31, 2014.

*Social and Environmental Policies*

The Company places great emphasis on providing a safe and secure working environment for all of Capstone's employees and contractors, and recognizes the importance of operating in a sustainable manner.

There was a fatality at the Cozamin Mine in June 2014. A contract miner was struck by a falling rock while working in an active mine face underground. We reviewed safety practices at Cozamin and our other mine sites as part of company-wide due diligence and response to this incident.

### 3.2 Material Mineral Properties

***Pinto Valley Mine (US)***

The Company, through Pinto Valley Mining Corp., owns 100% of the Pinto Valley Mine, a 52,000 tonne per day copper mine located in the Globe-Miami district in Gila County, Arizona, approximately 130 km east of Phoenix in the southern United States. Pinto Valley's primary product is copper concentrate and we also produce copper cathode and by-product molybdenum and silver.

The Pinto Valley Mine is the subject of a report titled "Pinto Valley Mine 2014 Pre-Feasibility Study" dated April 28, 2014 with an effective date of January 1, 2014 ("PV2 PFS"). This technical report was compiled by Stantec Consulting International LLC, and authored by Tony J. Freiman, PE, AMEC Environment & Infrastructure, Inc.; Corolla Hoag, CPG, SME-

RM, SRK Consulting (U.S.), Inc.; Garth Kirkham, P.Geo., FGC Kirkham Geosystems Ltd.; Mel K. Lawson, SME-RM, Stantec Consulting Services Inc.; Kenneth W. Major, P.Eng., KWM Consulting Inc.; Adam Majorkiewicz, P.Eng., Adam M Consulting Inc.; and John Marek, PE, SME-RM, Independent Mining Consultants, Inc., each a Qualified Person as defined by NI 43-101. The description of the Pinto Valley Mine in this document is based on assumptions, qualifications and procedures which are set out only in the full PV2 PFS. Reference should be made to the full text of this report, which is available in its entirety on SEDAR at *www.sedar.com* under the Company's profile.

*Project Description and Location*

The property is located at the west end of the Globe-Miami mining district, approximately 130 km east of Phoenix and 10 km west of the town of Miami, in Gila County, Arizona, at 33°23'32"N and 100°58'15"W. The Pinto Valley property consists of approximately 2,460 ha of contiguous claims. These comprise 69 patented lode mining claims, 53 patented mill sites, 329 unpatented lode mining claims and mill sites, and seven parcels of fee (private) land.

Capstone acquired the Pinto Valley Mine and associated railroad operations on October 11, 2013 for a cost of $650M USD. A 2% NSR applies to 26 of the unpatented mining claims which are not expected to be mined until after 2026.

Pinto Valley is an open-pit operation that is currently 335 m deep, 1,500 m wide, and 2,100 m long. The pit is L-shaped and is near on-site infrastructure. There are suitable facilities for the maintenance of large earth-moving equipment and for the mill and general personnel. Two previous tailings dams have been rehabilitated and two tailings dams are currently operational (Figure 1).

Environmental liabilities at the Pinto Valley Mine relate to the heap leach facility, tailings deposits and associated engineered containment infrastructure, waste rock dumps as well as some water stored at the site that is impacted by operations as well as the removal of all operational infrastructures. A closure strategy has been developed and approved (most recently in October 2013 as part of the permit transfer process) detailing methods and costs associated with restoring the site to an acceptable environmental standard. Surety Bonds totaling $87.1M have been filed with the Arizona State Mining Inspector ("ASMI") and the Arizona Department of Environmental Quality ("ADEQ") in accordance with the mandate of these agencies and associated regulations and policies. These financial security amounts represent the estimated reclamation cost for the mining operations at the end of the permitted mine plan on an undiscounted basis. These amounts are reviewed when we alert the agencies of a change in the mine plan or closure measures.

The Pinto Valley Mine requires 17 permits granted from various state and federal agencies; operations of the railroad requires five permits mainly from the State of Arizona. Pinto Valley Mine has all the necessary permits to conduct mining activities for the next 12 years, with the exception of an amendment to the Aquifer Protection Permit ("APP") that is currently under review by the ADEQ and consolidation/renewal of existing land use authorizations (Plan of Operations) that is currently under review by the U.S. Forest Service ("USFS"). After approval of the APP amendment and Plan of Operations, we expect that additional financial assurance will be required by the ADEQ and USFS, likely in 2015.

*Accessibility, Climate, Local Resources, Infrastructure and Physiography*

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

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

Pinto Valley Mine has sufficient surface rights for mining operations, mineral processing facilities and tailings storage. Off-site infrastructure includes the incoming electric power generation and transmission capacity provided by the Salt River Project ("SRP"), the local highway system provided by state and federal governments, the local transportation services provided by various contractors, and the telephone and data communications systems. Tailings are deposited in existing permitted tailings storage facilities. Tailings Dam No. 4 is the primary storage facility, with Tailings Dam No. 3 used during

maintenance activities at Tailings Dam No. 4 (Figure 1). There is an adequate source of water with potable water coming from four groundwater wells and service water from a Peak Well system.


Google Maps, USDA Farm Service Agency 2013

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

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

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

*History*

The Globe-Miami district is one of the oldest and most productive mining districts in the United States, with its first recorded production in 1878. Since that time, over 15 billion pounds of copper have been produced.

The Pinto Valley Mine property was originally owned by Miami Copper Company in 1909 and transitioned, through acquisitions and mergers by the Tennessee Corporation and Cities Service Company, to Occidental Petroleum Corporation. Occidental sold the property to Newmont Mining Corporation in 1983, who changed the name to Pinto Valley Copper Corporation ("Pinto Valley Copper"). In 1986, Pinto Valley Copper became the Pinto Valley Mining Division of Magma

Copper Company. In 1995, Broken Hill Proprietary Company Limited purchased Magma Copper Company, and after merging with Billiton in 2001, the Pinto Valley Mining Division became Pinto Valley Operations of BHP Copper Inc.

A chalcocite-enriched zone of the deposit was mined from 1943 until 1953 as the Castle Dome underground mine. Development of the Pinto Valley open pit began in 1972, with the mine and concentrator entering production in 1974 producing a copper concentrate. The solvent extraction/electrowinning ("SX/EW") plant began processing pregnant-leach-solution ("PLS") from the leach dumps in 1981. In February 1998, mining and milling were suspended due to depressed copper prices. The concentrator was placed under care and maintenance and the mining equipment fleet was sold. Operating and environmental permits were maintained during the suspension of sulphide operations, as were the water and electrical systems. Cathode copper production continued during the suspension of sulphide operations at the Pinto Valley SX/EW facilities. After a rehabilitation project, the mine and mill were restarted in late 2007. The Pinto Valley Operations operated for 18 months and was then again placed under care and maintenance in January 2009 due to depressed metal prices. Operations resumed in 2012 by BHP Copper. In 2013, Capstone purchased Pinto Valley Operations, now referred to as Pinto Valley Mine.

The pre-2006 Pinto Valley drilling programs comprised a combination of core, rotary, and churn drillholes. Drilling documentation was limited to BHP Copper internal reports, and there were no listings for vintage data, methods used, or pre-2010 drilling procedures. Churn holes defined much of the early Castle Dome mineralization, which has been mined out. Post-Castle Dome holes were drilled on an original spacing of east-west and north-south. Later, drilling was done to infill the original grid spacing in some areas. Drilling that has occurred since the 1986 block model includes 10 core holes and 3 reverse circulation ("RC") rotary holes drilled in 1992. From the beginning of 1996 to April 1997, 67 RC exploration and infill holes were drilled: 48 RC holes drilled in 1996, and 19 RC holes drilled in 1997. The 1997 holes were drilled in the interior pit and through the Gold Gulch and Continental faults. Seven of the exploration holes were drilled east of the existing pit and laid the ground work for future plans of an east pit expansion, known as the Satellite Pit. All drillhole collar locations were surveyed. The majority of the drillholes are vertical and, therefore, do not have downhole surveys. However, a majority of the inclined holes do have downhole surveys. From 2006 through 2008, there were drilling campaigns with various purposes, including delineation, exploration, geotechnical, and resource classification upgrade drilling. These include 39 drillholes in 2007 and 62 drillholes in 2008. Diamond drillhole programs in 2010 focused on exploration, while those in 2011 and 2012 focused on infill drilling for resource classification upgrade in support of restarting operations. Ten holes were drilled in 2010, 40 holes were drilled in 2011, and 64 holes were drilled in 2012. In 2013 BHP drilled 12 in-pit infill diamond drillholes totalling 2,853 m, to close the drillhole spacing grid and 64 in-pit RC drillholes totalling 3,380 m to help characterize the mineralization directly beneath working levels of the mine.

All drillhole logging data, including collar, survey, assay, lithology, alteration, and mineralization data were entered into an acQuire™ structured-query-language ("SQL") database system. All sample data were tagged and tracked using bar codes, which linked all assay information provided by the laboratory to the database, including the QAQC. The system was secured by BHP using stringent protocols and procedures. Deviations and discrepancies from sample dispatch reports were reported and investigated.

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

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

As part of the start-up Feasibility Study done in 2006, a QAQC program was conducted on 101 randomly selected drillhole assay interval pulp samples and 15 randomly selected drill core assay intervals. Samples were sent to Skyline Assayers and Laboratories ("Skyline Labs") in Tucson, Arizona for total copper and acid-soluble copper analyses. Skyline Labs was instructed to analyse the samples for acid soluble copper using BHP lab procedures. Certified reference material standards

from the National Institute of Standards and Technology ("NIST") were inserted in sequential order for analysis preceding the 15th pulp sample in the analytical run. The results indicated that historical quality control measures used in the Pinto Valley Mine analytical laboratory were variable. At times they were extremely good, but at others they were less so, although still acceptable.

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

*Geological Setting*

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

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

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

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

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

*Exploration*

Capstone is not currently exploring the Pinto Valley Property because only 16% of the known mineral resources are included in the mineral reserves. We are focused on increasing mineral reserves through engineering, feasibility and permitting work aimed at demonstrating economic viability of the existing mineral resources not presently included in the mineral reserves.

*Mineralization*

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

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

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

*Drilling*

We have not conducted any exploration drilling programs since taking ownership of the Pinto Valley Mine. We continue to focus on increasing the mineral reserves through engineering, feasibility, and permitting work aimed at demonstrating economic viability of the existing mineral resources not in the mineral reserves.

*Sampling and Analysis*

The Company has not undertaken any drilling or exploration work since acquiring the Pinto Valley Mine. Details pertaining to sampling during drilling programs completed before Capstone ownership can be found above in the section titled *History*.

As a part of the data verification process, Garth Kirkham, P.Geo, an independent Qualified Person as defined by NI 43-101 and co-author of the NI 43-101 Technical Report, Pinto Valley Mine 2014 Prefeasibility Study, visited the property on May 14, 2013. He inspected the core logging facilities, offices, outcrops, historic drill collars, core stage facilities, core receiving area, core sawing stations, and toured the major centres and surrounding towns that are affected by the mining operation. His overall impression was that of a clean, well-organized and professional environment.

Mr. Kirkham randomly selected four complete drillholes from the database and laid the core out at the core storage area. Site staff supplied the logs and assay sheets so he could verify the core and logged intervals. The data correlated with the physical core and no issues were identified. In addition, Mr. Kirkham toured the complete core storage facility, pulling and reviewing core throughout the tour. No issues were identified and drilling recoveries appeared to be very good to excellent.

Mr. Kirkham was confident the data and results were valid based on the site visit and inspection of all aspects of the project. This confidence extended to the sampling methods and procedures used. In Mr. Kirkham's opinion, all work, procedures and results have adhered to best practices and industry standards required by NI 43-101. Mr. Kirkham also visited Skyline and deemed the lab to be professionally operated, as is expected from a widely-used North American laboratory facility. Skyline has been ISO 17025 certified since 2008.

*Mineral Resource and Mineral Reserve Estimates*

The mineral resource estimate for Pinto Valley mineralization was completed by independent consultant and Qualified Person, Garth Kirkham, P.Geo., of Kirkham Geosystems Ltd., as a part of the PV2 PFS summarized in the Pinto Valley Mine 2014 Prefeasibility Study NI 43-101 Technical Report. The mineral resources were estimated using accepted industry standards conforming to NI 43-101 requirements. Drillhole samples were composited downhole to 13 m (45 feet) length

to match the selective mining unit ("SMU") bench height and to reduce the influence of typically narrow, very high-grade samples. A radius of 45 m has been applied to values greater than 1.5% total copper ("TCu") and 0.05% molybdenum ("Mo"). The average bulk dry density for ore-grade mineralized rock, primarily Ruin Granite, is 2.51 t/$m^3$ (12.75 $ft^3$/ton). Although the in-situ bulk dry densities for all Pinto Valley Mine rock types range between 2.46 t/$m^3$ (13.0 $ft^3$/ton) for Whitetail conglomerate to 2.64 t/$m^3$ (12.1 $ft^3$/ton) for Pinal schist, 12.75 $ft^3$/ton was used. Grade variability is low, with nugget effects of less than 15% for both copper and molybdenum. The block model grades for copper and molybdenum were estimated using ordinary kriging into blocks that were 30 m Easting × 30 m Northing × 14 m Elevation (100 ft × 100 ft × 45 ft) in size. During grade estimation, search orientations were designed to follow the general trend of the mineralization in each of the zone domains. The estimation plan involved a single search pass using a minimum of 6 composites and a maximum of 15 composites, with a maximum of 5 from any single drillhole. The search ellipse measured 230 m along the major and semi-major axis and 90 m along the minor axis.

In 2014, a refined topographic surface was generated to report the mineral resources within the floating cone pit-shell described in the PV2 PFS. The refined topographic surface resulted in an increase to the reported Measured and Indicated mineral resources by 59,991 kt at an average grade of 0.35% Cu and Inferred mineral resources by 461 kt at a grade of 0.31% Cu, all above a 0.18% Cu cut-off grade. The reported mineral resources in Table 1 are based on the mineral resources estimate completed by Garth Kirkham, P.Geo., that reflect the refined topographic surface. The mineral resources have been updated to take into account mining activities until December 31, 2014 by Pinto Valley Mine staff under the supervision of Jeremy Vincent, P.Geo., Manager of Production and Development Geology at Capstone, and a Qualified Person under NI 43-101. Mineral resources are reported above a 0.18% Cu cut-off grade.

**TABLE 1: PINTO VALLEY ESTIMATED MINERAL RESOURCES AS AT DECEMBER 31, 2014***

| Classification | Tonnes (kt) | Copper (%) | Molybdenum (%) | Contained Copper (kt) | Contained Molybdenum (kt) |
|---|---|---|---|---|---|
| Measured | 665,233 | 0.34 | 0.008 | 2,291 | 55.9 |
| Indicated | 939,033 | 0.28 | 0.006 | 2,605 | 60.1 |
| Measured + Indicated | 1,604,266 | 0.31 | 0.007 | 4,896 | 116.0 |
| Inferred | 58,615 | 0.23 | 0.005 | 137 | 3.1 |

**Notes:*

1. *Jeremy Vincent, P.Geo., is the Qualified Person responsible for the disclosure of the Pinto Valley mineral resources.*
2. *Mineral resources are not mineral reserves and do not have demonstrated economic viability.*
3. *Mineral resources are presented inclusive of mineral reserves.*
4. *Mineral resources are reported as at December 31, 2014.*
5. *Mineral resources are reported above a 0.18% TCu cut-off grade.*
6. *Stockpiled material is treated as Measured mineral resources.*
7. *Totals may not tally due to rounding.*

The mineral reserves estimate, completed by John Marek, PE, President of Independent Mining Consultants, Inc., ("IMC"), was developed by tabulating the contained Proven and Probable-classified material inside of the designed open pit above the mill cut-off grades. Property boundaries and the capacity of permitted tailings facilities constrained the mineral reserves. The mine plan and schedule utilize a declining cut-off grade to the mill that starts at breakeven cut-off in 2014 and reduces to internal cut-off in 2023. Based on a long-term copper metal price of US$2.20/lb for a floating cone pit optimization analysis, the cut-off grade for the estimation of mineral reserves is 0.18% TCu for production years 2014 through 2022. This is the low-grade stockpile cut-off. The remaining years of the mine life, 2023 through 2025, utilize a 0.17% TCu cut-off grade. The final pit design has not included the run-of-mine ("ROM") dump leach in the floating-cone pit-optimization analysis. Material that is incurred at ROM leach grade is reported in the mining plan for allocation to storage areas, but it is not incorporated into the statement of mineral reserves. The mineral reserves stated in Table 2 are based on the mineral reserves estimate completed by John Marek, PE. This has been updated by Pinto Valley Mine staff to reflect mining activities until December 31, 2014 under the supervision of Brad Skeeles, Vice President of North American Operations for Capstone, a Qualified Person as defined by NI 43-101.

**TABLE 2: PINTO VALLEY ESTIMATED MINERAL RESERVES AS AT DECEMBER 31, 2014***

| Classification | Tonnes (kt) | Copper (%) | Molybdenum (%) | Contained Copper (kt) | Contained Molybdenum (kt) |
|---|---|---|---|---|---|
| Proven | 199,212 | 0.33 | 0.008 | 651 | 15.9 |
| Probable | 9,682 | 0.24 | 0.008 | 23 | 0.8 |
| Total | 208,894 | 0.32 | 0.008 | 675 | 16.7 |

**Notes:*

1. *Brad Skeeles, P.Eng., is the Qualified Person responsible for the disclosure of the Pinto Valley mineral reserves.*
2. *Mineral reserves are reported above 0.17% TCu cut-off for production years 2014 through 2022 and above 0.18% TCu for production years 2023 through 2025.*
3. *Mineral reserves are reported as at December 31, 2014.*
4. *Stockpiled material is treated as Proven mineral reserves.*

*Mining Operations*

Pinto Valley copper mine is an open-pit mine with conventional processing facilities and an SX/EW plant for low-grade copper extraction. The Pinto Valley Mine, which restarted in December 2012, uses a conventional drill and blast, and truck and shovel fleet. The pit is mined in 14 m benches with a double bench configuration in deeper zones. Material from the pit is transported to either the primary crusher, run-of mine stockpile, waste rock dumps or low-grade leach dumps.

Run of mine ore is crushed through the primary crusher and conveyed to the fine crushing plant for further size reduction. The fine-crushed ore is fed to a conventional grinding and flotations circuit to produce a bulk copper concentrate and molybdenum concentrate. The concentrates are thickened and filtered to produce product suitable for transport. The product is transported by truck to SMARRCO, a trans-shipment facility in San Manuel, Arizona where it is transported to Port of Guaymas, Sonora, Mexico by rail. The concentrate is loaded onto ocean freighters for delivery to international market. Low-grade leach-dump material goes through a leach processing and the resulting pregnant leach solution is sent to the SX/EW facility to create copper cathodes.

The majority of copper concentrate produced from Pinto Valley is sold to smelters under multi-year contracts. The copper cathode is sold through a competitive tendering process. Pinto Valley has a processing rate of 50,200 tpd and life of mine annual production of 54,200 kt of copper contained in concentrate and 2,860 kt of cathode copper. The current mine plans extends the Pinto Valley Mine operations life to 2026.

Pinto Valley has well-established environmental protocols that adhere to federal and state regulatory requirements and to internal corporate guidance to reduce impacts to the environment. Pinto Valley is subject to environmental regulations addressing groundwater, surface water, storm water management; air quality; well installation; water withdrawal from state aquifers; waste handling and disposal; handling and storage of toxic substances; surface reclamation; and cultural and biological resources. The Pinto Valley Mine has all the necessary permits to conduct mining activities through 2026, with the exception of the consolidated Plan of Operations that is currently under review by the USFS. The consolidated Plan of Operations is a compilation of prior authorizations and encroachments on federal lands and is expected to be completed in 2016.

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

- Corporate Taxes – the combined US Federal and Arizona state corporate income tax is calculated at a blended 36.35% rate applied on taxable income. The Alternative Minimum Tax ("AMT") is calculated at a 20% rate applied on an adjusted amount of taxable income. A taxpayer pays the higher amount of regular Federal income tax and the AMT. If AMT is paid, it may generally be used as a credit against regular tax in future years to the extent regular tax is greater than AMT.
- The Arizona state severance tax on metalliferous minerals is charged at a 2.5% rate on 50% of the difference between the gross value of production and production costs.
- Gila County property taxes are administered by the Arizona Department of Revenue.

The economic analysis was conducted for Pinto Valley as part of the PV2 PFS. The cash flow analysis shows an operating cash flow of $1,602 M, which results in a pre-tax NPV (8%) of $931M and a post-tax (8%) of $738M. The analysis did not include any acquisition cost or expenditures prior to January 1, 2014 and treated those costs as "sunk".

*Exploration and Development*

We do not currently have any planned exploration activities at the Pinto Valley Mine. Our development activities are focused on PV2 execution with the arrival of additional mining equipment. An internal study in 2014 evaluated the resources at Pinto Valley not included in the current mine plan. As a result, two cases will be advanced to the Pre-Feasibility study level ("PV3 PFS"). The PV3 PFS base case will include a 10% to 15% increase in throughput and the possibility of a mine life extension beyond 2026 and a second case will evaluate a throughput increase to 90,000 tonnes per day combined with a potential mine life extension. The PV3 PFS is expected to be completed in the third quarter of 2015, at which time we will evaluate the two alternatives and the best use of capital.

***Cozamin Mine (Mexico)***

The Cozamin Mine is the subject of a report titled "Technical Report on the Cozamin Mine, Zacatecas, Mexico" dated August 5, 2014 with an effective date of July 18, 2014 (the "Cozamin Report"). This technical report was prepared by Patrick Andrieux, PhD., P.Eng., Itasca Consulting Group, Inc.; Dave Hallman, PE, Tetra Tech, Inc.; Jenna Hardy, P.Geo., Nimbus Management Ltd.; Mel Lawson, SME-RM, Stantec Consulting International LLC; Ken Major, P.Eng., KWM Consulting Inc.; Vivienne McLennan, P.Geo., Capstone Mining Corp.; Allan Schappert, SME-RM, Stantec Consulting International LLC; Ali Shahkar, P.Eng., Lions Gate Geological Consulting Inc.; Robert Sim, P.Geo., Sim Geological Inc.; Brad Skeeles, P.Eng., Capstone Mining Corp.; and Jeremy Vincent, P.Geo., Capstone Mining Corp., each a Qualified Person as defined by NI 43-101. Reference should be made to the full text of this report, which is available in its entirety on SEDAR at *www.sedar.com* under the Company's profile.

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

*Project Description and Location*

The Cozamin Mine is a 3,300 tonne per day operating copper-silver mine, located in the Morelos Municipality of the Zacatecas Mining District, near the south-eastern boundary of the Sierra Madre Occidental Physiographic Province in North-central Mexico. The mine and processing facilities are located near coordinates 22° 48' N latitude and 102° 35' W longitude on 1:250,000 Zacatecas topographic map sheet (F13-6). The Cozamin Mine comprises 88 concessions covering approximately 4,308 ha.

The Company acquired the project in January 2004, which is 100% owned by the Company, subject to a 3% NSR payable to Grupo Bacis S.A. de C.V., a Mexican resource company. Mineral claims acquired in September 2009 from Minera Largo S de RL de CV, a wholly owned subsidiary of Golden Minerals Company ("Golden Minerals"), are subject to future cash payments of a NSR of 1.5% on the first one million tonnes of production and cash payments equivalent to a 3.0% NSR on production in excess of one million tonnes from the acquired claims. The NSR on production in excess of one million tonnes also escalates by 0.5% for each $0.50 increment in copper price above $3.00 per pound of copper. In 2014, we acquired 45 additional concessions from Golden Minerals totalling 775 ha that surround the Cozamin Mine's existing

concessions. A total of 17 of the claims are subject to a finder's fee to be paid as a 1.0% NSR or Gross Proceeds Royalty to International Mineral Development and Exploration Inc. pursuant to existing agreements on the concessions dating back to October 1994 and August 2000. The Cozamin property requires land rental and government fee payments on the mining concessions to be paid semi-annually in January and July. Taxes totalled US$ 34,810 in 2013 and US$ 41,945 in 2014.

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

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

The Cozamin Mine's mineral resources and mineral reserves are situated primarily within a mineralized vein/fault structure known as the Mala Noche Vein ("MNV") that strikes east-west and dips to the north. This structure hosts the copper-rich San Roberto Mine and adjacent to the east, the zinc-rich San Rafael Mine. In 2010, we discovered the Mala Noche Footwall Zone ("MNFWZ"), a vein splay oriented northwest-southeast off the MNV. The Company is currently exploring veins and fault splays analogous to the MNV. Figure 2 illustrates the location of project infrastructure and the surface projection of the MNV.

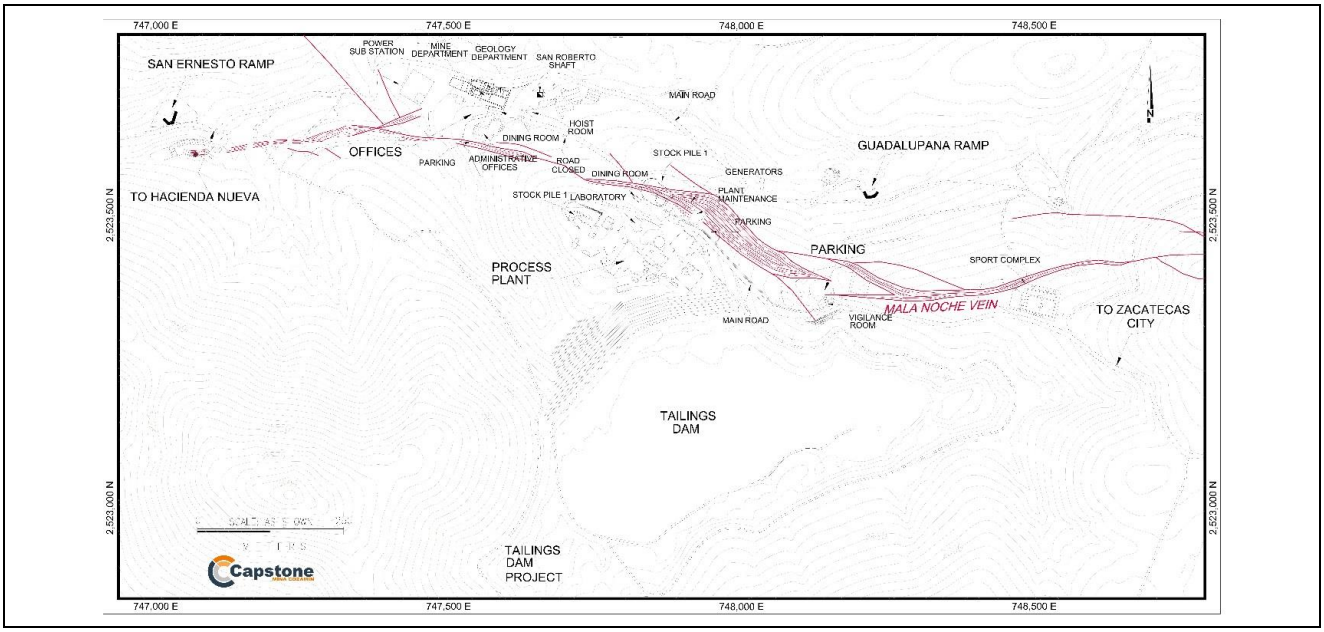



**FIGURE 2: COZAMIN INFRASTRUCTURE AND LOCATION OF MINERAL RESOURCES AND RESERVES.**

Environmental studies have shown that flotation tailings and some types of waste rock have the potential to generate acidic drainage. However, the country rocks surrounding the deposit have significant neutralizing capacity and show relatively low permeability. In addition, construction activities as a part of the expansions have already reduced identified sources of acidic drainage associated with the historic tailings impoundment as well as downstream contamination due to tailings spills by previous operators. An environmental management and monitoring program is currently underway and will be ongoing for the life of mine. Data collected are being used to define an operational environmental management and monitoring program, which will include appropriate environmental management and mitigation plans based on the

principle of continuous improvement. These will be reviewed and revised as necessary, on at least an annual basis, with results reported as required to Mexican regulators.

Other issues of environmental concern relate to potential impacts comparable to those in underground mines of similar size with flotation tailings impoundments. These include: dust, tailings handling/management, storm water diversion, combustibles and reagent management/handling, waste management and disposal and noise. Work to date indicates that environmental impacts are manageable. Cozamin was awarded the Clean Industry Certification from Mexico's Federal Attorney for Environmental Protection (Procuraduría Federal de Protección al Ambiente or PROFEPA) for the second time in December 2013 for this management process and best practices and procedures. This is valid until November 2015.

*Accessibility, Climate, Local Resources, Infrastructure and Physiography*

The Cozamin Mine is located 3.6 km to the north-northwest of the city of Zacatecas, the Zacatecas state capital. The municipality of Zacatecas has a population of approximately 130,000 people. Other communities in the immediate vicinity of the project include Hacienda Nueva (3 km west), Morelos (5 km northwest) and Veta Grande (5 km north). The Cozamin Mine operates year round and is accessible via paved roads to the project area boundary where good, all-weather roads provide access to the mine and most of the surrounding area. The mine area falls within the Hacienda Nueva and La Pimienta Ejidos.

The Cozamin Mine has excellent surrounding infrastructure including schools, hospitals, railroads, highways, and electrical power. The mine has access to a power line and substation that allows the Company to draw up to 10.5 MW from the national power grid. Generators (both operating and back-up) on site have a capacity of 2.0 MW. At present there is sufficient capacity to store all of the tailings from the processing of identified mineral reserves assuming the Stages 6 and 7 lifts are constructed. Permits are not currently issued for all of these additional raises to the tailings storage facility. Employees and contractors are sourced from Zacatecas and other nearby communities with minimal foreign staff at the mine. Sufficient surface rights have been obtained to conduct all mining operations.

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

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

*History*

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

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

Minera Cozamin was established in 1982 by Jack Zaniewicki who consolidated concession holdings over much of the Mala Noche Vein and operated the San Roberto Mine and plant at 250 tpd until October 1996. During this period, Industrias

Peñoles S.A. de C.V. ("Peñoles") undertook exploration in the district but did not buy any significant concessions. In all, it is estimated that 1.2 million tonnes of ore were mined and processed at the Cozamin Mine prior to October 1996.

In October 1996, Zaniewicki sold Cozamin to Minera Argenta, a subsidiary of Minera Bacis S.A. de C.V. ("Bacis"). Bacis expanded the mill to a 750 tpd flotation plant, and processed 250,000 tonnes of ore grading 1.2% Cu, 90 g/t Ag, 0.5 g/t Au, 1.8% Zn and 0.6% Pb from 1997 to the end of 1999, mainly from shallow, oxide zone workings. Bacis developed resources principally by drifting and raising on the Mala Noche Vein within the San Roberto (Cozamin) mine. Diamond drilling was only used as an exploration tool to identify areas with mineralization peripheral to the developed mine workings. Near the end of 1998, Bacis closed the mine primarily due to low metal prices and under-capitalization of the asset. Capstone assumed ownership of the Cozamin Mine in 2004.

*Geological Setting*

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

The host rocks for the MNV are intercalated carbonaceous meta-sedimentary rocks and andesitic volcanic rocks ranging in age from Triassic to Cretaceous, and Tertiary-aged rhyolite intrusive rocks and flows. Mineralization in the MNV appears to have been episodic. A copper-silver dominant phase is interpreted as one of the last stages of mineralization at Cozamin. In general, this copper-silver phase was emplaced into an envelope of pre-existing vein hosting moderate to strong zinc and lead mineralization and moderate silver mineralization. Thus, the host lithology to the vein does not appear to have influenced the strength of the copper-silver phase of mineralization which is typically enveloped by earlier vein material.

*Exploration*

Cozamin exploration geologists have systematically mapped a total of 1,694 ha throughout the Cozamin Mine property at scales of 1:1,000 or 1:2,000 since 2004. Regular surface exploration along the strike of the MNV system has occurred through channel sampling and chip sampling. Channel samples were cut perpendicular to the strike of the vein and weighed approximately 2 kg. The results of the surface channel and chip sampling programs have been used to assist with exploration drillhole planning, but not used for mineral resources estimation.

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

*Mineralization*

All mineralization at the Cozamin Mine occurs primarily in the Mala Noche fault-vein structure ("MNV"). In the San Roberto Mine, the Mala Noche strikes west-northwest and the dip varies between 38° to 90° to the north. There is a clear association of higher copper grades with steeper dips of the Mala Noche fault. Where the Mala Noche is weakly mineralized, it appears that the principal alteration in this fault is mostly quartz-pyrite.

The main stage of copper-dominant mineralization at the Cozamin Mine can be classified as intermediate sulphidation, high-temperature epithermal transitioning at depth to more mesothermal-like mineralization. The copper-dominant stage of mineralization appears to cut across or overprint earlier more clearly epithermal zinc-dominant mineralization. The epithermal veins display well banded quartz veins, sulphide pseudomorphs of carbonates, open space fillings, and quartz druse vug linings. The higher temperature veins have significantly less vugs, and the veins can be massive pyrrhotite-pyrite-chalcopyrite.

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

This transition from epithermal zinc dominant mineralization to copper-dominant mesothermal mineralization is thought to be the result of an evolving, telescoping hydrothermal system that was epithermal in its early stages and became mesothermal as the hydrothermal migrated upwards. This telescoping hydrothermal system is closely associated with the district's largest center of rhyolite flow domes that may be the upward expression of a felsic stock.

The dominant mineralized vein on the Cozamin Mine is the Mala Noche. This vein has been traced for 5.5 km on surface on the property. It strikes approximately east-west and dips on average at 60° to the North. There are at least 18 shafts that provide access to the historical workings at Cozamin. The largest of these is the San Roberto mine which has a strike length of 1.4 km. The vertical extent of mineralization at San Roberto is over 820 m. Adjacent to the San Roberto mine is the San Rafael mine, a zinc-rich part of the deposit with the same epithermal mineralization characteristics as the San Roberto mine. The MNFW zone, a splay off the MNV discovered in 2010, is not exposed at surface; however, based on underground drilling it strikes in a northwest-southeast orientation over 1.45 km and dips on average 54° to the northeast. Known mineralization here has a vertical extent of approximately 500 m. The MNFW zone comprises up to five veins in close special association with rhyolite dikes and locally cross-cut the intrusions themselves. The relative age of the copper mineralization ranges from contemporaneous, to post-rhyolite magmatism.

*Drilling*

In all, 618 diamond drillholes of HQ and/or NQ diameter have been completed from surface and from underground locations at the Cozamin Mine since April 2004. A total of 11 phases of drilling have targeted resource definition and expansion along the MNV (San Roberto and San Rafael mines), MNFW zone (since discovery in 2010), and other exploration targets on our property.

Drillhole collars are located using a total station TRIMBLE instrument, model S6. Downhole survey readings were recorded using either an Eastman Single Shot, FLEXIT SensIT or Reflex EZShot instrument. Survey readings are generally taken every 50-150 m for surface holes and every 50-100 m for underground holes. Survey results were corrected for magnetic declination.

In the core logging facility drillholes are assessed for drilling recovery, which has historically been very good. Drillholes are then logged for geology, alteration and mineralogy, followed by structural data measurements and rock quality (RQD)

assessment. Next, the drillholes are marked for sampling by the geologist. This is followed by core photography before the core is sent for splitting.

*Sampling and Analysis*

We use diamond drillcore samples and underground mine-production chip-channel samples ("CCS") for mineral resources estimates. Diamond drillholes intersecting the MNV are spaced approximately 60 m along strike and down dip. Mineralization is less continuous in the MNFW zone than in the MNV, thus drillholes are more closely spaced averaging approximately 50 m along strike and down dip. Capstone employees are responsible for the all on-site sampling of drill core. The entire vein width is sampled. Typical sample intervals for drillcore are 0.5 m in the vein and 2 m in the wallrock (waste). Very high grade intervals are marked out and sampled separately from lower grade zones. Sample boundaries are based on mineral proportions and/or texture (e.g. massive versus disseminated). Samples are split by core saw and placed in marked bags and shipped to accredited external laboratories for sample preparation and analysis for copper, lead, zinc, silver, and sometimes gold. There were a total of 43,935 diamond drillhole samples contained in the database used for the March 2014 mineral resources estimate. Capstone employees are responsible for the all on-site sampling of drill core.

Sample quality of drillhole samples is monitored through regular insertion of reference material standards, blanks, and duplicate samples. Between 2010 and 2013 reference material standards were created using MNV material, homogenized, and sent for round robin analysis at external laboratories. Accuracy control was generally good for copper, but there were periods of high failure rates for silver, zinc, and lead that suggested the reference material was insufficiently homogenized. Medium and high grade drillhole samples were not supported by reference material standards between 2012 and 2013. These results triggered an audit of our quality assurance/quality control ("QAQC") program in 2014 and we concluded it had not been effectively or consistently implemented since 2010. The use of non-certified reference material standards impacted the Cozamin Mine's ability to assess laboratory performance. In addition, sample failures were not addressed. We took immediate corrective measures by purchasing certified reference material standards, updating our QAQC procedures to include real-time monitoring of quality control data, setting thresholds for sample failures and sample batch reanalysis, and regular monthly reporting.

Furthermore, in June 2014 we commenced a resampling program of all pulps and drillcore within the mineralized intercepts of the San Roberto and MNFW zones in order to provide stronger analytical control over the samples. These were submitted to external laboratories along with purchased certified reference material standards. At the time of the August 2014 Cozamin NI 43-101 Technical Report, we had received the results from all pulp samples and a portion of the drillcore samples. As reported, the pulp samples showed very strong correlation between the reanalyzed values and the original values for copper, good correlation for lead and zinc, and fair correlation for silver and gold. Results for the remaining drillcore samples were received by October 2014. The assay values for the remaining half of the core showed high levels of scatter, with many samples plotting outside of tolerance thresholds. Allowing for variation due to movement of core within the core boxes, minor core degradation, and variability due to different digestion methods, Capstone considers the results to still be acceptable, as overall correlation values are good and there is minimal bias evident. The reanalysis program process was demonstrated to be accurate and representative through the QAQC control samples, including purchased certified reference material to verify analytical accuracy, insertion of blanks to evaluate between-sample contamination, and duplicates of pulp reject and coarse reject material to ensure sample preparation produced a representative sub-sample.

Underground CCS samples are marked out by the geologist. Samples are oriented perpendicular to the strike of the vein and are extracted using a hammer and chisel. They weigh approximately 2 kg. We note that chip-channel samples do not yield truly representative samples due to sample delimitation and extraction errors that are unavoidable during sampling. Sample spacing along the strike of the vein is about 4 m. There were a total of 54,666 CCS samples contained in the database used for the March 2014 mineral resources estimate. All underground CCS samples are sent to the Cozamin mine laboratory ("CML") that is ISO/IEC 17025:2005 accredited for volumetric determination of copper, zinc and lead. The audit of our QAQC program also showed periods of high sample failure rates and that QAQC sample failures were not addressed. In addition, QC sample submission rates across low, medium, and high grade ranges were inconsistent. The same QAQC corrective measures implemented for our diamond drillhole samples were carried over to the underground CCS samples.

A bias analysis between diamond drillhole and CCS samples located within the mineralized structures was completed as a part of the March 2014 resource update. Channel samples were found to be consistently higher than the diamond

drillhole samples. This was taken into account during grade estimation by restricting the search ellipse size during the first estimation pass to limit the influence of CCS samples on more distant blocks. Further grade-bias analysis has been recommended before another resource updated is completed. No other drilling, sampling, or recovery factors have been identified that could materially impact the accuracy or reliability of the results.

The Cozamin Mine collects bulk density measurements from mineralized and non-mineralized intercepts from each drillhole. All drillcore pieces greater than 10 cm in length within an assay sample length are selected from the core box and measured using a weight-in-air weight-in-water technique. A review of these data highlighted widely ranging values, which were reanalysed as a part of a quality control check. In November 2013, a QAQC program was implemented to monitor bulk density measurements. The QAQC samples (duplicate measurements and analysis of a bulk density standard) indicated the bulk density dataset was of sufficient quality for use in mineral resource and reserve estimation. There were a total of 15,304 bulk density measurements used to estimate density in the mineral resource estimate.

In 2014, our drillhole and CCS databases failed audits checking the stored information against the original data sources (assay certificates, downhole survey logs, and collar coordinate records). Many of the errors were due to "copy and paste" mistakes into Microsoft Excel™ spreadsheets that had been used to store our drillhole and CCS data. These errors were corrected, and in October 2014, we completed an installation of an acQuire™ structured-query-language-based ("SQL") database to store and validate our drilling and sampling data. SQL databases are recognized as an industry standard for storage and safeguarding of geological data. We will be completing a check of 10% of our diamond drillhole and CCS data as a final validation step of the acQuire installation process in the first quarter of 2015.

Other data checks included validations of the spatial locations of mineralized drillhole intercepts and the locations of CCS data with respect to underground mapped geology. Errors were noted and corrected. There are 122 drillholes whose intercepts did not align with the mapped location of the mineralized zones underground. This likely due to small errors in the collar locations or insufficient downhole survey readings. These drillholes were excluded from the geological interpretation and from use in mineral resources estimation.

*Security of Samples*

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

Drill core containing intercepts of the Mala Noche Vein and Mala Noche Footwall structure is stored in a secured warehouse near the core shack. Waste hangingwall and footwall drill core is stored within the mine on Level 8 to conserve space in the warehouse. Access to the warehouse is controlled by the Geology department. No person other than the geologist responsible for logging is allowed to handle the core prior to sampling.

*Mineral Resource and Mineral Reserve Estimates*

The March 2014 mineral resources estimate for San Roberto and Mala Noche Footwall zones was completed by independent consultant, Ali Shahkar, P.Eng., Principal Consultant of Lions Gate Geological Consulting Inc. ("LGGC"), using accepted industry standard methods conforming to NI 43-101 requirements. The geological wireframe solids were created from cross-sectional interpretations and compared to level plans of underground mapped geology. The interpretations were snapped to drillholes to ensure correct sample selection during coding and grade estimation. The veins were modelled as grade shells using copper grades to determine the limits of mineralization above a 0.5% copper cut-off, with local allowances made based on geology and zinc concentrations. Two methods were employed to handle outlier grades during grade estimation. Sample outliers reviewed and set to the defined high grade limit before compositing, and the range of outlier composite grades were restricted during grade estimation. Samples were composited downhole to 1.5 m lengths. Spatial analysis of grade data was undertaken using correlograms. Grades were estimated by ordinary kriging using three search passes into blocks sized 10 m Easting × 10 m Northing × 12 m elevation. Search ellipses were oriented to match vein orientations. Model validation included visual inspection of estimated grades in comparison to sample composites, creation of swath plots along easting, northing, and elevation sections to assess grade smoothing, as well as evaluation of the grade-tonnage curves with respect to theoretical predicted results (referred to as a global change of support). The validation checks showed the models to be valid with appropriate levels of smoothing. As a result of the

failed database and QAQC audits, Measured mineral resources were downgraded to the Indicated category to better reflect certainty in the grade estimates. A reconciliation study comparing the previous two years of mine production data against the block model was completed to support the Indicated classification. LGGC concluded the designation of Indicated resources to be appropriate for the March 2014 estimate. Taking into account the updated geological interpretation for these zones, LGGC reclassified approximately 430 kt from Indicated resources to Inferred resources. This material was located in the MNFW zone and in areas of the San Roberto zone where there was insufficient understanding of structural geology and grade continuity based on the current drillhole spacing. Infill drilling is required to bring this material back to the Indicated category.

The San Rafael zone, which was estimated by independent consultant Rob Sim, P.Geo, of Sim Geological Inc., in December 2009, was not a part of the March 2014 resource update. Since there has been no additional work in this area, the 2009 San Rafael model has been retained. The San Rafael mineralized zone ("Minzone") domain was interpreted using a combination of geology codes, plus the presence of mineralization generally above a 0.4% copper equivalent grade that took into account contributions from zinc, lead, silver, and gold. Although San Raphael is more zinc-rich than the San Roberto deposit, a copper-equivalent cut-off was used to retain some consistency of the host geology between the two areas. San Rafael is primarily a zinc deposit that contains minor amounts of lead, silver, and copper. Samples were composited downhole to 1 m lengths. Sample outliers were treated during grade estimation by using a restricted search distance and not by top cutting. Spatial analysis of grade data was completed using correlograms. Grades were estimated by ordinary kriging into a block model with 10 m Easting × 3 m Northing × 3 m Elevation sized blocks. Search orientations were designed to follow a mineralization trend surface created from between the hangingwall and footwall surfaces. Model validation included visual inspection of estimated grades in comparison to sample composites, creation of swath plots along easting, northing, and elevation sections to assess grade smoothing, as well as evaluation of the grade-tonnage curves with respect to theoretical predicted results (referred to as a global change of support). The validation checks showed the models to be valid with appropriate levels of smoothing.

Mineral resources for the San Roberto, MNFW, and San Rafael zones as of December 31, 2014 are summarized in Table 3 above a US$35 per tonne net smelter return ("NSR") cut-off. The mineral resources estimates in the San Roberto and MNFW zones completed by Ali Shahkar, P.Eng. have been depleted to take into account mining activity until December 31, 2014. This work was completed by Cozamin Mine staff under the supervision of Jeremy Vincent, P.Geo., Manager of Production and Development Geology at Capstone and a Qualified Person under NI 43-101. No mining activity has been undertaken in the San Rafael zone since the completion of the San Rafael zone mineral resources model.

**TABLE 3: COZAMIN MINE ESTIMATED MINERAL RESOURCES AS AT DECEMBER 31, 2014***

| Classification | Tonnes | Copper | Silver | Zinc | Pb | Contained Copper | Contained Silver | Contained Zinc | Contained Lead |
|---|---|---|---|---|---|---|---|---|---|
| | (kt) | (%) | (g/t) | (%) | (%) | (kt) | (koz) | (kt) | (kt) |
| **Copper Zones (San Roberto and Mala Noche Footwall)** | | | | | | | | | |
| Indicated | 10,651 | 1.54 | 45 | 0.93 | 0.19 | 164 | 15,420 | 99 | 20 |
| Inferred | 5,823 | 1.42 | 33 | 0.66 | 0.07 | 83 | 6,256 | 39 | 4 |
| **Zinc Zone (San Rafael)** | | | | | | | | | |
| Indicated | 2,073 | 0.28 | 42 | 3.33 | 0.45 | 6 | 2,819 | 69 | 9 |
| Inferred | 1,328 | 0.15 | 33 | 3.28 | 0.69 | 2 | 1,426 | 44 | 9 |
| **Stockpiles (Measured)** | | | | | | | | | |
| Stockpiles (Measured) | 4 | 1.23 | 38 | 1.18 | 0.21 | 0 | 5 | 0 | 0 |
| **Total Mineral Resources** | | | | | | | | | |
| Measured | 4 | 1.23 | 38 | 1.18 | 0.21 | 0 | 5 | 0 | 0 |
| Indicated | 12,724 | 1.34 | 45 | 1.32 | 0.23 | 170 | 18,239 | 168 | 29 |
| **Measured + Indicated** | **12,728** | **1.34** | **45** | **1.32** | **0.23** | **170** | **18,244** | **168** | **30** |

| Classification | Tonnes | Copper | Silver | Zinc | Pb | Contained Copper | Contained Silver | Contained Zinc | Contained Lead |
|---|---|---|---|---|---|---|---|---|---|
| | (kt) | (%) | (g/t) | (%) | (%) | (kt) | (koz) | (kt) | (kt) |
| Inferred | 7,151 | 1.19 | 33 | 1.15 | 0.18 | 85 | 7,682 | 82 | 13 |

**Notes:*

1. *Jeremy Vincent, P.Geo., is the Qualified Person responsible for the disclosure of the Cozamin Mine mineral resources.*
2. *Robert Sim, P.Geo., is the Qualified Person for the San Rafael zone mineral resources estimate.*
3. *Mineral resources reported as at December 31, 2014.*
4. *The mineral resources are reported above a NSR of US$ 35/tonne using respective metal prices for copper, silver, zinc, and lead of US$ 2.50/lb, US$ 20.00/oz, US$ 0.80/lb, and US$ 0.85/lb.*
5. *Processing recoveries used to calculate the NSR cut-off for the San Roberto and Mala Noche Footwall zones Mineral Resources are based on historical site operating experience reflecting recoveries of: Cu=92%, Ag=72%, Zn=69%, and Pb=64%.*
6. *Processing recoveries used to calculate the NSR COG for the San Rafael Mineral Resources are based on laboratory results reflecting recoveries of: Cu=41%, Ag=32%, Zn=84% and Pb=65%.*
7. *Stockpiles are treated as Measured mineral resources*
8. *Mineral resources are presented inclusive of mineral reserves.*
9. *Exchange used is MEX 12.50 to US$ 1.00.*
10. *Mineral resources are not mineral reserves and do not have demonstrated economic viability.*
11. *Figures may not sum due to rounding.*
12. *Mineral resources are reported inclusive of mineral reserves.*

During June 2014, Stantec Consulting LLC ("Stantec") of Tempe, Arizona, updated the mineral reserves using the March 2014 mineral resource model (San Roberto and MNFW zones) by LGGC and the 2009 San Rafael mineral resource model completed by Rob Sim. The mineral reserves estimates were based on vein domains codes using a combination of the following: minimum vein width; NSR cut-off values of $42.50/tonne for the copper zones and $38.00/tonne for the San Rafael zone; and a minimum copper grade of 0.30%. Predefined mining blocks in each of the deposits were reviewed for areas of contiguous mineralization above these cut-offs. Theses blocks were then included in polygons to identify mineable and recoverable areas. Longitudinal long-hole stoping, which is the defined stoping method for the zones, does not allow for selective mining with the defined stope shape. Therefore, all blocks of the sub-ore inside the defined stope shapes were included in the mineral reserves estimates. The mineral reserves published in Table 4 are based on the reserves estimate completed by Stantec in July. These have been depleted by Cozamin staff to reflect mining production until December 31, 2014 under the supervision of Brad Skeeles, P.Eng., Vice President of North American Operations at Capstone, a Qualifed Person under NI 43-101.

**TABLE 4: COZAMIN MINE ESTIMATED MINERAL RESERVES AS AT DECEMBER 31, 2014***

| Classification | Tonnes | Cu | Ag | Zn | Pb | Contained Copper | Contained Silver | Contained Zinc | Contained Lead |
|---|---|---|---|---|---|---|---|---|---|
| | (kt) | (%) | (g/t) | (%) | (%) | (kt) | (koz) | (kt) | (kt) |
| **Copper Zones – San Roberto and Mala Noche Footwall** | | | | | | | | | |
| Probable | 6,971 | 1.49 | 42 | 0.79 | 0.17 | 104 | 9,394 | 55 | 12 |
| **San Rafael – Zinc Zone** | | | | | | | | | |
| Probable | - | - | - | - | - | - | - | - | - |
| **Stockpiles (Proven)** | | | | | | | | | |
| Stockpiles (Proven) | 4 | 1.23 | 38 | 1.18 | 0.21 | 0 | 5 | 0 | 0 |
| **Total Mineral Reserves** | 6,975 | 1.49 | 42 | 0.79 | 0.17 | 104 | 9,398 | 55 | 12 |

**Notes*

1. *Brad Skeeles, P.Eng., is the Qualified Person for the disclosure of the Cozamin Mine mineral reserves.*
2. *Mineral reserves are reported as at December 31, 2014.*
3. *An NSR cut-off of $42.50/tonne was used for the San Roberto and MNFW zones and $38.00/tonne was used for San Rafael.*
4. *Metal prices used in the mineral reserve estimate for copper, silver, zinc, and lead, respectively are US$2.50/lb, US$20/oz, US$0.80/lb and US$0.85/lb.*

5. *Stockpiles are treated as Proven mineral reserves.*
6. *San Rafael has been reclassified from mineral reserves to mineral resources due to market conditions.*
7. *The exchange rate used is MEX12.50 to US$1.00.*
8. *Tonnage and grade estimates include dilution and recovery allowances.*
9. *Figures may not sum due to rounding.*

*Mining Operations*

The Cozamin Mine is an underground mining operation that commenced in 2006. Ore is extracted using three mining methods: cut and fill using waste rock fill, long-hole open stoping, and Avoca - a hybrid of long-hole and cut-and-fill methods. Each method has been assigned to individual mining blocks depending on the physical characteristics of the veins and its suitability to one of the above methods. The mine extends for a strike length of over 1 km and mineral reserves extend to a depth of 700 m. Access to the underground workings is via two service and haulage ramps and a hoisting shaft.

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

Copper, zinc and lead concentrates are sold by annual tenders to commodity traders. Cozamin has a processing rate of 3,300 tonnes per day and life of mine annual production of 18,140 kt copper contained in concentrate. Cozamin has a precious metal sales agreement for 100% of its silver production with Silver Wheaton Corp. The contract expires in April 2017. The current mine plans extends the Cozamin Mine operations life to 2020.

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

The Cozamin Mine's applicable taxes include the following:

- Corporate Taxes - the Mexican corporate income tax is at a 30% rate applied on net income after depreciation. The 2013 Mexican Tax Reform repealed the 17.5% IETU Tax (Impuesto Empresarial Tasa Unica) effective for Cozamin's 2014 taxation year.
- A value added tax is payable to the Mexican government. The amount paid in any given year is 100% refundable, and may be used to offset income tax.
- The 2013 Mexican Tax Reform introduced a 7.5% mining tax. The mining tax, effective January 1, 2014, is applied on the positive difference between income arising from sales related to mining and the deductions permitted by the Income Tax Law, not including deductions on investments (except those involved in mining prospecting and exploration), interest payable and the annual inflation adjustment. The Tax Reform also introduced a 0.5% mining tax on precious metals that is applied on gross taxable revenues.
- Property taxes are approximately $20,000 per year.

The payback period for the entire project capital spent to date was completed within the first two years of operation. The payback on all future capital spending will be almost immediate due to large cash flows and minimal capital expenditures planned.

*Exploration and Development*

The 2015 exploration program includes a proposed 18,900 meters of underground infill drilling to add certainty to the block model with the goal to potentially recover some mineral reserves losses identified in the August 2014 NI 43-101 Technical Report, as well as step-out exploration drilling on both the Mala Noche Vein and Mala Noche Footwall mineral resource areas. The continuation of surface drilling, which began in 2014 targeting veins in splays off of the Mala Noche system not previously been tested, will continue in 2015 with 12,000 meters of surface drilling budgeted.

***Minto Mine (Yukon)***

The Minto Mine is the subject of a report titled "Minto Phase VI Preliminary Feasibility Study Technical Report" dated July 31, 2012 with an effective date of January 1, 2012 (the "Minto Report"). This technical report was compiled by Minto Explorations Ltd. and written by Brad Mercer, P.Geo.; Wayne Barnett, Pr.Sci.Nat.; John Eggert, P.Eng.; Bill Hodgson, P.Eng.; Garth Kirkham, P.Geo.; Mike Levy, PE; Pooya Mohseni, P.Eng.; Bruce Murphy, P.Eng.; and Colleen Roche, P.Eng., each a Qualified Person as defined by NI 43-101. The description of the Minto Mine in this document is based on assumptions, qualifications and procedures which are set out only in the full Minto Report. Reference should be made to the full text of this report, which is available in its entirety on SEDAR at *www.sedar.com* under the Company's profile.

All scientific and technical information in this summary relating to any updates to the Minto Mine since the date of the Minto Report has been reviewed and approved by Qualified Persons who supervised the preparation of updates to elements of the Minto Report.

*Project Description and Location*

The Minto Mine is a 3,850 tonnes per day operating copper mine located in central Yukon, located approximately 240 km northwest of Whitehorse, Yukon's capital. The project is roughly centred on NAD 83, UTM Zone 8 coordinates 6,945,000 mN, 385,000 mE. The mine is located on the west side of the Yukon River on Selkirk First Nation ("SFN") Category A settlement land (SFN Parcel R-6A). There are no back-in rights, payments or other agreements or encumbrances to which the property is subject other than a Cooperation Agreement with the SFN and a NSR payable to the SFN.

The project consists of 164 quartz claims covering an area of approximately 2,760 ha that are 100% owned by Minto Explorations Ltd. ("MintoEx"), a 100% owned subsidiary of Capstone. The claims have expiry dates ranging between March 1, 2017 and October 7, 2028. The lease, but not the claim boundaries, has been surveyed by an authorized Canada Lands Surveyor in accordance with instructions from the Surveyor General.

Environmental liabilities at the Minto Mine relate to the dry stacked tailings facility and waste rock dumps as well as some water stored at the site that is impacted by operations and to the removal of all operational infrastructures. A closure plan has been developed and approved (most recently on August 2014) detailing methods and costs associated with restoring the site to an acceptable environmental standard. Engineered covers will be placed on tailings and waste rock such that interactions with surface water are C$42.0M surety bond has been put in place with the Yukon Government in accordance with a territorial closure and reclamation policy. The closure plan and related letter of credit amount are reviewed on a bi-annual basis.

MintoEx has obtained a variety of permits in order to conduct ongoing work on site and is in the process of obtaining additional approvals associated with expanded operations and mine life. The major instruments or authorizations permitting and governing operations for the project include a Type A Water Use Licence, issued by the Yukon Water Board and a Quartz Mining Licence issued by the Yukon Government, Energy Mines and Resources. MintoEx has received a portion of the permits necessary to extract ore from additional mining areas, for higher plant throughput, revised waste and tailings management facilities and other environmental aspects of the project. At this time, MintoEx is awaiting additional permits to access the new deposits and waste management facilities. Figure 3 illustrates the location of Minto infrastructure in relation to the open pit and underground mineral resources and reserves.

Surface mining at Minto was suspended at the end of the third quarter of 2014 due to delays in receipt of the WUL Amendment, which is required to permit pre-stripping at Minto North. Fresh ore from underground mining was supplemented with stockpiled ore to feed the mill in the fourth quarter of 2014. There were five interveners that commented on our WUL amendment application, and the Yukon Water Board presented us with a fourth information

request on February 6, 2015, which we responded to on February 16, 2015. A public hearing on our application was held from March 2 to 10, 2015. As a result, we do not expect that the Minto North deposit will be stripped as planned at the beginning of the second quarter of 2015. We will continue to work with the Yukon Water Board to secure the required WUL amendment as expeditiously as possible, but will not be making any commitment of capital until an acceptable permit is received. Copper prices are currently at levels where the economics of the Minto Mine, without the Minto North deposit, are questionable. We are evaluating all options for optimizing the cash flows from Minto in the current climate.

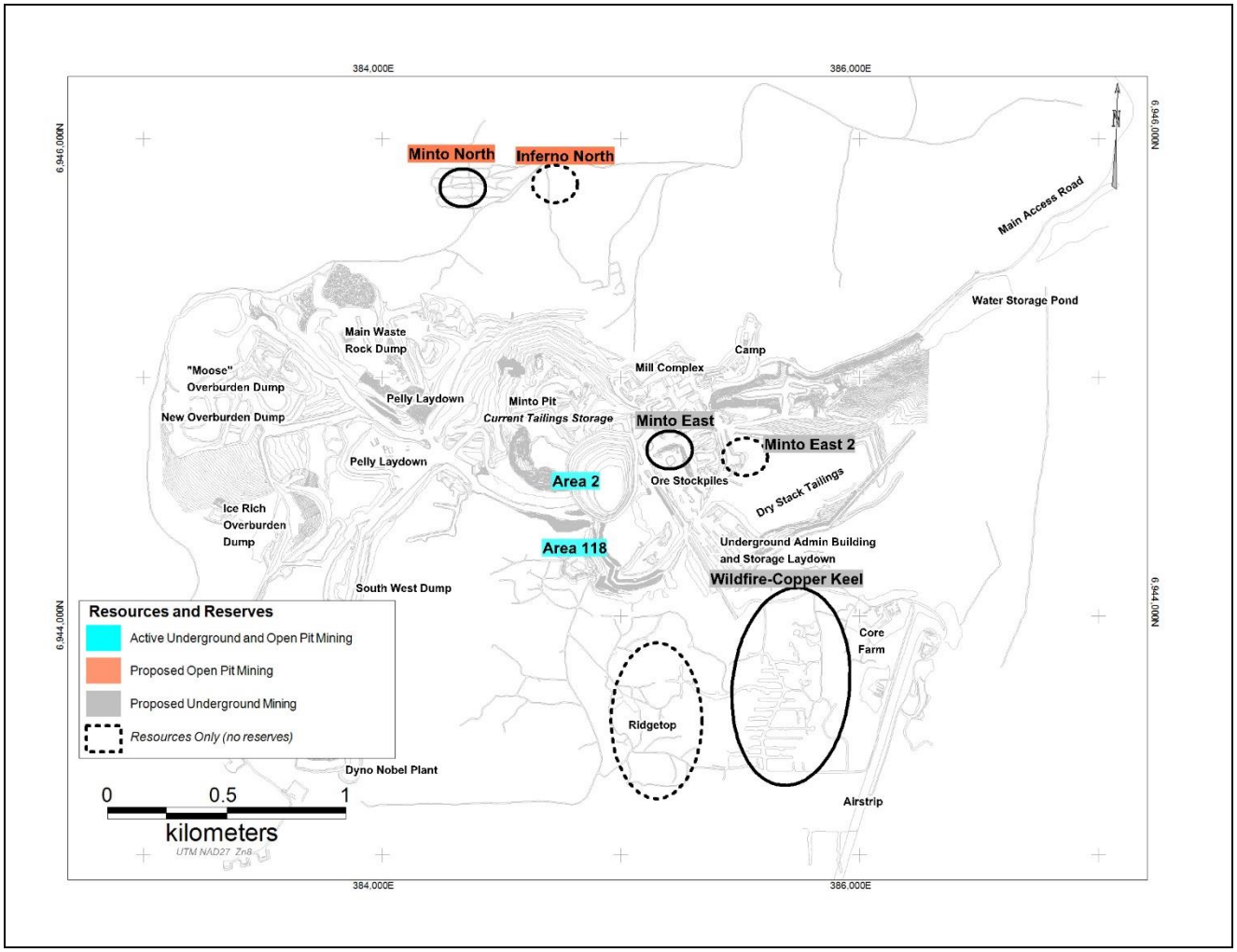



**FIGURE 3: MINTO INFRASTRUCTURE AND LOCATION OF MINERAL RESOURCES AND MINERAL RESERVES**

*Accessibility, Climate, Local Resources, Infrastructure and Physiography*

The Minto Mine is accessible via the Klondike Highway (No. 2) to Minto Landing on the east side of the Yukon River. At Minto Landing, the mine operates a barge across the river in the summer months and constructs an ice bridge in the winter. The barge has the capacity to carry one B-train transport trailer and truck. There is typically a 6 to 8-week period during each break-up and freeze-up of the Yukon River when there is no access across the river. A 27 km long, all-weather gravel road provides access from the West side of the Yukon River to the project site.

The mine access road crosses one major tributary of the Yukon River, Big Creek, via a single-lane steel span bridge made with reinforced concrete abutments and deck. The highway, river crossing and gravel mine access road are suitable for heavy transport traffic. During the river freeze and thaw periods, personnel are transported from Whitehorse via charter air services that land on the 1,300 m-long airstrip located at the mine.

The climate in the Minto area of the Yukon is considered sub-arctic with short cool summers and long cold winters. The average temperature in the summer is 10°C and the average temperature in the winter is -20°C. Average precipitation is

approximately 25 cm of rain equivalent per annum in the form of rain and snow. The weather does not impede year round operation of the mine and processing plant except in short periods of harsh cold temperatures (-50°C) that can cause open pit mining operations to be temporarily suspended.

The property lies in the Dawson Range, part of the Klondike Plateau, an uplifted surface that has been dissected by erosion. Local topography consists of rounded rolling hills and ridges and broad valleys. The highest elevation on the property is approximately 1,000 masl, compared to elevations of 460 m along the Yukon River. Slopes on the property are relatively gentle and do not present accessibility problems. Bedrock outcrops can often be found at the tops of hills and ridges. There are no risks of avalanche on the property.

Vegetation in the area is sub-Arctic boreal forest made up of largely spruce and poplar trees. The area has experienced several wildfires over the years, the latest in 2010, and has no old-growth trees remaining. The fire in 2010 led to the partial evacuation of the camp and a short stoppage in production.

The nearest services, including fuel, groceries, hotel, restaurant and medical clinic, are at Carmacks, approximately 75 km south of Minto on Highway 2. Some services are available at Pelly Crossing, 35 km to the East of Minto. The nearest large community is Whitehorse, with a population of approximately 28,000. It is serviced with commercial flights daily from Vancouver, Edmonton and other northern communities. Whitehorse is also connected via paved highways to British Columbia to the South, to Alaska to the West and to the port of Skagway to the Southwest, where Minto concentrate is trucked for loading onto ocean-going vessels.

The Minto Mine has sufficient power, water, camp and personnel to continue operations through the life of mine plan.

*History*

In 1970, a joint venture between Consolidated Silver Standard (formerly Silver Standard Mines Ltd.) and Asarco Inc. conducted a regional stream sediment geochemical survey in the area. In 1971, the DEF claims were staked by United Keno Explorations. That same year a joint venture formed with United Keno Hill Mines, Falconbridge Nickel and Canadian Superior Explorations, to cover follow-up prospecting. Induced polarization ("IP") and very-long-frequency-electromagnetic ("VLF-EM") geophysical surveys, soil sampling and mapping on the DEF claims followed. In June 1973, a main mineralized body was discovered. There are no detailed descriptions of historical sampling methods, preparation, or analysis by Asarco, and there is no useable core from this period. In 1974, a winter road was built from Yukon Crossing and 58 diamond drillholes (11,228 m) on the Minto claims were drilled. From 1975-1976 joint Feasibility studies were conducted.

In 1984, Consolidated Silver Standard transferred its interest in the Minto claims to Western Copper Holdings, a subsidiary of Teck Corp. In 1989, Western Copper Holdings transferred its interest in the Minto claims to Teck Corp. In 1993, MintoEx was formed. Asarco and Teck sold their interest in the Minto claims (and leases) for shares in MintoEx and provided $375,000 in working capital. Asarco and Teck also received a net smelter royalty of 1.5% to be divided evenly. In that same year, Falconbridge, the parent of United Keno Hill, sold its interest in the DEF claims to MintoEx. Falconbridge was granted an option to repurchase the DEF claims on January 1, 2005 if the deposit was not in production by then. An initial public offering of shares of MintoEx was completed in 1994. There were 5,912,501 shares issued and outstanding with Asarco being the majority shareholder with 3,297,500 shares (55.8%).

In 1996, funding was arranged with Asarco to bring the deposit into production whereby Asarco would provide up to $25M. Under the funding arrangement, Asarco would acquire a 70% interest in the project, MintoEx would retain a 30% interest and remain as operator. That same year, MintoEx made the $1M payment to Falconbridge for the DEF claims completing the consolidation of the Minto and DEF claims. Also in that year, a 16 km access road was constructed including a barge landing site on the West side of the Yukon River and a bridge over Big Creek. A further 12.8 km of road construction in 1997 was done to complete the new access road. Also in 1997, a co-operation agreement was signed with the SFN. In 1999, a production licence was received.

From 1973 to 2001, most of the drill core samples were split using a mechanical wheel core splitter (in contrast to a diamond saw). In the case of two holes drilled in 1993 for metallurgical grinding testing, the entire core through the mineralized interval was utilized to improve the validity and reliability of the metallurgical tests. Quality control

procedures used during the 1973 to 2001 drill programs are not known, with the exception of 10 samples submitted for umpire analysis in 1994.

In 2001, most of the Asarco core and all of the Falconbridge core was destroyed by time and forest fire. A limited amount of the old Asarco core that could be recovered was re-sampled in 2002. In June 2005, Sherwood acquired the Minto property. In 2006, mill construction commenced. A C$85M debt package was arranged, forward sales completed, and concentrate off-take agreement executed in October 2006. In 2007, a Power Purchase Agreement for Minto was signed. That same year, the first copper-gold concentrates at Minto Mine were produced and a resource estimate for the Area 2 deposit was completed. First concentrates from the Minto Mine were delivered to the Port of Skagway, Alaska in July 2007. The Minto Mine declared commercial production and the first Minto concentrates shipped from Skagway in October 2007. In 2008, Capstone acquired all outstanding shares of Sherwood.

*Geological Setting*

The Minto Mine is found in the North-Northwest trending Carmacks Copper Belt along the eastern margin of the Yukon-Tanana Composite Terrain. The Belt is host to several intrusion-related Cu-Au mineralized hydrothermal systems. The Minto Property and surrounding area are underlain by plutonic rocks of the Granite Mountain Batholith (the "Batholith") of the Early Mesozoic Age. The component of the Batholith represented on the Minto Property is the Early Jurassic Age Minto pluton and is predominantly of granodiorite composition. Other rock types, albeit volumetrically insignificant, include thin dykes (typically less than 1 m in thickness) of simple quartz-feldspar pegmatite, aplite, and an aphanitic-textured intermediate composition rock.

For ease of reference the Minto copper-gold-silver system is divided into seven mineralized areas within the Minto deposit; from North to South they are: Minto North; Inferno North; Minto Main; Minto East; Minto East 2; Minto South (MSD-a consolidation of Area 2, Copper Keel, Area 118 and Wildfire deposits that are now considered one continuous deposit); and Ridgetop. In 2014, we renamed the Fireweed zone to Minto East 2 to reflect the continuity of mineralization between this zone and the Minto East zone. Each of these deposits closely share a similar style of mineralization hosted by vertically stacked, shallow dipping deformation zones within the intrusion. Remnants of the Main deposit are currently exposed in an exhausted open pit mine and this geometry has been confirmed, with a similar geometry exposed in the exhausted Area 2 open pit. The other deposits have drill-delineated mineral resources and/or reserves but mineralization is not exposed at the surface. These deposits and other mineral prospects define a general north-northwest trend informally called the Priority Exploration Corridor (PEC).

Copper sulphide mineralization is found in the rocks that have a structurally imposed fabric, ranging from a weak foliation through to a strongly developed gneissic banding. The contact relationship between the foliated deformation zones and the massive phases of granodiorite is generally very sharp. These contacts do not exhibit chilled margins and are considered by MintoEx geologists to be structural in nature, separating the variably strained equivalents of the same or similar rock type.

The more highly strained deformation zones form sub-horizontal horizons and can be traced laterally for more than 1,000 m in the drill core. They are often stacked in parallel to sub-parallel sequences and it is postulated that the foliated granodiorite horizons represent healed, shallowly dipping shear zones within the Batholith; theorized to have formed when the rocks passed through the brittle/ductile transformation zone in the earth's crust in transition from a deep emplacement environment of the Batholith to eventual exhumation. There is on-going debate, however, regarding the stratigraphic, intrusive, or structural nature of the zones hosting the foliation and mineralization. MintoEx have engaged the Mineral Deposits Research Unit ("MDRU") of the University of British Columbia to help understand the mineral paragenesis and deformation history. No other recognized deposit type compares directly with Minto mineralization. While an IOCG style for the Minto Deposit cannot be unequivocally demonstrated, the authors are of the opinion that this style of deposit provides the most consistent model for the current level of understanding.

*Exploration*

Mineral exploration on the Minto property has been conducted intermittently since 1971. Subsequent to the discovery of the Minto Main deposit, which has been mined out, the adjacent southern half of the property has undergone systematic brownfield exploration. Exploration on the northern half is more sporadic.

The exploration approach by MintoEx has been the systematic evaluation of modern electrical (chargeability); geophysical methods by commissioning various "proof-of-concept" surveys over known mineralization and then expanding survey coverage outward into untested areas using these methods that are calibrated to known deposits. The predominant electrical geophysical methods used are Gradient Array Induced Potential ("GAIP"), Dipole-Dipole Induced Potential, and Titan-24 DC Induced Potential. Drill targeting has been predominantly based upon the coincidence of an anomaly in one of the electrical (chargeability) methods with an anomaly in the 1993 total field airborne magnetic survey ("MAG").

GAIP surveys were conducted in 2006 and 2007 with a combined total of 171 line kilometers. Both surveys were conducted by Aurora Geosciences of Whitehorse, Yukon. The GAIP method proved a successful exploration tool for locating near-surface mineralization when combined with magnetics; the most notable discovery attributed to this being Minto North.

A modified pole-dipole geophysical survey was conducted in 2009 over areas west and north of the DEF fault. The survey targeted areas of known historical geophysical anomalies, as well as overlapping GAIP coverage were permafrost or deep overburden ground conditions returned poor results. A total of 20.6 line kilometers were completed by Aurora Geosciences. The results of the survey indicated two separate anomalies, one approximately 1,000m due west of Minto North, and the second approximately 2,400m due north of Minto North. Drill testing results for each anomaly were enigmatic in that no significant copper-gold mineralization was encountered despite the intersection of multiple, thick sequences of foliated favorable host rock.

Three separate mise-a-la-masse drillhole IP surveys were completed in 2009, 2010, and 2011, with all three surveys being completed by Aurora Geosciences. The results of the surveys were useful in vectoring step-out drilling at Copper Keel NE and at Inferno.

Another new exploration tool implemented in 2009 included the completion of the deep penetrating Titan-24 geophysical survey of the Minto PEC from July 29 to August 8, 2009. The survey included three double spread direct current resistivity/induced polarization ("DC/IP") and magnetotelluric ("MT") lines totaling 21 line kilometers. An expanded Titan-24 DC/IP survey covering about 85% of the property was completed from May 19 to July 15, 2010. Titan-24 surveying for both 2009 and 2010 programs were conducted by Quantec Geoscience of Toronto, Ontario.

The 2009 Titan-24 survey showed a coincidence of significant copper sulphide mineralization of known deposits with chargeability anomalies as well as several previously unknown deep anomalies. The most attractive deep targets were located south of Ridgetop, flanking the Minto Main Pit (west, southeast, northwest, and northeast), and flanking the Minto North deposit (east, west, and north). The survey also identified a near surface target southwest of Ridgetop. MT results indicated steeply dipping fault-like structures with an estimated $70^{o}$ dip to the north, the most prominent being the DEF fault. Preliminary drill testing of the Titan-24 targets spanned from September 4 to October 17, 2009. Results of the drilling were variable returning promising copper mineralization intersections in 9 drill holes at Ridgetop Southwest and significant copper-gold mineralization in 2 holes southeast of Minto Pit (Minto East Discovery); however, in 9 holes at 8 other separate targets no significant copper-gold mineralization was encountered.

Similar to the 2009 Titan-24 survey, the expanded 2010 survey identified previously unknown moderate to deep anomalies; the most attractive new targets were located east of the Copper Keel trend (Wildfire), at Copper Keel NE, southwest of Ridgetop, at Airstrip SW, and northeast of the Minto airstrip. Drill testing of the 2010 Titan-24 chargeability targets spanned from June 25 to November 5, 2010. Further testing of select Titan-24 targets continued throughout the 2011 drilling campaign. Results of the 2010 drilling were variable returning significant copper mineralization in more than 70 drillholes east of the Copper Keel trend (Wildfire discovery), and in 4 holes northeast of the Minto Pit (Inferno discovery). Promising copper-gold mineralization was observed in 3 holes southwest of Area 118, 4 holes at Copper Keel NE, and in 1 hole at Ridgetop NE. No significant results were encountered in 5 holes at three other separate targets. Results of the 2011 drilling were variable returning significant copper mineralization in more than 70 drillholes at Copper Keel NE and 26 holes at the Minto East 2 Discovery. Similar to 2010, some of the 2011 tested targets did not encounter significant copper-gold mineralization despite the intersection of multiple, thick sequences of foliated favorable host rock.

Future exploration programs will be more reliant solely on electrical/chargeability methods targeting deeper mineralization as the near-surface potential and discrete magnetic bull's-eyes have largely been targeted. MintoEx sees good exploration potential in the area north of the DEF fault, as evidenced by the discovery of the high grade Minto North deposit early in 2009, the Inferno prospect in late 2010, and the Inferno North deposit in 2012. Magnetic data in areas located north of

Minto North plus areas West and East respectively of the PEC may still be useful as these regions are still relatively under explored.

In 2009, several other historic bedrock copper occurrences discovered in the 1970's North of the DEF fault were relocated and confirmed. In addition, various copper-in-soil geochemical anomalies, often coincident with magnetic geophysical anomalies, occur throughout the property and many of them remain untested. However, further understanding of the bedrock geology north of the DEF fault is required before many of these targets can be properly assessed and placed in perspective. No exploration has been undertaken since 2012.

*Mineralization*

The primary hypogene sulphide mineralization consists of chalcopyrite, bornite, euhedral chalcocite, and minor pyrite. Metallurgical testing also indicates the presence of covellite, although this sulphide species has never been positively logged macroscopically. Texturally, sulphide minerals predominantly occur as disseminations and foliaform stringers along foliation planes in the deformed granodiorite (i.e. sulphide stringers tend to follow the foliation planes). Occasionally, coarse free gold is observed associated with chloritic or epidote lined fractures that crosscut the sulphide mineralization. Sulphide mineralization is always accompanied by variable amounts of magnetite mineralization and biotite alteration. While these minerals occur in the non-deformed rocks they are present in the mineralized horizons in a much greater abundance in an order of magnitude greater than background.

Massive mineralization occurs locally over intervals exceeding 0.5 m in thickness and semi-massive mineralization over several metres in thickness may occur. In these sulphide rich areas, textures often resemble those seen in magmatic sulphide zones with sulphide mineralization interstitial to the rock forming silicate minerals. The higher grade portion of the Minto Main deposits roughly corresponds to the bornite zone where locally concentrations of bornite up to 8% by volume are seen. The precious metal grades are elevated in the bornite zone (very fine gold and electrum occur as inclusions in bornite) and occurrences of coarse grained native gold are noted almost exclusively in bornite-rich material. The chalcopyrite zone is characterized by the metallic mineral assemblage of chalcopyrite-pyrite +/- very minor bornite and magnetite. Empirical observations indicate the highest concentrations of bornite are associated with coarse grained, disseminated and stringer-style magnetite mineralization, up to 20% by volume locally.

Pervasive, strong potassic alteration occurs within the flat lying zones of mineralization, and is the predominant alteration assemblage observed in all of the Minto deposits. The potassic alteration assemblage is characterized by elevated biotite contents and minor secondary potassium-feldspar overgrowth on plagioclase relative to the more massive textured country rock. Additional alteration includes the replacement of mafic minerals by secondary chlorite, epidote, or sericite observed both in mineralized and waste rock interstitially or fracture/vein proximal, as well as variable degrees of hematization of feldspars. Minor carbonate overprint is occasionally observed associated with secondary biotite. Silicification is present but not pervasive in the Minto deposits.

The Minto North, Minto East, and Minto East 2 Deposits exhibit a zoning from West to East. High-grade bornite-dominant mineralization is observed in the West with lower grade chalcopyrite-dominant mineralization in the East. Bornite mineralization occurs as strong disseminations and foliaform stringers locally >10% to occasional semi-massive to massive lenses up to 2 m in thickness. Mineralization at the Area 2/118/Copper Keel regions of the Minto South Deposit and at Inferno North is distinct in that mineralization is predominantly disseminated (plus occasional foliaform stringers) and the semi-massive to massive sulphide mineralization is absent; as a whole the mineralization is more homogeneous and consistent as compared to Minto North or Minto Main. Mineralization at both Ridgetop and the Wildfire region of Minto South are subdivided into the near surface horizons that have been affected by supergene oxidation and the more typical primary sulphide mineralization of the deeper zones. Chalcopyrite is the dominant sulphide in the lower zones, and bornite is only observed in minor amounts. Texturally, chalcopyrite occurs as disseminations and foliaform stringers, and is rarely observed as semi-massive to massive bands. Magnetite is coarse grained, disseminated, stringer-style, and can occur in bands up to 0.3 m in thickness, up to 20% volume locally.

Supergene mineralization occurs proximal to near-surface extension of the primary mineralization and beneath the Cretaceous conglomerate. Chalcocite is the prime mineral in these horizons along with secondary malachite, minor azurite and minor native copper. Observations of foliated and even copper mineralized cobbles in drilling indicate that "Minto-type" mineralization was exposed, eroded and reincorporated in conglomerate sedimentary deposits by the Cretaceous Age.

Structural deformation includes the ore-bearing deformation zones, as well as folding present on the regional to micro-scale. Within the deformation zones the foliation exhibits highly variable orientations with the presence of small-scale (several centimetres in amplitude) folds. The ore-bearing zones are also occasionally folded on a scale of several hundred metres. The larger-scale folds appear to be gentle folds with North-South axial traces. Late brittle fracturing and faulting is noted throughout the property area; some of these faults have displacements significant enough to compartmentalize the deposits

*Drilling*

There are currently more than 1,330 drillholes within a roughly 16 square kilometre area at Minto. Under the direct supervision of MintoEx and Capstone staff geologists, MintoEx drilled a total of 29,539 m in 84 holes on the Minto property at Inferno North, Minto East 2, and other targets between January and May 2012 using the contractor, Driftwood Diamond Drilling Ltd., of Smithers, BC. MintoEx drilled a total of 106,456 m in 376 vertical and 19 angled, NQ and NTW-diameter, diamond drillholes at the Minto South Deposit from February 2006 to July 2011. The average drillhole length is 270 m. Drillhole spacing ranges between 30 m to 60 m at the Area 2 resource sub-domain, 40 m at the Area 118 resource sub-domain, and 40 m to 60 m at the Wildfire and Copper Keel sub-domains. At Ridgetop, MintoEx drilled a total of 16,850 m in 139 NQ-diameter, vertical drillholes and three angled diamond drillholes from May 2007 to September 2009. The average length of the Ridgetop drillholes is 122.5 m. Drillhole collars are spaced between 20 m and 60 m apart. The mineralized zones dip moderately to the northeast. At Minto North, MintoEx drilled a total of 11,548 m in 71 vertical and 17 angled, NQ and NTW-diameter, diamond drillholes from January to October 2009. The average drillhole length is 130 m. Drillhole collars are spaced between 15 m and 20 m apart. Mineralized zones are shallowly dipping to the northwest. At Minto East, MintoEx drilled a total of 11,067 m in 13 vertical and 20 angled, NQ-diameter, diamond drillholes from April 2007 to August 2010. The average drillhole length is 336 m, which are spaced approximately 40 m apart. Mineralized zones are shallowly dipping to the northwest. At Minto East 2, MintoEx drilled a total of 24,295 m in 13 vertical and 46 angled, NQ-diameter, diamond drillholes from 2011 to 2012. The average drillhole length is 412 m. Drillhole collars are spaced between 40 m and 80 m apart. At Inferno North, MintoEx drilled a total of 1,566 m in 9 vertical, NQ-diameter, diamond drillholes from March to April, 2012. The average drillhole length is 174 m. Drillhole collars are spaced from 80 to 40 m and 80 to 40 m apart. The mineralized zone is sub-horizontal.

A review of drill hole spacing was conducted for various mineralization zones in 2014 and it was identified that in-fill drilling was appropriate to reduce the drill spacing in some areas. The first area targeted was the planned pushback of the Area 2 pit (Area 2 Stage 3), with drilling conducted by Driftwood Diamond Drilling Ltd. in the fall of 2014. Nineteen holes were drilled, for a total of 3,026 meters, with the goal of closing the drill spacing to an approximate 40 m grid pattern. Additional drilling is planned for 2015.

Drillhole collar locations were initially located using a differential GPS unit, followed by survey using a Trimble G8 GPS unit after completion of the drillhole. Since 2008, downhole survey measurements were taken primarily using a Reflex™ Flexit downhole survey tool. Although local magnetite concentrations sometimes prevented measurement of azimuth deviations, the tool provided overall readings that were realistic showing minor deviation in azimuth and dip. In 2010 a Relfex™ Maxibor II, which is not magnetically susceptible, was used in 22 drillholes in areas known to be highly magnetic. Between 2008 and 2011 we collected magnetic susceptibility data, but we determined that high magnetic susceptibility does not imply the presence of mineralization, even though magnetic susceptibility is elevated in mineralized intervals.

Mineralized intervals measured in the vertical drillholes are considered to be nearly true width because of the shallow-dipping nature of the mineralization. Drillcore is transported from the drill rig to the logging facility by the drilling contractor, where MintoEx personnel log it for geological, sampling, and geotechnical purposes. Geological data including lithology, structure, alteration, and mineralization is recorded for all drillholes. All drillcore is photographed.

*Sampling and Analysis*

Drillcore samples normally 1.5 m in length in foliated granodiorite (mineralized) and 3.0 m in length in the unfoliated granodiorite (waste) rock. The geological contact between these units is generally sharp and it is respected during sampling. Shoulder samples are taken in the waste at both the upper and lower contacts, consisting of a 1.5 m and a 1.0 m sample. Unfoliated granodiorite units between mineralized units are completely sampled if they are 10 m in thickness or less between mineralized, foliated units, otherwise they are sampled at the geologist's discretion.

Our quality assurance protocols require standard reference materials ("SRM"), sample blanks, and duplicate samples to be regularly inserted into the sample stream. Our samples have generally been sent to the ALS Geochemistry ("ALS") laboratory in Vancouver, but we have also used SGS Canada Inc. ("SGS") for parts of our drilling programs. MintoEx inserted one each of an SRM, blank, coarse reject duplicate and pulp reject duplicate with every 16 core samples. Umpire assaying of pulps at a secondary laboratory was conducted periodically, typically involving analysis of 0.5% or more of the core samples. Other quality control measures include random checks of drillhole collar locations using handheld GPS units and comparing entries in our database to original data sources. We consider our samples to be representative and we are not aware of any factors that may have resulted in sample biases. We do not know of any drilling, sampling, or recovery factors that could materially impact the accuracy or reliability of the drilling results.

Bulk density measurements are taken in both mineralized and waste material. Since 2005, a weight-in-air-weight-in-water method has used for bulk density determinations. Measurements are taken at approximately every 1-3 m in mineralized zones, every 5 m in poorly mineralized zones, and every 20-30 m in waste zones. Bulk density data obtained prior to 2005 were not used in the resource estimations because the data was constructed by correlating bulk density to copper grade based upon too few actual measurements and because the core upon which this method was constructed was destroyed in forest fires and the methodology could not be audited.

*Security of Samples*

Exploration work by MintoEx was conducted using a quality assurance and quality control program generally meeting industry best practices. All aspects of the exploration data acquisition and management including surveying, drilling, sampling, sample security, and assaying and database management were conducted under the supervision of appropriately qualified geologists and include written field procedures and verifications.

Analytical control measures typically involve internal and external laboratory control measures to monitor the precision and accuracy of the sampling, preparation and assaying. Insertion of certified reference material standards and blank material monitors the reliability of assaying results and is also important to prevent sample mix-up and monitor potential for cross contamination. Assaying protocols typically involve regular duplicate and replicate assays to monitor the reliability of assaying results throughout the sampling and assaying process.

Several audits of our drillhole database have been conducted by SRK and Garth Kirkham between 2005 and 2012, which did not discover any significant errors.

*Mineral Resource and Mineral Reserve Estimates*

The mineral resource estimates for the Minto South Deposit ("MSD") and Ridgetop deposits were completed by Dr. Wayne Barnett, Ph.D., Pr.Sci.Nat., of SRK Consulting (Canada) Inc. ("SRK"), an independent Qualified Person as defined by NI 43-101. The effective date of the MSD resource estimate is September 13, 2011 and the effective date of the Ridgetop resource estimate is August 30, 2010. Marek Nowak, P.Eng., also of SRK, analyzed the data, reviewed and validated the mineral resource estimates for Minto South and Ridgetop. The MSD comprises the Area 2 (including the Copper Keel extension), Area 118, and Wildfire zones that form a part of the same system of mineralization. The geological model was created in Geovia GEMS™ software from cross-sectional interpretations identifying the foliated and non-foliated units, weathering horizons, and key fault structures offsetting the mineralization. Data were composited to 1.5 m lengths. Exploratory data analysis indicated gold and copper were highly correlated, so estimation parameters for both of these elements were the same. Top cutting of outlier grades was not undertaken, but their influence was mitigated during the estimation process using restricted search ellipses. Copper and gold were estimated by ordinary kriging into blocks measuring 10 m Easting by 10 m Northing by 3 m Elevation. Silver and bulk density were estimated using an inverse-distance-squared method. Sample search ellipses were oriented to match the directions of the modelled geology. Estimation validation included visual checks, comparison of average grades to assess global bias, and generation of swath plots to assess smoothing of blocks compared to the declustered, input, composite data. For the Ridgetop deposit, the same process outlined above was followed to model the geology and conduct the mineral resources estimate.

The Minto North, Minto East, Minto East 2, and Inferno North resource estimates were completed by Garth Kirkham, P.Geo., of Kirkham Geosystems Ltd., an independent Qualified Person as defined by NI 43-101. The effective date of the Minto North resource estimate is December 1, 2009; the effective date of the Minto East resource estimate is October, 2010; the effective date of the Mint East 2 and Inferno North resource estimates is October 25, 2012.

The Minto North geology was modelled using a cross-sectional interpretations taking into account lithology, copper grades and site knowledge. Samples were composited to 1.5 m lengths. Similar to the MSD and Ridgetop deposits, outlier samples were not top cut, but their influence was lessened by the use of restricted search distances above specified grade thresholds. Grades were estimated into blocks measuring 10 m Easting x 10 m Northing x 3 m Elevation using ordinary kriging, while bulk density was estimated using inverse distance squared. Search ellipses were oriented to match the directions of the modelled geology. Estimation validation included visual checks, comparison of average grades to assess global bias, and generation of swath plots to assess smoothing of blocks compared to the declustered, input, composite data.

The Minto East deposit is an underground target, located approximately 280 m below the surface.

Several mineralized layers do exist above the main Minto East 700 zone, but these do not carry sufficient grades to warrant evaluation. The 700 zone was modelled using a cross-sectional interpretation approach. Samples were composited to 1.5 m lengths. Outlier samples greater than 5.2% copper were top cut, otherwise restricted search distances were used to limit the influence of outlier grades for gold and silver. Grades and bulk density were estimated into blocks measuring 10 m Easting x 10 m Northing x 3 m Elevation using inverse-distance-squared estimation with a three-pass search strategy. The search ellipses were oriented to match the modelled geology. Estimation validation included visual checks, comparison of average grades to assess global bias, and generation of swath plots to assess smoothing of blocks compared to the declustered, input, composite data. Modelling of the Minto East 2, an extension of the mineralization to the east of the Minto East underground target, was undertaken using the same process methodology outlined for Minto East. The resources modelling of the Inferno North deposit, located east of Minto North, followed the same process as described for the Minto East and Minto North deposits.

During 2014, we removed mineral resources remaining from the Minto Main open pit from our mineral resources statement because we deemed them to no longer be potentially economically viable. This represented Measured and Indicated resources totalling 637 kt at 0.94% Cu, 4 g/t Ag, and 0.1 g/t Au and Inferred resources totalling 2 kt at 0.53% Cu, 4 g/t Ag, and 0.2 g/t Au, all reported above a 0.5% Cu cut-off grade. This material was located peripheral to the margins of the open pit.

Mineral resources reported in Table 5 are based on the resources models completed by Dr. Wayne Barnett, Pr.Sci.Nat. and Garth Kirkham, P.Geo. These have been updated to take into account mining activities until December 31, 2014. The mineral resources model depletion was undertaken by Douglas McIlveen, P.Geo., Chief Geologist with MintoEx, and a Qualified Person as defined by NI 43-101. All mineral resources are presented above a 0.5% copper cut-off and are reported inclusive of mineral reserves. Stockpiles are reported as Measured mineral resources.

**TABLE 5: MINTO MINE ESTIMATED MINERAL RESOURCES AS AT DECEMBER 31, 2014***

| Classification | Tonnes (kt) | Copper (%) | Silver (g/t) | Gold (g/t) | Contained Copper (kt) | Contained Silver (koz) | Contained Gold (koz) |
|---|---|---|---|---|---|---|---|
| **Minto South Deposit (MSD)** | | | | | | | |
| Measured (M) | 6,054 | 1.03 | 3 | 0.38 | 62 | 666 | 74.0 |
| Indicated (I) | 27,343 | 0.97 | 4 | 0.32 | 266 | 3,077 | 281.3 |
| **Total (M+I)** | 33,397 | 0.98 | 3 | 0.33 | 329 | 3,743 | 355.3 |
| Inferred | 8,130 | 0.81 | 3 | 0.24 | 66 | 766 | 62.7 |
| **Ridgetop** | | | | | | | |
| Measured (M) | 1,531 | 0.98 | 2 | 0.25 | 15 | 105 | 12.3 |
| Indicated (I) | 3,534 | 0.87 | 3 | 0.30 | 31 | 326 | 34.1 |
| **Total (M+I)** | **5,065** | **0.90** | **3** | **0.28** | **46** | **431** | **46.4** |
| Inferred | 318 | 0.75 | 2 | 0.13 | 2 | 16 | 1.3 |

| Classification | Tonnes (kt) | Copper (%) | Silver (g/t) | Gold (g/t) | Contained Copper (kt) | Contained Silver (koz) | Contained Gold (koz) |
|---|---|---|---|---|---|---|---|
| **Minto North** | | | | | | | |
| Measured (M) | 1,844 | 2.15 | 8 | 1.11 | 40 | 457 | 65.8 |
| Indicated (I) | 264 | 1.04 | 6 | 0.60 | 3 | 49 | 5.1 |
| **Total (M+I)** | **2,108** | **2.01** | **7** | **1.05** | **42** | **505** | **70.9** |
| Inferred | 24 | 0.84 | 4 | 0.41 | 0 | 3 | 0.3 |
| **Minto East** | | | | | | | |
| Measured (M) | 688 | 2.30 | 6 | 1.07 | 16 | 139 | 23.7 |
| Indicated (I) | 490 | 1.74 | 5 | 0.70 | 9 | 72 | 11 |
| **Total (M+I)** | **1,178** | **2.07** | **6** | **0.92** | **24** | **212** | **34.7** |
| Inferred | 14 | 1.03 | 3 | 0.45 | 0 | 1 | 0.2 |
| **Minto East 2** | | | | | | | |
| Measured (M) | - | - | - | - | - | - | - |
| Indicated (I) | 5,460 | 1.31 | 5 | 0.59 | 72 | 913 | 103.6 |
| **Total (M+I)** | **5,460** | **1.31** | **5** | **0.59** | **72** | **913** | **103.6** |
| Inferred | 6,300 | 0.96 | 3 | 0.34 | 60 | 648 | 68.9 |
| **Inferno North** | | | | | | | |
| Measured (M) | - | - | - | - | - | - | - |
| Indicated (I) | - | - | - | - | - | - | - |
| **Total (M+I)** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Inferred | 1,419 | 1.42 | 5 | 0.51 | 20 | 214 | 23.3 |
| **Stockpiles** | | | | | | | |
| Stockpiles (Measured) | 750 | 0.88 | 2 | 0.41 | 7 | 60 | 9.9 |
| **Minto – Total Mineral Resources** | | | | | | | |
| Measured (M) | 10,867 | 1.28 | 4 | 0.53 | 139 | 1,426 | 185.6 |
| Indicated (I) | 37,091 | 1.02 | 4 | 0.36 | 380 | 4,437 | 435.1 |
| **Total (M+I)** | 47,958 | 1.08 | 4 | 0.40 | 519 | 5,863 | 620.7 |
| Inferred | 16,205 | 0.92 | 3 | 0.30 | 149 | 1,649 | 156.7 |

**Notes:*

1. *Douglas McIlveen, P.Geo., is the Qualified Person responsible for the disclosure of the Minto Mine mineral resources .*
2. *Mineral resources are reported as at December 31, 2014 above a 0.5% Cu cut-off grade.*
3. *Stockpiles are treated as Measured mineral resources.*
4. *Mineral resources are not mineral reserves and do not have demonstrated economic viability.*
5. *Mineral resources are presented inclusive of mineral reserves.*
6. *Totals may not sum exactly due to rounding.*

In order to demonstrate a reasonable prospect of economic extraction, SRK evaluated the overall mineral resource against an economic shell created using Whittle™ pit optimization software. SRK regards the entire reported resource as having reasonable prospects of economic extraction.

The mineral reserve estimates for Minto North Open Pit, MSD – 118 Pit, MSD – Area 2 Pit and Ridgetop Pits were completed by Pooya Mohseni, P.Eng. The mineral reserve estimates were generated using a NSR model that estimates metal prices, exchange rates, mining dilution, mill recovery, concentrate grade, and offsite costs. Economic pit shells were

generating using the Whittle™ mine planning software. The pit shells were further optimized by Minto personnel to developed detailed pit designs. In the fourth quarter of 2013, an engineering change occurred whereby the Ridgetop mineral reserves were removed due to potentially lower metallurgical recoveries caused by higher than anticipated copper oxide in the ore. In 2013 and 2014, open pit mining was executed in the Area 2 and 118 open pit and we anticipate mining to commence in the Minto North open pit in 2015. We have exhausted mineral reserves from the Area 118 open pit.

The mineral reserves for the MSD -118 / Area 2 Underground, Minto East Underground, MSD – Copper Keel Underground, and MSD – Wildfire Underground were completed Pooya Mohseni, P.Eng. The mineral reserves estimates were generated using a NSR model and then reported above a NSR cut-off value of C$ 64.40/t. Pre-defined mining blocks in each deposit were reviewed. These blocks were then included in polygons that identified mineable and recoverable areas. Post-pillar cut-and-fill mining allows for limited selective mining within the defined levels. In 2014, Area 2/118 underground mineral reserves were depleted with the mining of the M-zone (completely mined), and through limited development and production in the Area 118 underground. The success in M-zone mining established the viability of the long-hole mining method at Minto, proving its applicability to zones ranging from 8 m to 25 m in thickness. Therefore, the mineral reserves for the Area 118 underground zone were updated based on the new design using long-hole mining. The change to the mineral reserves is not material in nature. All other mineral reserves remain unchanged except for the stockpiles, which experienced significant depletion. Mineral reserves presented in Table 6 take into account mining activities until December 31, 2014.

**TABLE 6: MINTO MINE ESTIMATED MINERAL RESERVES AS AT DECEMBER 31, 2014***

| Classification | Tonnes (kt) | Copper (%) | Silver (g/t) | Gold (g/t) | Contained Copper (kt) | Contained Silver (koz) | Contained Gold (koz) |
|---|---|---|---|---|---|---|---|
| **Minto North Open Pit** | | | | | | | |
| Proven | 1,587 | 2.34 | 8 | 1.28 | 37 | 433 | 65.3 |
| Probable | 3 | 1.68 | 14 | 1.07 | 0 | 1 | 0.1 |
| **Total** | **1,590** | **2.34** | **8** | **1.28** | **37** | **434** | **65.4** |
| **MSD – Area 2 Open Pit** | | | | | | | |
| Proven | 113 | 0.96 | 4 | 0.23 | 1 | 13 | 0.8 |
| Probable | 1,314 | 1.04 | 4 | 0.29 | 14 | 148 | 12.3 |
| **Total** | **1,427** | **1.03** | **4** | **0.29** | **15** | **161** | **13.1** |
| **Minto East Underground** | | | | | | | |
| Probable | 709 | 2.28 | 6 | 1.04 | 16 | 140 | 23.7 |
| **Total** | **709** | **2.28** | **6** | **1.04** | **16** | **140** | **23.7** |
| **MSD – Area 2 / 118 Underground** | | | | | | | |
| Probable | 1,306 | 1.70 | 7 | 0.70 | 22 | 298 | 29.4 |
| **Total** | 1,306 | 1.70 | 7 | 0.70 | 22 | 298 | 29.4 |
| **MSD – Copper Keel Underground** | | | | | | | |
| Proven | 106 | 1.74 | 6 | 0.61 | 2 | 21 | 2.1 |
| Probable | 1,455 | 1.81 | 7 | 0.65 | 26 | 313 | 30.4 |
| **Total** | **1,561** | **1.81** | **7** | **0.65** | **28** | **335** | **32.5** |
| **MSD – Wildfire Underground** | | | | | | | |
| Proven | 301 | 1.80 | 6 | 0.77 | 5 | 59 | 7.5 |
| Probable | 59 | 1.59 | 8 | 1.00 | 1 | 15 | 1.9 |
| **Total** | **360** | **1.77** | **6** | **0.81** | **6** | **74** | **9.3** |

| Classification | Tonnes (kt) | Copper (%) | Silver (g/t) | Gold (g/t) | Contained Copper (kt) | Contained Silver (koz) | Contained Gold (koz) |
|---|---|---|---|---|---|---|---|
| **Stockpiles** | | | | | | | |
| Proven | 750 | 0.88 | 2 | 0.41 | 7 | 60 | 9.9 |
| **Total** | **750** | **0.88** | **2** | **0.41** | **7** | **60** | **9.9** |
| **Total Minto Reserves** | | | | | | | |
| Proven | 2,857 | 1.82 | 6 | 0.93 | 52 | 586 | 85.6 |
| Probable | 4,802 | 1.64 | 6 | 0.63 | 79 | 889 | 97.8 |
| **Total Minto** | 7,659 | 1.71 | 6 | 0.74 | 131 | 1,475 | 183.4 |

*Table Notes

1. *Pooya Mohseni, P.Eng., is the Qualified Person responsible for the mineral reserves estimates.*
2. *Mineral reserves are reported as at December 31, 2014.*
3. *Mineral reserves are reported above a cut-off grade of 0.5% Cu for open-pit material and above a US$ 64.40/t NSR cut-off for underground material.*
4. *Stockpiles are treated as Proven mineral reserves.*
5. *Metal price assumptions used to determine NSR cut-off for all deposits are: Cu=$2.50, Au=$300, Ag=$3.90*
6. *Process recoveries for all deposits are: Cu=91%, Au=70, Ag=78%.*
7. *Totals may not sum exactly due to rounding.*

*Mining Operations*

The Minto Mine is an open pit and underground mining operation that commenced in 2007. Open pit mining uses conventional drill and blast, and truck and shovel contractor fleet. Pit design vary on the site but are typically 12 m benches with a double bench configuration. Underground operations use room and pillar, post-pillar cut and fill, and long-hole open stoping mining methods. Each method has been assigned to individual mining blocks depending on the physical characteristics of the geology and its suitability to one of the above methods. Access to the underground workings is via a single service and haulage ramp.

Run of mine ore is stockpiled on surface depending on the copper grade of the material. A loader transports the stockpiled material to the primary crusher which feeds a gyratory crusher. The crushed product fed to a conventional grinding and flotations circuit to produce a bulk copper concentrate. The concentrate are thickened and filtered to produce product suitable for transport. The product is transported by truck to Skagway, Alaska for export.

The copper concentrate is sold by annual tenders to commodity traders. MintoEx sold most of its gold and all of its silver production to Silverstone Resources in November 2008. Silverstone was subsequently bought by Silver Wheaton who now owns the Minto Mine precious metal stream. Silver Wheaton pays Minto $312/oz Au and $4.06/oz Ag. Minto has a processing rate of 3,850 tonnes per day and average life of mine annual production of 18,140 kt copper contained in concentrate containing silver and gold by-products. The current mine plans extends the Minto Mine operations life to 2020. In 2014, open pit mining activities were primarily focused on mineral extraction of the Area 2 Stage 2 Pit and 118 pit. Surface deposits will continue to be developed as open pit that will rely on a contractor mining approach. Underground mining activities were focused on the M-zone (component of Area 2 underground UG reserves) development and production. In the fourth quarter of 2014 underground activities in 118 restarted applying long-hole mining method.

The Yukon Environmental and Socio-economic Assessment Board completed its evaluation for the Phase V/VI expansion in April 2014. An amended and renewed Quartz Mining Licence for the entire Phase V/VI expansion was received in December 2014. Minto is awaiting its Water Use Licence amendment for Phase V/VI operations as discussed in more detail above.

Federal and Territorial income tax applies to the Minto Mine. Taxable income generally starts with the before-tax cash flow and essentially deducts the cost of building and developing the mine and mill (Class 41a un-depreciated capital costs ("UCC"), Canadian exploration expenses ("CEE") and Canadian development expense ("CDE")) as would be expected over the life of the mine and as allowed by the Canadian tax rules. Generally Class 41a UCC and CEE can be deducted 100% against profit from the mine while CDE can only be deducted on a declining balance basis at 30% per year. The losses that are generated in the first few years of mine operation are deducted against income in later years.

The Yukon QMA Royalty also starts with before-tax cash flow from the cash flow portion of the model and deducts depreciation at 15% per year on a straight-line basis for the mine capital assets and mill capital assets. It deducts deferred pre-operating costs that are not capital assets on a unit of production method. The Yukon QMA Royalty does not have a loss carryover or carry back provision. Taxes are paid at rates that increase as income increases to a maximum of 12%.

*Exploration and Development*

No exploration activities are slated at Minto for 2015, although a limited amount of in-fill drilling, to tighten up spacing for areas of existing reserves, will be conducted.

The current mine plan calls for the first Minto North ore to be milled starting in September 2015, with high grade ore to be mined from February 2016 until the end of the second quarter of 2016, at which time the Minto North pit will be fully depleted. Minto South underground ore production is budgeted to continue until November 2015, pausing while the mill processes Minto North ore and access is developed for the next area of underground mining.

***Santo Domingo Project (Chile)***

The Santo Domingo Project is the subject of a report titled "Santo Domingo Project, Region III, Chile, NI 43-101 Technical Report on Feasibility Study" dated May 22, 2014 (the "Santo Domingo Report"), that summarizes the Feasibility Study completed on the Project in 2014. This technical report was authored by Joyce Maycock, P.Eng., David Frost, FAusIMM, Vikram Khera, P.Eng., Carlos Guszman, FAusIMM, Roy Betinol, P.Eng., Hans Gopfert, P.Eng., Anna Klimek, P.Eng., David Rennie, P.Eng., and Tom Kerr, P.Eng., each a Qualified Person as defined in NI 43-101. The following descriptions of the Santo Domingo Project are based on assumptions, qualifications and procedures which are set out in the Santo Domingo NI 43-101 Technical Report. Reference should be made to the full text of this report which is available in its entirety on SEDAR at *www.sedar.com* under the Company's profile.

*Project Description and Location*

The Santo Domingo Project is based on a large open pit copper/gold/magnetite resource located approximately two hours north of Copiapó by paved road and 7 km southeast of the town of Diego de Almagro in Region III of Northern Chile. The Santo Domingo property was originally part of the BHP Candelaria project area, which consisted of eight non-contiguous concessions in a north-south corridor extending between the towns of Taltal to the North and to a point about 75 km South of the city of Copiapó.

The project was owned by Far West, which was formerly a TSX-listed mineral exploration company headquartered in Vancouver. The initial Candelaria Project land package assembled by BHP in 2002 consisted of 3,434.5 $km^2$ of exploration concessions. In 2002 and 2003, Far West and BHP entered into Project Area Agreements that allowed Far West to earn an interest in the concessions within the project area. Effective August 5, 2003, Far West assigned interests in the Project Area Agreements to its wholly owned Chilean subsidiary, Minera Lejano Oeste S.A. ("MLO"). On May 4, 2005, BHP terminated any interest in the concessions within the project area and commenced transfer of title of all these concessions to MLO in exchange for a retained 2% NSR royalty. As of the date of the Santo Domingo Report, all concessions in the Candelaria Project area are 100% owned by MLO. On June 17, 2011, Far West was acquired by Capstone at the same time as the Company entered into a strategic relationship with KORES. The terms of this relationship provided for amongst other things, a private placement in the equity of Capstone, representation on the Board of Directors of the Company, the acquisition of a 30% interest in the project by KORES, participation in the financing of the project as well as an agreement to enter into a life of mine off-take agreement for 50% of the production of copper and iron from the project on prevailing market terms.

Far West, a subsidiary of Capstone, controls 100% of four groups of concessions with a total of 178 claims (82 exploitation concessions totalling 19,375 ha and 96 exploration concessions totalling 17,000 ha) that cover a total of 36,375 ha and includes the areas of the planned mine site, plan area, and auxiliary facilities including proposed port facilities and the planned seawater and concentrate pipelines from the port to the mine. The centre of the deposit is located at approximately 26°28'00"S and 70°00'30"W.

No surface rights are currently held by Capstone in the project area, but the process to acquire surface rights is well understood. We have proposed to consolidate Capstone's property in the areas covering the deposit and the process facilities by purchasing these lands through the Ministerio de Bienes Nacionales. It will be necessary to either acquire a

total of 3,901.3 ha or complete the creation of mining easements for the installation and use of various facilities. Capstone also proposes to apply for one or more mining rights-of-way in the areas of interest of the project such as the pipeline route, access roads and off-site ancillary facilities to safeguard these areas. The project has received government guarantees for the rights of way required by the Project for the areas currently identified. There is sufficient suitable land available within the exploitation concessions for the planned tailings disposal, mine waste disposal, and mining-related infrastructure such as the open pit, process plant, workshops and offices.

The project as currently envisaged will not require an application for water rights. The water for the operation will consist solely of seawater. A maritime concession has been requested to allow the extraction of seawater.

There are 752 identified permits that will be required to support operations. Fifteen of these permits are considered to be on the critical path for timely construction and start-up of the project.

*Accessibility, Climate, Local Resources, Infrastructure and Physiography*

Access to the Santo Domingo property area is 1 km off the paved highway C-17 from Diego de Almagro (5 km to the North) to Copiapó (approximately 120 km to the South).

The Santo Domingo property is located in the Atacama Desert, one of the driest regions on earth. The climate is arid and the weather is generally clear and warm in all seasons and poses no limitations on field activities. The closest weather station where temperature and precipitation measurements have been recorded for some time is the city of El Salvador. The daytime high and low temperatures there are 26°C and 0.8°C for July, and 30°C and 9.8°C for January, respectively. The highest average recorded precipitation is in May at 14.8 mm and the lowest is in December at 0 mm.

The region has well-established infrastructure (power, water, transportation, work force, etc.) to service the mining community. There is no infrastructure at Santo Domingo property itself other than gravel roads for access to the property and drill sites. The project is approximately 1 km from a paved highway and 5 km from a sub-station that provides power to the town of Diego de Almagro.

Several cities or towns are near the Santo Domingo property. Diego de Almagro, located adjacent to the property, has a population of approximately 16,000 people. Chañaral is a deep-sea port less than one hour's drive to the west of the property. It has a population of approximately 10,000 people, hotel accommodations, food, fuel, and minor services. The most important logistical centre in the region is Copiapó, approximately two hours' drive to the south of the Santo Domingo property. It has a population of approximately 150,000 people, an airport with daily scheduled flights to Santiago and Antofagasta, and abundant businesses offering services specific to mining and exploration.

Vegetation is very sparse. In the valley bottoms, plant life consists of small, widely-spaced bushes a few tens of centimetres in height. Hillsides and peaks are generally devoid of any vegetation. In spite of the dry conditions, hills of gentle to moderate relief have been cut by deep gullies and flanked with gravel-filled valleys and alluvial fans; evidence of water movement preserved since conditions were less arid. Elevations range from approximately 900 m to 1,500 masl.

Seismic zone maps of South America indicate that the project area is likely to have high seismicity and the site is considered part of Zone 3 (shores) according to the Chilean National Design Code Nch2369, with a peak ground acceleration of 0.4 *g*.

Figure 4 illustrates the location of the proposed project infrastructure, including the seawater pipeline system, process plant, thickeners, tailings distribution box, and open pit locations.

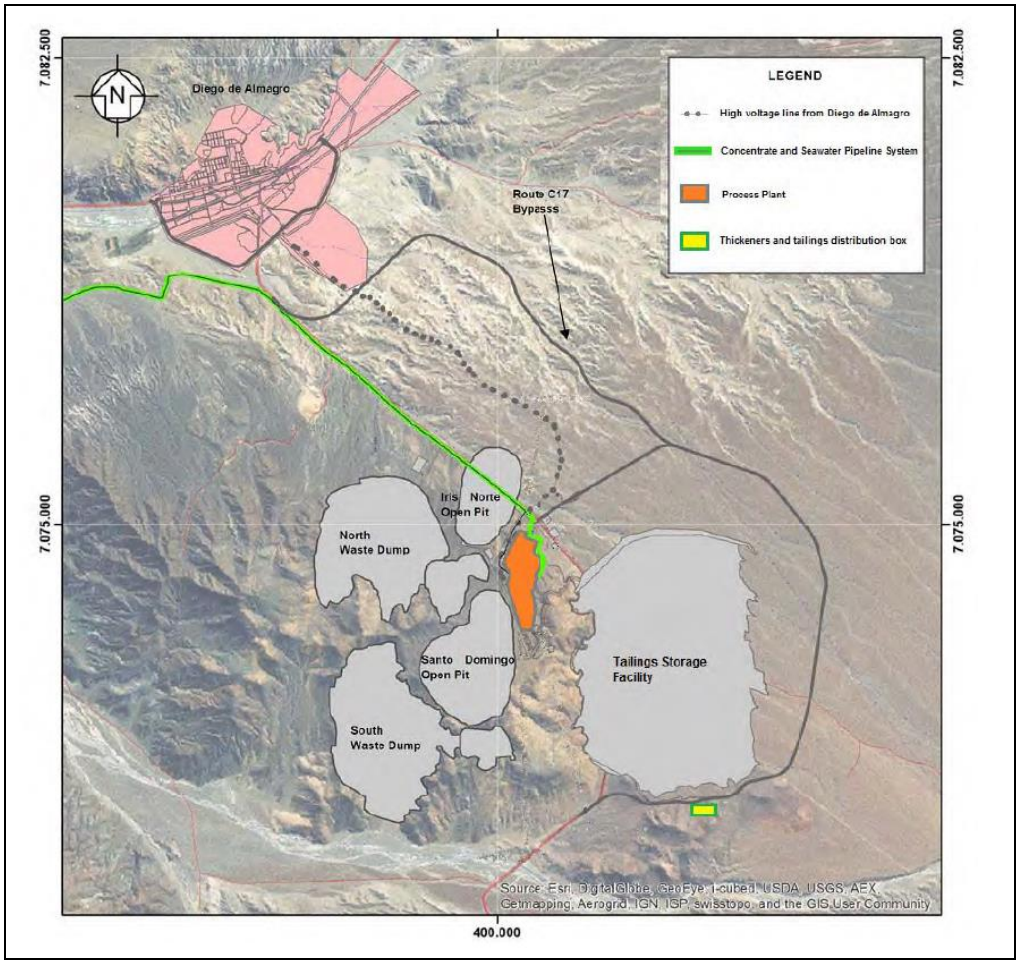



**FIGURE 4: SANTO DOMINGO PROPOSED PROJECT INFRASTRUCTURE**

*History*

Mining for copper, gold, and iron has been ongoing in this area since early in the 19th century. Small mines in the region supplied copper ore to smelters in both Chañaral and Pan de Azúcar. Independent copper mines have been in operation on what is now Anglo American's Manto Verde deposit (located 25 km Southwest of the Santo Domingo property) since the late 1800s, but significant production in this area started in 1906. Between 1906 and 1935, a reported total of 400,000 tonnes grading in excess of 3% Cu was mined from the Manto Verde fault zone.

Previous ownership of concessions in the Santo Domingo property is unknown. The area appears to have had a relatively long history of small-scale mining and prospecting. Mining activities on the nearby Manto Verde deposit date back to the late 1800s and it is probable that workings in the Santo Domingo property have a similar age.

Many small inactive mines and a myriad of pits occur throughout the property area. The mines typically exploited copper mineralization hosted in narrow (one meter to five meters) steeply-dipping veins and, in some cases adjacent strata to these veins. The largest mines are located along approximately 700 m of the Santo Domingo structure. These mines include La Estrella, La Estrellita, El Iris, and others. Judging by the size of the dumps and number of adits, it is possible that this specific area produced upwards of 500,000 tonnes. A second area of minor production is a small open pit with peripheral underground workings on the Caprichosa concession in Target Area 4a2 (Far West nomenclature) that may have produced in the order of 20,000 tonnes of copper oxide-bearing coming from a specularite stratum, however, surface workings at the majority of the mines in the Santo Domingo property (other than those noted above) are generally less than a few tens of metres in length and the extent of underground development is unknown. Judging by the quantity of

dump material adjacent to most of these mines, it is probable that production was no more than a few thousand tonnes at any one site.

The initial Candelaria Project land package was assembled by BHP in 2002, who then flew a Falcon™ gravity and magnetic survey over a portion of the northern Chilean Iron Belt, including the Santo Domingo Project area. In 2002 and 2003, Far West and BHP entered into Project Area Agreements that allowed Far West to earn an interest in the concessions within the project area. Effective August 5, 2003, Far West assigned interests in the Project Area Agreements to MLO. On May 4, 2005, BHP terminated any interest in the concessions within the project area and commenced transfer of title of all these concessions to MLO in exchange for a retained 2% NSR royalty.

Exploration comprised initial geological mapping (50 $km^2$) at 1:25,000 scale, surface and drainage sampling, interpretation of existing airborne geophysical data, and induced polarization ("IP") survey, and core and reverse circulation ("RC") drilling that outlined the Santo Domingo Sur ("SDS"), Estrellita, and Iris deposits. Drilling was originally designed to target gravity and magnetic anomalies for IOCG mineralization of Candelaria or Manto-Verde style. In April 2005, drillhole 22 intersected iron oxide mantos with copper mineralization of grade and width that had the potential to be economic. Further drilling in the area outlined the SDS deposit. Subsequent drilling to the northwest of SDS following a north-northwest trending gravity anomaly discovered and outlined the Iris deposit with mineralization of similar style to SDS. Additional drilling in the northwestern part of the Santo Domingo area, around the small-scale Estrellita mine workings, outlined the Estrellita deposit, which is more similar to Manto Verde as it represents copper oxide mineralization along a fault zone. The 2008 drilling outlined a new zone of mineralization known as Iris Norte. Additional holes have been drilled to test other gravity and magnetic features in the Santo Domingo area and intersected widespread but discontinuous copper mineralization around the four outlined deposits. An initial copper-gold resource estimate was performed in 2006 for the SDS deposit and updated in 2007, which then included copper-gold resource estimates for Estrellita and Iris. As of May 31, 2010, drilling in the Santo Domingo area totalled 106,886 m in 398 holes.

In 2008, a preliminary economic assessment ("PEA") was undertaken. This envisaged two open-pit mining options, one being mining the SDS deposit for the recovery of copper, gold and iron from magnetite; the second being mining the SDS and Iris deposits for the recovery of copper, gold and iron from magnetite and hematite. The resource estimate supporting the PEA was updated to include iron as an element of interest. Results indicated that the options were revenue negative under the assumptions in the study; however, changes to the base-case metal price assumptions did result in positive economics, and additional work was recommended.

*Geological Setting*

The Santo Domingo deposit is located in the Chilean Iron Belt ("CIB") to the east of the Atacama fault zone, a complex sinistral strike-slip and dip-slip fault system that runs sub-parallel to the coast of Northern Chile for over 1,200 km. The CIB contains a large number of copper and iron deposits of cretaceous age. The geology of the belt consists of volcanic flows and tuffs, dioritic intrusives and calcareous sediments typical for a volcanic arc environment. The geology of the Santo Domingo area is dominated by andesitic volcanic flows and limestone horizons with occasional outcrop of diorite intrusions. Large parts of the deposit are covered by younger cover consisting of clay and gravel. The CIB is characterized by a large number of small surface showings of copper oxide, frequently accompanied by specular hematite. The Santo Domingo deposit is essentially blind and is hosted by extensive tuff horizons that are overlain by andesitic volcanics.

The Santo Domingo Project lies on the east side of the Atacama fault complex which, in this area, consists of numerous clusters of generally north-south structural breaks in a belt approximately 30 km wide. It appears that the 10 km wide westernmost cluster, which hosts the Manto Verde copper deposit, is the main part of the fault system.

The bulk of the rock exposed in the Santo Domingo Project appears to overlie the Punta del Cobre volcano-sedimentary sequence. It is an intercalated and interfingered sequence of volcaniclastics, andesite flows, limestone, and calcareous sedimentary rocks, probably of the Lower Cretaceous Bandurrias and Chañarcillo Groups. The Bandurrias Group is defined as a predominantly volcanic sequence of andesite flows and volcaniclastic rocks. Chañarcillo Group rocks consist largely of limestone and calcareous marine sediments. Both definitions match observed geology on the Santo Domingo Project. The project area is divided into a number of structural blocks with different lithological characteristics suggesting the blocks are at different levels.

*Exploration*

Much of the exploration work in the Santo Domingo area was conducted by previous owners of the property. Exploration work completed by Capstone between August 2011 and May 2014 consisted of a detailed aerial survey of the plant site area using a scale of 1:1,000 and a 1 m contour spacing, which was prepared by Fugru Interra S.A. in 2012. The topography covers an area of approximately 16,000 ha for the plant site, port facilities and pipeline routes.

Exploration work undertaken on the project in October 2013 consisted of a versatile time-domain electromagnetic ("VTEM") and aeromagnetic geophysical survey covering 356 line-kilometres by Aeroquest Airborne or Aurora, Ontario, Canada. In November 2013, Aeroquest Airborne conducted an airborne z-axis tipper electromagnetic ("ZTEM") and aeromagnetic geophysical survey covering 369 line-kilometres. In 2014 Condor Consulting Inc. ("Condor") assessed available geophysical datasets from both the recent and historical airborne and ground surveys carried out during the past 12 years in the project area. The work resulted in the geophysical characterization of the signatures of the three mineralized occurrences (Santo Domingo, Iris, Estrellita) and the generation of seven target zones of varying priority for follow-up exploration.

The project has been explored for its large tonnage potential as a primary consideration. There has been no exploration targeting small lenses of mineralization in the 1-5 Mt range. Oxide mineralization has also not been targeted specifically. Additional potential exists for iron mineralization without copper, which so far has been deemed uneconomic by itself, but has potential once an operation is built in the project area. The main iron potential is located around Iris Norte and to the south of Santo Domingo Sur, where magnetite occurs in skarn zones of unknown size.

*Mineralization*

Copper-bearing IOCG-type mineralization is widespread in the Santo Domingo area. Specular hematite and copper oxides (including chrysocolla, brochantite, and malachite) are the typical near-surface mineral assemblages. Copper oxides typically persist to 70 m to 90 m below surface, with chalcopyrite being the dominant copper mineral at greater depths.

Manto replacement-style mineralization in tuffaceous or calcareous sediments is widespread on the property. In the Estrellita and Estefania areas, several gently north-dipping, strata-bound iron oxide (specular hematite near surface, grading to magnetite at depth) ± copper horizons, up to 12 m thick, occur in roughly the same 200 m stratigraphic interval, and have been tentatively traced with drilling or extrapolated across 3 km of strike length. Mineralization typically occurs within a simple single-phase breccia of fine-grained, calcareous tuffaceous sediment. The breccia matrix typically consists of fine-grained specular hematite with disseminated, stringer and fracture-coating copper oxides, and rare clots of chalcopyrite. Breccia horizons appear to be largely strata-bound, but to the south are discordant, following the steeply-dipping Santo Domingo fault, suggesting that this fault may have been a fluid conduit.

In the SDS deposit, copper mineralization occurs in a sequence of iron oxide mantos within a tuffaceous package between andesitic flows. Drilling has identified a 150 m to 500 m thick, mineralized sequence covering an area of approximately 1,300 m by 800 m. Mineralization consists of stacked chalcopyrite-bearing specularite-magnetite mantos, within tuff and tuffaceous sediments overlain by andesitic flows.

The Iris deposit is approximately 500 m wide, with a strike length of 1,600 m. The deposit consists of iron oxide mantos and breccias along a North-Northwest-striking fault zone. Mineralization occurs close to surface at the Southern end and plunges gently towards the North. The distribution of copper mineralization in the Iris deposit is more erratic and irregular than in the SDS deposit, owing to the fact that structural control seems to have played a greater role in the Iris deposit than in the more continuous stratiform replacement style mineralization at SDS. The dominating iron oxide at Iris is hematite, while the main copper mineral is chalcopyrite. There are some old mine workings at the southern end of the deposit where copper oxides such as brochantite and chrysocolla were mined at surface. The mineralization is hosted by a specularite manto that is cut by steeply-dipping structures. The extent of mineralization at surface is approximately 100 m by 60 m.

The Estrellita deposit is an east-west-striking, flat-lying to shallowly north-dipping tabular body lying approximately 3.5 km northwest of SDS. The zone has been faulted into a series of four blocks which step downwards to the north, with displacement across the faults ranging up to approximately 75 m. The overall footprint of the zone measures 900 m long by 450 m wide, and is up to 100 m thick. The zone is thickest in the middle and narrows somewhat towards the periphery.

There are narrower zones of limited lateral extent in the footwall of the main zone. Mineralization at the Estrellita deposit is a mixture of manto-style iron oxide and structurally controlled, vein-style mineralization. The central part of the Estrellita deposit consists of a more or less horizontal tabular body of iron-oxide manto that appears to have formed at the intersection of a horizontal and a steeply dipping set of specular hematite structures.

*Drilling*

In late 2011 and early 2012, Capstone conducted an infill drilling campaign that was designed to elevate Indicated mineral resources located within the projected first three years of production to the Measured resources category. A secondary purpose was to collect material for metallurgical test work at the feasibility-study level. The campaign consisted of 66 diamond drillholes for a total of 13,282 m of additional drilling. A revised mineral resources estimate incorporating the results of the latest infill drilling campaign has been included in the published NI 43-101 Technical Report as well as the completed Definitive Feasibility Study ("DFS").

Drilling was contracted to Harris y Cia., Major Drilling, Geo Operaciones and Captagua, all based in Chile. Most of the RC drilling was conducted by a truck-mounted Schramm Rotadrill. The diamond drilling was conducted by various types of equipment. HQ-diameter core was typically drilled to a depth of approximately 300 m, below which NQ-diameter core (47.6 mm diameter) was drilled. Samples, taken in two-metre intervals for RC, were collected by drilling personnel, and tagged and organized by Far West personnel. A geologist was generally on site during most of the day shift for RC drilling.

Diamond drill core was sampled in one-metre (all diamond drillholes before 2010) or two-metre (diamond drillholes 2010) intervals that were marked by Far West geologists in order to adjust the samples to geological units. Most holes are vertical as the orientation of mineralization at SDS and Estrellita is horizontal or gently dipping. Inclined holes, particularly diamond holes, were drilled in order to establish the limits of mineralization at the edges of the deposits as well as to establish the structural framework at Estrellita, Iris, and Iris Norte. Drillhole collars were located using a differential GPS. Coordinates are accurate to within one metre or less. Relative elevations between holes in close proximity (such as at SDS) were determined using a tight chain and clinometer. Downhole surveying was conducted using a combination of gyroscope and accelerometer, with measurements taken every 10 m.

*Sampling and Analysis*

Reverse circulation drill cuttings were collected at 2 m intervals. Core was nominally sampled at 2 m intervals. Samples for assay were marked at 1 m and 2 m intervals by technicians and subsequently adjusted by the geologist to correspond to major lithological contacts. For programs conducted prior to 2011, sample lengths were not less than 0.5 m and most did not exceed 2 m. The shortest and longest sample lengths in 2011–2012 were 0.7 m and 2.7 m, respectively, and most samples were 2 m long.

The primary analytical laboratory was ALS Chemex, and the facilities in La Serena, Chile and Antofagasta, Chile were used. Both of these facilities have ISO 9001:2008 accreditation and La Serena has ISO 17025 accreditation. Sample preparation consisted of drying, crushing to minus #10 Tyler >70%, homogenizing and then pulverizing to minus #200 Tyler >85%. Samples were analysed for 27 elements via ALS Chemex procedure ME-ICP61, using inductively coupled plasma ("ICP"). Gold assays were determined using fire assay with an AAS finish. Copper values over 10,000 ppm were re-assayed. Due to the ME-ICP61 method understating the iron content, 7,401 samples from the 2010 drill program were resubmitted for assay using a method with a more aggressive digestion; including all samples over 15% Fe inside the existing block model for which sample material was still available. Soluble copper analysis was conducted on 1,035 samples from 2011–2012 drilling.

A total of 19,302 magnetic susceptibility measurements have been recorded. There are 2,229 density measurements, performed by Far West Mining personnel on core samples using the water displacement method. Rosco Postle Associates Inc. ("RPA") developed regression formulae based on the specific gravity values reported by Far West Mining to convert volumes to weights, using Fe concentration as the independent variable.

The QAQC protocols have remained largely consistent throughout all programs conducted by Far West Mining and Capstone. Minor changes have been implemented by Capstone to accommodate issues and recommendations from past programs and to include magnetic susceptibility measurements. Certified reference materials ("CRM"), or standards, are

inserted every 25th sample, constituting 4% of the total number of samples submitted. Blanks, consisting of common Portland cement, were inserted every 50th sample. Field duplicates are taken every 25th sample.

RPA considers that the drilling has been conducted in a manner consistent with standard industry practices. The spacing and orientation of the holes are appropriate for the deposit geometry and mineralization style. Sampling methods are acceptable, meet industry-standard practice, are appropriate for the mineralization style, and are acceptable for Mineral Resource estimation. The quality of the analytical data is reliable, and analysis and security are performed in accordance with exploration best practices and industry standards.

*Security of Samples*

The logging facility is fenced, locked when not occupied, and is secure. Samples are handled only by employees or their designates (i.e. ALS personnel). Regular data verification programs have been undertaken by third-party consultants from 2005 to 2014 on the data collected in support of the mineral resources and mineral reserves estimates on the Santo Domingo Project. RPA considers that as a result of this work, the data verification findings acceptably support the geological interpretations and the database quality, and therefore support the use of the data in Mineral Resource estimation.

*Metallurgical Sampling Program*

In 2014, 13 drillholes totalling 1,484 m of reverse circulation and 1,535 m of diamond core drilling (3,019 metres total) to obtain fresh material for additional metallurgical sampling were completed. The first five years of mine production was targeted during the drilling program and was completed solely within the Santo Domingo pit limits. The rock chips from the reverse circulation drilling were logged and bagged. Portions of the rock chips are to be used for the commissioning of the metallurgical testing pilot plant. The core obtained during diamond drilling was taken to the Diego de Almagro core storage area with all core being logged and having magnetic susceptibility testing completed prior to cutting. The core was then cut into a single half core and two quarter core sections. One of the quarter core sections was sent to ALS Minerals in Antofagasta for assaying; the second quarter core section is being archived at Diego de Almagro; with the half core section to be provided to ALS Minerals in Santiago for the pilot plant testing program. A total of six composite samples (in addition to the commissioning sample) are to be prepared and tested during the pilot plant program.

*Mineral Resource and Mineral Reserve Estimates*

David Rennie, P.Eng., of RPA, is the Qualified Person responsible for the preparation of the mineral resources estimates for the Santo Domingo Project. The mineral resources estimates for Santo Domingo Sur, Iris, and Iris Norte have an effective date of August 31, 2012 and the mineral resources estimate for Estrellita has an effective date of October 30, 2007.

RPA constructed 3D wireframe or solid models and gridded surfaces of the mineralized zones, fault structures and topography for use in constraining the block grade interpolations. The principal controls were lithology and structure; however, in some places a nominal grade shell boundary was used. Most zones required construction of wireframes for post-mineral dikes that transect the mineralized mantos. There are also some sequences of barren tuffs that were modelled. A wireframe model was also created to enclose oxidized material which has been demonstrated to yield much lower metallurgical recoveries than the un-oxidized mineralization. A modest amount of underground and open pit mining has been carried out at Estrellita. Far West personnel provided raw cavity monitoring device (CMD) data from which RPA was able to construct approximate wireframe models of the void spaces. A grade capping strategy was utilized that represented approximately 0.2% of the total number of assays in the Santo Domingo Sur, Iris and Iris Norte deposits. Grades at Estrellita were capped at 3% copper and 0.3 g/t gold. Samples from Santo Domingo Sur, Iris and Iris Norte were composited in downhole intervals of 4 m starting at the contact for each zone and continuing until the hole exited the zone. Drill samples at Estrellita were composited to 2 m lengths, weighted by both length and density. Grades for copper, gold, iron, and magnetic susceptibility were interpolated into each block using ordinary kriging for the Santo Domingo Sur, Iris and Iris Norte deposits. The interpolation was configured to use an ellipsoidal search with a minimum of three and a maximum of 18 composites and a maximum of three composites allowed from any one drillhole. For Estrellita, ordinary kriging was utilized to interpolate copper and gold grades into each block. Iron was not estimated. The search was constrained to a minimum of three and maximum of 12 composites, with a maximum of three composites from any one drillhole. Grade interpolations were validated, and no significant errors or biases were noted. Blocks receiving an estimate for copper were assigned to at least the Inferred category at Santo Domingo Sur, Iris and Iris Norte. All blocks with an

average distance to composites of 200 m or less and for which the nearest composite was within 100 m were classified as Indicated. Within the area of infill drilling completed in 2011–2012, a boundary was drawn around the 50 m drilling pattern and Indicated blocks encompassed by it were nominally assigned to the Measured classification. The final step in the classification was to use the oxide wireframe to tag oxidized blocks and remove these from the Mineral Resources. The classification of Indicated at Estrellita was applied to all blocks estimated by at least two drillholes with the closest composite less than 65 m away. Remaining blocks were classified as Inferred.

RPA ran a pit optimization during 2009 using a Lerchs–Grossmann (LG) algorithm for Santo Domingo Sur, Iris and Iris Norte deposits. Copper equivalent (CuEq) grades were calculated using estimates for recovery, toll treatment/refinement charges, and transport costs for each metal and based on the operating cost estimates contained in the 2008 Preliminary Assessment. At the 0.25% CuEq cut-off, all but 5% of the Mineral Resources were captured by the pit shell. On the basis of this result, it was concluded that there was little merit in restricting the Mineral Resources to those blocks contained only within the pit shell. In RPA's opinion, the shape and depth of the Mineral Resources have not changed since the previous estimate and it is still valid to consider them as having reasonable prospects of economic extraction by open pit mining. The Estrellita resource estimate is not constrained within a LG shell. RPA's opinion was that a 0.3% Cu cut-off would be appropriate for the reporting of the estimate. At the time of the estimate in 2007, RPA considered that the 0.3% Cu cut-off was similar to that used in other operations of similar size and grade. Table 7 summarizes the Santo Domingo mineral resources as at December 31, 2014. No mining has occurred on the property.

Risk factors that could potentially affect the Mineral Resources estimates include the following: long-term commodity price and exchange rate assumptions; changes in the assumptions used in the LG shell constraining mineral resources at Santo Domingo Sur, Iris, and Iris Norte; the assumed mining methods and cost assumptions for the Santo Domingo Sur, Iris, and Iris Norte deposits being those from the 2008 Preliminary Economic Analysis are not those arising from the Feasibility Study; no LG shell being employed to support reasonable prospects at Estrellita; delays or other issues in reaching agreements with local communities, changes in permitting, surface rights and environmental assumptions.

**TABLE 7: SANTO DOMINGO ESTIMATED MINERAL RESOURCES AS AT DECEMBER 31, 2014***

| Deposit | Tonnage (Mt) | CuEq (%) | Cu (%) | Au (g/t) | Fe (%) |
|---|---|---|---|---|---|
| **Measured Resources** | | | | | |
| Santo Domingo Sur | 63.3 | 0.95 | 0.62 | 0.083 | 31.3 |
| Iris | 1.54 | 0.46 | 0.43 | 0.052 | 25.3 |
| Total Measured | 64.8 | 0.94 | 0.62 | 0.082 | 31.2 |
| **Indicated Resources** | | | | | |
| Santo Domingo Sur | 214.0 | 0.72 | 0.33 | 0.045 | 27.4 |
| Iris | 111.0 | 0.63 | 0.19 | 0.028 | 26.0 |
| Iris Norte | 92.3 | 0.67 | 0.12 | 0.015 | 26.7 |
| Estrellita | 31.7 | n/a | 0.53 | 0.05 | n/a |
| *Total Indicated* | *449* | - | *0.27* | *0.034* | *25.0* |
| Total Measured and Indicated | 513 | - | 0.31 | 0.04 | 25.8 |
| **Inferred Resources** | | | | | |
| Santo Domingo Sur | 29.8 | 0.55 | 0.26 | 0.037 | 23.6 |
| Iris | 5.05 | 0.60 | 0.18 | 0.024 | 26.7 |
| Iris Norte | 20.5 | 0.70 | 0.08 | 0.009 | 28.0 |
| Inferred (Santo Domingo Sur /Iris) | 55.4 | 0.61 | 0.19 | 0.025 | 25.5 |
| Estrellita | 2.7 | n/a | 0.48 | 0.05 | n/a |
| Total Inferred | 58.1 | - | 0.2 | 0.026 | 24.3 |

**Notes:*

1. *Mineral resources are reported inclusive of mineral reserves.*
2. *Mineral resources that are not mineral reserves do not have demonstrated economic viability.*
3. *The Qualified Person for the estimates is Mr. David Rennie, P.Eng., an employee of Rosco Postle Associates Inc.*
4. *Mineral resources for the Santo Domingo Sur, Iris, and Iris Norte deposits have an effective date of August 31, 2012. Mineral resources for the Estrellita deposit have an effective date of October 30, 2007.*
5. *Mineral Resources for the Santo Domingo Sur, Iris, and Iris Norte deposits are reported using a cut-off grade of 0.25% copper equivalent (CuEq). CuEq grades are calculated using average long term prices of US$3.50/lb Cu, US$ 1,500/oz Au and US$ 1.94/dmtu Fe (US$ 120/dmt conc. At 62% Fe). The CuEq equation is: Metal Value = Grade*Cm*R%/100*(Price-TCRC-Freight)*(100-Royalty)/100, where Cm is a constant to convert grade of metal, m, to metal price units; R is metallurgical recovery and %Cu Equivalent = (Cu Value + Au Value + Fe Value)/(Cu Value per 1%Cu).*
6. *An assessment of Mineral Resources for the Santo Domingo Sur, Iris, and Iris Norte deposits was performed using a Lerchs–Grossman pit shell that has the following assumptions: pit slopes averaging 45°; mining cost of US$1.19/t, processing cost of US$ 4.49/t; processing recovery of 85%; selling price of US$2.25/lb, and a selling cost of US$0.247/lb. At the 0.25% CuEq cut-off, all but 5% of the Mineral Resources were captured by the pit shell. On the basis of this result, it was concluded that there was little merit in restricting the Mineral Resources to those blocks contained only within the pit shell. Accordingly, the Mineral Resource inventory was reported in its entirety.*
7. *Mineral Resources for the Estrellita deposit are reported using a cut-off grade of 0.3% Cu.*
8. *Rounding as required by reporting guidelines may result in apparent summation differences between tonnes, grade and contained metal content.*

Mr. Carlos Guzman, CMC, an NCL Ingeniería y Construcción SpA. (“NCL”) employee, is the Qualified Person responsible for the preparation of the Santo Domingo mineral reserves estimate as a part of the 2014 Feasibility Study. The effective date of the mineral reserves estimate is May 2, 2014.

Pit optimization, mine design and mine planning were carried out by NCL using the 2012 block model prepared by RPA and did not include consideration of material classified as Inferred. Inferred Mineral Resources were treated as waste. A block size of 12.5 m Easting x 12.5 m Northing x 12 m Elevation was selected for the block model. The selected block size was based on the geometry of the domain interpretation and the data configuration. The mining cost estimate for the pit optimization process is based on studies developed by NCL during 2012. The estimated average project mining cost was separated into various components such as fuel, explosives, tires, parts, salaries and wages, benchmarked against similar current operations in Chile. Each component was updated for first-quarter 2013 prices and the exchange rate from Chilean Pesos to US dollars. This resulted in an estimated mining cost of approximately $1.53/t. The metal prices, processing costs, refining costs, and processing recoveries were provided to NCL by Capstone. A number of calculations were performed in the model in order to determine the NSR of each individual block. The internal (or mill) cut-off of $7.84/t milled incorporates all operating costs except mining. This internal cut-off is applied to material contained within an economic pit shell, where the decision to mine a given block was determined by the pit optimization and was applied to all of the Mineral Reserve estimates. Marginal ore was calculated for the same $7.84/t cut-off, but for a NSR determined at higher metal prices. Final slope angles used for the pit optimization process were a result of multiple iterations and analysis carried out by the NCL mining team and geotechnical specialists Derk Ingeniería y Geología Ltda (“Derk”). The original block model was based on an ore percentage with dimensions of 12.5 m x 12.5 m x 12 m, resulting in a 1,875 $m^3$ block volume; this means that every block has a defined “ore” proportion with an ore density, and a corresponding “waste” proportion with a waste density. To accommodate selective mining methods, any resource block with an ore percentage that was <10% was treated as waste. Blocks with an ore percentage that was higher than 90% were diluted with waste such that all high-ore blocks were considered to contain only 90% ore. Selective mining therefore will be performed on those blocks that have an ore percentage of between 10% and 90%. The Santo Domingo mineral reserves estimate is summarized in Table 8.

In the opinion of the NCL, the main factors that may affect the Mineral Reserves estimate are metallurgical recoveries and operating costs (fuel, energy and labour). NCL notes that the base price, as well as changes in the price of metals, even though this is the most important factor for revenue calculation, does not affect the Mineral Reserves estimate to any significant degree. A revenue factor of 0.86 was used for the LG shell that was employed as the guide for the practical design for both the Santo Domingo and Iris Norte pits. This selected revenue factor is conservative and as such allows for a broad swing in metals pricing before any salient effect on the Mineral Reserves estimate will occur.

**TABLE 8: SANTO DOMINGO ESTIMATED MINERAL RESERVES AS AT DECEMBER 31, 2014***

| Stage | Tonnage | Grade | | | Contained Metal | | |
|---|---|---|---|---|---|---|---|
| | (Mt) | Cu (%) | Au (g/t) | Fe (%) | Cu (kt) | Au (koz) | Magnetite Conc. (Mt) |
| **Proven Reserves** | | | | | | | |
| Santo Domingo Sur | 65.3 | 0.61 | 0.08 | 30.9 | 398 | 169.9 | 8.2 |
| **Probable Reserves** | | | | | | | |
| Santo Domingo Sur | 251.6 | 0.27 | 0.04 | 27.9 | 679 | 300.5 | 48.3 |
| Iris Norte | 74.8 | 0.13 | 0.01 | 26.9 | 97 | 36 | 18.7 |
| Total Probable | 326.4 | 0.24 | 0.03 | 27.6 | 777 | 336.4 | 66.9 |
| **Total Mineral Reserves** | | | | | | | |
| Proven + Probable | 391.7 | 0.30 | 0.04 | 28.2 | 1,175 | 506.3 | 75.1 |

**Notes:*

1. *The mineral reserves estimate have an effective date of May 2, 2014 and were prepared by Mr. Carlos Guzman, CMC, and employee of NCL.*
2. *Mineral Reserves are reported as constrained within Measured and Indicated pit designs, and supported by a mine plan featuring variable throughput rates and cut-off optimization. The pit designs and mine plan were optimized using the following economic and technical parameters: metal prices of US$ 2.75/lb Cu, US$ 1,275/oz Au and US$80/dmt of Fe concentrate; recovery to concentrate assumptions of a maximum of 93.6% for Cu and 75% for Au, with magnetite concentrate recovery varying on a block-by-block basis; copper concentrate treatment charges of US$70/dmt, U$0.07/lb of Cu refining charges, US$5.0/oz of Au refining charges, US$48/wmt and US$3/wmt for shipping Cu and Fe concentrates respectively; waste mining cost of $1.53/t, mining cost of US$1.53/t ore, and process and G+A costs of US$7.84/t processed; average pit slope angles that range from 37.6º to 43.6º; a 2% royalty rate assumption, and an assumption of 100% mining recovery.*
3. *Rounding as required by reporting guidelines may result in apparent summation differences between tonnes, grade and contained metal content.*

*Mining Operations*

A mine plan was developed for the Santo Domingo Project to process 60,000 tpd to 65,000 tpd of feed (21.9 to 23.7 Mt/a) with a peak total mining rate of 107.5 Mt/a in Years 1 to 4. Because of the softer characteristics of the initial feed (higher copper content and lower magnetite), an initial period of five years was scheduled for a plant feed of 65 kt/d. From Year 6 the plant throughput is scheduled for 60 kt/d. Year 1 feed to the plant is made up of material mined during pre-production and Year 1. Oxide material has been identified and will be stockpiled separately.

Mill throughput was also restricted to a magnetite concentrate production capacity of a maximum 4.5 Mt/a up to Year 10; and 5.4 Mt/a from Year 11. For the first 5 years of operation, Santo Domingo will have an annual average production of approximately 248 million pounds of copper contained in 388,000 dmt of concentrate (at an average copper content of 29%). The life of mine ("LOM") average is 128 million pounds of copper in approximately 200,000 t of concentrate per year over a period of approximately 18 years. The total life of mine production is estimated to be 2.29 billion pounds of copper contained in 3.58 million tonnes of concentrate. For the same period, the average magnetite concentrate production is estimated to average 3.26 million dmt per year. The magnetite concentrate production will average 4.19 million dmt per year over the life of mine with a total estimated production of approximately 75.08 million dmt. The first 5 years production does not include the Year 0 ramp up.

The final pit design was based on a Lerchs–Grossmann (LG) shell that used a copper price of $2.75 per pound and US$ 80/t for magnetite concentrate. Two pits, the Santo Domingo pit and the Iris Norte pit, were designed. The Santo Domingo pit will have four phases; three mining phases are planned for the Iris Norte pit.

In the Santo Domingo pit, the Phase 1 targets the material with the highest grade and lowest strip ratio in the central area, down to 892 m elevation. Phases 2 and 3 are successive expansions to the north, down to 772 m and 736 m elevation, respectively. Phase 4 in Santo Domingo is in the area called Iris which is at the north of the Santo Domingo pit, but has a separate access to the east side and will go down to 676 m elevation.

Three mining phases were designed in Iris Norte, as successive expansions from south to north, going down to 736 m, 724 m and 664 m elevation, respectively. Each phase has access from the east and west sides.

The Santo Domingo pit will have two exits on the west side providing access to the ROM pad area and the primary crusher. On the east side there will be another exit to access the main waste storage area. The final pit will be 2,200 m long in the north–south direction and 1,500 m wide in the east–west direction. The pit bottom will be at the 676 m elevation and the highest wall will be about 552 m on the southeastern side. The total area to be disturbed by the pit is approximately 229 ha.

The Iris Norte pit will have one exit on the west side providing access to the run-of-mine (ROM) pad area and the primary crusher. On the east side there will be an exit to access the waste storage area. The final pit will be 1,600 m long in the north–south direction and 900 m wide in the east–west direction. The pit bottom will be at the 664 m elevation, and the highest wall will be about 315 m on the north side. The total area to be disturbed by the pit is about 124 ha.

Mine equipment requirements were calculated based on the annual mine production schedule, the mine work schedule and equipment hourly production estimates. The study is based on operating the mine with 42 $m^3$ capacity hydraulic excavators (shovels) and trucks with a capacity of 290 t. The fleet will be complemented with drilling rigs for ore and waste. Auxiliary equipment will include tracked dozers, wheel dozers, motor graders and a water truck. A small drill rig was also included for pre-splitting purposes.

The primary crushing plant will receive run-of-mine feed directly from the open pits. The crusher is designed to allow two 290 t trucks to discharge directly into the crusher dump pocket. The crushed product will be conveyed to the coarse ore stockpile (COS) which has a live capacity of six to eight hours of operation. From the COS ore is then conveyed to the SAG mill. The SAG mill product will discharge onto a conventional vibrating deck screen with the screen undersize pumped to two separate batteries of hydrocyclones.

The hydrocyclone overflow streams (the copper flotation circuit feed stream) with a P80 of 180 µm will be fed to a single rougher; single scavenger; and three stage cleaner concentrate production plant. The rougher concentrate will be reground using a vertical mill prior to introduction to the cleaner/scavengers. The rougher flotation stage tailings will be pumped to magnetic separation that consists of two lines each with five individual primary LIMS (1,000 gauss low intensity magnetic separators) magnetic drum separators.

The rougher magnetic concentrate from each magnetic drum line will be sent to grinding and classification; the rougher magnetic concentration tailings will report to the main plant tailings stream. The cleaning circuit magnetic LIMS concentrator will consist of two parallel lines each with three LIMS drum separators operating in a counter-current configuration to facilitate high selectivity. The final magnetite concentrate will be pumped to the magnetite concentrate thickener prior to being sent (via a 12 inch pipeline) to the magnetite filter plant located at the port.

The first stage of tailings thickening (pre-thickening) will be conducted at the process plant and the second stage (final thickening) is conducted at the TSF area. Recovered water from the thickeners will be pumped back to the process water pond with thickened tailings being transferred to the TSF area for deposition.

Copper concentrate will be filtered at the process plant. During the concentrate filtration washing stage, desalinated water will replace the seawater contained in the copper concentrate cake to reduce the chloride content to less than 300 ppm. Copper concentrate filter cake will discharge by gravity to the copper concentrate stockpile.

The magnetite concentrate will be received at the port in an agitated storage tank and then pumped directly to the filter plant to obtain a magnetite concentrate. There will be four horizontal filter presses with desalinated water used for washing to reduce the chloride content of the concentrate to less than 300 ppm. The magnetite concentrate filter cake product will discharge onto a conveyor feeding the concentrate transfer tower and then the magnetite concentrate stockpile.

All of the process makeup water will be seawater prior to the rinsing of the copper and magnetite concentrate during the filtering process. Rinse water used during the filtering process will be supplies by reverse osmosis water treatment plants located at both the port and the process plant.

Both the copper and magnetite concentrate will be ship loaded at the port for transport to selected buyers. KORES is required to purchase 50% of the annual production of copper and iron ore concentrates produced by the project. Capstone will market and sell the remaining 50%. The KORES terms and conditions will reflect the Capstone terms negotiated independently in the market. Capstone is currently researching the market for buyers for the remaining 50% of the copper and iron concentrate production.

Baseline environmental studies were carried out for communities in the area of influence of the project: Diego de Almagro, Inca de Oro, El Salado, Chañaral, Flamenco, Torres del Inca, Obispito and Caldera.

Physical environment baseline studies included characterization of climate, meteorology, air quality, sedimentable particulate material (SPM), gases, noise and vibration, geology, geomorphology, natural hazards, soils, hydrology and hydrogeology. The marine environment baseline studies included characterization of the physical environment, chemical, and biological. The biotic environment baseline studies addressed the fauna and flora components of the project. The anthropological environment baseline studies for the port and proposed mine site included the description of human component, constructed environment, cultural heritage and palaeontology and landscape issues. Baseline studies were also completed to address current water resources. Based upon the study results, no impacts to local water resources are anticipated as the project will use seawater for the mining process. Four key areas of risk were identified from the completed baseline studies, as follows:

- Water:
    - Alteration of the surface water flow and drainage patterns
    - Alteration in the underground water flow and/or water quality
- Air quality:
    - Increases in the levels of breathable particulate material (PM10), breathable fine particulate material (PM2.5) and gases (primarily as a result of wind activity on stockpiles, dust generation from construction and mining activity and material transport)
    - Increases in levels of sedimentable particulate matter
- Marine environment:
    - Potential disruption to benthic communities due to the operation of the seawater intake and brine discharge systems and port construction activities
- Human environment:
    - Effects of the project on the current lifestyles of local communities

Studies were completed to identify potential mitigation measures to address the recognized risks. Mitigations proposed include, but are not limited to, community liaison and development programs, construction of settlement by-pass roads, implementation of zero-discharge facilities, and reviews of and modifications to infrastructure designs to accommodate community and environmental concerns.

A stakeholder identification study has been completed, and has identified a number of parties will be either directly or indirectly affected by project influence. A number of communication sessions were undertaken during 2012 and 2013, and included open houses and meetings, sessions to address specialist interests (such as fishermen); meetings with regional authorities, community support service authorities, and professional organizations.

Community issues identified during these meetings include:

- Job opportunities for local residents during the construction and operation phases of the project
- Decreased quality of life due to increased demand for local supplies of goods and services, housing, and health services
- Environmental effects related to mining activities
- Changes to road usages due to by-pass construction and concentrate transport
- Effect of the proposed port facilities on seafood extraction activities
- Effects of seawater intake and brine discharge from the desalination plant.

The Environmental Impact Assessment (EIA) has been completed and was submitted for review and approval on October 30, 2013. During the EIA the environmental citizen participation (PAC) process as required by the evaluation process will continue. The citizen participation process with indigenous communities takes into account the special rules that govern the consultation and participation processes of such peoples. Although the lands of the Colla Community of Diego de Almagro are not within the direct area of project influence, Capstone will keep lines of communication open for possible approaches or inquiries from this community.

All capital costs are in third quarter 2013 US$. Capital cost estimates were prepared by the various consultants working on the 2014 Feasibility Study and were based on battery limits established by Capstone. Owner costs were provided by Capstone. Estimates were based on a combination of direct quotes and benchmarking. The estimate is a Type 3 estimate according to AMEC standards (and the Association for the Advancement of Cost Engineering International, AACE), with an accuracy of -10 to +15% at the 85% confidence level. The initial capital cost was estimated at $1,751 M; with an estimated sustaining capital cost total of $376.3 M. The combined initial and sustaining capital costs for the life of mine were estimated to be $2,127 M in total (Table 9).

**TABLE 9: INITIAL CAPITAL COST ESTIMATE**

| | **Area** | **Cost (US$M)** |
|---|---|---|
| *Initial Capital* | Mine | 174.4 |
| | Process Plant | 341.8 |
| | Tailings and Water Reclaim | 49.9 |
| | Plant Infrastructure (On Site) | 97.1 |
| | Port | 157.5 |
| | Port Infrastructure (On Site) | 27.5 |
| | External Infrastructure (Off Site) | 235.9 |
| | Indirect Costs | 437.3 |
| | Contingency | 229.3 |
| *Total Initial Capital* | | 1,750.7 |
| *Total Project Sustaining Capital* | | *376.3* |
| *Project Total Cost* | | *2,127.0* |

The operating costs are also presented in third quarter 2013 US dollars. For the copper equivalent estimate, prices of $2.85/lb copper and $85.00/t magnetite concentrate were used. The operating cost estimate is considered to be at a feasibility-study level, with an accuracy of -10% to +15%. Operating costs are summarized in Table 10.

**TABLE 10: Operating Cost Estimate**

| **Cost Centre** | **LOM Total (MUS$)** | **LOM Average (US$/t)** | **LOM Average (US$/lb CuEq)** |
|---|---|---|---|
| Process | 2,753.4 | 7.03 | 0.607 |
| Copper Concentrate Transport | 54.5 | 0.14 | 0.012 |
| G & A | 439.6 | 1.12 | 0.097 |
| Mining | 2,513.4 | 6.42 | 0.555 |
| *Total* | *5,760.9* | *14.71* | *1.271* |

For purposes of the project capital and operating cost estimates, a fixed foreign exchange rate between Chilean Pesos (CLP) and US dollars (US$) was initially used. However, during the DFS estimate development, the foreign exchange rate between the CLP and US$ changed appreciably. To accommodate this change Capstone completed an update to the foreign exchange rate for the operating and capital cost estimates.

- For an updated foreign exchange rate for the development period from 2014 through 2017, Capstone used the mean value of the projected CLP to US$ foreign exchange rate from a total of 29 analyst firms compiled by Bloomberg (as of May 6, 2014).
- For an updated foreign exchange rate for the operating period from 2018 through 2035, Capstone used an algorithm that was developed using the CLP/US$ exchange rate value versus the market sales price of copper. This information was gathered over the last 10 years on a daily basis and resulted in the following algorithm:

  *CLP/US$ Exchange Rate = -0.0204 (price of Cu in US$/t) + 660.41*

For the 2014 Feasibility Study copper price of US$2.85 (US$6,281/t), this equates to a CLP/US$ rate of 532.

The exchange rate assumptions are detailed in Table 11.

**TABLE 11**: **Foreign Exchange Rate Assumptions**

| Cost Estimate Item | Initial Foreign Exchange Rate (CLP/US$) |
|---|---|
| Initial Capital Cost Estimate (excluding mine equipment) | 480 |
| Sustaining Capital Cost Estimate (excluding mine equipment) | 480 |
| Process Operating Cost Estimate | 480 |
| G&A and Copper Hauling Operating Cost Estimate | 480 |
| Initial Mine Equipment Capital Cost Estimate | 500 |
| Sustaining Mine Equipment Capital Cost Estimate | 500 |
| Mine Operating Cost Estimate | 500 |
| **Cost Estimate Item (Revised by Year/Period)** | **Revised Foreign Exchange Rate (CLP/US$)** |
| 2014 | 553 |
| 2015 | 557 |
| 2016 | 517 |
| 2017 | 519 |
| 2018 through 2035 (Operating Period) | 532 |

There were no impacts on the copper hauling operations or G&A as these values were originally estimated in US$.

The project has been evaluated using an 8% discounted cash flow (DCF) analysis on an after-tax basis. To reflect the time value of money, annual net cash flow (NCF) projections are discounted back to the DFS project valuation date of third quarter 2013 using an 8% discount rate. The discount rate appropriate for the MSD project has been determined using several factors, including the type of commodity and the level of project risks (market risk, technical risk and political risk). The discounted present values of the cash flows are summed to arrive at the project net present value (NPV).

An NPV sensitivity analysis was completed using discount rates of 5%, 8% (selected rate), 10%, 12% and 15%. In addition to the NPV, the internal rate of return (IRR) and payback period were also calculated. In the calculation of IRR it is assumed

that any intermediate cash flows can be reinvested at the same rate of return. Cash flows are assumed to occur at the end of each period.

On an after-tax basis, the cumulative net cash flow for the base case is US$3,226.7 million, the IRR is 17.9% and the payback period is 4.2 years. Based on the assumptions made the cash flow analysis shows that the project will generate positive cash flows from the first full year of production onwards. At an 8% discount rate, the after-tax net present value (NPV) of the project is US$797.4 million. The cash flow analysis for the base case is provided in Table 12.

The after-tax annual and cumulative cash flow are shown in Figure 5.

**TABLE 12: RESULTS OF FINANCIAL ANALYSIS**

| Summary of Cash Flow | Unit | Pre-tax | After-Tax |
|---|---|---|---|
| **Cumulative net cash flow** | | | |
| Undiscounted | US$ M | 4,251.9 | 3,226.7 |
| **Net present value** | | | |
| Discounted at 5% | US$ M | 1,889.8 | 1,374.7 |
| Discounted at 8% | US$ M | 1,154.1 | 797.4 |
| Discounted at 10% | US$ M | 818.8 | 534.7 |
| Discounted at 12% | US$ M | 568.0 | 338.8 |
| Discounted at 15% | US$ M | 302.5 | 132.5 |
| **Internal rate of return** | % | 21.3 | 17.9 |
| **Payback period** | Years | 4.0 | 4.2 |

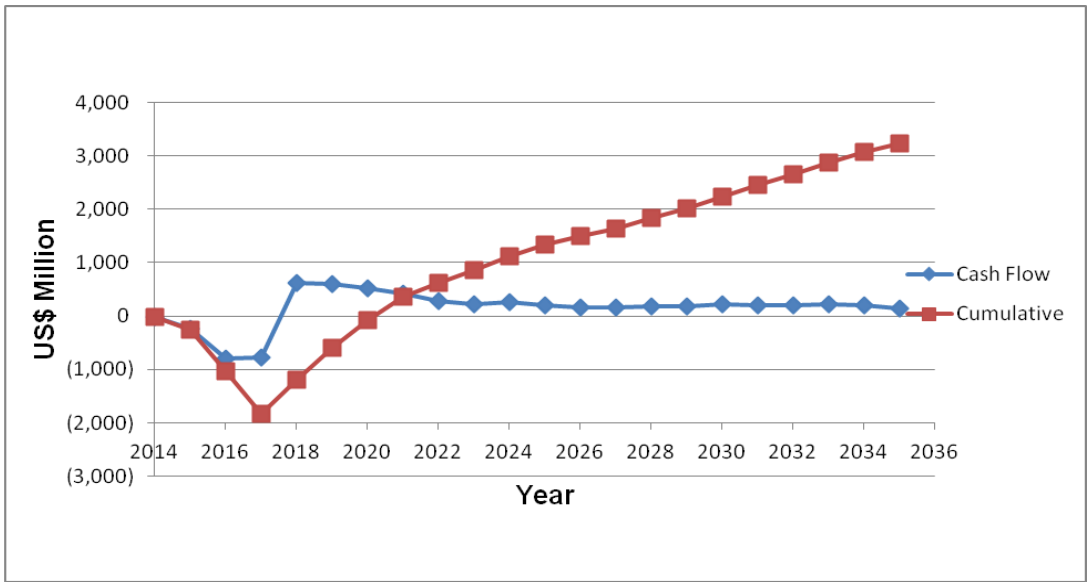



**FIGURE 5: PROJECT AFTER TAX CASH FLOW**

As stated, the project was evaluated on an after-tax basis with taxes payable in three forms:

- Government mining royalty
- First Category corporate income tax
- IVA.

Since January 1, 2006, mine operators whose annual sales exceed the equivalent 12,000 tonnes of fine copper must pay a mining royalty tax. The mining royalty is levied on operating mine income on a sliding scale between 5% and 14%,

depending on operating margins. The royalty is estimated to be $241.0 M over the LOM and is deductible as an expense against corporate tax.

Corporate income tax consists of the First Category Tax at 20%. Total First Category Tax payments over the LOM are estimated to be $784.2 M. The 15% Second Category "Additional" Tax was not evaluated for the project. This Second Category Tax is levied on dividend distributions to foreign shareholders.

An IVA of 19% is applicable to a number of goods and services purchased but this tax is refundable once the mine is in operation. Other than the delay in the recovery of IVA during construction and the impact of the time value of money, the LOM net effect of IVA is zero.

The project evaluation is primarily on an equity funded basis. Where opportunities to utilize debt capital to fund the project are considered, interest shields may reduce the income tax burden of the project, but will require planning to consider Chilean thin capitalization requirements and withholding taxes on interest.

Project investors will need to consider the merits of utilizing a D.L. 600 Foreign Investment Contract ("D.L. 600 Contract") to contribute the capital investment into the project. A D.L. 600 Contract provides the ability to elect tax invariability treatment for the project. Article 11 ter of D.L. 600 provides foreign investors the right to an invariable mining royalty rate for a period of 15 years from the project start date. Article 11 bis of D.L. 600 allows an investor to elect an invariable income tax rate of 42% (versus the 35% combined First and Second Category Tax) for 20 years for a mining project. Effective January 9, 2014, the Chilean Foreign Investment Committee approved the D.L.600 Article 11 ter Foreign Investment Contract for the Company's investment in MSD.

**4 - RISK FACTORS**

Capstone is subject to a number of significant risks due to the nature of our business and the present stage of our business development. You should carefully consider the risks and uncertainties described below before deciding whether to invest in Capstone common shares. Our failure to successfully address the risks and uncertainties described below could have a material adverse effect on our business, financial condition and/or results of operations, and the trading price of our common shares may decline and investors may lose all or part of their investment. We cannot give assurance that we will successfully address these risks or other unknown risks that may affect our business.

***Mining is inherently dangerous and subject to conditions or events beyond the Company's control, the occurrence of which could have a material adverse effect on the Company's business, financial condition, results of operations and prospects.***

The Company's operations are subject to all the hazards and risks normally encountered in the exploration, development and production of copper and other metals, including, without limitation, fires, power outages, labour disruptions, flooding, explosions, cave-ins, landslides and other geotechnical instabilities, equipment failure or structural failure, metallurgical and other processing problems and other conditions involved in the mining of minerals, any of which could result in damage to, or destruction of, the Company's mines, plants and equipment, personal injury or loss of life, environmental damage, delays in mining, increased production costs, asset write-downs, monetary losses and legal liability. The occurrence of any of these events could result in a prolonged interruption in the Company's operations that would have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

***Changes in the market price of copper and other metals, which in the past have fluctuated widely, could negatively affect the profitability of the Company's operations and financial condition.***

The commercial viability of the Company's properties and the Company's ability to sustain operations is dependent on, among other things, the market price of copper, lead, zinc, gold, silver and molybdenum. Depending on the price to be received for any minerals produced, the Company may determine that it is impractical to continue commercial production at the Pinto Valley Mine, the Cozamin Mine or the Minto Mine or to develop the Santo Domingo Project. A reduction in the market price of copper, lead, zinc, gold, silver, or molybdenum may prevent the Company's properties from being economically mined or result in the write-off of assets whose value is impaired as a result of low metals prices. The market

price of copper, lead, zinc, gold, silver and molybdenum is volatile and is impacted by numerous factors beyond the Company's control, including, among others:

- international economic and political conditions;
- expectations of inflation or deflation;
- international currency exchange rates;
- interest rates;
- global or regional consumptive patterns;
- speculative activities;
- levels of supply and demand;
- increased production due to new mine developments;
- decreased production due to mine closures;
- improved mining and production methods;
- availability and costs of metal substitutes;
- metal stock levels maintained by producers and others; and
- inventory carrying costs.

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

***The sale of the Company's metals is subject to counterparty and market risks.***

The Company has entered into concentrate off-take agreements whereby 100% of budgeted production of the concentrate produced from the Pinto Valley, Cozamin and Minto Mines have been committed to various external parties through calendar year 2015. Thereafter, approximately 54% is committed under multi-year contracts through 2016 and 21% is committed through 2017. The balance is not currently committed. Fifty percent of the copper and iron concentrate to be produced from the Santo Domingo Project will be purchased by KORES under the terms of the Shareholders Agreement. The Company has also sold forward all of the Company's gold and silver production from the Minto Mine and all of the silver production until April 2017 from the Cozamin Mine to Silver Wheaton. If any counterparty to any off-take or forward sales agreement does not honour such arrangement, or should any such counterparty become insolvent, the Company may incur losses on the production already shipped and/or be forced to sell a greater volume of the Company's production in the spot market, which is subject to market price fluctuations. In addition, there can be no assurance that the Company will be able to renew any of the Company's off-take agreements at economic terms, or at all, or that the Company's production will meet the qualitative and quantitative requirements under such agreements.

***The Company may require substantial additional capital to accomplish the Company's exploration and development plans, and there can be no assurance that financing will be available on terms acceptable to the Company, or at all.***

The Company may require substantial additional financing to accomplish the Company's exploration and development plans for the Santo Domingo Project and to advance the Pinto Valley Mine, the Cozamin Mine and the Minto Mine to achieve designed production rates. These financing requirements could adversely affect the Company's credit ratings and the Company's ability to access the capital markets in the future. Failure to obtain sufficient financing, or financing on terms acceptable to the Company, may result in a delay or indefinite postponement of exploration, development or production at one or more of the Company's properties. Additional financing may not be available when needed and the terms of any agreement could impose restrictions on the operation of the Company's business. Failure to raise financing when needed could have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

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

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

***The Company's calculations of mineral resources and mineral reserves are estimates and are subject to uncertainty.***

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

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

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

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

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

These factors could have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

***There are uncertainties and risks related to the potential development of the Santo Domingo Project and if the construction and development of this project is not completed, it could adversely affect the Company's business, financial condition, results of operations and prospects.***

As part of the Company's strategy, the Company will continue the Company's efforts to develop new mineral projects, including, if advisable, the Santo Domingo Project. Development of the Santo Domingo Project will require obtaining permits and financing, and the construction and operation of mines, processing plants and related infrastructure. The Company completed the tender process for Engineering, Procurement, Construction ("EPC") and Engineering, Procurement, Construction Management ("EPCM") packages for project development. Capstone has selected POSCO E&C ("POSCO") as the preferred EPC fixed price lump sum contractor for the Santo Domingo project. While the EPC contract has not been negotiated or concluded, Capstone has awarded a Limited Notice to Proceed ("LNTP") to the end of Stage-Gate 1, which will include confirmation of completeness of the engineering and contractual performance guarantee parameters. This award totals approximately $4.5 million and is part of Capstone's previously announced 2015 base case budget of $16.9 million (of which Capstone's 70% share is $11.8 million). This work is expected to be completed before the end of the second quarter of 2015. As a result, if the Company proceeds to development we will be subject to all of the risks associated with establishing new mining operations, including:

- the timing and cost, which can be considerable, of the construction of mining and processing facilities and related infrastructure;
- the availability and cost of skilled labour, mining equipment and principal supplies needed for operations, including explosives, fuels, chemical reagents, water, power, equipment parts and lubricants;
- the availability and cost of appropriate smelting and refining arrangements;
- the need to obtain necessary environmental and other governmental approvals and permits and the timing of the receipt of those approvals and permits;
- the availability of funds to finance construction and development activities;
- the availability of power at economic rates
- industrial accidents;
- mine failures, shaft failures or equipment failures;
- natural phenomena such as inclement weather conditions, floods, droughts, rock slides and seismic activity;
- unusual or unexpected geological and metallurgic conditions;
- exchange rate and commodity price fluctuations;
- potential opposition from non-governmental organizations, environmental groups or local groups, which may delay or prevent development activities; and
- restrictions or regulations imposed by governmental or regulatory authorities.

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

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

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

Title to the Company's properties may be challenged or impugned. The Company's 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 properties and, therefore, in accordance with the laws of the jurisdiction in which such properties are situated, their existence and area could be in doubt.

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

***The Company faces added risks and uncertainties as a result of operating in foreign jurisdictions including changes in regulation.***

The Company's business operates in a number of foreign countries where there are added risks and uncertainties due to the different economic, cultural and political environments. 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 and unrest, invalidation of governmental orders and permits, corruption, war, civil disturbances and terrorist actions, arbitrary changes in law or policies of particular countries (including nationalization of mines), foreign taxation, price controls, delays in obtaining or renewing or the inability to obtain or renew necessary environmental permits, opposition to mining from environmental or other non-governmental organizations, limitations on foreign ownership, limitations on the repatriation of earnings, limitations on mineral exports and increased financing costs. For example, recent changes in the Mexican tax laws, including the imposition of a royalty, have had an impact on the Company's results and there is no certainty that further changes will not be imposed. Local economic conditions, including higher incidences of criminal activity and violence in areas of Mexico can also adversely affect the security of the Company's operations and the availability of supplies. In addition, risks of operations in Mexico include extreme fluctuations in currency exchange rates, high rates of inflation, hostage taking and expropriation. 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. There can be no assurance that changes in the government or laws or changes in the regulatory environment for mining companies or for non-domiciled companies will not be made that would adversely affect the Company's business, financial condition, results of operation and prospects.

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

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

***The Company's operations are subject to significant governmental regulation, which could significantly limit the Company's exploration and production activities.***

The Company's mineral exploration and development activities are subject to governmental approvals and various laws and regulations governing development, operations, taxes, labour standards and occupational health, mine safety, toxic substances, land use, water use and land claims affecting local, First Nations and Aboriginal populations. The liabilities and requirements associated with the laws and regulations related to these and other matters may be costly and time-consuming and may restrict, delay or prevent commencement or continuation of exploration or production operations. The Company cannot provide definitive assurance that we have been or will be at all times in compliance with all applicable laws and regulations. Failure to comply with applicable laws and regulations may result in the assessment of administrative, civil and criminal penalties, the imposition of cleanup and site restoration costs and liens, the issuance of injunctions to limit or cease operations, the suspension or revocation of permits or authorizations and other enforcement measures that could have the effect of limiting or preventing production from the Company's operations. The Company

may incur material costs and liabilities resulting from claims for damages to property or injury to persons arising from the Company's operations. If the Company is pursued for sanctions, costs and liabilities in respect of these matters, the Company's mining operations and, as a result, the Company's financial performance, financial position and results of operations, could be materially and adversely affected.

In addition, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner that could limit or curtail the Company's exploration, development or production. Amendments to current laws, regulations and permits governing operations and activities of mining and exploration companies, or the more stringent implementation thereof, could have a material adverse impact on the Company and increase our exploration expenses, capital expenditures or production costs or reduce production at the Company's producing properties or require abandonment or delays in exploring or developing the Company's properties.

***The Company is dependent on key management personnel.***

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

***The Company's operations are subject to stringent environmental laws and regulations that could significantly limit the Company's ability to conduct the Company's business.***

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 operations, such as seepage from tailings disposal areas, which would result in environmental pollution. A breach of such legislation may result in the imposition of fines and penalties. In addition, certain of the Company's operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in the direction of stricter standards and enforcement, higher fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their directors, officers and employees. Compliance with changing environmental laws and regulations may require significant capital outlays, including obtaining additional permits, and may cause material changes or delays in, or the cancellation of, the Company's exploration programs or current operations.

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

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

Permit terms and conditions can also impose restrictions on how the Company operates and limits the Company's flexibility in developing the Company's mineral properties. Many of the Company's permits are subject to renewal from time to time, and renewed permits may contain more restrictive conditions than the Company's existing permits. In addition, the Company may be required to obtain new permits to expand the Company's operations, and the grant of such permits may be subject to an expansive governmental review of the Company's operations. Alternatively, the Company may not be successful in obtaining such permits, which could prevent the Company from commencing, extending or expanding operations or otherwise adversely affect the Company's business, financial condition, results of operation and

prospects. For instance, although the Minto Mine is currently permitted to conduct operations under its Quartz Mining Licence and two Water Use Licences, amendments to the Water Use Licence are required in order to implement the Company's planned mine expansion. These amendments may not be granted by the Yukon regulatory authorities. Further, renewal of the Company's existing permits or obtaining new permits may be more difficult if the Company is not able to comply with the Company's existing permits. Applications for permits, permit area expansions and permit renewals may be subject to challenge by interested parties, which can delay or prevent receipt of needed permits. The permitting process can also vary by jurisdiction in terms of its complexity and likely outcomes.

Accordingly, permits required for the Company's operations may not be issued, maintained or renewed in a timely fashion or at all, may be issued or renewed upon conditions that restrict the Company's ability to operate economically, or may be subsequently revoked. Any such failure to obtain, maintain or renew permits, or other permitting delays or conditions, including in connection with any environmental impact analyses, could have a material adverse effect on the Company's business, results of operations, financial condition and prospects.

***Climatic conditions can affect the Company's operations at the Pinto Valley, Cozamin and Minto Mines.***

Arizona can be subject to periods of drought. Operations at the Pinto Valley Mine require water for normal operations. The Company has entered to a Water Supply Agreement with BHP Copper, but such agreement is subject to water availability and BHP's own requirements. A lack of necessary water for a prolonged period of time could affect operations at the Pinto Valley Mine and materially adversely affect the Company's results of operations. Arizona can also be subject to significant rainfall events which could result in flooding of pits at the Pinto Valley Mine adversely affecting the Company's results of operations.

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

Operations at the Minto Mine may be subject to extreme weather conditions. Unseasonable weather conditions may preclude normal work patterns and can severely limit the Company's mining operations, resulting in additional costs and delays. In the recent past, Yukon experienced extreme weather conditions that resulted in abnormally high run-off at the Minto Mine, exceeding the normal containment capacity of the mine site. As a result, the Company decided to fill the Minto Mine main pit with water, which caused the Company to cease mining operations until the Company obtained regulatory permission to discharge the excess waters. Future extreme weather in Yukon could again result in excess run-off at the mine site, which could have an adverse effect on the results of operations at the Minto Mine and on the Company's business, financial condition, results of operation and prospects.

***The Company's directors and officers may have interests that conflict with the Company's interests.***

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

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

The nature and extent of First Nations rights and title remains the subject of active debate, claims and litigation in Canada, including in British Columbia and Yukon. The Minto Mine lies on Category A land in Yukon where the Selkirk First Nation own both surface and subsurface rights. The Kutcho Project in British Columbia lies within an area claimed as traditional territory by both the Tahltan First Nation and the Kaska First Nation. There is a risk that any land claim settlement with the

Tahltan or the Kaska may adversely affect the Company's rights to the Kutcho Project. There can be no guarantee that the unsettled nature of the land claims in British Columbia and Yukon will not create delays in project approval or unexpected interruptions in project progress, or result in additional costs to advance the Company's projects. In many cases, environmental assessment, subsequent permitting, development and operation of proposed projects is only possible with the support of the local First Nations group. In order to secure such support, the Company may have to take measures to limit the adverse impact to, and ensure that some of the economic benefits of the construction and mining activity will be enjoyed by, the local First Nations group. There is a risk that the First Nations may publicly oppose the proposed project at any stage and this potential opposition may adversely affect the project or the Company's public image. Further, Canadian law related to aboriginal rights, including aboriginal title rights, is in a period of change. There is a risk that future changes to the law may adversely affect the Company's rights to the Minto Mine.

***The Company's insurance does not cover all potential losses, liabilities and damage related to the Company's business and certain risks are uninsured or uninsurable.***

In the course of exploration, development and production of mineral properties, certain risks, including rock bursts, cave-ins, fires, flooding and earthquakes may occur. It is not always possible to fully insure against such risks. The Company currently does not have insurance against all such risks and may decide not to take out insurance against all such risks as a result of high premiums or other reasons. Further, insurance against certain risks, including those related to environmental matters, is generally not available to the Company or to other companies within the mining industry. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect on the Company's business, financial condition, results of operation and prospects.

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

Land reclamation and mine closure requirements are generally imposed on mining companies, which require the Company, among other things, to minimize the effects of land disturbance. Such requirements may include controlling the discharge of potentially dangerous effluents from a site and restoring a site's landscape to its pre-exploration form. The actual costs of reclamation and mine closure are uncertain and planned expenditures may differ from the actual expenditures required. Therefore, the amount that the Company is required to spend could be materially higher than current estimates. Any additional amounts required to be spent on reclamation and mine closure may have a material adverse effect on the Company's financial performance, financial position and results of operations and may cause the Company to alter the Company's operations. Although the Company includes liabilities for estimated reclamation and mine closure costs in our financial statements, it may be necessary to spend more than what is projected to fund required reclamation and mine closure activities.

***The Company's operations will be adversely affected if the Company fails to maintain satisfactory labour relations.***

As of December 31, 2014, the Company had approximately 1,345 employees and approximately 475 contractors.

The Company's workforce is not unionized with the exception of approximately 368 of the hourly employees at the Pinto Valley Mine which are represented by six unions, governed by one collective bargaining agreement negotiated by the United Steelworkers Union which expired June 30, 2014 and is currently under negotiation. The Company cannot predict at this time whether the Company will be able to reach new agreements with the Company's unionized workforce without a work stoppage or other labour unrest, and any such new agreements may not be on terms favourable to the Company. Additional groups of non-union employees may seek union representation in the future. Further, relations with employees may be affected by changes in the scheme of labour relations that may be introduced by the relevant governmental authorities in jurisdictions where the Company conducts business. Changes in such legislation or otherwise in the Company's relationship with the Company's employees may result in higher ongoing labour costs, employee turnover, strikes, lockouts or other work stoppages, any of which could have a material adverse effect on the Company's business, results of operations and financial condition.

***Increased energy prices could adversely affect the Company's results of operations and financial condition.***

Mining operations and facilities are intensive users of electricity and carbon-based fuels. Energy prices can be affected by numerous factors beyond the Company's control, including global and regional supply and demand, political and economic conditions, and applicable regulatory regimes. The prices of various sources of energy may increase significantly from

current levels. An increase in energy prices for which the Company is not hedged could materially adversely affect the Company's results of operations and financial condition.

***The Company may not be able to compete successfully with other mining companies.***

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

***The Company may experience difficulties with the Company's joint venture partners.***

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

***The Company may experience problems integrating new acquisitions into the Company's existing operations.***

The Company's success at completing acquisitions will depend on a number of factors, including, but not limited to, identifying acquisitions that fit the Company's strategy, negotiating acceptable terms with the seller of the business or property to be acquired and obtaining approval from regulatory authorities in the jurisdictions of the business or property to be acquired. Any positive effect on the Company's results from the Company's acquisitions, including the recent Pinto Valley acquisition, will depend on a variety of factors, including, but not limited to, assimilating the operations of an acquired business or property in a timely and efficient manner, maintaining the Company's financial and strategic focus while integrating the acquired business or property, implementing uniform standards, controls, procedures and policies at the acquired business, as appropriate, and to the extent that the Company makes an acquisition outside of markets in which the Company has previously operated, conducting and managing operations in a new operating environment. The Pinto Valley Mine was acquired on an "as is where is" basis with limited representations and warranties. In addition the Company has provided indemnities to BHP Copper with respect to certain liabilities and have limited recourse against BHP Copper with respect to many potential liabilities related to the Pinto Valley Mine. As a result, the acquisition of mineral properties, such as the Pinto Valley Mine, may subject the Company to unforeseen liabilities, including environmental liabilities.

**5 - DIVIDENDS AND DISTRIBUTIONS**

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

## 6 - DESCRIPTION OF CAPITAL STRUCTURE

### 6.1 General Description of Capital Structure

Capstone has an authorized capital of an unlimited number of common shares without par value, 382,044,066 of which were issued and outstanding as of December 31, 2014.

**Common Shares**

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

**Credit Rating**

Standard & Poor's Rating Services assigned Capstone its B+ long-term corporate credit rating and Moody's Investors Service assigned Capstone a B1 Corporate Family Rating.

**Credit Facilities**

As at December 31, 2014 Capstone was party to two credit agreements establishing the following credit facilities:

- A US$200 million Senior Secured Corporate Revolving Term Facility ("RCF") provided by a syndicate of lenders, which matured on October 4, 2017, with $142.8 million outstanding at year end; and
- A US$200 million Senior Secured Reducing Revolving Corporate Credit Facility ("RRCF"), which had a two and a half year term from October 2013 and a reduction of the credit limit commencing after six months in equal quarterly amounts of $22.2 million. As of December 31, 2014 $133.3 million was outstanding under this facility.

The RCF and RRCF contained restrictive and financial covenants as at December 31, 2014, including:

- A requirement to maintain a Total Leverage Ratio (total net debt to EBITDA) of less than or equal to 4.0:1.0; a Senior Secured Leverage Ratio (senior secured net debt to EBITDA) of 3.0:1.0; and an Interest Coverage Ratio (EBITDA to Interest Expense) of 3.0:1.0. As of December 31, 2014 our ratio of Total Net Debt/EBITDA was 1.3:1.0; our Senior Secured Net Debt/EBITDA was 0.7:1.0; and our EBITDA/Interest Expense ratio was 19.0:1.0, for purposes of the credit facilities.

In January 2015 we amended the RCF for up to $500 million and repaid and canceled the RRCF. The RCF now comprises a committed $440 million plus a $60 million accordion. It has a four year term maturing in January 2019 (with extension rights on mutual consent), an interest rate of US LIBOR plus 3.0% (adjustable in certain circumstances) and a standby fee of 0.675%, payable on the undrawn balance of the facility. The $60 million accordion may be exercised by Capstone once additional credit is committed from existing and/or new lenders. The old RCF and RRCF were repaid and superseded as part of this transaction.

- Under the terms of the new RCF, reclamation surety bonds are not classified as indebtedness (up to a value of US$150 million) and therefore will not be included in the leverage ratio calculations. Under the new RCF the Interest Coverage Ratio (EBITDA to Interest Expense) was amended to 2.5:1.0. The pro-forma covenants estimates as of January 31, 2015 under the new RCF (using pro-forma debt and cash figures and 31 December rolling EBITDA and Interest figures) are as follows. The estimated ratio of Total Net Debt/EBITDA was 0.77:1.0; the estimated Senior Secured Net Debt/EBITDA was 0.78:1.0; and the estimated EBITDA/Interest Expense ratio was 18.96:1.0.

## 7 - MARKET FOR SECURITIES

### Trading Price and Volume – Common Shares

Our common shares are listed for trading on the Toronto Stock Exchange ("TSX") under the symbol "CS". The following table sets out the monthly price ranges and volumes of Capstone common shares on the TSX during the 12 months ended December 31, 2014 and up to the date of this Annual Information Form:

| Month | Volume | High (C$) | Low (C$) |
|---|---|---|---|
| March 2015* | 8,472,639 | 1.45 | 1.11 |
| February 2015 | 27,963,635 | 1.50 | 1.16 |
| January 2015 | 48,110,043 | 2.15 | 1.04 |
| December 2014 | 12,839,154 | 2.04 | 1.65 |
| November 2014 | 15,954,990 | 2.20 | 1.88 |
| October 2014 | 22,826,134 | 2.28 | 1.93 |
| September 2014 | 21,905,990 | 2.84 | 2.25 |
| August 2014 | 22,913,430 | 2.99 | 2.60 |
| July 2014 | 32,754,953 | 3.11 | 2.58 |
| June 2014 | 18,802,269 | 2.69 | 2.44 |
| May 2014 | 32,571,834 | 3.08 | 2.56 |
| April 2014 | 23,756,430 | 3.09 | 2.76 |
| March 2014 | 67,514,453 | 3.03 | 2.48 |
| February 2014 | 31,589,827 | 3.15 | 2.75 |
| January 2014 | 34,770,144 | 3.35 | 2.83 |

* includes data from March 1 to March 16, inclusive.

## 8 - DIRECTORS AND OFFICERS

### 8.1 Name and Occupation

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

| Name and Address | Office held with Capstone | Principal Occupation during past five years | Director Since[6] |
|---|---|---|---|
| **Lawrence I. Bell**[2][4] British Columbia, Canada | Director | Businessman; a director of Silver Wheaton Corp.; previously Chair of Canada Line Rapid Transit Project and Chair of BC Hydro. | November 24, 2008 |
| **George L. Brack**[2][3] British Columbia, Canada | Chairman and Director | Businessman; currently the Chairman of Capstone, Alexco Resource Corp. and Geologix Explorations Inc.; a director of Newstrike Capital Inc., Silver Wheaton Corp. and Timmins Gold Corp. | May 19, 2009 |
| **Chantal Gosselin**[1][3][5] Ontario, Canada | Director | Previously Vice President and Portfolio Manager at Goodman Investment Counsel; formerly a senior mining analyst at Sun Valley Gold LLP; currently a director of Silver Wheaton Corp. | July 26, 2010 |
| **GookHo (GH) Lee**[4][5] Ontario, Canada | Director | Executive Advisor with Korea Resources Corporation since 2011; previously Senior Executive Vice President, Overseas Business Development Division, Raw Materials Procurement Division at LS-Nikko Cooper Inc. from 2004 to 2010. | October 23, 2012 |

| Name and Address | Office held with Capstone | Principal Occupation during past five years | Director Since[6] |
|---|---|---|---|
| **Kalidas Madhavpeddi**[1][4][5] Arizona, US | Director | President, Azteca Consulting LLC from 2006; Overseas CEO, China Molybdenum Co. Ltd. from 2008; ; currently a director of Namibia Rare Earths Inc., NovaCopper Inc. and NovaGold Resources Inc. | June 1, 2012 |
| **Dale C. Peniuk**[1][2][3] British Columbia, Canada | Director | Chartered Accountant and corporate director; a director of Argonaut Gold Inc. and Lundin Mining Corporation; previously a Partner with KPMG LLP Chartered Accountants. | May 19, 2009 |
| **Darren M. Pylot** British Columbia, Canada | President and CEO and Director | President and CEO of the Company and a director of the Company since October 2003; currently a director of Zena Mining Corp. | October 23, 2003 |
| **Richard N. Zimmer**[3][4][5] British Columbia, Canada | Director | A director of Alexco Resource Corp.; former President and Chief Executive Officer of Far West Mining Ltd., which was acquired by Capstone in 2011. | June 20, 2011 |
| **Robert S. Blusson** British Columbia, Canada | Vice President, Finance | Vice President, Finance since March 2013; Corporate Controller of the Capstone from December 2008 to March 2013. | N/A |
| **Cindy L. Burnett** British Columbia, Canada | Vice President, Investor Relations and Communications | Vice President, Investor Relations and Communications since September 2012 and Vice President, Investor Relations from March 2011 to September 2012; previously Vice President, Investor Relations for Western Lithium Corp. from August 2009 to February 2011. | N/A |
| **Gregg B. Bush** British Columbia, Canada | Senior Vice President and Chief Operating Officer | Senior Vice President and Chief Operating Officer since May 2010; previously Chief Operating Officer of Minefinders Corporation from May 2008 to May 2010. | N/A |
| **Peter T. Hemstead** British Columbia, Canada | Vice President, Marketing and Treasurer | Vice President, Marketing and Treasurer since November 2008. | N/A |
| **Jason P. Howe** British Columbia, Canada | Vice President, Business Development | Vice President, Business Development since March 2009; President & CEO of Zena Mining since 2008. | N/A |
| **John J. Kim** British Columbia, Canada | Corporate Secretary | Corporate Secretary since June 2010; previously, Assistant Corporate Secretary of Silver Standard Resources Inc. from September 2007 to May 2008 and October 2009 to June 2010 and Corporate Secretary from May 2008 to October 2009. | N/A |
| **Wendy A. King** British Columbia, Canada | Vice-President, Legal, Risk and Governance | Vice President, Legal, Risk and Governance since February 2014; previously Senior Vice President Government Relations, General Counsel, Chief Compliance Officer and Corporate Secretary for Central 1 Credit Union from March 2012 to February 2014; Senior Legal Counsel and Assistant Corporate Secretary for Weyerhaeuser Company Limited from 2001 to 2012. | N/A |

| Name and Address | Office held with Capstone | Principal Occupation during past five years | Director Since[6] |
|---|---|---|---|
| **Guy R. Le Bel** Quebec, Canada | Vice President, Evaluations | Vice President, Evaluations since 2013; previously Vice President, Business Development for Quadra Mining Ltd. from 2004 to 2012. | N/A |
| **Gillian A. McCombie** British Columbia, Canada | Vice President, Human Resources | Vice President, Human Resources since March 2013; previously, Director of Human Resources from December 2011 to March 2013; Director, Human Resources with Telus Corporation from July 2007 to December 2011. | N/A |
| **Brad J. Mercer** Alberta, Canada | Senior Vice President, Exploration | Senior Vice President, Exploration since March 2013, Vice President, Exploration for Capstone from November 2008 to March 2013. | N/A |
| **Brad E. Skeeles** British Columbia, Canada | Vice President, North American Operations | Vice President, North American Operations since August 2013; previously General Manager for Newmont's Hope Bay Project, General Manager at Thompson (Inco) and Tintaya Peru (BHP). | N/A |
| **David M. Sinitsin** British Columbia, Canada | Vice President, Technical Services | Vice President, Technical Services since February 2013; previously Vice President, Project Development for Canaco Resources Inc. from October 2011 to February 2013; Director, Project Development for Silver Standard Resources Inc. from 2009 to 2011. | N/A |
| **D. James Slattery** British Columbia, Canada | Senior Vice President and Chief Financial Officer | Senior Vice President and Chief Financial Officer since July 2013; previously Vice President and Chief Financial Officer of Inmet Mining Corporation. | N/A |

(1) Member of the Audit Committee.
(2) Member of the Human Resources & Compensation Committee.
(3) Member of the Corporate Governance & Nominating Committee.
(4) Member of the Environmental, Health, Safety & Sustainability Committee.
(5) Member of the Technical Committee.
(6) Each director and officer is appointed for a term of one year which expires on the date of the annual meeting of shareholders of Capstone following his or her appointment. Capstone's next annual meeting is scheduled to be held on April 29, 2015.

**Ownership of Securities by Directors and Officers**

As at March 16, 2015, the directors and executive officers as a group beneficially owned or exercised control or direction over, directly or indirectly, an aggregate of 2,062,518 Capstone common shares, representing approximately 0.54% of the issued and outstanding common shares of the Company.

### 8.2 Conflicts of Interest

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

the interest we will acquired, the directors will primarily consider the degree of risk to which we may be exposed and our financial position at that time. See also "Describe the Business - Risk Factors".

## 9 - AUDIT COMMITTEE INFORMATION

### 9.1 Audit Committee Terms of Reference

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

### 9.2 Composition of the Audit Committee and Relevant Education and Experience

Our Audit Committee consists of three members all of whom are independent and financially literate as defined by National Instrument 52-110 - *Audit Committees* ("NI 52-110"). The name, relevant education and experience of each Audit Committee member is outlined below:

*Dale C. Peniuk (Chair)*

Mr. Peniuk is a CPA, CA (Chartered Accountant) and corporate director. In addition to Capstone, Mr. Peniuk currently serves on the Board and as Audit Committee Chair of Lundin Mining Corporation and Argonaut Gold Inc. Mr. Peniuk obtained a B.Comm from the University of British Columbia in 1982 and his Chartered Accountant designation from the Institute of Chartered Accountants of British Columbia in 1986, and spent more than 20 years with KPMG LLP, Chartered Accountants and predecessor firms, the last 10 of which as an assurance partner.

*Chantal Gosselin*

Ms. Gosselin was formerly Vice President and Portfolio Manager at Goodman Investment Counsel. She previously held the position of senior mining analyst, at Sun Valley Gold LLP, a precious metals focused investment fund. From May 2006 to March 2008, Ms. Gosselin was a senior mining analyst and partner of Genuity Capital Markets. Prior to joining Genuity, she held positions as a mining analyst with Haywood Securities Inc. and Dundee Securities Corporation. Between 1992 and 2000, she held various management positions in North, Central and South America for Blackhawk Mining Inc., Pan American Silver Corporation, Dynatec Mining Corporation and Aur Resources Inc. She holds a MBA in business administration from Concordia University, a Chartered Investment Manager accreditation and a BSc. in mining engineering from Laval University.

*Kalidas Madhavpeddi*

Mr. Madhavpeddi is President of Azteca Consulting LLC and Overseas CEO for China Molybdenum Inc., a former Senior Vice President of Business Development at Phelps Dodge Corporation, former President of Phelps Dodge Wire and Cable and Senior Vice President of Phelps Dodge Sales Company and other various technical and engineering positions. He holds a M.S., Industrial Management and Engineering from the University of Iowa, and a B.S., Civil Engineering from the Indian Institute of Technology in Madras, India and completed the advanced management program at Harvard Business School.

### 9.3 Audit Committee Oversight

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

### 9.4 Pre-Approval Policies and Procedures

The Audit Committee pre-approves all non-audit services provided by our external auditor and has established policies and procedures accordingly. When a new service is proposed by Capstone's external auditor, management confirms with the audit engagement partner that there is no independence concern related to the proposed service. On the basis that the answer to that question is that the proposed service would not impair the external auditor firm's independence, then the matter is raised to the Audit Committee for approval before management proceeds with the proposed service.

### 9.5 External Auditors Service Fees (By Category)

The aggregate fees billed by our external auditors in the last two fiscal years ended December 31, 2014 and 2013 are as follows:

| Year Ending | Audit Fees[(1)] | Audit-Related Fees[(2)] | Tax Fees[(3)] | All Other Fees |
|---|---|---|---|---|
| December 31, 2014 | C$357,000 | C$274,000 | C$105,000 | C$8,000 |
| December 31, 2013 | C$839,000 | C$533,000 | C$42,000 | C$86,000 |

(1) The aggregate audit fees billed for the audit of the financial statements for the financial year indicated, including with respect to Capstone's internal control over financial reporting.
(2) The aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit or review of Capstone's financial statements which are not included under the heading "Audit Fees".
(3) The aggregate fees billed for professional services rendered for tax compliance, tax advice and tax planning. The work performed in each year was assistance in the preparation and review of Capstone's tax returns.

## 10 - LEGAL PROCEEDINGS AND REGULATORY ACTIONS

*Legal Proceedings*

The Company is not subject to any legal proceedings as of December 31, 2014, and was not subject to any proceedings throughout the recently completed financial year.

The directors and the management know of no active or pending proceedings against anyone that might materially adversely affect an interest of Capstone.

*Regulatory Actions*

As of December 31, 2014, the Company is not subject to:

- any penalties or sanctions imposed against the Company by a court relating to securities legislation or by a securities regulatory authority during the financial year ended December 31, 2014; or
- any other penalties or sanctions imposed by a court or regulatory body against the Company; or
- settlement agreements the Company entered into before a court relating to securities legislation or with a securities regulatory authority during the financial year ended December 31, 2014.

## 11 - INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

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

## 12 - TRANSFER AGENT AND REGISTRAR

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

## 13 - MATERIAL CONTRACTS

Material contracts, other than contracts entered into in the ordinary course of business, that were entered into by Capstone between January 1, 2014 and as of the date of this AIF, or before that time, but that are still in effect are listed below:

1. Shareholders' Agreement between the Company, KORES, Korea Chile Mining Corporation and 0908113 BC Ltd. dated June 17, 2011 with respect to the ownership of the Santo Domingo Project.

2. Third Amended and Restated Credit Agreement between Capstone, The Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Wells Fargo Bank N.A., Canadian Branch, Citibank, N.A., Canadian Branch, Export Development Canada, Bank of Montreal, Mizuho Bank, Ltd., and ING Capital LLC., dated January 16, 2015. For further information see the section entitled "General Development of the Business - Three Year History".

## 14 - INTERESTS OF EXPERTS

Deloitte LLP, Chartered Accountants, have prepared an auditor's report dated February 17, 2015, on Capstone's annual consolidated financial statements as of and for the years ended December 31, 2014 and December 31, 2013 which have been filed on SEDAR. Deloitte LLP have confirmed they are independent of Capstone within the meaning of the rules of professional conduct of the Institute of Chartered Accountants of British Columbia.

### 14.1 Names of Experts

The following persons or companies have prepared or certified a statement, report or valuation in this Annual Information Form, either directly or in a document incorporated by reference, and whose profession or business gives authority to the statement, report or valuation made by the person or company: Ali Shahkar, P.Eng., Allan Schappert, SME-RM, Dave Hallman, PE, Jenna Hardy, P.Geo., Jeremy Vincent, P.Geo., Kenneth Major, P.Eng., Mel Lawson, SME-RM, Patrick Andrieux, P.Eng., Robert Sim, P.Geo., Vivienne McLennan, P.Geo., Bill Hodgson, P.Eng., Bruce Murphy, P.Eng., Colleen Roche, P.Eng., Douglas McIlveen, P.Geo., John Eggert, P.Eng., Michael Levy, PE, Pooya Mohseni, P.Eng., Wayne Barnett, Pr.Sci.Nat, Adam Majorkiewicz, P.Eng., Carolla Hoag, CPG, Garth Kirkham, P.Geo., John Marek, PE, Tony Freiman, PE, Anna Klimek, P.Eng., Carlos Guzman, F.AusIMM, David Frost, F.AusIMM, David W. Rennie, P.Eng., Hans Gopfert, P.Eng., Joyce Maycock, P.Eng., Roy Betinol, P.Eng., Tom Kerr, P.Eng., and Vikram Khera, P.Eng.

### 14.2 Interests of Experts

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

Jenna Hardy, P.Geo., Principal at Nimbus Management Ltd., held 10,000 common shares.

Douglas McIlveen, P. Geo., Chief Geologist for Minto Explorations Ltd., a wholly owned subsidiary of Capstone, held 3,099 common shares and 18,248 stock options exercisable into common shares of Capstone.

Vivienne McLennan, P.Geo., Capstone's Senior Geologist, held 5,568 Capstone common shares and 194,063 stock options exercisable into Capstone common shares.

Pooya Mohseni, MBA, MASc, P.Eng., Chief Engineer for Minto Explorations Ltd., a wholly owned subsidiary of the Capstone held 37,156 common shares and 8,047 stock options exercisable into Capstone common shares.

Jeremy Vincent, P.Geo, Capstone's Manager, Production & Development Geology, held 8,500 common shares and 13,766 stock options exercisable into common shares of Capstone.

## 15 - ADDITIONAL INFORMATION

Additional information relating to Capstone may be found on SEDAR at *www.sedar.com*, including financial and other information in our consolidated financial statements and management's discussion and analysis for the year ended December 31, 2014.

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

**SCHEDULE "A"**

**CAPSTONE MINING CORP.**
**(THE "COMPANY")**

**AUDIT COMMITTEE TERMS OF REFERENCE**

## 1. PURPOSE

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

## 2. COMPOSITION

A. The Audit Committee shall consist of at least three members of the Board, all of whom shall be "independent directors", as that term is defined in National Instrument 52-110, "Audit Committees".

B. The Board, at its organizational meeting held in conjunction with each annual general meeting of the shareholders, shall appoint the members of the Audit Committee for the ensuing year. The Board may at any time remove or replace any member of the Audit Committee and may fill any vacancy in the Audit Committee.

C. The Board shall have appointed the chair of the Audit Committee on an annual basis.

D. All of the members of the Audit Committee shall be "financially literate" (i.e. able to read and understand a set of financial statements that present a breadth and level of complexity of the issues that can reasonably be expected to be raised by Capstone's consolidated financial statements).

E. The secretary of the Audit Committee shall be designated from time to time from one of the members of the Audit Committee or, failing that, shall be the Corporate Secretary, unless otherwise determined by the Audit Committee.

F. The quorum for meetings shall be a majority of the members of the Audit Committee, present in person or by telephone or other telecommunication device that permits all persons participating in the meeting to speak and to hear each other.

## 3. CORE RESPONSIBILITIES

A. The overall duties and responsibilities of the Audit Committee shall be as follows:

i. To assist the Board in the discharge of its responsibilities relating to accounting principles, reporting practices and internal controls and its approval of Capstone's annual and quarterly consolidated financial statements;

ii. To ensure that management has designed, implemented and is maintaining an effective system of internal financial controls; and

iii. To report regularly to the Board on the fulfilment of its duties and responsibilities.

B. The duties and responsibilities of the Audit Committee as they relate to the external auditors shall, in general, be to oversee the work of the external auditors engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for Capstone, including the resolution of disagreements between management and the external auditor regarding financial reporting. Specifically, these duties and responsibilities include the following:

i. To recommend to the Board a firm of external auditors to be engaged by Capstone, and to consider the independence of such external auditors;

ii. To review and pre-approve the audit and any other services rendered by the external auditors and review the fee, scope and timing of these services;

iii. To review the audit plan of the external auditors prior to the commencement of the audit;

iv. To review with the external auditors, upon completion of their audit, the following:

a) content of their report to the Audit Committee;

b) scope and quality of the audit work performed;

c) adequacy of Capstone's financial and auditing personnel;

d) co-operation received from Capstone's personnel during the audit;

e) significant transactions outside of the normal business of Capstone;

f) significant proposed adjustments and recommendations for improving internal accounting controls, accounting principles or management systems;

g) any significant changes to their audit plan; and

h) any serious difficulties or disputes with management encountered during the audit;

v. To discuss with the external auditors the quality and not just the acceptability of accounting principles;

vi. To implement structures and procedures to ensure that the Audit Committee meets the external auditors on a regular basis in the absence of management;

vii. To review the performance of the external auditors, making recommendations to the auditors, to management and/or to the Board as appropriate; and

viii. To review and approve hiring policies for employees or former employees of the past and present external auditors.

C. The duties and responsibilities of the Audit Committee as they relate to the internal control procedures are to:

i. Review and approve the internal control assessment plan;

ii. Review any significant findings and recommendations, and management's response thereto;

iii. Review the appropriateness and effectiveness of the policies and business practices which impact on the financial integrity of Capstone, including those relating to internal auditing, insurance, accounting, information services and systems and financial controls, management reporting and risk management;

iv. Review any unresolved issues between management and the external auditors that could affect the financial reporting or internal controls;

v. Review all material written communications between the external auditors and management; and

vi. Periodically review the financial and auditing procedures and the extent to which recommendations made by the internal audit staff or by the external auditors have been implemented.

D. The Audit Committee is also charged with the responsibility to:

i. Review the quarterly financial statements and associated MD&A and earnings release and recommend approval to the Board with respect thereto;

ii. Review and approve the financial sections of:

a) the annual report to shareholders;

b) the annual information form;

c) prospectuses and other offering documents; and

d) other public reports requiring approval by the Board and report to the Board with respect thereto;

iii. Review regulatory filings and decisions as they relate to the consolidated financial statements;

iv. Review the appropriateness of the policies and procedures used in the preparation of the consolidated financial statements and other required disclosure documents, and consider recommendations for any material change to such policies;

v. Review and report on the integrity of the consolidated financial statements;

vi. Review the minutes of any audit committee meetings of subsidiary companies;

vii. Review with management, the external auditors and, if necessary, with legal counsel, any litigation, claim or other contingency, including tax assessments that could have a material effect upon the financial position or operating results and the manner in which such matters have been disclosed in the consolidated financial statements;

viii. Review the compliance with regulatory and statutory requirements as they relate to consolidated financial statements, tax matters and disclosure of material facts;

ix. Review with management the policies and procedures with respect to officers' expense accounts and perquisites, including their use of corporate assets, and consider the results of any review of these areas by the external auditors;

x. Receive a report annually from management of all accounting firms employed, other than the principal external auditors, with such report to include the nature of the services performed and the fees charged;

xi. Develop a calendar of activities to be undertaken by the Audit Committee for each ensuing year and to submit the calendar in the appropriate format to the Board following each annual general meeting of shareholders;

xii. Establish and periodically review procedures for:

a) the receipt, retention and treatment of complaints received regarding accounting, internal accounting controls, or auditing matters; and

b) the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters; and

xiii. Review the adequacy of the Terms of Reference annually, proposing modifications as appropriate.

**4. RESPONSIBILITIES OF THE COMMITTEE CHAIR**

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

A. Working with the Chairman of the Board, the Chief Financial Officer and the Corporate Secretary to establish the frequency of the Audit Committee meetings;

B. Providing leadership to the Audit Committee and presiding over Audit Committee meetings;

C. Facilitating the flow of information to and from the Audit Committee and fostering an environment in which Audit Committee members may ask questions and express their viewpoints;

D. Reporting to the Board with respect to the significant activities of the Audit Committee and any recommendations of the Audit Committee;

E. Leading the Audit Committee in annually reviewing and assessing the adequacy of its terms of reference and evaluating its effectiveness in fulfilling its terms of reference; and

F. Taking such other steps as are reasonably required to ensure that the Audit Committee carries out its core responsibilities under its terms of reference.

**5. AUTHORITY**

A. The Audit Committee shall have access to such officers and employees and to such information respecting Capstone, as it considers to be necessary or advisable in order to perform its duties and responsibilities.

B. The external auditors shall have a direct line of communication to the Audit Committee through its Chair and may bypass management if deemed necessary. The Audit Committee, through its Chair, may contact directly any Capstone employee as it deems necessary, and any employee may bring before the Audit Committee any matter involving questionable, illegal or improper financial practices or transactions.

C. The Audit Committee shall have authority to engage independent counsel, consultants and other advisors at the expense of Capstone, as it determines to be necessary or advisable to carry out its duties and responsibilities, including setting and authorizing the payment of the compensation for any advisors employed by the Audit Committee, and to communicate directly with the internal and external auditors.

**6. ACCOUNTABILITY**

A. The Audit Committee Chair has the responsibility to make periodic reports to the Board, as requested, on financial reporting and internal financial control matters relative to Capstone.

B. The Audit Committee shall report its discussions to the Board by maintaining minutes of its meetings and providing an oral report at the next Board meeting.

**7. MEETINGS**

Meetings of the Audit Committee shall be conducted as follows:

A. The Audit Committee shall meet at least four times annually at such times and at such locations as may be requested by the Chair of the Audit Committee. The external auditors or any member of the Audit Committee may request a meeting of the Audit Committee;

B. Notice of the time and place of every meeting of the Audit Committee shall be given in writing to each member of the Audit Committee a reasonable time before the meeting;

C. The external auditors shall receive notice of and have the right to attend all meetings of the Audit Committee;

D. Agendas for meetings of the Audit Committee shall be developed by the Chair of the Audit Committee in consultation with management and the Corporate Secretary, and should be circulated to Audit Committee members one week prior to Audit Committee meetings;

E. The following management representatives shall be invited to attend all meetings, except executive sessions and private sessions with the external auditors:

   i. Chief Executive Officer;

   ii. Chief Operating Officer; and

   iii. Chief Financial Officer;

F. Other management representatives shall be invited to attend as necessary;

G. A member of the Audit Committee may be designated as the liaison member to report on the deliberations of the Audit Committee to the Board; and

H. All meetings shall include an in-camera session of independent directors without management present.