# MANAGEMENT'S DISCUSSION AND ANALYSIS

# AND

# CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

# (unaudited)

**For the Three and Six Months Ended June 30, 2020**

**(Expressed in US Dollars)**

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# MANAGEMENT'S DISCUSSION AND ANALYSIS OF CAPSTONE MINING CORP. FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2020

Capstone Mining Corp. ("Capstone" or the "Company") has prepared the following management's discussion and analysis (the "MD&A") as of July 29, 2020 and it should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements and notes thereto for the three and six months ended June 30, 2020. All financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") and all dollar amounts presented are United States ("US") dollars unless otherwise stated. "C$" refers to Canadian dollars.

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

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

Forward-looking statements relate to future events or future performance and reflect our expectations or beliefs regarding future events and the impacts of the ongoing and evolving COVID-19 pandemic. Forward-looking statements include, but are not limited to, statements with respect to the estimation of Mineral Resources and Mineral Reserves, the realization of Mineral Reserve estimates, the timing and amount of estimated future production, costs of production and capital expenditures, the success of our mining operations, the continuing success of mineral exploration, Capstone's ability to fund future exploration activities, environmental risks, unanticipated reclamation expenses and title disputes. The potential effects of the COVID-19 pandemic on our business and operations are unknown at this time, including Capstone's ability to manage challenges and restrictions arising from COVID-19 in the communities in which Capstone operates and our ability to continue to safely operate and to safely return our business to normal operations. The impact of COVID-19 to Capstone is dependent on a number of factors outside of our control and knowledge, including the effectiveness of the measures taken by public health and governmental authorities to combat the spread of the disease, global economic uncertainties and outlook due to the disease, and the evolving restrictions relating to mining activities and to travel in certain jurisdictions in which we operate.

In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", "believes" or variations of such words and phrases, or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved" or the negative of these terms or comparable terminology. In this document certain forward-looking statements are identified by words including "anticipated", "guidance", "plan" and "expected". By their very nature, forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, amongst others, risks related to inherent hazards associated with mining operations and closure of mining projects, future prices of copper and other metals, compliance with financial covenants, surety bonding, our ability to raise capital, Capstone's ability to acquire properties for growth, counterparty risks associated with sales of our metals, use of financial derivative instruments and associated counterparty risks, foreign currency exchange rate fluctuations, market access restrictions or tariffs, changes in general economic conditions, accuracy of Mineral Resource and Mineral Reserve estimates, operating in foreign jurisdictions with risk of changes to governmental regulation, compliance with governmental regulations, compliance with environmental laws and regulations, reliance on approvals, licenses and permits from governmental authorities, acting as Indemnitor for Minto

Exploration Ltd.’s surety bond obligations post divestiture, impact of climatic conditions on our Pinto Valley and Cozamin operations, aboriginal title claims and rights to consultation and accommodation, land reclamation and mine closure obligations, risks relating to widespread epidemics or pandemic outbreak including the COVID-19 pandemic; the impact of COVID-19 on our workforce, suppliers and other essential resources and what effect those impacts, if they occur, would have on our business, including our ability to access goods and supplies, the ability to transport our products and impacts on employee productivity, the risks in connection with the operations, cash flow and results of Capstone relating to the unknown duration and impact of the COVID-19 pandemic, uncertainties and risks related to the potential development of the Santo Domingo Project, increased operating and capital costs, challenges to title to our mineral properties, maintaining ongoing social license to operate, dependence on key management personnel, potential conflicts of interest involving our directors and officers, corruption and bribery, limitations inherent in our insurance coverage, labour relations, increasing energy prices, competition in the mining industry, risks associated with joint venture partners, our ability to integrate new acquisitions into our operations, cybersecurity threats, legal proceedings, and other risks of the mining industry as well as those factors detailed from time to time in the Company’s interim and annual financial statements and MD&A of those statements, all of which are filed and available for review under the Company’s profile on SEDAR at www.sedar.com. Although the Company has attempted to identify important factors that could cause our actual results, performance or achievements to differ materially from those described in our forward-looking statements, there may be other factors that cause our results, performance or achievements not to be as anticipated, estimated or intended. There can be no assurance that our forward-looking statements will prove to be accurate, as our actual results, performance or achievements could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on our forward-looking statements.

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## Nature of Business

Capstone, a Canadian mining company publicly listed on the Toronto Stock Exchange, is engaged in the production of and exploration for base metals centered in the Americas, with a focus on copper. Pinto Valley Mining Corp., a wholly-owned US subsidiary, owns and operates the copper Pinto Valley Mine located in Arizona, US. Capstone Gold, S.A. de C.V., a wholly-owned Mexican subsidiary, owns and operates the polymetallic Cozamin Mine located in Zacatecas, Mexico, and has a portfolio of exploration properties in Mexico. Capstone Mining Chile SpA, a wholly-owned Chilean subsidiary, is performing exploration for base metal deposits in Chile.

On March 31, 2020, Capstone took steps to safely and systematically reduce mining and processing activities temporarily at its Cozamin Mine to comply with a government-mandated suspension of all non-essential activities, in response to the COVID-19 pandemic. On May 12, 2020 the Mexican Federal Government announced that mining is an essential industry. Subsequent to this announcement, Capstone safely started ramping up operational activities at its Cozamin Mine. As at June 30, 2020, all mining and processing activities have been resumed.

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

## Q2 2020 Highlights and Significant Items

### Financial and Operational Highlights

- **Strong second quarter 2020 (Q2 2020) copper production of 38.5 million pounds despite COVID-19 related production limitations at Cozamin. C1 cash costs[1] of $1.87 per payable pound of copper produced** are 9% lower than Q1 2020.
- **Q2 2020 net income of $4.3 million or $0.01 per share**, benefiting from positive non-cash provisional pricing adjustments of $13.6 million.
- **Q2 2020 operating cash flow of $45.1 million** (Q2 2019 - $30.3 million). Operating cash flow was positively impacted by managing working capital, including $26.7 million of customer advances on future off-take. Operating cash flow increased 38% to $0.11 per share (Q2 2019 - $0.08 per share).

### Coronavirus (COVID-19) Update

- **We continue to enforce rigorous control and prevention measures at all our operations** to ensure the health and safety of our workers.
- **Cozamin ramped back up to full capacity at the end of May,** following a temporary ramp down to comply with a government decree. During the six-week ramp down period, mining and milling safely continued at reduced rates, which allowed for an efficient and quick ramp up to full operating levels as at June 1st, 2020.
- **Corporate Social Responsibility** - Pinto Valley and Cozamin have supported their local communities by donating masks to medical and public sector workers, and Santo Domingo has donated food boxes to local communities and families. Cozamin also made donations to the government in efforts to support local businesses and hospitals in the state of Zacatecas.

### 2020 Production and Cost Guidance Reinstated

**Capstone is reinstating its original 2020 production and cost guidance** as COVID-19 has not to date significantly adversely affected production and costs at our operations. We caution that the global effects and risks of COVID-19 are still evolving. Given the uncertainty of the duration and magnitude of the impact, our production and cash cost estimates are subject to a higher than normal degree of uncertainty. The guidance below does not reflect any potential for additional suspensions or other significant disruption to operations or increased costs due to COVID-19. Refer to the Risk section for further details on COVID-19 related risks.

| 2020 Guidance | Total | 2020 Year-to-date (YTD) |
|---|---|---|
| **Copper production (million pounds)** | **140 - 155** | **74.0** |
| **C1 cash costs[1]** | **$1.85 - $2.00** | **$1.96** |

Capstone's capital expenditures are forecasted to be $70 to $80 million and exploration costs to be $7 million for 2020, which positions the Company for expected improvements of 20% production growth and 10% lower costs in 2021.

### Balance Sheet – Position of Strength

**The Company's available liquidity[1] improved from $112 million at March 31, 2020 to $136.3 million at June 30, 2020**, with cash and short-term investments of $86.2 million and a net debt balance of $163.7 million, and $50.1 million undrawn on the revolving credit facility. Capstone's net debt/EBITDA improved during the quarter to 2.54x.

During the quarter amidst COVID-19, Capstone undertook a series of management actions to further strengthen liquidity and manage compliance with banking covenants including the following:

- Maximising sales volumes and advances;

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

- Locking in opportunistic hedges/supply contracts on input costs including foreign exchange, interest rates and diesel, which provide savings of $18 million compared to budget for 2020 and 2021;
- Securing a $20 million concentrate off-take arrangement with a major customer. Under the terms of the arrangement, Capstone received a $20 million advance which is expected to be repaid via delivery of concentrate produced by Pinto Valley. The arrangement provides full copper price optionality as the price is not fixed and will be determined at time of delivery;
- Securing a $6.7 million sales advance at Pinto Valley from another major customer related to concentrate inventory held at the port warehouse and sold in July 2020; and
- Managing working capital and inventory at sites.

## Resilient Growth on Track

### Pinto Valley PV3 Optimization – Phase 1 & Phase 2 Update

Phase 1 is focused on achieving reliable capacity at 57k tonnes per day (tpd) without major investments in new comminution equipment. In mid-July, Pinto Valley successfully completed over half of Phase 1 work by installing the first of two secondary crushers, three secondary screen decks, as well as the first of two new ball mill shells. The balance of work is on track for completion in Q4 2020 and Q1 2021 with the second secondary crusher and six tertiary screen decks scheduled to arrive later this year and the second ball mill shell scheduled for early 2021.

Phase 2 looks to identify additional opportunities to debottleneck throughput while optimizing flotation plant performance. The target is to secure daily rates of up to 70k tpd along with 85% or higher copper recovery. Some of the scope for Flotation Plant performance will be implemented across the second half of 2020. This includes flotation bank controls, flotation operator training, and right-sized rougher concentrate pumps. Additional studies include enhancements to regrind capacity, concentrate dewatering and handling and at the tailings thickener area.

The PV3 Optimization Study is scheduled for release in Q4 2020.

### Pinto Valley to Expand Copper Cathode Production

As an extension to the PV3 Optimization strategy, the Company announced on July 27, 2020, that Pinto Valley has successfully demonstrated positive economics from increased dump leach performance using a novel patented catalytic technology developed by Jetti Resources, LLC. In 2019, Jetti started deploying its technology at Pinto Valley's leach operation, and one year later, cathode production per area irrigated has doubled. A plan to increase cathode production is being implemented, with the goal of generating high margin from material that would have been waste at Pinto Valley's underutilized 25 million pound per year electrowinning plant, currently operating at only ~20% of capacity. The plan is to increase cathode production to 300-350 million pounds from residual and high-grade waste over the next two decades, creating 30 new jobs. An updated NI 43-101 Technical Report is expected in 2021.

### Cozamin Expansion: 50% Increase to Copper and Silver Production in 2021+

The temporary COVID-19 related ramp down in Q2 2020 did not delay the development of Cozamin's one-way ramp, which continues to be on schedule and on budget, expected to be completed in December 2020 and ready for 2021. Production in 2021 and beyond, is expected to increase to a new life of mine annual run rate of approximately 50-55 million pounds of copper and 1.5 million ounces of silver.

During the temporary six-week ramp down, minimal operations safely continued and mining was focused on copper-rich areas, rather than the San Rafael zinc zone, which proved to be a successful trial for our 2021+ production profile. The ore mined during this period is the same type of feed we expect to transition to in 2021. The mill averaged 3,800-3,900 tpd during the days it operated and realized copper recoveries of approximately 96% and silver recoveries of 83%.

### Cozamin Expands Resource Estimate by 66%

In June 2020, the Company announced the results of an updated Mineral Resource estimate for Cozamin. The total Measured & Indicated ("M&I") Mineral Resource Estimate tonnes increased by 66%, with an 83% increase to contained copper metal to 949 million pounds and a 71% increase to contained silver metal to 39 million ounces of silver. M&I Mineral Resource for Vein 20, the principal zone in the Mala Noche Footwall Zone ("MNFWZ"), increased by 118% to 13,086 kt at 2.35% Cu and 52 g/t Ag. The Company is currently updating Mineral Reserves and the results of an updated technical report is expected to be announced in Q3 2020.

### Cozamin Resumes Exploration Drilling

Exploration drilling at Cozamin was suspended during the six-week ramp down period and has since resumed to execute on an exciting catalogue of exploration targets. Three drills are currently working to infill high grade areas of future reserve target within the new Mineral Resource and trim up open areas immediately on the periphery of the Mineral Resource, to step out up-dip from the high grade Mineral Resource into untested territory and to step out to the southeast across an inferred fault testing a transition from zinc to copper-silver at depth.

The exploration team is currently evaluating a step-out target list for 2021 beyond the MNFWZ system to test our large land package surrounding the current mine. An easy target in 2021 will be Vein 10, located in the hanging wall to the main ore zone, Vein 20. Every hole targeting Vein 20 must first cut Vein 10 in areas of Pb-Zn-Ag-Au mineralization.

### Santo Domingo Fulfils Environmental Permit Early Works Requirements

During Q2 2020, Santo Domingo started a limited series of early works, including flora and fauna rescue and site entrance and access roads, in order to preserve the existing Environmental Impact Permit (RCA). These opening works are included in our 2020 budget and are prescribed in the environmental permit and serve to maintain the validity of the permit and are scheduled for completion in Q4 2020.

Activity and interest in participating in the project via the strategic sales process have increased in Q2 2020. In addition, we have received substantial interest in sharing or mutually developing off-site infrastructure that is delineated in the NI 43-101 Technical Report and valued at approximately $500 million. Ongoing discussions and negotiations are progressing with the objective of substantially reducing the project capital costs and operational risk, while maintaining the Life of Mine profitability.

## Operational Overview

| | Q2 2020 | Q2 2019 | 2020 YTD | 2019 YTD |
|---|---|---|---|---|
| **Copper production (million pounds)** | | | | |
| Pinto Valley | 30.2 | 29.0 | 57.0 | 61.7 |
| Cozamin | 8.3 | 8.7 | 17.0 | 17.4 |
| **Total** | **38.5** | **37.7** | **74.0** | **79.1** |
| **Copper sales** | | | | |
| Copper sold (from continuing operations)[2] (million pounds) | 37.8 | 45.5 | 68.3 | 80.9 |
| Realized copper price ($/lb.) | 2.72 | 2.56 | 2.53 | 2.75 |
| **C1 cash costs[1] ($/lb.) produced** | | | | |
| Pinto Valley | 2.12 | 2.00 | 2.25 | 1.89 |
| Cozamin | 0.98 | 1.06 | 0.97 | 0.88 |
| **Consolidated** | **1.87** | **1.78** | **1.96** | **1.67** |

*[2] Sales from continuing operations has been utilized due to the Minto mine being classified as a discontinued operation in the comparative period until the point of its sale on June 3, 2019.*

**Consolidated**

When compared to the same period last year, Q2 2020 production of 38.5 million pounds was 2% higher primarily due to increased production at Pinto Valley as a result of the increased focus on maximizing mill throughput in 2020 (53,864 tpd vs. 49,121 tpd in H1 2019). This increase was slightly offset by a decrease in production at Cozamin due to a temporary reduction of operations to comply with a Mexican government decree in response to COVID-19.

2020 YTD total production is lower than the same period last year primarily due to a lower planned head grade (0.30% vs. 0.34%) at Pinto Valley.

In Q2 2019 and 2019 YTD, sales were higher than production due to a drawdown of inventory at Pinto Valley. Inventory levels were higher in early 2019 to benefit from improved expected sales terms.

**Pinto Valley Mine**

C1 cash costs[1] of $2.12 per pound in Q2 2020 were higher than Q2 2019, primarily due to lower capitalized stripping ($0.7 million vs $6.7 million in 2019), partially offset by higher copper production.

Property cost per tonne milled[1] of $10.86 in Q2 2020 was $0.31/tonne lower (-3%) versus the average cost per tonne milled in 2019 and $0.77/tonne (-6%) lower than in 2018.

**Cozamin Mine**

C1 cash costs[1] were lower in Q2 2020 vs. Q2 2019. Costs were lower from reduced operating development meters and utility cost savings realized during the ramp down of operations in Q2 2020. The mine safely ramped up to full production levels by June 1st after the Mexican government declared mining as an essential service.

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

## Financial Overview

| | Q2 2020 | Q2 2019 | 2020 YTD | 2019 YTD |
|---|---|---|---|---|
| **Revenue**[2] ($ millions) | **104.7** | **113.3** | **175.1** | **222.1** |
| | | | | |
| **Net income (loss)** ($ millions) | **4.3** | **(27.2)** | **(17.6)** | **(18.9)** |
| *Net income (loss) per common share – basic and diluted ($)* | *0.01* | *(0.07)* | *(0.04)* | *(0.05)* |
| | | | | |
| **Adjusted net income (loss)**[1] ($ millions) [3] | **(0.6)** | **(4.7)** | **(18.3)** | **8.6** |
| **Adjusted net income (loss)[1] attributable to shareholders** ($ millions) [3] | **(0.6)** | **(4.7)** | **(18.1)** | **8.6** |
| *Adjusted net income (loss) attributable to shareholders per common share – basic and diluted ($)* | *(0.00)* | *(0.01)* | *(0.05)* | *0.02* |
| | | | | |
| **Adjusted EBITDA**[1,4] from continuing operations[2,3]($ millions) | **12.9** | **29.7** | **24.2** | **65.3** |
| | | | | |
| **Cash flow from operating activities**[2] ($ millions) | **45.1** | **30.3** | **52.1** | **59.0** |
| *Cash flow from operating activities per common share[1,2] - basic ($)* | *0.11* | *0.08* | *0.13* | *0.15* |
| **Operating cash flow before changes in working capital**[1,2] ($ millions) | **24.0** | **19.2** | **20.7** | **50.0** |
| *Operating cash flow before changes in working capital per common share[1,2] – basic ($)* | *0.06* | *0.05* | *0.05* | *0.13* |

| | June 30, 2020 | December 31, 2019 |
|---|---|---|
| **Total assets** ($ millions) | **1,377.0** | **1,331.4** |
| **Long term debt (excluding financing fees)** ($ millions) | **249.9** | **209.9** |
| **Total non-current financial liabilities** ($ millions) | **247.7** | **207.1** |
| **Total non-current liabilities** ($ millions) | **439.0** | **404.6** |
| **Cash and cash equivalents and short-term investments** | **86.2** | **44.5** |
| **Net debt**[1] ($ millions) | **163.7** | **165.5** |

[2] In accordance with IFRS 5, Minto's results are excluded from revenue but included within cash flow amounts in the comparative period. The Minto mine was sold on June 3, 2019.
[3] Certain prior period amounts have been restated to conform with current period classification.
[4] EBITDA is earnings before interest, taxes, depletion and amortization.

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

## Selected Quarterly Financial Information

| ($ millions, except per share data) | Q2 2020* | Q1 2020** | Q4 2019*** | Q3 2019 | Q2 2019**** | Q1 2019 | Q4 2018***** | Q3 2018 |
|---|---|---|---|---|---|---|---|---|
| Revenue | 104.7 | 70.4 | 113.6 | 82.9 | 113.3 | 108.9 | 98.0 | 112.7 |
| Earnings (loss) from mining operations | 16.3 | (20.0) | 6.0 | 0.1 | 6.4 | 29.9 | 16.7 | 14.4 |
| Net income (loss) from continuing operations attributable to shareholders | 4.3 | (21.7) | 13.4 | (9.9) | (4.6) | 12.0 | (15.1) | 4.3 |
| Net income (loss) from continuing operations attributable to shareholders per share - basic and diluted | 0.01 | (0.06) | 0.03 | (0.03) | (0.01) | 0.03 | (0.04) | 0.01 |
| Net income (loss) attributable to shareholders | 4.3 | (21.7) | 13.4 | (10.6) | (27.2) | 8.34 | (39.0) | 1.5 |
| Net income (loss) per share attributable to shareholders - basic and diluted | 0.01 | (0.06) | 0.03 | (0.03) | (0.07) | 0.02 | (0.10) | 0.00 |
| Operating cashflow before changes in non-cash working capital[1] | 24.0 | (3.5) | 20.3 | 9.5 | 19.2 | 30.7 | 19.1 | 25.9 |
| Capital expenditures (including capitalized stripping) | 19.3 | 20.6 | 28.5 | 28.5 | 32.6 | 23.2 | 29.1 | 23.8 |

* Net income (loss) in Q2 2020 includes $14M of positive non-cash provisional pricing adjustments and $8M in reversals of inventory write-downs.
** Net income (loss) in Q1 2020 includes $17M of negative non-cash provisional pricing adjustments and inventory write-downs.
*** The net income (loss) figures in Q4 2019 includes a recognition of $23.2 million of corporate tax losses recorded as a deferred income tax recovery.
**** The net income (loss) figures in Q2 2019 includes a non-cash loss on the sale of Minto of $24.5 million.
*****The net income (loss) attributable to shareholders in Q4 2018 includes a deferred income tax expense of $17.8 million, primarily associated with the non-cash write-down of deferred tax assets associated with reclamation liabilities of $20.2 million.

Revenue and earnings from mining operations above excludes the results of Minto, but operating cash flow and capital expenditures includes Minto up until the date of sale on June 3, 2019.

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

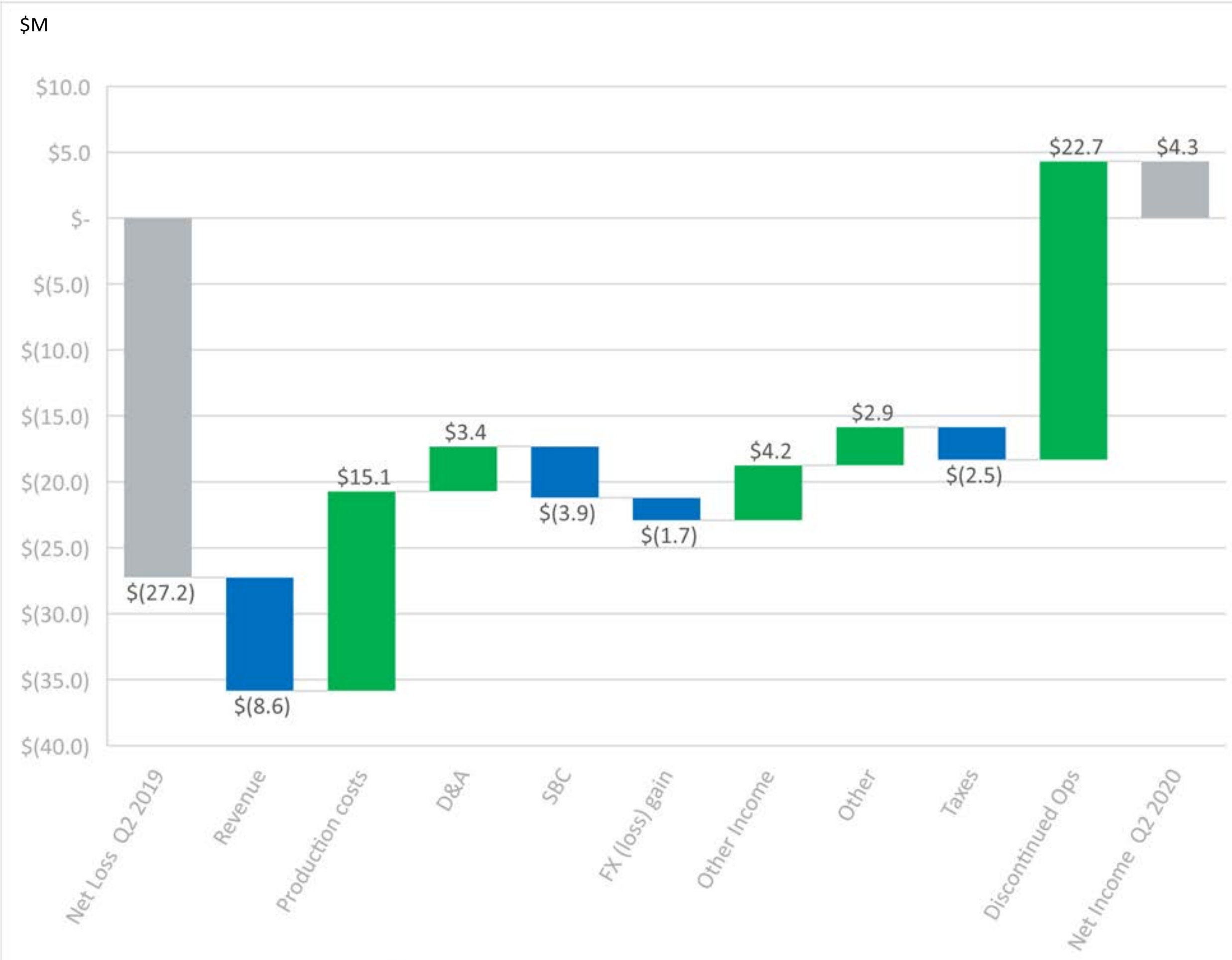
[1] *These are alternative performance measures. Refer to the MD&A section entitled "Alternative Performance Measures". Certain prior period alternative performance measures have been restated to conform with current period classification.*

## Consolidated Results

### Consolidated Net Income (Loss) Analysis

#### Net Income (Loss) for the Three Months Ended June 30, 2020 and 2019

The Company recorded a net income of $4.3 million in Q2 2020 compared with a net loss of $27.2 million in Q2 2019. The major differences are outlined below:




The difference quarter-over-quarter was driven by:

- Revenue: $8.6 million or 7% decrease from continuing operations related to a 7.7 million pound (17%) decrease in copper volumes sold, partially offset by higher realized copper prices (Q2 2020 - $2.72 per pound, Q2 2019 - $2.56 per pound). Q2 2020 realized copper prices benefitted from increasing forward copper prices as at June 30, 2020 and resulted in positive impact on provisional pricing adjustments to revenue.
- Production costs: $15.1 million decrease:
  - o Pinto Valley recorded $7.3 million lower production costs in Q2 2020 compared to Q2 2019 as a result of lower copper volumes sold (Q2 2020 – 29.9 million pounds, Q2 2019 – 37.3 million pounds) and $5.6 million of reversals of Inventory write-downs made at Pinto Valley in Q1 2020.
  - o Cozamin recorded $2.2 million lower production costs in Q2 2020 compared to Q2 2019 due primarily to the government mandated suspension in April and May.
- Depletion and amortization: $3.4 million decrease primarily due to a $2 million reversal of the non-cash portion of the inventory write-down at Pinto Valley that was recorded in Q1 2020, combined with the lower copper volumes sold.
- Share-based compensation: $3.9 million increase as a result of mark to market adjustments on share unit liabilities to reflect the increase in the share price during Q2 2020 (C$0.83 per share at June 30, 2020 vs. C$0.45 per share at March 31, 2020) compared to the mark to market adjustment

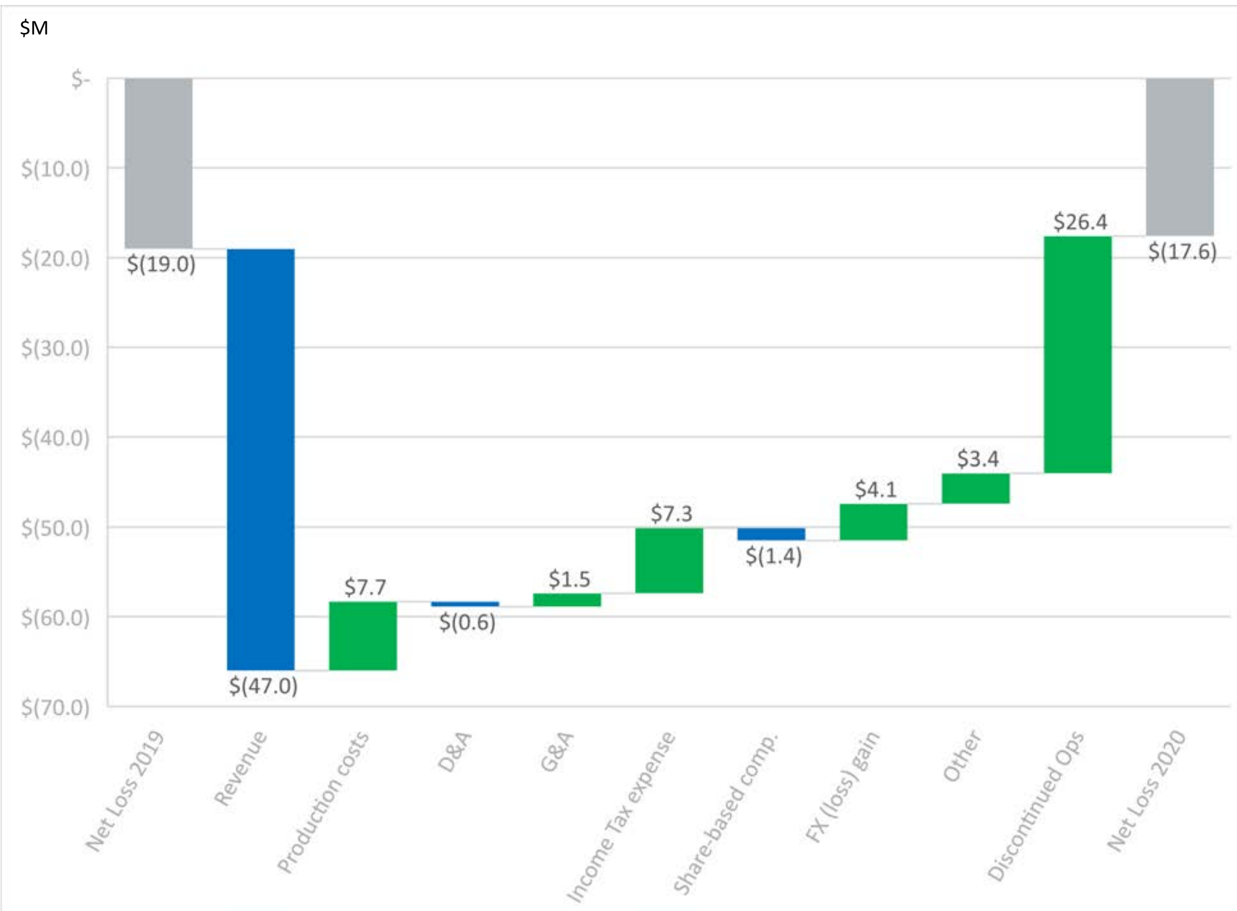
[1] *These are alternative performance measures. Refer to the MD&A section entitled "Alternative Performance Measures".*
*Certain prior period alternative performance measures have been restated to conform with current period classification.*

recorded in Q2 2019 (C$0.59 per share at June 30,2019 vs. C$0.65 per share at March 31, 2020) on a declining share price.

- Other income: $4.2 million increase as a result of a $3.5 million gain from the mark-to-market adjustment on the Minto receivable as at June 30, 2020. In addition, there were $0.8 million in insurance proceeds recognized from a business interruption claim related to the Minto mine made before the sale in June 2019.
- Income taxes: Increase due to net income before taxes during Q2 2020 compared to a net loss before taxes in Q2 2019.
- Discontinued operations: Decrease in loss as the Minto mine was sold in Q2 2019.

### Net Loss for the Six Months Ended June 30, 2020 and 2019

The Company recorded a net loss of $17.6 million in Q2 2020 compared with a net loss of $19.0 million in Q2 2019. The major differences are outlined below:




The difference year to date was driven by:

- Revenue: $47 million or 21% decrease from continuing operations related to a 12.6 million pound (16%) decrease in copper volumes sold as well as lower realized copper prices (2020 - $2.53 per pound, 2019 - $2.75 per pound).
- Production costs: $7.7 million decrease as a result of lower copper volumes sold.
- Foreign exchange gain (loss): $4.1 million increase due to a weaker Mexican Peso and the impact on the Mexican Peso denominated reclamation and closure cost provision at the Cozamin mine.
- Income taxes: Decrease due a loss from continuing operations before taxes in 2020 compared to a gain from continuing operations before taxes in 2019.
- Discontinued operations: Decrease in loss as the Minto mine which was sold in Q2 2019.

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

## Revenue from Continuing Operations

Quarterly revenue decreased quarter-on-quarter ($104.7 million versus $113.3 million in Q2 2019) primarily due to decreased copper revenue on decreased copper volumes sold from continuing operations of 7.7 million pounds (37.8 million pounds versus 45.5 million pounds), offset by a higher realized price ($2.72 per pound versus $2.56 per pound).

YTD revenue decreased year-on-year ($175.1 million versus $222.1 million in 2019) primarily due to decreased copper revenue on decreased copper volumes sold from continuing operations of 12.6 million pounds (68.3 million pounds versus 80.9 million pounds), and a lower realized price ($2.53 per pound versus $2.75 per pound). Additionally, zinc revenue was down $3.8 million at Cozamin due to lower production (6.7 million pounds vs. 9.4 million pounds) as well as lower prices, offset by $4 million higher gold revenue at Pinto Valley due to improved gold payable terms.

The realized copper price in Q2 2020 of $2.72 per pound was higher than the LME average of $2.43 per pound due to five provisionally priced shipments at June 30, 2020, which were priced at an average of $2.73 per pound.

## Realized Copper Prices

| | 2020 | | 2019 | | | |
|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q1 | Q2 | Q3 | Q4 |
| Pinto Valley | $ 2.25 | $ 2.76 | $ 2.97 | $ 2.56 | $ 2.49 | $ 2.78 |
| Cozamin | $ 2.40 | $ 2.60 | $ 3.03 | $ 2.56 | $ 2.58 | $ 2.73 |
| Total | $ 2.29 | $ 2.72 | $ 2.99 | $ 2.56 | $ 2.52 | $ 2.77 |
| | | | | | | |
| LME Average | $ 2.56 | $ 2.43 | $ 2.82 | $ 2.77 | $ 2.63 | $ 2.67 |
| LME Close | $ 2.18 | $ 2.73 | $ 2.94 | $ 2.71 | $ 2.60 | $ 2.79 |

## Revenue by Mine

| | Q2 2020 [2] | | Q2 2019 [2] | | 2020 YTD [2] | | 2019 YTD [2] | |
|---|---|---|---|---|---|---|---|---|
| | $ millions | % | $ millions | % | $ millions | % | $ millions | % |
| Pinto Valley | 80.0 | 76.4% | 89.0 | 78.6% | 124.6 | 71.2% | 165.6 | 74.5% |
| Cozamin | 24.7 | 23.6% | 24.3 | 21.4% | 50.5 | 28.8% | 56.6 | 25.5% |
| Total revenue from continuing operations | 104.7 | 100% | 113.3 | 100% | 175.1 | 100% | 222.2 | 100% |

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

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

## Provisionally Priced Copper

Gross revenue for the three-month period ended June 30, 2020 included 52.7 million pounds of copper sold subject to final settlement. Of this, the prices for 28.1 million pounds are final at a weighted average price of $2.49 per pound. The remaining 24.6 million pounds are subject to price change upon final settlement at the end of the applicable quotational period, as follows:

| Quotational Period | Millions of Pounds of Copper | | | Provisional Price ($/pound) |
|---|---|---|---|---|
| | Pinto Valley | Cozamin | Total | |
| Jul-20 | 10.2 | 3.1 | 13.3 | $2.73 |
| Sep-20 | 11.3 | - | 11.3 | $2.73 |
| TOTAL | 21.5 | 3.1 | 24.6 | $2.73 |

## Reconciliation of Realized Copper Price

| | Q2 2020 $ millions | Q2 2019 $ millions | 2020 YTD $ millions | 2019 YTD $ millions |
|---|---|---|---|---|
| **Gross copper revenue - provisional pricing analysis** | | | | |
| Gross copper revenue excluding provisional pricing changes | 91.0 | 122.7 | 169.0 | 221.6 |
| Provisional pricing changes to copper revenue | 12.1 | (6.1) | 3.8 | 0.4 |
| **Gross copper revenue** | **103.1** | **116.6** | **172.8** | **222.0** |
| | $/lb | $/lb | $/lb | $/lb |
| Gross copper revenue excluding provisional pricing changes | $ 2.42 | $ 2.69 | $ 2.48 | $ 2.74 |
| Provisional pricing changes to copper revenue | 0.30 | - 0.13 | 0.05 | 0.01 |
| **Realized copper price** | **$ 2.72** | **$ 2.56** | **$ 2.53** | **$ 2.75** |
| **Gross copper revenue - reconciliation to financials** | | | | |
| Gross copper revenue | 103.1 | 116.6 | 172.8 | 222.0 |
| Revenue from other metals | 11.4 | 8.4 | 21.5 | 22.0 |
| Treatment and selling | (9.8) | (11.7) | (19.2) | (21.8) |
| **Revenue per financials** | **104.7** | **113.3** | **175.1** | **222.2** |
| **Payable copper sold (000s pounds)** | **37,872** | **45,546** | **68,257** | **80,852** |
| **LME average copper price** | **$ 2.43** | **$ 2.77** | **$ 2.50** | **$ 2.80** |

Q2 2020 Provisional pricing adjustments to copper revenue of $12.1 million were impacted by a combination of the reversal of the negative provisional pricing adjustment at March 31, 2020, driven by the declining forward prices at March 31, 2020, and the positive provisional pricing adjustment on open shipments at June 30,2020, impacted by the increasing forward prices at June 30,2020.

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

## Consolidated Cash Flow Analysis

| $ millions | Q2 2020 | Q2 2019[2] | 2020 YTD | 2019 YTD |
|---|---|---|---|---|
| Operating cash flow before changes in working capital[1] | 24.0 | 19.2 | 20.7 | 49.9 |
| Changes in working capital | 21.1 | 11.1 | 31.4 | 9.1 |
| **Total cash flows from operating activities** | **45.1** | **30.3** | **52.1** | **59.0** |
| Cash flows used in investing activities | (15.5) | (5.7) | (41.4) | (20.8) |
| Cash flows from (used) in financing activities | 26.9 | (22.4) | 33.5 | (26.3) |
| Effect of foreign exchange rates on cash and cash equivalents | 0.5 | (0.2) | (1.0) | 0.2 |
| | | | | |
| **Net change in cash and cash equivalents** | **57.0** | **2.0** | **43.2** | **12.1** |
| | | | | |
| Opening cash and cash equivalents | 26.1 | 44.0 | 39.9 | 33.9 |
| **Closing cash and cash equivalents** | **83.1** | **46.0** | **83.1** | **46.0** |

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

### Changes in Cash Flows for the Three Months Ended June 30, 2020 and 2019

The net change in cash was $57.0 million in Q2 2020 compared to $2 million in Q2 2019. The change was primarily due to:

- Cash flow from operating activities before changes in working capital[1] was higher by $4.8 million primarily due to:
  - o Taxes paid in Q2 2020 were $3 million lower than the same period last year.
  - o Revenue less production costs were similar in Q2 2020 vs. Q2 2019. Q2 2020 revenue of $104.7 million less production costs of $74.2 (normalized for $5.6 million of inventory write-downs) was $30.5 million. Q2 2019 revenue of $113.3 million less production costs of $83.6 million was $29.7.million.
- Changes in working capital was higher by $10.0 million, primarily due to Pinto Valley:
  - o A $20 million off-take arrangement with a customer which led to an increase in cash in Q2 2020 at Pinto Valley
  - o Securing a $6.7 million sales advance from another major customer related to concentrate inventory held at the port warehouse and sold in July 2020.
  - o There was a larger drawdown of inventory during Q2 2019 compared to Q2 2020 (drawdown of inventory of 18.4k DMT versus drawdown of 2.5k DMT during Q2 2020).
- Cash flows used in investing activities were higher in Q2 2020. This was comprised of $18.3 million of mineral property, plant and equipment additions as well as $2.8 million of proceeds from short-term investments. This is compared to Q2 2019 in which there was $28.1 million of mineral property, plant and equipment additions, as well as higher proceeds from short-term investments of $22.5 million. The lower capital expenditures in 2020 were a result of reducing capital costs due to the COVID-19 pandemic.
- Cash flows from financing activities were higher in Q2 2020 due to $30 million of drawdowns on the bank facility as a precautionary measure compared to $20 million repayment in Q2 2019.

### Changes in Cash Flows for the Six Months Ended June 30, 2020 and 2019

The net change in cash was $43.2 million in Q2 2020 compared to $12.1 million in Q2 2019. The change was primarily due to:

- Cash flow from operating activities before changes in working capital[1] was lower by $29.2 million primarily due to:
  - o Sales volumes from continuing operations were lower by 16% and there was a 8% drop in the realized copper price.
  - o 6% increase in property costs (including stripping costs) at Pinto Valley for 2020 YTD. Additionally, capitalized cash stripping costs were lower by $11.4 million.
- Changes in working capital was higher by $22.3 million, primarily due to Pinto Valley:

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

- In Q2 2020, there was a $26.7 million increase to contract liabilities as a result of advances from customers.

- Cash flows used in investing activities were $20.6 million higher than 2019 primarily due to $29.5 million of proceeds of short-term investments in 2019 which reduce other investing activities in the period, compared to $1.5 million in 2020.
- Cash flows used in financing activities were lower in 2020 due to net $40 million of drawdowns on the bank facility in 2020 compared to $20 million of net repayments in 2019.

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

## Operational Results

### Pinto Valley Mine – Miami, Arizona

Operating Statistics

| | 2020 Q1 | 2020 Q2 | 2020 Total | 2019 Q1 | 2019 Q2 | 2019 Q3 | 2019 Q4 | 2019 Total |
|---|---|---|---|---|---|---|---|---|
| **Production** (contained metal and cathode) [2] | | | | | | | | |
| Copper (000's pounds) | 26,788 | 30,172 | 56,960 | 32,699 | 28,973 | 29,936 | 26,021 | 117,629 |
| **Mining** | | | | | | | | |
| Waste (000s tonnes) | 5,588 | 5,677 | 11,265 | 7,876 | 7,889 | 7,285 | 7,051 | 30,101 |
| Ore (000s tonnes) | 5,399 | 4,992 | 10,391 | 4,999 | 4,545 | 4,663 | 4,681 | 18,888 |
| Total (000s tonnes) | 10,987 | 10,669 | 21,656 | 12,875 | 12,434 | 11,948 | 11,732 | 48,989 |
| Strip Ratio (Waste : Ore ) | 1.04 | 1.14 | 1.08 | 1.58 | 1.74 | 1.56 | 1.51 | 1.59 |
| **Milling** | | | | | | | | |
| Milled (000s tonnes) | 4,996 | 4,902 | 9,898 | 4,933 | 4,470 | 4,658 | 4,604 | 18,665 |
| Tonnes per day | 54,899 | 53,864 | 54,381 | 54,811 | 49,121 | 50,630 | 50,043 | 51,137 |
| Copper grade (%) | 0.28 | 0.32 | 0.30 | 0.35 | 0.33 | 0.33 | 0.30 | 0.33 |
| **Recoveries** | | | | | | | | |
| Copper (%) | 82.4 | 85.0 | 83.7 | 84.3 | 87.0 | 85.6 | 83.5 | 85.1 |
| **Concentrate Production** | | | | | | | | |
| Copper (dmt) | 46,613 | 53,793 | 100,406 | 56,146 | 46,490 | 48,676 | 45,248 | 196,560 |
| Copper (%) | 25.0 | 24.5 | 24.8 | 25.7 | 27.4 | 26.9 | 25.1 | 26.3 |
| Property costs [1,3] ($/t milled) | $10.87 | $10.86 | $10.86 | $9.94 | $11.62 | $12.36 | $11.29 | $11.17 |
| Payable copper produced (000's pounds) | 25,888 | 29,155 | 55,043 | 31,584 | 27,991 | 28,926 | 25,144 | 113,645 |
| Copper C1 cash cost [1] ($/lb payable copper produced) | $2.41 | $2.12 | $2.25 | $1.79 | $2.00 | $2.13 | $2.35 | $2.05 |
| Adjusted EBITDA [1,3] ($ millions) | $2.9 | $4.0 | $6.9 | $23.6 | $23.2 | $5.2 | $9.9 | $61.9 |

[2] *Adjustments based on final settlements will be made in future quarters*
[3] *Certain prior period amounts have been restated to conform with current period classification*

### Operational and C1 Cash Costs[1] Update

Copper production of 30.2 million pounds in Q2 2020 was higher by 4% compared to Q2 2019 primarily due to higher throughput in 2020 (53,864 tpd vs. 49,121 tpd). This was slightly offset by lower grades (Q2 2020 – 0.32% vs. Q2 2019 - 0.33%) and lower recoveries (Q2 2020 – 85.0% vs. Q2 2019 – 87.0%).

2020 YTD production was 8% lower than the same period last year. Although there were improvements in mill throughput in this period, the overall production was lower as a result of lower head grade (2020 YTD– 0.30% vs 2019 YTD – 0.34%) and lower recoveries (2020 YTD - 83.7% vs. 2019 YTD - 85.5%). The reduction in grade is a function of mine plan sequence, and the recovery was impacted by higher oxidization in the ore delivered to the mill.

C1 cash costs[1] of $2.12 per pound in Q2 2020 were $0.12 per pound or 6% higher than Q2 2019, primarily due to $6 million or $0.20 per pound on less capitalized stripping during the period (Q2 2020 - $0.7 million vs Q2 2019 - $6.7 million) as a result of mine sequencing. From a year-to-date perspective, C1 cash costs[1] increased from $1.89 per pound to $2.25 per pound primarily due to significantly lower deferred stripping adjustment of $11.4 million or $0.21/lb, as well as lower production related to grade sequence and increases in contractor and maintenance spend.

Property cost per tonne milled[1] of $10.86 in Q2 2020 was $0.31/tonne lower (-3%) versus the average cost per tonne milled in 2019 and $0.77/tonne lower (-6%) than in 2018.

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

### Investing Activities

Sustaining capital in Q2 2020 of $9.7 million focused primarily on planned mining equipment component replacements and mine infrastructure. Expansionary capital in Q2 2020 was $2.7 million and included the mill shell replacements as well as upgrades to the crushers. This is part of Phase 1 of the PV3 Optimization, aiming to increase reliability and improve performance in the fine crushing plant and grinding circuit so that the mill can deliver 56k-57k tpd throughput in 2021. Deferred stripping was lower in Q2 2020 due to mine plan sequence which resulted in a lower strip ratio.

In mid-July, Pinto Valley successfully completed the majority of Phase 1 of the PV3 Optimization, aiming to increase reliability and improve performance in the fine crushing plant and grinding circuit. The mill was down for three days as planned to install the first of two secondary crushers and screen decks, as well as to install the first of two new ball mill shells. The second secondary crusher and six tertiary screen decks are scheduled to arrive in Q4 2020 and the second ball mill shell is scheduled for Q1 2021.

| ($ millions) | **Q2 2020** | Q2 2019 | **2020 YTD** | 2019 YTD |
|---|---|---|---|---|
| Deferred stripping - cash | **0.7** | 6.7 | **1.0** | 12.4 |
| Deferred stripping - non cash | **0.2** | 1.8 | **0.3** | 3.1 |
| Deferred stripping as reported in the financials | **0.9** | 8.5 | **1.3** | 15.5 |
| Sustaining capital | **9.7** | 7.4 | **13.4** | 12.1 |
| Expansionary capital | **2.7** | 0.8 | **7.6** | 1.4 |
| Total | **13.3** | 16.7 | **22.3** | 29.0 |

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

## Cozamin Mine – Zacatecas, Mexico

### Operating Statistics

| | 2020 | | | 2019 | | | | |
|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Total | Q1 | Q2 | Q3 | Q4 | Total |
| **Production** (contained metal) [2] | | | | | | | | |
| Copper (000's pounds) | 8,699 | 8,349 | 17,048 | 8,672 | 8,723 | 9,085 | 9,361 | 35,841 |
| Zinc (000's pounds) | 4,464 | 2,213 | 6,677 | 5,525 | 3,842 | 4,526 | 4,570 | 18,463 |
| Silver (000s ounces) | 298 | 248 | 546 | 326 | 323 | 352 | 365 | 1,366 |
| **Mining** | | | | | | | | |
| Ore (000s tonnes) | 278 | 235 | 513 | 271 | 289 | 296 | 287 | 1,143 |
| **Milling** | | | | | | | | |
| Milled (000s tonnes) | 276 | 235 | 511 | 273 | 284 | 295 | 294 | 1,146 |
| Tonnes per day | 3,032 | 2,583 | 2,808 | 3,038 | 3,121 | 3,204 | 3,195 | 3,140 |
| Copper grade (%) [3] | 1.51 | 1.68 | 1.59 | 1.53 | 1.48 | 1.48 | 1.53 | 1.50 |
| Zinc grade (%) [3] | 1.04 | 0.71 | 0.89 | 1.32 | 0.96 | 1.01 | 1.00 | 1.07 |
| Silver grade (g/t) [3] | 42.0 | 39.9 | 41.0 | 47.9 | 45.0 | 46.1 | 47.8 | 46.7 |
| **Recoveries** [3] | | | | | | | | |
| Copper (%) | 94.5 | 95.8 | 95.1 | 94.2 | 94.1 | 94.5 | 94.6 | 94.4 |
| Zinc (%) | 70.8 | 60.1 | 66.9 | 69.3 | 64.2 | 68.8 | 70.2 | 68.2 |
| Silver (%) | 78.7 | 84.1 | 81.1 | 77.5 | 77.3 | 77.0 | 78.7 | 77.7 |
| **Concentrate Production** | | | | | | | | |
| Copper (dmt) | 14,229 | 13,762 | 27,991 | 15,163 | 15,484 | 15,505 | 15,118 | 61,270 |
| Copper (%) | 27.7 | 27.5 | 27.6 | 25.9 | 25.6 | 26.6 | 28.1 | 26.5 |
| Silver (g/t) | 555 | 549 | 552 | 576 | 604 | 620 | 627 | 607 |
| Zinc (dmt) | 4,168 | 2,081 | 6,249 | 5,383 | 3,651 | 4,090 | 4,173 | 17,297 |
| Zinc (%) | 48.6 | 48.3 | 48.5 | 46.6 | 47.7 | 50.2 | 49.7 | 48.4 |
| Property costs [1,4] ($/t milled) | $45.17 | $43.38 | $44.35 | $47.37 | $47.57 | $47.24 | $51.71 | $48.50 |
| Payable copper produced (000's lb's) | 8,368 | 8,029 | 16,397 | 8,321 | 8,365 | 8,725 | 9,010 | 34,421 |
| Copper C1 cash cost [1] ($/lb payable copper produced) | $0.95 | $0.98 | $0.97 | $0.70 | $1.06 | $0.94 | $0.91 | $0.90 |
| Adjusted EBITDA [1,4] ($ millions) | $11.7 | $11.7 | $23.4 | $16.2 | $10.9 | $13.6 | $10.6 | $51.3 |

[2] *Adjustments based on final settlements will be made in the future quarters.*
[3] *Grade and recoveries were estimated based on concentrate production and may be impacted by settlements from prior production periods.*
[4] *Certain prior period amounts have been restated to conform with current period classification*

### Operational and C1 Cash Costs[1] Update

The Cozamin mine had a solid production quarter despite restrictions as result of the COVID-19 government mandated decree. During this six-week period, the mine was ramped down to minimal levels while implementing rigorous safety precautions and protocols. During this period, Cozamin was able to mine and process approximately two-thirds of normal tonnage with less than one-third the workforce. The mining was focused in copper rich areas only rather than the San Rafael zinc zone during the temporary ramp down, which improved the copper grade and recoveries during the quarter.

C1 cash costs[1] of $0.98 per pound in Q2 2020 were lower than Q2 2019 of $1.06 per pound, primarily due to less operating development meters (Q2 2020 – 1,094 meters vs. Q2 2019 – 2,734 meters) as a result of improved long hole stoping productivity and due to less contractors on site in Q2 2020 during the temporary suspension of operations.

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

## Investing Activities

Capital spending at Cozamin totaled $4.1 million for Q2 2020 related primarily to mine development including the completion of the 818 meter raisebore. Also included was expansionary capital of $0.4 million spent on the one-way ramp system as part of the Cozamin expansion project which continues to be on schedule and on budget, expected to be completed in December 2020. Production in 2021 and beyond, is expected to increase to a new annual run rate of approximately 50-55 million pounds of copper and 1.5 million ounces of silver.

Capitalized exploration expenditures totaled $0.3 million for Q2 2020. This was spent primarily on Mineral Resource drilling of the MNFWZ, associated with infilling or stepping out from regions of Inferred Mineral Resource category of the Mineral Resource estimate. Work was undertaken with up to five drills but was temporarily suspended for a period due to a Mexican Government decree to combat the spread of COVID-19 starting on April 7, 2020. The drill program resumed again with 3 surface rigs on June 23, 2020 after a successful ramp up to normal operations in June. On June 11th Capstone released the results of a new Mineral Resource estimate, the culmination of more than 2 years of drilling. Both tonnage and grade of the Indicated Class Mineral Resource increased significantly (see news release date June 11th). This new Mineral Resource estimate will be the basis for an updated Mineral Reserve estimation; the results of which are expected to be disclosed in Q3, 2020.

## Santo Domingo Project – Chile (Copper and Iron)

### Investing Activities

During 2019, Capstone updated the Technical Report on Santo Domingo which included a mine life of 18 years, production of 259 million pounds of copper per year for the first five years plus 3.3 million tonnes of iron with an after-tax net present value (8% discount rate) of $1 billion and 22% internal rate of return. In Q1 2020, a positive update to this report was published which includes a higher level of operating and capital cost certainty, stronger copper and gold recovery algorithms, receipt of additional key permits, and the development of a Preliminary Economic Assessment with respect to cobalt production. Refer to news release dated February 19, 2020 for more information.

| ($ millions) | **Q2 2020** | Q2 2019 | **2020 YTD** | 2019 YTD |
|---|---|---|---|---|
| Capitalized project costs (100%) per financials | **1.7** | 6.9 | **4.1** | 9.6 |
| Capstone's share (70%) | **1.2** | 4.8 | **2.9** | 6.7 |

2020 project development costs related to permitting, basic and detailed engineering, land tenure costs, EIA required early works, and further metallurgical testing. Project development costs incurred since Q4 2018 are capitalized within mineral properties.

The Santo Domingo project is now "shovel-ready" as Capstone has obtained all permits and approvals for the start of construction from the Chilean authorities including an approved Mine Closure Plan.

During Q2 2020, Santo Domingo started a limited series of early works, including flora and fauna rescue and site entrance and access roads, in order to preserve the existing Environmental Impact Permit (RCA). These opening works are prescribed in the environmental permit and serve to maintain the validity of the permit and are scheduled for completion in Q4 2020.

Activity and interest in participating in the project via the strategic sales process have increased in Q2, 2020. In addition, we have received substantial interest in sharing or mutually developing off-site infrastructure that is delineated in the 43-101 Technical Report and valued at approximately $500 million.  Ongoing discussions and negotiations are progressing with the objective of substantially reducing the project capital costs, and operational risk while maintaining the Life of Mine profitability.

## Minto – Discontinued Operations Reporting

On June 3, 2019, Capstone completed the sale of its 100% interest in the Minto mine, previously classified as an asset held for sale, to Pembridge Resources PLC ("Pembridge") for up to $20 million in cash in staged payments, based on certain milestones ("contingent consideration").

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

On June 3, 2019, the contingent consideration had a fair value of $8.4 million, which is marked-to-market at the end of each reporting period with the change recorded in other income (expense). As at June 30, 2020, the contingent consideration had a fair value of $10.1 million.

## Exploration

| ($millions) | **Q2 2020** | Q2 2019 | **2020 YTD** | 2019 YTD |
|---|---|---|---|---|
| Greenfield exploration | **0.2** | 2.1 | **0.7** | 2.8 |
| Brownfield exploration (capitalized to mineral properties) – Refer to Cozamin section | **0.3** | 0.9 | **2.8** | 2.5 |
| Total exploration | **0.5** | 3.0 | **3.5** | 5.3 |

Capstone's greenfield exploration is predominantly focused on early-stage project generation in the Americas. Active projects include an Option Agreement with Kootenay Silver Inc. for the Amapa Prospect (Sonora, Mexico), an Option Agreement with Lara Exploration Ltd. for the Planalto Prospect (Carajas Region, Brazil), and a portfolio of newly staked 100% Capstone claims located in Sonora, Mexico. South American exploration is actively searching for new early-stage projects predominantly in Chile and Peru. All field work is currently postponed to conserve cash as a result of lower copper prices and uncertainty surrounding the impacts COVID-19 measures may have on Capstone's operations.

## Liquidity and Financial Position Review

### Working Capital

Working capital was $90.8 million at June 30, 2020 compared with $68.0 million at December 31, 2019, as follows:

| *(millions)* | | Jun.30, 2020 | | Dec. 31, 2019 |
|---|---|---|---|---|
| **Current assets** | | | | |
| Cash and cash equivalents | $ | 83.1 | $ | 39.9 |
| Short-term investments | | 3.1 | | 4.5 |
| Receivables | | 24.8 | | 28.6 |
| Inventories | | 58.7 | | 47.9 |
| Other assets | | 5.3 | | 2.5 |
| Total current assets | $ | 175.0 | $ | 123.4 |
| **Current liabilities** | | | | |
| Accounts payable and accrued liabilities | $ | 54.6 | $ | 52.5 |
| Other liabilities | | 29.6 | | 2.9 |
| Total current liabilities | $ | 84.2 | $ | 55.4 |
| **Working capital** | $ | 90.8 | $ | 68.0 |

Cash and cash equivalents and short-term investments combined, increased by $41.8 million from December 31, 2019 to June 30, 2020. Refer to the Statement of Cash Flows within the Company's condensed interim consolidated financial statements for further details surrounding the movement in the cash balance.

As at June 30, 2020, the Company held $3.1 million of highly liquid short-term investments in exchange traded funds. Given their highly liquid nature, management liquidates these short-term investments to meet cash demands on an as-needed basis.

Receivables decreased by $3.8 million primarily due to timing of cash receipts on shipments at Pinto Valley, as well as timing of mining tax receivable payments at Cozamin.

Inventories increased primarily related to Pinto Valley, due to higher volumes of ore. In addition, there were higher mining operating costs with less costs capitalized to deferred stripping.

Other liabilities increased by $26.7 million due to an increase in contract liabilities. In June 2020, the Company entered into a concentrate offtake agreement with a third party whereby they will purchase copper concentrate produced by the Pinto Valley Mine based on copper prices at the time. As part of this offtake agreement, a cash advance was of $20.0 million was received by the company and has been accounted for as contract liabilities at June 30, 2020. Additionally, there was also a $6.7 million sales advance from another major customer related to concentrate inventory held at the port warehouse and sold in July 2020. This sales advance was also accounted for as a contract liability as at June 30, 2020.

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

## Credit Facilities

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

The interest rate at June 30, 2020 was US LIBOR plus 3.5% (2019 - US LIBOR plus 2.75%) with a standby fee of 0.79% (2019 – 0.62%) payable on the undrawn balance (adjustable in certain circumstances).

During the three and six months ended June 30, 2020, a total of $0.3 million and $0.6 million of previously capitalized fees (2019 – $0.3 million and $0.6 million) respectively were amortized and recorded in other interest expense.

During the three months ended June 30,2020, the Company entered into an interest rate swap exchanging the floating LIBOR rate for a fixed monthly LIBOR rate of 0.355% on an amortizing notional principal as follows:

- $150M to December 31, 2020
- $125M to December 31, 2021
- $100M to July 25, 2022

Any balance drawn on the RCF above the notional principal of the swap will be charged interest at the prevailing market rate. Effectively the interest rate on these notional amounts is 0.355% plus 2.5% to 0.355% plus 3.5% based on the leverage ratio.

The RCF is secured against the present and future real and personal property, assets and undertakings of Capstone (excluding certain assets, which include Acquisition Co., Far West, Santo Domingo, and Far West Exploration S.A., and subject to certain exclusions for Capstone Mining Chile SpA). The credit facility requires the Company to maintain certain financial ratios relating to debt and interest coverage. Capstone was in compliance with these covenants as at June 30, 2020.

## Provisions

Provisions of $118.1 million at June 30, 2020 includes the following:

- $109.8 million for reclamation and closure cost obligations at Capstone's operating mines;
- $2.8 million related to other long-term provisions at the Cozamin mine; and
- $5.5 million for the long-term portion of the share-based payment obligations associated with the Deferred Share Units ("DSUs"), Restricted Share Units ("RSUs") and Performance Share Units ("PSUs").

## Financial Capability

The Company's ability to service its ongoing obligations and cover anticipated corporate, exploration and development costs associated with its existing operations is dependent on the Pinto Valley and Cozamin mines generating positive cash flow and available liquidity[1]. Based on reasonable expectations for our operating performance and actions taken on capital, exploration and operating cost reductions and additional liquidity options available, we believe we have the financial capacity to manage our liquidity for the foreseeable future, even with a continuation of current challenged market conditions.

The Company is compliant with debt covenants as at June 30, 2020. A significant reduction in production or other COVID-19 related impacts, including but not limited to, low copper prices or an extended disruption of operations could cause us to breach our covenants under our Revolving Credit Facility. In the absence of a covenant waiver or facility amendment, the lenders have the option to call for our debt to be repaid.

Refer to the Risks and Uncertainties section for more details surrounding risks to future covenant compliance.

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

## Capital Management

Capstone's capital management objectives are intended to safeguard the Company's ability to support its normal operating requirements on an ongoing basis as well as continue the development and exploration of its mineral properties and support any expansion plans. As part of the Company's treasury policy, the Company will only hold deposits in Canadian Tier 1 banks, International Commercial Banks with a rating of A- or greater, Canadian and US government bonds, or bankruptcy remote treasury market or exchange traded funds of AAA rating.

### Hedging

During Q2 2020, the Company hedged certain input costs at lower than budget rates:

- Financial hedges were executed on foreign exchange and interest rates to protect approximately half of the Company's Mexican Peso exposure from August 2020 through December 2021, though Mexican Peso to US dollar exchange rate zero cost collars (being purchased puts and sold calls with offsetting values at inception), and floating for fixed LIBOR swaps on approximately half of the revolving credit facility balance (RCF) at 0.355% through to July 2022.
- Pinto Valley fixed diesel prices with a supplier on its expected H2 2020 and 2021 diesel consumption at $1.42/gallon and $1.76/gallon respectively.

## Risks and Uncertainties

For full details on the risks and uncertainties affecting the Company, please refer to the Company's Annual Information Form ("AIF") (see section entitled "Risk Factors") for the year ended December 31, 2019 and the and the MD&A for the three ended March 31, 2020. These documents are available for viewing on the Company's website at www.capstonemining.com or on the Company's profile on the SEDAR website at www.sedar.com.

*Coronavirus (COVID-19) Pandemic Risk*

The global effects of the outbreak of the COVID-19 virus are still evolving and could have a material effect on Capstone's overall financial health currently, and in the future, including but not limited to impacts to revenue, earnings and cash flows, increased volatility in financial markets and foreign currency exchange rates. The effects could have a negative impact on copper prices and cause governmental actions to contain the outbreak which may impact our ability to transport or market our concentrate or cause disruptions in our supply chains or interruption of production. A material spread of COVID-19 in jurisdictions where we operate could impact our ability to staff operations or cause governmental action to order a suspension of production including but not limited to a subsequent Federal or State Decree for the suspension of mining operations in Mexico or Zacatecas. A reduction in production or other COVID-19 related impacts, including but not limited to, low copper prices could cause us to breach our covenants under our Revolving Credit Facility. In the absence of a covenant waiver or facility amendment, this could result in our lenders calling for our debt to be repaid. An outbreak of the COVID-19 virus at our operations could cause reputational harm and negatively impact our social license to operate. This could negatively impact our share price. An outbreak in jurisdictions we operate could cause governmental agencies to close for prolonged periods of time causing delays in regulatory permitting processes. The overall global effects, indirect or direct, could cause any of surety providers to cancel our bonds or call for alternative security including the Minto Mine for which Capstone is an Indemnitor. During the Pandemic, there has been a significant increase in cybersecurity and other information technology risks due to increased fraudulent activity and the increased number of employees working remotely.

A global pandemic could cause temporary closure of businesses in regions that are significantly impacted by the health crises, or cause governments to take preventative measures such as the closure of points of entry, including ports and borders. Any Government restrictive measures along with market uncertainty could cause an economic slowdown resulting in a decrease in the demand for copper and have a negative impact on base metal prices.

Capstone is concentrated in the copper mining industry, and as such our profitability will be sensitive to changes in, and our performance will depend, to a greater extent, on the overall condition of the copper mining industry. The commercial viability of Capstone's properties and Capstone's ability to sustain operations is dependent on, amongst other things, the market price of copper, zinc, lead, gold, silver. Depending on the expected price for any minerals produced, Capstone may determine that it is impractical to continue commercial production at the Pinto Valley Mine or the Cozamin Mine, or to develop the Santo Domingo Project. A reduction in the market price of copper, zinc, lead, gold, silver, or iron may prevent Capstone's properties from being economically mined or result in the write-down of assets whose value is impaired as a result of low metals prices. The market price of copper, zinc, lead, gold, silver, and iron is volatile and is impacted by numerous factors beyond Capstone's control, including, amongst others:

- the supply/demand balance for any given metal;
- international economic and political conditions;
- tariffs or taxes imposed by governments;
- expectations of inflation or deflation;
- international currency exchange rates;
- interest rates;
- global or regional consumptive patterns;
- speculative activities;
- global or regional crises or breakout and spread of contagious illnesses or diseases;
- increased production due to new mine developments;
- decreased production due to mine closures;
- improved mining and production methods;
- availability and costs of metal substitutes;
- new technologies that use other materials in place of our products;
- metal stock levels maintained by producers and others; and
- inventory carry costs.

The effect of these factors on the price of base and precious metals cannot be accurately predicted and there can be no assurance that the market price of these metals will remain at current levels or that such prices will improve. A decrease in the market price of copper, zinc, lead, gold, or silver would affect the profitability of the Pinto Valley Mine and the Cozamin Mine and could affect Capstone's ability to finance the exploration and development of our other properties, which would have a material adverse effect on Capstone's business, financial condition, results of operations and prospects. Within this industry context, the Company's strategy is to maintain a cost structure that will allow it to achieve adequate levels of cash flow during the low point in the copper price cycle. Circumstances may arise, however, where increased certainty of cash flows is considered more important to long term value creation than providing investors short term exposure to the volatility of metal prices. In these circumstances, the Company may elect to fix prices within a contractual quotational period and/or to lock in future prices, interest or foreign exchange rates through the variety of financial derivative instruments available. There are risks associated with programs to fix prices or rates including, amongst other things, the risk that the counter party will not be able to meet their obligations, the risk of opportunity losses in the event of declining interest rates, an increase in the world price of the commodity, the possibility that rising operating costs will make delivery into hedged positions or off-take agreements uneconomic, and production interruption events.

*Surety bonding risks*

Capstone secures its obligations for reclamation and closure costs with surety bonds provided by leading global insurance companies in favour of regulatory authorities in Arizona. The regulators could increase Capstone's bonding obligations for reclamation and closure activities. Further, these surety bonds include the right of the surety bond provider to terminate the relationship with Capstone on providing notice of up to 90 days. The surety bond provider would, however, remain liable to the regulatory authorities for all bonded obligations existing prior to the termination of the bond in the event Capstone failed to deliver alternative security satisfactory to the regulator.

Capstone remains as an Indemnitor for Minto Explorations Ltd.'s surety bond obligations in the Yukon and could be liable for the bonded obligations in the event Minto Explorations Ltd. does not satisfy those obligations or in the event the Surety requires additional or alternative security and Minto Explorations is unable to satisfy the new requirements.

*Fluctuations in foreign currency exchange rates could have an adverse effect on Capstone's business, financial condition, results of operations and prospects.*
Fluctuations in the Mexican peso relative to the US dollar could significantly affect our business, financial condition, results of operations and prospects. Exchange rate movements can have a significant impact on Capstone as all of Capstone's revenue is received in US dollars but a portion of the Company's operating and capital costs are incurred in Mexican pesos. Also, Capstone is exposed to currency fluctuations in the Canadian dollar relating to general and administrative expenditures and the Chilean peso relating to expenditures for the Santo Domingo Project. As a result, a strengthening of these currencies relative to the US dollar will reduce Capstone's profitability and affect its ability to finance its operations.

## Transactions with Related Parties

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

## Off Balance Sheet Arrangements

At June 30, 2020, the Company had no off-balance-sheet arrangements other than the following:

- those disclosed under Contractual Obligations in the 2019 audited financial statements;
- the indemnification referred to in the Minto – Discontinued Operations Reporting section;
- Four surety bonds totaling $124.1 million; and
- Letters of credit for $0.3 million.

## Accounting Changes

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

## Alternative Performance Measures

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

These alternative performance measures are presented in Highlights and discussed further in other sections of the MD&A. These measures provide meaningful supplemental information regarding operating results because they exclude certain significant items that are not considered indicative of future financial trends either by nature or amount. As a result, these items are excluded for management assessment of operational performance and preparation of annual budgets. These significant items may include, but are not limited to, restructuring and asset impairment charges, individually significant gains and losses from sales of assets, share based compensation, unrealized gains or losses, and certain items outside the control of management. These items may not be non-recurring. However, excluding these items from GAAP or Non-GAAP results allows for a consistent understanding of the Company's consolidated financial performance when performing a multi-period assessment including assessing the likelihood of future results. Accordingly, these Non-GAAP financial measures may provide insight to investors and other external users of the Company's consolidated financial information

**C1 Cash Costs Per Payable Pound of Copper Produced**

C1 cash costs per payable pound of copper produced is a key performance measure that management uses to monitor performance. Management uses this measure to assess how well the Company's producing mines are performing and to assess overall efficiency and effectiveness of the mining operations.

**All-in Sustaining Costs Per Payable Pound of Copper Produced**

All-in sustaining costs per payable pound of copper produced is an extension of C1 cash costs measure discussed above and is also a key performance measure that management uses to monitor performance. Management uses this measure to analyze margins achieved on existing assets while sustaining and maintaining production at current levels. Consolidated All-in sustaining costs includes Corporate general and administrative costs.

**Net Debt**

Net debt is a performance measure used by the Company to assess its financial position.

**Available liquidity**

Available liquidity is a performance measure used by the Company to assess its financial position.

**Operating Cash Flow before Working Capital Changes per Common Share**

Operating Cash Flow before working capital changes per common share is a performance measure used by the Company to assess its ability to generate cash from its operations, while also taking into consideration changes in the number of outstanding shares of the Company.

**Adjusted Net Income (Loss)**

Adjusted net income (loss) is net income (loss) attributable to shareholders as reported, adjusted for certain types of transactions that in our judgment are not indicative of our normal operating activities or do not necessarily occur on a regular basis.

**EBITDA**

EBITDA is net income (loss) attributable to shareholders before net finance expense, tax expense, and depletion and amortization.

**Adjusted EBITDA**

Adjusted EBITDA is EBITDA before the pre-tax effect of the adjustments made to adjusted net income (above) as well as certain other adjustments required under the Company's RCF agreement in the determination of EBITDA for covenant calculation purposes.

The adjustments made to Adjusted net income (loss) and adjusted EBITDA allow management and readers to analyze our results more clearly and understand the cash generating potential of the Company.

**Property Cost per Tonne Milled**

Property cost per tonne milled is a key performance measure that management uses to monitor performance. Management uses this measure to assess how well the Company's producing mines are performing and to monitor costs and assess overall efficiency and effectiveness of the mining operations.

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

### Three Months Ended June 30, 2020 and 2019

| | Q2 2020 | | | Q2 2019 | | |
|---|---|---|---|---|---|---|
| | Pinto Valley | Cozamin | Total | Pinto Valley | Cozamin | Total |
| Payable copper produced (000s lbs) | 29,155 | 8,029 | 37,184 | 27,991 | 8,365 | 36,356 |
| Production costs of metal produced (per financials, $M) | $ 57.5 | $ 11.1 | $ 68.6 | $ 70.4 | $ 13.3 | $ 83.7 |
| Transportation cost to point of sale ($M) | (5.7) | (0.5) | $ (6.2) | (5.8) | (0.9) | (6.7) |
| Inventory (write-down) reversal ($M) | 5.6 | - | 5.6 | - | - | - |
| Inventory working capital adjustments ($M) | (3.7) | (0.4) | (4.1) | (17.6) | 1.1 | (16.5) |
| Cash production costs of metal produced ($M) | $ 53.7 | $ 10.2 | $ 63.9 | $ 47.0 | $ 13.5 | $ 60.5 |
| Production costs ($/lb) | | | | | | |
| Mining | $ 0.58 | $ 0.76 | $ 0.62 | $ 0.47 | $ 1.02 | $ 0.59 |
| Milling/Processing | 1.07 | 0.28 | 0.90 | 1.00 | 0.37 | 0.86 |
| G&A | 0.19 | 0.23 | 0.20 | 0.21 | 0.23 | 0.21 |
| C1P sub-total | 1.84 | 1.27 | 1.72 | 1.68 | 1.62 | 1.66 |
| By-product credits ($/lb) | (0.16) | (0.56) | (0.25) | (0.09) | (0.93) | (0.28) |
| Treatment and selling costs ($/lb) | 0.44 | 0.27 | 0.40 | 0.41 | 0.37 | 0.40 |
| **C1 cash cost ($/lb PRODUCED)** | **$ 2.12** | **$ 0.98** | **$ 1.87** | **$ 2.00** | **$ 1.06** | **$ 1.78** |
| NSR royalties | - | 0.08 | 0.02 | - | 0.09 | 0.02 |
| Production-phase capitalized stripping | 0.02 | - | 0.02 | 0.24 | - | 0.19 |
| Sustaining capital | 0.33 | 0.45 | 0.36 | 0.26 | 0.95 | 0.42 |
| Sustaining leases | - | 0.01 | - | - | 0.01 | 0.01 |
| Accretion of reclamation obligation | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 |
| Amortization of reclamation asset | 0.01 | 0.04 | 0.01 | - | 0.05 | 0.01 |
| Corporate G&A, excluding depreciation | | | 0.08 | | | 0.10 |
| All-in sustaining cost adjustments | 0.37 | 0.59 | 0.50 | 0.51 | 1.11 | 0.76 |
| **All-in sustaining cost ($/lb PRODUCED)** | **$ 2.49** | **$ 1.57** | **$ 2.37** | **$ 2.51** | **$ 2.17** | **$ 2.54** |

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

## Six Months Ended June 30, 2020 and 2019

| | 2020 YTD | | | 2019 YTD | | |
|---|---|---|---|---|---|---|
| | Pinto Valley | Cozamin | Total | Pinto Valley | Cozamin | Total |
| Payable copper produced (000s lbs) | 55,043 | 16,397 | 71,440 | 59,575 | 16,686 | 76,261 |
| Production costs of metal produced (per financials, $M) | $ 112.2 | $ 25.1 | $ 137.3 | $ 118.3 | $ 26.4 | $ 144.7 |
| Transportation cost to point of sale ($M) | (10.6) | (1.2) | $ (11.8) | (11.6) | (1.5) | (13.1) |
| Inventory write-down ($M) | 0.9 | - | 0.9 | - | - | - |
| Inventory working capital adjustments ($M) | 5.9 | (1.2) | 4.7 | (14.1) | 1.6 | (12.5) |
| Cash production costs of metal produced ($M) | $ 108.4 | $ 22.7 | $ 131.1 | $ 92.6 | $ 26.5 | $ 119.1 |
| Production costs ($/lb) | | | | | | |
| Mining | $ 0.63 | $ 0.84 | $ 0.68 | $ 0.46 | $ 1.00 | $ 0.59 |
| Milling/Processing | 1.13 | 0.31 | 0.93 | 0.90 | 0.36 | 0.78 |
| G&A | 0.21 | 0.23 | 0.23 | 0.19 | 0.23 | 0.20 |
| C1P sub-total | 1.97 | 1.38 | 1.84 | 1.55 | 1.59 | 1.57 |
| By-product credits ($/lb) | (0.15) | (0.69) | (0.28) | (0.08) | (1.08) | (0.30) |
| Treatment and selling costs ($/lb) | 0.43 | 0.28 | 0.40 | 0.42 | 0.37 | 0.40 |
| **C1 cash cost ($/lb PRODUCED)** | **$ 2.25** | **$ 0.97** | **$ 1.96** | **$ 1.89** | **$ 0.88** | **$ 1.67** |
| NSR royalties | - | 0.09 | 0.02 | - | 0.10 | 0.02 |
| Production-phase capitalized stripping | 0.02 | - | 0.01 | 0.21 | - | 0.16 |
| Sustaining capital | 0.24 | 0.56 | 0.32 | 0.20 | 0.87 | 0.35 |
| Sustaining leases | - | 0.01 | - | - | 0.01 | - |
| Accretion of reclamation obligation | 0.02 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 |
| Amortization of reclamation asset | 0.01 | 0.04 | 0.02 | - | 0.05 | 0.02 |
| Corporate G&A, excluding depreciation | | | 0.09 | | | 0.10 |
| All-in sustaining cost adjustments | 0.29 | 0.71 | 0.47 | 0.42 | 1.04 | 0.66 |
| **All-in sustaining cost ($/lb PRODUCED)** | **$ 2.54** | **$ 1.68** | **$ 2.43** | **$ 2.31** | **$ 1.92** | **$ 2.33** |

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

## Reconciliation of Net Debt

| | 30-Jun-20 | 31-Dec-19 |
|---|---|---|
| Long term debt (per financials, $M), excl. deferred financing costs of $2.3M and $2.8M | $ 249.9 | $ 209.9 |
| *Less:* | | |
| Cash and cash equivalents (per financials, $M) | (83.1) | (39.9) |
| Short term investments (per financials, $M) | (3.1) | (4.5) |
| **Net debt** | **$ 163.7** | **$ 165.5** |

## Reconciliation of Available Liquidity

| | 30-Jun-20 | 31-Mar-20 | 31-Dec-19 |
|---|---|---|---|
| Revolving credit facility capacity | $ 300.0 | $ 300.0 | $ 300.0 |
| Long term debt (per financials, $M), excl. deferred financing costs of $2.3M, $2.5M and $2.8M | (249.9) | (219.9) | (209.9) |
| | 50.1 | 80.1 | 90.1 |
| Cash and cash equivalents (per financials, $M) | 83.1 | 26.1 | 39.9 |
| Short term investments (per financials, $M) | 3.1 | 5.8 | 4.5 |
| **Available liquidity** | **$ 136.3** | **$ 112.0** | **$ 134.5** |

## Reconciliation of Cash Flow from Operating Activities per Common Share

| ($ millions, except share and per share amounts) | Q2 2020 | Q2 2019 | 2020 YTD | 2019 YTD |
|---|---|---|---|---|
| Cash flow from operating activities (per financials) | $ 45.1 | $ 30.3 | $ 52.1 | $ 59.0 |
| Weighted average common shares - basic (per financials) | 392,688,353 | 391,225,231 | 392,599,623 | 391,222,534 |
| **Cash flow from operating activities per share** | **$ 0.11** | **$ 0.08** | **$ 0.13** | **$ 0.15** |

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

| ($ millions, except share and per share amounts) | Q2 2020 | Q2 2019 | 2020 YTD | 2019 YTD |
|---|---|---|---|---|
| Operating cash flow (per financials) | $ 45.1 | $ 30.3 | $ 52.1 | $ 59.0 |
| Adjustment for changes in working capital (per financials) | (21.1) | (11.1) | (31.4) | (9.0) |
| **Operating cash flow before working capital changes** | **$ 24.0** | **$ 19.2** | **$ 20.7** | **$ 50.0** |
| Weighted average common shares - basic (per financials) | 392,688,353 | 391,225,231 | 392,599,623 | 391,222,534 |
| **Operating cash flow before working capital changes per** | **$ 0.06** | **$ 0.05** | **$ 0.05** | **$ 0.13** |

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

## Reconciliation of Adjusted Net Income (Loss)

| ($ millions, except share and per share amounts) | | Q2 2020 | | Q2 2019[2] | | 2020 YTD | | 2019[2] YTD |
|---|---|---|---|---|---|---|---|---|
| Net income (loss)(per financials) | $ | 4.3 | $ | (4.6) | $ | (17.6) | $ | 7.4 |
| Inventory write-down (reversal) - production costs | | (5.5) | | - | | (0.8) | | - |
| Inventory write-down (reversal) - depletion and amortization | | (1.9) | | - | | 0.1 | | - |
| Unrealized loss on derivative contracts | | (0.1) | | - | | - | | - |
| Share based compensation | | 4.1 | | 0.2 | | 3.2 | | 1.8 |
| (Gain)/loss on disposal of assets | | (0.2) | | 0.1 | | - | | 0.2 |
| Unrealized foreign exhange (gain)/loss | | 1.5 | | 0.2 | | (4.3) | | 0.2 |
| Change in fair value of contingent receivable (RE: Minto) | | (3.5) | | (0.5) | | (0.4) | | (0.5) |
| G&A - care and maintenance | | 0.2 | | - | | 0.2 | | - |
| Insurance proceeds received | | (0.8) | | - | | (0.8) | | - |
| Tax effect on the above adjustments | | 1.3 | | (0.1) | | 2.1 | | (0.5) |
| **Adjusted net income (loss)** | **$** | **(0.6)** | **$** | **(4.7)** | **$** | **(18.3)** | **$** | **8.6** |
| | | | | | | | | |
| Adjusted net income (loss) attributable to: | | | | | | | | |
| Shareholders of Capstone Mining Corp. | $ | (0.6) | $ | (4.7) | $ | (18.1) | $ | 8.6 |
| Non-controlling interests | | - | | - | | (0.2) | | - |
| | **$** | **(0.6)** | **$** | **(4.7)** | **$** | **(18.3)** | **$** | **8.6** |
| | | | | | | | | |
| Weighted average common shares - basic (per financials) | | 392,688,353 | | 391,225,231 | | 392,599,623 | | 391,222,534 |
| **Adjusted net income (loss) attributable to shareholders of Capstone Mining Corp. per common share - basic** | **$** | **-** | **$** | **(0.01)** | **$** | **(0.05)** | **$** | **0.02** |
| | | | | | | | | |
| Weighted average common shares - diluted (per financials) | | 396,742,769 | | 391,225,231 | | 392,599,623 | | 391,222,534 |
| | | | | | | | | |
| **Adjusted net income (loss) attributable to shareholders of Capstone Mining Corp. per common share - diluted** | **$** | **-** | **$** | **(0.01)** | **$** | **(0.05)** | **$** | **0.02** |

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

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

## Reconciliation of Adjusted EBITDA

| ($ millions) | | Q2 2020 | | Q2 2019[2] | | 2020 YTD | | 2019 YTD[2] |
|---|---|---|---|---|---|---|---|---|
| Net income from continuing operations (per financials) | $ | 4.3 | $ | (4.6) | $ | (17.6) | $ | 7.4 |
| Net finance costs | | 3.4 | | 3.6 | | 7.7 | | 8.2 |
| Taxes | | 3.4 | | 0.9 | | (0.3) | | 7.0 |
| Depletion and amortization | | 19.4 | | 23.0 | | 40.8 | | 40.4 |
| **EBITDA - from continuing operations** | | **30.5** | | **22.9** | | **30.6** | | **63.0** |
| Share-based compensation expense (recovery) | | 4.1 | | 0.2 | | 3.2 | | 1.8 |
| Inventory write-down (reversal) - production costs | | (5.6) | | - | | (0.9) | | - |
| Unrealized gain on derivative instruments | | (0.1) | | - | | - | | - |
| Loss on disposal of mineral properties, plant and equipment | | (0.2) | | 0.2 | | - | | 0.3 |
| Unrealized foreign exchange (gain)/ loss | | 1.5 | | 0.2 | | (4.3) | | 0.2 |
| Unrealized revenue adjustment | | (13.4) | | 6.7 | | (3.6) | | 0.5 |
| G&A - care and maintenance | | 0.4 | | - | | 0.4 | | - |
| Insurance proceeds received | | (0.8) | | - | | (0.8) | | - |
| Change in fair value of contingent receivable (RE: Minto) | | (3.5) | | (0.5) | | (0.4) | | (0.5) |
| **Adjusted EBITDA - from continuing operations** | **$** | **12.9** | **$** | **29.7** | **$** | **24.2** | **$** | **65.3** |
| *Adjusted EBITDA by mine* | | | | | | | | |
| Pinto Valley | | 4.0 | | 23.2 | | 6.9 | | 46.8 |
| Cozamin | | 11.7 | | 10.9 | | 23.4 | | 27.3 |
| Other | | (2.8) | | (4.4) | | (6.1) | | (8.8) |
| **Adjusted EBITDA - from continuing operations** | **$** | **12.9** | **$** | **29.7** | **$** | **24.2** | **$** | **65.3** |

[2] *Certain prior period amounts have been restated to conform with current period classification.*
[3] *Net income from continuing operations has been utilized for the calculation of EBITDA due to the Minto mine being classified as a discontinued operation in the comparative period until the point of its sale on June 3, 2019.*

Unrealized revenue adjustments from provisional pricing arrangements have been adjusted for, starting Q1 2020, to align with how EBITDA is determined for the Company's RCF covenant calculations Provisional pricing is a non-cash revenue adjustment for mark to market that may or may not be realized in future periods. 2019 amounts have been restated accordingly.

## Property Cost per Tonne Milled

| | Q2 2020 | | Q2 2019 | | 2020 YTD | | 2019 YTD | |
|---|---|---|---|---|---|---|---|---|
| | Pinto Valley | Cozamin | Pinto Valley | Cozamin | Pinto Valley | Cozamin | Pinto Valley | Cozamin |
| Tonnes of mill feed (000s) | 4,902 | 235 | 4,470 | 284 | 9,897 | 511 | 9,403 | 556 |
| Production costs of metal produced (per financials, $M) | $ 57.5 | $ 11.1 | $ 70.4 | $ 13.3 | $ 112.2 | $ 25.1 | $ 118.3 | $ 26.5 |
| Transportation cost to point of sale ($M) | (5.7) | (0.5) | (5.8) | (0.9) | (10.6) | (1.2) | (11.6) | (1.5) |
| Inventory write-down(reversal) ($M) | 5.6 | - | - | - | 0.9 | - | 0.0 | - |
| Inventory working capital adjustments ($M) | (3.7) | (0.4) | (17.6) | 1.1 | 5.9 | (1.2) | (14.1) | 1.5 |
| Cash production costs of metal produced ($M) | $ 53.6 | $ 10.2 | $ 47.0 | $ 13.5 | $ 108.5 | $ 22.7 | $ 92.6 | $ 26.4 |
| Deferred Stripping costs ($M) | 0.7 | - | 6.7 | - | 1.1 | - | 12.4 | - |
| Cathode costs ($M) | (1.9) | - | (1.8) | - | (3.6) | - | (3.7) | - |
| Stockpile movement ($M) | 0.8 | - | 0.1 | - | 1.5 | - | 0.2 | - |
| Total property costs ($M) | 53.2 | 10.2 | 52.0 | 13.5 | 107.5 | 22.7 | 101.4 | 26.4 |
| **Property cost per tonne milled ($)** | **$ 10.86** | **$ 43.35** | **$ 11.62** | **$ 47.57** | **$ 10.86** | **$ 44.34** | **$ 10.79** | **$ 47.47** |

Starting Q1 2020, we have presented Property cost per tonne milled, replacing the previous disclosure of Site operating cost per tonne milled. This is considered a more meaningful metric because it excludes variation due to changes in the amount of capitalized stripping. 2019 amounts have been restated accordingly.

## Additional Information and Reconciliations

### Sales from Continuing Operations[2]

| | 2020 | | | 2019 | | | | |
|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Total | Q1 | Q2 | Q3 | Q4 | Total |
| **Copper (000 lbs)** | | | | | | | | |
| Pinto Valley | 21,407 | 29,884 | 51,291 | 27,574 | 37,297 | 21,791 | 32.050 | 118,712 |
| Cozamin | 8,978 | 7,987 | 16,965 | 7,732 | 8,249 | 9,446 | 8,215 | 33,642 |
| Total | 30,385 | 37,871 | 68,256 | 35,306 | 45,546 | 31,237 | 40,265 | 152,354 |
| **Zinc (000 lbs)** | | | | | | | | |
| Cozamin | 3,013 | 2,318 | 5,331 | 4,261 | 1,611 | 5,402 | 4,264 | 15,538 |
| **Lead (000 lbs)** | | | | | | | | |
| Cozamin | 1,193 | 74 | 1,267 | 1,358 | 393 | 341 | 917 | 3,009 |
| **Molybdenum (tonnes)** | | | | | | | | |
| Pinto Valley | 16 | 12 | 28 | 45 | 2 | 26 | 33 | 106 |
| **Silver (000s ounces)** | | | | | | | | |
| Cozamin | 291 | 248 | 539 | 273 | 280 | 333 | 294 | 1,180 |
| Pinto Valley | 56 | 74 | 130 | 54 | 82 | 48 | 81 | 265 |
| Total | 347 | 322 | 669 | 327 | 362 | 381 | 375 | 1,445 |
| **Gold (ounces)** | | | | | | | | |
| Pinto Valley* | 1,001 | 1,942 | 2,943 | (98) | 784 | 489 | 912 | 2,087 |
| Cozamin | 4 | - | 4 | 29 | 12 | 40 | 46 | 127 |
| Total | 1,005 | 1,942 | 2,947 | (69) | 796 | 529 | 958 | 2,214 |

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

[2] *Sales from continuing operations has been utilized due to the Minto mine being classified as a discontinued operation in the comparative period until the point of its sale on June 3, 2019.*

## Continuity Schedule of Concentrate and Cathode Inventories

| | Pinto Valley* | | | Cozamin | | |
|---|---|---|---|---|---|---|
| | Copper (dmt) | Cathode (tonnes) | Molybdenum (dmt) | Copper (dmt) | Zinc (dmt) | Lead (dmt) |
| Dec. 31, 2018 | 20,329 | 165 | 9 | 2,186 | 893 | 298 |
| Production | 54,236 | 384 | 38 | 15,163 | 5,383 | 801 |
| Sales | (49,883) | (422) | (45) | (14,366) | (5,330) | (1,010) |
| Mar.31, 2019 | 24,682 | 127 | 2 | 2,983 | 946 | 89 |
| Production | 48,442 | 405 | 21 | 15,484 | 3,651 | 268 |
| Sales | (66,752) | (282) | - | (15,442) | (1,782) | (357) |
| Jun.30, 2019 | 6,372 | 250 | 23 | 3,025 | 2,815 | 0 |
| Production | 46,715 | 486 | 22 | 15,505 | 4,090 | 386 |
| Sales | (37,199) | (404) | (26) | (17,336) | (6,206) | (302) |
| Sep.30, 2019 | 15,888 | 332 | 19 | 1,194 | 699 | 84 |
| Production | 45,166 | 437 | 23 | 15,118 | 4,174 | 911 |
| Sales | (57,372) | (564) | (33) | (13,997) | (4,701) | (670) |
| Dec. 31, 2019 | 3,682 | 205 | 9 | 2,315 | 172 | 325 |
| Production | 45,526 | 484 | 16 | 14,229 | 4,168 | 545 |
| Sales | (39,362) | (342) | (15) | (15,407) | (3,407) | (869) |
| Mar.31, 2020 | 9,846 | 347 | 10 | 1,137 | 933 | 1 |
| Production | 57,232 | 505 | 2 | 13,761 | 2,081 | 86 |
| Sales | (54,812) | (644) | (12) | (14,148) | (2,717) | (82) |
| Jun.30,2020 | 12,266 | 208 | - 0 | 750 | 297 | 5 |

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

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

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

## Outstanding Share Data and Dilution Calculation

The Company is authorized to issue an unlimited number of common shares, without par value. The table below summarizes the Company's common shares and securities convertible into common shares as at July 29, 2020:

| | |
|---|---|
| Issued and outstanding | 400,850,946 |
| Share options outstanding at a weighted average exercise price of $0.74 | 22,257,321 |
| Fully diluted | 423,108,267 |

## Management's Report on Internal Controls

### Disclosure Controls and Procedures ("DC&P")

Capstone's management, with the participation of its President & Chief Executive Officer and Senior Vice President & Chief Financial Officer, has designed DC&P which provide reasonable assurance that material information related to Capstone is identified and communicated in a timely manner.

### Internal Control Over Financial Reporting ("ICFR")

Capstone's management, with the participation of its President & Chief Executive Officer and Senior Vice President & Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR"). Any system of ICFR, no matter how well designed, has inherent limitations and cannot provide absolute assurance that all misstatements and instances of fraud, if any, within the Company have been prevented or detected. Capstone's ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The Company uses the 2013 Internal Control – Integrated Framework published by The Committee of Sponsoring Organizations of the Treadway Commission ("2013 COSO framework") as the basis for assessing its ICFR.

In March 2020 as a result of the COVID-19 pandemic, the Company supported working from home for the majority of the finance workforce, with working from the office or mine site where necessary and in accordance with the Company's strict COVID-19 safety measures. Although this continued through the financial close period, there were no changes in the Company's ICFR that materially affected, or are reasonably likely to materially affect, ICFR during the three-months ended June 30, 2020.

## Other Information

### Approval

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

### Additional Information

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

## National Instrument 43-101 Compliance

Unless otherwise indicated, Capstone has prepared the technical information in this MD&A ("Technical Information") based on information contained in the technical reports, Annual Information Form and news releases (collectively the "Disclosure Documents") available under Capstone Mining Corp.'s company profile on SEDAR at www.sedar.com. Each Disclosure Document was prepared by or under the supervision of a qualified person (a "Qualified Person") as defined in National Instrument 43-101 – *Standards of Disclosure for Mineral Projects* of the Canadian Securities Administrators ("NI 43-101"). Readers are encouraged to review the full text of the Disclosure Documents which qualifies the Technical Information. Readers are advised that Mineral Resources that are not Mineral Reserves do not have

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

demonstrated economic viability. The Disclosure Documents are each intended to be read as a whole, and sections should not be read or relied upon out of context. The Technical Information is subject to the assumptions and qualifications contained in the Disclosure Documents.

Disclosure Documents include the National Instrument 43-101 compliant technical reports titled "NI 43-101 Technical Report on the Cozamin Mine, Zacatecas, Mexico" effective October 24, 2018, “Pinto Valley Mine Life Extension – Phase 3 (PV3) Pre-Feasibility Study” effective January 1, 2016 and “Santo Domingo Project, Region III, Chile, NI 43-101 Technical Report” effective February 19, 2020.

The disclosure of scientific and Technical Information in this MD&A was reviewed and approved by Brad Mercer, P. Geol., Senior Vice President, Operations and Exploration (technical information related to mineral exploration activities and to Mineral Resources at Cozamin), Clay Craig, P.Eng, Superintendent Mine Technical Services – Pinto Valley Mine (technical information related to Mineral Reserves and Mineral Resources at Pinto Valley), Tucker Jensen, Senior Technical Advisor – Cozamin Mine, P.Eng (technical information related to Mineral Reserves at Cozamin) and Albert Garcia III, PE, Vice President, Projects (technical information related to project updates at Santo Domingo) all Qualified Persons under NI 43-101.

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

**June 30, 2020**

**(Expressed in United States ("US") Dollars)**

**Capstone Mining Corp.**
**Condensed Interim Consolidated Statements of Financial Position**
*(unaudited)*
*(expressed in thousands of US dollars)*

| ASSETS | June 30, 2020 | December 31, 2019 |
|---|---|---|
| **Current** | | |
| Cash and cash equivalents | $ 83,086 | $ 39,939 |
| Short-term investments *(Note 4)* | 3,100 | 4,549 |
| Receivables *(Note 5)* | 24,845 | 28,554 |
| Inventories *(Note 6)* | 58,712 | 47,888 |
| Other assets *(Note 10)* | 5,288 | 2,451 |
| | 175,031 | 123,381 |
| Mineral properties, plant and equipment *(Note 7)* | 1,127,717 | 1,132,164 |
| Promissory note receivable *(Note 9)* | 31,334 | 31,594 |
| Deferred income tax asset *(Note 14)* | 24,316 | 24,655 |
| Other assets *(Note 10)* | 18,612 | 19,586 |
| **Total assets** | $ 1,377,010 | $ 1,331,380 |
| | | |
| **LIABILITIES** | | |
| **Current** | | |
| Accounts payable and accrued liabilities | $ 54,570 | $ 52,493 |
| Other liabilities *(Note 11)* | 29,666 | 2,899 |
| | 84,236 | 55,392 |
| Long term debt *(Note 13)* | 247,660 | 207,093 |
| Provisions | 118,110 | 120,180 |
| Deferred income tax liabilities *(Note 14)* | 59,567 | 64,021 |
| Other liabilities *(Note 11)* | 9,312 | 8,136 |
| Lease liabilities *(Note 12)* | 4,346 | 5,170 |
| **Total liabilities** | 523,231 | 459,992 |
| | | |
| **EQUITY** | | |
| Share capital | $ 838,657 | $ 838,523 |
| Other reserves | 32,484 | 32,386 |
| Accumulated deficit | (127,489) | (109,806) |
| **Total equity attributable to equity holders of the Company** | 743,652 | 761,103 |
| Non-controlling interest | 110,127 | 110,285 |
| **Total equity** | 853,779 | 871,388 |
| | | |
| **Total liabilities and equity** | $ 1,377,010 | $ 1,331,380 |

See accompanying notes to these consolidated financial statements.

**Capstone Mining Corp.**
**Condensed Interim Consolidated Statements of Income (Loss)**
**Three and Six Months Ended June 30, 2020 and 2019**
*(unaudited)*
*(expressed in thousands of US dollars, except share and per share amounts)*

| | Three months ended June 30, 2020 | Three months ended June 30, 2019 | Six months ended June 30, 2020 | Six months ended June 30, 2019 |
|---|---|---|---|---|
| **Revenue** *(Note 16)* | **$ 104,739** | $ 113,294 | **$ 175,091** | $ 222,148 |
| **Operating costs** | | | | |
| Production costs | **(68,594)** | (83,640) | **(137,378)** | (144,729) |
| Royalties | **(661)** | (752) | **(1,335)** | (1,671) |
| Depletion and amortization | **(19,142)** | (22,466) | **(39,988)** | (39,392) |
| **Earnings (loss) from mining operations** | **16,342** | 6,436 | **(3,610)** | 36,356 |
| **General and administrative expenses** *(Note 19)* | **(3,038)** | (3,905) | **(6,515)** | (8,039) |
| **Exploration expenses** *(Note 7)* | **(180)** | (2,065) | **(746)** | (2,823) |
| **Care and maintenance expense** *(Note 7)* | **(353)** | (243) | **(589)** | (500) |
| **Share-based compensation expense** *(Note 15)* | **(4,114)** | (224) | **(3,207)** | (1,798) |
| **Earnings (loss) from operations** | **8,657** | (1) | **(14,667)** | 23,196 |
| **Other income (expense)** | | | | |
| Foreign exchange (loss) gain | **(1,877)** | (168) | **3,496** | (570) |
| Other income *(Note 20)* | **4,372** | 165 | **938** | 3 |
| **Income (loss) before finance costs and income taxes** | **11,152** | (4) | **(10,233)** | 22,629 |
| Interest on long term debt | **(2,873)** | (2,892) | **(5,824)** | (6,825) |
| Other interest expense | **(534)** | (757) | **(1,819)** | (1,382) |
| **Income (loss) from continuing operations before income taxes** | **7,745** | (3,653) | **(17,876)** | 14,422 |
| Income tax (expense) recovery *(Note 14)* | **(3,415)** | (942) | **301** | (7,009) |
| **Net income (loss) from continuing operations** | **$ 4,330** | $ (4,595) | **$ (17,575)** | $ 7,413 |
| Net loss from discontinued operations *(Note 8)* | **-** | (22,650) | **-** | (26,360) |
| **Net income (loss)** | **$ 4,330** | $ (27,245) | **$ (17,575)** | $ (18,947) |
| | | | | |
| **Net income (loss) from continuing operations attributable to:** | | | | |
| Shareholders of Capstone Mining Corp. | **$ 4,336** | $ (4,588) | **$ (17,417)** | $ 7,457 |
| Non-controlling interest | **(6)** | (7) | **(158)** | (44) |
| | **$ 4,330** | $ (4,595) | **$ (17,575)** | $ 7,413 |
| **Net income (loss) attributable to:** | | | | |
| Shareholders of Capstone Mining Corp. | **$ 4,336** | $ (27,238) | **$ (17,417)** | $ (18,903) |
| Non-controlling interest | **(6)** | (7) | **(158)** | (44) |
| | **$ 4,330** | $ (27,245) | **$ (17,575)** | $ (18,947) |
| **Net income (loss) per share from continuing operations** | | | | |
| Income (loss) per share - basic | **$ 0.01** | $ (0.01) | **$ (0.04)** | $ 0.02 |
| Weighted average number of shares - basic *(Note 17)* | **392,688,353** | 391,225,231 | **392,599,623** | 391,222,534 |
| Earnings (loss) per share - diluted | **$ 0.01** | $ (0.01) | **$ (0.04)** | $ 0.02 |
| Weighted average number of shares - diluted *(Note 17)* | **396,742,769** | 391,225,231 | **392,599,623** | 395,605,767 |
| **Net income (loss) per share** | | | | |
| Income (loss) per share - basic *(Note 17)* | **$ 0.01** | $ (0.07) | **$ (0.04)** | $ (0.05) |
| Weighted average number of shares - basic *(Note 17)* | **392,688,353** | 391,225,231 | **392,599,623** | 391,222,534 |
| Earnings (loss) per share - diluted *(Note 17)* | **$ 0.01** | $ (0.07) | **$ (0.04)** | $ (0.05) |
| Weighted average number of shares - diluted *(Note 17)* | **396,742,769** | 391,225,231 | **392,599,623** | 391,222,534 |

See accompanying notes to these consolidated financial statements.

**Capstone Mining Corp.**

**Condensed Interim Consolidated Statements of Comprehensive Income (Loss)**
**Three and Six Months Ended June 30, 2020 and 2019**
*(unaudited)*
*(expressed in thousands of US dollars)*

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| **Net income (loss)** | **$ 4,330** | $ (27,245) | **$ (17,575)** | $ (18,947) |
| **Other comprehensive income (loss)** | | | | |
| **Items that will not be reclassfied subsequently to profit or loss** | | | | |
| Change in fair value of marketable securities, net of tax of $nil (2019 - $nil) | **320** | (680) | **(633)** | (808) |
| | **320** | (680) | **(633)** | (808) |
| **Items that may be reclassfied subsequently to profit or loss** | | | | |
| Foreign currency translation adjustment | **316** | 148 | **(394)** | 668 |
| | **316** | 148 | **(394)** | 668 |
| **Items that were reclassified to profit or loss** | | | | |
| Reclassification of accumulated foreign currency translation adjustment to earnings upon disposal of Minto *(Note 8)* | **-** | 30,362 | **-** | 30,362 |
| | **-** | 30,362 | **-** | 30,362 |
| **Total other comprehensive income (loss) for the period** | **636** | 29,830 | **(1,027)** | 30,222 |
| **Total comprehensive income (loss)** | **$ 4,966** | $ 2,585 | **$ (18,602)** | $ 11,275 |

| | | | | |
|---|---|---|---|---|
| Total comprehensive income (loss) attributable to: | | | | |
| Shareholders of Capstone Mining Corp. | **$ 4,972** | $ 2,592 | **$ (18,444)** | $ 11,319 |
| Non-controlling interest | **(6)** | (7) | **(158)** | (44) |
| | **$ 4,966** | $ 2,585 | **$ (18,602)** | $ 11,275 |

See accompanying notes to these consolidated financial statements.

## Capstone Mining Corp.

## Condensed Interim Consolidated Statements of Cash Flows
## Three and Six Months Ended June 30, 2020 and 2019

*(unaudited)*

*(expressed in thousands of US dollars)*

| | Three months ended June 30, 2020 | Three months ended June 30, 2019 | Six months ended June 30, 2020 | Six months ended June 30, 2019 |
|---|---|---|---|---|
| **Cash provided by (used in):** | | | | |
| **Operating activities** | | | | |
| Net income (loss) | **$ 4,330** | $ (27,245) | **$ (17,575)** | $ (18,947) |
| Adjustments for: | | | | |
| Depletion and amortization | **21,548** | 22,974 | **40,907** | 40,425 |
| Income and mining tax expense | **3,415** | 1,059 | **(301)** | 7,241 |
| Inventory (reversal of write-down) write-down | **(7,564)** | 5 | **(907)** | 5 |
| Loss on sale of Minto *(Note 8)* | **-** | 24,465 | **-** | 24,465 |
| Share-based compensation expense | **4,114** | 224 | **3,207** | 1,798 |
| Restructuring provision | **-** | (1,462) | **-** | - |
| Net finance costs | **3,407** | 4,252 | **7,643** | 9,561 |
| Unrealized gain on foreign exchange | **(2,174)** | (667) | **(8,982)** | (898) |
| (Gain) loss on disposal of assets | **(176)** | 93 | **61** | (280) |
| Changes in deferred revenue | **-** | (110) | **-** | 597 |
| Changes in contingent consideration | **(3,507)** | (511) | **(444)** | (511) |
| Other | **(70)** | (12) | **40** | 3 |
| Income taxes received | **744** | - | **744** | - |
| Income taxes paid | **(580)** | (3,472) | **(4,282)** | (13,022) |
| Other receipts (payments) | **62** | (328) | **69** | (307) |
| Changes in other assets | **(46)** | (28) | **(75)** | (170) |
| Changes in other liabilities | **547** | - | **547** | - |
| Changes in non-cash working capital *(Note 18)* | **21,092** | 11,058 | **31,404** | 9,051 |
| | **45,142** | 30,295 | **52,056** | 59,011 |
| **Investing activities** | | | | |
| Purchase of investments | **-** | (148) | **-** | (148) |
| Mineral properties, plant and equipment additions | **(18,292)** | (28,080) | **(42,978)** | (50,029) |
| Proceeds of short-term investments | **2,729** | 22,481 | **1,450** | 29,500 |
| Proceeds on disposal of assets | **78** | 10 | **83** | 529 |
| Other assets | **8** | 19 | **15** | (633) |
| | **(15,477)** | (5,718) | **(41,430)** | (20,781) |
| **Financing activities** | | | | |
| Proceeds from bank borrowings *(Note 10)* | **30,000** | - | **45,000** | - |
| Repayment of bank borrowings *(Note 13)* | **-** | (20,000) | **(5,000)** | (20,000) |
| KORES payment against promissory note *(Note 9)* | **-** | 1,659 | **-** | 2,175 |
| Repayment of lease obligations | **(258)** | (260) | **(522)** | (520) |
| Proceeds from issuance of share capital | **64** | - | **64** | 4 |
| Receipts from financial derivatives | **22** | - | **22** | - |
| Interest paid | **(2,914)** | (3,765) | **(6,022)** | (7,996) |
| | **26,914** | (22,366) | **33,542** | (26,337) |
| **Effect of exchange rate changes on cash and cash equivalents** | **409** | (155) | **(1,021)** | 248 |
| **Increase in cash and cash equivalents** | **56,988** | 2,056 | **43,147** | 12,141 |
| Cash and cash equivalents - beginning of period | **26,098** | 43,970 | **39,939** | 33,885 |
| **Cash and cash equivalents - end of period** | **$ 83,086** | $ 46,026 | **$ 83,086** | $ 46,026 |

**Supplemental cash flow information *(Note 18)***

See accompanying notes to these consolidated financial statements.

## Capstone Mining Corp.
## Condensed Interim Consolidated Statements of Changes in Equity
## Three and Six Months Ended June 30, 2020 and 2019
*(unaudited)*
*(expressed in thousands of US dollars, except share amounts)*

| | Attributable to equity holders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Number of shares | Share capital | Reserve for equity settled share based transactions | Revaluation reserve | Foreign currency translation reserve | Share purchase reserve | Accumulated deficit | Total - attributable to equity holders | Non-controlling interest | Total equity |
| **January 1, 2020** | 400,045,604 | $ 838,523 | $ 53,971 | $ 2,478 | $ (16,758) | $ (7,305) | $ (109,806) | $ 761,103 | $ 110,285 | $ 871,388 |
| Shares issued on exercise of options *(Note 15)* | 263,753 | 94 | (30) | - | - | - | - | 64 | - | 64 |
| Share-based compensation *(Note 15)* | - | - | 485 | - | - | - | - | 485 | - | 485 |
| Settlement of share units | - | - | - | - | - | 670 | (266) | 404 | - | 404 |
| Shares issued as compensation | 137,196 | 40 | - | - | - | | - | 40 | - | 40 |
| Change in fair value of marketable securities | - | - | - | (633) | - | - | - | (633) | - | (633) |
| Net loss | - | - | - | - | - | - | (17,417) | (17,417) | (158) | (17,575) |
| Foreign currency translation | - | - | - | - | (394) | - | - | (394) | - | (394) |
| **June 30, 2020** | 400,446,553 | $ 838,657 | $ 54,426 | $ 1,845 | $ (17,152) | $ (6,635) | $ (127,489) | $ 743,652 | $ 110,127 | $ 853,779 |
| | | | | | | | | | | |
| **January 1, 2019** | 399,580,329 | $ 838,351 | $ 52,541 | $ 2,581 | $ (47,958) | $ (10,705) | $ (92,236) | $ 742,574 | $ 110,442 | $ 853,016 |
| Shares issued on exercise of options *(Note 15)* | 17,436 | 6 | (2) | - | - | - | - | 4 | - | 4 |
| Share-based compensation *(Note 15)* | - | - | 961 | - | - | - | - | 961 | - | 961 |
| Settlement of share units | - | - | - | - | - | 3,385 | (1,519) | 1,866 | - | 1,866 |
| Change in fair value of marketable securities | - | - | - | (808) | - | - | - | (808) | - | (808) |
| Reclassification of foreign currency translation adjustment to earnings (loss) on sale of Minto (Note 8) | - | - | - | - | 30,362 | - | - | 30,362 | - | 30,362 |
| Net loss | - | - | - | - | - | - | (18,903) | (18,903) | (44) | (18,947) |
| Foreign currency translation | - | - | - | - | 668 | - | - | 668 | - | 668 |
| **June 30, 2019** | 399,597,765 | $ 838,357 | $ 53,500 | $ 1,773 | $ (16,928) | $ (7,320) | $ (112,658) | $ 756,724 | $ 110,398 | $ 867,122 |

See accompanying notes to these consolidated financial statements.

## 1. Nature of Operations

Capstone Mining Corp. ("Capstone" or the "Company"), a Canadian mining company publicly listed on the Toronto Stock Exchange, is engaged in the production of and exploration for base metals in the United States ("US"), Mexico, and Chile, with a focus on copper. Pinto Valley Mining Corp., a wholly owned US subsidiary, owns and operates the copper Pinto Valley Mine located in Arizona, US. Capstone Gold, S.A. de C.V. ("Capstone Gold"), a wholly owned Mexican subsidiary, owns and operates the polymetallic Cozamin Mine located in Zacatecas, Mexico, and has a portfolio of exploration properties in Mexico. In June 2019, Capstone sold its 100% interest in Minto Explorations Ltd. ("Minto"), which owns the copper Minto Mine located in Yukon, Canada (*Note 8*). Capstone Mining Chile SpA, a wholly owned Chilean subsidiary, is performing exploration for base metal deposits in Chile. 0908113 B.C. Ltd. ("Acquisition Co.") is a 70% owned subsidiary of Capstone and 30% owned by Korea Resources Corporation ("KORES"). Through Acquisition Co.'s wholly-owned Canadian subsidiary, Far West Mining Ltd. ("Far West"), Acquisition Co is engaged in the exploration and development of base metals primarily in Chile. Minera Santo Domingo SCM ("Santo Domingo"), a 100% owned subsidiary of Far West, holds the Santo Domingo copper-iron project in Chile.

On March 31, 2020, Capstone took steps to safely and systematically reduce mining and processing activities temporarily at its Cozamin Mine to comply with a government-mandated suspension of all non-essential activities, in response to the COVID-19 pandemic. On May 12, 2020 the Mexican Federal Government announced that mining is an essential industry. Subsequent to this announcement, Capstone safely started ramping up operational activities at its Cozamin Mine. As at June 30, 2020, all mining and processing activities have been resumed.

The head office, registered and records office and principal address of the Company are located at 2100 - 510 West Georgia Street, Vancouver, British Columbia, Canada and the Company is incorporated in British Columbia.

The condensed consolidated financial statements were approved by the Board of Directors and authorized for issuance on July 29, 2020.

## 2. Significant Accounting Policies

*Basis of preparation and consolidation*

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting using the same accounting policies and methods of application as the audited annual consolidated financial statements of the Company for the year ended December 31, 2019, which were prepared in accordance with International Financial Reporting Standards ("IFRS"), except as noted below. Accordingly, certain information and footnote disclosure normally included in annual financial statements have been omitted or condensed.

The Company's management makes judgements in its process of applying the Company's accounting policies in the preparation of these condensed interim consolidated financial statements. In addition, the preparation of the financial data requires that the Company's management makes assumptions and estimates of the impacts of uncertain future events on the carrying amounts of the Company's assets and liabilities at the end of the reporting period, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates as the estimation process is inherently uncertain. Estimates are reviewed on an ongoing basis based on historical experience and other factors that are considered to be relevant under the circumstances. Revisions to estimates and the resulting impacts on the carrying amounts of the Company's assets and liabilities are accounted for prospectively.

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

In preparing the Company's condensed interim consolidated financial statements for the three and six months ended June 30, 2020, the Company applied the critical judgements and estimates disclosed in Note 2 of its consolidated financial statements for the year ended December 31, 2019.

These condensed interim consolidated financial statements should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended December 31, 2019.

The Company has made a change in its application of accounting policy for depletion and amortization of mineral properties, plant and equipment. Until December 31, 2019, the Company depleted the carrying amounts of its mining properties over estimated recoverable tonnes of permitted proven and probable Mineral Reserves. Effective January 1, 2020, the Company depletes the carrying amounts of its mining properties over estimated recoverable tonnes of permitted proven and probable Mineral Reserves and a portion of permitted Mineral Resources considered to be highly probable to be economically extracted over the life of mine. This change in estimate better reflects the pattern in which the asset's future economic benefits are expected to be consumed based on the current mine plans. This change in accounting estimate did not have a material impact on depletion during the three and six months ended June 30, 2020, and is not expected to have a material impact on depletion in future periods.

## 3. Financial Instruments

*Fair value of financial instruments*

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

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

*As of June 30, 2020, the Company's classification of financial instruments within the fair value hierarchy are summarized below:*

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Short-term investments *(Note 4)* | $ 3,100 | $ - | $ - | $ 3,100 |
| Concentrate receivables *(Note 5)* | - | 17,174 | - | 17,174 |
| Promissory note receivable *(Note 9)* | - | - | 34,227 | 34,227 |
| Derivative assets - current *(Note 10)* | - | 708 | - | 708 |
| Investment in marketable securities *(Note 10)* | 928 | - | - | 928 |
| Contingent consideration on sale of Minto *(Note 8)* | - | - | 10,055 | 10,055 |
| | $ 4,028 | $ 17,882 | $ 44,282 | $ 66,192 |
| | | | | |
| Derivative liabilities - long-term *(Note11)* | - | $ 593 | - | $ 593 |
| | $ - | $ 593 | $ - | $ 593 |

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

The Company's policy for determining when a transfer occurs between levels in the fair value hierarchy is to assess the impact at the date of the event or the change in circumstances that could result in a transfer. There were no transfers between Level 1, Level 2 and Level 3 during the three and six months ended June 30, 2020.

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

| | **June 30, 2020** | | | |
|---|---|---|---|---|
| | **Fair value through profit or loss** | **Fair value through OCI** | **Amortized cost** | **Total** |
| **Cash and cash equivalents** | **$ -** | **$ -** | **$ 83,086** | **$ 83,086** |
| **Short-term investments *(Note 4)*** | **3,100** | **-** | **-** | **3,100** |
| **Concentrate receivables *(Note 5)*** | **17,174** | **-** | **-** | **17,174** |
| **Other receivables *(Note 5)*** | **-** | **-** | **2,565** | **2,565** |
| **Promissory note receivable *(Note 9)*** | **34,227** | **-** | **-** | **34,227** |
| **Derivative assets - current *(Note 10)*** | **708** | **-** | **-** | **708** |
| **Investments in marketable securities *(Note 10)*** | **-** | **928** | **-** | **928** |
| **Contingent consideration on sale of Minto *(Note 8)*** | **10,055** | **-** | **-** | **10,055** |
| | **$ 65,264** | **$ 928** | **$ 85,651** | **$ 151,843** |

| | December 31, 2019 | | | |
|---|---|---|---|---|
| | Fair value through profit or loss | Fair value through OCI | Amortized cost | Total |
| Cash and cash equivalents | $ - | $ - | $ 39,939 | $ 39,939 |
| Short-term investments *(Note 4)* | 4,549 | - | - | 4,549 |
| Concentrate receivables *(Note 5)* | 19,946 | - | - | 19,946 |
| Other receivables *(Note 5)* | - | - | 1,102 | 1,102 |
| Promissory note receivable *(Note 9)* | 35,387 | - | - | 35,387 |
| Derivative asset - current *(Note 10)* | 147 | - | - | 147 |
| Investments in marketable securities *(Note 10)* | - | 1,679 | - | 1,679 |
| Contingent consideration on sale of Minto *(Note 8)* | 9,611 | - | - | 9,611 |
| | $ 69,640 | $ 1,679 | $ 41,041 | $ 112,360 |

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

| | **June 30, 2020** | | |
|---|---|---|---|
| | **Fair value through profit or loss** | **Amortized cost** | **Total** |
| **Accounts payable and accrued liabilities** | **$ -** | **$ 54,570** | **$ 54,570** |
| **Long term debt *(Note 13)*** | **-** | **247,660** | **247,660** |
| **Derivative liabilities - long-term *(Note 11)*** | **593** | **-** | **593** |
| | **$ 593** | **$ 302,230** | **$ 302,823** |

| | December 31, 2019 | | |
|---|---|---|---|
| | Fair value through profit or loss | Amortized cost | Total |
| Accounts payable and accrued liabilities | $ - | $ 52,493 | $ 52,493 |
| Long term debt *(Note 13)* | - | 207,093 | 207,093 |
| | $ - | $ 259,586 | $ 259,586 |

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

There have been no changes during the three and six months ended June 30, 2020 as to how the Company categorizes its financial assets and liabilities by fair value through profit or loss, fair value through OCI, and amortized cost.

Observable and unobservable inputs that would have been impacted by the COVID-19 pandemic have been appropriately considered into the fair value measurements of the Company's' financial instruments for the three and six months ended June 30, 2020.

The Company entered into foreign currency contracts *(Note 10)* and interest rate swaps *(Note 13)* during the period which are valued using observable market inputs and as such are classified as Level 2 of the fair value hierarchy.

*Financial instruments and related risks*

The Company's activities expose it to financial risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth and shareholder returns. The principal financial risks to which the Company is exposed are commodity price risk, credit risk, foreign exchange risk, liquidity risk and interest rate risk. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's policies on an ongoing basis. There have been no significant changes in the Company's exposure to these financial risks. As at June 30, 2020, the Company's exposure to these financial risks have not been significantly impacted by the COVID-19 crisis.

## 4. Short-Term Investments

*Details are as follows:*

| | **June 30, 2020** | December 31, 2019 |
|---|---|---|
| Exchange traded funds | **$ 3,100** | $ 4,541 |
| Money market funds | **-** | 8 |
| Total short-term investments | **$ 3,100** | $ 4,549 |

Short-term investments are investments in highly liquid, bankruptcy remote, AAA rated funds.

## 5. Receivables

*Details are as follows:*

| | **June 30, 2020** | December 31, 2019 |
|---|---|---|
| Concentrates | **$ 17,174** | $ 19,946 |
| Value added taxes and other taxes receivable | **183** | 186 |
| Income taxes receivable | **1,710** | 3,201 |
| Other | **2,565** | 1,102 |
| Current portion of finance lease receivable | **320** | 326 |
| Current portion of KORES promissory note *(Note 9)* | **2,893** | 3,793 |
| Total receivables | **$ 24,845** | $ 28,554 |

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

## 6. Inventories

*Details are as follows:*

| | June 30, 2020 | December 31, 2019 |
|---|---|---|
| Consumable parts and supplies | **$ 34,386** | $ 32,543 |
| Ore stockpiles | **4,399** | 1,594 |
| Concentrate | **19,034** | 12,791 |
| Cathode | **893** | 960 |
| Total inventories | **$ 58,712** | $ 47,888 |

During the three and six months ended June 30, 2020, concentrate and cathode inventories recognized as production costs, including depletion and amortization, amounted to $87.7 million and $177.4 million (2019 – $106.1 million and 184.1 million), respectively.

During the three and six months ended June 30, 2020, the Company recorded a reversal of previous net write-downs of $(7.6) million and $(0.9) million (2019 - $nil and $nil) respectively, related to Pinto Valley's concentrate and ore-stockpile. Of the $(7.6) million reversal of net write-downs during the three months ended June 30, 2020, $(5.6) million and $(2.0) million was recorded as production costs and depletion and amortization, respectively. Of the $(0.9) million reversal of net write-downs during the six months ended June 30, 2020,$(0.9) million and $nil was recorded as production costs and depletion and amortization, respectively.

## 7. Mineral Properties, Plant and Equipment

*Details are as follows:*

| | Mineral properties | | | Plant and equipment | | | | |
|---|---|---|---|---|---|---|---|---|
| | Depletable | | Non-depletable | Subject to amortization | | | | |
| | Producing mineral properties | Deferred stripping | Mineral exploration and development properties | Mill development costs | Plant & equipment | Right of use assets | Construction in progress | Total |
| At January 1, 2020, net | $ 399,769 | $ 112,644 | $ 289,486 | $ 21,214 | $ 269,265 | $ 3,521 | $ 36,265 | 1,132,164 |
| Additions | - | 1,313 | 14,532 | - | 44 | 56 | 23,987 | 39,932 |
| Disposals | - | - | - | - | 13 | - | - | 13 |
| Reclassifications | 28,869 | - | (28,654) | 3,278 | 24,674 | - | (28,167) | - |
| Depletion and amortization | (13,480) | (11,173) | - | (622) | (18,793) | (324) | - | (44,392) |
| At June 30, 2020, net | $ 415,158 | $ 102,784 | $ 275,364 | $ 23,870 | $ 275,203 | $ 3,253 | $ 32,085 | $ 1,127,717 |
| At June 30, 2020: | | | | | | | | |
| Cost | $ 697,872 | $ 143,350 | $ 275,364 | $ 33,771 | $ 515,933 | 4,191 | $ 32,085 | $ 1,702,566 |
| Accumulated amortization | (282,714) | (40,566) | - | (9,901) | (240,730) | (938) | - | (574,849) |
| Net carrying amount | $ 415,158 | $ 102,784 | $ 275,364 | $ 23,870 | $ 275,203 | $ 3,253 | $ 32,085 | $ 1,127,717 |

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

*The Company's exploration costs were as follows:*

| | Three months ended June 30, | | | | Six months ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | | **2020** | | 2019 | | **2020** | | 2019 |
| Exploration capitalized to mineral properties | **$** | **283** | $ | 931 | **$** | **2,767** | $ | 2,470 |
| Greenfield exploration expensed to the statement of (loss) income | | **180** | | 2,065 | | **746** | | 2,823 |
| Total exploration costs | **$** | **463** | $ | 2,996 | **$** | **3,513** | $ | 5,293 |

Exploration capitalized to mineral properties in 2020 relates primarily to brownfield exploration at the Cozamin mine. Greenfield exploration expenses in 2020 relates to exploration efforts in Mexico and Brazil.

The Company's care and maintenance costs incurred during the three and six month period ended June 30, 2020 related to San Manuel Arizona Railroad Company and totalled $0.4 million and $0.6 million, respectively (2019 - $0.2 million and $0.5 million).

At June 30, 2020 and 2019, construction in progress relates to capital costs incurred in connection with sustaining capital at the Pinto Valley and Cozamin mines and the exploration and development project at Minera Santo Domingo.

As at June 30, 2020, bank borrowings *(Note 13)* were secured by mineral properties, plant and equipment with a net carrying value of $864.6 million (December 31, 2019 – $874.3 million).

## 8. Disposal of Assets Classified as Held for Sale

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

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

On June 3, 2019, the contingent consideration had a fair value of $8.4 million. As at June 30, 2020 the contingent consideration had a fair value of $10.1 million (December 31, 2019 - $9.6 million) *(Note 10)*, with a mark-to-market change of $0.5 million recorded in other expense for the six months ended June 30, 2020 (2019 - $0.5 million).

In conjunction with completion of the sale, Pembridge has posted a surety bond to cover potential future reclamation liabilities. While this surety bond is outstanding, Capstone will act as an indemnitor to the surety bond provider and for certain other obligations. If Pembridge defaults on the surety bond, Capstone may be required to recognize a liability related to Minto's asset retirement obligation. As at June 30, 2020, no liability has been recorded.

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

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

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

The results of the discontinued operations included in net income (loss) for the three and six month period ended June 30, 2019 are set out below.

*Loss for the period from discontinued operations:*

| | | Three months ended June 2019 | | Six months ended June 2019 |
|---|---|---|---|---|
| Revenue | $ | 674 | $ | 8,674 |
| Production costs | | - | | (5,603) |
| Royalties | | (446) | | (848) |
| Depletion and amortization | | - | | (13) |
| Earnings (loss) from mining operations | | 228 | | 2,210 |
| Care & maintenance | | (207) | | (4,031) |
| Restructuring recovery | | 2,396 | | 551 |
| Income (loss) from operations | | 2,417 | | (1,270) |
| Other income | | 119 | | 961 |
| Net finance costs | | (604) | | (1,353) |
| Loss on disposition | | (24,465) | | (24,465) |
| Loss before income taxes | | (22,533) | | (26,127) |
| Income tax expense | | (117) | | (233) |
| Net loss from discontinued operations (attributable to shareholders of Capstone) | $ | (22,650) | $ | (26,360) |

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

The results of cash flows from discontinued operations for the three and six month period ended June 30, 2019 are set out below.

*Cash flows from discontinued operations:*

| | Three months ended June 30, 2019 | Six months ended June 30, 2019 |
|---|---|---|
| Net cash outflows from operating activities | $ (6,788) | $ (3,414) |
| Net cash inflows from investing activities | - | 167 |
| Net cash outflows from financing activities | - | (746) |
| Net cash outflows | $ (6,788) | $ (3,993) |

## 9. KORES Promissory Note

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

| | |
|---|---|
| Balance, December 31, 2019 | **$ 35,387** |
| Cash calls against the promissory note | **(1,160)** |
| Balance, June 30, 2020 | **$ 34,227** |

| | **June 30, 2020** | December 31, 2019 |
|---|---|---|
| KORES promissory note | **$ 34,227** | $ 35,387 |
| Less: current portion *(Note 5)* | **(2,893)** | (3,793) |
| Non-current portion | **$ 31,334** | $ 31,594 |

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

## 10. Other Assets

*Details are as follows:*

| | **June 30, 2020** | December 31, 2019 |
|---|---|---|
| *Current:* | | |
| Prepaids and other | **$ 4,580** | $ 2,304 |
| Derivative assets | **708** | 147 |
| Total other assets - current | **$ 5,288** | $ 2,451 |
| | | |
| *Non-current:* | | |
| Contingent consideration on sale of Minto *(Note 8)* | **$ 10,055** | $ 9,611 |
| Taxes receivable | **5,592** | 5,864 |
| Investments in marketable securities | **928** | 1,679 |
| Finance lease receivable | **1,318** | 1,553 |
| Deposits | **719** | 879 |
| Total other assets - non-current | **$ 18,612** | $ 19,586 |

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

During the three months ended June 30, 2020, the Company entered into a zero cost collar Mexican Peso to US dollar foreign exchange option transaction whereby it sold a series of call option contracts and purchased a series of put option contracts with equal and offsetting values at inception. The purchased put contracts have a floor Mexican Peso to US Dollar exchange rates ranging from 23.0 to 23.5. The sold call contracts have strike exchange rates ranging from 29.25 to 30.0. The contracts are for a total of $20.0 million (500 million Mexican Pesos) covering the period from August 2020 to December 2021, representing approximately 50% of the expected Mexican Peso costs of the Cozamin mine during this period. At June 30, 2020 the fair value of these derivatives is $0.7 million (2019 - $0.1 million)

## 11. Other Liabilities

*Details are as follows:*

| | | **June 30, 2020** | | December 31, 2019 |
|---|---|---|---|---|
| *Current:* | | | | |
| Income taxes payable | **$** | **799** | $ | 1,257 |
| Current portion of lease liabilities *(Note 12)* | | **682** | | 769 |
| Current portion of share-based payment obligation | | **1,457** | | 873 |
| Contract liabilities | | **26,728** | | - |
| Total other liabilities - current | **$** | **29,666** | $ | 2,899 |
| | | | | |
| *Non-current:* | | | | |
| Interest rate swap derivative liabilities *(Note 13)* | **$** | **593** | $ | - |
| Retirement benefit liabilities | | **5,062** | | 4,771 |
| Other | | **3,657** | | 3,365 |
| Total other liabilities - non-current | **$** | **9,312** | $ | 8,136 |

In June 2020, the Company entered into a concentrate offtake agreement with a third party whereby they will purchase copper concentrate produced by the Pinto Valley Mine based on market copper prices at the time of delivery. As part of this offtake agreement, the Company received a cash advance of $20.0 million, which has been accounted for as  a contract liability at June 30, 2020. Additionally, an advance payment of $6.7 million was received by the Pinto Valley Mine from another third party offtaker, which has also been accounted for as a contract liability at June 30, 2020.

## 12. Lease Liabilities

*Details are as follows:*

| | | **June 30, 2020** | | December 31, 2019 |
|---|---|---|---|---|
| Lease liabilities | **$** | **5,028** | $ | 5,939 |
| Less:  current portion *(Note 11)* | | **(682)** | | (769) |
| Non-current portion | **$** | **4,346** | $ | 5,170 |

*Undiscounted lease payments:*

| | | **June 30, 2020** |
|---|---|---|
| Not later than 1 year | $ | 935 |
| Later than 1 year and not later than 5 years | | 3,316 |
| Later than 5 years | | 3,186 |
| | $ | 7,437 |

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

## 13. Long-Term Debt

*Details are as follows:*

| | June 30, 2020 | December 31, 2019 |
|---|---|---|
| Long term debt | **$ 249,925** | $ 209,925 |
| Financing fees | **(2,265)** | (2,832) |
| Total long term debt | **$ 247,660** | $ 207,093 |

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

| | |
|---|---|
| Balance, December 31, 2019 | **$ 207,093** |
| Repayments | **(5,000)** |
| Drawdowns | **45,000** |
| Amortization of financing fees | **567** |
| Balance, June 30, 2020 | **$ 247,660** |

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

In 2019, $1.1 million of fees associated with the RCF amendment were capitalized and are being amortized to the consolidated statement of loss over the term of the facility. During the three and six months ended June 30, 2020, a total of $0.3 million and $0.6 million (2019 – $0.3 million and $0.6 million) respectively, was amortized and recorded in other interest expense.

The interest rate at June 30, 2020 was US LIBOR plus 3.5% (2019 - US LIBOR plus 2.75%) with a standby fee of 0.79% (2019 – 0.62%) payable on the undrawn balance (adjustable in certain circumstances).

During the three months ended June 30, 2020, the Company entered into an interest rate swap exchanging the floating LIBOR rate for a fixed monthly LIBOR rate of 0.355% on an amortizing notional principal balance as follows:

- $150M to December 31, 2020
- $125M to December 31, 2021
- $100M to July 25, 2022

Any balance drawn on the RCF above the notional principal of the swap will be charged interest at the prevailing market rate. Effectively the interest rate on these notional amounts is 0.355% plus 2.5% to 0.355% plus 3.5% based on the leverage ratio. At June 30, 2020, the fair value of the derivative liability is $0.6 million (2019 - $nil) *(Note 11).*

The RCF is secured against the present and future real and personal property, assets and undertakings of Capstone (excluding certain assets, which include Acquisition Co., Far West, Santo Domingo, and Far West Exploration S.A., and subject to certain exclusions for Capstone Mining Chile SpA). The credit facility requires the Company to maintain certain financial ratios relating to debt and interest coverage. Capstone was in compliance with these covenants as at June 30, 2020.

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

At June 30, 2020, there were four Surety Bonds totaling $124.1 million to support various reclamation obligation bonding requirements. This comprises $118.6 million securing reclamation obligations at Pinto Valley, $4.0 million provided as security as part of a power supply agreement at Pinto Valley, and $1.5 million related to the construction of a port for Santo Domingo in Chile. In addition, the Company has a letter of credit with Scotiabank for $0.3 million.

## 14. Income Taxes

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Income (loss) from continuing operations before income | **$ 7,745** | $ (3,653) | **$ (17,876)** | $ 14,422 |
| Canadian federal and provincial income tax rates | **27.00%** | 27.00% | **27.00%** | 27.00% |
| Income tax expense (recovery) based on the above rates | **2,091** | (986) | **(4,827)** | 3,894 |
| Increase (decrease) due to: | | | | |
| Non-deductible expenditures | **88** | 1,118 | **497** | 1,510 |
| Effects of different statutory tax rates | **253** | 71 | **2,660** | (1,299) |
| Mexican mining royalty tax | **380** | 346 | **778** | 1,474 |
| Impact of losses (gains) for which no deferred tax assets were recognized | **157** | (634) | **318** | 462 |
| Derecognition (recognition) of tax assets which were previously unrecognized | **572** | - | **(861)** | - |
| Foreign exchange and other translation adjustments | **368** | 91 | **1,418** | 215 |
| Withholding taxes | **-** | 526 | **263** | 526 |
| Adjustment to tax estimates in prior years | **3** | 8 | **(573)** | 172 |
| Other | **(497)** | 402 | **26** | 55 |
| Income tax expense (recovery) | **$ 3,415** | $ 942 | **$ (301)** | $ 7,009 |
| | | | | |
| Current income and mining tax expense | **$ 2,604** | $ 2,697 | **$ 3,813** | $ 5,246 |
| Deferred income tax expense (recovery) | **811** | (1,755) | **(4,114)** | 1,763 |
| Income tax expense (recovery) | **$ 3,415** | $ 942 | **$ (301)** | $ 7,009 |

## 15. Share Capital

*Authorized*
An unlimited number of common voting shares without par value.

*Stock options*
Pursuant to the Company's amended stock option plan, directors may authorize the granting of options to directors, officers, employees and consultants of the Company. Options granted under the plan have a term not to exceed 5 years and vesting periods that range from 1 to 3 years. The exercise price of options granted are denominated in Canadian dollars ("C$").

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

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

| | Options outstanding | Weighted average exercise price (C$) |
|---|---|---|
| Outstanding, December 31, 2019 | 23,309,912 | $ 0.93 |
| Granted | 5,325,528 | 0.70 |
| Exercised | (263,753) | 0.33 |
| Expired | (5,709,973) | 1.51 |
| Outstanding, June 30, 2020 | 22,661,714 | $ 0.73 |

*As at June 30, 2020, the following options were outstanding and outstanding and exercisable:*

| | Outstanding | | | Outstanding & exercisable | | |
|---|---|---|---|---|---|---|
| Exercise prices (C$) | Number of options | Weighted average exercise price (C$) | Weighted average remaining life (years) | Number of options | Weighted average exercise price (C$) | Weighted average remaining life (years) |
| $0.33 | 7,459,410 | $ 0.33 | 0.6 | 7,459,410 | $ 0.33 | 0.6 |
| $0.54 - $0.91 | 10,301,358 | 0.64 | 4.2 | 1,580,732 | 0.58 | 3.6 |
| $1.20 - $1.68 | 4,900,946 | 1.54 | 2.2 | 3,967,181 | 1.56 | 2.1 |
| | 22,661,714 | $ 0.73 | 2.6 | 13,007,323 | $ 0.74 | 1.4 |

During the three and six months ended June 30, 2020, the fair value of options granted was $nil and $1.0 million respectively (2019 – $0.02 and $0.9 million) and had a weighted average grant-date fair value of $nil and C$0.29 respectively (2019 – C$0.33 and C$0.29) per option.

*Weighted average assumptions used in calculating the fair values of options granted during the period were as follows:*

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Risk-free interest rate | **N/A** | 1.44% | **1.38%** | 1.81% |
| Expected dividend yield | **N/A** | nil | **nil** | nil |
| Expected share price volatility | **N/A** | 66% | **58%** | 67% |
| Expected forfeiture rate | **N/A** | 5.01% | **6.42%** | 5.01% |
| Expected life | **N/A** | 3.8 years | **3.8 years** | 3.8 years |

*Other share-based compensation plans*

The Company has other share-based compensation plans in the form of Deferred Share Units ("DSUs"), Restricted Share Units ("RSUs") and Performance Share Units ("PSUs"). DSUs granted to directors vest upon issuance but are not settled until cessation of service on the board, PSUs granted to executives vest after the three year performance period and RSUs granted to executives used to vest after three years but 2020 RSU grants now vest 1/3 per year over their three year term.

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

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

| | DSUs | RSUs | PSUs |
|---|---|---|---|
| Outstanding, December 31, 2019 | 3,551,366 | 7,848,890 | 5,268,600 |
| Granted | 792,858 | 5,434,234 | 3,335,447 |
| Forfeited | - | (548,957) | - |
| Settled | - | (890,606) | (1,020,537) |
| Outstanding, June 30, 2020 | 4,344,224 | 11,843,561 | 7,583,510 |

During the three and six months ended June 30, 2020, the fair value of DSUs, RSUs, and PSUs granted was $0.1 million and $5.0 million respectively (2019 - $0.1 million and $4.2 million) and had a weighted average grant-date fair value of C$0.43 and C$0.70 respectively (2019 – C$0.67 and C$0.62) per unit.

RSU and PSU obligations, under the Share Unit Plan, can be settled in cash, shares delivered from a Share Purchase Trust or a combination thereof, as determined by and at the discretion of the Human Resources and Compensation Committee of the Company's Board of Directors. DSU obligations, under the Deferred Share Unit Plan, are redeemed in cash. No Capstone shares were purchased by the Share Purchase Trust during the three and six months ended June 30, 2020 and 2019.

*Share-based compensation expense*

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Share-based compensation expense related to stock options | **$ 266** | $ 292 | **$ 485** | $ 961 |
| Share-based compensation (recovery) expense related DSUs, RSUs, and PSUs | **3,848** | (68) | **2,722** | 837 |
| Total share-based compensation expense (recovery) | **$ 4,114** | $ 224 | **$ 3,207** | $ 1,798 |

## 16. Revenue

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| Copper | **$ 103,143** | $ 116,610 | **$ 172,760** | $ 222,008 |
| Silver | **5,794** | 5,415 | **11,242** | 10,496 |
| Zinc | **2,128** | 1,470 | **4,025** | 7,754 |
| Lead | **24** | 319 | **963** | 1,582 |
| Molybdenum | **153** | 49 | **433** | 1,122 |
| Gold | **3,318** | 1,085 | **4,857** | 1,001 |
| Total gross revenue | **114,560** | 124,948 | **194,280** | 243,963 |
| Less: treatment and selling costs | **(9,821)** | (11,654) | **(19,189)** | (21,815) |
| Revenue | **$ 104,739** | $ 113,294 | **$ 175,091** | $ 222,148 |

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

*Revenue recognized in the reporting period for provisional pricing changes recorded in the above table:*

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Copper | **$ 12,097** | $ (6,111) | **$ 3,794** | $ 420 |
| Silver | **314** | 71 | **(17)** | (184) |
| Zinc | **790** | (657) | **312** | (139) |
| Lead | **64** | (21) | **40** | 6 |
| Molybdenum | **(52)** | - | **(5)** | - |
| Gold | **185** | 26 | **(529)** | (635) |
| Revenue adjustments from provisional pricing arrangements | **$ 13,398** | $ (6,692) | **$ 3,595** | $ (532) |

## 17. Earnings (Loss) Per Share

*Earnings (loss) per share, calculated on a basic and diluted basis, is as follows:*

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Income (loss) income per share | | | | |
| Basic and diluted | **$ 0.01** | $ (0.07) | **$ (0.04)** | $ (0.05) |
| Net income (loss) income available to common shareholders - basic and diluted | **$ 4,336** | $ (27,238) | **$ (17,417)** | $ (18,903) |
| Weighted average shares outstanding - basic | **392,688,353** | 391,225,231 | **392,599,623** | 391,222,534 |
| Dillutive securities | | | | |
| Stock options | **4,054,416** | - | **-** | - |
| Weighted average shares outstanding - diluted | **396,742,769** | 391,225,231 | **392,599,623** | 391,222,534 |
| *Weighted average shares excluded (as anti-dilutive)* | | | | |
| Stock options | **18,607,298** | 23,961,800 | **22,661,714** | 23,961,800 |

## 18. Supplemental Cash Flow Information

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Receivables | **$ (9,863)** | $ 3,813 | **$ 5,277** | $ 5,081 |
| Inventories | **6,786** | 13,046 | **(6,855)** | 15,094 |
| Other assets | **(195)** | 214 | **(2,333)** | (2,173) |
| Accounts payable and accrued liabilities | **(2,363)** | (6,045) | **8,588** | (8,984) |
| Other liabilities | **26,727** | 30 | **26,727** | 33 |
| Net change in non-cash working capital | **$ 21,092** | $ 11,058 | **$ 31,404** | $ 9,051 |

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

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

| | Three months ended June 30, | | | | Six months ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | | **2020** | | 2019 | | **2020** | | 2019 |
| Decrease (increase) in accounts payable and accrued liabilities related to mineral properties, plant & equipment | **$** | **365** | $ | (1,333) | **$** | **2,959** | $ | (815) |
| Depletion and amortization of mining equipment capitalized to deferred stripping assets | **$** | **190** | $ | 1,802 | **$** | **278** | $ | 3,147 |
| Fair value of stock options allocated to share capital upon exercise | **$** | **30** | $ | - | **$** | **30** | $ | 2 |

## 19. General & Administrative Expenses

*Details are as follows:*

| | Three months ended June 30, | | | | Six months ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | | **2020** | | 2019 | | **2020** | | 2019 |
| General & administrative | **$** | **2,764** | $ | 3,562 | **$** | **5,907** | $ | 7,350 |
| Corporate depreciation | | **274** | | 343 | | **608** | | 689 |
| | **$** | **3,038** | $ | 3,905 | **$** | **6,515** | $ | 8,039 |

## 20. Other Income

*Details are as follows:*

| | Three months ended June 30, | | | | Six months ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | | **2020** | | 2019 | | **2020** | | 2019 |
| Mark-to-market gain on contingent consideration *(Note 8)* | **$** | **3,507** | $ | 511 | **$** | **444** | $ | 511 |
| Other income (expense) | | **865** | | (346) | | **494** | | (508) |
| | **$** | **4,372** | $ | 165 | **$** | **938** | $ | 3 |

## 21. Segmented Information

The Company is engaged in mining, exploration and development of mineral properties, and has operating mines in the US and Mexico. The Company has four reportable segments as identified by the individual mining operations of Pinto Valley (US), Cozamin (Mexico), as well as the Santo Domingo development project (Chile) and Other. Segments are operations reviewed by the CEO, who is considered to be the chief operating decision maker. Minto operations have been classified as a discontinued operation for 2019.

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

*Operating segment details are as follows:*

| | Three months ended June 30, 2020 | | | | |
|---|---|---|---|---|---|
| | Pinto Valley | Cozamin | Santo Domingo | Other | Total |
| **Revenue** | | | | | |
| Copper | $ 82,370 | $ 20,773 | $ - | $ - | $ 103,143 |
| Silver | 1,395 | 4,399 | - | - | 5,794 |
| Zinc | - | 2,128 | - | - | 2,128 |
| Lead | - | 24 | - | - | 24 |
| Molybdenum | 153 | - | - | - | 153 |
| Gold | 3,318 | - | - | - | 3,318 |
| Treatment and selling costs | (7,199) | (2,622) | - | - | (9,821) |
| Net revenue | 80,037 | 24,702 | - | - | 104,739 |
| Production costs | (57,525) | (11,069) | - | - | (68,594) |
| Royalties | - | (661) | - | - | (661) |
| Depletion and amortization | (15,030) | (4,112) | - | - | (19,142) |
| Earnings from mining operations | 7,482 | 8,860 | - | - | 16,342 |
| General and administrative expenses | (203) | (65) | (7) | (2,763) | (3,038) |
| Exploration expenses | - | 5 | (8) | (177) | (180) |
| Care and maintenance | (353) | - | - | - | (353) |
| Share-based compensation expense | - | - | - | (4,114) | (4,114) |
| Earnings (loss) from operations | 6,926 | 8,800 | (15) | (7,054) | 8,657 |
| Other (expense) income | (433) | (1,194) | 28 | 4,094 | 2,495 |
| Earnings (loss) before finance costs and income taxes | 6,493 | 7,606 | 13 | (2,960) | 11,152 |
| Net finance costs | (798) | (96) | (2) | (2,511) | (3,407) |
| Earnings (loss) before income taxes | 5,695 | 7,510 | 11 | (5,471) | 7,745 |
| Income tax recovery (expense) | 60 | (2,712) | - | (763) | (3,415) |
| Total net income (loss) | $ 5,755 | $ 4,798 | $ 11 | $ (6,234) | $ 4,330 |
| Mineral properties, plant & equipment additions | $ 13,236 | $ 4,356 | $ 1,688 | $ 21 | $ 19,301 |

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

| | Three months ended June 30, 2019 | | | | |
|---|---|---|---|---|---|
| | Pinto Valley | Cozamin | Santo Domingo | Other | Total |
| Revenue | | | | | |
| Copper | $ 95,453 | $ 21,157 | $ - | $ - | $ 116,610 |
| Silver | 1,236 | 4,179 | - | - | 5,415 |
| Zinc | - | 1,470 | - | - | 1,470 |
| Lead | - | 319 | - | - | 319 |
| Molybdenum | 49 | - | - | - | 49 |
| Gold | 1,069 | 16 | - | - | 1,085 |
| Treatment and selling costs | (8,839) | (2,815) | - | - | (11,654) |
| Net revenue | 88,968 | 24,326 | - | - | 113,294 |
| Production costs | (70,352) | (13,288) | - | - | (83,640) |
| Royalties | - | (752) | - | - | (752) |
| Depletion and amortization | (16,763) | (5,703) | - | - | (22,466) |
| Earnings from mining operations | 1,853 | 4,583 | - | - | 6,436 |
| Exploration expenses | - | (581) | (6) | (1,478) | (2,065) |
| Care and maintenance | (243) | - | - | - | (243) |
| General and administrative expenses, and share-based compensation | (68) | (118) | - | (3,943) | (4,129) |
| Earnings (loss) from operations | 1,542 | 3,884 | (6) | (5,421) | (1) |
| Other (expense) income | (152) | (385) | 45 | 489 | (3) |
| Earnings (loss) before finance costs and income taxes | 1,390 | 3,499 | 39 | (4,932) | (4) |
| Net finance costs | (895) | (45) | (3) | (2,706) | (3,649) |
| Earnings (loss) before income taxes | 495 | 3,454 | 36 | (7,638) | (3,653) |
| Income tax recovery (expense) | 553 | (969) | - | (526) | (942) |
| Net income (loss) from continuing operations | $ 1,048 | $ 2,485 | $ 36 | $ (8,164) | $ (4,595) |
| Net loss from discontinued operations *(Note 9)* | - | - | - | - | (22,650) |
| Total net income (loss) | $ 1,048 | $ 2,485 | $ 36 | $ (8,164) | $ (27,245) |
| Mineral properties, plant & equipment additions | $ 16,765 | $ 8,910 | $ 6,930 | $ 18 | $ 32,623 |

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

| | Six months ended June 30, 2020 | | | | |
|---|---|---|---|---|---|
| | Pinto Valley | Cozamin | Santo Domingo | Other | Total |
| **Revenue** | | | | | |
| Copper | $ 130,462 | $ 42,298 | $ - | $ - | $ 172,760 |
| Silver | 2,214 | 9,028 | - | - | 11,242 |
| Zinc | - | 4,025 | - | - | 4,025 |
| Lead | - | 963 | - | - | 963 |
| Molybdenum | 433 | - | - | - | 433 |
| Gold | 4,850 | 7 | - | - | 4,857 |
| Treatment and selling costs | (13,397) | (5,792) | - | - | (19,189) |
| Net revenue | 124,562 | 50,529 | - | - | 175,091 |
| Production costs | (112,341) | (25,037) | - | - | (137,378) |
| Royalties | - | (1,335) | - | - | (1,335) |
| Depletion and amortization | (30,949) | (9,039) | - | - | (39,988) |
| (Loss) earnings from mining operations | (18,728) | 15,118 | - | - | (3,610) |
| General and administrative expenses | (314) | (144) | (7) | (6,050) | (6,515) |
| Exploration expenses | - | (169) | (20) | (557) | (746) |
| Care and maintenance | (589) | - | - | - | (589) |
| Share-based compensation expense | - | - | - | (3,207) | (3,207) |
| (Loss) earnings from operations | (19,631) | 14,805 | (27) | (9,814) | (14,667) |
| Other (expense) income | (17) | 3,379 | (224) | 1,296 | 4,434 |
| (Loss) earnings before finance costs and income taxes | (19,648) | 18,184 | (251) | (8,518) | (10,233) |
| Net finance costs | (1,665) | (197) | (4) | (5,777) | (7,643) |
| (Loss) earnings before income taxes | (21,313) | 17,987 | (255) | (14,295) | (17,876) |
| Income tax recovery (expense) | 7,272 | (6,531) | - | (440) | 301 |
| Total net (loss) income | $ (14,041) | $ 11,456 | $ (255) | $ (14,735) | $ (17,575) |
| Mineral properties, plant & equipment additions | $ 22,361 | $ 13,359 | $ 4,104 | $ 108 | $ 39,932 |

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

| | Six months ended June 30, 2019 | | | | |
|---|---|---|---|---|---|
| | Pinto Valley | Cozamin | Santo Domingo | Other | Total |
| Revenue | | | | | |
| Copper | $ 177,402 | $ 44,606 | $ - | $ - | $ 222,008 |
| Silver | 2,073 | 8,423 | - | - | 10,496 |
| Zinc | - | 7,754 | - | - | 7,754 |
| Lead | - | 1,582 | - | - | 1,582 |
| Molybdenum | 1,122 | - | - | - | 1,122 |
| Gold | 947 | 54 | - | - | 1,001 |
| Treatment and selling costs | (15,972) | (5,843) | - | - | (21,815) |
| Net revenue | 165,572 | 56,576 | - | - | 222,148 |
| Production costs | (118,254) | (26,475) | - | - | (144,729) |
| Royalties | - | (1,671) | - | - | (1,671) |
| Depletion and amortization | (28,062) | (11,330) | - | - | (39,392) |
| Earnings from mining operations | 19,256 | 17,100 | - | - | 36,356 |
| Exploration expenses | - | (758) | (52) | (2,013) | (2,823) |
| Care and maintenance | (500) | - | - | - | (500) |
| General and administrative expenses, and share-based compensation | (189) | (301) | - | (9,347) | (9,837) |
| Earnings (loss) from operations | 18,567 | 16,041 | (52) | (11,360) | 23,196 |
| Other (expense) income | (269) | (593) | 165 | 130 | (567) |
| Earnings (loss) before finance costs and income taxes | 18,298 | 15,448 | 113 | (11,230) | 22,629 |
| Net finance costs | (1,830) | (70) | (8) | (6,299) | (8,207) |
| Earnings (loss) before income taxes | 16,468 | 15,378 | 105 | (17,529) | 14,422 |
| Income tax expense | (1,635) | (4,848) | - | (526) | (7,009) |
| Net income (loss) from continuing operations | $ 14,833 | $ 10,530 | $ 105 | $ (18,055) | $ 7,413 |
| Net loss from discontinued operations *(Note 9)* | - | - | - | - | (26,360) |
| Total net income (loss) | $ 14,833 | $ 10,530 | $ 105 | $ (18,055) | $ (18,947) |
| Mineral properties, plant & equipment additions | $ 28,988 | $ 17,120 | $ 9,560 | $ 161 | $ 55,829 |

| | **As at June 30, 2020** | | | | |
|---|---|---|---|---|---|
| | **Pinto Valley** | **Cozamin** | **Santo Domingo** | **Other** | **Total** |
| **Mineral properties, plant and equipment** | **$ 707,187** | **$ 155,212** | **$ 263,103** | **$ 2,215** | **$ 1,127,717** |
| **Total assets** | **$ 837,570** | **$ 183,116** | **$ 268,827** | **$ 87,497** | **$ 1,377,010** |
| **Total liabilities** | **$ 187,139** | **$ 71,872** | **$ 3,664** | **$ 260,556** | **$ 523,231** |

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