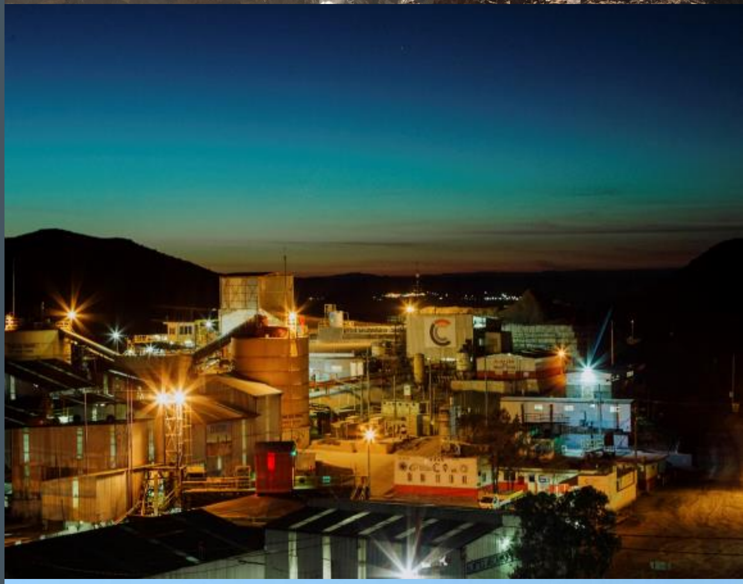
capstone MINING CORP

MANAGEMENT'S DISCUSSION AND ANALYSIS

AND

CONSOLIDATED FINANCIAL STATEMENTS



For the year ended
December 31, 2020

(Expressed in US Dollars)

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF
CAPSTONE MINING CORP.
FOR THE YEAR ENDED DECEMBER 31, 2020

Capstone Mining Corp. ("Capstone" or the "Company") has prepared the following management's discussion and analysis (the "MD&A") as of February 23, 2020 and it should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for year ended December 31, 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 expected success of the underground paste backfill system study and tailings filtration project at Cozamin, the PV HydroFloat project, the outcome and timing of the PV4 study, the potential for completion of a Santo Domingo stream agreement with Wheaton Precious Metals Corp., the successful completion of a rail and/ or port agreement with Puerto Ventanas, the success of our strategic process for the Santo Domingo project, the timing and success of the PV3 Optimization project, the realization of Mineral Reserve estimates, the timing and amount of estimated future production, costs of production and capital expenditures and reclamation, the success of our mining operations, the continuing success of mineral exploration, the estimations for potential quantities and grade of inferred resources and exploration targets, 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 "anticipates", "approximately", "believes", "budget", "estimates", expects", "forecasts", "guidance", intends", "plans", "scheduled", "target", or variations of such words and phrases, or statements that certain actions, events or results "be achieved", "could", "may", "might", "occur", "should", "will be taken" or "would" or the negative of these terms or comparable terminology. In this document certain forward-looking statements are identified by words including "anticipated", "expected", "guidance" and "plan". 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, availability of water, 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 and potential legal challenges to permit applications, contractual risks including but not limited to, our ability to meet the completion test requirements under the Cozamin Silver Stream Agreement with Wheaton Precious Metals, acting as Indemnitor for Minto Exploration Ltd.'s surety bond obligations post divestiture, impact of climate change and changes to climatic conditions at our Pinto Valley and Cozamin operations, changes in regulatory requirements and policy related to climate change and GHG emissions, 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, increased cost of reclamation, challenges to title to our mineral properties, increased taxes in jurisdictions the Company operates or is subject to tax, changes in tax regimes we are subject to and any changes in law or interpretation of law may be difficult to react to in an efficient manner, 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 including but not limited to competition for skilled labour, risks associated with joint venture partners, our ability to integrate new acquisitions and new technology 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 and Annual Information Form, 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 engaged in exploration for base metal deposits in Chile. 0908113 B.C. Ltd. ("Acquisition Co.") is a 70% owned subsidiary of Capstone and 30% owned by Korea Resources Corporation ("KORES"). Through Acquisition Co.'s wholly-owned Canadian subsidiary, Far West Mining Ltd. ("Far West"), Acquisition Co. is engaged in exploration for and development of base metal deposits primarily in Chile. Minera Santo Domingo SCM, a 100% owned subsidiary of Far West, holds the Santo Domingo copper-iron project in Chile.

Q4 2020 Highlights and Significant Items

Results Exceed 2020 Production and Cost Guidance

Capstone exceeded both production and cost guidance for 2020; finishing the year at 156.9 million pounds of copper production above the guidance range of 140 to 155 million pounds, at consolidated C1 cash costs[1] of $1.84 per payable pound of copper, below the guidance range of $1.85 to $2.00 per pound.

Q4 2020 Financial and Operational Highlights

- **Strong fourth quarter 2020 ("Q4 2020") copper production of 44.4 million pounds at C1 cash costs[1] of $1.68 per payable pound of copper produced**. Copper sales were 39.3 million pounds at a realized copper price of $3.64 per pound.
- **$150 million streaming agreement** with Wheaton Precious Metals for 50% of silver at Cozamin to strengthen the balance sheet announced in December 2020 and closed February 19, 2021.
- **Q4 2020 net income of $27.6 million, or $0.07 per share and Q4 2020 adjusted net income[1] of $35.6 million or $0.09 per share.** Adjusted net income[1] includes positive adjustment of $10.8 million for stock based compensation expense net of tax.
- **Q4 2020 adjusted EBITDA[1] of $63.5 million** which is 287% higher than Q4 2019 adjusted EBITDA[1] of $16.4 million. The adjusted EBITDA[1] is reflective of strong operational performance and the leverage of the Company's EBITDA[1] in a higher copper price environment.
- **Q4 2020 operating cash flow before changes in working capital[1] of $65.3 million or $0.16 per share** compared to $20.3 million or $0.05 per share in Q4 2019**.**

Cozamin 50% Silver Stream Results in Net cash[1] Position

In December 2020, the Company announced a Cozamin Silver Stream Agreement with Wheaton Precious Metals Corp. ("Wheaton"), effective December 1, 2020. On February 19, 2021, the Company announced all conditions to complete the Stream Agreement have been fulfilled and Capstone has received $150 million from Wheaton for 50% of the silver production until 10 million ounces have been delivered, thereafter dropping to 33% of silver production, for the life of mine. On closing, the Company was in a Net cash[1] position of $25 million, based on the year end net debt[1] balance of $124.9 million.

PV3 Optimization Phase 1 Delivers 10% Sustainable Throughput Improvement Compared to 2019

PV3 Optimization kicked off in 2020 with Phase 1 work completed in 2020. Phase 1 work included improved blast fragmentation processes, installation of a new secondary crushers and screen decks as well as a new mill shell. Pinto Valley achieved throughput of 57,168 tonnes per day ("tpd") in Q4 2020, showing a 10% sustainable improvement compared to annual 2019 (averaged 51,137 tpd). December 2020 mill throughput achieved 60,717 tpd which represents a new monthly record in the mine's operating history.

Phase 2 of the PV3 Optimization is expected to be completed in H2 2021, upon completion of upgrades to a conveyor, mill auto controls, cyclone packs and retrofits to the thickeners.

Eriez HydroFloat Coarse Particle Flotation Technology

During the month of December, a pilot plant test of Eriez HydroFloat coarse particle technology at Pinto Valley surpassed expectations of a 6% improvement target to overall copper recovery, showing a 6 to 8% increase in overall copper recovery is achievable, which when combined with expected higher throughput rates could result in an additional 9 to 12 million pounds of copper production per year. Additional benefits to the technology include allowing the operation increased throughput by operating at a coarser grind size, which is expected to lower power costs, improve water consumption and lead to improved stability in the tailings storage facility. The estimated $70 million expansionary capital, which includes the installation of Eriez HydroFloat and related equipment, if approved by the Board of Directors, is expected to be spread over H2 2021 and early 2022, with start-up expected in Q2 2022.

The Company expects to release an updated NI 43-101 Technical Report that encompasses PV3 Optimization Phase 1 and Phase 2 projects and improvements in H2 2021.

[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.

PV4 Study

Feasibility work on scenarios to take advantage of approximately one billion tonnes of Mineral Resource, not currently in the Mineral Reserve mine plan, which is at similar grade to the current Mineral Reserves will be conducted for Pinto Valley. The PV4 study is expected to be released in late 2022 and will contemplate utilizing existing mill infrastructure rather than building new, with higher mining rates, higher cut-off grades to the mill and increased tonnage available for leaching. Extensive column leach test work in collaboration with Jetti Resources LLC will take place over 2021. Jetti's novel patented catalytic technology allows for the efficient and effective heap and stockpile leach extraction of copper and has been a success at Pinto Valley's leaching operation, where we expect to recover up to 350 million pounds of cathode copper over the next two decades from historic and new mineralized waste piles. Capstone is a pioneer in the application of this leach technology and we intend to use it to enhance the economics of a future expansion at Pinto Valley.

Cozamin On Track for Ramp-Up to 3,780 Tonnes Per Day by End of Q1 2021

Ramp-up of mill processing to 3,780 tpd by the end of Q1 2021 is on track. The Calicanto ramp to open the one-way traffic circuit to debottleneck the mine was completed ahead of schedule in early December 2020, without any safety incidents and on budget.

Cozamin Updated Life of Mine Plan ("LOMP") and Updated Resources

The results of an updated NI 43-101 Technical Report for the Cozamin mine were announced on January 27, 2021, including an updated life of mine plan to 2031. Full operating years (2021-2030) and the highest copper grade years (2021-2027) are summarized below:

	2021-2030 (10 yrs)	**2021-2027 (7 years)**
Average annual copper production *(million pounds)*	51.2	58.8
Average annual silver production (*million ounces) – 100% basis*	1.6	1.7
Average annual C1 cash costs[1] (including the impact of the 50% silver stream) *(per payable pound)*	$1.02	$0.96

The results announced in January 2021 also included an increase to estimated Mineral Reserves (at October 31, 2020 effective date) of 39% to 14.1 million tonnes, relative to April 30, 2020 Mineral Reserves; contained copper and silver increased by 37% and 49%, respectively. Approximately half of this increase is due to recovery of high-grade pillars using paste backfill. The Technical Report included a pre-feasibility study for an underground paste backfill system, indicating a capital cost estimate ranging from $41 million to $45 million which includes capital for the filtered (dry stack) tailings facility noted below. The plant is expected to be commissioned in Q4 2022 with full ramp up by Q1 2023, with $13 million included in 2021 capital guidance.

Cozamin intends to convert from the current slurry tailings facility that has been safely operated for over 15 years to a filtered (dry stack) tailings facility. Feasibility-level design of the filtered tailings facility is expected to be completed in Q1 2021, and preparations are being made to submit the required permit applications. It is expected that this conversion to filtered tailings will significantly decrease the mine's socio-environmental, geotechnical and water supply risks, while decreasing water consumption and make-up water costs. The planned paste backfill system will use tailings for paste production, greatly decreasing the volume of tailings requiring an above ground storage impoundment.

Cozamin Exploration

Exploration expansion potential at the Mala Noche Footwall Zone ("MNFWZ") remains open in both the West and the East. 2021 brownfield exploration guidance of $5 million for 40,000 meters of surface drilling will primarily target expansion drilling in the newly recognized West target area, see Figures 1 and 2. Additional infill drilling to upgrade resources in the down-dip southeast area of Vein 20, and initial testing of new brownfield targets on adjacent vein systems, many with historical production, all within the Cozamin claim block will also be completed.

[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.*

The MNFWZ West target is an extension of Vein 20 recently identified by an extensive review of historical drilling data and confirmed by initial drill testing of the concept in 2020. The West target is supported by a reinterpretation of the geology in this area and has easy access from both the Mala Noche Vein ("MNV") and MNFWZ infrastructure. Development capacity in 2021 is limited to driving one non-production drift and therefore the East exploration drift has been delayed to 2022. Development of the new West exploration crosscuts will commence in Q1 2021, in tandem with the surface drilling program, with an estimated cost of $1.8 million additional to the drilling program. Once completed, future drilling will shift to underground starting in 2022.

Figure 1 – Cozamin One-way Ramp Ready for Higher Mining Rates

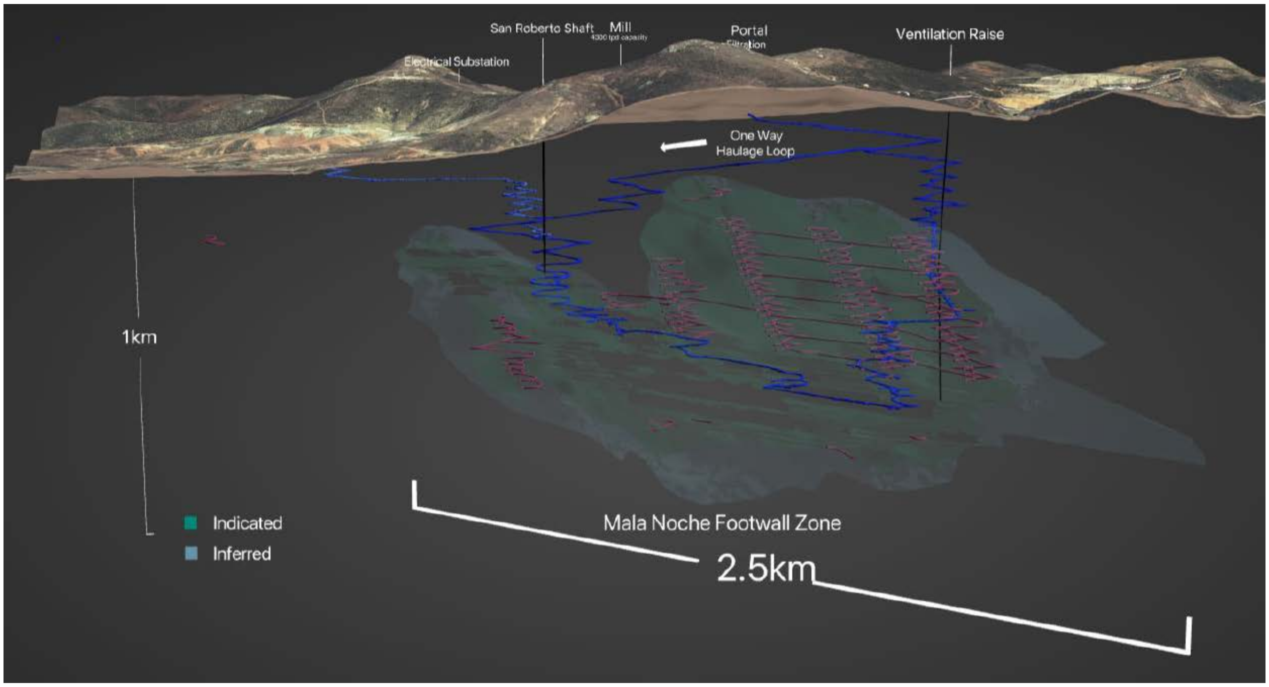
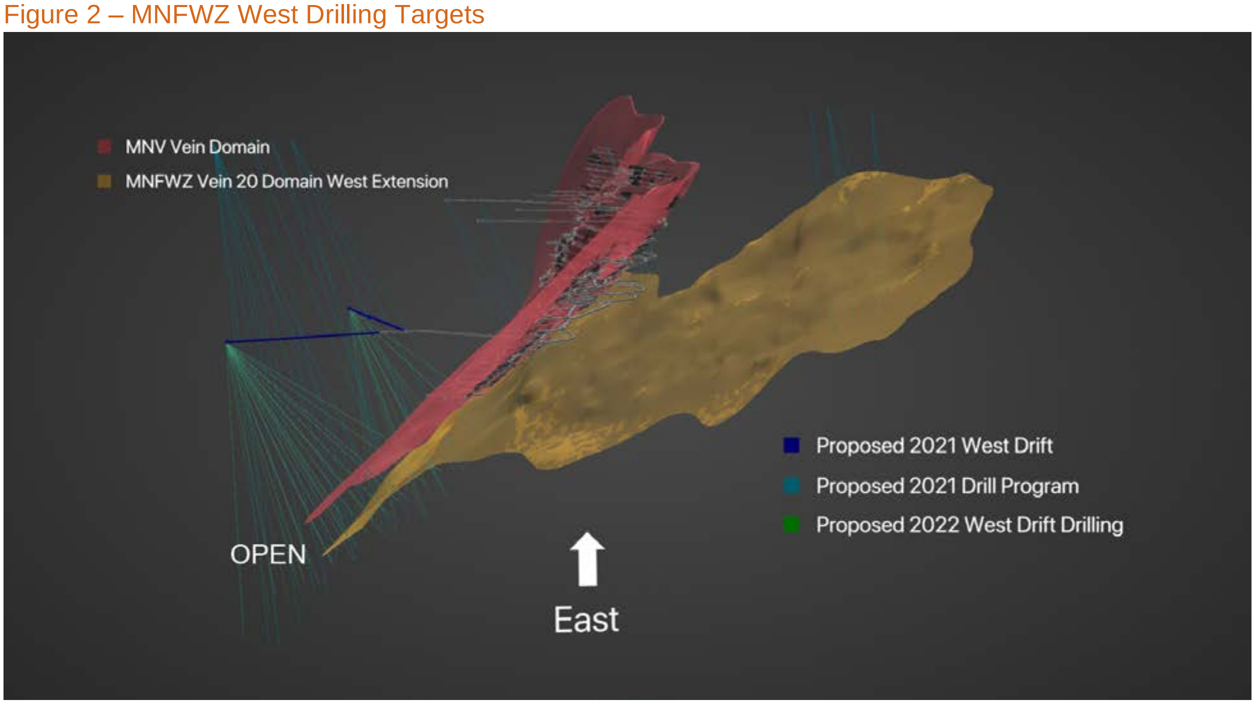


Figure 2 – MNFWZ West Drilling Targets



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Santo Domingo – Exclusive Discussions with Puerto Ventanas for the Port and Rail

In September 2020, Capstone announced it had entered into a memorandum of understanding ("MOU") with Puerto Abierto S.A. ("PASA"), a wholly owned subsidiary of Puerto Ventanas S.A. ("Puerto Ventanas") (subsidiary of Sigdo Koppers S.A.), for PASA to evaluate acquiring, constructing and operating the proposed port component of the Santo Domingo project and to evaluate replacement of the proposed 110 km magnetite pipeline with a railway. Exclusive negotiations around a proposed economic offer and framework agreement have been extended and are ongoing and we expect to provide an update later in Q1 2021. In addition to a port and rail deal with Puerto Ventanas, a gold stream and a strategic partnership are key deliverables for Capstone during 2021.

Health and Safety Update

We continue to enforce rigorous COVID-19 control and prevention measures at all our operations to ensure the health and safety of our workers. Zero Harm continues to be a priority at Capstone and our 2020 safety performance is summarized below.

	2020 Actuals	2020 Target
Lost Time Injury (LTI)	2	0
Total Reportable Incident (TRI)	5	0
YTD 2020 LTI Frequency Rate (LTIFR)	0.12	0.25
YTD 2020 TRI Frequency Rate (TRIFR)	0.40	1.00
Rolling 12-month LTIFR	0.12	0.25
Rolling 12-month TRIFR	0.40	1.00

Executive Announcements

In 2021, Brad Mercer was promoted to Chief Operating Officer. His role is now Senior Vice President and Chief Operating Officer, Jerrold Annett was promoted to Senior Vice President, Strategy and Capital Markets and Wendy King has an expanded role that will include her senior executive oversight on environment, social and governance ("ESG"). Her position is now Senior Vice President, Risk, ESG, General Counsel and Corporate Secretary.

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

Operational Overview

	Q4 2020	Q4 2019	2020	2019
Copper production (million pounds)				
Pinto Valley	34.1	26.0	119.0	117.6
Cozamin	10.3	9.4	37.9	35.8
Total	**44.4**	**35.4**	**156.9**	**153.4**
Copper sales				
Copper sold (from continuing operations)[2] (million pounds)	39.3	40.3	147.4	152.4
Realized copper price ($/lb.)	3.64	2.77	2.99	2.71
C1 cash costs[1] ($/lb.) produced				
Pinto Valley	2.00	2.35	2.21	2.05
Cozamin	0.63	0.91	0.69	0.90
Consolidated	**1.68**	**1.97**	**1.84**	**1.78**

[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

Q4 2020 production was 25% higher than Q4 2019 primarily due to significantly higher production at Pinto Valley, due to higher throughput as a result of the PV3 Optimization Phase 1 projects completed in Q3 2020, and also due to an increase in production at Cozamin as a result of higher head grades. The increase in production was the primary driver for the 15% or ~$0.30/lb reduction in C1 cash costs[1].

Pinto Valley Mine

Q4 2020 production increased by 31% compared to the same period last year. PV3 Optimization Phase 1 projects completed in Q3 2020, including the implementation of improved blast fragmentation processes, installation of a new secondary crusher and screen decks as well as a new mill shell, resulted in higher throughput (Q4 2020 – 57,168 tpd, and December 2020 of 60,717 tpd), which represented the highest quarterly figure since 2017 and highest monthly figure in the mine's operating history. Mine sequencing also contributed to higher planned head grades for Q4 2020 (0.33% versus 0.30% in Q4 2019). The higher than planned production in the month of December 2020 resulted in a build-up of inventory at December 31, 2020 and is the primary driver for why sales were lower than production for Q4 2020 and 2020 YTD.

Cozamin Mine

Production in Q4 2020 was 10% higher than the same period last year. This was primarily due to an increase in copper grade (1.72% versus 1.53%) as a result of increased mining activity from the copper rich San Jose and Calicanto zones in Q4 2020 (during Q4 2019 more material was mined from the San Rafael zinc zone which resulted in lowered blended copper grades).

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

Financial Overview

	Q4 2020	Q4 2019	2020	2019	2018[5]
Revenue[2] ($ millions)	**148.1**	**113.6**	**453.8**	**418.7**	**415.9**
Net income (loss) ($ millions)	**27.6**	**13.4**	**12.4**	**(16.2)**	**(23.6)**
Net income (loss) attributable to shareholders ($ millions)	**27.6**	**13.4**	**12.6**	**(16.0)**	**(22.7)**
Net income (loss) attributable to shareholders per common share – basic and diluted ($)	*0.07*	*0.03*	*0.03*	*(0.04)*	*(0.06)*
Adjusted net income (loss)[1] ($ millions) [3]	**35.6**	**(7.8)**	**26.4**	**(6.0)**	**13.4**
Adjusted net income (loss) attributable to shareholders per common share – basic and diluted ($)	*0.09*	*(0.02)*	*0.07*	*(0.01)*	*0.04*
Adjusted EBITDA[1,4] from continuing operations[2,3] ($ millions)	**63.5**	**16.4**	**139.2**	**96.4**	**131.9**
Cash flow from operating activities[2] ($ millions)	**67.4**	**22.1**	**147.2**	**92.9**	**131.1**
Cash flow from operating activities per common share[1,2] - basic ($)	*0.17*	*0.06*	*0.37*	*0.24*	*0.34*
Operating cash flow before changes in working capital[1,2] ($ millions)	**65.3**	**20.3**	**131.2**	**79.8**	**97.5**
Operating cash flow before changes in working capital per common share[1,2] – basic ($)	*0.16*	*0.05*	*0.33*	*0.20*	*0.25*

	December 31, 2020	December 31, 2019	December 31, 2018[5]
Total assets ($ millions)	**1,391.6**	**1,331.4**	**1,336.1**
Long term debt (excluding financing fees) ($ millions)	**184.9**	**209.9**	**219.9**
Total non-current financial liabilities ($ millions)	**183.6**	**207.1**	**217.0**
Total non-current liabilities ($ millions)	**408.5**	**404.6**	**380.5**
Cash and cash equivalents and short-term investments ($ millions)	**60.0**	**44.4**	**66.0**
Net debt[1] ($ millions)	**124.9**	**165.5**	**150.1**

[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[1] is earnings before interest, taxes, depletion and amortization.
[5] 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.*

Selected Quarterly Financial Information

($ millions, except per share data)	Q4 2020(i)	Q3 2020	Q2 2020(ii)	Q1 2020(iii)	Q4 2019(iv)	Q3 2019	Q2 2019(v)	Q1 2019
Revenue	148.1	130.5	104.7	70.4	113.6	82.9	113.3	108.9
Earnings (loss) from mining operations	57.2	28.6	16.3	(20.0)	6.0	0.1	6.4	29.9
Net income (loss) from continuing operations attributable to shareholders	27.6	2.4	4.3	(21.7)	13.4	(9.9)	(4.6)	12.0
Net income (loss) from continuing operations attributable to shareholders per share - basic and diluted	0.07	0.01	0.01	(0.06)	0.03	(0.03)	(0.01)	0.03
Net income (loss) attributable to shareholders	27.6	2.4	4.3	(21.7)	13.4	(10.6)	(27.2)	8.34
Net income (loss) per share attributable to shareholders - basic and diluted	0.07	0.01	0.01	(0.06)	0.03	(0.03)	(0.07)	0.02
Operating cashflow before changes in non-cash working capital[1]	65.3	44.9	24.0	(3.5)	20.3	9.5	19.2	30.7
Capital expenditures (including capitalized stripping)	31.2	32.2	19.3	20.6	28.5	28.5	32.6	23.2

(i) Earnings from mining operations and Net income (loss) in Q4 2020 includes a $16 million of mark-to-market expense on share unit liabilities.
(ii) Earnings from mining operations and Net income (loss) in Q2 2020 includes $14 million of positive non-cash provisional pricing adjustments and $8 million in reversals of inventory write-downs.
(iii) Earnings from mining operations and net income (loss) in Q1 2020 includes $10 million of negative non-cash provisional pricing adjustments and $7 million of inventory write-downs.
(iv) 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.
(v) The net income (loss) figures in Q2 2019 includes a non-cash loss on the sale of Minto of $24.5 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.

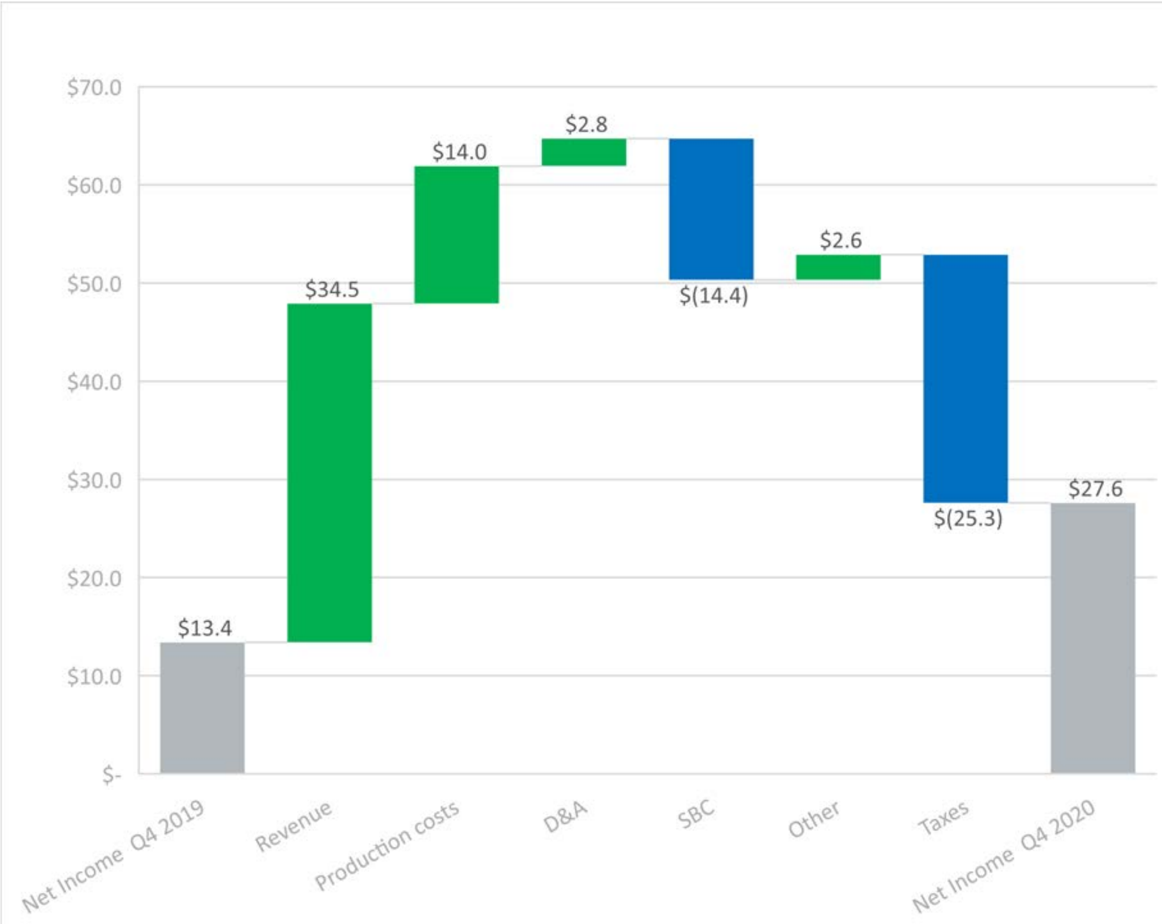
[1] *These are alternative performance measures. Refer to the MD&A section entitled "Alternative Performance Measures". Certain prior period alternative performance measures have been restated to conform with current period classification.*

Consolidated Results

Consolidated Net Income Analysis

Net Income for the Three Months Ended December 31, 2020 and 2019

The Company recorded net income of $27.6 million for the three months ended December 31, 2020 compared with net income of $13.4 million in Q4 2019. The major differences are outlined below:



The difference quarter-over-quarter was driven by:

- Revenue: $34.5 million or 30% increase from continuing operations driven by higher realized copper prices (Q4 2020 - $3.64 per pound, Q4 2019 - $2.77 per pound), slightly offset by a decrease in copper volumes sold due to an inventory build-up at Pinto Valley in Q4 2020. Q4 2020 realized copper prices benefitted from prior period sales settling at higher prices than anticipated at September 30, 2020, in addition to higher forward copper prices as at December 31, 2020 than prices during Q4 2020.
- Production costs: $14.0 million decrease:
  - Pinto Valley recorded $13.4 million lower production costs in Q4 2020 compared to Q4 2019 as a result of lower copper volumes sold and higher production driving down the inventory cost per pound in cost of goods sold (Q4 2020 – 29.7 million pounds, Q4 2019 – 32.0 million pounds).
  - Cozamin recorded $1.4 million lower production costs in Q4 2020 compared to Q4 2019 primarily due to lower operating costs driven by lower contractor development costs, and favorable Mexican Peso to USD exchange rates.
- Depletion and amortization: $2.8 million decrease primarily due to the decrease in copper volumes sold.
- Share-based compensation: $14.4 million increase as a result of mark to market adjustments on share unit liabilities to reflect the increase in the share price during Q4 2020 (increase from C$1.45

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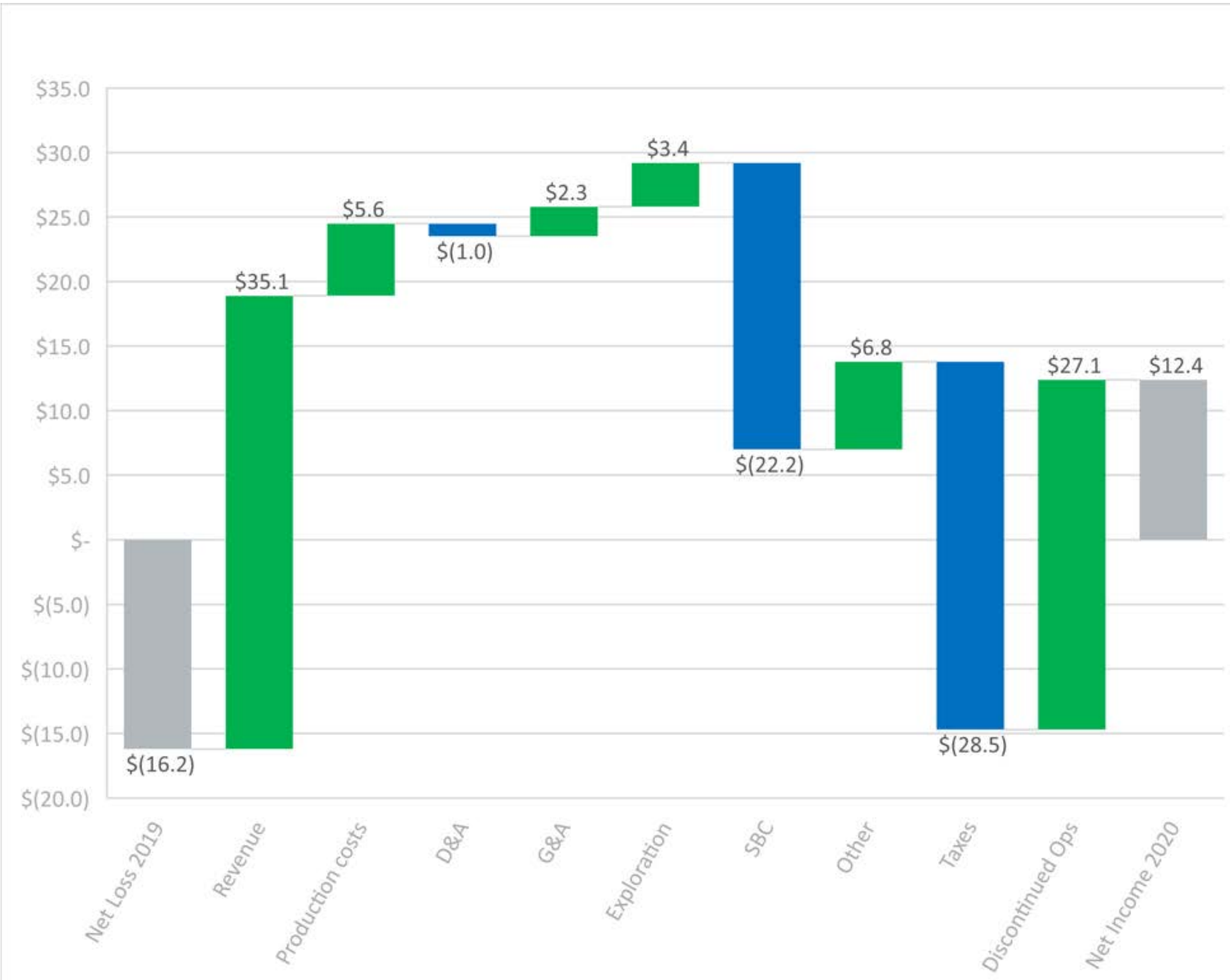
per share at September 30, 2020 to C$2.38 per share at December 31, 2020) compared to the mark to market adjustment recorded in Q4 2019 (C$0.76 per share at December 31, 2019 versus C$0.59 per share at September 30, 2019).

- Income taxes: $25.3 million change due to net income before taxes during Q4 2020 compared to a net loss before taxes in Q4 2019. Q4 2020 income tax expense also included $1.8 million related to changes to prior period estimates.

Net Income (Loss) for the Years Ended December 31, 2020 and 2019

The Company recorded net income of $12.4 million for the year ended December 31, 2020 compared with a net loss of $16.2 million in 2019. The major differences are outlined below:



The difference year-over-year was driven by:

- Revenue: $35.1 million or 8% increase from continuing operations related to higher realized copper prices (2020 – $2.99 per pound, 2019 – $2.71 per pound), partially offset by a 4.9 million pound (3%) decrease in copper volumes sold.
- Production costs: $5.6 million decrease:
    - Pinto Valley recorded $1.8 million higher production costs in 2020 compared to 2019 as a result of higher operating costs and less costs capitalized to deferred stripping, partially offset by lower copper volumes sold.
    - Cozamin recorded $8.2 million lower production costs in 2020 compared to 2019 primarily due to lower operating costs driven primarily by lower contractor development costs, and favorable Mexican Peso to USD exchange rates.
- Exploration expense: $3.4 million decrease primarily due to uncertainty regarding the COVID-19 impacts during H1 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.*

- Share-based compensation: $22.2 million increase as a result of mark to market adjustments on share unit liabilities to reflect the increase in the share price during the period (C$0.76 per share at December 31, 2019 increased to C$2.38 per share at December 31, 2020) compared to the mark to market adjustment recorded in 2019 (C$0.61 per share at December 31, 2018 increased to C$0.76 per share at December 31, 2019).
- Other: $6.8 million increase mainly due to mark to market adjustments on the contingent receivable on the sale of Minto, insurance proceeds received, and reduced interest on long-term debt, partially offset by the loss on derivative instruments of $1.2 million.
- Income taxes: $28.5 million change due to net income before taxes in 2020 compared to a net loss before taxes in 2019. 2019 deferred income tax recovery included recognition of non-capital losses of $26.0 million.
- Discontinued operations: Decrease in loss as the Minto mine which was sold in Q2 2019.

Revenue from Continuing Operations

Revenue increased quarter-on-quarter ($148.1 million versus $113.6 million in Q4 2019) primarily due to a higher realized copper price ($3.64 per pound versus $2.77 per pound in Q4 2019) on 1.0 million pounds lower copper volumes sold from continuing operations (39.3 million pounds versus 40.3 million pounds in Q4 2019). The increase in revenue was also driven by higher silver revenue due to increased silver prices (average market prices $24/ounce ("oz") versus average $17/oz in Q4 2019).

2020 revenue increased year-on-year ($453.8 million versus $418.7 million in 2019) primarily due to a higher realized copper price ($2.99 per pound versus $2.71 per pound in 2019), that was offset by decreased copper volumes sold from continuing operations of 5.0 million pounds (147.4 million pounds versus 152.4 million pounds in 2019) as a result of a buildup of copper concentrate inventory of approximately 8 million pounds at Pinto Valley. Silver revenue increased ($30.1 million versus $23.8 million in 2019) primarily at Cozamin due to higher silver prices (average market prices $21/oz versus average $16/oz in 2019), and gold revenue was $5.8 million higher at Pinto Valley due to improved gold payable terms and increased gold prices. Additionally, zinc revenue was $5.4 million lower at Cozamin due to lower production (14.6 million pounds versus 18.5 million pounds in 2019) as well as lower prices.

Realized Copper Prices

	2020				2019			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Pinto Valley	$ 2.25	$ 2.76	$ 3.15	$ 3.67	$ 2.97	$ 2.56	$ 2.49	$ 2.78
Cozamin	$ 2.40	$ 2.60	$ 3.07	$ 3.54	$ 3.03	$ 2.56	$ 2.58	$ 2.73
Total	$ 2.29	$ 2.72	$ 3.13	$ 3.64	$ 2.99	$ 2.56	$ 2.52	$ 2.77
LME Average	$ 2.56	$ 2.43	$ 2.96	$ 3.25	$ 2.82	$ 2.77	$ 2.63	$ 2.67
LME Close	$ 2.18	$ 2.73	$ 3.00	$ 3.51	$ 2.94	$ 2.71	$ 2.60	$ 2.79

Revenue by Mine

	Q4 2020 [2]		Q4 2019 [2]		2020 YTD [2]		2019 YTD [2]	
	$ millions	%	$ millions	%	$ millions	%	$ millions	%
Pinto Valley	105.3	71.1%	84.1	74.0%	321.3	70.8%	300.3	71.7%
Cozamin	42.8	28.9%	29.5	26.0%	132.5	29.2%	118.4	28.3%
Total revenue from continuing operations	148.1	100%	113.6	100%	453.8	100%	418.7	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 year ended December 31, 2020 included 47.8 million pounds of copper sold subject to final settlement. Of this, the prices for 22.9 million pounds are final at a weighted average price of $3.36 per pound. The remaining 24.9 million pounds are subject to price change upon final settlement at the end of the applicable quotational period, as follows:

Quotational Period	Millions of Pounds of Copper			Provisional Price ($/pound)
	Pinto Valley	Cozamin	Total	
Jan-21	5.7	3.0	8.7	$ 3.52
Feb-21	11.1	-	11.1	$ 3.52
May-21	5.1	-	5.1	$ 3.52
TOTAL	21.9	3.0	24.9	$ 3.52

Reconciliation of Realized Copper Price

	Q4 2020 $ millions	Q4 2019 $ millions	2020 YTD $ millions	2019 YTD $ millions
Gross copper revenue - provisional pricing analysis				
Gross copper revenue excluding provisional pricing changes	137.9	106.0	438.4	405.9
Provisional pricing changes to copper revenue	5.2	5.5	2.4	6.4
Gross copper revenue	**143.1**	**111.5**	**440.8**	**412.3**
	$/lb	$/lb	$/lb	$/lb
Gross copper revenue excluding provisional pricing changes	$ 3.51	$ 2.63	$ 2.97	$ 2.66
Provisional pricing changes to copper revenue	0.13	0.14	0.02	0.05
Realized copper price	**$ 3.64**	**$ 2.77**	**$ 2.99**	**$ 2.71**
Gross copper revenue - reconciliation to financials				
Gross copper revenue	143.1	111.5	440.8	412.3
Revenue from other metals	15.0	13.7	53.1	49.6
Treatment and selling	(10.0)	(11.6)	(40.1)	(43.2)
Revenue per financials	**148.1**	**113.6**	**453.8**	**418.7**
Payable copper sold (000s pounds)	**39,334**	**40,265**	**147,437**	**152,354**
LME average copper price	**$ 3.25**	**$ 2.67**	**$ 2.80**	**$ 2.72**

The realized copper price in Q4 2020 of $3.64 per pound was higher than the LME average of $3.25 per pound due to 33.5 million pounds of copper priced at an average of $3.03 per pound at September 30, 2020 which final settled or were second invoiced at higher prices during Q4 2020, and 24.9 million pounds of copper provisionally priced at an average of $3.52 per pound at December 31, 2020, which was higher than Q4 2020 prices. In addition, the timing of sales during Q4 2020 were more heavily weighted towards the end of the quarter when prices were higher.

The realized copper price in 2020 of $2.99 per pound was higher than the LME average of $2.80 per pound due to provisionally priced copper sales being priced at an average of $3.52 per pound at December 31, 2020, which was higher than 2020 average prices, in addition to the timing of sales being more heavily weighted towards the end of the year when prices were higher.

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

Consolidated Cash Flow Analysis

$ millions	Q4 2020	Q4 2019	2020	2019[2]
Operating cash flow before changes in working capital[1]	65.3	20.3	131.2	79.8
Changes in working capital	2.4	3.2	11.6	22.3
Changes in other assets[3]	(0.3)	(1.4)	4.4	(9.2)
Total cash flows from operating activities	**67.4**	**22.1**	**147.2**	**92.9**
Cash flows used in investing activities	(29.5)	(23.4)	(96.4)	(65.5)
Cash flows used in financing activities	(35.6)	(0.6)	(34.1)	(21.7)
Effect of foreign exchange rates on cash and cash equivalents	0.8	0.4	-	0.3
Net change in cash and cash equivalents	**3.1**	**(1.5)**	**16.7**	**6.0**
Opening cash and cash equivalents	53.5	41.4	39.9	33.9
Closing cash and cash equivalents	**56.6**	**39.9**	**56.6**	**39.9**

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

[3] Changes in other assets is primarily a change in contingent consideration receivable on sale of Minto.

Changes in Cash Flows for the Three Months Ended December 31, 2020 and 2019

The net change in cash was $3.1 million in Q4 2020 compared to ($1.5) million in Q4 2019. The change was primarily due to:

- Cash flow from operating activities before changes in working capital[1] was higher by $45.0 million primarily due to revenue less production costs being significantly higher in Q4 2020 versus Q4 2019. Q4 2020 revenue of $148.1 million less production costs of $69.2 million compared to Q4 2019 revenue of $113.6 million less production costs of $84.0 million. The increase in revenue is primarily due to higher realized copper prices. C1 cash cost[1] per payable pound of copper was lower in Q4 2020 compared to Q4 2019, primarily driven by higher copper production at both mines.
- Cash flows used in investing activities were $6.1 million higher in Q4 2020 due to $29.4 million of mineral properties, plant and equipment additions compared to $23.3 million in Q4 2019.
- Cash flows used in financing activities were $35.0 million higher in Q4 2020 primarily due to $35 million of net repayments on the revolving credit facility ("RCF") in Q4 2020 compared to nil in Q4 2019.

Changes in Cash Flows for the Years Ended December 31, 2020 and 2019

The net change in cash was $16.7 million in 2020 compared to $6.0 million in 2019. The change was primarily due to:

- Cash flow from operating activities before changes in working capital[1] was higher by $51.4 million primarily due to:
  - Revenue was $35.1 million higher as well as production costs $6.4 million lower in 2020 compared to 2019.
  - Taxes paid were $8.8 million lower as well as tax refunds were $3.3 million higher in 2020 compared to 2019.
- Cash flows used in investing activities were $30.9 million higher than 2019 primarily due to $1.1 million in proceeds from short-term investments in 2020 compared to $31.4 million in 2019.
- Cash flows used in financing activities were higher in 2020 primarily due to $25 million of net repayments on the RCF in 2020 compared to $15 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					2019				
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
Production (contained metal and cathode) [2]										
Copper in Concentrate (000's pounds)	25,721	29,058	26,485	32,710	113,974	31,853	28,081	28,865	25,058	113,857
Cathode (000's pounds)	1,067	1,114	1,436	1,377	4,994	846	892	1,071	963	3,772
Total Copper (000's pounds)	26,788	30,172	27,921	34,087	118,968	32,699	28,973	29,936	26,021	117,629
Mining										
Waste (000s tonnes)	5,588	5,677	8,025	8,002	27,292	7,876	7,889	7,285	7,051	30,101
Ore (000s tonnes)	5,399	4,992	4,461	5,030	19,882	4,999	4,545	4,663	4,681	18,888
Total (000s tonnes)	10,987	10,669	12,486	13,032	47,174	12,875	12,434	11,948	11,732	48,989
Strip Ratio (Waste:Ore)	1.04	1.14	1.80	1.59	1.37	1.58	1.74	1.56	1.51	1.59
Milling										
Milled (000s tonnes)	4,996	4,902	4,517	5,259	19,674	4,933	4,470	4,658	4,604	18,665
Tonnes per day	54,899	53,864	49,104	57,168	53,755	54,811	49,121	50,630	50,043	51,137
Copper grade (%)	0.28	0.32	0.31	0.33	0.31	0.35	0.33	0.33	0.30	0.33
Recoveries										
Copper (%)	82.4	85.0	86.3	86.0	85.0	84.3	87.0	85.6	83.5	85.1
Concentrate Production										
Copper (dmt)	46,613	53,793	49,005	62,020	211,431	56,146	46,490	48,676	45,248	196,560
Copper (%)	25.0	24.5	24.5	23.9	24.5	25.7	27.4	26.9	25.1	26.3
Property costs [1,3] ($/t milled)	$10.87	$10.86	$13.08	$10.56	$11.29	$9.94	$11.62	$11.91	$11.29	$11.17
Payable copper produced (000's pounds)	25,888	29,155	26,994	32,942	114,979	31,584	27,991	28,926	25,144	113,645
Copper C1 cash cost [1] ($/lb payable copper produced)	$2.41	$2.12	$2.38	$2.00	$2.21	$1.79	$2.00	$2.13	$2.35	$2.05
Adjusted EBITDA [1,3] ($ millions)	$2.9	$4.1	$30.5	$45.0	$82.5	$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

Production was slightly higher in 2020 than 2019 despite lower planned grades (0.31% versus 0.33%). This was due to higher throughput as a result of the improvements from PV3 Optimization Phase 1 projects completed during the year, including implementation of blast fragmentation technology, installation of secondary crushers and screen decks, as well as a new mill shell. Additionally, there was 1.2 million pounds more cathode produced in 2020, impacted by the Jetti catalytic technology deployed at site.

C1 cash costs[1] of $2.21 per payable pound in 2020 increased by 7% compared to the same period last year. The primary cause of the increase is due to increases in property costs (including stripping) ($230.8 million versus $216.0 million) which are the result of increases in contractor and maintenance spend. Additionally, there was lower deferred stripping adjustment ($0.09 per pound lower or $10.5 million).

Q4 2020 production increased by 31% compared to the same period last year. This was a result of an increase in throughput (57,168 tpd versus 50,043 tpd), as a result of PV3 Optimization Phase 1 projects completed in Q3 2020. Grades and recoveries were also higher as a result of planned mining sequence changes during the 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.*

This increase in production was the primary driver for the reduction of C1 cash costs[1] to $2.00 per payable pound during the quarter (Q4 2019 - $2.35 per payable pound), offset slightly by increases in treatment and selling costs (as a result of increased concentrate production) and operating costs at the mine.

Investing Activities

Sustaining capital in Q4 2020 of $10.2 million focused primarily on planned mining equipment component replacements and mine infrastructure. Expansionary capital in Q4 2020 of $5.4 million primarily related to PV3 Optimization Phase 1 projects aimed at increasing reliability and improving performance and included upgrades to the crushers, which resulted in improvements to throughput during the quarter. Deferred stripping was lower in 2020 due to a lower strip ratio 2020 compared to 2019. Deferred stripping increased in Q4 2020 relative to Q1-Q3 2020 due to the decision to accelerate stripping activities.

($ millions)	**Q4 2020**	Q4 2019	**2020**	2019
Deferred stripping - cash	**4.1**	3.3	**10.3**	20.8
Deferred stripping - non cash	**1.3**	1.0	**2.8**	5.7
Deferred stripping as reported in the financials	**5.4**	4.3	**13.1**	26.5
Sustaining capital	**10.2**	8.3	**29.5**	26.1
Expansionary capital	**5.4**	0.8	**17.4**	3.3
Right of use assets-non cash	**-**	-	**6.2**	-
Total	**21.0**	13.4	**66.2**	55.9

[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	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
Production (contained metal) [2]										
Copper (000's pounds)	8,699	8,349	10,595	10,283	37,926	8,672	8,723	9,085	9,361	35,841
Zinc (000's pounds)	4,464	2,213	4,305	3,605	14,587	5,525	3,842	4,526	4,570	18,463
Silver (000s ounces)	298	248	336	322	1,204	326	323	352	365	1,366
Mining										
Ore (000s tonnes)	278	235	283	287	1,083	271	289	296	287	1,143
Milling										
Milled (000s tonnes)	276	235	284	284	1,079	273	284	295	294	1,146
Tonnes per day	3,032	2,583	3,090	3,086	2,949	3,038	3,121	3,204	3,195	3,140
Copper grade (%) [3]	1.51	1.68	1.77	1.72	1.67	1.53	1.48	1.48	1.53	1.50
Zinc grade (%) [3]	1.04	0.71	1.03	0.88	0.92	1.32	0.96	1.01	1.00	1.07
Silver grade (g/t) [3]	42.0	39.9	46.5	44.2	43.3	47.9	45.0	46.1	47.8	46.7
Recoveries [3]										
Copper (%)	94.5	95.8	95.6	95.6	95.4	94.2	94.1	94.5	94.6	94.4
Zinc (%)	70.8	60.1	66.5	65.3	66.4	69.3	64.2	68.8	70.2	68.2
Silver (%)	78.7	84.1	78.9	79.7	80.1	77.5	77.3	77.0	78.7	77.7
Concentrate Production										
Copper (dmt)	14,229	13,762	17,495	17,219	62,705	15,163	15,484	15,505	15,118	61,270
Copper (%)	27.7	27.5	27.5	27.1	27.4	25.9	25.6	26.6	28.1	26.5
Silver (g/t)	555	549	567	540	553	576	604	620	627	607
Zinc (dmt)	4,168	2,081	3,953	3,346	13,548	5,383	3,651	4,090	4,173	17,297
Zinc (%)	48.6	48.3	49.4	48.9	48.8	46.6	47.7	50.2	49.7	48.4
Property costs [1,4] ($/t milled)	$45.17	$43.38	$37.74	$46.87	$42.72	$47.37	$47.57	$47.24	$51.71	$48.50
Payable copper produced (000's lb's)	8,368	8,029	10,189	9,884	36,470	8,321	8,365	8,725	9,010	34,421
Copper C1 cash cost [1] ($/lb payable copper produced)	$0.95	$0.98	$0.36	$0.63	$0.69	$0.70	$1.06	$0.94	$0.91	$0.90
Adjusted EBITDA [1,4] ($ millions)	$11.7	$11.7	$25.5	$25.9	$74.8	$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 one-way ramp connection at Cozamin was completed in early December 2020, ahead of schedule. This ramp connection is expected to lead to an increase in mining and milling rates to approximately 3,780 tpd, supported by a higher grade mine plan, which is expected to deliver 50 to 60 million pounds of copper production moving forward. Cozamin announced a new 10 year mine plan on January 27, 2021.

Copper production was 6% higher in 2020 than in 2019, primarily driven by copper grade (1.67% versus 1.50%), and partially offset by lower throughput (2,949 tpd versus 3,140 tpd). This lower throughput was primarily due to the temporary ramp down at Cozamin in Q2 2020 as a result of a government decree as part of response to COVID-19. The higher grade was a result of mining more material from the copper rich San Jose and Calicanto zones during 2020 (during 2019 more material was mined from the San Rafael zinc zone which lowered blended copper grades).

[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.*

C1 cash costs[1] of $0.69 per payable pound for 2020 decreased by 23% compared to $0.90 in 2019. This is the result of savings in contactor spend as a result of improved long hole stoping productivity and less production from development headings during 2020 (6,761 meters versus 11,050 meters), as well as an increase in copper production for the year.

Copper production was 10% higher in Q4 2020 than in Q4 2019 as a result of higher grades (1.72% versus 1.53%) due to increased mining activity from the copper rich San Jose and Calicanto zones. In Q4 2019, there was more material from lower copper grade zones such as the San Rafael zinc zone and the San Roberto zone). Q4 2020 C1 cash costs[1] of $0.63 per payable pound decreased by 31% from the same period last year as a result of the increase in production, as well as savings in contractor costs due to less operating development meters (1,867 meters versus 2,770 meters) from optimized production from long hole stopes.

Investing Activities

Capital spending at Cozamin totaled $6.9 million for Q4 2020 and $22.5 million for 2020. This was related primarily to mine development and mine equipment. $1.3 million expansionary capital was spent during 2020 on the one-way ramp development which was completed in Q4 2020.

Capitalized exploration expenditures totaled $1.1 million for Q4 2020 and $5.2 million for 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 with three surface rigs and one underground rig.

[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.

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 the Company's news release dated February 19, 2020 for more information.

($ millions)	**Q4 2020**	Q4 2019	**2020**	2019
Capitalized project costs (100%) per financials	**2.4**	4.2	**9.2**	18.3
Capstone's share (70%)	**1.7**	2.9	**6.4**	12.8

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

The Santo Domingo project has commenced early works as prescribed by the Government. These opening works are prescribed in the environmental permit and serve to maintain the validity of the permit. Capstone has obtained all permits and approvals for the start of construction from the Chilean authorities including an approved Mine Closure Plan. In Q4 2020, Santo Domingo received an amended permit for a water desalination facility to provide all water required for the mine operation.

In September 2020, Capstone announced it had entered into a MOU with Puerto Ventanas, to evaluate acquiring, constructing and operating the proposed port component of the Santo Domingo project and to evaluate replacement of the proposed 110 km magnetite pipeline with a railway. Exclusive negotiations around a proposed economic offer and framework agreement have been extended and are ongoing and we expect to provide an update later in Q1 2021. In addition to a port and rail deal with Puerto Ventanas, a gold stream and a strategic partnership are key deliverables for Capstone during 2021.

The strategic process to right-size the project for Capstone or for a development partner to reduce operational risk actively continues, with ongoing and progressing discussions and negotiations.

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"). Under the terms of the agreement, the milestones are:

- $5 million due on April 1, 2021;
- $5 million within 90 days, following two consecutive quarters in which the average London Metals Exchange Cash Copper Bid Price at close ("Average LME Price") is greater than $3.00 per pound within the three years following earlier of Restart date or April 1, 2021; and
- $10 million, within 90 days following two consecutive quarters in which the Average LME Price is greater than $3.50 per pound within the three years following earlier of Restart date or April 1, 2021.

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.

On June 3, 2019, the fair value of the contingent consideration was $8.4 million, which is marked-to-market at the end of each reporting period with the change recorded in other income (expense). As at December 31, 2020, the fair value of the contingent consideration was $14.9 million.

Exploration

($millions)	**Q4 2020**	Q4 2019	**2020**	2019
Greenfield exploration	**1.9**	1.9	**3.1**	6.4
Brownfield exploration (capitalized to mineral properties) – Refer to Cozamin section	**1.1**	2.0	**5.2**	6.1
Total exploration	**3.0**	3.9	**8.3**	12.5

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 Alien Metals Ltd. for the Donovan 2 Prospect (Zacatecas, Mexico), an option agreement with Lara Exploration Ltd. for the Planalto Prospect (Carajas Region, Brazil), and a portfolio of 100% Capstone claims acquired by staking located in Sonora, Mexico. South American exploration is actively searching for new early-stage projects predominantly in Chile, Peru and Brazil. Field work has recommenced in Mexico and Brazil with COVID-19 precautions in place.

Outlook – 2021 Guidance

In 2021, Capstone expects to produce between 175 and 190 million pounds of copper at C1 cash costs[1] of between $1.75 and $1.90 per pound payable copper produced. Our production profile includes a ramp up during the year with a split of approximately 45% and 55% between first and second half of the year.

	Pinto Valley	Cozamin	Santo Domingo[2]	Total
Production and Cost (US$)				
Copper production (million pounds)	127 – 137	48 – 53	-	**175 – 190**
C1 cash cost[1]	$2.00 – $2.15	$1.00 – $1.15	-	**$1.75 – $1.90**
Capital Expenditure (US$ millions, rounded)				
Sustaining	$43	$25	-	**$68**
Capitalized stripping - expansionary	$7	-	-	**$7**
Expansionary	$20	$13	$20	**$53**
Total Capital Expenditure	**$70**	**$38**	**$20**	**$128**
Exploration (US$ millions, rounded)				
Brownfield (Cozamin)	-	$5	-	$5
Greenfield (Mexico and Brazil)	-	-	-	$4
Total Exploration	**-**	**$5**	**-**	**$9**

[2] On a 100% basis, the figure for expansionary capital at Santo Domingo is $29 million; $20 million is Capstone's 70% ownership.

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

Liquidity and Financial Position Review

Working Capital

Working capital was $64.0 million at December 31, 2020 compared with $68.0 million at December 31, 2019, as follows:

(millions)	Dec. 31, 2020	Dec. 31, 2019
Current assets		
Cash and cash equivalents	$ 56.6	$ 39.9
Short-term investments	3.4	4.5
Receivables	26.7	28.6
Inventories	58.3	47.9
Other assets	12.9	2.5
Total current assets	$ 157.9	$ 123.4
Current liabilities		
Accounts payable and accrued liabilities	$ 74.9	$ 52.5
Other liabilities	19	2.9
Total current liabilities	$ 93.9	$ 55.4
Working capital	$ 64.0	$ 68.0

Cash and cash equivalents increased by $16.7 million from December 31, 2019 to December 31, 2020. Refer to the Statement of Cash Flows within the Company's consolidated financial statements for further details surrounding the movement in the cash balance. The change in the cash balance includes the $25.0 million net repayment on the RCF during the year.

As at December 31, 2020, the Company held $3.4 million of highly liquid short-term investments in exchange traded funds. Given their liquid nature, management liquidates these short-term investments to meet cash demands on an as-needed basis.

Receivables decreased by $1.9 million primarily due to timing of cash receipts on shipments at Pinto Valley, as well as a reduction of income and mining tax receivable due to higher net income at Cozamin resulting in a payable tax position.

Inventories increased by $10.4 million primarily related to Pinto Valley, due to higher volumes of concentrates on hand driven by higher than planned production near year end.

Other assets increased by $10.4 million primarily due to the re-classification of the contingent consideration on sale of Minto of $5.0 million to current assets and the increase in derivative assets related to the Mexican Peso to US dollar foreign exchange option contracts.

Accounts payable and accrued liabilities increased by $22.4 million mainly due to a $21.4 million increase at Pinto Valley driven by timing of Q4 2020 capital additions and operating costs.

Other liabilities increased by $16.1 million primarily driven by higher income taxes payable at Cozamin due to higher net income as a result of a stronger copper prices, and the increase in the current share-based payment obligations of $7.4 million due to an increase in Capstone's share price (increase from C$0.76 opening price to C$2.38 closing price as at December 31, 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 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 December 31, 2020 was US LIBOR plus 2.75% (2019 - US LIBOR plus 2.75%) with a standby fee of 0.62% (2019 – 0.62%) payable on the undrawn balance (adjustable in certain circumstances).

In April 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 total 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 December 31, 2020.

Upon closing of the streaming agreement with Wheaton Precious Metals on February 19, 2021, the $150 million received was used to repay the RCF and the credit limit on the RCF has been reduced from $300 million to $225 million. In addition, all the remaining interest rate swap derivatives were early settled in February 2021.

Provisions

Provisions of $141.8 million at December 31, 2020 includes the following:

- $116.0 million for reclamation and closure cost obligations at Capstone's operating mines;
- $3.6 million related to other long-term provisions at the Cozamin mine; and
- $22.2 million for the long-term portion of the share-based payment obligations associated with the Deferred Share Units, Restricted Share Units and Performance Share Units. The current portion of the share-based payment obligations of $8.3 million is recorded in other liabilities.

Share-based payment obligations increased by $25.2 million during the year. The increase was primarily driven by the increase in the Company's share price during the year.

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, and the proceeds from the Cozamin Silver Stream agreement with Wheaton Precious Metals Corp. received in February 2021, we believe we have the financial capacity to manage our liquidity for the foreseeable future.

[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 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, through 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 RCF at 0.355% through to July 2022.
- Pinto Valley fixed diesel prices with a supplier on its expected 2021 and 2022 diesel consumption at $1.76/gallon and $2.13/gallon, respectively.

Commitments
Agreements with the Grupo Minera Bacis S.A. de C.V. ("Bacis")
Under the terms of the December 2003 option agreement with Bacis, Capstone assumed a 100% interest in the Cozamin Mine with a 3% net smelter royalty paid to Bacis on all payable metal sold from production on the property covered by the agreement.

Agreement with Jetti Resources, LLC ("Jetti")
Under the terms of the 2019 agreement, the Company is required to make quarterly royalty payments to Jetti based on an additional net profits calculation resulting from cathode production at the Pinto Valley mine. The initial term of the agreement is ten years, renewable for 5-year terms thereafter.

Off-take agreements
The Company has a concentrate off-take agreement with a third party whereby it will purchase 100% of the copper concentrate produced by the Cozamin Mine up to the end of November 2021.

The Company has a concentrate off-take agreement with a third party whereby it will purchase 100% of the zinc concentrate produced by the Cozamin Mine up to the end of November 2021.

The Company has a concentrate off-take agreement with a third party whereby it will purchase 100% of the lead concentrate produced by the Cozamin Mine up to the end of March 2021.

The Company has a number of annual and multi-year concentrate off-take agreements with third parties whereby they will purchase the copper concentrate produced by the Pinto Valley Mine.

The total remaining lease commitments associated with the Company's lease agreements that expire between 2024 and 2029 are $10.7 million (2019 – $7.7 million) as at December 31, 2020.

Capital expenditure contracted for at the end of the reporting period but not yet incurred was $14.8 million (2019 – $16.3 million).

Risks and Uncertainties
For full details on the risks and uncertainties affecting the Company, please refer to the Company's Annual Information Form ("AIF") (see section entitled "Risk Factors") for the year ended December 31, 2019. This document is 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.

Mining is inherently dangerous and subject to conditions or events beyond Capstone's control.

Capstone's operations are subject to all the hazards and risks normally encountered in the exploration, development, construction, care and maintenance activities and production of copper and other metals, including, without limitation, workplace accidents, fires, including wildfires, power outages, labour disruptions, flooding, explosions, cave-ins, landslides, ground or stope failures, tailings dam failures and other geotechnical instabilities, weather events, seismic events, access to water, equipment failure or structural failure, metallurgical and other processing problems and other conditions involved in the mining of minerals, any of which could result in damage to, or destruction of, our mines, mineral properties, plants and equipment, personal injury or loss of life, environmental damage, delays in mining, increased production costs, asset write-downs, monetary losses, legal liability and governmental action. Our mines have large tailings dams which could fail as a result of extreme weather events, seismic activity, or for other reasons. The occurrence of any of these events could result in a prolonged interruption in Capstone's operations, increased costs for asset protection or care and maintenance activities that would have a material adverse effect on Capstone's business, financial condition, results of operations and prospects.

Wildfires and inclement weather conditions, whether occurring at Capstone's sites, adjacent lands, or supplier and downstream sites, may impact our ability to operate, transport or access and supply sites, and increase overall costs or impact Capstone's financial performance. In severe circumstances, civil authorities may impose evacuation orders. Our sites in Arizona and Mexico are subject to drought conditions and create a higher exposure to wildfire risk.

Pandemics or other public health crises, including Coronavirus (COVID-19), could adversely affect our operations and financial position.

The outbreak of COVID-19, and the future emergence and spread of a similar or other infectious diseases and viruses, could have a material adverse effect on global economic conditions and adversely impact our business and operations as well as the operations of our suppliers, contractors and service providers, and impact the demand for copper or base metal prices.

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 or other pathogens of infectious diseases 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 or other infectious diseases 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.

Changes in the market price of copper and other metals could negatively affect the profitability of the Company's operations and financial condition and negatively impact Mineral Reserve estimations or render our business, or part thereof, no longer economically viable.

Capstone is largely 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, iron, gold, and 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 iron, gold, or silver 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, iron, 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, iron, gold, or silver would affect the profitability of the Pinto Valley Mine and the Cozamin Mine and viability of the Santo Domingo project, 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 or a significant production interruption event, will make delivery into hedged positions or off-take agreements uneconomic.

We may face risks in connection with our Cozamin Silver Stream Agreement with Wheaton Precious Metals International Ltd.

Our silver stream agreement at Cozamin mine is subject to pricing risk. Unexpected spikes in silver prices may result in an increase in silver credit payables compared to receivables and the use of hedging mechanisms may not be economical to reduce to the risk. Capstone is required to meet certain completion requirements before December 31, 2023 under the silver stream agreement, namely, Capstone must construct a paste backfill plant and achieve at least 60% of the tonnes of ore that is processed through the mineral processing facility being converted into suitable paste backfill and being used in the underground operations at Cozamin over a period of 90 consecutive days during which a completion test has been performed. Failure to achieve the foregoing completion requirements will result in a refund from Capstone to Wheaton up to a maximum amount of $13 million. We are subject to a multitude of taxation regimes and any changes in law or interpretation of law may be difficult to react to in an efficient manner.

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.

Our operations are subject to geotechnical challenges, which could adversely impact our production and profitability.

No assurances can be given that unanticipated adverse geotechnical and hydrological conditions such as landslides, cave-ins, rock falls, slump, ground or stope failures, tailings storage facility failures or releases and pit wall failures will not occur in the future or that such events will be detected in advance. Due to the age of our mines and more complex deposits, Capstone's pit is becoming deeper resulting in higher pitwalls and underground environments are becoming more complex, potentially increasing the exposure to geotechnical instabilities and hydrological impacts. Geotechnical instabilities can be difficult to predict and are often affected by risks and hazards outside of Capstone's control, such as seismic activity and severe weather events, which may lead to periodic floods, mudslides, and wall instability.

Capstone's mine sites have multiple active and inactive tailings storage facilities, including upstream raised dams and legacy facilities inherited through acquisition activities. Our tailings storage facilities have been designed by professional engineering firms specializing in this activity. Capstone continues to review and enhance existing practices in line with international best practices; however, no assurance can be given that these events will not occur in the future. There is no guarantee that our existing tailings storage facilities' will be sufficient to support ongoing operations or operational expansions in which Capstone may have to forgo future operational expansions or invest in new tailings storage facilities in order to safely operate. Tailings storage facilities have the risk of failure due extreme weather events, seismic activity or for other reasons. The failure of tailings dam facilities or other impoundments could cause severe or catastrophic environmental and property damage or loss of life. Geotechnical or tailings storage facility failures could result in the suspension of our operations, limited or restricted access to sites, government investigations, remediation costs, increased monitoring costs and other impacts, which could result in a material adverse effect on our operational results and financial position.

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.

Our operations are dependent on the availability of water.

Water is critical to the mining process and we understand that water is a finite resource significant to society, our local communities and the ecosystem, and its use is highly regulated in jurisdictions where we operate. Water availability is integral to the operations at the Pinto Valley Mine. A lack of necessary water for a prolonged period of time could affect operations at the Pinto Valley Mine and materially adversely affect our results of operations. Capstone has entered into a Water Supply Agreement with BHP Copper, but such agreement is subject to water availability and BHP Copper's own requirements. There is no guarantee that this agreement will be renewed at reasonable terms or adequate for future operational expansions or extensions to the life of mine. Capstone may have to secure future water sources that could increase operational costs or additional capital expenditures. There is no guarantee that future water sources are available or at reasonable costs and could have an adverse impact on our financial condition. Our efforts to maximize water efficiency and minimize water usage may not be sufficient to combat existing drought conditions or changes in water availability due to climate change.

Capstone's Mineral Resources and Mineral Reserves are estimates and are subject to uncertainty.

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

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

We face added risks and uncertainties of operating in foreign jurisdictions, including changes in regulation and policy, and community interest or opposition.

Capstone's business operates in a number of foreign countries where there are added risks and uncertainties due to the different economic, cultural and political environments. Our mineral exploration and mining activities may be adversely affected by political instability and changes to government regulation relating to the mining industry. Changes in governmental leadership in the US, Chile, and Mexico, could impact Capstone's operations and local societal conditions. Other risks of foreign operations include political or social unrest, labour disputes and unrest, invalidation of governmental orders and permits, corruption, organized crime, theft, war, civil disturbances and terrorist actions, arbitrary changes in law or policies of particular countries including nationalization of mines, trade disputes, foreign taxation, price controls, delays in obtaining or renewing or the inability to obtain or renew necessary environmental permits, opposition to mining from local communities and environmental or other non-governmental organizations, social perception impacting our social license to operate, limitations on foreign ownership, limitations on the repatriation of earnings, limitations on mineral exports and increased financing costs. Local economic conditions, including higher incidences of criminal activity and violence in areas of Mexico can also adversely affect the security of our people, operations and the availability of supplies. Capstone may encounter social and community issues including but not limited to public expression against our activities, protests, road blockages, work stoppages, or other forms of expression, which may have a negative impact on our reputation and operations or projects. Opposition to our mining activities by local landowners, the ejidos, communities, or activist groups may cause significant delays or increased costs to operations, and the advancement of exploration or development projects, and could require Capstone to enter into agreements with such groups or local governments.

In addition, risks of operations in Mexico include extreme fluctuations in currency exchange rates, high rates of inflation, significant changes in laws and regulations including but not limited to tax regulations, hostage taking and expropriation. These risks may limit or disrupt Capstone's projects, reduce financial viability of local operations, restrict the movement of funds or result in the deprivation of contract rights or the taking of property by nationalization or expropriation without fair compensation. There can be no assurance that changes in the government, including but not limited to the recent change in the federal administration of the United States, or laws or changes in the regulatory environment for mining companies or for non-domiciled companies will not be made that would adversely affect Capstone's business, financial condition, results of operation and prospects.

Differences in interpretation or application of tax laws and regulations or accounting policies and rules and Capstone's application of those tax laws and regulations or accounting policies and rules where the tax impact to the Company is materially different than contemplated may occur and adversely affect Capstone's business, financial condition, results of operation and prospects. Capstone is subject to a multitude of taxation regimes and any changes in law or interpretation of law may be difficult to react to in an efficient manner.

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

Title to Capstone's properties may be challenged or impugned. Our property interests may be subject to prior unregistered agreements or transfers and title may be affected by undetected defects. Surveys have not been carried out on the majority of our properties and, therefore, in accordance with the laws of the jurisdiction in which such properties are situated, their existence and area could be in doubt.

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

Our operations are subject to significant governmental regulation, which could significantly limit our exploration and production activities.

Capstone's mineral exploration, development and operating activities are subject to governmental approvals and various laws and regulations governing development, operations, taxes, labour standards and occupational health, mine safety, toxic substances, land use, water use and land claims affecting local communities, and in certain circumstances First Nations and Indigenous populations consultation as part of permitting processes. The liabilities and requirements associated with the laws and regulations related to these and other matters may be costly and time-consuming and may restrict, delay or prevent commencement or continuation of exploration or production operations. We cannot provide definitive assurance that we have been or will be at all times in compliance with all applicable laws and regulations and governmental orders. Failure to comply with applicable laws, regulations and governmental orders may result in the assessment of administrative, civil and criminal penalties or charges, the imposition of cleanup and site restoration costs and liens, the issuance of injunctions to limit or cease operations, the suspension or revocation of permits or authorizations and other enforcement measures that could have the effect of limiting or preventing production from our operations. Capstone may incur material costs and liabilities resulting from claims for damages to property or injury to persons arising from Capstone's operations. If Capstone is pursued for sanctions, costs and liabilities in respect of these matters, Capstone's mining operations and, as a result, Capstone's financial performance, financial position and results of operations, could be materially and adversely affected.

In addition, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner that could limit or curtail our exploration, development or production. This risk may increase following changes to government leadership or governing parties, or through increasing societal pressures. Amendments to current laws, tax regimes, regulations and permits governing operations and activities of mining and exploration companies, or the more stringent implementation thereof, could have a material adverse impact on Capstone and increase our exploration expenses, capital expenditures, ability to attract funds, or production costs or reduce production at our producing properties or require abandonment or delays in exploring or developing our properties.

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

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

Permit terms and conditions can also impose restrictions on how we operate and limits our flexibility in developing our mineral properties. Many of Capstone's permits are subject to renewal from time to time, and renewed permits may contain more restrictive conditions than Capstone's existing permits. In addition, we may be required to obtain new permits to expand our operations, and the grant of such permits may be subject to an expansive governmental review of our operations. Alternatively, we may not be successful in obtaining such permits, which could prevent Capstone from commencing, extending or expanding operations or otherwise adversely affect Capstone's business, financial condition, results of operation and prospects. Further, renewal of our existing permits or obtaining new permits may be more difficult if we are not able to comply with our existing permits. Applications for permits, permit area expansions and permit renewals may be subject to challenge by interested parties, which can delay or prevent receipt of needed permits. The permitting process can also vary by jurisdiction in terms of its complexity and likely outcomes.

Accordingly, permits required for Capstone's operations may not be issued, maintained or renewed in a timely fashion or at all, may be issued or renewed upon conditions that restrict Capstone's ability to operate economically, or may be subsequently revoked. Design and construction standards for tailings storage facilities may become more restricted in the future, impacting our mines' ability to expand, operate, or renew permits and as a result, considerable capital expenditures may be required to comply with new standards, regulations and permitting requirements. Any such failure to obtain, maintain or renew permits, or other permitting delays or conditions, including in connection with any environmental impact analyses, could have a material adverse effect on Capstone's business, results of operations, financial condition and prospects. At the end of 2018 and again in 2020, Cozamin mine increased its Mineral Reserves and will require additional tailings capacity to support the extension of operations. Cozamin is studying filtered (dry stack) tailings storage facility design options which will require additional permits and regulatory approvals for construction activities. The proposed option could be more costly to design, construct, or operate, and may impact the footprint of the mine plan boundaries. The current tailings facility will eventually reach an optimal capacity limit, after which further expansion stages will not be pursued. This may result in additional requirements for maintaining the tailings dam post-operation and pre-reclamation activities.

Climate change and its impact on climatic conditions may adversely affect our operations at the Pinto Valley and Cozamin Mines and our Santo Domingo Project, or current and future development projects.

The potential physical impacts of climate change on our operations are highly uncertain and are particular to the geographic circumstances in areas in which we operate. These may include changes in precipitation and storm patterns and intensities, water shortages, wildfires, changing sea levels and changing temperatures. Extreme weather events have the potential to impact our mining operations, exploration and development projects and supply chains. Additionally, global climatic conditions can impact the capacity for insurance available in the market which could have a negative effect on Capstone's financial condition or risk exposure.

Arizona can be subject to extreme periods of drought. A prolonged decrease in precipitation rates or increase in temperatures causing evaporation, could decrease the availability of necessary water supplies and could affect operations at the Pinto Valley Mine and materially adversely affect our results of operations. Prolonged extreme temperatures could lead to work-related heat stress resulting in health and safety risks to employees while working outdoors. Arizona can also be subject to significant rainfall events which could result in excess water or flooding of the pit, tailings storage facilities or other significant areas at the Pinto Valley Mine adversely affecting our results of operations or causing adverse impacts.

Operations at the Cozamin Mine are also subject to extreme adverse weather conditions including, but not limited to, flooding and drought. The rainy season extends from June until September with an average annual precipitation of approximately 500mm. Drought has also been prevalent in Central Mexico for years and the effects of lack of water might disrupt normal process operations.

Extreme weather conditions in Chile, including but not limited to flooding, may have adverse effects on the ability of the Santo Domingo project to advance development.

Changes in climate change regulatory regime could adversely affect our business.

Climate change is an international and societal concern and as a result poses risk of both climate changes and government policy in which governments are introducing climate change legislation and treaties at all levels of government that could result in increased costs, and therefore, decreased profitability at some of our operations or projects. As the regulatory requirements are evolving there is uncertainty to the requirements. Mining is an energy-intensive business and can result in an increased carbon footprint. Regulation specific to greenhouse gases, emission levels and energy efficiency is becoming more stringent. Carbon-pricing mechanisms may be introduced in the jurisdictions we operate or conduct business. New legislation and increased regulation could impose costs on our operations, customers, and suppliers, including increased energy, capital equipment, environmental monitoring and reporting and other costs to comply with such regulations. The implementation of regulations and carbon-pricing mechanisms aimed at reducing the effects of climate change could impact our ability to pursue future opportunities, or maintain our existing operations, which could have an adverse effect on our business. The company may decide to pursue environmental impact reduction activities which could result in higher operational costs or increased capital outlays.

Our operations are subject to stringent environmental laws and regulations that could significantly limit our ability to conduct our business.

Our operations are subject to various laws and regulations governing the protection of the environment, exploration, development, production, taxes, labour standards, occupational health, waste disposal, tailings facility management, safety and other matters. Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining operations, such as spills or excessive seepage or dust from tailings storage facilities, which could result in environmental pollution. A breach of such legislation may result in the imposition of fines and penalties. In addition, certain of our operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in the direction of stricter standards and enforcement, higher fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their directors, officers and employees. Compliance with changing environmental laws and regulations may require significant capital outlays, including but not limited to revisions to tailings facility designs, obtaining additional permits, installation of additional equipment, or remedial actions and may cause material changes or delays in, or the cancellation of, our exploration programs or current operations.

It may be difficult for Capstone to recruit and retain qualified people.

The mining industry is experiencing recruitment and retention challenges for skilled and experienced employees. Due to the cyclical nature of mining and the emergence of competing industries the talent pool for skilled and experienced workers is shrinking. The number of new workers entering the mining sector may not be sufficient to replace the number of retirees in the future. It may be difficult for Capstone to recruit and retain qualified people Arizona, Mexico and Chile, or compete for talent with other companies who are situated in these areas, which may result in increased costs and delays.

It may be difficult for Capstone to obtain all of the necessary services or expertise in Arizona, Mexico and Chile or to conduct operations on Capstone’s projects at reasonable rates. If qualified people and services or expertise cannot be obtained in Arizona, Mexico and Chile, we may need to seek and obtain those services from people located outside of these areas, which will require work permits and compliance with applicable laws and could result in delays and higher costs.

Our operations will be adversely affected if we fail to maintain satisfactory labour relations.

The majority of our workforce is not unionized with the exception of approximately 422 of the hourly employees at the Pinto Valley Mine which are represented by six unions, governed by one collective bargaining agreement negotiated by the United Steelworkers Union which is in effect until May 29, 2022. Additional groups of non-union employees may seek union representation in the future. Further, relations with employees may be affected by changes in the scheme of labour relations that may be introduced by the relevant governmental authorities in jurisdictions where Capstone conducts business. Changes in such legislation or otherwise in our relationship with our employees may result in higher ongoing labour costs, employee turnover, strikes, lockouts or other work stoppages, any of which could have a material adverse effect on our business, results of operations and financial condition.

We may not be able to compete successfully with other mining companies.

The mining industry is competitive in all of its phases. Capstone faces strong competition from other mining companies in connection with the acquisition of properties producing or capable of producing metals. Many of these companies have greater liquidity, greater access to credit and other financial resources, newer or more efficient equipment, lower cost structures, more effective risk management policies and procedures and/or a greater ability than Capstone to withstand losses. Our competitors may be able to respond more quickly to new laws or regulations or emerging technologies or devote greater resources to the expansion or efficiency of their operations than we can. There is no guarantee that our investment in new technologies will result in improved operational or financial performance or our overall competitiveness in the long term, including but not limited to the Jetti catalyst technology. The performance of the Jetti catalyst technology may not result in the level of copper cathode recovery anticipated at our electrowinning (“SX-EW”) plant. In addition, current and potential competitors may make strategic acquisitions or establish cooperative relationships amongst themselves or with third parties. Accordingly, it is possible that new competitors or alliances amongst current and new competitors may emerge and gain significant market share to our detriment. Capstone may also encounter increasing competition from other mining companies in our efforts to hire experienced mining professionals. Increased competition could adversely affect Capstone's ability to attract necessary capital funding, to acquire it on acceptable terms, or to acquire suitable producing properties or prospects for mineral exploration in the future. As a result of this competition, we may not be able to compete successfully against current and future competitors, and any failure to do so could have a material adverse effect on our business, financial condition, results of operations and prospects. Further, Capstone may become a target for a corporate takeover or may decide to engage in a strategic merger. Such activities may create uncertainty among shareholders and markets and therefore influence share prices.

There are security risks associated with our operations in Mexico that may have a material adverse effect on its operations.

Throughout Mexico, including the regions we operate, there has been an increase in violence between the drug cartels, human trafficking originations or other criminal organizations including violence towards the authorities. Capstone's Cozamin mine located in Zacatecas, Mexico, and operates in a region that is experiencing an increasing rate of criminal activity and violence. Cozamin's copper concentrate is delivered by truck under an agreement to a major trading company in Manzanillo, Mexico. Additionally, the majority of Pinto Valley's copper concentrate is hauled using a modular truck system across the US and Mexico border into the state of Sonora and shipped out of the port of Guaymas. Criminal activities in these regions or in neighbouring regions, or the perception that activities are likely, may disrupt Capstone's operations or supply chains and lead to an adverse financial impact or an increase in costs to further manage the security risk.

Although measures have been implemented to protect our employees, contractors, property and facilities, no assurances can be given that security incidents will not have a material adverse effect on our operations and financial position. The law enforcement authorities' efforts to reduce criminal activity may experience challenges from a lack of resources, corruption and the power of organized crime. The effect of such security incidents cannot be accurately predicted and may result in serious adverse consequences including harm to employees, contractors or visitors, theft or damage to property and assets, and the disruption or suspension to our operations leading to an adverse financial impact. Increasing criminal activity and violence may increase community tensions, impacting Capstone's ability to hire and keep qualified personnel or contractors and could impact the company's ability to conduct business.

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 is considered a related party due to the following:

On June 17, 2011, Capstone entered into a strategic relationship with KORES. The terms of this relationship provided for, amongst other things, a private placement in the equity of Capstone, representation on the Board of Directors of Capstone, the acquisition of a 30% interest in Acquisition Co. which, through its subsidiaries, owns the Santo Domingo copper-iron project in Chile.

Related party transactions and balances are disclosed in the consolidated financial statements for the year ended December 31, 2020.

Off Balance Sheet Arrangements

At December 31, 2020, the Company had no off-balance-sheet arrangements other than the following:

- those disclosed under Commitments in the consolidated financial statements for the year ended December 31, 2020;

- the indemnification referred to in the Minto – Discontinued Operations Reporting section; and
- Four surety bonds totaling $124.2 million.

Accounting Changes

Effective January 1, 2019, the Company adopted IFRS 16, Leases, using the modified retrospective application method. 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.

Some of 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 net of by-product credits and 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 and assumes that realized by-product prices are consistent with those prevailing during the reporting period.

All-in Sustaining Costs Per Payable Pound of Copper Produced

All-in sustaining costs per payable pound of copper produced is an extension of the 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 cash

Net debt/Net cash 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 December 31, 2020 and 2019

	Q4 2020			Q4 2019		
	Pinto Valley	Cozamin	Total	Pinto Valley	Cozamin	Total
Payable copper produced (000s lbs)	32,942	9,884	42,826	25,144	9,010	34,154
Production costs of metal produced (per financials, $M)	$ 55.6	$ 13.7	$ 69.3	$ 69.0	$ 15.0	$ 84.0
Transportation cost to point of sale ($M)	(5.1)	(1.0)	$ (6.1)	(5.2)	(1.0)	(6.2)
Inventory (write-down) reversal ($M)	(0.3)	-	(0.3)	(0.7)	-	(0.7)
Inventory working capital adjustments ($M)	4.2	0.3	4.5	(12.8)	1.2	(11.6)
Cash production costs of metal produced ($M)	$ 54.4	$ 13.0	$ 67.4	$ 50.3	$ 15.2	$ 65.5
Production costs ($/lb)						
Mining	$ 0.51	$ 0.77	$ 0.57	$ 0.59	$ 1.09	$ 0.72
Milling/Processing	0.95	0.32	0.80	1.20	0.36	0.99
G&A	0.19	0.22	0.20	0.21	0.24	0.21
C1P sub-total	1.65	1.31	1.57	2.00	1.69	1.92
By-product credits ($/lb)	(0.09)	(0.97)	(0.29)	(0.09)	(1.10)	(0.36)
Treatment and selling costs ($/lb)	0.44	0.29	0.40	0.44	0.32	0.41
C1 cash cost ($/lb PRODUCED)	**$ 2.00**	**$ 0.63**	**$ 1.68**	**$ 2.35**	**$ 0.91**	**$ 1.97**
NSR royalties	0.01	0.13	0.04	-	0.10	0.03
Production-phase capitalized stripping	0.13	-	0.10	0.13	-	0.10
Sustaining capital	0.31	0.66	0.39	0.35	0.76	0.46
Sustaining leases	0.01	-	0.01	-	-	-
Capitalized mineral drift	-	0.02	-	-	-	-
Accretion of reclamation obligation	0.01	0.01	0.01	0.02	0.01	0.01
Amortization of reclamation asset	0.01	0.03	0.01	-	0.03	0.01
Corporate G&A, excluding depreciation			0.08			0.11
All-in sustaining cost adjustments	0.48	0.85	0.64	0.50	0.90	0.72
All-in sustaining cost ($/lb PRODUCED)	**$ 2.48**	**$ 1.48**	**$ 2.32**	**$ 2.85**	**$ 1.81**	**$ 2.69**

[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.

Twelve Months Ended December 31, 2020 and 2019

	2020 YTD			2019 YTD		
	Pinto Valley	Cozamin	Total	Pinto Valley	Cozamin	Total
Payable copper produced (000s lbs)	114,978	36,471	151,449	113,644	34,422	148,066
Production costs of metal produced (per financials, $M)	$ 235.5	$ 50.4	$ 285.9	$ 233.6	$ 58.6	$ 292.2
Transportation cost to point of sale ($M)	(21.1)	(3.1)	$ (24.2)	(21.3)	(3.3)	$ (24.6)
Inventory write-down ($M)	0.6	0.0	0.6	(1.5)		(1.5)
Inventory working capital adjustments ($M)	5.4	(1.6)	3.8	(15.9)	0.4	(15.5)
Cash production costs of metal produced ($M)	$ 220.4	$ 45.7	$ 266.1	$ 194.9	$ 55.7	$ 250.6
Production costs ($/lb)						
Mining	$ 0.59	$ 0.75	$ 0.63	$ 0.50	$ 1.02	$ 0.62
Milling/Processing	1.12	0.30	0.92	1.03	0.37	0.87
G&A	0.21	0.21	0.21	0.19	0.23	0.20
C1P sub-total	1.92	1.26	1.76	1.72	1.62	1.69
By-product credits ($/lb)	(0.14)	(0.85)	(0.31)	(0.09)	(1.07)	(0.32)
Treatment and selling costs ($/lb)	0.43	0.28	0.39	0.42	0.35	0.41
C1 cash cost ($/lb PRODUCED)	**$ 2.21**	**$ 0.69**	**$ 1.84**	**$ 2.05**	**$ 0.90**	**$ 1.78**
NSR royalties	0.01	0.10	0.03	-	0.10	0.02
Production-phase capitalized stripping	0.09	-	0.07	0.18	-	0.14
Sustaining capital	0.26	0.58	0.33	0.23	0.78	0.36
Sustaining leases	0.01	-	0.01	-	0.01	0.01
Capitalized mineral drift	-	0.01	-	-	-	-
Accretion of reclamation obligation	0.01	0.01	0.01	0.02	0.01	0.02
Amortization of reclamation asset	0.01	0.03	0.03	-	0.04	0.01
Corporate G&A, excluding depreciation			0.08			0.10
All-in sustaining cost adjustments	0.39	0.73	0.56	0.43	0.94	0.66
All-in sustaining cost ($/lb PRODUCED)	**$ 2.60**	**$ 1.42**	**$ 2.40**	**$ 2.48**	**$ 1.84**	**$ 2.44**

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

Reconciliation of Net debt/Net cash

		31-Dec-20		31-Dec-19
Long term debt (per financials, $M), excl. deferred financing costs of $1.7M and $2.8M	$	184.9	$	209.9
Less:				
Cash and cash equivalents (per financials, $M)		(56.6)		(39.9)
Short term investments (per financials, $M)		(3.4)		(4.5)
Net debt/Net cash	**$**	**124.9**	**$**	**165.5**

Reconciliation of Available Liquidity

		31-Dec-20		31-Dec-19
Revolving credit facility capacity[2]	$	300.0	$	300.0
Long term debt (per financials, $M), excl. deferred financing costs of $1.7M and $2.8M		(184.9)		(209.9)
		115.1		90.1
Cash and cash equivalents (per financials, $M)		56.6		39.9
Short term investments (per financials, $M)		3.4		4.5
Available liquidity	**$**	**175.1**	**$**	**134.5**

[2] Refer to credit facilities section of this document for changes to the RCF capacity subsequent to December 31, 2020.

Reconciliation of Cash Flow from Operating Activities per Common Share

($ millions, except share and per share amounts)		Q4 2020		Q4 2019		2020		2019
Cash flow from operating activities (per financials)	$	67.4	$	22.1	$	147.2	$	92.9
Weighted average common shares - basic (per financials)		396,658,829		391,487,393		393,857,183		391,303,393
Cash flow from operating activities per share	**$**	**0.17**	**$**	**0.06**	**$**	**0.37**	**$**	**0.24**

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

($ millions, except share and per share amounts)		Q4 2020		Q4 2019		2020		2019
Operating cash flow (per financials)	$	67.4	$	22.1	$	147.2	$	92.9
Adjustment for changes in working capital (per financials)		(2.4)		(3.2)		(11.6)		(22.3)
Changes in other assets (per financials)[2]		0.3		1.4		(4.4)		9.2
Operating cash flow before working capital changes	**$**	**65.3**	**$**	**20.3**	**$**	**131.2**	**$**	**79.8**
Weighted average common shares - basic (per financials)		396,658,829		391,487,393		393,857,183		391,303,393
Operating cash flow before working capital changes per share	**$**	**0.16**	**$**	**0.05**	**$**	**0.33**	**$**	**0.20**

[2] Changes in other assets is primarily a change in contingent consideration receivable on sale of Minto.

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

Reconciliation of Adjusted Net Income (Loss)

($ millions, except share and per share amounts)	Q4 2020	Q4 2019[2]	2020	2019[2]
Net income (loss)(per financials)	$ 27.6	$ 13.4	$ 12.4	$ (16.2)
Inventory write-down (reversal) - production costs	0.3	0.6	(0.7)	1.5
Unrealized loss on derivative contracts	(2.9)	-	(2.5)	-
Share based compensation	16.3	1.9	27.0	4.7
Unrealized foreign exhange (gain)/loss	3.2	(0.1)	(0.2)	0.9
Change in fair value of contingent receivable (RE: Minto)	(3.4)	(1.4)	(5.3)	(1.2)
Changes in deferred revenue	-	-	-	1.3
Care and maintenance - depreciation	0.2	-	0.6	-
Deferred income tax expense (recovery)	-	(23.2)	-	(23.2)
Insurance proceeds received	-	-	(0.8)	-
Other one time Minto costs	-	-	-	0.6
Non-recurring G&A	-	0.6	-	0.6
Loss on sale of Minto	-	-	-	24.5
Minto restructuring costs	-	-	-	0.3
(Gain)/loss on disposal of assets	0.3	0.8	0.3	1.0
Tax effect on the above adjustments	(6.0)	(0.4)	(4.4)	(0.8)
Adjusted net income (loss)	**$ 35.6**	**$ (7.8)**	**$ 26.4**	**$ (6.0)**
Adjusted net income (loss) attributable to:				
Shareholders of Capstone Mining Corp.	$ 35.6	$ (7.8)	$ 26.4	$ (5.8)
Non-controlling interests	-	-	-	(0.2)
	$ 35.6	**$ (7.8)**	**$ 26.4**	**$ (6.0)**
Weighted average common shares - basic (per financials)	396,658,829	391,487,393	393,857,183	391,303,393
Adjusted net income (loss) attributable to shareholders of Capstone Mining Corp. per common share - basic	**$ 0.09**	**$ (0.02)**	**$ 0.07**	**$ (0.01)**
Weighted average common shares - diluted (per financials)	396,658,829	395,185,246	398,657,026	392,223,443

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

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

Reconciliation of Adjusted EBITDA

($ millions)	Q4 2020	Q4 2019[2]	2020	2019[2]	2018[2]
Net income from continuing operations (per financials)[3]	$ 27.6	$ 13.4	$ 12.4	$ 10.8	$ 7.4
Net finance costs	3.2	4.4	14.8	16.7	17.2
Taxes	4.3	(21.0)	13.4	(15.1)	33.2
Depletion and amortization	20.2	23.3	82.6	82.5	69.9
EBITDA - from continuing operations	**55.3**	**20.1**	**123.2**	**94.9**	**127.7**
Share-based compensation expense (recovery)	16.3	1.9	27.0	4.7	(7.0)
Inventory write-down (reversal) - production costs	0.3	0.6	(0.7)	1.5	0.9
Unrealized gain on derivative instruments	(2.9)	-	(2.5)	-	0.1
Loss on disposal of mineral properties, plant and equipment	0.3	0.8	0.3	1.1	0.2
Unrealized foreign exchange (gain)/ loss	3.2	(0.1)	(0.2)	0.9	1.3
Unrealized revenue adjustment	(5.8)	(6.1)	(2.4)	(6.1)	5.3
Care and maintenance - depreciation	0.2	-	0.6	-	-
Non-recurring G&A	-	0.6	-	0.6	0.8
Insurance proceeds received	-	-	(0.8)	-	-
Restructuring Costs	-	-	-	-	2.6
Change in fair value of contingent receivable (RE: Minto)	(3.4)	(1.4)	(5.3)	(1.2)	-
Adjusted EBITDA - from continuing operations	**$ 63.5**	**$ 16.4**	**$ 139.2**	**$ 96.4**	**$ 131.9**
Adjusted EBITDA by mine					
Pinto Valley	45.0	9.9	82.5	61.9	84.9
Cozamin	25.9	10.6	74.8	51.3	67.4
Other	(7.4)	(4.1)	(18.1)	(16.8)	(20.4)
Adjusted EBITDA - from continuing operations	**$ 63.5**	**$ 16.4**	**$ 139.2**	**$ 96.4**	**$ 131.9**

[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 and 2018 amounts have been restated accordingly.

[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.*

Property Cost per Tonne Milled

	Q4 2020		Q4 2019		2020		2019	
	Pinto Valley	Cozamin	Pinto Valley	Cozamin	Pinto Valley	Cozamin	Pinto Valley	Cozamin
Tonnes of mill feed (000s)	5,259	284	4,603	294	19,674	1,079	18,665	1,146
Production costs of metal produced (per financials, $M)	$ 55.6	$ 13.7	$ 69.0	$ 15.0	$ 235.5	$ 50.4	$ 233.6	$ 58.6
Transportation cost to point of sale ($M)	(5.1)	(1.0)	(5.2)	(1.0)	(21.1)	(3.1)	(21.3)	$ (3.3)
Inventory write-down(reversal) ($M)	(0.3)	-	(0.7)	-	0.6	-	(1.5)	
Inventory working capital adjustments ($M)	4.2	0.3	(12.8)	1.2	5.4	(1.6)	(15.9)	$ 0.4
Cash production costs of metal produced ($M)	$ 54.4	$ 13.0	$ 50.3	$ 15.2	$ 220.4	$ 45.7	$ 194.9	$ 55.6
Deferred Stripping/Mineralized Drift costs ($M)	4.1	0.2	3.2	-	10.3	0.2	20.8	-
Cathode costs ($M)	(2.7)	-	(1.8)	-	(8.7)	-	(7.6)	-
Stockpile movement ($M)	(0.3)	0.1	0.2	-	0.1	0.2	0.4	-
Total property costs ($M)	55.5	13.3	52.0	15.2	222.1	46.1	208.5	55.6
Property cost per tonne milled	**$ 10.56**	**$ 46.87**	**$ 11.29**	**$ 51.71**	**$ 11.29**	**$ 42.72**	**$ 11.17**	**$ 48.50**

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	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
Copper (000 lbs)										
Pinto Valley	21,407	29,884	29,859	29,737	110,887	27,574	37,297	21,791	32,050	118,712
Cozamin	8,978	7,987	9,986	9,597	36,548	7,732	8,249	9,446	8,215	33,642
Total	30,385	37,871	39,845	39,334	147,435	35,306	45,546	31,237	40,265	152,354
Zinc (000 lbs)										
Cozamin	3,013	2,318	3,400	3,198	11,929	4,261	1,611	5,402	4,264	15,538
Lead (000 lbs)										
Cozamin	1,193	74	326	468	2,061	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	302	296	1,137	273	280	333	294	1,180
Pinto Valley	56	74	67	62	259	54	82	48	81	265
Total	347	322	369	358	1,396	327	362	381	375	1,445
Gold (ounces)										
Pinto Valley*	1,001	1,942	1,575	462	4,980	(98)	784	489	912	2,087
Cozamin	4	-	2	-	6	29	12	40	46	127
Total	1,005	1,942	1,577	462	4,986	(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.*

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

Continuity Schedule of Concentrate and Cathode Inventories

	Pinto Valley*			Cozamin		
	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	(54,815)	(644)	(12)	(14,148)	(2,717)	(82)
Jun. 30, 2020	12,263	208	-	750	297	5
Production	49,402	652	-	17,495	3,954	262
Sales	(54,881)	(646)	-	(17,326)	(3,919)	(258)
Sep. 30, 2020	6,784	214	-	919	332	9
Production	61,900	624	-	17,219	3,344	377
Sales	(54,170)	(804)	-	(16,939)	(3,662)	(338)
Dec. 31, 2020	14,514	34	-	1,199	14	48

** 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.

Outstanding Share Data and Dilution Calculation

The Company is authorized to issue an unlimited number of common shares, without par value. The table below summarizes the Company's common shares and securities convertible into common shares as at February 23, 2021:

Issued and outstanding	409,231,802
Share options outstanding at a weighted average exercise price of $0.89	13,751,044
Fully diluted	422,982,846

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.

The Company uses the 2013 Internal Control – Integrated Framework published by The Committee of Sponsoring Organizations of the Treadway Commission ("2013 COSO framework") as the basis for assessing its ICFR. Management performed an evaluation of Capstone's ICFR and concluded that, as at December 31, 2020, ICFR were designed and operating effectively so as to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with International Financial Reporting Standards ("IFRS").

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 December 31, 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. A copy of this MDA is also 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.

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

[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.*

profile on SEDAR at www.sedar.com. Each Disclosure Document was prepared by or under the supervision of a qualified person (a "Qualified Person") as defined in National Instrument 43-101 – *Standards of Disclosure for Mineral Projects* of the Canadian Securities Administrators ("NI 43-101"). Readers are encouraged to review the full text of the Disclosure Documents which qualifies the Technical Information. Readers are advised that Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability. The Disclosure Documents are each intended to be read as a whole, and sections should not be read or relied upon out of context. The Technical Information is subject to the assumptions and qualifications contained in the Disclosure Documents.

Disclosure Documents include the National Instrument 43-101 compliant technical reports titled "NI 43-101 Technical Report on the Cozamin Mine, Zacatecas, Mexico" effective October 23, 2020, "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 and Chief Operating Officer (technical information related to mineral exploration activities and to Mineral Resources at Cozamin), Clay Craig, P.Eng, Manager, Mining & Evaluations (technical information related to Mineral Reserves and Mineral Resources at Pinto Valley), Tucker Jensen, Superintendent Mine Operations, 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.

capstone MINING CORP

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

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

Management's Report

The accompanying consolidated financial statements of Capstone Mining Corp. (the "Company" or "Capstone") and other information contained in the management's discussion and analysis are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards and include some amounts that are based on management's estimates and judgment.

The Board of Directors carries out its responsibility for the consolidated financial statements principally through its Audit Committee, which is comprised solely of independent directors. The Audit Committee reviews the Company's annual consolidated financial statements and recommends its approval to the Board of Directors. The Company's auditors have full access to the Audit Committee, with and without management being present. These consolidated financial statements have been audited by Deloitte LLP.

(Signed) Darren M. Pylot
President & Chief Executive Officer

(Signed) Raman Randhawa
Senior Vice President & Chief Financial Officer

Vancouver, British Columbia, Canada
February 23, 2021

Independent Auditor’s Report

To the Shareholders of Capstone Mining Corp.

Opinion

We have audited the consolidated financial statements of Capstone Mining Corp. (the “Company”), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, and the consolidated statements of income (loss), comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (“IFRS”).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards (“Canadian GAAS”). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements for the year ended December 31, 2020. This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Impairment — Assessment of Whether Indicators of Impairment or Impairment Reversal Exist within the Mineral Properties, Plant and Equipment – Refer to Note 2(b) to the Financial Statements

Key Audit Matter Description

The Company’s determination of whether an indicator of impairment or impairment reversal exists within mineral properties, plant and equipment at the cash generating unit (CGU) level requires significant management judgement. Management considers both external and internal sources of information in assessing whether there are any indicators that the Company’s mineral properties, plant and equipment are impaired or previous impairments should be reversed.

While there are several inputs that are required to determine whether or not an indicator of impairment or impairment reversal exists, the judgements with the highest degree of subjectivity are metal price forecasts (copper and iron ore). Auditing these estimates required a high degree of auditor judgment in applying audit procedures and in evaluating the results of those procedures. This resulted in an increased extent of audit effort, including the involvement of a fair value specialist.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures related to future copper and iron ore prices in the assessment of whether indicators of impairment or impairment reversal exists included the following, among others:

With the assistance of a fair value specialist, evaluated the metal price forecasts (copper and iron ore) by comparing management forecasts to third party forecasts.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor’s report is David Macdonald.

/s/ Deloitte LLP

Chartered Professional Accountants

Vancouver, British Columbia

February 23, 2021

Capstone Mining Corp.
Consolidated Statements of Financial Position
As at December 31, 2020 and 2019
(expressed in thousands of US dollars)

ASSETS		2020		2019
Current				
Cash and cash equivalents	**$**	**56,580**	$	39,939
Short-term investments *(Note 5)*		**3,425**		4,549
Receivables *(Note 6)*		**26,691**		28,554
Inventories *(Note 7)*		**58,238**		47,888
Other assets *(Note 11)*		**12,937**		2,451
		157,871		123,381
Mineral properties, plant and equipment *(Note 8)*		**1,147,784**		1,132,164
Promissory note receivable *(Note 10)*		**27,080**		31,594
Deferred income tax asset *(Note 15)*		**28,841**		24,655
Other assets *(Note 11)*		**30,008**		19,586
Total assets	**$**	**1,391,584**	$	1,331,380
LIABILITIES				
Current				
Accounts payable and accrued liabilities	**$**	**74,866**	$	52,493
Other liabilities *(Note 12)*		**19,004**		2,899
		93,870		55,392
Long term debt *(Note 14)*		**183,226**		207,093
Lease liabilities *(Note 13)*		**8,307**		5,170
Provisions *(Note 16)*		**141,780**		120,180
Deferred income tax liabilities *(Note 15)*		**65,135**		64,021
Other liabilities *(Note 12)*		**10,099**		8,136
Total liabilities		**502,417**		459,992
EQUITY				
Share capital	**$**	**842,789**	$	838,523
Other reserves		**33,783**		32,386
Accumulated deficit		**(97,514)**		(109,806)
Total equity attributable to equity holders of the Company		**779,058**		761,103
Non-controlling interest		**110,109**		110,285
Total equity		**889,167**		871,388
Total liabilities and equity	**$**	**1,391,584**	$	1,331,380

Commitments *(Note 23)*
Contingencies *(Note 9 and 27)*
Subsequent events (*Note 14 and 28*)

ON BEHALF OF THE BOARD:
(Signed) Darren M. Pylot , Director *(Signed) Dale C. Peniuk* , Director

See accompanying notes to these consolidated financial statements.

Capstone Mining Corp.

Consolidated Statements of Income (Loss)
Years Ended December 31, 2020 and 2019
(expressed in thousands of US dollars)

		2020		2019
Revenue *(Note 18)*	**$**	**453,763**	$	418,663
Operating costs				
Production costs		**(285,843)**		(292,234)
Royalties		**(4,259)**		(3,482)
Depletion and amortization		**(81,482)**		(80,514)
Earnings from mining operations		**82,179**		42,433
General and administrative expenses *(Note 24)*		**(13,657)**		(15,973)
Exploration expenses *(Note 8)*		**(3,094)**		(6,468)
Care and maintenance expense *(Note 8)*		**(1,087)**		(1,018)
Share-based compensation expense *(Note 17)*		**(27,030)**		(4,780)
Earnings from operations		**37,311**		14,194
Other income (expense)				
Foreign exchange loss		**(574)**		(1,369)
Other income (expense) *(Note 25)*		**3,793**		(373)
Income before finance costs and income taxes		**40,530**		12,452
Interest on long term debt		**(11,248)**		(13,320)
Other interest expense		**(3,514)**		(3,439)
Income (loss) from continuing operations before income taxes		**25,768**		(4,307)
Income tax (expense) recovery *(Note 15)*		**(13,387)**		15,163
Net income from continuing operations	**$**	**12,381**	$	10,856
Net loss from discontinued operations *(Note 9)*		**-**		(27,056)
Net income (loss)	**$**	**12,381**	$	(16,200)
Net income (loss) from continuing operations attributable to:				
Shareholders of Capstone Mining Corp.	**$**	**12,557**	$	11,013
Non-controlling interest		**(176)**		(157)
	$	**12,381**	$	10,856
Net income (loss) attributable to:				
Shareholders of Capstone Mining Corp.	**$**	**12,557**	$	(16,043)
Non-controlling interest		**(176)**		(157)
	$	**12,381**	$	(16,200)
Net income per share from continuing operations				
Earnings per share - basic	**$**	**0.03**	$	0.03
Weighted average number of shares - basic *(Note 19)*		**393,857,183**		391,303,393
Earnings per share - diluted	**$**	**0.03**	$	0.03
Weighted average number of shares - diluted *(Note 19)*		**398,657,026**		395,159,192
Net income (loss) per share				
Income (loss) per share - basic *(Note 19)*	**$**	**0.03**	$	(0.04)
Weighted average number of shares - basic *(Note 19)*		**393,857,183**		391,303,393
Income (loss) per share - diluted *(Note 19)*	**$**	**0.03**	$	(0.04)
Weighted average number of shares - diluted *(Note 19)*		**398,657,026**		391,303,393

See accompanying notes to these consolidated financial statements.

Consolidated Statements of Comprehensive Income
Years Ended December 31, 2020 and 2019
(expressed in thousands of US dollars)

		2020		2019
Net income (loss)	**$**	**12,381**	$	(16,200)
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		**1,194**		(339)
Remeasurement for retirement benefit plans, net of tax of $73 (2019 - $(116))		**(243)**		236
		951		(103)
Items that may be reclassfied subsequently to profit or loss				
Foreign currency translation adjustment		**170**		838
		170		838
Items that were reclassified to profit or loss				
Reclassification of accumulated foreign currency translation adjustment to earnings upon disposal of Minto *(Note 9)*		**-**		30,362
		-		**30,362**
Total other comprehensive income for the period		**1,121**		31,097
Total comprehensive income	**$**	**13,502**	$	14,897
Total comprehensive income (loss) attributable to:				
Shareholders of Capstone Mining Corp.	**$**	**13,678**	$	15,054
Non-controlling interest		**(176)**		(157)
	$	**13,502**	$	14,897

See accompanying notes to these consolidated financial statements.

Capstone Mining Corp.

Consolidated Statements of Cash Flows

Years Ended December 31, 2020 and 2019

(expressed in thousands of US dollars)

	2020	2019
Cash provided by (used in):		
Operating activities		
Net income (loss)	**$ 12,381**	$ (16,200)
Adjustments for:		
Depletion and amortization	**83,069**	82,540
Income and mining tax expense (recovery)	**13,387**	(14,953)
Inventory (reversal of write-down) write-down	**(691)**	2,038
Loss on sale of Minto *(Note 9)*	**-**	24,489
Share-based compensation expense	**27,030**	4,780
Net finance costs	**14,763**	18,113
Unrealized gain on foreign exchange	**(7,555)**	(2,820)
Gain on derivatives	**(1,929)**	(28)
Loss on disposal of assets and other	**342**	555
Changes in deferred revenue	**-**	597
Changes in contingent consideration	**(5,322)**	(1,240)
Income taxes paid	**(8,893)**	(17,742)
Income taxes received	**3,651**	329
Other receipts (payments)	**68**	(346)
Changes in other assets	**4,413**	(9,531)
Changes in other liabilities	**903**	-
Changes in non-cash working capital *(Note 21)*	**11,554**	22,303
	147,171	92,884
Investing activities		
Mineral properties, plant and equipment additions	**(97,525)**	(96,746)
Proceeds of short-term investments	**1,124**	31,369
Proceeds on disposal of assets	**83**	684
Purchase of investments	**-**	(148)
Other assets	**(56)**	(647)
	(96,374)	(65,488)
Financing activities		
Proceeds from bank borrowings *(Note 14)*	**45,000**	25,000
Repayment of bank borrowings *(Note 14)*	**(70,000)**	(35,000)
KORES payment against promissory note *(Note 10)*	**1,540**	6,015
Repayment of lease obligations	**(1,599)**	(1,047)
Proceeds from issuance of share capital	**2,869**	91
Payments for settlement of financial derivatives	**(1,042)**	-
Proceeds from settlement of financial derivatives	**501**	-
Financing fees *(Note 14)*	**-**	(1,077)
Interest paid	**(11,403)**	(15,636)
	(34,134)	(21,654)
Effect of exchange rate changes on cash and cash equivalents	**(22)**	311
Increase in cash and cash equivalents	**16,641**	6,053
Cash and cash equivalents - beginning of year	**39,939**	33,886
Cash and cash equivalents - end of year	**$ 56,580**	$ 39,939

Supplemental cash flow information *(Note 21)*

See accompanying notes to these consolidated financial statements.

Capstone Mining Corp.

Consolidated Statements of Changes in Equity
Years Ended December 31, 2020 and 2019
(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 17)*	8,701,320	4,226	(1,357)	-	-	-	-	2,869	-	2,869
Share-based compensation *(Note 17)*	-	-	964	-	-	-	-	964	-	964
Settlement of share units	-	-	-	-	-	669	(265)	404	-	404
Shares issued as compensation	137,196	40	-	-	-		-	40	-	40
Change in fair value of marketable securities	-	-	-	1,194	-	-	-	1,194	-	1,194
Remeasurements for retirement benefit plans	-	-	-	(243)	-	-	-	(243)	-	(243)
Net earnings	-	-	-	-	-	-	12,557	12,557	(176)	12,381
Foreign currency translation	-	-	-	-	170	-	-	170	-	170
December 31, 2020	408,884,120	$ 842,789	$ 53,578	$ 3,429	$ (16,588)	$ (6,636)	$ (97,514)	$ 779,058	$ 110,109	$ 889,167
January 1, 2019	399,580,329	838,351	52,541	2,581	(47,958)	(10,705)	(92,236)	742,574	110,442	853,016
Shares issued on exercise of options *(Note 17)*	366,590	130	(39)	-	-	-	-	91	-	91
Share-based compensation *(Note 17)*	-	-	1,469	-	-	-	-	1,469	-	1,469
Settlement of share units	-	-	-	-	-	3,400	(1,527)	1,873	-	1,873
Shares issued as compensation	98,685	42	-	-	-		-	42	-	42
Change in fair value of marketable securities	-	-	-	(339)	-	-	-	(339)	-	(339)
Reclassification of foreign currency translation adjustment to earnings (loss) on sale of Minto *(Note 9)*	-	-	-	-	30,362	-	-	30,362	-	30,362
Remeasurements for retirement benefit plans	-	-	-	236	-	-	-	236	-	236
Net loss	-	-	-	-	-	-	(16,043)	(16,043)	(157)	(16,200)
Foreign currency translation	-	-	-	-	838	-	-	838	-	838
December 31, 2019	400,045,604	$ 838,523	$ 53,971	$ 2,478	$ (16,758)	$ (7,305)	$ (109,806)	$ 761,103	$ 110,285	$ 871,388

See accompanying notes to these consolidated financial statements.

1. Nature of Operations

Capstone Mining Corp. ("Capstone" or the "Company"), a Canadian mining company publicly listed on the Toronto Stock Exchange, is engaged in the production of and exploration for base metals in the United States ("US"), Mexico, and Chile, with a focus on copper. Pinto Valley Mining Corp., a wholly owned US subsidiary, owns and operates the copper Pinto Valley Mine located in Arizona, US. Capstone Gold, S.A. de C.V. ("Capstone Gold"), a wholly owned Mexican subsidiary, owns and operates the polymetallic Cozamin Mine located in Zacatecas, Mexico, and has a portfolio of exploration properties in Mexico. In June 2019, Capstone sold its 100% interest in Minto Explorations Ltd. ("Minto"), which owns the copper Minto Mine located in Yukon, Canada (*Note 9*). Capstone Mining Chile SpA, a wholly owned Chilean subsidiary, is engaged in 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, 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. Since then, all mining and processing activities have been resumed and the mine has been producing copper at normal levels.

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

The consolidated financial statements were approved by the Board of Directors and authorized for issuance on February 23, 2021.

2. Basis of Presentation, Significant Accounting Judgements and Estimates, and Significant Accounting Policies

a) Basis of preparation and consolidation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial instruments which are measured at fair value.

These consolidated financial statements have been prepared in accordance with the accounting policies presented below and are based on IFRS and IFRS Interpretations Committee ("IFRIC") interpretations issued and effective as of December 31, 2020. The policies set out below were consistently applied to all the periods presented unless otherwise noted.

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

The Company 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 year ended December 31, 2020, and is not expected to have a material impact on depletion in future periods.

b) Use of estimates and judgments

The preparation of the consolidated financial statements requires management to select accounting policies and make estimates and judgments that may have a significant impact on the consolidated financial statements. Estimates are continuously evaluated, and are based on management's experience and expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Critical judgments exercised in applying accounting policies, apart from those involving estimates, that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

i. Economic recoverability and probability of future economic benefits of mineral exploration, evaluation and development costs

The Company has determined that exploratory drilling, evaluation, development, and related costs incurred, which were capitalized, have future economic benefits and are economically recoverable. In making this judgment, the Company has assessed various sources of information including, but not limited to, the geologic and metallurgic information, history of conversion of mineral deposits to proven and probable reserves, scoping and feasibility studies, proximity to existing ore bodies, existing permits, and life of mine plans.

ii. Functional currency

The functional currency of each of the Company's subsidiaries is the currency of the primary economic environment in which the entity operates *(Note 2(c)(i))*.

Determination of functional currency may involve certain judgments to determine the primary economic environment and the Company reconsiders the functional currency of its entities if there is a change in events and conditions which determined the primary economic environment. The US dollar is Capstone's functional currency.

iii. Control over Acquisition Co.

Management assessed whether or not the Company has control over Acquisition Co. based on whether the Company is exposed, or has rights, to variable returns from its involvement in Acquisition Co., and has the ability to affect those returns through its power over Acquisition Co. In making their judgment, management considered the Company's absolute size of holding in Acquisition Co. and the relative size of the shareholding owned by KORES, in addition to the Company's existing rights and KORES' protective rights that allow the Company to direct and control the relevant activities which affect returns to Capstone.

Management concluded that the Company has a sufficiently dominant voting interest to direct the relevant activities of Acquisition Co. and the protective voting rights provided to KORES do not preclude the Company from having this power, and therefore Capstone has control over Acquisition Co.

iv. *Financial instruments*
Financial assets and liabilities are designated upon inception to various classifications. The designation determines the method by which the financial instruments are carried on the consolidated statement of financial position subsequent to inception and how changes in value are recorded. The designation may require the Company to make certain judgments, taking into account management's intention of the use of the financial instruments.

Key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are:

i. *Estimated reclamation and closure costs*
The Company's provision for reclamation and closure cost obligations represents management's best estimate of the present value of the future cash outflows required to settle the liability. The provision reflects estimates of future costs directly attributable to remediating the liability, inflation, movements in foreign exchange rates and assumptions of risks associated with the future cash outflows, and the applicable risk-free interest rates for discounting future cash outflows. Changes in the factors above can result in a change to the provision recognized by the Company. To the extent the carrying value of the related mining property is not increased above its recoverable amount, changes to reclamation and closure cost obligations are recorded with a corresponding change to the carrying amounts of related mining properties.

ii. *Share-based compensation*

The Company uses the fair value method of accounting for all share-based payments. The fair value method of accounting includes the use of the Black-Scholes Option Pricing Model. Option pricing models require the input of subjective assumptions including the volatility, expected life, and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate, the Company's earnings, and equity reserves. The portion of share-based compensation recorded is based on the vesting schedule of the options and units.

The Performance Share Units ("PSUs") include the use of a performance factor that can range from 0% to 200% and is determined by comparing the Company's total shareholder return to those achieved by a peer group of companies, which can affect the fair value estimate.

iii. *Income taxes*
Deferred tax assets and liabilities are determined based on differences between the financial statement carrying values of assets and liabilities and their respective income tax bases ("temporary differences"), and losses carried forward.

The determination of the ability of the Company to utilize tax loss carry-forwards to offset deferred tax liabilities requires management to exercise judgment and make certain assumptions about the future performance of the Company. Management is required to assess whether it is probable that the Company will benefit from these prior losses and other deferred tax assets. The tax rates expected to be in effect when temporary differences reverse are 21% for US, 27% for Canada and 30% for Mexico. The Company is subject to certain mining royalties which are referenced in Note 15. The tax rate on the mining royalties in Mexico is 7.5%. Changes in economic conditions, metal prices and other factors could result in revisions to the estimates of the benefits to be realized or the timing of utilizing the losses.

iv. *Mineral reserve and resource estimates*
The figures for mineral reserves and mineral resources are determined in accordance with National Instrument 43-101, "Standards of Disclosure for Mineral Projects", issued by the Canadian Securities Administrators. There are numerous uncertainties inherent in estimating mineral reserves and mineral resources, including many factors beyond the Company's control. Such estimation is a subjective process, and the accuracy of any mineral reserve or mineral resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Differences between management's assumptions in estimating mineral reserves and mineral resources, including economic assumptions such as metal prices, and the market conditions could have a material effect in the future on the Company's financial position and results of operation.

v. *Estimated reserves and resources*
The carrying amounts of the Company's producing mining properties are depleted based on recoverable tonnes contained in permitted proven and probable mineral reserves and a portion of mineral resources. The Company includes a portion of permitted mineral resources where it is considered highly probable that those resources will be economically extracted over the life of mine. Changes to estimates of recoverable tonnes of permitted reserves and resources and depletable costs including changes resulting from revisions to the Company's mine plans and changes in metal price forecasts can result in a change to future depletion rates.

vi. *Amortization rate for property, plant and equipment and depletion rates for mining interests*
Depletion and amortization expenses are allocated based on estimated asset lives. Should the asset life, depletion rates, or amortization rates differ from the initial estimate, an adjustment would be made in the consolidated statement of income (loss) on a prospective basis.

vii. *Impairment of mineral properties, plant and equipment*
Management considers both external and internal sources of information in assessing whether there are any indications that the Company's mineral properties, plant and equipment are impaired and whether previously recorded impairments should be reversed. External sources of information management considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable amount of its mineral properties, plant and equipment. Internal sources of information that management considers include the manner in which mineral properties, plant and equipment are being used or are expected to be used and indications of economic performance of the assets. Management concluded that there were no indicators of impairment or impairment reversal for the year ended December 31, 2020.

In determining the recoverable amounts of the Company's mineral properties, plant and equipment, management makes estimates of the future operating results and discounted net cash flows expected to be derived from the Company's mining properties, costs to sell the mining properties and the appropriate discount rate. Changes in metal price forecasts, estimated future costs of production, estimated future non-expansionary capital expenditures, fair value due to the strategic process, the amount of recoverable mineral reserves, mineral resources, and exploration potential, and/or changes in current economics, regulatory or legal requirements can result in a write-down or a reversal of a previous write-down of the carrying amounts of the Company's mineral properties, plant and equipment.

viii. *Deferred stripping costs*
In determining whether stripping costs incurred during the production phase of a mining property relate to mineral reserves that will be mined in a future period and therefore should be capitalized, the Company makes estimates of the proportion of stripping activity which relates to extracting ore in the current period versus the proportion which relates to obtaining access to ore reserves which will be mined in the future. The Company includes a portion of permitted mineral resources where it is considered highly probable that those resources will be economically extracted over the life of mine.

ix. *Inventory valuation*
Consumable parts and supplies, ore stockpiles and concentrates, are valued at the lower of cost and net realizable value. Estimates in the carrying values of inventories arise due to the nature of the valuation of ore stockpiles and concentrates based on an appropriate allocation of direct mining costs, direct labour and material costs, mine site overhead, and depletion and amortization.

x. *Valuation of financial instruments, including estimates used in provisional pricing calculations*
Financial instrument estimates are based on either unadjusted quoted prices in active markets or direct or indirect observable inputs in accordance with the definitions of the financial instruments. Provisional pricing calculations are determined based on the change in the value of forward commodity prices of metals. To account for the change in metal prices from the total contract value to the 90% of the provisional value amount that has been received, estimates of the value of concentrates are used to determine the provisionally priced concentrate receivables at each period.

c) The significant accounting policies of the Company are as follows:

i. *Translation of foreign currencies*
The functional currency and presentation currency of the Company is the US dollar. The functional currency of the Company's subsidiaries is listed in Note 20.

Financial statements of subsidiaries are maintained in their functional currencies and converted to US dollars for consolidation of the Company's results. The functional currency of each entity is determined after consideration of the primary economic environment of the entity.

Transactions denominated in foreign currencies (currencies other than the functional currency of an entity) are translated at the exchange rates on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at reporting date exchange rates and any gain or loss on translation is recorded in the consolidated statement of income (loss) as a foreign exchange gain (loss).

On translation of entities with functional currencies other than the US dollar, consolidated statement of income (loss) items are translated at average rates of exchange where this is a reasonable approximation of the exchange rate at the dates of the transactions. Consolidated statement of financial position items are translated at closing exchange rates as at the reporting date. Exchange differences on the translation of the foreign currency entities at closing rates, together with differences between consolidated statement of income (loss) translated at average and closing rates, are recorded in the foreign currency translation reserve in equity.

ii. *Cash, and cash equivalents*

Cash and cash equivalents is comprised of cash on hand, demand deposits and short-term investments with a maturity less than 90 days on acquisition that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value.

iii. *Inventories*

Inventories for consumable parts and supplies, ore stockpiles and concentrates, are valued at the lower of cost and net realizable value. Costs allocated to consumable parts and supplies are based on average costs and include all costs of purchase, conversion and other costs in bringing these inventories to their existing location and condition. Costs allocated to ore stockpiles and concentrates are based on average costs, which include an appropriate share of direct mining costs, direct labour and material costs, mine site overhead, depletion and amortization. If carrying value exceeds net realizable amount, a write down is recognized. The write down may be reversed in a subsequent period if the circumstances which caused it no longer exist.

iv. *Investments*

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

Investments in warrants of companies over which the Company exercises neither control, joint control nor significant influence are designated as fair value through profit or loss (“FVTPL”) and recorded at fair value. Fair values are determined by reference to quoted market prices at the reporting date and subsequent changes in fair values are recognized in the consolidated statement of income (loss). When investments in warrants are sold, derecognized, or determined to be impaired, the cumulative fair value adjustments are recognized in the consolidated statement of income (loss).

v. *Mineral properties, plant and equipment*

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing historical characteristic of many properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties is in good standing.

vi. *Producing mineral properties*

Producing mineral properties are recorded at cost less accumulated depletion and impairment charges. The costs associated with producing mineral properties include acquired interests in production stage properties representing the fair value at the time they were acquired. Producing mineral properties also include additional capitalized costs after initial acquisition. Upon sale or abandonment of producing mineral properties, the carrying value is derecognized and any gains or losses thereon are included in the consolidated statement of income (loss).

Commercial production is deemed to have commenced when management determines that the operational commissioning of major mine and plant components is complete, operating results are being achieved consistently for a period of time and that there are indicators that these operating results will continue. At the date commercial production is reached, the Company ceases capitalization of any applicable borrowing costs and commences amortization of the associated assets. The Company determines commencement of commercial production based on several factors, which indicate that planned principal operations have commenced. These include the following:

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

vii. *Deferred stripping*

Stripping costs during the production phase are accounted for as variable production costs and included in the costs of inventory produced during the period that the stripping costs are incurred. However, stripping costs are capitalized and recorded on the consolidated statement of financial position as a component of mineral properties, plant and equipment when the stripping activity provides access to sources of mineral reserves that will be produced in future periods that would not have otherwise been accessible in the absence of this activity. The capitalized deferred stripping assets are amortized on a units of production basis over the mineral reserves and a portion of mineral resources that directly benefited from the stripping activity as those mineral reserves and resources are actually mined.

viii. *Mineral exploration and development properties*

The carrying amount of mineral exploration and development properties comprise costs that are directly attributable to:

- researching and analysing existing exploration data;
- conducting geological studies, exploratory drilling and sampling;
- examining and testing extraction and treatment methods; and
- activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.

The costs associated with mineral exploration and development properties include acquired interests in development and exploration stage properties representing the fair value at the time they were acquired. Mineral exploration and development properties related to greenfield properties, which are prospective in nature and not yet supported by an internal economic assessment, are expensed in the consolidated statement of income (loss), except for acquisition costs and mining interest rights. Exploration and development expenses related to brownfield mineral properties are capitalized provided that one of the following conditions is met:

- Such costs are expected to be recouped in full through successful development and exploitation of the area of interest or alternatively, by its sale; or
- Exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence of economically recoverable reserves, however active and significant operations in relation to the area are continuing, or planned for the future.

The carrying values of capitalized amounts of mineral exploration and development properties are reviewed when there are indicators of impairment at each reporting date. In the case of undeveloped projects, there may be only inferred mineral resources to allow management to form a basis for the impairment review. The review is based on the Company's intentions for development of such a project. If a project does not prove viable, all unrecoverable costs associated with the project are charged to the consolidated statement of income (loss) at the time the determination is made.

Once management has determined that the development potential of the property is economically viable and the necessary permits are in place for its development, and the criteria in Note 2(c)(vi) are met, the costs of the exploration asset are reclassified to producing mineral properties.

ix. *Plant and equipment*

Plant and equipment are recorded at cost less accumulated amortization and impairment losses. Plant and equipment includes in its purchase price, any costs directly attributable to bringing plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management and the estimated close down and restoration costs associated with dismantling and removing the asset. Upon sale or abandonment of any plant and/or equipment, the cost and related accumulated amortization and impairment losses, are written off and any gains or losses thereon are included in the consolidated statement of income (loss).

x. *Construction in progress*

Mineral property development and plant and equipment construction commences when approved by management and/or the Board and the Company has obtained all regulatory permissions to proceed. Development and construction expenditures are capitalized and classified as construction in progress. Once completed, the costs associated with all applicable assets related to the development and construction are reclassified to the appropriate category within mineral properties or plant and equipment.

xi. *Depletion and amortization of mineral properties, plant and equipment*

The carrying amounts of mineral properties, plant and equipment are depleted or amortized to their estimated residual value over the estimated economic life of the specific assets to which they relate, using the depletion or amortization methods and rates as indicated below. Estimates of residual values and useful lives are reassessed annually and any change in estimate is taken into account in the determination of the remaining amortization rate. Amortization commences on the date the asset is available for its use as intended by management.

Depletion and amortization is computed using the following rates:

Item	Methods	Rates
Producing mineral properties	Units of production	Proven and probable mineral reserves and a portion of mineral resources considered highly probable to be economically extracted
Deferred stripping costs	Units of production	Proven and probable mineral reserves and a portion of mineral resources accessible due to stripping activity which are considered highly probable to be economically extracted
Plant & equipment	Straight line, units of production	4 – 10 years, Proven and probable mineral reserves and a portion of mineral resources considered highly probable to be economically extracted

xii. *Borrowing costs*

Interest and other financing costs directly related to the acquisition, development and construction, and production of qualifying assets are capitalized as construction in progress or in mineral properties until they are complete and available for use, at which time they are transferred to the appropriate category within mineral properties, plant and equipment. Borrowing costs incurred after the asset has been placed into service as well as all other borrowing costs are charged to the consolidated statement of income (loss) when incurred.

xiii. *Impairment of long-lived assets*

At each reporting date, the Company reviews the carrying amounts of its assets to determine whether there are any indicators of impairment. If any such indicator exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any.

Where the asset does not generate cash inflows that are independent from other assets, the Company estimates the recoverable amount of the cash generating unit ("CGU") to which the asset belongs. The recoverable amount is determined as the higher of fair value less direct costs to sell and the asset or CGU's value in use. In assessing recoverable amount, the estimated future cash flows are discounted to their present value. Estimated future cash flows are calculated using estimated recoverable mineral reserves and mineral resources, estimated future commodity prices and the expected future operating, capital and reclamation costs. The projected cash flows are affected by changes in assumptions about metal selling prices, future capital expenditures, production cost estimates, discount rates, and exchange rates. The discount rate applied to the estimated future cash flows reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. Determining the discount rate includes appropriate adjustments for the risk profile of the country in which the individual asset or CGU operates.

If the carrying amount of an asset or CGU exceeds its recoverable amount, the carrying amount of the asset or CGU is reduced to its recoverable amount and an impairment loss is recognized in the consolidated statement of income (loss). Assets that have been impaired are tested for possible reversal of the impairment whenever events or changes in circumstance indicate that the impairment may have reversed. Where an impairment subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but only so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortization or depletion) had no impairment loss been recognized for the asset or CGU in prior periods. A reversal of impairment is recognized in the consolidated statement of income (loss).

xiv. *Income taxes*

Current tax
Current tax for each taxable entity in the Company is based on the local taxable income at the local statutory tax rate enacted or substantively enacted at the reporting date, and includes adjustments to tax payable or recoverable in respect of previous periods.

Deferred tax
Deferred tax is accounted for using the liability method, providing for the tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their respective tax bases.

Deferred income tax liabilities are recognized for all taxable temporary differences except where the deferred income tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax losses and unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax losses and unused tax credits can be utilized, and except where the deferred income tax asset related to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at each reporting date and is adjusted to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be utilized. To the extent that an asset not previously recognized fulfils the criteria for recognition, a deferred income tax asset is recorded.

Deferred tax is measured on an undiscounted basis using the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on tax rates and tax laws enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis. Current and deferred taxes relating to items recognized directly in equity are recognized in equity and not in the consolidated statement of income (loss).

Mining taxes and royalties are treated and disclosed as current and deferred taxes if they have the characteristics of an income tax. This is considered to be the case when they are imposed under government authority and the amount payable is calculated by reference to revenue derived (net of any allowable deductions) after adjustment for items comprising temporary differences.

xv. *Taxes receivable*

Taxes receivable are comprised of recoverable value added taxes in Canada, US, Mexico and Chile.

xvi. *Embedded derivatives*

Derivatives may be embedded in other financial instruments (the “host instrument”). Embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host instrument, the terms of the embedded derivative are the same as those of a stand-alone derivative, and the combined contract is designated asheld for trading or at fair value, as appropriate. These embedded derivatives are measured at fair value with subsequent changes recognized in gains or losses on derivative instruments in the consolidated statement of income (loss).

xvii. *Compound instruments*

The component parts of compound instruments are classified separately as financial liabilities and equity in accordance with the substance of the contractual agreement, where the convertible component qualifies as equity. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar debt instruments. This amount is recorded as a liability on an amortized cost basis until extinguished upon conversion or at the instrument’s maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. Where the convertible component does not qualify as equity, and is considered to be an embedded deriviative, the convertible component is included as a financial liability and is measured at FVTPL.

xviii. *Financial instruments*

On initial recognition, financial assets are recognized at fair value and are subsequently classified and measured at: (i) amortized cost; (ii) fair value through other comprehensive income (“FVOCI”); or (iii) FVTPL. The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. A financial asset is measured at fair value net of transaction costs that are directly attributable to its acquisition except for financial assets at FVTPL where transaction costs are expensed. All financial assets not classified and measured at amortized cost or FVOCI are measured at FVTPL. On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment’s fair value in OCI.

The classification determines the method by which the financial assets are carried on the consolidated statement of financial position subsequent to inception and how changes in value are recorded. Accounts receivable are measured at amortized cost with subsequent impairments recognized in the consolidated statement of income (loss). Short-term investments, concentrate receivables, promissory note receivables, derivative assets and the contingent consideration on sale of Minto are measured at FVTPL with subsequent changes recognized in the consolidated statement of income (loss).

Short-term investments include investments in bankruptcy remote, AAA rated money market funds, and exchange traded funds. The mark-to-market adjustments for provisional pricing changes on concentrate receivables are based on forward commodity prices of metals and are included in revenues until final settlement. Investments in marketable securities are measured at FVOCI with subsequent changes recognized in OCI. Derivative assets include zero cost collar foreign currency contracts and warrants.

Financial liabilities are designated as either: (i) FVTPL; or (ii) amortized cost. All financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities at FVTPL. The classification determines the method by which the financial liabilities are carried on the consolidated statement of financial position subsequent to inception and how changes in value are recorded. Accounts payable and accrued liabilities and long-term debt are classified as amortized cost and carried on the consolidated statement of financial position at amortized cost. Derivative liabilities consist of interest rate swaps and are measured at FVTPL.

xix. *Impairment and uncollectibility of financial assets*

An ‘expected credit loss’ impairment model applies which requires a loss allowance to be recognized based on expected credit losses. This applies to financial assets measured at amortized cost. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset’s original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in the consolidated statement of income (loss) for the period.

In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through the consolidated statement of income (loss) to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

xx. *Deferred revenue*

Deferred revenue consists of payments received by the Company in consideration for future commitments to deliver payable gold and silver contained in concentrate at contracted prices. In addition, it includes the fair value of such commitments acquired by way of business combination. As deliveries are made, the Company records a portion of the deferred revenue as sales, based on a proportionate share of deliveries made compared with the total estimated contractual commitment.

Interest expense on deferred revenue is recognized in finance costs when the Company identifies significant financing components related to its streaming arrangements, resulting from a difference in the timing of the up-front consideration received and delivery of the promised goods. The interest rate is determined based on the rate implicit in each streaming agreement at the date of inception or acquisition.

The initial consideration received from streaming arrangements is considered variable, subject to changes in the total gold and silver ounces to be delivered. Changes to variable consideration are reflected in revenue in the consolidated statement of income (loss).

xxi. *Leases*

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

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

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

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

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

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

xxii. *Reclamation and closure cost obligations*

A reclamation and closure cost obligation is recognized for close down, restoration and environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the financial period when the related environmental disturbance occurs, based on the estimated future costs using information available at the consolidated statement of financial position date. At the time of establishing the provision, a corresponding asset is capitalized, where it gives rise to a future benefit, and amortized over the estimated economic life of the specific assets to which they relate. The provision is discounted using a current market-based pre-tax discount rate and the unwinding of the discount is included in the consolidated statement of income (loss) as interest expense from discounting reclamation and closure cost obligations.

The obligation is reviewed each reporting period for changes to obligations, legislation or discount rates that impact estimated costs or lives of operations. The cost of the related asset is adjusted for changes in the provision resulting from changes in the estimated cash flows or discount rate and the adjusted cost of the asset is amortized prospectively.

xxiii. *Provisions*

Provisions are recognized when the Company has a present obligation (legal or constructive), as a result of past events, and it is probable that an outflow of resources that can be reliably estimated will be required to settle the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where the effect is material, the provision is discounted to net present value using an appropriate current market-based pre-tax discount rate and the unwinding of the discount is included in the consolidated statement of income (loss) as interest expense from discounting obligations.

xxiv. *Share capital*

The proceeds from the exercise of stock options or warrants together with amounts previously recorded over the vesting periods are recorded as share capital.

Share capital issued for non-monetary consideration is recorded at an amount based on fair market value of the shares on the date of issue.

The proceeds from the issue of units is allocated between common shares and common share purchase warrants on a pro-rata basis based on relative fair values as follows: the fair value of the common shares is based on the market close on the date the units are issued and the fair value of the common share purchase warrants is determined using the Black-Scholes Option Pricing Model.

Where any group company purchases the Company’s equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company’s equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company’s equity holders.

xxv. *Share-based payments*

The Company makes periodic grants of share-based awards to selected directors, officers, employees and others providing similar service under the Company's share-based compensation plans.

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

Pursuant to the Company's stock option plan, the fair value of the equity-settled awards is determined at the date of the grant by using the Black-Scholes Option Pricing Model. At each reporting date prior to vesting, the cumulative expense representing the extent to which the vesting period has expired and management's best estimate of the awards that are ultimately expected to vest is computed. The movement in cumulative expense is recognized in the consolidated statement of income (loss) with a corresponding entry within equity, against the reserve for equity settled share-based transactions. No expense is recognized for awards that do not ultimately vest.

The Company has other share-based compensation plans in the form of Deferred Share Units ("DSUs"), Restricted Share Units ("RSUs") and Performance Share Units ("PSUs"). Units granted under these share-based compensation plans are recorded at fair value on the grant date and are adjusted for changes in fair value each reporting period until settled. The expense, and any changes which arise from fluctuations in the fair value of the grants, is recognized in share-based compensation in the consolidated statement of income (loss) with the corresponding liability recorded on the consolidated statement of financial position in provisions.

xxvi. *Revenue recognition*

Sales of metal concentrates and cathode are recognized and revenue is recorded at market prices following the transfer of control to the customer, provided that the Company has a present right to payment, has transferred physical possession of the asset to the customer, and the customer has the significant risks and rewards of ownership. Capstone satisfies its performance obligations upon delivery of the metal concentrates and cathode. The Company's metal concentrates are sold under a pricing arrangement where final prices are determined by quoted market prices in a period subsequent to the date of sale. Until prices are final, revenues are recorded based on forward commodity prices of metals for the expected period of final settlement. Subsequent variations in the final determination of the metal concentrate weight, assay and price are recognized as revenue adjustments as they occur until finalized.

xxvii. *Earnings (loss) per share*

Basic earnings (loss) per share is computed by dividing net earnings (loss) available (attributable) to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted earnings (loss) per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings (loss) per share.

The dilutive effect of convertible securities is reflected in diluted earnings (loss) per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings (loss) per share by application of the treasury stock method.

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

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

The accounting policies adopted in the preparation of these consolidated financial statements have been prepared on the basis of all IFRS and interpretations effective as at December 31, 2020.

The Company has not applied the following revised IFRS that has been issued but was not yet effective at December 31, 2020. This accounting standard is not currently expected to have a significant effect on the Company's accounting policies or financial statements.

- IAS 16, *Property, Plant and Equipment - Proceeds before Intended Use* (effective January 1, 2022). The amendment prohibits deducting from the cost of property, plant and equipment amounts received from selling items produced while preparing the asset for its intended use. Instead, a company will recognize such sale proceeds and related cost in the statement of earnings (loss).

4. Financial Instruments

Fair value of financial instruments

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

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

As of December 31, 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 5)*	**$ -**	**$ 3,425**	**$ -**	**$ 3,425**
Concentrate receivables *(Note 6)*	**-**	**18,189**	**-**	**18,189**
Promissory note receivable *(Note 10)*	**-**	**-**	**33,847**	**33,847**
Derivative asset - current *(Note 11)*	**-**	**2,992**	**-**	**2,992**
Investment in marketable securities *(Note 11)*	**2,856**	**-**	**-**	**2,856**
Contingent consideration on sale of Minto *(Note 9)*	**-**	**-**	**14,933**	**14,933**
	$ 2,856	**$ 24,606**	**$ 48,780**	**$ 76,242**
Interest rate swap derivative liabilities *(Note 12)*	**$ -**	**$ 380**	**$ -**	**$ 380**
	$ -	**$ 380**	**$ -**	**$ 380**

As of December 31, 2019 the Company's classification of financial instruments within the fair value hierarchy is summarized below:

	Level 1	Level 2	Level 3	Total
Short-term investments *(Note 5)*	$ 8	$ 4,541	$ -	$ 4,549
Concentrate receivables *(Note 6)*	-	19,946	-	19,946
Promissory note receivable *(Note 10)*	-	-	35,387	35,387
Derivative asset - current *(Note 11)*	-	147	-	147
Investment in marketable securities *(Note 11)*	1,679	-	-	1,679
Contingent consideration on sale of Minto *(Note 9)*	-	-	9,611	9,611
	$ 1,687	$ 24,634	$ 44,998	$ 71,319

(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 year ended December 31, 2020.

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

	December 31, 2020			
	Fair value through profit or loss	**Fair value through OCI**	**Amortized cost**	**Total**
Cash and cash equivalents	**$ -**	**$ -**	**$ 56,580**	**$ 56,580**
Short-term investments *(Note 5)*	**3,425**	**-**	**-**	**3,425**
Concentrate receivables *(Note 6)*	**18,189**	**-**	**-**	**18,189**
Other receivables *(Note 6)*	**-**	**-**	**843**	**843**
Promissory note receivable *(Note 10)*	**33,847**	**-**	**-**	**33,847**
Derivative asset - current *(Note 11)*	**2,992**	**-**	**-**	**2,992**
Investments in marketable securities *(Note 11)*	**-**	**2,856**	**-**	**2,856**
Contingent consideration on sale of Minto *(Note 9)*	**14,933**	**-**	**-**	**14,933**
	$ 73,386	**$ 2,856**	**$ 57,423**	**$ 133,665**

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

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

	December 31, 2020		
	Fair value through profit or loss	**Amortized cost**	**Total**
Accounts payable and accrued liabilities	**$ -**	**$ 74,866**	**$ 74,866**
Long term debt *(Note 14)*	**-**	**183,226**	**183,226**
Interest rate swap derivative liabilities *(Note 12)*	**380**	**-**	**380**
	$ 380	**$ 258,092**	**$ 258,472**

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

There have been no changes during the year ended December 31, 2020 as to how the Company categorizes its financial assets and liabilities by FVTPL, FVOCI, and amortized cost.

At December 31, 2020, the carrying amounts of accounts receivable not arising from sales of metal concentrates, accounts payable and accrued liabilities, and other current assets and current liabilities are considered to be reasonable approximations of their fair values due to the short-term nature of these instruments. The carrying value of the promissory note receivable approximates its fair value due to its demand nature. The fair value of the Company's long term debt is approximated by its carrying value as the contractual interest rates are comparable to current market interest rates.

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 year ended December 31, 2020.

Derivative instruments

As at December 31, 2020, the Company's derivative financial instruments are comprised of zero cost collar foreign currency contracts, interest rate swaps and warrants. During the year ended December 31, 2020 the Company entered into the derivative financial instruments to mitigate risk of exposure to fluctuating interest rates, foreign currency exchange rates and copper commodity prices.

In 2020, the Company entered into copper commodity swap contracts. The floating copper price was exchanged for fixed copper prices at an average of $2.93 per pound on 26.0 million pounds. All contracts matured and settled during the year end December 31, 2020.

In June 2020, the Company entered into zero cost collars Mexican Peso to US dollar foreign exchange option contracts 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 rate 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 500 million Mexican Pesos ($20.0 million) 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 December 31, 2020 the fair value of these derivatives is $2.8 million (2019 - $nil).

In April 2020, the Company entered into interest rate swap contracts, exchanging floating for fixed London Inter-bank Offered Rate ("LIBOR") on approximately half of the revolving credit facility balance (RCF) at 0.355% through to July 2022 *(Note 14).* At December 31, 2020 the fair value of these derivatives is $(0.4) million (2019 - $nil) *(Note 12).*

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

Set out below are the Company's realized and unrealized gains and losses on derivative financial instruments:

	Year ended December 31, 2020	2019
Unrealized gain (loss) on derivative financial instruments:		
Foreign currency swap contracts	**$ 2,792**	$ -
Interest rate swap contracts	**(380)**	-
Realized gain (loss) on derivative financial instruments:		
Commodity swap contracts	**(3,948)**	-
Foreign currency swap contracts	**407**	-
Interest rate swap contracts	**(130)**	-
	$ (1,259)	$ -
Unrealized gain on warrants	**$ 58**	$ 28
Total unrealized and realized (loss) gain on derivative financial instruments *(Note 25)*	**$ (1,201)**	$ 28

Valuation methodologies for Level 2 financial instruments

The short-term investments in money market funds are valued using direct observable inputs of the underlying investments within the funds.

The key inputs to the valuation of the concentrate receivable balance are payable metal and future metal prices. The Company's metal concentrate sales contracts are subject to provisional pricing with the selling price adjusted at the end of the quotational period based on final settlement weights and assays. At each reporting date, the Company's accounts receivable on these contracts are marked-to-market based on a quoted forward price for which there exists an active commodity market.

The Company's derivative assets consist of zero cost collar foreign currency contracts and warrants. Derivative liabilities consist of interest rate swaps. All of the Company's derivative assets and liabilities are marked-to-market based on a valuation model which uses quoted observable inputs.

Valuation methodologies for Level 3 financial instruments

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

Commodity price risk

The Company is exposed to commodity price risk as its revenues are derived from the sale of metals, the prices for which have been historically volatile. It sometimes manages this risk by entering into forward sale or commodity swap derivative agreements with various counterparties to mitigate price risk when management believes it a prudent decision.

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

Credit risk

The Company is exposed to credit risk through its trade receivables on concentrate sales with various counterparties under the terms of off-take agreements. The Company manages this risk by requiring provisional payments of at least 90 percent of the value of the concentrate shipped. Taxes receivable are not considered to be subject to significant credit risk as these balances are receivable from government authorities.

The credit risk on cash and cash equivalents is limited because the funds are held with banks with high credit ratings as assigned by international credit rating agencies. Similarly, the credit risk on the short-term investments is limited as the investments are in highly liquid, bankruptcy remote, AAA rated money market funds, and exchange traded funds.

To mitigate exposure to credit risk on the promissory note from KORES *(Note 10)*, the unsecured demand promissory note is being repaid through cash calls at the Acquisition Co. level, where the failure to make a cash call results in the option to dilute the shareholdings of the non-contributing shareholder.

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

As at December 31, 2020, the Company's maximum exposure to credit risk is the carrying value of its cash and cash equivalents, short-term investments, receivables, derivative assets, contingent consideration on sale of Minto, investment in marketable securities, and promissory note receivable.

Foreign exchange risk

The Company is exposed to foreign exchange risk as the Company's operating costs will be primarily in US dollars, Canadian dollars ("C$") and Mexican Pesos, while revenues are received in US dollars. Hence, any fluctuation of the US dollar in relation to these currencies may affect the profitability of the Company and the value of the Company's assets and liabilities. From time to time, the Company enters into foreign exchange hedging arrangements to mitigate the risk of exposure to fluctuating foreign currency exchange rates.

As at December 31, 2020, the Company is exposed to foreign exchange risk through the following financial assets and liabilities denominated in currencies other than the functional currency of the applicable subsidiary:

	Canadian dollar	Mexican peso
Cash	$ 797	$ 2,986
Receivables and other current assets	200	578
Deposits and other long-term assets	102	703
Total assets	1,099	4,267
Accounts payable and accrued liabilities	3,925	8,641
Total liabilities	3,925	8,641
Net assets	**$ (2,826)**	**$ (4,374)**

Based on the above net exposures at December 31, 2020, a 10% appreciation in the Canadian dollar against the US dollar would result in a $0.3 million decrease in the Company's earnings before income taxes. A 10% appreciation of the Mexican peso against the US dollar would result in a $0.4 million decrease in the Company's earnings before income taxes.

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

Liquidity risk

The Company has in place a planning and budgeting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. The Company maintains adequate cash balances and credit facilities to meet short and long term business requirements, after taking into account cash flows from operations and believes that these sources will be sufficient to cover the likely short and long term cash requirements. The Company's cash is held in business accounts with US and Canadian Tier 1 banks with a Standard & Poor's rating of A or better and with Mexican banks with credit ratings of A- or better. The cash is available on demand for the Company's programs. In addition, the Company's short-term investments are highly liquid and can be readily convertible to cash.

As of December 31, 2020, the Company's liabilities that have contractual maturities are as follows:

	Total	2021	2022	2023	2024	After 2025
Accounts payable and accrued liabilities*	$ 74,866	$ 74,866	$ -	$ -	$ -	$ -
Long term debt	184,925	-	184,925	-	-	-
Leases and other contracts	10,663	2,246	2,246	2,246	1,797	2,128
	$ 270,454	$ 77,112	$ 187,171	$ 2,246	$ 1,797	$ 2,128

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

Interest rate risk

Currently, the Company's long term debt is based on variable interest rates. Variable interest rates are based on both US dollar and Canadian dollar LIBOR plus a fixed margin. The Company has entered into derivative contracts to manage this risk. Based on the utilized credit facility balance of $184.9 million at December 31, 2020, for every 0.1% increase in LIBOR rates (10 basis point increase), annual net earnings before taxes would decrease by $0.2 million. The Company is also exposed to interest rate risk with respect to the interest it earns on its cash balances and short-term investments. A 10% change in interest rates would have a nominal effect on the Company's interest income.

5. Short-Term Investments

Details are as follows:

	December 31, 2020	December 31, 2019
Exchange traded funds	**$ 3,425**	$ 4,541
Money market funds	**-**	8
Total short-term investments	**$ 3,425**	$ 4,549

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

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

6. Receivables

Details are as follows:

	December 31, 2020	December 31, 2019
Concentrates	$ **18,189**	$ 19,946
Value added taxes and other taxes receivable	**400**	186
Income taxes receivable	**140**	3,201
Other	**843**	1,102
Current portion of finance lease receivable	**352**	326
Current portion of KORES promissory note *(Note 10)*	**6,767**	3,793
Total receivables	$ **26,691**	$ 28,554

7. Inventories

Details are as follows:

	December 31, 2020	December 31, 2019
Consumable parts and supplies	$ **35,291**	$ 32,543
Ore stockpiles	**2,507**	1,594
Concentrate	**20,282**	12,791
Cathode	**158**	960
Total inventories	$ **58,238**	$ 47,888

During the year ended December 31, 2020, concentrate and cathode inventories recognized as production costs, including depletion and amortization, amounted to $367.3 million (2019 – $372.7 million).

During the year ended December 31, 2020, the Company recorded a reversal of previous net write-downs of $(0.7) million as production costs. Of the $(0.7) million reversal, $(1.0) million relates to Pinto Valley's concentrate and ore-stockpile inventories, and $0.3 million to Pinto Valley's supplies inventories.

During the year ended December 31, 2019, the Company recorded net write-downs of $1.5 million as production costs. Of the $1.5 million of net write-downs, $0.9 million relates to Pinto Valley's concentrate and ore-stockpile inventories, and $0.6 million to Pinto Valley's supplies inventories.

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

8. Mineral Properties, Plant and Equipment

Details are as follows:

	Mineral properties			Plant and equipment			
	Depletable		Non-depletable	Subject to amortization			
	Producing mineral properties	Deferred stripping	Mineral exploration and development properties	Plant & equipment	Right of use assets	Construction in progress	Total
At January 1, 2020, net	$ 399,769	$ 112,644	$ 289,486	$ 290,479	$ 3,521	$ 36,265	$ 1,132,164
Additions	-	13,131	28,694	193	6,186	55,133	103,337
Rehabilitation provision adjustments *(Note 16)*	2,541	-	-	-	-	-	2,541
Reclassifications	30,356	-	(30,141)	54,804		(55,019)	-
Depletion and amortization	(27,270)	(22,197)	-	(39,376)	(1,415)	-	(90,258)
At December 31, 2020, net	$ 405,396	$ 103,578	$ 288,039	$ 306,100	$ 8,292	$ 36,379	$ 1,147,784
At December 31, 2020:							
Cost	$ 701,900	$ 155,168	$ 288,039	$ 573,540	10,321	$ 36,379	$ 1,765,347
Accumulated amortization	(296,504)	(51,590)	-	(267,440)	(2,029)	-	(617,563)
Net carrying amount	$ 405,396	$ 103,578	$ 288,039	$ 306,100	$ 8,292	$ 36,379	$ 1,147,784

	Mineral properties			Plant and equipment			
	Depletable		Non-depletable	Subject to amortization			
	Producing mineral properties	Deferred stripping	Mineral exploration and development properties	Plant & equipment	Right of use assets	Construction in progress	Total
At January 1, 2019, net	$ 381,478	$ 101,677	$ 270,458	$ 298,826	$ 5,877	$ 30,740	$ 1,089,056
Additions	-	26,480	48,204	159	1,966	36,031	112,840
Disposals	-	-	(622)	224	(3,357)	-	(3,755)
Rehabilitation provision adjustments *(Note 16)*	19,442	-	-	-	-	-	19,442
Reclassifications	28,664	-	(28,554)	30,396		(30,506)	-
Depletion and amortization	(29,815)	(15,513)	-	(39,126)	(965)	-	(85,419)
At December 31, 2019, net	$ 399,769	$ 112,644	$ 289,486	$ 290,479	$ 3,521	$ 36,265	$ 1,132,164
At December 31, 2019:							
Cost	$ 669,003	$ 142,037	$ 289,486	$ 522,474	4,135	$ 36,265	$ 1,663,400
Accumulated amortization	(269,234)	(29,393)	-	(231,995)	(614)	-	(531,236)
Net carrying amount	$ 399,769	$ 112,644	$ 289,486	$ 290,479	$ 3,521	$ 36,265	$ 1,132,164

The Company's exploration costs were as follows:

	Year ended December 31,	
	2020	2019
Exploration capitalized to mineral properties	**$ 5,244**	$ 6,068
Greenfield exploration expensed to the statement of income	**3,094**	6,468
Total exploration costs	**$ 8,338**	$ 12,536

Exploration capitalized to mineral properties in 2020 and 2019 relates primarily to brownfield exploration at the Cozamin mine. Greenfield exploration expenses in 2020 relate primarily to exploration efforts in Mexico and Brazil. Greenfield exploration expenses in 2019 relate primarily to exploration efforts in Mexico and Chile.

The Company's care and maintenance costs incurred during the year ended December 31, 2020 related to San Manuel Arizona Railroad Company and totalled $1.1 million (2019 - $1.0 million).

At December 31, 2020, 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 December 31, 2020, bank borrowings *(Note 14)* were secured by mineral properties, plant and equipment with a net carrying value of $880.2 million (December 31, 2019 – $874.3 million).

9. Disposal of Assets Classified as Held for Sale

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

- $5 million due on April 1, 2021;
- $5 million within 90 days, following two consecutive quarters in which the average London Metals Exchange Cash Copper Bid Price at close ("Average LME Price") is greater than $3.00 per pound within the three years following earlier of Restart date or April 1, 2021; and
- $10 million, within 90 days following two consecutive quarters in which the Average LME Price is greater than $3.50 per pound within the three years following earlier of Restart date or April 1, 2021.

On June 3, 2019, the contingent consideration had a fair value of $8.4 million. As at December 31, 2020, the contingent consideration had a fair value of $14.9 million (2019 - $9.6 million) *(Note 11)*, with a mark-to-market change of $5.3 million recorded in other income for the year ended December 31, 2020 (2019 - $1.2 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.

(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 loss for the period January 1, 2019 through June 3, 2019 are set out below.

Loss for the period from discontinued operations:

		Period ended June 3, 2019
Revenue	$	8,674
Production costs		(5,603)
Royalties		(848)
Depletion and amortization		(13)
Earnings from mining operations		2,210
Care & maintenance		(4,726)
Restructuring recovery		551
Loss from operations		(1,965)
Other income		961
Net finance costs		(1,353)
Loss on disposition		(24,489)
Loss before income taxes		(26,846)
Income tax expense		(210)
Net loss from discontinued operations (attributable to shareholders of Capstone)	$	(27,056)

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

The results of cash flows from discontinued operations for the period from January 1, 2019 through June 3, 2019 are set out below.

Cash flows from discontinued operations:

	Period ended June 3, 2019	
Net cash outflows from operating activities	$	(3,414)
Net cash inflows from investing activities		167
Net cash outflows from financing activities		(746)
Net cash outflows	$	(3,993)

10. KORES Promissory Note

In June 2011, the Company issued a promissory note to KORES for C$81.8 million. Under the terms of the shareholders' agreement between Capstone and KORES, it is acknowledged that cash calls for the Santo Domingo project will be funded, to the extent possible, first by way of repayment of the promissory note. Since September 2011, KORES has funded cash calls through a reduction of its outstanding balance on the promissory note.

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

Balance, December 31, 2018	$	41,402
Cash calls against the promissory note		(6,015)
Balance, December 31, 2019		**35,387**
Cash calls against the promissory note		**(1,540)**
Balance, December 31, 2020	**$**	**33,847**

	December 31, 2020		December 31, 2019	
KORES promissory note	**$**	**33,847**	$	35,387
Less: current portion *(Note 6)*		**(6,767)**		(3,793)
Non-current portion	**$**	**27,080**	$	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.

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

11. Other Assets

Details are as follows:

		December 31, 2020		December 31, 2019
Current:				
Prepaids and other	**$**	**4,945**	$	2,304
Derivative assets		**2,992**		147
Contingent consideration on sale of Minto *(Note 9)*		**5,000**		-
Total other assets - current	**$**	**12,937**	$	2,451
Non-current:				
Contingent consideration on sale of Minto *(Note 9)*	**$**	**9,933**	$	9,611
Access rights		**7,817**		-
Taxes receivable		**7,273**		5,864
Investments in marketable securities		**2,856**		1,679
Finance lease receivable		**1,232**		1,553
Deposits		**897**		879
Total other assets - non-current	**$**	**30,008**	$	19,586

12. Other Liabilities

Details are as follows:

		December 31, 2020		December 31, 2019
Current:				
Income taxes payable	**$**	**9,120**	$	1,257
Current portion of lease liabilities		**1,596**		769
Current portion of share-based payment obligation		**8,288**		873
Total other liabilities - current	**$**	**19,004**	$	2,899
Non-current:				
Interest rate swap derivative liabilities *(Note 14)*	**$**	**380**	$	-
Retirement benefit liabilities		**5,587**		4,771
Other		**4,132**		3,365
Total other liabilities - non-current	**$**	**10,099**	$	8,136

13. Lease Liabilities

Details are as follows:

		December 31, 2020		December 31, 2019
Lease liabilities	**$**	**9,903**	$	5,939
Less: current portion *(Note 12)*		**(1,596)**		(769)
Non-current portion	**$**	**8,307**	$	5,170

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

Undiscounted lease payments:

	December 31, 2020
Not later than 1 year	$ 2,063
Later than 1 year and not later than 5 years	6,198
Later than 5 years	3,612
	$ 11,873

14. Long-Term Debt

Details are as follows:

	December 31, 2020	December 31, 2019
Long term debt	**$ 184,925**	$ 209,925
Financing fees	**(1,699)**	(2,832)
Total long term debt	**$ 183,226**	$ 207,093

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

Balance, December 31, 2018	$ 216,972
Repayments	(35,000)
Drawdowns	25,000
RCF amendment financing fees	(1,077)
Amortization of financing fees	1,198
Balance, December 31, 2019	**207,093**
Repayments	**(70,000)**
Drawdowns	**45,000**
Amortization of financing fees	**1,133**
Balance, December 31, 2020	**$ 183,226**

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 income (loss) over the term of the facility. During the year ended December 31, 2020, a total of $1.1 million (2019 – $1.2 million) was amortized and recorded in other interest expense.

The interest rate at December 31, 2020 was US LIBOR plus 2.75% (2019 - US LIBOR plus 2.75%) with a standby fee of 0.62% (2019 – 0.62%) payable on the undrawn balance (adjustable in certain circumstances).

In April 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 *(Note 4)*:

- $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 total leverage ratio. At December 31, 2020, the fair value of the derivative liability is $(0.4) million (2019 - $nil) *(Note 12).*

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

The RCF is secured against the present and future real and personal property, assets and undertakings of Capstone (excluding certain assets, which include Acquisition Co., Far West, Santo Domingo, and Far West Exploration S.A., and subject to certain exclusions for Capstone Mining Chile SpA). The credit facility requires the Company to maintain certain financial ratios relating to debt and interest coverage. Capstone was in compliance with these covenants as at December 31, 2020.

At December 31, 2020, there were four Surety Bonds totaling $124.4 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 $1.8 million related to the construction of a port for Santo Domingo in Chile.

Upon closing of the precious metals purchase arrangement ("PMPA") with Wheaton Precious Metals Corp. ("Wheaton") on February 19, 2021 *(Note 28)*, the $150 million received from Wheaton was used to repay the RCF. Subsequently, the RCF was amended to reduce the credit limit from $300 million to $225 million. The maturity date and all other significant terms were unchanged. In addition, the remaining interest rate swap derivatives were early settled in February 2021.

15. Income Taxes

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

	Year ended December 31, 2020				
	Canada	**US**	**Mexico**	**Other**	**Total**
Current income and mining tax expense	**$ -**	**$ 23**	**$ 16,363**	**$ -**	**$ 16,386**
Deferred income tax (recovery) expense	**(4,210)**	**(1,254)**	**2,465**	**-**	**(2,999)**
Income tax (recovery) expense	**$ (4,210)**	**$ (1,231)**	**$ 18,828**	**$ -**	**$ 13,387**

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

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

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

	Year ended December 31, 2020	2019
Income (loss) from continuing operations before income taxes	**$ 25,768**	$ (4,307)
Canadian federal and provincial income tax rates	**27.00%**	27.00%
Income tax expense (recovery) based on the above rates	**6,957**	(1,163)
Increase (decrease) due to:		
Non-deductible expenditures	**767**	1,887
Effects of different statutory tax rates on losses of subsidiaires	**2,499**	1,037
Mexican mining royalty tax	**2,809**	1,538
Current period losses for which no deferred tax assets were recognized	**446**	9,416
Recognition of tax assets previously unrecognized	**(129)**	(27,793)
Non-taxable portion of capital gains	**(703)**	-
Withholding taxes	**1,828**	355
Foreign exchange and other translation adjustments	**(414)**	(465)
Adjustment to tax estimates in prior years	**(934)**	(30)
Other	**261**	55
Income tax expense (recovery)	**$ 13,387**	$ (15,163)

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

	2020	2019
Net deferred tax liability, January 1	**$ 39,366**	$ 61,931
Deferred income tax recovery for the year	**(2,999)**	(22,681)
Deferred income tax (recovered) charged against other comprehensive income	**(73)**	116
Net deferred tax liability, December 31	**$ 36,294**	$ 39,366

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

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

		December 31, 2020		December 31, 2019
Deferred income tax assets				
Non-capital losses	**$**	**40,133**	$	39,706
Receivables and other current items		**15,299**		8,448
Share issue costs and other		**2,604**		864
Mineral properties, plant and equipment		**1,467**		1,579
Deferred income tax assets		**59,503**		50,597
Deferred income tax liabilities				
Mineral properties, plant and equipment		**91,899**		87,755
Inventories and other		**1,796**		758
Derivative instruments		**651**		-
Unrealized foreign exchange gains		**1,451**		1,450
Deferred income tax liabilities		**95,797**		89,963
Net deferred income tax liability	**$**	**36,294**	$	39,366
Breakdown of net deferred income tax liability				
Asset	**$**	**(28,841)**	$	(24,655)
Liability		**65,135**		64,021
	$	**36,294**	$	39,366

Deferred taxes are recorded on a net basis by legal entity where the right of offset exists (as shown in the table below) while the above table discloses the consolidated assets and liabilities on a gross basis.

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

		Year ended December 31, **2020**		2019
Deferred income tax assets				
Non-capital losses	**$**	**(427)**	$	(26,219)
Receivables and other current items		**(6,778)**		(1,238)
Share issue costs and other		**(1,739)**		(864)
Mineral properties, plant and equipment		**112**		(1,579)
Deferred income tax liabilities				
Mineral properties, plant and equipment		**4,144**		7,979
Inventories and other		**1,038**		(760)
Derivative instruments		**651**		-
Deferred tax recovery	**$**	**(2,999)**	$	(22,681)

At December 31, 2020, $28.8 million (2019 – $24.7 million) was recognized as a deferred tax asset based on management's forecasts of future income in certain entities.

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

As at December 31, 2020, the Company had tax losses of $56.7 million (2019 – $54.9 million) with a tax benefit of $15.3 million (2019 – $14.9 million) that are not recognized as deferred tax assets. The Company recognizes the benefit of tax losses only to the extent that it anticipates future taxable income that can be reduced by the tax losses. The $8.2 million (2019 – $11.7 million) of the tax losses for which a tax benefit has not been recorded expire from 2031 to 2040 while the remaining $48.5 million (2019 – $43.1 million) of the tax losses have no expiry date.

The summary of unrecognized deductible temporary differences is as follows:

	Year ended December 31,			
		2020		2019
Accounts payable and other	**$**	**10,482**	$	7,071
Mineral properties, plant and equipment		**68,059**		75,284
Unrealized foreign exchange losses		**11,409**		11,348
Investments		**1,372**		2,334
Reclamation and closure cost obligations		**115,996**		105,786
	$	**207,318**	$	201,823

As at December 31, 2020, the Company has $207.3 million (2019 – $201.8 million) of deductible temporary differences with a tax benefit of $49.4 million (2019 – $48.3 million) that are not recognized as deferred tax assets. It is not probable that future taxable income will be available against which the Company can utilize these benefits. The majority of these benefits do not have an expiry date.

As at December 31, 2020, the Company has not recognized deferred taxes on approximately $175.7 million (2019 – $142.0 million) of retained earnings of its foreign subsidiaries, as it is the Company's intention to invest these earnings to maintain and expand the business of these subsidiaries.

As at December 31, 2020, the Company has $189.2 million (2019 – $198.5 million) of capital losses that are unrecognized and available to be utilized against future capital gains.

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

16. Provisions

The reclamation and closure cost obligations relate to the operations of the Pinto Valley and Cozamin mines, and other exploration and development properties.

Details of changes in the balances are as follows:

	Reclamation & closure cost obligations	Other long term provisions	Share-based payment obligations	Total
Balance, January 1, 2020	**$ 112,576**	**$ 3,185**	**$ 5,292**	**$ 121,053**
Share-based payment expense *(Note 17)*	**-**	**-**	**26,066**	**26,066**
Change in estimates	**2,621**	**500**	**-**	**3,121**
Interest expense from discounting obligations	**2,053**	**-**	**-**	**2,053**
Payments during the year	**(14)**	**(27)**	**(1,347)**	**(1,388)**
Currency translation adjustments	**(1,240)**	**(93)**	**496**	**(837)**
Balance, December 31, 2020	**$ 115,996**	**$ 3,565**	**$ 30,507**	**$ 150,068**
Less: Current portion of share-based payment obligation included within other liabilities *(Note 12)*	**-**	**-**	**(8,288)**	**(8,288)**
Total provisions - non-current	**$ 115,996**	**$ 3,565**	**$ 22,219**	**$ 141,780**
Balance, January 1, 2019	$ 90,034	$ 3,029	$ 5,793	$ 98,856
Share-based payment expense *(Note 17)*	-	-	3,311	3,311
Change in estimates	19,946	192	-	20,138
Interest expense from discounting obligations	2,328	-	-	2,328
Payments during the year	(445)	(129)	(4,036)	(4,610)
Currency translation adjustments	713	93	224	1,030
Balance, December 31, 2019	$ 112,576	$ 3,185	$ 5,292	$ 121,053
Less: Current portion of share-based payment obligation included within other liabilities *(Note 12)*	-	-	(873)	(873)
Total provisions - non-current	$ 112,576	$ 3,185	$ 4,419	$ 120,180

The change in estimates during the year ended December 31, 2020 related to the reclamation and closure cost obligations of $2.6 million (2019 – $19.9 million), were mainly driven by the changes in the pre-tax discount rates used. The change in estimates were recorded as an increase to mineral properties of $2.5 million (2019 – $19.4 million) *(Note 8)* and to the consolidated statement of income (loss) of $0.1 million (2019 – $0.5 million).

A reclamation and closure cost obligation has been recognized in respect of the mining operations of the Pinto Valley Mine, including associated infrastructure and buildings as well as the rail operations of the San Manuel Arizona Railroad Company. The estimated undiscounted cash flows required to satisfy the Pinto Valley reclamation and closure cost obligation as at December 31, 2020 were $91.5 million (2019 – $89.2 million), which have been adjusted for inflation and uncertainty of the cash flows and then discounted using current market-based pre-tax discount rate of 0% (2019 – 1.92% to 2.39%) depending on the estimated timing of the future cash outflows. The resulting reclamation and closure cost obligation for the Pinto Valley Mine at December 31, 2020 totalled $100.9 million (2019 – $91.8 million), of which an amount of $102.9 million is secured by a surety bond from Zurich Insurance in favour of the Arizona Department of Environmental Quality and $15.7 million is secured by a surety bond from Liberty Mutual in favour of the Arizona State Mine Inspector.

A reclamation and closure cost obligation has been recognized in respect of the mining operations of the Cozamin Mine, including associated infrastructure and buildings. The estimated undiscounted cash flows required to satisfy the Cozamin reclamation and closure cost obligation as at December 31, 2020 were 336.6 million Mexican pesos (2019 – 320.3 million Mexican pesos), which were adjusted for inflation and uncertainty of the cash flows and then discounted using current market-based pre-tax discount rates ranging from 4.52% to 6.55% (2019 – 1.59% to 1.69%). The resulting reclamation and closure cost obligation for Cozamin at December 31, 2020 totalled $15.2 million (2019 – $20.8 million), with an additional $3.2 million (2019 – $2.9 million) of other mine closure costs related primarily to severance.

The Company expects that the cash outflows in respect to the balances accrued as at the financial statement dates will occur proximate to the dates these long term assets are retired.

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

17. Share Capital

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

Stock options
Pursuant to the Company's amended stock option plan, directors may authorize the granting of options to directors, officers, employees and consultants of the Company to a maximum of 10% of the issued and outstanding common shares at the time of grant, with a maximum of 5% of the Company's issued and outstanding shares reserved for any one person annually. Options granted under the plan have a term not to exceed 5 years and vest over 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, 2018	22,368,783	$	1.24
Granted	4,940,422		0.58
Exercised	(366,590)		0.33
Expired	(3,117,589)		2.68
Forfeited	(515,114)		0.93
Outstanding, December 31, 2019	23,309,912	$	0.93
Granted	5,325,528		0.70
Exercised	(8,701,320)		0.43
Expired	(5,709,973)		1.51
Forfeited	(125,421)		1.44
Outstanding, December 31, 2020	14,098,726	$	0.91

As at December 31, 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)
$0.54 - $0.91	9,947,231	$	0.64	3.7	1,404,781	$	0.58	3.1
$1.20 - $1.68	4,151,495		1.54	1.7	3,343,151		1.56	1.6
	14,098,726	$	0.91	3.1	4,747,932	$	1.27	2.1

During 2020, the total fair value of options granted was $1.0 million (2019 – $1.0 million) and had a weighted average grant-date fair value of C$0.29 (2019 – C$0.29) per option. The fair values of the stock options granted were estimated on the respective grant dates using the Black-Scholes Option Pricing Model. Volatility was determined using the Company's historical daily volatility over the expected life of the options.

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

	December 31, 2020	December 31, 2019
Risk-free interest rate	**1.38%**	1.79%
Expected dividend yield	**nil**	nil
Expected share price volatility	**58%**	66%
Expected forfeiture rate	**6.42%**	5.01%
Expected life	**3.8 years**	3.8 years

Option pricing models require the input of subjective assumptions including the expected price volatility. Changes in the assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

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

Other share-based compensation plans

Deferred Share Units
The Company has established a Deferred Share Unit Plan (the "DSU Plan") whereby DSUs are issued to directors as long term incentive compensation. DSUs issued under the DSU Plan are fully vested upon issuance and entitle the holder to a cash payment only following cessation of service on the Board of Directors. The value of the DSUs when converted to cash will be equal to the number of DSUs granted multiplied by the quoted market value of a Capstone common share at the time the conversion takes place.

Compensation expense related to DSUs is recorded immediately and is adjusted at each reporting period to reflect the change in quoted market value of the Company's common shares.

Restricted Share Units and Performance Share Units
The Company has established a Share Unit Plan (the "Plan") whereby RSUs and PSUs are issued as long term incentive compensation. RSUs are issued to employees and executives. PSUs are issued to executives.

RSUs issued under the Plan entitle the holder to a cash payment, shares delivered from a Share Purchase Trust or a combination thereof, at the end of the vesting period equal to the number of RSUs granted, multiplied by the quoted market value of a Capstone common share on the completion of the vesting period. RSUs granted to employees and executives prior to 2020 vest after three years, and RSUs granted in 2020 and onwards vest 1/3 per year over their three year term.

PSUs issued under the Plan entitle the holder to a cash payment, shares delivered from a Share Purchase Trust or a combination thereof, at the end of a three-year performance period equal to the number of PSUs granted, adjusted for a performance factor and multiplied by the quoted market value of a Capstone common share on the completion of the performance period. The performance factor can range from 0% to 200% and is determined by comparing the Company's total shareholder return to those achieved by a peer group of companies.

Compensation expense related to RSUs and PSUs is recorded over the three-year vesting period. The amount of compensation expense is adjusted at each reporting period to reflect the change in quoted market value of the Company's common shares, the number of RSUs and PSUs expected to vest, and in the case of PSUs, the expected performance factor.

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

	DSUs	RSUs	PSUs
Outstanding, December 31, 2018	3,633,534	8,845,021	6,001,697
Granted	1,089,366	5,117,083	2,928,211
Forfeited	-	(522,549)	(1,522,808)
Settled	(1,171,534)	(5,590,665)	(2,138,500)
Outstanding, December 31, 2019	3,551,366	7,848,890	5,268,600
Granted	792,858	5,434,234	3,335,447
Forfeited	-	(754,168)	-
Settled	(451,396)	(890,606)	(1,020,537)
Outstanding, December 31, 2020	3,892,828	11,638,350	7,583,510

During 2020, the total fair value of DSUs, RSUs, and PSUs granted during the year was $5.1 million (2019 – $4.3 million) and had a weighted average grant-date fair value of C$0.70 (2019 – C$0.62) per unit.

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

RSU and PSU obligations, under the Share Unit Plan, can be settled in cash, shares delivered from a Share Purchase Trust or a combination thereof, as determined by and at the discretion of the Human Resources and Compensation Committee of the Company's Board of Directors. DSU obligations, under the Deferred Share Unit Plan, are redeemed in cash. No Capstone shares were purchased during the years ended December 31, 2020 and 2019.

The Company uses the fair value method of accounting for all share-based payments to directors, officers, employees and consultants. The portion of share-based compensation recorded is based on the vesting schedule of the options and units.

Share-based compensation expense:

	Year ended December 31,	
	2020	2019
Share-based compensation expense related to stock options	**$ 964**	$ 1,469
Share-based compensation expense related to DSUs, RSUs, and PSUs	**26,066**	3,311
Total share-based compensation expense	**$ 27,030**	$ 4,780

18. Revenue

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

	Year ended	
	December 31, 2020	December 31, 2019
Copper	**$ 440,779**	$ 412,278
Silver	**30,068**	23,799
Zinc	**12,233**	17,621
Gold	**8,752**	3,179
Lead	**1,657**	2,706
Molybdenum	**418**	2,264
Total gross revenue	**493,907**	461,847
Less: treatment and selling costs	**(40,144)**	(43,184)
Revenue	**$ 453,763**	$ 418,663

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

	Year ended December 31,	
	2020	2019
Copper	**$ 2,427**	$ 6,411
Silver	**321**	(170)
Zinc	**260**	(116)
Lead	**45**	(35)
Molybdenum	**4**	(4)
Gold	**(677)**	54
Revenue adjustments from provisional pricing arrangements	**$ 2,380**	$ 6,140

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

Customer details are as follows:

	Year ended December 31,					
	2020			2019		
	Pinto Valley USA	**Cozamin Mexico**	**Total**	Pinto Valley USA	Cozamin Mexico	Total
Customer #1	**$ -**	**$ 142,220**	**$ 142,220**	$ 31,202	$ 126,191	$ 157,393
Customer #2	**35,718**	**-**	**35,718**	30,014	-	30,014
Customer #3	**62,655**	**-**	**62,655**	28,389	-	28,389
Customer #4	**50,904**	**-**	**50,904**	-	-	-
Customer #5	**99,435**	**3,059**	**102,494**	80,477	4,871	85,348
Customer #6	**2,004**	**-**	**2,004**	40,594		40,594
Customer #7	**-**	**-**	**-**	43,150	341	43,491
Other	**97,912**	**-**	**97,912**	76,618	-	76,618
Total gross revenue	**$ 348,628**	**$ 145,279**	**$ 493,907**	$ 330,444	$ 131,403	$ 461,847

19. Earnings (Loss) Per Share

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

	Year ended December 31, **2020**	2019
Income (loss) per share		
Basic and diluted	**$ 0.03**	$ (0.04)
Net income (loss)		
Net income (loss) attributable to common shareholders - basic and diluted	**$ 12,557**	$ (16,043)
Weighted average shares outstanding - basic	**393,857,183**	391,303,393
Dilutive securities		
Stock options	**4,799,843**	-
Weighted average shares outstanding - basic and diluted	**398,657,026**	**391,303,393**
Weighted average shares excluded (as anti-dilutive)		
Stock options	**9,298,883**	23,309,912

20. Related Party Balances and Transactions

The immediate parent and ultimate controlling party of the group is Capstone Mining Corp. (incorporated in British Columbia, Canada).

The details of the Company's material entities, ownership interests, and functional currency are as follows:

Name	Location	Ownership	Status	Fuctional Currency
Pinto Valley	US	100%	Consolidated	US dollar
Capstone Gold	Mexico	100%	Consolidated	US dollar
Santo Domingo	Chile	70%	Consolidated	US dollar

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

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

Any transactions with other related parties in the normal course of operations are measured at the fair value amount of consideration established and agreed to by the related parties. Any amounts due to/receivable from related parties are unsecured, non-interest bearing and have no specific repayment terms.

The details of the Company's subsidiaries with material non-controlling interests are as follows:

Acquisition Co. is a 70% owned subsidiary of Capstone and 30% owned by KORES. Through Acquisition Co.'s wholly-owned Canadian subsidiary, Far West, the Company is engaged in the exploration for base and precious metals in Chile, and the country of incorporation is Canada. For the year ended December 31, 2020, a loss of $0.2 million (2019 – $0.2 million) has been allocated to non-controlling interests of Acquisition Co. As at December 31, 2020, Acquisition Co. has accumulated losses of $372.2 million (2019 – $371.6 million).

Summarized financial information about Acquisition Co. is as follows:

		December 31, 2020		December 31, 2019
Current assets	**$**	**27,018**	$	19,045
Non-current assets		**365,795**		374,801
Current liabilities		**10,062**		10,448
Non-current liabilities		**3,453**		3,512
Net loss		**(589)**		(523)
Total comprehensive loss		**(589)**		(523)
Mineral properties, plant and equipment additions		**9,249**		18,339
Repayment of KORES promissory note		**1,540**		6,015
Repayment of Capstone promissory note *		**8,114**		9,515

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

Compensation of Key Management Personnel

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

	Year ended December 31,			
		2020		2019
Salaries and short-term benefits	**$**	**3,369**	$	2,957
Share-based payments		**16,562**		2,227
	$	**19,931**	$	5,184

Capstone's key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and consist of its directors and senior officers.

The total salaries and benefits incurred by the Company during 2020 were $79.5 million (2019 – $82.0 million).

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

21. Supplemental Cash Flow Information

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

	Year ended December 31,			
		2020		2019
Receivables	**$**	**5,928**	$	6,174
Inventories		**(6,130)**		20,110
Other assets		**(7,661)**		138
Accounts payable and accrued liabilities		**19,417**		(4,165)
Other liabilities		**-**		46
Net change in non-cash working capital	**$**	**11,554**	$	22,303

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

	Year ended December 31,			
		2020		2019
Mineral properties, plant and equipment addition for change in estimate of reclamation and closure cost obligations *(Note 8)*	**$**	**(2,541)**	$	(19,442)
Increase in accounts payable and accrued liabilities related to mineral properties, plant and equipment and other assets	**$**	**(6,232)**	$	(3,300)
Depreciation of mining equipment capitalized to deferred stripping assets	**$**	**(2,865)**	$	(5,673)
Fair value of stock options allocated to share capital upon exercise	**$**	**1,357**	$	39

As at December 31, 2020, cash on hand was $56.4 million (2019 – $37.5 million) and cash equivalents was $0.2 million (2019 – $2.4 million).

22. Capital Management

The Company's capital consists of the items included in shareholders' equity, long term debt net of cash and cash equivalents, short-term investments, and investments in marketable securities. The Company manages the capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the Company's assets.

To effectively manage its capital requirements, the Company has in place a planning and budgeting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. The Company ensures that there are sufficient committed loan facilities to meet its short term business requirements, taking into account its anticipated operational cash flows and its cash and cash equivalents, short-term deposits and long-term investments.

The RCF contains various financial covenants, including: a) an interest coverage ratio and b) leverage ratios. As at December 31, 2020, the Company was in compliance with these covenants.

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

23. Commitments

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

Under the terms of the December 2003 option agreement with Bacis, Capstone assumed a 100% interest in the Cozamin Mine with a 3% net smelter royalty paid to Bacis on all payable metal sold from production on the property covered by the agreement.

Agreement with Jetti Resources, LLC ("Jetti")

Under the terms of the 2019 agreement, the Company is required to make quarterly royalty payments to Jetti based on an additional net profits calculation resulting from cathode production at the Pinto Valley mine. The initial term of the agreement is ten years, renewable for 5 year terms thereafter.

Off-take agreements

The Company has a concentrate off-take agreement with a third party whereby it will purchase 100% of the copper concentrate produced by the Cozamin Mine up to the end of November 2021.

The Company has a concentrate off-take agreement with a third party whereby it will purchase 100% of the zinc concentrate produced by the Cozamin Mine up to the end of November 2021.

The Company has a concentrate off-take agreement with a third party whereby it will purchase 100% of the lead concentrate produced by the Cozamin Mine up to the end of March 2021.

The Company has a number of annual and multi-year concentrate off-take agreements with third parties whereby they will purchase the copper concentrate produced by the Pinto Valley Mine.

Included in Note 13 are various lease agreements the Company has entered into with terms that expire between 2024 and 2029. The total remaining lease commitments associated with these lease agreements as at December 31, 2020 are $10.7 million (2019 – $7.7 million).

Capital expenditure contracted for at the end of the reporting period but not yet incurred was $14.8 million (2019 – $16.3 million).

24. General & Administrative Expenses

Details are as follows:

	Year ended December 31, **2020**	2019
General & administrative	**$ 12,509**	$ 14,035
Tax restructure costs	**219**	551
Corporate depreciation	**929**	1,387
	$ 13,657	$ 15,973

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

25. Other Income (Expense)

Details are as follows:

	Year ended December 31,	
	2020	2019
Mark-to-market gain on contingent consideration *(Note 9)*	**$ 5,322**	$ 1,240
Unrealized and realized (loss) gain on derivative financial instruments *(Note 4)*	**(1,201)**	28
Loss on disposal of mineral properties, plant and equipment	**(302)**	(1,022)
Other expense	**(26)**	(619)
	$ 3,793	$ (373)

26. Segmented Information

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

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

Operating segment details are as follows:

	Year ended December 31, 2020				
	Pinto Valley	Cozamin	Santo Domingo	Other	Total
Gross revenue					
Copper	$ 333,734	$ 107,045	$ -	$ -	$ 440,779
Silver	5,734	24,334	-	-	30,068
Zinc	-	12,233	-	-	12,233
Gold	8,741	11	-	-	8,752
Lead	-	1,657	-	-	1,657
Molybdenum	418	-	-	-	418
Treatment and selling costs	(27,389)	(12,755)	-	-	(40,144)
Revenue	321,238	132,525	-	-	453,763
Production costs	(235,478)	(50,365)	-	-	(285,843)
Royalties	(519)	(3,740)	-	-	(4,259)
Depletion and amortization	(63,989)	(17,493)	-	-	(81,482)
Earnings from mining operations	21,252	60,927	-	-	82,179
General and administrative expenses	(196)	(333)	(16)	(13,112)	(13,657)
Exploration expenses	-	(1,769)	(58)	(1,267)	(3,094)
Care and maintenance	(1,087)	-	-	-	(1,087)
Share-based compensation	-	-	-	(27,030)	(27,030)
Earnings (loss) from operations	19,969	58,825	(74)	(41,409)	37,311
Other (expense) income	(405)	(177)	163	3,638	3,219
Earnings (loss) before finance costs and income taxes	19,564	58,648	89	(37,771)	40,530
Net finance costs	(3,807)	(409)	(5)	(10,541)	(14,762)
Earnings (loss) before income taxes	15,757	58,239	84	(48,312)	25,768
Income tax recovery (expense)	1,231	(16,995)	-	2,377	(13,387)
Total net income (loss)	$ 16,988	$ 41,244	$ 84	$ (45,935)	$ 12,381
Mineral properties, plant & equipment additions	$ 66,169	$ 27,805	$ 9,249	$ 114	$ 103,337

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

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

	As at December 31, 2020				
	Pinto Valley	**Cozamin**	**Santo Domingo**	**Other**	**Total**
Mineral properties, plant and equipment	**$ 722,368**	**$ 155,366**	**$ 268,164**	**$ 1,886**	**$1,147,784**
Total assets	**$ 827,387**	**$ 187,923**	**$ 277,763**	**$ 98,511**	**$1,391,584**
Total liabilities	**$ 188,437**	**$ 84,489**	**$ 4,933**	**$ 224,558**	**$ 502,417**

	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

27. Contingencies

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

28. Subsequent Events

On February 19, 2021, the Company closed the PMPA with Wheaton announced in December 2020. Under the terms of the PMPA, the Company received an upfront cash consideration of $150 million for 50% of the silver production from the Company's Cozamin mine until 10 million ounces have been delivered, thereafter dropping to 33% of silver production for the remaining life of the mine. Wheaton will make ongoing payments equal to 10% of the spot silver price at the time of delivery for each ounce delivered to them. The PMPA is effective December 1, 2020.