Sustainability Stakeholder Forum

In 2015 Capstone Mining Corp. published its first Sustainability Report to demonstrate the company’s commitment to sustainable performance and to begin a process of publicly charting Capstone’s progress on that commitment. As a further step in transparency, Capstone enlisted Solstice Sustainability Works Inc. to moderate an online Sustainability Forum with Capstone stakeholders and sustainability experts. The purpose of the Forum was to gather feedback and insights to help Capstone prioritize sustainability aspects and continue to develop its sustainability reporting.

This report was prepared by Solstice to synthesize the observations and suggestions of the Forum participants. Participants included individuals from the areas of Capstone operations in Arizona, Mexico and Yukon, the head office in Vancouver, BC and global interests. Forum participants reviewed this report and consented to being included. We are very grateful to all Forum participants for contributing their knowledge and experience to this process.

- Jim Bell, Acting Manager, Mineral Resources Branch, Energy, Mines and Resources, Yukon
- Jennifer Byram, Vice President Administration, Pelly Construction Ltd.
- Jennifer Coulson, Senior Manager, ESG Integration, bclMC | Public Equities
- Silvana Costa, Senior Advisor, Environment and Social Responsibility, New Gold Inc.
- Juan Pablo García De Quevedo, General Manager, Ecodrill
- Jenna Hardy, Principal, Nimbus Management Ltd.
- Ellen Kretsch, Director, Globe-Miami Chamber of Commerce
- Andrew Mathewson, Lead, Integrated Aboriginal Services, AECOM
- Tomonori Noda, Senior Manager /Resource Development & Raw Materials Department, Dowa Metals and Mining Co., Ltd.
- Lewis Rifkind, Mining Analyst, Yukon Conservation Society
- Dr. Malcolm Scoble, N.B. Keevil Institute of Mining Engineering, University of British Columbia

Description of the Forum process

We conducted the Forum from October 26-31, 2015, using Convetit™, an online dialogue tool. This approach gave participants in different time zones the opportunity to participate at a convenient time for them. We asked participants to assist in three objectives:

1. Feedback on Capstone’s 2014 Sustainability Report
2. Review of stakeholder priorities in Capstone’s 2015 materiality analysis¹, and
3. Five year outlook for sustainability priorities

The Forum was not mandated to verify or in any way confirm the accuracy, completeness or fairness of Capstone’s 2014 Sustainability Report and the process was not intended to provide any independent assurance to users of the report.

¹ Involving stakeholders in the analysis of materiality is one of the requirements of the Global Reporting Initiative G4 Guidelines for Sustainability Reporting, the reporting framework used by Capstone.
Capstone Response:
We would like to express our sincere appreciation to our Forum members for their participation and valuable insight. The Forum was our first experience engaging our stakeholders on our sustainability reporting and has given us feedback for improvement and provided areas of focus for future materiality assessments. We reference the Forum on page 9 of our 2015 Sustainability Report.

General comments
While it was not an explicit objective of the Forum to seek feedback on Capstone’s sustainability performance, we heard from several participants who work closely with Capstone that the company treats sustainability – including safety, environment and community concerns – as a priority, integrating sustainability into operations, all the way down the line.

Feedback on the 2014 Sustainability Report
What is working well?
The Forum was generally positive about the Report, describing it as easy to read, well laid out, and accessible with good graphics and a balance of qualitative and quantitative information. Participants appreciated that the photos represented actual Capstone operations. Participants generally agreed that the Report helped them understand Capstone’s operations and sustainability impacts. The integration of sustainability with Capstone’s values and culture came through in the letter of the Chief Executive Officer. Disclosure of some difficult 2014 events demonstrated that Capstone is transparent about challenging aspects too.

How could it be improved?
As this was Capstone’s first sustainability report, there is room for improvement and the Forum participants had the following suggestions:

- Include more historical data to show trends in performance
- Explain performance trends more fully, especially in cases where performance doesn’t meet objectives
- Highlight and discuss areas of challenge for the company, even if Capstone doesn’t have a complete solution yet
- Provide links to respected external sites (government or NGO) so that report users can compare site level performance to regulatory and other objectives
- Provide more community stakeholder perspectives on local impacts and local needs.
- Put a summary table of performance data on the Capstone website for specialized users to download

Capstone Response:
In our second report, we are better positioned to report on performance trends. We added a performance summary table to indicate status of objectives and how we measured performance. We addressed the challenges we had in meeting our objectives for health and safety and spill management. We also discussed the impacts of lay-offs on workers.
Where available and relevant, we have provided links to external websites (regulatory agencies and industry guidance) to assist readers in accessing data that may enhance their understanding of Capstone and our performance. We have also added clear links to supporting documentation on our website.

We improved the stakeholder engagement aspects of our reporting and materiality assessment in 2015. This included gathering feedback through the Forum and distributing a pilot survey to capture employee perspectives. We also broadened our disclosure on Capstone’s stakeholder groups from 2014 by summarizing engagement activities and key interests and concerns (see 2015 Sustainability Report page 10). However, as we see our local stakeholders as a key audience for this report, including more local perspectives in future reports is an area for continued improvement.

A summary table of performance data to date (2014-2015) is available on our website.

Other considerations

In some cases the direction from the Forum was less clear, showing that different users may have different needs. The Forum offers these points for consideration:

- Consider using more plain language for general audiences. While some participants found the report easy to read, others commented on the use of jargon.
- Consider length. Some found the Report to be too long and wondered whether the operations sections should be removed, perhaps into sub-reports. Others valued the inclusion of information about operations.
- Consider format. Capstone’s Report is offered in PDF and hard copy format. Some would prefer a more interactive online format that permits more links and drilling down into supporting information. Another point of view cautions that online reporting that is not carefully structured can confuse or lose users.
- Consider site level Key Performance Indicators (KPIs). While Capstone is aligned to the GRI G4 standard, other locally derived indicators may serve to better explain performance at individual operations.

Capstone Response:

It is important to us that the content of our sustainability report is concise, meaningful and accessible. We agree with the Forum’s comments on plain language and length, and considered this in compiling our 2015 report. We maintained the operations profiles, as we feel this information provides important context for the current scale of our company and the performance section of the report. We will consider the Forum’s other comments as our reporting experience and capacity grows.

Review of stakeholder materiality priorities

Forum participants reviewed a draft version of Capstone’s 2015 Materiality Matrix – a graphic showing relative priorities from the company and stakeholder perspectives. We asked participants to review the stakeholder priorities as shown in the matrix and suggest any changes that would better reflect the combined stakeholder perspective. Capstone has considered the following input from the Forum in finalizing its materiality matrix for 2015.
Aspects that should have higher stakeholder priority

- Water – both quantity and quality, especially in areas of water scarcity
- Aboriginal relations – the principle of Free Prior Informed Consent (FPIC) is becoming more institutionalized; Aboriginal peoples are becoming more active in asserting their rights; and Aboriginal communities are looking for ways to benefit from and participate in mining projects
- Energy – for both energy consumption and related Greenhouse Gas (GHG) emissions; GHG may need to be a separate aspect to give it the importance it will have as interest in climate change mitigation and adaptation grows
- Closure planning – especially as it relates to post closure land use and sustainable economic transition; regulatory requirements, including reclamation bonds, are becoming more stringent
- Anti-corruption – flagged as a potential, rather than current, concern

Capstone Response:

We used the Forum’s feedback to validate how we categorized our aspects. Our matrix has three categories of materiality: ‘Material’, where we describe our management approach and performance data, our Watchlist, where we describe our management approach and monitor for signs of increasing materiality and ‘Other’. Water and energy were already in our highest category, Material. Senior management considered the Forum’s input and determined that Closure should remain a Watchlist aspect. In addition to development of our Anti-corruption policy framework and training in 2015, feedback from the Forum also contributed to us elevating Anti-corruption to our Watchlist.

Aboriginal Relations: Forum members wondered why Aboriginal Relations (re-titled to Indigenous Relations in our 2015 Report) was not a Material aspect for Capstone given our relationship with Selkirk First Nation in the Yukon and the general indigenous issues that exist in other jurisdictions where we operate. Aboriginal relations is a Material aspect at our Minto operation. There are currently no significant indigenous interests identified through the engagement and consultation processes at Pinto Valley, Cozamin and Santo Domingo, so it is not ranked as a Material aspect for these sites or for Capstone overall.

Comments on the materiality process

Our Forum included people with varying levels of experience applying materiality in a sustainability setting – a good test of the process. Participation levels were lower for this part of the Forum. Some participants appreciated the description of materiality in the report, especially the three distinct levels of importance. Some felt that they did not know Capstone well enough to comment on the draft priorities. Another view was that the process would be too academic for some groups of stakeholders. The Forum suggested some ways to refine the materiality process:

- Consider showing the most material aspects by site. For example, water quantity is more material at Pinto Valley and Cozamin than at Minto, where water quality is the greater concern.
- Consider distinguishing different reasons for materiality. Some aspects are consistently material across all sites and over time, such as health and safety or environmental compliance. These aspects are material because they require continuously high performance for business success. Other aspects can
become material because they need immediate attention. They may trend up or down over time and vary by site. Anti-corruption could be an example in some areas.

**Capstone response:**

We agree with the Forum’s suggestions that showing material aspects by site and distinguishing reasons for materiality may add value. Our current approach is to highlight locally significant aspects in the operations profiles. Materiality is still a new process for our organization and we will review these ideas as our process evolves.

**Five year materiality outlook**

In the final part of the Forum, participants identified aspects they expected to change in importance, for mining globally or in specific areas where Capstone operates.

**Which aspects will rise in importance to stakeholders by 2020?**

Participants expected the following to become more important to stakeholders in the mid-term:

- Water – increasing competition or cooperation among water users, especially as climate change exacerbates conditions of scarcity
- Nationalization and localization – national, local and indigenous governments will attempt to secure more of the benefits of mining for their people: FPIC may play into this
- Socio-economic benefits – related to the above, there will be greater interest in how mining operations produce benefits through financial mechanisms (taxes, royalties), employment and training
- Energy and emissions – driven by climate change
- Emergency preparedness – also driven by climate change
- Closure planning and abandonment requirements (and the bonds required)
- Tailings management – well publicized information about prominent tailings failures for other companies has created greater public awareness, which raises expectations

**Which aspects will decline in importance to stakeholders by 2020?**

Participants did not identify any aspects that would experience a real decline in importance but noted that relative to others, some aspects that are well managed may appear to decline as other aspects that need attention rise. This highlights the need to better distinguish what drives relative materiality rankings (see comments on materiality process above.)

**What are the main trends to watch in Arizona, Mexico and Northern Canada?**

Participants identified possible trends and, in some cases, raised questions about future trends.

**Arizona**

- Native tribes becoming more vocal on mining in general even if they are not in close proximity to the operation
Mexico
- Increased environmental regulation and enforcement – will it mean a level playing field for Mexican and global companies?
- Greater emphasis on closure standards and financial surety
- Corruption and violence affecting security in some regions
- Investment in capacity building for local governments and communities to manage the increase in financial resources from mining taxes and the need for increased technical competence in regulatory agencies to better evaluate environmental plans/programs
- Uncertainty about land access and legality of agreements needs to be resolved to encourage investment

Northern Canada
- Communities seeking greater share of the wealth – can it deliver sustainable economic development?
- First Nations seeking real participation through all stages of the mine life
- FPIC will lead to more collaborative planning, more revenue-sharing and more participation of First Nations in environmental monitoring

Other developments to watch
- Change in Canadian federal government could mean more active federal role in regulation and monitoring
- Canadian federal new Corporate Social Responsibility (CSR) Counsellor will use both carrots and sticks to encourage sound performance by the Canadian mining industry abroad
- Canadian federal CSR Strategy could effectively provide a Canadian standard for expectations of human rights performance, as it references the Voluntary Principles on Business and Human Rights
- Expectations continue to rise for companies to have appropriate competencies in stakeholder engagement and cultural awareness, from executive team to specialized stakeholder facing staff

Capstone Response:
We thank the Forum for these insights and will closely monitor these developments.