CORPORATE PARTICIPANTS

Cindy Burnett  
*Capstone Mining Corp.* — *Vice President, Investor Relations and Communications*

Darren Pylot  
*Capstone Mining Corp.* — *President and Chief Executive Officer*

Jim Slattery  
*Capstone Mining Corp.* — *Senior Vice President and Chief Financial Officer*

Gregg Bush  
*Capstone Mining Corp.* — *Senior Vice President and Chief Operating Officer*

CONFERENCE CALL PARTICIPANTS

Stefan Ioannou  
*Cormark Securities* — Analyst

Orest Wowkodaw  
*Scotiabank* — Analyst

Dalton Baretto  
*Canaccord Genuity* — Analyst

Pierre Vaillancourt  
*Haywood Securities* — Analyst

Alex Terentiew  
*BMO Capital Markets* — Analyst

Jacques Wortman  
*Eight Capital* — Analyst

Oscar Cabrera  
*CIBC World Markets* — Analyst
PRESENTATION

Cindy Burnett — Vice President, Investor Relations and Communications, Capstone Mining Corp.

Thank you. I’d like to welcome everyone on the call today. The news release announcing Capstone’s 2018 first quarter financial results is available on our website, along with an updated corporate presentation with summary information on the Company and our financial and operating results. Also on the website are webcast slides to accompany our commentary today.

With me today are Darren Pylot, Capstone’s President and Chief Executive Officer; Jim Slattery, Senior Vice President and Chief Financial Officer; and Gregg Bush, Senior Vice President and Chief Operating Officer.

I would like to advise you that this call is being recorded for replay through our conference call provider and is being broadcast live through an internet webcast system.

Following our brief remarks will be an opportunity for questions.

Comments made on the call today will contain forward-looking information. This information, by its nature, is subject to risks and uncertainties, and actual results may differ materially from the views expressed today. For further information on these risks and uncertainties, please see Capstone’s relevant filings on SEDAR.

And finally, I’ll just note that all amounts we will discuss today will be in US dollars unless otherwise specified.

Now I’ll turn the call over to Darren Pylot.

Darren Pylot — President and Chief Executive Officer, Capstone Mining Corp.

Thanks, Cindy. Good morning, everybody. As always, Jim is on the line with me to review the financial performance, followed by Gregg, who will give you an update on our operations. And then I’ll return to summarize and take questions from the floor.

So at this point, I’ll hand it over to Jim.

Jim Slattery — Senior Vice President and Chief Financial Officer, Capstone Mining Corp.

Thank you, Darren. This quarter was definitely mixed. We saw a strong copper market and really good pricing, and this is something that we anticipate continuing and building in strength over time, barring any major international trade or geopolitical event.

And being unhedged is a big positive for us, as we are realizing the benefits from this improved market.

The sale of Minto is also a real positive for us, for a purchaser, for the asset and for its employees. It will become a flagship asset for Pembridge and the start of a new copper company.

The accounting for this sale was more than a little complicated, as is reflected in the financial statements and MD&A for the quarter in accordance with IFRS. We have a complete table on Page 4 of the MD&A that gives details of where Minto is included and where it is not, and this should help you as you work through your models.

We’re now anticipating that the deal will close before the end of June 2018. There will be cash received of $37.5 million for the plant, equipment and resource, as well as a payment for the working capital as at March 31, 2018.

Cozamin has operated exceptionally well. It has done better than last year and our plan in production, costs and profitability. Results of the exploration work done there will see reduced costs through the introduction of more zinc into its production and an extension of the mine as copper resources and reserves are introduced into the mine plan in 2019 and beyond.
We’re also in very good shape on our debt, which has long ceased to be an issue. For the second quarter and beyond, with the sale of Minto and the planned reduction of our debt levels, we should be able to achieve our net debt target of $100 million this year.

But for the second quarter and beyond, Pinto Valley is an area of focus for us all. It is by far our most important asset, and we are all working, as Gregg will outline, to achieve the targets we have set for it. We will also be closing the Minto transaction at the end of the quarter and using the proceeds to reduce our net debt levels, further building our financial flexibility.

Now I’ll turn the call over to Gregg for further details.

Gregg Bush — Senior Vice President and Chief Operating Officer, Capstone Mining Corp.

Thanks, Jim. Overall production was lower at Pinto Valley and that was somewhat offset by another solid quarter at Cozamin. During the quarter, Pinto Valley experienced several unrelated maintenance and reliability issues in the plant, which impacted the throughput, mostly in the latter part of the quarter. These were mostly—generally they were one-off problems, in some cases unforeseeable, but we fully recognize that we’ve got some issues with our maintenance program, and we’re lacking sufficient follow-through to achieve the availability and productivity of the plant that we have planned.

In response to those issues, we have reorganized the maintenance structure and the processing department will be bringing in an external resource to facilitate a quicker turnaround on our asset management systems and practices.

And in addition to some of the reliability issues, we also experienced a recovery issue in January that was largely resolved by the end of January. It was related to a change in the reagent suite that was moved to kind of full scale before it was fully vetted and it took a number of weeks there to kind of purge that reagent out of the system and get the recoveries back where they belong.

So one last point on Pinto Valley and certainly not least. Our grade for the quarter, 0.27%, was by far the lowest grade we have ever posted for a quarter at Pinto Valley. I want to reiterate that this was exactly on plan. It was as expected and our grades do trend up through the remainder of the year to average 0.3% over the full year.

So with that, turning to Cozamin, operations in the first quarter continued to outperform our expectations. Our head grade was better than planned, partly due to continued focus on dilution control.

We also had some unplanned development ore in the extension zone of the Footwall that added some additional grade. And the bigger swing, particularly in costs at Cozamin, is we have started some zinc production that was not in our original plan, that drove our cash costs down. Higher zinc grades and higher silver grades and recoveries benefitted our costs in the first quarter.

So looking forward at Cozamin. Our technical report will not be out for a number of months yet, but we have advanced the work sufficiently that we are actually in there mining. So we tried to give some guidance for the remainder of the year.

And as we previously suggested around the San Rafael deposit, the philosophy with that deposit is to use that ore to occupy unused mill capacity with our current mining production in the Footwall Zone. So it will represent about 25 percent of our mill feed in the latter part of this year. It is going to take a little bit of time to ramp that fully up to that level. We will be ramping up to that level in this quarter.
So we expect, over the next several years, to see 7 million to 12 million pounds of additional zinc production and somewhere between 200,000 and 300,000 ounces of silver above what we had originally planned to produce. And there is also maybe another 1 to 1.5 million pounds of lead.

And so with those remarks, now I’ll turn the call back over to Darren.

Darren Pylot

Thanks, Gregg. So as you heard from Gregg and Jim, overall, definitely a mixed quarter operationally with Pinto Valley underperforming and Cozamin overperforming. I want to reiterate, management is very focused on making the necessary improvements operationally at Pinto Valley.

As Gregg mentioned, we started to make some of those changes in the quarter, with the reagent suite returning back to the original mix and seeing those recoveries trend up throughout the balance of the quarter. And we are seeing that continue to trend up in the second quarter.

We were very pleased with the success at Cozamin. Happy that we were able to get that San Rafael zinc deposit developed and start actually producing that zinc according to plan in terms of pounds and seeing that recovery as expected. When you’re bringing in additional zinc, we weren’t sure how the recovery was going to react in the overall plant. But happy to see it performing as expected and look to be able to ramp up, as Gregg mentioned, the zinc production throughout the balance of this year.

We do expect and feel good about the completion of the Minto sale this quarter. And as Jim mentioned, we will direct those additional resources to lower risk and much higher value projects that we have within our portfolio, most notably at Pinto Valley and Santo Domingo.

So again, on the close, on the takeaway, I want to make sure that everyone on the line knows how important Pinto Valley is to the Company and to the management here. We understand that it is the single biggest driver for shareholder value and we can assure you that the management team is actively engaged in supporting the operational improvements at Pinto Valley.

We also continue to make progress at Santo Domingo and defining that path forward. Last year we submitted four long-lead permitting items, being the mine plan, the processing plan, the waste dump and the tailings permits. Those are all in process, as we expect, and we do expect to have those permits granted this year, which leads us to then submitting our closure plan following that, and that’s the longest lead item. So we will continue to advance the permitting.

We have had several discussions this quarter with power providers in Chile and they have confirmed our expectations of significantly lower power prices, up to or in excess of 30 percent less than what we used in our feasibility study.

We have also had discussions with owners of existing infrastructure in ports, as well as parties looking to build ports, and are confident that there’s some very competitive options that exist for our project, and we will be able to determine which path is best for us to move that project forward this year. So we are confident that we have enough information to update the economics and make some decisions around that project to how to move forward by year-end.

So although we have a lot of work to do at Pinto Valley, as I said, we are completely aware of this and we understand what we need to do to get our throughput up and our reliability up as well and we will do so throughout this quarter.

Operator, that concludes our prepared remarks, and now we’ll take questions from the floor.
**Q&A**

**Stefan Ioannou**  —  Cormark Securities

Hi, guys. It’s Stefan. Just on the reliability and maintenance issues at Pinto Valley. I mean, could we or should we anticipate from a reliability issue—could there be any sort of large Capex-type items, like in terms of major equipment replacements, that are involved in this? Or is it strictly just maintenance and sort of a better schedule?

**Gregg Bush**

Our maintenance program for the year does include a number of sustaining capital items. We don’t expect that we’re going to have any projects that were not initially foreseen, or at least not any significant ones. And the issues are related to asset management, not capital spending-type problems.

**Stefan Ioannou**

Okay. Okay. Great. Thanks very much, guys.

**Orest Wowkodaw**  —  Scotiabank

Hi. Thanks. Just following up on the previous question as well. When we think about Pinto, can you give us a sense how April went and whether we had a recovery this month? And also, I’m curious whether there’s any more planned maintenance for the rest of this year that we should be aware of?

**Gregg Bush**

Certainly there’s a lot of planned maintenance for the remainder of the year. April has been mixed. I think we’ve identified where the rock is in our shoe and we’re busy trying to get it out. But I’ve said before, we went through some of these maintenance issues and 2014 and 2015. Turning around a problem like that is not something that happens from one day to the next. So I’m definitely seeing some improvements. I think we’ve taken the right steps, but I don’t expect an immediate turnaround there.

**Orest Wowkodaw**

Okay. So how confident, then, do you feel about the guidance that was issued then for Pinto for the year?

**Gregg Bush**

Well, we haven’t lowered our guidance. And the reason I made the point about the grade, I think the grade had a much bigger pull on Q1 than maybe people anticipated, and that was as planned. So it’s not to say that we don’t have—we’re fully aware that we’ve got some issues there that we need to get sorted out. But we haven’t felt that it was necessary to revise our guidance at this point and I still don’t believe that’s necessary.

**Orest Wowkodaw**

Okay. And in terms of maintenance, though, are there any big chunks of planned maintenance that will impact the next couple of quarters? Or just sort of days here and there?

**Gregg Bush**

No. There’s absolutely nothing going on that I am aware of or anyone at Pinto Valley is aware of that’s going to require any kind of an extended shutdown. I mean a lot of—quite frankly, a lot of our issues are there’s backlog that hasn’t been taken care of. And a lot of it also, I don’t remember if I’ve spoken about this before, but it’s a fairly old plant design with six grinding lines. And then you’ve got a primary crusher that’s sort of
independent from—it’s got a stockpile. And then you’ve got the secondary, tertiary crushing, and then there’s fine ore bins.

So you have these three big unit operations there that have some buffering capacity in between. And in order to hit the kind of targets that we have set for ourselves there, it’s very important that all that maintenance between those three major components is very well synchronized. And I think that is probably the largest sin that we’ve committed over the past couple of quarters is we have gotten a bit out of sync with that, and we’ve got to get it back into sync. But there’s not something that we’re going to take a major shutdown here and fix. It’s just getting the things done that should have been done over the last few quarters.

Orest Wowkodaw

Okay. And then just finally for me, a question for Jim. Is there cash that is going with Minto in terms of that transaction? I seem to recall seeing something about discontinued cash and I don’t know if I’m mistaken. Or can you give me some colour on that?

Jim Slattery

Well, we get—as I said earlier, we get $37.5 million for the fixed assets and the resource. In addition, we are being paid for the working capital, which is described in Note 8 of the financial statements. So we get that full payment for the working capital as at March 31, 2018. Looking at that note, there was $25.8 million of cash, which is included in the payment that we will receive when we close the transaction.

Darren Pylot

Orest, on top of the purchase.

Jim Slattery

On top of the $37.5 million.

Orest Wowkodaw

Right. So you’ve stripped out that $25.8 million from your current cash balance because it’s now part of the discontinued for now, right?

Jim Slattery

That is correct.

Dalton Baretto — Canaccord Genuity

Thanks. Good morning, guys. I’ve got a couple of questions. I wanted to start off with mining costs at both Pinto Valley and Cozamin. At Pinto Valley, it sounds like the issues in the quarter were mostly plant-related, but yet you recorded a mining cost of $0.56 a pound. That’s even higher than it was in Q1 ’17, when you had the rainfall issues and the pit issues. Well, what’s driving that higher mining cost?

Gregg Bush

A couple of things. Our strip ratio is higher this year than it has been in past years, as per the PV3 mine plan, so that is partly what’s driving it. And also, there’s certainly an impact from the rising cost of diesel that we are seeing this year at all of our sites. But other than the diesel, everything is going pretty much as planned. We are pretty happy with the performance at the mine at Pinto Valley. We are on track with our stripping.

Pierre Vaillancourt — Haywood Securities

Hi. Just wondering if you could give me a sense of the potential from San Rafael that you mentioned, the additional zinc resources. So what kind of contribution does that make longer term?

Gregg Bush
In our press release, we have given some indication of what we would expect over the next two to three years. Beyond that, I think it’s going to depend to some extent on what happens with the other exploration work we are doing in the Footwall Zone. Our philosophy with that San Rafael resource is to use it to fill unused capacity in the mill. So how much of that ultimately comes into our mine plan is going to depend on what the rest of the mine plan looks like.

The geotech in the San Rafael zone itself will be a factor. That zone is—it’s a pretty wide zone, but it’s got a waste rib through the middle of it. So far we have been very cautious about how we are approaching that and the assumptions we are making about what we can recover. So I would suggest that later in the year, we’ll be releasing an updated technical report that will have all those kinds of information in it, and I would prefer that we just wait for that.

Alex Terentiew — BMO Capital Markets

Hey, guys. Just a quick question on Cozamin. I know you talked about how that was a good performer this quarter. Your costs came down there, again $46/$47 a tonne, which is notably lower than you had last year, even kind of a little bit more in line with what this mine produced in the past. What sort of—I mean, from what you can comment with this new San Rafael zone being mined, what sort of cost on a per tonne basis do you think we should be looking at going forward for that mine?

Gregg Bush

That’s a hard one to answer. The mining costs in San Rafael, because of the width of it and the proximity to the surface, will be quite a bit lower than, say, the cost from the Footwall Zone, which is getting to be a very, very long ways from the base of the hoist or from the ramp to the surface. So that’s why I kind of keep referring to this technical report.

Because we can look at San Rafael in isolation, and it tells us one thing. But when we are looking at the larger potential there with the exploration that we are doing in the Footwall Zone, things are going to look different. And what we expect is that—what we’re seeing with the potential there, it’s going to change our infrastructure there. With the potential to extend the mine life, then we can resolve some of these issues that we have with the very long distances that we are hauling ore now underground.

The numbers you saw in this quarter are going to be, I think, indicative of what we are going to see for the remainder of the year. But looking forward there’s a lot of additional information that needs to be incorporated into this new future Cozamin.

Dalton Baretto

Hey. Sorry, guys. I got kicked off there for some reason. Now we were talking about mining costs and we talked about Pinto Valley. I’d like to talk about Cozamin as well, just kind of following up on Alex’s question there. At Cozamin, it looks like the mining cost went down substantially this quarter relative to previous quarters. What’s driving that?

Gregg Bush

Are you referring to the cost per tonne? Or cost per pound of copper?

Dalton Baretto

I’m looking at the cost per pound because the copper production doesn’t really change over the past few quarters much. But your mining cost is $0.68 a pound.

Gregg Bush

Yeah. I would assume it’s the by-product impact of the additional zinc and silver.

Dalton Baretto
But that wouldn’t hit the mining cost per pound, right? I mean you typically average $0.85 a pound and it’s $0.68 this quarter.

**Gregg Bush**

I see your point. Well, part of it is where we’re capitalizing because the San Rafael is a zone that is going to provide ore over a number of years. We’re capitalizing that development, but it’s providing ore. And I think probably another thing that we are seeing is over the last couple of years, we’d had an operating development deficit over a couple of years there, and that was one of the things that was impacting our production. So over the last couple of years, we’ve gotten that back up to where we wanted to be on the development and the amount of ore—or ready-to-mine ore in stopes. So we have kind of backed off a bit on that operating development, so you are seeing that in the mining cost as well.

**Dalton Baretto**

Okay. Great. And then maybe if I can just jump back to Pinto Valley. Stefan talked about the maintenance issues there. And you said it’s mostly asset management and not capital-driven. Can you be a little bit more specific? What specifically is involved in terms of managing the assets?

**Gregg Bush**

Well, asset management is, I guess, a term we use to describe how we manage our maintenance. So it’s our maintenance management system, to be more blunt.

**Dalton Baretto**

Right. So but does that mean you’re going to carry more parts? Is there working capital type there? Is it a maintenance program?

**Gregg Bush**

No. I mean there’s 20 different components of a good maintenance management system, and it goes all the way to how you manage your PMs, how you’re managing your parts inventory, how you’re managing your on-site, off-site contractor support, component rebuilds, things like that, and how you manage your backlog.

As I mentioned this with an earlier question, it’s just the layout or the arrangement of that flow sheet. It requires a fairly high level of discipline in conducting your PMs in the different parts of the plant in concert, in order to maintain the—rather than just looking at your availability in the mill, which can be very deceiving there. You have to kind of look at your availability in the mill and how it coincides with the availability in the crusher—in the primary crusher and the secondary and tertiary crusher.

So once you get that out of sync, it’s really hard to get back in front of it again. So I don’t know if I’m answering your question. I’m just trying to give a colour on some of the issues we’re dealing with there. This is not a problem that requires us to—

**Dalton Baretto**

That’s good. That’s sort of what I was trying to understand, is kind of the scope of what needs to be done.

**Dalton Baretto**

And then maybe one last question. This one’s for Darren. Darren, I thought I heard you say earlier that with the sale of Minto closing, you’re going to redirect resources to other projects, including Pinto Valley and Santo Domingo. When you say resources, does that involve the cash as well? Or is that cash still going to go to pay down the debt?

**Darren Pylot**
Well, the cash initially will go to pay down the debt because it’s a revolving facility. But I’ve talked in the past about negotiations surrounding Pinto Valley and should those come together, we’d potentially have a much larger resource to deal with there and understand how a potential expansion at Pinto Valley could play a factor. Gregg talked about—we’re very encouraged about what we’re seeing on the exploration front at Cozamin. That could involve more capital down the road if we foresee a larger scenario there.

And then, of course, as we get into a tighter copper market over the next few years, we feel pretty good that we’ve got a permitted—a permittable—project in Chile—a copper project—that just seems to be getting better and better in this current environment, in terms of lower Opex and Capex.

So we feel pretty good about the lower risk projects we have in our portfolio that provide substantial growth in our copper base going forward. And with our balance sheet getting stronger and more cash coming on with Minto, we feel in pretty good shape with those assets, going forward, to develop them.

**Dalton Baretto**

Okay. So it’s not an immediate thing? It’s depending on what develops?

**Darren Pylot**

Right. We feel good that things are going to develop so we’re happy to put that cash on the balance sheet. As Gregg mentioned, if there was any significant capital associated with this maintenance program, we would obviously be revising capital guidance. We have not done so. All of the capital projects that we think we need to do, not only at PV but at Cozamin, are factored into the current capital guidance.

**Jacques Wortman — Eight Capital**

Hi. Good morning. Just a quick question. You may have answered this before, but I didn’t catch it if you did. The strip ratio, going forward for the balance of the year. It was elevated in Q1. Do you expect that to be the case in quarters Q2 through Q4? And what does 2019 look like right now?

**Gregg Bush**

For the remainder of this year, certainly I think that’s the number. And if I—I probably should tell you I’ll get back to you on 2019. I’m pretty sure it’s about the same level as 2018, but I’m not positive.

**Jacques Wortman**

Okay. If you could get back, that’d be—I’d appreciate it. Thanks.

**Oscar Cabrera — CIBC World Markets**

Thank you, Operator, and good afternoon now, everyone. Pinto Valley has had a number of issues with throughput and maintenance. How are you envisioning solving the problem, in terms of like a timeline? And that’s sort of like—is the first part of a second question, which is, as you’re looking to develop a bigger project, which is Santo Domingo, sources of funds and then the possibility of running a larger asset, like how are you thinking about staffing that project? And what’s the timeline on that as well?

**Darren Pylot**

Well, Oscar, right now we’re focused on Santo Domingo. We currently get no value for that project in our share price. So our focus for this year is just to establish a current value with the project, based on current economics and the current environment in Chile. So that’s first and
foremost with Santo Domingo. And the plan there is to have an updated report done by the end of this year, and then we’ll understand what kind of partnership—so what kind of level of interest.

We’re open, whether our interest stays the same or comes lower, to bring in a stronger partner if that’s needed. Our focus is to get that project developed as quickly as possible and we recognize where our balance sheet sits at this point in time in relation to the capital required. So we’ll adjust that partnership or understand how to move forward, but our philosophy is not to bet the Company on any one asset or project, and that stays the same with Santo Domingo.

In terms of a larger operation. The feasibility study for Santo Domingo envisions the same amount of throughput as we have at Pinto Valley. So it’s not a larger operation by any front. It’s definitely building one, but it’s not a larger mining operation than what we already have.

And as Gregg mentioned, it would have like a 40-foot SAG, whatever. Wouldn’t have six ball mill lines and then the maintenance required that we have to do with an old plant like Pinto Valley. So it’s much more challenging on the maintenance front at an older vintage plant than what you’d build new.

**Oscar Cabrera**

All right. I mean, this is your view then, if we’re talking about—because I mean, if I follow the train of the questions that you’re getting and the answers that you’re giving, like I mean we’re not spending capital to fix a problem, right? What you’re telling us is that it’s just managing the asset. And so if that’s the case, how long do you think it’ll take to get to where you need to be?

**Darren Pylot**

Well, you’re right, and you’ve hit it, and that’s a good description. It’s not capital projects; it’s managing the assets. It’s not going to be a one-week fix, but it should trend higher throughout the subsequent quarters, starting from where we’re at now, where we’re already on it. We’re already working on it. We’re seeing, as Gregg mentioned—positive results.

Can we move the throughput up 4,000 or 5,000 tonnes in a day and a week? No. But it’s going to trend—it should trend up throughout the quarters as we complete that maintenance. So that’s the plan. It should improve consistently from the low point being Q1.

**Pierre Vaillancourt**

Darren, could you elaborate on your negotiations surrounding Pinto Valley, where things are at?

**Darren Pylot**

I can’t because we’re subject to confidentiality agreements. All I can say is we’re actively engaged in a dialogue, and it’s probably the most advanced it’s ever been. So we feel good about it. And we’re the only operating mine in the valley with the infrastructure there, so obviously it makes a lot of sense for us to be the beneficiary of any resources that are there. So that’s about all I can say at this point. We are hoping to come to a conclusion sometime throughout this year, and we expect to do so. But that’s about all the information I can give on it at this point in time.

**Pierre Vaillancourt**

Okay. So I mean, if you were to—if you were to look at your options, post the sale of Minto, is Santo Domingo more in focus, relative to other opportunities?

**Darren Pylot**

I would say that internal M&A is much more in focus than any external M&A. But that internal M&A—internal projects include the highest rate of return at any asset, whether it be getting additional resources at Pinto Valley and envisioning a substantial increase there or moving
forward with Santo Domingo. It’s based on a return basis, and it has to deliver the return necessary
to drive shareholder value. So that’s first and foremost, no matter what project we’re working on.
But we see a lot of high-value projects within our portfolio.

**Darren Pylot**

Okay. Well, thank you, everybody. Thanks for tuning in to the call. Thanks for all of your
good questions. Hopefully we were able to answer those to your satisfaction. And as always, if you
need more information, please don’t hesitate to contact us, and we’ll be happy to give you more
detail offline. So that concludes the call and the question period and have a good day, everybody.
Thank you.

*****