



# **CAPSTONE MINING CORP.**

9<sup>th</sup> Floor - 999 West Hastings Street  
Vancouver, BC V6C 2W2

## **ANNUAL INFORMATION FORM**

For the year ended December 31, 2010

Dated March 31, 2011

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## Preliminary Notes

In this Annual Information Form, unless the context otherwise requires, Capstone Mining Corp. is referred to as the “Company” or “Capstone”. All information contained herein is as at March 31, 2011, unless otherwise stated.

### Financial Statements

This Annual Information Form should be read in conjunction with the Company’s consolidated financial statements and management’s discussion and analysis for the year ended December 31, 2010. The financial statements and management’s discussion and analysis are available under the Company’s profile on the SEDAR website at [www.sedar.com](http://www.sedar.com).

### Compliance with NI 43-101

As required by National Instrument 43-101, Capstone has filed technical reports detailing the technical information related to its mineral interests discussed herein. Unless otherwise indicated, Capstone has prepared the technical information in this Annual Information Form (“Technical Information”) based on information contained in the technical reports and news releases (collectively, the “Disclosure Documents”) available under the Company’s profile on SEDAR at [www.sedar.com](http://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”). For readers to fully understand the information in this Annual Information Form, they should read the Disclosure Documents in their entirety, including all qualifications, assumptions and exclusions that relate to the information set out in this Annual Information Form 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.

### Cautionary Statement Regarding Forward-Looking Statements

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

Forward-looking statements relate to future events or future performance and reflect Company management’s expectations or beliefs regarding future events and include, but are not limited to, statements with respect to the estimation of mineral reserves and resources, the realization of mineral reserve estimates, the timing and amount of estimated future production, costs of production, capital expenditures, success of mining operations, environmental risks, unanticipated reclamation expenses, title disputes or claims and limitations on insurance coverage. In certain cases, forward-looking statements can be identified by the use of words such as “plans”, “expects” or “does not expect”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates” or “does not anticipate”, or “believes”, or variations of such words and phrases or statements that certain actions, events or results “may”, “could”, “would”, “might” or “will be taken”, “occur” or “be achieved” or the negative of these terms or comparable terminology. By their very nature forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, risks related to actual results of current exploration activities; changes in project parameters as plans continue to be refined; future prices of resources; possible variations in ore reserves, grade or recovery rates; accidents, labour disputes and other risks of the mining industry; delays in obtaining governmental approvals or financing or in the completion of development or construction activities; as well as those factors detailed from time to time in the Company’s interim and annual financial statements and management’s discussion and analysis of those statements, all of which are filed and available for review on SEDAR at [www.sedar.com](http://www.sedar.com). Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other

factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements.

Accordingly, readers should not place undue reliance on forward-looking statements.

## Currency

The Company reports its financial results and prepares its financial statements in United States dollars. All currency amounts in this Annual Information Form are expressed in United States dollars, unless otherwise indicated. References to “C\$” are to Canadian dollars and references to “MX\$” are to Mexican pesos.

The United States dollar exchange rates for the Company’s principal operating currencies are as follows:

As at December 31			
Canadian dollar (C\$)	2010	2009	2008
Average	1.0303	1.1420	1.0660
High	1.0745	1.2991	1.2935
Low	0.9946	1.0259	0.9765
Mexican peso (MX\$)	2010	2009	2008
Average	12.6293	13.5014	11.1454
High	13.3851	15.3665	13.9183
Low	12.1304	12.5969	9.9180

## Conversion Table

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

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

## Classification of Mineral Reserves and Resources

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

## Cautionary Note to U.S. Investors Concerning Estimates of Measured, Indicated and Inferred Resources

This Annual Information Form has been prepared in accordance with the requirements of the securities laws in effect in Canada, which differ from the requirements of United States securities laws. The terms “Mineral Resource”, “Measured Mineral Resource”, “Indicated Mineral Resource” and “Inferred Mineral Resource” used in this Annual Information Form are Canadian mining terms as defined in accordance

with NI 43-101 under the guidelines set out in the CIM Standards. A reader in the United States should be aware that the definition standards enunciated in NI 43-101 differ from those set forth in SEC Industry Guide 7.

1. While the terms “Mineral Resource”, “Measured Mineral Resource”, “Indicated Mineral Resource” and “Inferred Mineral Resource” are recognized and required by Canadian regulations, they are not defined terms under SEC Industry Guide 7 and are normally not permitted to be used in reports and registration statements filed with the SEC. As such, information contained in this Annual Information Form concerning descriptions of mineralization and Mineral Resources under Canadian standards may not be comparable to similar information made public by U.S. companies subject to the reporting and disclosure requirements of the SEC. “Indicated Mineral Resource” and “Inferred Mineral Resource” have a great amount of uncertainty as to their existence and a great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an “Indicated Mineral Resource” or “Inferred Mineral Resource” will ever be upgraded to a higher category. Under Canadian rules, estimates of Inferred Mineral Resources may not form the basis of feasibility or pre-feasibility studies, except in rare cases. Investors are cautioned not to assume that all or any part of an Inferred Mineral Resource exists or is economically or legally mineable. Disclosure of “contained metal” in a Mineral Resource is permitted disclosure under Canadian regulations; however, the SEC normally only permits issuers to report mineralization that does not constitute “reserves” by SEC Industry Guide 7 standards as in place tonnage and grade without reference to unit measures. Investors are cautioned not to assume that any part or all of mineral deposits in these categories will ever be converted into Mineral Reserves.

2. The terms “Mineral Reserve”, “Proven Mineral Reserve” and “Probable Mineral Reserve” used in this Annual Information Form are Canadian mining terms as defined in accordance with National Instrument 43-101 under the guidelines set out in the CIM Standards. In the United States, a Mineral Reserve is defined as part of a mineral deposit which could be economically and legally extracted or produced at the time the Mineral Reserve determination is made.

3. The definition for “Proven Mineral Reserves” under CIM Standards differs from the standards in the United States, where Proven or Measured Reserves are defined as Mineral Reserves for which (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; (b) grade and/or quality are computed from the results of detailed sampling and (c) the sites for inspection, sampling and measurement are spaced so closely and the geographic character is so well defined that size, shape, depth and mineral content of Mineral Reserves are well established.

4. The definition for “Probable Mineral Reserves” under CIM Standards differs from the standards in the United States, where Probable Mineral Reserves are defined as Mineral Reserves for which quantity and grade and/or quality are computed from information similar to that of Proven Mineral Reserves (under United States standards), but the sites for inspection, sampling and measurement are further apart or are otherwise less adequately spaced, and the degree of assurance, although lower than that for Proven Mineral Reserves, is high enough to assume continuity between points of observation. The degree of assurance, although lower than that for Proven Mineral Reserves, is high enough to assume continuity between points of observation.

## GLOSSARY OF TECHNICAL TERMS

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

Alteration	means chemical and mineralogical changes in a rock mass resulting from the passage of fluids.
Anomaly	means a deviation from uniformity. In the search for minerals, it is an area in which higher or lower than background concentrations of minerals may be found.
Assay	means an analysis of the contents of metals in mineralized rocks.
Au	means gold.
Biotite	means a magnesium-iron mica widely distributed in igneous rocks.
Breccia	means a fragmental rock whose components are angular and not water-worn.
Chlorite	means in geology, the general term for hydrated silicates of aluminum, iron and magnesium.
CIM	means Canadian Institute of Mining, Metallurgy and Petroleum and the CIM Standards on Mineral Resources and Reserves - Definitions and Guidelines” adopted on August 20, 2000 and amended December 11, 2005.
Cons	means concentrates.
Cu	means copper.
Deposit	means a mineralized body which has been physically delineated by drilling, trenching and/or underground work and may contain a sufficient average grade of metal or metals to warrant further exploration and/or development expenditures. Such a deposit does not qualify as a commercially mineable reserve until final technical, legal and economic factors have been resolved.
Diamond drill Holes	means holes drilled by a method whereby rock is drilled with a diamond impregnated, hollow drilling bit which produces a continuous, in situ record of the rock mass intersected in the form of solid cylinders of rock which are referred to as core.
Disseminated	means a texture in which minerals occur as scattered particles in the rock.
dmt	means dry metric tonnes.
Dyke	means a tabular body of igneous rock that cuts across the layering or fabric of the host rock.
Fabric	means the spatial arrangement and orientation of rock components, whether crystals or sedimentary particles, as determined by their sizes, shapes, etc.
Fault	means a fracture in a rock across which there has been displacement.
Feldspar	means one of a group of rock forming minerals which include microcline, orthoclase, plagioclase and anorthoclase.
Foliation	means the preferred planar orientation of minerals and mineral aggregates in metamorphic rocks.
g	means gram.
Grade	means the amount of valuable mineral in each tonne of ore, expressed as ounces per ton or grams per tonne for precious metal and as a percentage by weight for other metals.
g/t	means grams per metric tonne.
Host Rock	means a volume of rock within which mineralization or an ore body occurs.
Hydrothermal	means applied to metamorphic and magmatic emanations high in water content; the processes in which they are concerned; and the rocks or ore deposits, alteration products, and springs produced by them.

Igneous	means a type of rock that is crystallized from a liquid magma.
Indicated Mineral Resources	means, in accordance with CIM definitions, that part of a mineral resource for which quantity, grade or quality, densities, shape and physical characteristics can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parameters to support mine planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough for geological and grade continuity to be reasonably assumed.
Inferred Mineral Resources	means, in accordance with CIM definitions, that part of a mineral resource for which quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity. The estimate is based on limited information and sampling gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes.
Inverse Distance	means one divided by distance.
K	means thousands.
Kt	means thousands of tonnes.
M	means millions.
Mafic	means ferromagnesian minerals and rocks where these minerals are abundant.
Measured Mineral Resources	means, in accordance with CIM definitions, that part of a mineral resource for which quantity, grade or quality, densities, shape and physical characteristics are so well established that they can be estimated with confidence sufficient to allow the appropriate application of technical and economic parameters to support production planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough to confirm both geological and grade continuity.
Metamorphosed	describes a rock mass which has been subjected to metamorphism. Metamorphism is a geological process whereby the original mineral composition of a rock is changed (metamorphosed) in response to local or regional scale changes in temperature, pressure and the action of chemically active fluids.
Mineral Reserve	means, in accordance with CIM definitions, the economically mineable part of a Measured or Indicated Mineral Resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. A mineral reserve includes diluting minerals and allowances for losses that may occur when the material is mined.
Mineral Resource	means, in accordance with CIM definitions, a concentration or occurrence of natural, solid, inorganic or fossilized organic material in or on the earth's crust in such form and quantity and of such a grade or quality that it has reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge.
Mineralization	means significant amounts of mineral(s) that is (are) of economic interest which may be established by prospecting, trenching and drilling.
Mlbs	means millions of pounds.
Mt	means millions of tonnes.
NA	means not applicable.

NI 43-101	National Instrument 43-101 - Standards of Disclosure for Mineral Projects.
NSR	means net smelter return.
Ore	means rock that contains one or more minerals or metals, at least one of which has commercial value and which can be recovered at a profit.
Outcrop	means an exposure of rock at the earth's surface.
Pyrite	means a common iron sulphide mineral commonly found in hydrothermal veins and systems and commonly associated with gold mineralization.
Qualified Person	means, in accordance with NI 43-101, an individual who is an engineer or geoscientist with at least five years experience in mineral exploration, mine development, production activities and project assessment, or any combination thereof, including experience relevant to the subject matter of the project or report and is a member in good standing of an approved self-regulating organization.
Quartz	means a common rock forming mineral made up of silicon dioxide.
Silica	means silicon dioxide (SiO <sub>2</sub> ), which occurs in the crystalline forms as quartz, cristobalite, tridymite, as cryptocrystalline chalcedony, as amorphous opal, and as an essential constituent of the silicate groups of minerals.
TC/RC	means treatment charges and refining charges by metal smelting and refining companies.
tpd	means tonnes per day.
tpy	means tonnes per year.
Vein	means a sheet-like body of minerals formed by fracture-filling or replacement of the host rock.
Volcanic	means formed by volcanic activity.



## CORPORATE STRUCTURE

### Name, Address and Incorporation

The Company was incorporated pursuant to the *Company Act* (British Columbia) on July 17, 1987 under the name 330338 B.C. Ltd.

The Company changed its name to Fire Star Resources Ltd. on April 21, 1989, and to International Bancorp Ltd. on August 17, 1989, and to IBL Equities Ltd. on March 5, 1991.

On January 2, 1996, the Company changed its name to Serena Resources Ltd. and consolidated its share capital on a 5:1 basis. On May 17, 2001, the Company changed its name to Consolidated Serena Resources Ltd. and consolidated its share capital on a 5:1 basis.

On March 6, 2003, the Company changed its name to Capstone Gold Corp. On February 8, 2006, the Company changed its name to Capstone Mining Corp. and is now governed by the *Business Corporations Act* (British Columbia).

On January 12, 2005, Capstone amended its Notice of Articles to change its authorized capital from 100,000,000 common shares to an unlimited number of common shares and to remove the "Pre-existing Company Provisions", with a consequence of reducing the threshold percentage of votes required to approve a special resolution from 75% to 66⅔%, amongst other things.

On November 24, 2008, Capstone and Sherwood Copper Corporation ("Sherwood") completed a transaction in which Capstone's wholly-owned subsidiary acquired all of the outstanding capital of Sherwood, and the subsidiary and Sherwood amalgamated to form a new corporation named "Capstone Mining North Ltd." See "Business Combination with Sherwood Copper Corporation".

On January 1, 2009, Capstone and Capstone Mining North Ltd. were amalgamated as one company under the name Capstone Mining Corp.

The Company is a reporting company. Its principal business and registered and records address is at 9<sup>th</sup> Floor - 999 West Hastings Street, Vancouver, BC V6C 2W2.

The Company carries on its Mexican operations, primarily the Cozamin Mine in Zacatecas State, through Capstone Gold, S.A. de C.V. ("Capstone Mexico"), a company incorporated on December 31, 2003, pursuant to the laws of Mexico. The Company owns 99% of the issued and outstanding voting securities of Capstone Mexico; the remaining 1% is beneficially owned by the Company and held in trust by its attorney of law in Mexico, Juan Carlos Galvan Pastoriza. Capstone Mexico has not issued any non-voting securities. All salaried employees at the Cozamin Mine are employed through Capstone Services S.A. de C.V. and all employees paid on an hourly basis are employed through Capstone Mining S.A. de C.V.

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

The Company carries on its British Columbia mineral-related activities, primarily the Kutcho Project, through Kutcho Copper Corp. ("Kutcho Copper"), a company incorporated on May 27, 2008, pursuant to the laws of the Province of British Columbia. The Company owns 100% of the issued and outstanding common shares of Kutcho Copper.

### Intercorporate Relationships

The Company has the following subsidiary companies:

Name	Jurisdiction of incorporation or organization	Percent of voting shares owned by the Company
Minto Explorations Ltd.	British Columbia	100%
Kutcho Copper Corp.	British Columbia	100%
Capstone Gold, S.A. de C.V.	Mexico	99%*
Capstone Services S.A. de C.V.	Mexico	99%*

Name	Jurisdiction of incorporation or organization	Percent of voting shares owned by the Company
Capstone Mining S.A. de C.V.	Mexico	99%*

\*The remaining 1% is beneficially owned by the Company and held in trust by its attorney of law in Mexico, Juan Carlos Galvan Pastoriza.

## GENERAL DEVELOPMENT OF THE BUSINESS

The Company has been engaged in the acquisition, exploration, development and operation of mineral properties. Over the past three completed financial years, the Company has continued to operate, expand and explore in the mining and resource sector. The Company's principal product is copper, although zinc, lead, gold and silver are also produced and sold. The Company currently carries on mining operations in Mexico and Canada and is evaluating a potential development project in British Columbia. The Company is active in seeking further production, exploration and development opportunities elsewhere throughout the world.

### Three Year History

#### Financial Year Ended December 31, 2008

In January 2008, Capstone started the expansion of the Cozamin Mine from the then current rate of 2,200 tpd or 750,000 tpy to 3,000 tpd or approximately 1 million tpy, a 36% increase in production. The expansion was completed by September 2008 at a total cost of \$9.5 million.

In July 2008, Capstone made a normal course issuer bid to purchase, through the facilities of the Toronto Stock Exchange, certain of its outstanding common shares.

In November 2008, Capstone announced that its Minto copper-gold mine in the Yukon was officially connected to Yukon Energy Corp.'s ("Yukon Energy") electrical grid. The connection of the Minto Mine to Yukon Energy's electrical grid completed a two-year process whereby the Minto Mine and Yukon Government made contributions toward the capital cost of extending the Yukon electrical grid approximately 80 km north from Carmacks to Minto Landing, and also involved the construction of three substations and a 27 km dedicated spur line from Minto Landing to the Minto Mine at MintoEx's cost.

On November 21, 2008, Sherwood completed a transaction with Silverstone Resources Corp. ("Silverstone") whereby Silverstone purchased all of the payable gold and silver from the Minto Mine in the Yukon, over the life of the mine starting December 1, 2008. In exchange, Sherwood received an up-front payment from Silverstone of \$37.5 million, plus a further payment of the lesser of (a) \$300 per ounce of gold and \$3.90 per ounce of silver (subject to a 1% inflationary adjustment after three years and each year thereafter) and (b) the prevailing market price of gold and silver quoted on the London Bullion Market Association, for each ounce delivered. If production from the Minto Mine exceeds 50,000 oz of payable gold in the first two years of the agreement or 30,000 oz of payable gold per year thereafter, Silverstone will be entitled to purchase only 50% of the amount in excess of those thresholds. Kutcho Copper also granted Silverstone a right of first refusal to purchase any gold and/or silver streams from the Kutcho Project, should Kutcho Copper elect to sell such, on terms and conditions to be agreed by mutual consent.

#### Business Combination with Sherwood Copper Corporation

On September 8, 2008, the Company announced that it had entered into a letter agreement with Sherwood to combine, by way of a plan of arrangement or other form of business combination. The transaction was carried out by way of statutory plan of arrangement of Sherwood whereby Capstone acquired all of the issued shares of Sherwood and Sherwood became a wholly-owned subsidiary of Capstone (the "Capstone Arrangement").

Under the Capstone Arrangement, Capstone acquired all of the issued and outstanding shares of Sherwood in exchange for Capstone shares on the basis of 1.566 Capstone shares for each one Sherwood share. The Capstone Arrangement was an "at market" transaction with no premium to either party, based on the 20-day volume weighted average price of each of Capstone and Sherwood to September 5, 2008. Based on the number of Sherwood shares outstanding as at September 17, 2008, the transaction involved the issuance of approximately 84 million Capstone shares, which equated to approximately 105% of Capstone's shares outstanding.

Each outstanding option, warrant, convertible and exchangeable security and any other right to acquire common shares of Sherwood entitled the holder thereof to receive upon the exercise, exchange or conversion thereof 1.566 common shares of Capstone in lieu of one common share of Sherwood and on the same other terms and conditions as the original option, warrant, convertible or exchangeable security or other right to acquire the

common share of Sherwood; provided always that holders of the 5% convertible unsecured debentures due March 31, 2012 of Sherwood shall be entitled to tender the debentures held by them for repurchase by Capstone upon Capstone making such offer as required by their terms, all in accordance with terms and subject to the conditions as set out under the trust indenture dated as of February 28, 2007 between Sherwood and Computershare Trust Company of Canada (now Computershare Investor Services Inc.), as trustee.

A special meeting of shareholders of Sherwood was held on November 14, 2008 which approved the proposed transaction.

On November 24, 2008, Sherwood and Capstone completed the arrangement under Section 192 of the *Canada Business Corporations Act* whereby Capstone, through its wholly-owned subsidiary, 7045204 Canada Inc. ("Subco"), acquired all of the issued and outstanding shares of Sherwood, thereby effecting a change of control of Sherwood. Under the transaction, Sherwood and Subco amalgamated to form a new corporation named "Capstone Mining North Ltd."

### **Financial Year Ended December 31, 2009**

On January 1, 2009, Capstone and Capstone Mining North Ltd. were amalgamated as one company under the name Capstone Mining Corp.

On January 16, 2009, Capstone completed a \$40 million corporate revolving term credit facility with the Bank of Nova Scotia (the "RT Facility"). Under the terms of the RT Facility, the funds are re-drawable over a three year term, subject to a \$8 million reduction every 6 months commencing on the first anniversary, attracting an interest rate of US dollar London Inter-bank Offered Rates ("LIBOR") plus 3.5% (adjustable in certain circumstances).

In February 2009, Capstone published an independent NI 43-101 compliant mineral resource estimate for the Company's Kutcho Project located near Smithers, BC.

In February 2009, Capstone announced the completion of an updated, independent NI 43-101 compliant mineral resource estimate for the Cozamin Mine.

In March 2009, Capstone announced that it had entered into a voting agreement with Silver Wheaton Corp. ("Silver Wheaton") whereby Capstone agreed to vote the shares of Silverstone it held in favour of the proposed plan of arrangement between Silverstone and Silver Wheaton whereby Silver Wheaton would acquire all of the outstanding shares and special warrants of Silverstone at a ratio of 0.185 shares of Silver Wheaton per common share or special warrant of Silverstone. In May 2009 Silver Wheaton acquired Silverstone by way of plan of arrangement. This transaction allowed Capstone to exchange approximately 26.8 million shares of Silverstone into 4.95 million shares of Silver Wheaton.

In April 2009, Capstone announced a C\$50,135,000 bought deal equity financing, in which Capstone entered into an agreement with a syndicate of underwriters to purchase an aggregate of 27,100,000 common shares of the Company at C\$1.85 per share. This financing was completed in May 2009, with the underwriters acquiring 4,065,250 over-allotment shares in the Company, resulting in a further C\$7.5 million in proceeds. The proceeds of the financing were allocated for future acquisition opportunities, debt repayment and general working capital purposes.

On May 1, 2009, due to a Presidential Decree in Mexico relating to the pandemic of swine flu, the Company's operations at the Cozamin Mine were temporarily closed, with normal operations resuming on May 6, 2009. This was in-line with the decree ordering that all non-essential government and private-sector activities be suspended for this period.

In September 2009, the Company entered into an agreement with Golden Minerals Company, whereby Capstone Mexico acquired three mineral claims immediately adjacent to its Cozamin Mine. See "Material Mineral Properties - Cozamin Mine".

On September 15, 2009, the Company announced results of a Preliminary Economic Assessment ("PEA") done at the Kutcho Project in north-western BC. By going underground, scaling back the throughput and focusing on high grades, Capstone was able to project reduced capital and operating costs as well as a reduction in the environmental footprint of the project.

In November 2009, the Company announced the acquisition of 4.5 million units of Nevada Copper Corp. by way of private placement, each unit consisting of one common share and one-half share purchase warrant of Nevada Copper.

On December 15, 2009, the Company announced the completion of the Minto Mine Phase IV Pre-feasibility Study. See "Material Mineral Properties - Minto Mine".

#### Repurchase of Convertible Debentures

In February 2007, Sherwood issued C\$43.6 million in convertible debentures (the "Debentures") pursuant to a short form prospectus offering. On December 22, 2008, the Company informed all Debenture holders that the Company was offering to repurchase their outstanding Debentures for C\$1,025.62 for each C\$1,000 principal amount of such Debentures, being equal to the aggregate of (i) 101% of the principal amount of the Debentures and (ii) all accrued and unpaid interest thereon up to but excluding the payment date. On January 22, 2009, the Company repurchased C\$38,871,000 in outstanding Debentures. As of the date of this Annual Information Form, there are C\$4,629,000 Debentures outstanding.

#### **Financial Year Ended December 31, 2010**

In February 2010, the Company announced increased mineral resource estimates for Capstone's Cozamin Mine in Mexico. The new mineral resource estimate included the results from 6,229 channel samples taken in 2009 from 40 stopes and drifts covering a cumulative distance of about 5km, as well as more detailed survey control. These data were incorporated into a completely new block model for the mine that now contains 25,168 individual channel samples, 150 drill holes from surface and 216 underground drill holes.

On March 2, 2010, Capstone announced updated mineral resource and mineral reserve estimates as at December 31, 2009 for all of its mineral properties, including the updated mineral reserve estimates for the Cozamin Mine, based on the new mineral resource estimate reported in February 2010.

On March 22, 2010, Capstone was added to the Standard & Poor's S&P/TSX Global Base Metals Index.

On June 7, 2010, Capstone temporarily suspended operations at its Minto Mine due to the spread of the wildfire burning in the area and in addition, the Company completed an independent life-of-mine scoping study in connection with its proposed application for an amendment to its quartz mining licence.

On June 23, 2010, the Company reported the results of a NI 43-101 compliant mineral resource estimate for the Minto East deposit at the Minto Mine.

On July 13, 2010, Capstone announced that Kutcho received the results of a Preliminary Economic Assessment completed by JDS Energy & Mining Inc. on its Kutcho Project.

On July 26, 2010, the Company appointed Ms. Chantal Gosselin to the board of directors.

On August 5, 2010, Capstone reported the commencement of the Pre-feasibility Work Program at its Kutcho Project to advance the project towards a completion of a pre-feasibility study.

On August 30, 2010, the Company announced the results of a NI 43-101 compliant mineral resource estimate for four separate undeveloped deposits at the Minto Mine.

On September 16, 2010, the board of directors approved a Shareholder Rights Plan, which would provide shareholders and the board with adequate time to consider and evaluate any unsolicited bid made for Capstone.

On November 27, 2010, the Company reported that it had realized C\$31 million on its entire investment in Nevada Copper Corp.

On December 6, 2010, Capstone reported the results of a NI 43-101 compliant mineral resource estimate for the Esso deposit at the Kutcho Project.

On December 20, 2010, the Company was added to the S&P/TSX Composite Index.

#### **Subsequent to December 31, 2010**

On February 24, 2011, the Company reported the results of a Prefeasibility Study on its Kutcho Project.

On March 14, 2011, Capstone reported the results of a Prefeasibility Study for the Phase V expansion at the Minto Mine.

On March 16, 2011, the Company held its Annual General and Special Meeting where the shareholders approved, amongst other things, the re-election of all of the Company's directors, the Shareholder Rights Plan and the Incentive Stock Option and Bonus Share Plan.

## DESCRIPTION OF THE BUSINESS

### General

### Principal Products and Operations

The Company's principal products and sources of sales are copper, zinc, lead, gold and silver in concentrates. Further information regarding both the Cozamin Mine and the Minto Mine is contained in the sections titled "Material Mineral Properties - Cozamin Mine" and "Material Mineral Properties - Minto Mine" below.

The following table summarizes the actual operating statistics for 2010:

Operating Statistics 2010	Cozamin Mine	Minto Mine
<b>Production</b> (contained in concentrates)		
- Copper (000's lbs)	35,552	40,454
- Gold (oz) <sup>(1)</sup>	-	22,284
- Zinc (000s lbs)	17,348	-
- Lead (000s lbs)	9,142	-
- Silver (oz)	1,403,170	206,838
<b>Mining</b>		
- Waste (tonnes)	-	7,783,049
- Ore (tonnes)	978,954	1,494,752
- Total material mined (tonnes)		9,367,801
<b>Milling</b>		
- Tonnes processed	981,682	915,051
- Tonnes processed per day	2,690	2,507
- Copper grade (%)	1.80	2.22
- Gold grade (g/t) <sup>(1)</sup>	-	0.93
- Zinc (%)	1.27	-
- Lead (%)	0.63	-
- Silver grade (g/t)	62	8.7
<b>Recoveries</b>		
- Copper (%)	91.2	90.3
- Gold (%) <sup>(1)</sup>	-	81.1
- Zinc (%)	63	-
- Lead (%)	67.6	-
- Silver (%)	71.7	80.6
<b>Concentrate</b>		
- Dry tonnes produced	64,356	46,633
- Copper concentrate grade (%)	25.1	39.3
- Silver grade (g/t)	536	138
- Gold grade (g/t) <sup>(1)</sup>	-	14.9
- Zinc concentrate grade (%)	47.8	-
- Lead concentrate grade (%)	66	-
Payable Copper (000s) lbs	34,133	38,866
Cash cost/payable pound of Copper <sup>(2)</sup>	\$1.25	\$1.53

<sup>(1)</sup> Gold is not assayed on site, resulting in a significant lag in receiving this data.

<sup>(2)</sup> This is a non-GAAP performance measure; please see Non-GAAP Performance Measures of the year end MD&A.

The following table summarizes the forecast operating statistics for 2011:

Forecast 2011 <sup>(1)</sup>	Cozamin	Minto	Total
Tonnes milled (millions)	1.14	1.26	2.40
Copper grade (%)	1.9%	1.6%	1.7%
Copper recovery (%)	92%	92%	92%
Contained copper (millions pounds)	41 to 44	39 to 41	80 to 85
Total cash cost per pound of payable copper <sup>(2)</sup>	\$0.95 to \$1.05	\$1.60 to \$1.70	\$1.30 to \$1.35

<sup>(1)</sup> Note: all numbers approximate

<sup>(2)</sup> This is a non-GAAP performance measure; please see Non-GAAP Performance Measures of the year end MD&A.

During the year ended December 31, 2010, net revenue of \$273.9 million was generated on the sale of 113,578 dmt of copper concentrates, 17,256 dmt of zinc concentrates and 7,030 dmt of lead concentrates. Payable metals sold were 72.8 million pounds of copper, 15.0 million pounds of zinc, 9.4 million pounds of lead, 25,460 ounces of gold and 1.6 million ounces of silver.

The Company's principal market (buyer) for copper, zinc and lead concentrates from the Cozamin and Minto mines are open global markets. The concentrates are delivered through intermediaries to customers worldwide by ship.

The Company sold all of its silver production from the Cozamin Mine over a 10 year period to Silverstone (now Silver Wheaton) in consideration for an upfront payment of \$44 million. In addition, Silver Wheaton will pay for each ounce of refined silver from the mine the lesser of \$4 per ounce of silver (subject to a 1% inflationary adjustment after three years and each year thereafter) and the prevailing market price per ounce of silver quoted on the London Bullion Market Association.

The Company also sold all of its gold and silver production from the Minto Mine over the life of the mine to Silver Wheaton in consideration for an upfront payment of \$37.5 million, plus a further payment of the lesser of (a) \$300 per ounce of gold and \$3.90 per ounce of silver (subject to a 1% inflationary adjustment after three years and each year thereafter) and (b) the prevailing market price of gold and silver quoted on the London Bullion Market Association, for each ounce delivered. If production from the Minto Mine exceeds 50,000 oz of payable gold in the first two years of the agreement or 30,000 oz of payable gold per year thereafter, Silver Wheaton will be entitled to purchase only 50% of the amount in excess of those thresholds.

Kutcho Copper granted Silver Wheaton a right of first refusal to purchase any gold and/or silver streams from the Kutcho Project, should Kutcho Copper elect to sell such, on terms and conditions to be agreed by mutual consent.

### **Competitive Conditions**

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

The Company's competitive position is largely determined by its costs compared to other producers throughout the world and its ability to maintain its financial integrity through the lows of the metal price cycles. Costs are governed to a large extent by the location, grade and nature of the Company's mineral reserves as well as by operating and management skills. In contrast with diversified mining companies, the Company focuses on copper production, development and exploration, and is therefore subject to unique competitive advantages and disadvantages related to the price of copper and to a lesser extent, the price of base metal by-products. If copper prices substantially increase, the Company will be in a relatively stronger competitive position than diversified mining companies that produce, develop and explore for other minerals in addition to copper. Conversely, if copper prices substantially decrease, the Company will be at a competitive disadvantage to diversified mining companies.

### **Employees**

The number of personnel employed by the Company and its subsidiaries at the end of the most recently completed financial year was 1,207 of which approximately 522 were contractors.

## **Environmental Protection**

The Company's operations (Cozamin and Minto) and development project (Kutcho) are in Mexico and Canada and are subject to national and local laws and regulation in respect of the construction, operating standards for the mine and, once mine closure occurs, the eventual abandonment and restoration costs for the site. Since both of the operating mines and the proposed Kutcho Project are relatively small tonnage and higher grade operations, the overall financial impact of the environmental protection requirements is relatively minor relative to the overall financial performance of the Company. Each operation is subject to an asset retirement obligation review at year end, which assesses the abandonment and restoration cost for the operation at that point in time, and any changes are reflected in the balance sheet and could flow through the earnings statement. However, while the financial obligations will increase as disturbance increased, given the relatively modest amounts involved, such impacts are likely to be relatively minor from a capital and earnings perspective. Since the Kutcho Project is currently unpermitted, the environmental protection requirements could affect the Project's advancement - both by delaying or preventing project approvals and development and by adding financial burdens to the Project. However, British Columbia is a mature permitting regime and the environmental protection requirements are expected to be appropriate for a mine on the proposed scale of the Kutcho Project.

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

## **Foreign Operations**

Capstone is an emerging base metals producer with a 100% interest in the Cozamin Mine in Zacatecas, Mexico. Production of both mines combined for 2011 is expected to amount to 80 to 85 million pounds of copper with by-products of silver, zinc, lead and gold.

Approximately 47.5% of Capstone's copper production for 2011 is expected from the Cozamin Mine, as well as zinc and lead concentrates, with silver reporting to all three concentrates, and the concentrates are sold in US dollars to overseas markets.

## **Risk Factors**

Capstone is subject to a number of significant risks due to the nature of its business and the present stage of its business development. Readers should carefully consider the risks and uncertainties described below before deciding whether to invest in Capstone common shares. Capstone's failure to successfully address the risks and uncertainties described below could have a material adverse effect on its business, financial condition and/or results of operations, and the trading price of its common shares may decline and investors may lose all or part of their investment. Capstone cannot give assurance that it will successfully address these risks or other unknown risks that may affect its business. Estimates of mineralized material are inherently forward-looking statements subject to error. Although Mineral Resource estimates require a high degree of assurance in the underlying data when the estimates are made, unforeseen events and uncontrollable factors can have significant adverse or positive impacts on the estimates. Actual results will inherently differ from estimates. The unforeseen events and uncontrollable factors include: geologic uncertainties including inherent sample variability, metal price fluctuations, variations in mining and processing parameters, and adverse changes in environmental or mining laws and regulations. The timing and effects of variances from estimated values cannot be accurately predicted.

The following risk factors should be considered:

### **Industry Risks**

#### *Operating Risk*

The operations in which Capstone has a direct or indirect interest are subject to all the hazards and risks normally incidental to resource companies. Fires, power outages, labour disruptions, flooding, explosions, cave-ins, landslides and other geotechnical instabilities, and the inability to obtain suitable or adequate machinery, equipment or labour are some of the industry operating risks involved in the operation of mines and the conduct of exploration programs. If any of these events were to occur, they could cause injury or loss of life, severe damage to or destruction of property. As a result, Capstone could be the subject of a regulatory investigation, potentially leading to penalties and suspension of operations. In addition, Capstone may have to make expensive repairs and could be subject to legal liability. The occurrence of any of these operating risks and hazards may have an adverse effect on Capstone's financial condition and operations, and correspondingly on the value and price of Capstone's common shares.

### *Price Risk*

The commercial viability of Capstone's properties and its ability to sustain operations is dependent on, among other things, the price of copper, lead, zinc, gold and silver and to a lesser degree smelting and refining treatment charges. Depending on the price to be received for any minerals produced, Capstone may determine that it is impractical to commence or continue commercial production. A reduction in the price of copper, lead, zinc, gold or silver may prevent Capstone's properties from being economically mined or result in the write-off of assets whose value is impaired as a result of low metals prices.

Future revenues, if any, are expected to be in large part derived from the future mining and sale of copper, lead, zinc, gold and silver or interests related thereto. The prices of these commodities fluctuate and are affected by numerous factors beyond Capstone's control, including, among others:

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

The effect of these factors on the price of precious and base metals cannot be accurately predicted. If the price of copper, lead, zinc, gold and silver metals decrease, the value of Capstone's assets could be materially and adversely affected, thereby having a material and adverse effect on the value and price of Capstone's common shares.

### *Commodity Price Risk*

The Company is exposed to commodity price risk given that its revenues are derived from the sale of metals, the prices for which have been historically volatile. It manages this risk by entering into forward-sale agreements with various counterparties, both as a condition of certain debt facilities as well as to mitigate price risk when management believes it a prudent decision. Currently the Company has in place derivative contracts for the sale of copper, lead and zinc. Additionally, it has sold forward to Silver Wheaton all the gold and silver production from the Minto Mine and silver production from the Cozamin Mine.

### *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 in order 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 invested in business accounts with quality financial institutions and is available on demand for the Company's programs, and is not invested in any asset backed commercial paper.

### *Trade Credit Risk*

The Company is exposed to trade credit risk through its trade receivables on concentrate sales. The Company manages this risk dealing with a number of different trade creditors and by requiring provisional payments of 90 percent of the value of the concentrate shipped. The Company enters into derivative instruments with a number



of counterparties. These counterparties are large, well diversified multinational corporations, and credit risk is considered to be minimal.

#### *Foreign Exchange Risk*

The Company is exposed to foreign exchange risk as the Company's operating costs are primarily in Canadian dollars and Mexican Pesos, while revenues are received in US dollars, hence any fluctuation of the US dollar in relation to these currencies may impact the profitability of the Company and may also affect the value of the Company's assets and liabilities. The Company currently does not enter into financial instruments to manage this risk but the draws on debt facilities are made in US dollars to mitigate the risk on loan repayments if available.

#### *Derivative Instrument Risk*

The Company manages its exposure to fluctuations in metal prices by entering into derivative instruments approved by the Company's Board of Directors. The Company does not hold or issue derivative instruments for speculation or trading purposes. These derivative instruments are marked to market at the end of each reporting period and may not necessarily be indicative of the amounts the Company might pay or receive as the contracts are settled.

#### *Interest Rate Risk*

Currently the Company's long term liabilities are based on both fixed and variable interest rates. The Company is exposed to interest rate risk on its variable rate debt facilities. Variable interest rates are based on both US dollar and Canadian dollar LIBOR plus a fixed margin. The Company does not enter into derivative contracts to manage this risk.

#### *Mineral Reserve and Resource Risk*

The calculations of amounts of mineralized material are estimates only. Actual recoveries of copper, lead, zinc, 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, or the copper, lead, zinc, gold and silver price may affect the economic viability of a mineral property. In addition, there can be no assurance that metals 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. Mining and metallurgy are an inexact science 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 Reserves, Mineral Resources and grades must be considered as estimates only. In addition, the quantity of Mineral Reserves and Mineral Resources may vary depending on, among other things, metal prices. Any material change in quantity of Mineral Reserves, Mineral Resources, grade, percent extraction of those Mineral Reserves recoverable by underground mining techniques or stripping ratio for those Mineral Reserves recoverable by open pit mining techniques may affect the economic viability of a mining project.

#### *Political and Country Risk*

Political and related legal and economic uncertainty may exist in countries where the Company may operate. The Company's mineral exploration and mining activities may be adversely affected by political instability and changes to government regulation relating to the mining industry. Other risks of foreign operations include political unrest, labour disputes, invalidation of governmental orders and permits, corruption, war, civil disturbances and terrorist actions, arbitrary changes in law or policies of particular countries, foreign taxation, price controls, delays in obtaining or the inability to obtain necessary environmental permits, opposition to mining from environmental or other non-governmental organizations, limitations on foreign ownership, limitations on the repatriation of earnings, limitations on mineral exports and increased financing costs. These risks may limit or disrupt the Company's projects, restrict the movement of funds or result in the deprivation of contract rights or the taking of property by nationalization or expropriation without fair compensation. Presently, all of the Company's mineral properties are located in Mexico and Canada. While the Company believes that each of Mexico and Canada represent a favourable environment for mining companies to operate, there can be no assurance that changes in the government or laws or changes in the regulatory environment for mining companies or for non-domiciled companies will not be made that would adversely affect the Company.

### *Dependence on Management*

The Company is very dependent upon the personal efforts and commitment of its existing management. To the extent that management's services would be unavailable for any reason, a disruption to the operations of the Company could result, and other persons would be required to manage and operate the Company.

### *Environmental Regulations*

The Company's operations are subject to various laws and regulations governing the protection of the environment, exploration, development, production, taxes, labour standards, occupational health, waste disposal, safety and other matters. Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailings disposal areas, which would result in environmental pollution. A breach of such legislation may result in imposition of fines and penalties. In addition, certain types of operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in a direction of stricter standards and enforcement, and higher fines and penalties for non-compliance. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of operations. The Company intends to fully comply with all environmental regulations.

### **Economic Risk**

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

- global credit/liquidity crisis could impact the cost and availability of financing and Capstone's overall liquidity;
- volatility of copper, lead, zinc, gold and silver prices may impact Capstone's future revenues, profits and cash flow;
- volatile energy prices, commodity and consumables prices and currency exchange rates impact potential production costs; and
- devaluation and volatility of global stock markets impacts the valuation of Capstone's equity securities, which may impact its ability to raise funds through the issuance of equity.

These factors could have a material adverse effect on Capstone's financial condition and results of operations.

### **Increased operating and capital costs may adversely affect the viability of existing and proposed mining projects.**

Until the recent events in the global financial markets, increases in the prices of labour and materials, to some extent caused by an increase in commodity prices, including the prices of the metals being mined by the industry, led to significantly increased capital and operating costs for mining projects. Increasing costs are a factor that must be built in to the economic model for any mining project. Significant operating cost increases as experienced by the industry in recent years prior to the recent financial crisis had the effect of reducing profit margins for some mining projects. Such increases in both operating and capital costs need to be factored into economic assessments of existing and proposed mining projects and may increase the financing requirements for such projects or render such projects uneconomic.

### **Company Risks**

#### *Title Risk*

Although the Company has exercised the usual due diligence with respect to determining title to mineral properties in which it has a material interest, there is no guarantee that title to such properties will not be challenged or impugned. The Company's mineral property interests may be subject to prior unregistered

agreements or transfers and title may be affected by undetected defects. Surveys have not been carried out on the majority of the Company's mineral 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.

Capstone's properties include various mining concessions in Mexico. Under Mexican law, the concessions may be subject to prior unregistered agreements or transfers, which may affect the validity of Capstone's ownership of such concessions.

A claim by a third party asserting prior unregistered agreements or transfer on any of Capstone's mineral properties, especially where commercially viable Mineral Reserves have been located, could adversely result in Capstone losing commercially viable Mineral Reserves. Even if a claim is unsuccessful, it may potentially affect Capstone's current operations due to the high costs of defending against such claims and its impact on senior management's time. If Capstone loses a commercially viable Mineral Reserve, such a loss could lower Capstone's future revenues or cause it to cease operations if this Mineral Reserve represented all or a significant portion of Capstone's operations at the time of the loss.

#### *Political Risk*

Some of Capstone's properties, including its Cozamin Mine, are located in Mexico. Mexico has in the past been subject to political instability, changes and uncertainties, which, if they were to arise again, could cause changes to existing governmental regulations affecting mineral exploration and mining activities. Capstone's mineral exploration and mining activities in Mexico may be adversely affected in varying degrees by changing government regulations relating to the mining industry or shifts in political conditions that increase the costs related to Capstone's activities or maintaining its properties. In addition, recent increases in kidnapping and violent drug related criminal activity in Mexico, and in particular Mexican States bordering the United States, may adversely affect Capstone's ability to carry on business safely.

The cost of exploration and future capital and operating costs are affected by foreign exchange rates for the Canadian dollar, United States dollar and Mexican peso. Fluctuations in foreign exchange rates for the Canadian dollar and Mexican peso versus the United States dollar could lead to increased costs reported in United States dollars or foreign exchange losses in respect to Canadian dollar or Mexican peso working capital balances held by Capstone. There can be no assurance that foreign exchange fluctuations will not materially adversely affect Capstone's financial performance and results of operations.

It may be difficult for Capstone to obtain necessary financing for certain of its planned exploration, development or operating activities because of their location in Mexico. Also, it may be difficult to find and hire qualified people in the mining industry who are situated in Mexico or to obtain all of the necessary services or expertise in Mexico or to conduct operations on its projects at reasonable rates. If qualified people and services or expertise cannot be obtained in Mexico, Capstone may need to seek and obtain those services from people located outside of Mexico which will require work permits and compliance with applicable laws and could result in delays and higher costs to conduct operations in Mexico.

Similarly, it may be difficult for Capstone to obtain necessary financing for certain of its planned exploration, development or operating activities because of their location in the Yukon. It may be difficult to find and hire qualified people in the mining industry who are situated in the Yukon or to obtain all of the necessary services or expertise in the Yukon or to conduct operations on its projects at reasonable rates. If qualified people and services or expertise cannot be obtained in the Yukon, finding qualified people to conduct operations at the Minto Mine could result in higher costs to conduct operations in the Yukon.

The occurrence of the various foregoing factors and uncertainties cannot be accurately predicted and could have an adverse effect on Capstone's operations or future profitability.

#### **Regulatory Risk**

Capstone's mineral exploration and development activities are subject to governmental approvals, various laws and regulations governing development, land resumptions, operations, taxes, labour standards and occupational health, mine safety, toxic substances, land use, water use, land claims affecting local, First Nations and Aboriginal populations. Activities of the Company are also subject to various laws and regulations relating to the protection of the environment. 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 which could limit or curtail exploration, development or production.

Amendments to current laws, regulations and permits governing operations and activities of mining and exploration companies, or more stringent implementation thereof, could have a material adverse impact on

Capstone and cause increases in exploration expenses, capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in exploring or developing its properties. Further, the mining licenses and permits issued in respect of the Company's projects and mines may be subject to conditions which, if not satisfied, may lead to the revocation of such licenses. In the event of revocation, the value of the Company's investments in such projects may decline.

From 2008 to 2010, the Yukon experienced extreme weather conditions that resulted in abnormally high run-off at the Minto Mine, exceeding the normal containment capacity of the mine site and eventually resulting in a Company decision to fill the Minto main pit with water in order to avoid a non-compliant discharge of water and causing the Company to cease mining operations until it obtained regulatory permission to discharge the excess waters. There is a risk there may be another year of extreme weather in the Yukon in 2011 or beyond, potentially resulting in excess run-off at the mine site which may potentially require utilization of the open pit for water storage again, which could have an adverse effect on Minto's operations. Since 2009, the Company has taken a number of steps to mitigate this risk, including establishing a water conveyance network to divert non-impacted water around the mine site, drawing down water levels on site over the 2009-2010 winter in order to maximize containment capacity of the water storage pond, working with regulators to amend the terms of its water use licence in order to better manage the site, constructing a larger water treatment facility on site, and accelerating mining out of the open pit in order to have a sufficient stockpile of ore available to sustain milling operations in the event the open pit is used for excess water containment again.

### **Permitting Risk**

A number of approvals, licenses and permits are required for various aspects of a mine's development and operation. Minto Mine is currently permitted to conduct operations under its Quartz Mining Licence and two Water Use Licences, however there is a risk that amendments to these licences required in order to implement a planned mine expansion may not be granted by the Yukon regulatory authorities. The Kutcho Project must undergo environmental assessment and will then require issuance of environmental assessment certificate by the BC Environmental Assessment Office and Canadian Environmental Assessment Agency before making application for authorization to conduct development and operations. There is a risk that the Kutcho Project will not successfully complete the environmental assessment process and will be unable to progress to the development or operational stage.

The Cozamin Mine is currently permitted to conduct its current operations by way of a series of regulatory modifications to its original Environmental Impact Assessment, known in Mexico as an MIA (Manifestación de Impacto Ambiental), and operates under an environmental licence known in Mexico as an LAU (Licencia Ambiental Unica), filing certifications of annual operation (COA - Certificado de Operacion Annual) each year. With necessary changes to operations, however, there is a risk that amendments to this licence which is required in order to implement various changes planned for improved operations, may not be granted by the Mexican regulatory authorities.

### *Potential Conflicts*

Certain of Capstone's directors and officers are also directors, officers or shareholders of other companies that are similarly engaged in the business of acquiring, developing and exploiting natural resource properties. Such associations may give rise to conflicts of interest from time to time. See "Directors and Officers - Conflicts of Interest".

### *First Nations*

The Minto Mine lays on Category A land in the Yukon where the Selkirk First Nation own both surface and subsurface rights.

The Kutcho Project lies within an area claimed as traditional territory by both the Tahltan First Nation and the Kaska First Nation. There is a risk that any land claim settlement with the Tahltan or the Kaska may adversely affect the Company's rights to the Kutcho Project.

Canadian law related to aboriginal rights, including aboriginal title rights, is in a period of change. There is a risk that future changes to the law may adversely affect the Company's rights to its Canadian projects, including the Kutcho Project and the Minto Mine.

Consultation with First Nations is required of the Company in environmental assessment, subsequent permitting, development and operation of its proposed projects. There is a risk that the First Nations may publicly oppose the proposed project at any stage and this potential opposition may adversely affect the project or the Company's public image.

## **Dividends**

Since incorporation, Capstone has not paid any cash or other dividends on its common shares and has no current plans to pay such dividends in the foreseeable future, as all available funds will be invested primarily to finance its mining and exploration activities, and for possible mergers and acquisitions.

## **Insurance Risk**

In the course of exploration, development and production of mineral properties, certain risks, and in particular, unexpected or unusual geological operating conditions including rock bursts, cave-ins, fires, flooding and earthquakes may occur. It is not always possible to fully insure against such risks. Capstone does not currently have insurance against all such risks and may decide not to take out insurance against all such risks as a result of high premiums or other reasons. Should such liabilities arise, they could have a material adverse effect on the Company and could reduce or eliminate any future profitability and result in increasing costs and a decline in the value of the securities of Capstone.

## **Environmental Liability**

Capstone is not aware of any claims for damages related to any impact that its operations have had on the environment but it may become subject to such claims in the future. An environmental claim could adversely affect Capstone's business due to the high costs of defending against such claims and its impact on senior management's time.

Also, environmental regulations may change in the future which could adversely affect Capstone's operations including the potential to curtail or cease exploration programs or to preclude entirely the economic development of a mineral property. The extent of any future changes to environmental regulations cannot be predicted or quantified, but it should be assumed that such regulations would become more stringent in the future. Generally, new regulations will result in increased compliance costs, including costs for obtaining permits, delays resulting from loss of permits or fines for failure to comply with the new regulations.

## **Competition Risk**

Capstone is dependent on various supplies and equipment to carry out its operations. The shortage of such supplies, equipment and parts could have a material adverse effect on Capstone's ability to carry out its operations and therefore have a material adverse effect on the cost of doing business.

## **Material Mineral Properties**

The Company's material mineral properties consist of: (i) the Cozamin Mine located in the Morelos Municipality of the Zacatecas Mining District near the south-eastern boundary of the Sierra Madre Occidental Physiographic Province in north-central Mexico; (ii) the Minto Mine located in the Whitehorse Mining District, Yukon Territory; and (iii) the Kutcho copper-gold project located in the Liard Mining Division of Northern British Columbia.

### **Cozamin Mine (Mexico)**

A report titled "Technical Report, Cozamin Mine, Zacatecas, Mexico" dated March 31, 2009 (the "Cozamin Report") was compiled by SRK Consulting (Canada) Inc. and written by Robert Sim, P.Geo., Jenna Hardy, P.Geo., Jeff Woods, CP and Gordon Doerksen, P.Eng., each a Qualified Person as defined in NI 43-101. The Cozamin Report is available in its entirety on SEDAR at [www.sedar.com](http://www.sedar.com) under the Company's profile and is incorporated by reference herein.

**The Executive Summary of the Cozamin Report dated March 31, 2009, is repeated verbatim below and readers should read the updated information at the end of the Executive Summary.**

## **EXECUTIVE SUMMARY**

### **INTRODUCTION**

The Cozamin Technical Report was compiled by SRK Consulting (Canada) Inc. for Capstone Mining Corp. to provide updated mineral resource and reserve estimates and update the latest operational conditions and summarize the current life of mine plan. The report was written by Robert Sim, P.Geo., Jenna Hardy, P.Geo., Jeff Woods, CP and Gordon Doerksen, P. Eng., all Qualified Persons as defined by NI 43-101.

## LOCATION AND OWNERSHIP

The Cozamin Cu-Zn-Pb-Ag mine and processing plant are located two kilometres northwest of the city of Zacatecas, Mexico at approximately 22° 48' N latitude and 102 ° 35' W longitudes. The mine site is accessible via a short all-weather gravel road from Zacatecas. Infrastructure in the region is well established and the mine is connected to the regional electrical power grid.

Capstone Mining Corp. owns the Cozamin operation and operates it through its wholly owned subsidiary, Capstone Gold SA de CV. The Cozamin property is made up of 33 mining concessions covering 2,898 hectares of area.

Zacatecas has been an active mining region since the 16<sup>th</sup> century and the near-surface portions of the mine have been exploited by past operators.

## GEOLOGY AND EXPLORATION

The Zacatecas Mining District covers a belt of epithermal and mesothermal vein deposits that contain silver, gold and base metals.

Since 2004, Capstone has undertaken exploration and definition drilling totalling 366 diamond drill holes and 105,261 m. The dominant mineralized vein on the Cozamin property is called the Mala Noche. This vein has been traced for 5.5 km, strikes approximately east-west and dips on average at 60° to the north. The Mala Noche vein system occupies a system of anastomosing faults that are principally comprised of the Mala Noche and El Abra faults along with other less significant faults. The mineralized bodies within the Mala Noche appear to be strongest where the disparate faults coalesce into a single fault zone. Although not all of the fault system is mineralized at any given location, there have been no other significant mineralized fault zones discovered to date.

Results from the exploration and mine development to date indicate that some of the strongest mineralization in the San Roberto mine rakes to the west at approximately -50° within the vein. Post mineralization offsets of the Mala Noche vein are minimal and occur along high angle, normal faults that strike northeast.

The Mala Noche vein in the San Roberto mine workings shows contained sulphides to occur as disseminations, bands and masses. Pyrite is the dominant vein sulphide and typically comprises approximately 15% of the Mala Noche vein in the San Roberto mine.

Pyrrhotite is the second most common sulphide mineral but is present only in the intermediate and deeper levels of the San Roberto mine and commonly occurs as an envelope to, or intermixed with, strong chalcopyrite mineralization. Chalcopyrite is the dominant copper sulphide at Cozamin. Like pyrrhotite, it is more common at the intermediate and deeper levels of the mine and occurs as disseminations, veinlets and replacement masses. These masses appear to be fractured and brecciated at intermediate levels in the mine. Minor bornite occurs as disseminated grains in some of the higher grade zones.

Sphalerite is the most common zinc sulphide mineral and occurs as disseminations and coarse crystalline masses. Galena is less common than sphalerite but is generally associated with it. Argentite is the most common silver mineral. It has been identified microscopically occurring as inclusions in chalcopyrite, pyrite and likely sphalerite and galena.

The main gangue minerals are quartz, chlorite and calcite.

The distribution of metal value in the Cozamin reserves are found predominantly in copper (84%), followed by zinc (7%) and silver (7%) with minor contribution from lead (2%). Note that the distribution of metal values is based on sales at the reserve metal prices including the Silverstone agreement.

## OPERATING RESULTS

The Cozamin Mine commenced operation in June 2006 and since that time has maintained continuous production and shown continual improvement. Tables 1.1 and 1.2 show annual summaries of mine and mill performance.

Since the start of operations, the mill has undergone numerous upgrades, expansions and operating optimizations. The mine has seen improved access, ventilation and an increase in its mobile equipment fleet. A shift away from cut and fill mining to predominantly Long Hole ("LH") open stoping methods has enabled higher

mine production rates.

The life of mine (“LOM”) plan production rate is 1,015,000 tonnes/year and is supported by the operating results in latter half of 2008 and the first quarter of 2009.

**Table 1.1: Annual Tonnes and Grade Processed**

Period	Ktonnes	Ag (g/t)	Cu (%)	Pb (%)	Zn (%)
2006 (Jun.-Dec.)	185.5	70	1.42	0.65	1.77
2007	597.6	70	1.69	0.57	1.37
2008	833.2	63	1.62	0.55	1.31
2009 (1st Quarter)	248.3	56	1.96	0.33	0.81
<b>Total / Average</b>	<b>1,864.6</b>	<b>65</b>	<b>1.67</b>	<b>0.54</b>	<b>1.31</b>

**Table 1.2: Annual Concentrate Grades and Process Recoveries**

Month	Concentrate Grade (%)			Recovery (%)			
	Cu	Pb	Zn	Ag	Cu	Pb	Zn
2006 (Jun.-Dec.)	25	60	46	70	90	71	56
2007	22	63	39	69	86	50	44
2008	23	63	41	71	88	65	49
2009 (1st Quarter)	24	67	45	71	91	63	54
<b>Average</b>	<b>23</b>	<b>63</b>	<b>42</b>	<b>70</b>	<b>88</b>	<b>60</b>	<b>49</b>

#### MINERAL RESOURCE AND RESERVE ESTIMATES

The mineral resource model has been developed using the MineSight® (v4.50) with a nominal block size measuring 10 m x 3 m x 3 m, with the long axis oriented parallel to the E-W strike of the deposit. Grade estimates are made using ordinary kriging with parameters derived from the geostatistical properties present in the underlying database. Bulk densities are estimated into model blocks using the inverse distance (ID) interpolation method. Resources are classified in accordance with the CIM definition standards for mineral resources.

The mineral resource estimates are shown in Tables 1.3 and 1.4 respectively for the San Roberto and San Raphael deposits. The mineral reserve estimate for San Roberto is shown in Table 1.5. No mineral reserves were defined for the San Raphael deposit, as there is insufficient geotechnical and metallurgical testing, and analysis to support conversion to reserves.

Table 1.3: San Roberto Mineral Resource Estimate Summary (Dec. 31, 2009)

Cut-off Grade (Cu %)	Ktonnes	Cu (%)	Zn (%)	Pb (%)	Ag (g/t)	Au (g/t)	SG (t/m <sup>3</sup> )
<b>Measured</b>							
0.50	2,287	2.00	1.10	0.43	79.2	0.068	2.93
1.00	1,908	2.24	1.03	0.42	84.1	0.064	2.93
<b>1.15</b>	<b>1,749</b>	<b>2.35</b>	<b>1.01</b>	<b>0.41</b>	<b>86.0</b>	<b>0.063</b>	<b>2.93</b>
1.50	1,373	2.63	0.96	0.37	90.0	0.061	2.94
2.00	947	3.04	0.93	0.31	95.1	0.057	2.94
2.50	616	3.48	0.94	0.24	99.0	0.056	2.94
3.00	386	3.92	0.93	0.18	101.3	0.056	2.95
<b>Indicated</b>							
0.50	12,303	1.35	1.26	0.30	54.8	0.074	2.91
1.00	7,296	1.76	1.21	0.27	61.2	0.065	2.92
<b>1.15</b>	<b>6,077</b>	<b>1.90</b>	<b>1.20</b>	<b>0.25</b>	<b>63.0</b>	<b>0.063</b>	<b>2.92</b>
1.50	3,963	2.22	1.16	0.23	66.9	0.060	2.93
2.00	2,091	2.67	1.12	0.21	72.8	0.056	2.96
2.50	1,030	3.13	1.04	0.21	79.5	0.052	3.00
3.00	490	3.59	0.94	0.21	87.1	0.050	3.04
<b>Measured + Indicated</b>							
0.50	14,590	1.45	1.23	0.32	58.6	0.073	2.91
1.00	9,204	1.86	1.17	0.30	65.9	0.065	2.92
<b>1.15</b>	<b>7,826</b>	<b>2.00</b>	<b>1.15</b>	<b>0.29</b>	<b>68.2</b>	<b>0.063</b>	<b>2.93</b>
1.50	5,336	2.33	1.11	0.26	72.8	0.060	2.93
2.00	3,038	2.79	1.06	0.24	79.7	0.056	2.95
2.50	1,646	3.26	1.00	0.22	86.8	0.054	2.98
3.00	876	3.74	0.94	0.20	93.4	0.053	3.00
<b>Inferred</b>							
0.50	4,782	0.95	1.06	0.21	42.4	0.073	2.81
1.00	1,623	1.42	0.98	0.19	49.0	0.063	2.84
<b>1.15</b>	<b>1,100</b>	<b>1.58</b>	<b>0.95</b>	<b>0.17</b>	<b>52.5</b>	<b>0.065</b>	<b>2.85</b>
1.50	504	1.93	1.03	0.18	62.4	0.071	2.92
2.00	181	2.32	1.04	0.16	72.3	0.075	2.98
2.50	41	2.75	0.88	0.15	73.4	0.076	3.13
3.00	5	3.13	0.62	0.10	77.4	0.089	3.26

(1) Mineral Resources do not have demonstrated economic viability.

(2) The "base case" cut-off grade of 1.15 %Cu is highlighted in table.



**Table 1.4: San Rafael Mineral Resource Estimate Summary (Dec. 31, 2009)**

Cut-off Grade (Zn %)	Ktonnes	Cu (%)	Zn (%)	Pb (%)	Ag (g/t)	Au (g/t)	SG (t/m <sup>3</sup> )
<b>Indicated</b>							
2.0	3,431	0.21	2.97	0.40	33.8	0.441	2.75
2.5	2,407	0.22	3.29	0.43	36.0	0.469	2.75
<b>3.0</b>	<b>1,467</b>	<b>0.23</b>	<b>3.64</b>	<b>0.47</b>	<b>38.3</b>	<b>0.482</b>	<b>2.76</b>
3.5	720	0.25	4.07	0.50	41.4	0.489	2.78
4.0	328	0.24	4.48	0.52	44.3	0.462	2.80
4.5	135	0.24	4.87	0.56	47.5	0.468	2.81
5.0	41	0.25	5.22	0.61	51.3	0.518	2.82
<b>Inferred</b>							
2.0	2,642	0.09	2.61	0.37	24.0	0.436	2.65
2.5	1,161	0.12	3.11	0.47	30.2	0.514	2.68
<b>3.0</b>	<b>556</b>	<b>0.14</b>	<b>3.55</b>	<b>0.57</b>	<b>35.8</b>	<b>0.609</b>	<b>2.68</b>
3.5	256	0.14	3.92	0.65	39.5	0.675	2.67
4.0	83	0.15	4.32	0.72	41.9	0.714	2.66
4.5	19	0.17	4.76	0.81	45.4	0.709	2.65
5.0	3	0.20	5.16	0.73	51.4	0.855	2.66

(1) Mineral Resources do not have demonstrated economic viability.

(2) The "base case" cut-off grade of 3 %Zn is highlighted in table.

**Table 1.5: Mineral Reserve Estimate by Classification (Dec 31. 2009)**

Classification	KTonnes	Ag (g/t)	Cu (%)	Pb (%)	Zn (%)
Proven	1,606	76.91	2.02	0.44	0.97
Probable	6,491	55.38	1.57	0.26	1.13
<b>Total</b>	<b>8,097</b>	<b>59.65</b>	<b>1.66</b>	<b>0.29</b>	<b>1.10</b>

The mineral reserve estimate utilized metal prices of \$1.50 per pound copper, \$0.50 per pound zinc, \$0.45 per pound lead, and \$4.00 per ounce silver.

#### LOM OPERATING PLAN

The LOM operating plan was reviewed by SRK and deemed to be appropriate. The ore is planned to be extracted using three mining methods; cut and fill using waste rock fill, longhole open stoping and Avoca. Each method has been assigned to different mining blocks depending on the physical characteristics of the orebody.

Development mining and equipment usage was estimated based on the mine schedule. Capital development is conducted using a Mexican-based contractor. All other mining at Cozamin is done using Capstone employees.

The mine extends for a strike length of over 1 km and reserves extend to a depth of 600 m. Access to the underground workings is obtained from two service and haulage ramps and a hoisting shaft.

An annual summary of the tonnes, grade, payable metal and cash costs is shown in Table 1.6.

**Table 1.6: Annual LOM Plan Production (Dec. 31, 2009)**

Parameter	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
<b>Mining</b>										
Development (m)	7,835	6,077	5,058	3,835	5,863	7,450	6,210	4,302	660	47,290
<b>Milling</b>										
Tonnes (000s)	1,015	1,015	1,015	1,015	1,015	1,015	1,015	734	258	<b>8,097</b>
Copper grade (%)	1.70	1.87	1.86	1.88	1.51	1.51	1.52	1.47	1.28	<b>1.66</b>
Zinc grade (%)	1.22	1.12	1.07	0.98	1.04	1.02	1.11	1.18	1.34	<b>1.10</b>
Lead grade (%)	0.51	0.45	0.38	0.34	0.19	0.15	0.17	0.16	0.16	<b>0.29</b>
Silver grade (g/t)	72	72	70	68	53	51	48	43	38	<b>60</b>
<b>Payable Metals</b>										
Copper (Mlbs)	33.1	36.6	36.3	36.8	29.4	29.5	29.8	20.8	6.4	<b>258.6</b>
Zinc (Mlbs)	14.8	13.6	12.9	11.9	12.6	12.4	13.5	10.3	4.1	<b>106.1</b>
Lead (Mlbs)	6.5	5.7	4.9	4.3	2.4	2.0	2.1	1.4	0.5	<b>29.9</b>
Silver (Moz)	1.6	1.6	1.6	1.5	1.2	1.1	1.0	0.7	0.2	<b>10.4</b>
<b>Cash costs (US\$/lb payable Cu)</b>										
Production (on site) costs	1.09	0.99	0.99	0.98	1.23	1.22	1.21	1.25	1.44	<b>1.11</b>
By-product Credits for Zn, Pb & Ag	0.41	0.35	0.33	0.30	0.32	0.31	0.31	0.32	0.38	<b>0.33</b>
Off site cost of Cu concentrate	0.32	0.32	0.32	0.32	0.32	0.32	0.32	0.32	0.32	<b>0.32</b>
Total Cash Cost	1.00	0.96	0.99	1.00	1.22	1.24	1.22	1.26	1.38	<b>1.10</b>

## ECONOMIC ANALYSIS

A pre-tax economic model of the operating plan was generated using the assumptions shown in Table 1.7. The estimate of the pre-tax operating results is shown in Table 1.8. Only ongoing capital (2009 and beyond) was taken into account in the model and, as a result, the project has a very favourable pre-tax net present value (NPV) at an 8 % discount rate of \$172 M.

**Table 1.7: Economic Analysis Assumptions (Dec. 31, 2009)**

Item	Unit	Value
<b>METAL PRICES</b>		
Copper	\$/lb	2.00
Zinc	\$/lb	0.70
Lead	\$/lb	0.60
Silver	\$/oz	4.00
<b>FLOTATION RECOVERY</b>		
Copper in Cu concentrate	%	91
Zinc in Zn concentrate	%	65
Lead in Pb concentrate	%	60
Silver in all concentrates	%	74
<b>OFF-SITE COSTS</b>		
TC/RC, Transport, Payables, Penalties, Price Participation	\$/t	As per current contracts
<b>OPEX</b>		
Unit mining cost	\$/t milled	18.03
Unit processing cost	\$/t milled	12.99
Unit G&A cost	\$/t milled	4.49
Unit cost total	M\$	35.51
<b>CAPEX</b>		
LOM Capital	M\$	17.5

**Table 1.8: LOM Economic Analysis Summary (at Dec. 31, 2009)**

Item	Unit	Value
<b>LOM PRODUCTION</b>		
Ore Mined	Mt	8.1
Mill head grade - copper	Cu %	1.66
Mill head grade - zinc	Zn %	1.10
Mill head grade - lead	Pb %	0.29
Mill head grade - silver	Ag g/t	60
<b>METAL PRODUCTION</b>		
Copper in Cu concentrate	t Cu	122,000
Zinc in Zn concentrate	t Zn	58,000
Lead in Pb concentrate	t Pb	14,000
Silver in all concentrates	oz Ag	11,468,000
<b>REVENUE</b>		
Total NSR revenue (before royalty)	M\$	537
Royalty (@3 %)	M\$	16
Total NSR revenue (before royalty)	M\$	521
<b>COST</b>		
Total OPEX	M\$	288
Capex (inc. sustaining)	M\$	18
<b>ECONOMIC RESULTS (EBITDA)</b>		
NPV <sub>0</sub> %DR	M\$	216
NPV <sub>8</sub> %DR	M\$	172

A sensitivity analysis was performed individually on metal price, metal grade, capital cost and operating cost. The project is sensitive equally to metal price and grade fluctuations with an \$82 M (48 %) increase in pre-tax NPV<sub>8</sub> as a result of a 20 % increase in metal price or grade. Conversely, the project NPV drops by \$82 M for a 20 % decrease in metal price or grade. As most of the project capital has already been spent, the project is not sensitive to capital.

The project is somewhat sensitive to operating costs. A 20 % increase in operating costs leads to a 26 % (\$44 M) drop in pre-tax NPV<sub>8</sub>. See Table 1.9 for sensitivity results.

**Table 1.9: Sensitivity Analysis Results (at Dec. 31, 2009)**

Variable	Pre-tax NPV <sub>8</sub> % (M\$)		
	-20 %	0 %	+20 %
Capital Cost	175	172	169
Operating Cost	217	172	128
Metal Price	90	172	254
Grade	90	172	254

## CONCLUSIONS AND RECOMMENDATIONS

The Cozamin project has been successfully developed into viable mining and milling operation that, based on the assumptions made, shows a positive return on the mining and processing of current reserves and has the potential to expand its life if some of the current resources can be converted into reserves. There is no guarantee that an increase in reserves will be achieved and will depend upon further exploration, metallurgical, geotechnical and hydrogeology assessments as well as market conditions such as metal prices and smelter terms. The main risks to the project are:

- Water Supply and Management - Long-term water supply for the 3,000 tpd production rate is not totally established and mine personnel are looking at solutions which include greater control of the site water balance, securing underground water rights, drilling a deep ground water well and improvements to fresh water diversion structures.
- Mining Control - The mine must continue to ensure accurate drilling and blasting practices are maintained to minimize dilution, minimize secondary breaking and optimize extraction. Adequate back-up stopes must be available to give the mine production flexibility should dilution become a problem in a particular stope.

- External Factors - Exchange rates, off-site costs and, in particular, base metal prices all have the potential to seriously affect the economic results of the mine. Negative variance to these items from the assumptions made in the economic model would reduce the profitability of the mine and the mineral resource and reserve estimates.

The main opportunities for the project are:

- Improved ore handling system for the hoisting shaft - The LH mining method has the potential to produce oversized muck that can be a bottleneck at the shaft grizzly and loading pocket. Improvements in drilling and blasting practices can help alleviate the problem as well as an improvement in the underground truck dump/grizzly/rock breaker set-up.
- Timely updates of the resource model will allow for better mine planning and scheduling. Previous planning has been conducted using primarily the channel sample results - essentially a 2 dimensional approach to defining mining limits. Monthly updates of a block model using all available sampling and mapping information will greatly improve the mine design/planning process.
- Continued improvement in metal recovery and concentrate grade as demonstrated in year to date operating statistics.
- Maximizing mill throughput on a sustained basis to reduce unit costs. Mill has operated in excess of 3,500 tpd for periods of days which is 20 % greater than LOM throughput.
- Mine life may be extended by exploration on the 4 km of the Male Noche vein outside of the existing resource area, or converting the San Roberto inferred resources to reserves or acquiring additional claims which cover the down dip extension of the Male Noche vein to the east.
- Review of 31 drill holes omitted from resource model due to apparent survey issues may result in an increase in resources. For example, drill hole U62 (16.2 m 3.3 % Cu) intersected significantly thicker mineralization than surrounding channel sample data. If, through resurveying or re-drilling (if required), this hole is reintroduced into the database, it may result in an increase in the overall mineral resource.

The main recommendations identified by the QP authors of this report are summarized as:

- Refine the water balance to determine needs and potential long-term sources.
- Improve the characterization of ARD/ML of tailings and waste rock with further sampling, and testing to support storage options decisions.
- Mine ventilation measurement and control needs to be improved so ventilation system is optimized in terms of overall air volume and the ventilation of each individual mining area.
- Surveying of the mined-out LH stopes is highly advisable to help drilling and blasting practices to minimize dilution and optimize extraction as well for reconciliation of planned vs. actual stope shapes.
- Review of a series of 31 drill holes which exhibit irregular results compared to surrounding data suggesting errors in the recording of these holes in the database. Re-drilling of some holes may be required after this review, but other holes may be added to the database if specific errors are found and remedied. Work practices must be altered so that data collected from all future drilling programs is properly audited on a timely basis.
- Monthly updates of the block model using all current sampling and mapping information in order to provide a timely and accurate basis for mine planning purposes.
- Mine life may be extended by exploration on the 4 km of the Male Noche vein outside of the existing resource area, or converting the San Roberto inferred resources to reserves or acquiring additional claims which cover the down dip extension of the Male Noche vein to the east.
- A review of 31 drill holes omitted from resource model due to apparent survey issues may result in an increase in resources. For example, drill hole U62 (16.2 m 3.3 % Cu) intersected significantly thicker mineralization than surrounding channel sample data. If, through resurveying or re-drilling (if required), this hole is reintroduced into the database, it may result in an increase in the overall mineral resource.

All of the recommendations above are part of the on-going operation of the mine and do not require a special budget for their implementation.

**The above information is repeated verbatim from the Cozamin Report dated March 31, 2009. The following information provides updates on developments since the date of that report.**

## COZAMIN UPDATE (to March 31, 2011)

### Property

The Cozamin property currently consists of 40 mining concessions covering approximately 3,389 hectares.

In September 2009, Capstone Mexico entered into an agreement with Golden Minerals Company (AUM: TSX) of Golden Colorado, whereby Capstone Mexico acquired three mineral claims immediately adjacent to its Cozamin Mine in Zacatecas State, Mexico. The three mineral claims acquired (San Francisco, Santa Rita and La Esperanza) lie within the Company's current mineral holdings at the Cozamin Mine and immediately north of the current mining areas. Because the principal Mala Noche vein, which hosts all of the currently known mineral resources and mineral reserves, dips north, the Mala Noche vein crosses on to these claims below the current mineral resources and reserves.

These mineral claims were acquired from Minera Largo S de RL de CV, a wholly owned subsidiary of Golden Minerals Company, for a purchase price comprised of (a) an upfront payment of \$1.0 million, (b) future cash payments of a net smelter return of 1.5% on the first one million tonnes of production from the acquired claims, and (c) cash payments equivalent to a 3.0% net smelter return on production in excess of one million tonnes from the acquired claims. The net smelter return on production in excess of one million tonnes also escalates by 0.5% for each \$0.50 increment in copper price above \$3.00 per pound of copper. Final registration of the assignment of rights to La Esperanza (30.19 has.) was approved by the Mexican Mines Department in April 2010.

The Cozamin property requires land rental and government fee payments on the mining concessions. In January 2010, the taxes totaled MX\$127,382 and in July 2010, the taxes totaled MX\$75,086. In January 2011 taxes totaled MX\$87,544.

The Company has access to a power line and substation that allows the Company to draw up to 7.5 millions of watts from the national power grid. Generators (both operating and back-up) on site have a capacity of 2.0 millions of watts. The ultimate capacity of the current tailings pond at Cozamin is an additional 9.5 M tonnes.

### Mineral Resource and Reserve Estimates

Mineral Resource Estimate (as at Dec. 31, 2009)

The mineral resource estimates for the Cozamin deposits were completed by Capstone staff under the supervision of independent consultant Robert Sim, P.Geol., of SIM Geological Inc., using accepted, industry standard, methods that conform to National Instrument 43-101. The resource model has been developed using MineSight® (v4.61).

The Cozamin mineral resources are segregated into the San Roberto and San Rafael areas and summarized at a series for NSR cut-offs. Highlighted in the two following tables is the "base case" cut-off of \$35 per tonne. This base case cut-off is appropriate in relation to the current operating costs at the Cozamin Mine.

Mineral resources exclude all historical (pre-Capstone) and all underground production conducted by Capstone as of December 31, 2009. Mineral resources are constrained by the Capstone property boundary.

**Cozamin Mine – Mineral Resources by Class for All Deposits (at a NSR cut-off of US\$35/t)**

Class	Tonnes (000's)*	Grade					Contained Metal				
		Copper	Zinc	Lead	Silver	Gold	Copper	Zinc	Lead	Silver	Gold
		(%)	(%)	(%)	(g/t)	(g/t)	(millions lbs)	(millions lbs)	(millions lbs)	(000s oz)	(000s oz)
Measured (M)	2,078	2.33	1.14	0.53	84.4	0.07	106.6	52.2	24.5	5,638	4.5
Indicated (I)	8,587	1.40	2.09	0.36	59.0	0.22	264.5	395.1	68.7	16,289	60.5
<b>M &amp; I **</b>	<b>10,665</b>	<b>1.58</b>	<b>1.90</b>	<b>0.40</b>	<b>63.9</b>	<b>0.19</b>	<b>371.1</b>	<b>447.4</b>	<b>93.2</b>	<b>21,928</b>	<b>65.1</b>
Inferred	4,073	0.89	2.22	0.41	43.2	0.33	80.2	199.1	36.4	5,662	43.5

\*Rounded to nearest thousand

\*\*Totals may not add exactly due to rounding

**Cozamin Mine -- Mineral Resources by Class for Each Deposit (at a NSR cut-off of US\$35/t)**

Class**	Tonnes (000's)*	Grade					Contained Metal				
		Copper	Zinc	Lead	Silver	Gold	Copper	Zinc	Lead	Silver	Gold
		(%)	(%)	(%)	(g/t)	(g/t)	(millions lbs)	(millions lbs)	(millions lbs)	(000s oz)	(000s oz)
<b>Measured (M)</b>											
San Roberto	2,078	2.33	1.14	0.53	84.4	0.07	106.6	52.2	24.5	5,638	4.5
San Rafael	0										
<b>Sub-total Measured</b>	<b>2,078</b>	<b>2.33</b>	<b>1.14</b>	<b>0.53</b>	<b>84.4</b>	<b>0.07</b>	<b>106.6</b>	<b>52.2</b>	<b>24.5</b>	<b>5,638</b>	<b>4.5</b>
<b>Indicated (I)</b>											
San Roberto	6,604	1.73	1.71	0.33	64.4	0.13	252.5	249.6	48.0	13,662	28.4
San Rafael	1,983	0.27	3.33	0.47	41.2	0.50	12.0	145.5	20.7	2,627	32.2
<b>Sub-total Indicated</b>	<b>8,587</b>	<b>1.40</b>	<b>2.09</b>	<b>0.36</b>	<b>59.0</b>	<b>0.22</b>	<b>264.5</b>	<b>395.1</b>	<b>68.7</b>	<b>16,289</b>	<b>60.5</b>
<b>M + I</b>											
San Roberto	8,682	1.88	1.58	0.38	69.1	0.12	359.1	301.9	72.5	19,300	32.9
San Rafael	1,983	0.27	3.33	0.47	41.2	0.50	12.0	145.5	20.7	2,627	32.2
<b>Sub-total M+I</b>	<b>10,665</b>	<b>1.58</b>	<b>1.90</b>	<b>0.40</b>	<b>63.9</b>	<b>0.19</b>	<b>371.1</b>	<b>447.4</b>	<b>93.2</b>	<b>21,928</b>	<b>65.1</b>
<b>Additional Inferred</b>											
San Roberto	2,376	1.44	1.69	0.18	52.6	0.11	75.6	88.7	9.5	4,019	8.6
San Rafael	1,697	0.12	2.95	0.72	30.1	0.64	4.6	110.4	27.0	1,644	34.9
<b>Sub-total Inferred</b>	<b>4,073</b>	<b>0.89</b>	<b>2.22</b>	<b>0.41</b>	<b>43.2</b>	<b>0.33</b>	<b>80.2</b>	<b>199.1</b>	<b>36.4</b>	<b>5,662</b>	<b>43.5</b>

\*Rounded to nearest thousand

\*\*Totals may not add exactly due to rounding

Mineral Resource Estimates at different cut-offs (as at Dec. 31, 2009)

The mineral resources at Cozamin are summarized at a series of cut-off limits for comparison purposes in the table below.

**Cozamin Mine -- Mineral Resources for all Deposits at Different NSR Cut-offs**

NSR Cut Off (US\$/t)	Tonnes (000's)*	Grade					Contained Metal				
		Copper	Zinc	Lead	Silver	Gold	Copper	Zinc	Lead	Silver	Gold
		(%)	(%)	(%)	(g/t)	(g/t)	(millions lbs)	(millions lbs)	(millions lbs)	(000s oz)	(000s oz)
<b>Measured + Indicated</b>											
> 50	5,999	2.16	1.74	0.42	75.7	0.13	286.1	230.2	55.8	14,594	26.0
> 40	8,908	1.76	1.86	0.41	68.1	0.17	345.7	366.2	80.2	19,513	49.8
> 37.5	9,766	1.67	1.89	0.40	66.1	0.18	358.9	406.3	86.7	20,745	57.7
<b>&gt; 35 (Base case)</b>	<b>10,665</b>	<b>1.58</b>	<b>1.90</b>	<b>0.40</b>	<b>63.9</b>	<b>0.19</b>	<b>371.1</b>	<b>447.4</b>	<b>93.2</b>	<b>21,928</b>	<b>65.1</b>
> 30	12,378	1.43	1.90	0.38	60.3	0.20	391.1	519.4	104.5	24,007	78.3
> 25	13,977	1.31	1.89	0.37	57.0	0.20	405.0	581.3	114.3	25,614	90.0
<b>Additional Inferred</b>											
> 50	1,309	1.41	2.45	0.39	53.4	0.30	40.6	70.8	11.3	2,249	12.5
> 40	2,894	1.01	2.37	0.41	46.8	0.35	64.5	151.0	26.5	4,354	32.7
> 37.5	3,388	0.94	2.33	0.43	44.6	0.34	70.1	174.4	31.8	4,861	37.5
<b>&gt; 35 (Base case)</b>	<b>4,073</b>	<b>0.89</b>	<b>2.22</b>	<b>0.41</b>	<b>43.2</b>	<b>0.33</b>	<b>80.2</b>	<b>199.1</b>	<b>36.4</b>	<b>5,662</b>	<b>43.5</b>
> 30	5,382	0.77	2.18	0.40	40.2	0.32	91.3	258.1	46.9	6,952	56.0
> 25	7,207	0.65	2.08	0.38	36.5	0.32	103.0	330.7	60.9	8,453	73.2

\*Rounded to nearest thousand

\*\*Totals may not add exactly due to rounding

Mineral Resource Parameters

The metal prices and metallurgical parameters used to estimate the NSR values for each deposit are presented in the following tables. At San Rafael, ore grading above 0.3% copper will be treated in the plant with San

Roberto ore. Zinc-rich (copper-poor) ore will be treated separately and gold will be recovered as reflected in the separate parameters for San Rafael.

**Cozamin Mine – NSR parameters San Roberto (as at Dec. 31, 2009)**

Metal Prices		
Units		Value \$US
Cu	\$/lb	\$2.50
Zn	\$/lb	\$0.80
Pb	\$/lb	\$0.85
Ag	\$/oz	\$4.00

NSR Parameters		
Units		Value \$US
Cu	0.10 %	\$2.47
Zn	0.10 %	\$0.56
Pb	0.10 %	\$0.89
Ag	g/t	\$0.06

Grades			
	Cu	Zn	Pb
Cu Conc.	25%		
Zn Conc.		50%	
Pb Conc.			60%

Recovery %			
Ag	Cu	Zn	Pb
50	92		
2		70	
20			60

**Cozamin Mine – NSR parameters San Rafael Zinc Ore (as at Dec. 31, 2009)**

Metal Prices		
Units		Value \$US
Cu	\$/lb	\$2.50
Zn	\$/lb	\$0.80
Pb	\$/lb	\$0.85
Au	\$/oz	\$950
Ag	\$/oz	\$4.00

NSR Parameters		
Units		Value \$US
Cu	0.10 %	\$2.47
Zn	0.10 %	\$0.69
Pb	0.10 %	\$1.50
Au	g/t	\$17.21
Ag	g/t	\$0.06

Grades				
	Au	Ag	Zn	Pb
Zn Conc.	0.72 g/t	183 g/t	52%	
Pb Conc.	25.0 g/t	2,418 g/t		55%

Recovery %				
Au	Ag	Zn	Pb	
7	16	70	2	
67	58	15	85	

Mineral Reserve Estimate (as at Dec. 31, 2009)

Summary of the mineral reserves at the Cozamin Mine on December 31, 2009, reported using \$35 NSR/tonne (totals include measured and indicated mineral resources):

**Cozamin Mine - Mineral Reserves by Class for All Deposits (at a NSR cut-off of US\$35/t)**

Class	Tonnes (000's)*	Grade					Contained Metal				
		Copper	Zinc	Lead	Silver	Gold	Copper	Zinc	Lead	Silver	Gold
		(%)	(%)	(%)	(g/t)	(g/t)	(millions lbs)	(millions lbs)	(millions lbs)	(000s oz)	(000s oz)
San Roberto											
Proven	1,610	2.16	1.01	0.52	76	0.059	76.5	35.8	18.6	3,951	3.1
Probable	5,932	1.62	1.57	0.30	59	0.110	211.1	204.8	39.6	11,255	21.0
<b>San Roberto P&amp;P</b>	<b>7,542</b>	<b>1.73</b>	<b>1.45</b>	<b>0.35</b>	<b>63</b>	<b>0.099</b>	<b>287.8</b>	<b>240.6</b>	<b>58.2</b>	<b>15,207</b>	<b>24.1</b>
San Rafael											
Proven	0	0	0	0	0	0	0	0	0	0	0
Probable	1,865	0.25	3.12	0.43	37	0.474	10.3	128.1	17.6	2,233	28.4
<b>San Rafael P&amp;P</b>	<b>1,865</b>	<b>0.25</b>	<b>3.12</b>	<b>0.43</b>	<b>37</b>	<b>0.474</b>	<b>10.3</b>	<b>128.1</b>	<b>17.6</b>	<b>2,233</b>	<b>28.4</b>
all											
Proven	1,610	2.16	1.01	0.52	76	0.059	76.5	35.8	18.6	3,951	3.1

Class	Tonnes (000's)*	Grade					Contained Metal				
		Copper (%)	Zinc (%)	Lead (%)	Silver (g/t)	Gold (g/t)	Copper (millions lbs)	Zinc (millions lbs)	Lead (millions lbs)	Silver (000s oz)	Gold (000s oz)
Probable	7,797	1.29	1.94	0.33	54	0.197	221.5	332.9	57.2	13,488	49.4
<b>All P&amp;P</b>	<b>9,407</b>	<b>1.44</b>	<b>1.78</b>	<b>0.37</b>	<b>58</b>	<b>0.174</b>	<b>298.1</b>	<b>368.7</b>	<b>75.8</b>	<b>17,439</b>	<b>52.5</b>

\*Rounded to nearest thousand

\*\*Totals may not add exactly due to rounding

#### Cozamin Mine - Mineral Reserves by Class for Each Deposit (at a NSR cut-off of US\$35/t)

Class**	Tonnes (000's)*	Grade					Contained Metal				
		Copper (%)	Zinc (%)	Lead (%)	Silver (g/t)	Gold (g/t)	Copper (millions lbs)	Zinc (millions lbs)	Lead (millions lbs)	Silver (000s oz)	Gold (000s oz)
<b>Proven</b>											
San Roberto	1,610	2.16	1.01	0.52	76	0.059	76.5	35.8	18.6	3,951	3.1
San Rafael	0	0	0	0	0	0	0	0	0	0	0
<b>Sub-total Proven</b>	<b>1,610</b>	<b>2.16</b>	<b>1.01</b>	<b>0.52</b>	<b>76</b>	<b>0.059</b>	<b>76.5</b>	<b>35.8</b>	<b>18.6</b>	<b>3,951</b>	<b>3.1</b>
<b>Probable</b>											
San Roberto	5,932	1.62	1.57	0.30	59	0.110	211.1	204.8	39.6	11,255	21.0
San Rafael	1,865	0.25	3.12	0.43	37	0.474	10.3	128.1	17.6	2,233	28.4
<b>Sub-total Probable</b>	<b>7,797</b>	<b>1.29</b>	<b>1.94</b>	<b>0.33</b>	<b>54</b>	<b>0.197</b>	<b>221.5</b>	<b>332.9</b>	<b>57.2</b>	<b>13,488</b>	<b>49.4</b>
<b>P+P</b>											
San Roberto	7,542	1.73	1.45	0.35	63	0.099	287.8	240.6	58.2	15,207	24.1
San Rafael	1,865	0.25	3.12	0.43	37	0.474	10.3	128.1	17.6	2,233	28.4
<b>Sub-total P+P</b>	<b>9,407</b>	<b>1.44</b>	<b>1.78</b>	<b>0.37</b>	<b>58</b>	<b>0.174</b>	<b>298.1</b>	<b>368.7</b>	<b>75.8</b>	<b>17,439</b>	<b>52.5</b>

\*Rounded to nearest thousand

\*\*Totals may not add exactly due to rounding

#### Mineral Reserve Parameters

The metal prices and metallurgical parameters used to estimate the NSR values for each deposit are presented in the following tables. At San Rafael, ore grading above 0.3% copper will be treated in the plant with San Roberto ore. Zinc-rich (copper-poor) ore will be treated separately and gold will be recovered as reflected in the separate parameters for San Rafael.

#### Cozamin Mine - NSR parameters San Roberto (as at Dec. 31, 2009)

Metal Prices			
Units	Value \$US		
Cu \$/lb	\$2.50		
Zn \$/lb	\$0.80		
Pb \$/lb	\$0.85		
Ag \$/oz	\$4.00		
Grades			
	Cu	Zn	Pb
Cu Conc.	25%		
Zn Conc.		50%	
Pb Conc.			60%

NSR Parameters			
Units	Value \$US		
Cu 0.10 %	\$2.47		
Zn 0.10 %	\$0.56		
Pb 0.10 %	\$0.89		
Ag g/t	\$0.06		
Recovery %			
Ag	Cu	Zn	Pb
50	92		
2		70	
20			60



**Cozamin Mine - NSR parameters San Rafael Zinc Ore (as at Dec. 31, 2009)**

Metal Prices				NSR Parameters				
Units		Value \$US		Units		Value \$US		
Cu	\$/lb		\$2.50	Cu	0.10 %		\$2.47	
Zn	\$/lb		\$0.80	Zn	0.10 %		\$0.69	
Pb	\$/lb		\$0.85	Pb	0.10 %		\$1.50	
Au	\$/oz		\$950	Au	g/t		\$17.21	
Ag	\$/oz		\$4.00	Ag	g/t		\$0.06	
Grades				Recovery %				
	Au	Ag	Zn	Pb	Au	Ag	Zn	Pb
Zn Conc.	0.72 g/t	183 g/t	52%		7	16	70	2
Pb Conc.	25.0 g/t	2,418 g/t		55%	67	58	15	85

**Reconciliation of Mineral Reserves 2009-2010**

Mineral reserves are adjusted annually by the amount mined, by additions and deletions resulting from new geological information and interpretation, in conjunction with changes in operating parameters and metal prices. However, proven and probable mineral reserves are not usually revised in response to short-term fluctuations in the metal markets. The following is a reconciliation of the proven and probable mineral reserves at Cozamin to December 31, 2010:

	Tonnes (000s)
Opening balance, December 2009*	9,407
Mined outside reserve block	224
Additions San Rafael/San Roberto	0
Less Tonnes milled January to December 2010	971
Closing balance as of December 31, 2010	8,660

\*2009 reserves were calculated using metal prices of: \$2.50/lb copper, \$4.00/oz silver, \$0.85/lb lead \$0.80/lb zinc and \$950/oz gold  
Robert Barnes is the Qualified Person responsible for the reconciliation above.

**Resource Model versus Process Plant Reconciliation**

Year	Parameter	Tonnes(000s)	Ag (g/t)	Cu (%)	Pb (%)	Zn (%)
2010	Resource Model Diluted estimate*	1,068	63	1.90	0.35	1.41
	Plant Sampled	971	64	1.86	0.69	1.16
	Difference	-97	1	-0.04	0.34	-0.25
	Percent Difference	-9	2%	-2%	99%	-18%

\*Models generated and reported by Cesar Peña and diluted with guidance of Robert Barnes

There are no known factors related to environmental, permitting, legal, title, taxation, socio-economic, marketing or political issues which could materially affect the mineral resource or mineral reserve estimates.

**Operating Results - Cozamin Mine**

The Cozamin Mine commenced operation in June 2006 and since that time has maintained continuous production and shown continual improvement. Since the start of operations, the mill has undergone numerous upgrades, expansions and operating optimizations. The mine has seen improved access, ventilation and an increase in its mobile equipment fleet. A shift away from cut and fill mining to predominantly Long Hole ("LH") open stoping methods has enabled higher mine production rates.

The LOM plan production rate is 1,000,000 tpy and is supported by the operating results of 2010.

### Key Operating Statistics for 2010 at the Cozamin Mine

	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Total 2010 (Adjusted) <sup>(3)</sup>
<b>Production</b> (contained in concentrates) <sup>(2)</sup>					
Copper (000s) pounds	9,940	7,803	9,601	8,209	35,552
- Lead (000s pounds)	3,569	2,257	1,819	1,496	10,134
- Zinc (000s pounds)	3,773	3,891	5,990	3,694	15,476
- Silver (ounces)	401,000	285,933	381,050	334,751	1,462,478
<b>Mine</b>					
- Tonnes of ore mined	260,869	230,150	273,247	214,689	978,954
<b>Mill</b>					
- Tonnes processed	259,656	232,847	273,676	215,503	981,682
- Tonnes processed per day	2,885	2,559	2,975	2,342	2,690
- Copper grade (%)	1.90	1.69	1.74	1.88	1.80
- Lead grade (%)	0.97	0.65	0.43	0.42	0.63
- Zinc grade (%)	1.17	1.28	1.46	1.15	1.27
- Silver grade (g/t)	65	55	62	67.1	62
<b>Recoveries</b>					
- Copper (%)	91.2	89.9	91.4	92.0	91.2
- Lead (%)	64.1	67.4	70.0	74.1	67.6
- Zinc (%)	56.2	59.2	68.2	67.8	63.0
- Silver (%)	74.5	69.9	70.1	72.0	71.7
<b>Concentrate</b>					
- Copper concentrate produced (dmt)	18,594	14,343	17,232	14,187	64,356
- Copper (%)	24.3	24.7	25.3	26.2	25.1
- Silver (g/t)	502	492	569	582	536
- Lead concentrate produced (dmt)	2,551	1,517	1,199	1,015	6,282
- Lead (%)	63.5	67.5	68.8	66.9	66.0
- Silver (g/t)	1,060	1,207	1,709	2,119	1,391
- Zinc concentrate produced (dmt)	3,681	3,682	5,551	3,534	16,448
- Zinc (%)	46.5	47.9	49.0	47.4	47.8
On site Operating Costs (\$/t milled) <sup>(1)</sup>	\$43.29	\$50.19	\$47.87	\$78.26	\$54.84
Payable pounds of copper produced (000s lbs)	9,530	7,489	9,221	7,896	34,133
Total cash cost per pound of payable copper <sup>(1)</sup>	\$0.82	\$1.27	\$1.12	\$1.91	\$1.25

(1) The cash cost per pound of payable copper measure shown is an estimate of the cash cost on a production basis. This is a non-GAAP performance measure; please see "Non-GAAP Performance Measure" in the Company's 2010 year end MD&A.

(2) Adjustments based on final settlements will be made in future periods.

(3) Some totals will not sum, due to adjustments on final settlements on copper sales during the year. These adjustments are only reflected in the year to date column.

During 2010, a total of 64,356 dmt of copper concentrates, 6,282 dmt of lead concentrates and 16,448 dmt of zinc concentrates were shipped and recorded as revenue.

#### Mining Operations

From January to December 2010, the mine processed a mill feed of 978,954 tonnes of ore grading 1.80% copper, 1.27% zinc, 0.63% lead and 62 g/t silver. The average production rate was approximately 2,673 tpd during that period. The mine produced 35.6 million pounds of copper, 17.3 million pounds of zinc, 9.1 million pounds of lead and 1.4 million ounces of silver.

During 2010, 10,822m of development (ramps, drifts and raises) were completed to support stope mining and for capital projects extending mine workings to below the 13 level.

## *Milling*

Throughout 2008 daily treatment capacity was averaged 2,682 tpd, with the mill operating 7 days a week. In 2010, the concentrator plant processed approximately 991k tonnes of ore and is expected to process 1,100,000 tonnes of ore in 2011.

## **Environment**

The closure cost for the Cozamin Mine was re-estimated and updated to December 31, 2010, totalling \$3.2 million.

## **Exploration**

In 2010 the Company discovered a new zone of high grade copper-silver mineralization called the Mala Noche Footwall Zone ("MNFWZ"). Located in a structure that splays from the main mineralization, the Mala Noche Vein ("MNV") at about 30° was tested in 2010 in a program of 24 holes for 7,400 metres of drilling along 700 metres of strike and locally between 200-500 metres in the dip direction. The structure is still open up dip but it appears to be transitioning to more zinc dominated mineralization and thus presents a lower value target in that direction. In the west the MNFWZ merges with the MNV and is considered largely closed in that area. The zone is open toward the east and down dip, where copper grades over minable widths show exceptional potential at Cozamin. This is a significant exploration target and the biggest driver for the 2011 exploration program. A minimum program of 40-50 holes is warranted in 2011. Because the new zone splays obliquely from the MNV, where it is being mined, this new structure is in close proximity to the main haulage ways of the Cozamin Mine and presents an attractive exploration target that could transition quickly into the development stage. A cross-cut was driven from the producing mine into the MNFWZ and a drift was driven east and west for 60 and 103 metres respectively. By December 31, 2010 more than 7,000 tonnes of ore grade material have been mined from this drift, opening up the structure for mapping continuity of grade and providing material for metallurgical testing.

## **Outlook**

Cozamin is projected to produce 41 to 44 million pounds of copper contained concentrate in 2011 at a cash cost of \$0.95 to \$1.05 per pound of payable copper. With the exception of minor exploration development ore in the MNFWZ, all of the production is projected to come from the main MNV during the period. Significant rehabilitation requirements in the Avoca, East, and Central sections of the system were identified in the mine safety audit conducted during December of 2010. Completing this rehabilitation work in a timely manner is a risk to completion to the 2011 plan.

External consultants have been employed to review planning processes and rock mechanics issues on an ongoing basis until it is proven that the mine can carry forward the planning process in a reliable manner.

The priority to improve safety performance at the mine is ongoing. This activity is focused on improving the mine planning process and improving the integration of geological, geo-mechanical, and operations into the mine planning cycle.

Engineering activities are planned for 2011 include work aimed at the development of mine reserves in the MNFWZ and development of preliminary block plans for the subsequent mining in this new zone.

Exploration expenditures for 2011 are expected to be approximately \$5.4 million and will focus mainly on drill testing exploration targets in three broad categories (a) extending the MNFWZ by drill testing (b) exploring for further splays off of the MNV of a similar nature as the recently discovered MNFWZ and (c) drill testing the main MNV along strike to the east and west of the current mine. A total of \$6.6 million is expected to be incurred on sustaining capital.

## **Minto Mine (Yukon Territory)**

A report titled "Minto Phase V, Preliminary Feasibility Study Technical Report" dated December 15, 2010 (the "Minto Report") was compiled by SRK Consulting (Canada) Inc. and written by Cam Scott, P.Eng., David Brimage, AusIMM, Dino Pilotto, P. Eng., Garth Kirkham, P. Geo., Gordon Doerksen, P. Eng., Iouri Iakovlev, P.Eng., Marek Nowak, P.Eng., Mike Levy, PE, Scott Carlisle, P.Eng. and Wayne Barnett, Pr.Sci.Nat and reviewed by Gilles Aresenau, P. Geo., each a Qualified Person as defined in NI 43-101. The Minto Report is available in its entirety on SEDAR at [www.sedar.com](http://www.sedar.com) under the Company's profile and is incorporated by reference herein.

The Executive Summary of the Minto Report dated December 31, 2010 and effective March 2011, is repeated verbatim below.

## Executive Summary

### Introduction

Minto Explorations Ltd. ("MintoEx") is a wholly owned subsidiary of Capstone Mining Corp. ("Capstone") which owns (100%) and operates the Minto Mine; a 3,200 tonne per day ("tpd") high-grade copper-gold mine approximately 240 km northwest of Whitehorse, Yukon. In 2010, the mine processed circa 925,000 tonnes of ore at a grade of 2.25% Cu, 0.9 g/t Au and 8 g/t of Ag.

A preliminary feasibility study and technical report ("2007PFS") was completed for the Main and Area 2 deposits in November 2007 after a successful exploration program in 2006. In 2007 through to 2009, three other exploration targets, Ridgetop, Area 118, and Minto North were drilled to resource-quality levels and the Area 2 deposit was significantly expanded. These expanded mineral resources formed the basis for the 2009 Phase IV PFS Technical Report.

This Phase V PFS builds upon the 2009 Phase IV PFS and includes the following modifications:

- New mineral resource and/or reserve estimates including:
  - Minto Main;
  - Area 2/118;
  - Minto North;
  - Ridgetop; and
  - Minto East;
- New life-of-mine plan including, underground mineral reserves;
- Updated cost and economic analysis estimates;
- Changed tailings disposal methodology; and
- Processing plant capacity improvements (subject to permit approval).

The Phase V PFS Technical Report was compiled for MintoEx by SRK Consulting (Canada) Inc. ("SRK") with contributions from Ausenco Minerals Canada Inc. ("Ausenco") for all information related to metallurgy and mineral processing and Kirkham Geosystems Ltd. ("Kirkham") for resource estimation of the Minto North and Minto East deposits.

Exploration on the Minto property is ongoing, diamond drilling is currently suspended for the season but is planned to start again in early 2011 and is designed to more fully define and, potentially, expand the mineral resources, as well as to explore additional mineralized targets.

Based on the results of the 2007 PFS, MintoEx applied to the Yukon government for an amendment to its Quartz Mining Licence in order to increase production from the Main deposit to 3,200 tpd, permission for which was granted in July 2008. An application to amend the Quartz Mining Licence to increase production to 3,600 tpd is currently undergoing environmental assessment. A further application to amend its Quartz Mining Licence is expected to be filed by MintoEx in 2011 that enables an additional increase in production and modify operating parameters as presented in this report.

### Geology and Exploration

The Minto Project is found in the north-northwest trending Carmacks Copper Belt along the eastern margin of the Yukon-Tanana Composite Terrain. The belt is host to several intrusion-related Cu-Au mineralized hydrothermal systems. The Minto Property and surrounding area are underlain by plutonic rocks of the Granite Mountain Batholith of Early Mesozoic Age. The component of the batholith represented on the Minto Property is the Minto pluton and is predominantly of granodiorite composition. Hypogene copper sulphide mineralization at Minto is hosted wholly within this pluton in sub-horizontal horizons of structurally prepared rock.

Four deposits of copper-gold-silver mineralization are reported in this document. Each of these deposits closely share a similar style of mineralization hosted by vertically stacked, shallow dipping deformation zones within the intrusion. The Main deposit is currently exposed in an operating open pit mine and this geometry has been

confirmed. Three other deposits have drill-delineated mineral resources and/or reserves but mineralization is not exposed.

For the purpose of this report the Area 2 and Area 118 deposits are now considered continuous, and reported as one deposit, namely Area 2/118 located immediately south of Main Minto. The Ridgetop deposit is located just over 300 m south of the Area 2/118 deposit, the Minto North deposit located about 700 m north of the Minto Main deposit, while the most recently discovered deposit with reported mineral resources is the Minto East deposit located about 200 m east of the south end of the Minto Main deposit. These deposits and other mineral prospects define a general north-northwest trend informally called the Priority Exploration Corridor or PEC.

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

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

The primary hypogene sulphide mineralization consists of chalcopyrite, bornite, euhedral chalcocite, and minor pyrite. Metallurgical testing also indicates the presence of covellite, although this sulphide species has never been positively logged macroscopically.

Texturally, sulphide minerals predominantly occur as disseminations and foliaform stringers along foliation planes in the deformed granodiorite (i.e. sulphide stringers tend to follow the foliation planes). Occasionally, coarse free gold is observed associated with chloritic or epidote lined fractures that cross-cut the sulphide mineralization. The free gold may be due to secondary enrichment during a later hydrothermal process overprinting the main copper sulphide-gold event. Sulphide mineralization is always accompanied by variable amounts of magnetite mineralization and biotite alteration. While these minerals occur in the non-deformed rocks they are present in the mineralized horizons in a much greater abundance in the range of an order of magnitude greater than background.

Supergene mineralization occurs proximal to near-surface extension of the primary mineralization and beneath the Cretaceous conglomerate. Chalcocite is the prime mineral in these horizons along with secondary malachite, minor azurite and minor native copper. Observations of foliated and even copper mineralized cobbles in drilling indicate that "Minto-type" mineralization was exposed, eroded and reincorporated in conglomerate sedimentary deposits by the Cretaceous Age. Other rock types, albeit volumetrically insignificant, include thin dykes (typically less than 1 m) of simple quartz-feldspar pegmatite, aplite, and an aphanitic textured intermediate composition rock.

Structural deformation includes the ore-bearing deformation zones, as well folding present on the regional to micro-scale. Within the deformation zones the foliation exhibits highly variable orientations with the presence of small-scale (several centimetres in amplitude) folds. The ore-bearing zones are also occasionally folded on a scale of several hundred metres. The larger-scale folds appear to be gentle folds with north-south axial traces. Late brittle fracturing and faulting is noted throughout the property area, some of these faults have displacements significant enough to compartmentalize the deposits. For example, the Minto Creek fault bisects the Minto Main deposit, dividing it into north and south areas. The fault is modelled as dipping steeply north-northeast with an apparent left lateral reverse displacement. The DEF fault defines the northern end of the Main deposit. It strikes more or less east-west and dips north-northwest and cuts off the main zone mineralization. The boundary between the Area 2 and Area 118 ore zones is an intermediate NE dipping fault, and at least two parallel structures displace mineralized domains in Area 118. A similar NW striking fault zone appears to define the north-eastern boundary of the Ridgetop deposit, and defines the outcrop of Cretaceous conglomerate.

Pervasive, strong potassic alteration occurs within the flat lying zones of mineralization, and is the predominant alteration assemblage observed in all of the Minto Deposits. The potassic alteration assemblage is

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

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

There are currently more than 1,000 drill holes within a roughly 16 square kilometre area. As such, following up on open mineralized horizons in geological models, projecting mineralized horizons into areas of little or no drilling, and drilling near historical drill hole intercepts were the principal exploration tools employed by MintoEx and its geologists. Subsequent to Capstone's predecessor, Sherwood Copper's, acquisition of Minto Explorations Ltd. in June 2005, exploration from 2005 to 2010 has concentrated mostly on diamond drilling. However, an extensive historic soil sample survey and some ground based and airborne geophysics have been conducted and are very useful to guide drilling activity.

The current exploration approach by MintoEx is the systematic evaluation of modern electrical (chargeability); geophysical methods by commissioning various "proof-of-concept" surveys over known mineralization and then expanding survey coverage outward into untested areas using these methods that are calibrated to known deposits. An emphasis is placed on looking for signature analogs as opposed to being pedantic about precise measurements of response. The predominant electrical geophysical methods used are Gradient Array Induced Potential (GAIP), Dipole-Dipole Induced Potential, and Titan-24 DC Induced Potential. Drill targeting is predominantly based upon the coincidence of an anomaly in one of the electrical (chargeability) methods with an anomaly in the 1993 total field airborne magnetic survey (MAG).

Within the currently known extent of the Priority Exploration Corridor ("PEC"), future exploration programs will likely be more reliant solely on electrical / chargeability methods as the near-surface potential and discrete magnetic bull's-eyes have largely been targeted. Magnetic data in areas located north of Minto North plus areas west and east respectively of the PEC may still be useful as these regions are still relatively under explored.

The current highest priority exploration targets are based on the evaluation of geophysics, soil geochemistry, geologic modelling, and diamond drilling. The targets identified as Ridgetop Southwest, Copper Keel (North and South), Airstrip, Connector, DEF, and the newly discovered Wildfire prospect are all located within a 2 km by 2 km area, south of the DEF fault. MintoEx also sees good exploration potential in the area north of the DEF fault, as evidenced by the discovery of the high grade Minto North deposit early in 2009 and the recently discovered Inferno prospect in late 2010.

In 2009, several other historic bedrock copper occurrences discovered in the 1970s north of the DEF fault were relocated and confirmed. In addition various copper-in-soil geochemical anomalies, often coincident with magnetic geophysical anomalies, occur throughout the property and many of them remain untested. However, further understanding of the bedrock geology north of the DEF fault is required before many of these targets can be properly assessed and placed in perspective.

## **Mineral Resources**

A primary objective of SRK's work was to produce a revised independent mineral resource evaluation for the Area 2/118 and for the Ridgetop deposits. The Minto Main resource was reviewed and approved by SRK. The Minto North and East deposits, other integral parts of the Minto system, have been evaluated by Kirkham Geosystems Ltd.

The mineral resource estimate reported herein supersedes earlier mineral resource estimates presented in the 2009 Phase IV PFS Technical Report.

The mineral resource estimate in the Area 2/118 and Ridgetop deposits was completed by Dr. Wayne Barnett, Ph.D., Pr.Sci.Nat., an independent qualified person as this term is defined in National Instrument 43-101. The effective date of this resource estimate is August 30, 2010. Marek Nowak, P.Eng., analyzed the data, reviewed and validated the mineral resource estimates. The Minto North and East deposit resource estimates were completed by Garth Kirkham, P.Geo., of Kirkham Geosystems Ltd., an independent qualified person as this term is defined in National Instrument 43-101.

In the opinion of SRK, the block model resource estimate and resource classification reported herein are a reasonable representation of the mineral resources at Area 2/118, Ridgetop, Minto Main, Minto North and Minto

East deposits at the current level of sampling. The mineral resources presented herein have been estimated in conformity with generally accepted CIM “*Estimation of Mineral Resource and Mineral Reserves Best Practices*” guidelines and are reported in accordance with Canadian Securities Administrators’ National Instrument 43-101. **Mineral resources are not mineral reserves and do not have demonstrated economic viability. Only Measured and Indicated mineral resources have been used in the preliminary feasibility study described in this report.**

The database used to estimate the Area 2/118 and Ridgetop deposits was audited by SRK and the mineralization boundaries were modelled by SRK based on lithological and structural interpretations. Kirkham audited the Minto North and Minto East database and modelled mineralization boundaries.

SRK is of the opinion that the current drilling information is sufficiently reliable to interpret with confidence the boundaries of the mineralized domains and that the assaying data is sufficiently reliable to support estimating mineral resources.

The “reasonable prospects for economic extraction” requirement for a mineral resource generally implies that the quantity and grade estimates meet certain economic thresholds, and that the mineral resources are reported at an appropriate cut-off grade taking into account extraction scenarios and processing recoveries. SRK considers that the Ridgetop and Minto North deposits are amenable for open pit extraction. The Area 2/118 deposit is amendable to both open pit and underground extraction while the East deposit is suitable for underground mining.

In order to demonstrate the reasonable prospect of economic extraction, SRK constrained the overall mineral resource with Whittle™ pit optimization software using the parameters shown in Table 1. The Cost Factor 1 shell was selected as the constraining surface and resources within the shell were calculated.

**Table 1: Whittle Optimization Parameters for Resource Estimate Constraint**

Constraining Parameter	Unit	Value
Copper Price	US\$/lb	2.85
	C\$/lb	3.17
Gold Price	US\$/oz	900
	C\$/oz	1000
Silver Price	US\$/oz	12
	C\$/oz	13.33
Exchange Rate	C\$: US\$	1.11
Mining Cost	C\$/t mined	1.50
Processing and G&A Cost	C\$/t milled	5.00
Royalty	%	0.5
Slope angles	degrees (overall)	50

The open pit resource is constrained by a Revenue Factor 1 optimized Whittle shell based on the NSR model and the parameters in Table 1. The mineral resource statements for the Main, Area 2/118, Ridgetop, Minto North and Minto East deposits are presented in Tables 2-6. A combined resource from all three deposits is presented in Table 7.

**Table 2: Mineral Resource Statement at 0.5% Cu Cut-off for the Main Deposit, SRK Consulting  
December 31, 2010**

Classification	Tonnes (Kt)*	Copper (%)	Gold (g/t)	Silver (g/t)	Contained Copper (K lb.)*	Contained Gold (K oz)*	Contained Silver (K oz)*
Measured (M)	2,030	1.18	0.40	4.49	52,704	26	293
Indicated (I)	643	0.86	0.19	4.16	12,217	4	86
<b>Sub-total (M+I)**</b>	<b>2,673</b>	<b>1.10</b>	<b>0.35</b>	<b>4.41</b>	<b>64,921</b>	<b>30</b>	<b>379</b>
<b>Inferred</b>	<b>25</b>	<b>0.61</b>	<b>0.13</b>	<b>2.72</b>	<b>337</b>	<b>0</b>	<b>2</b>

\*Rounded to nearest thousand

\*\*Totals may not add exactly due to rounding

**Table 3: Mineral Resource Statement at 0.5% Cu Cut-off for the Area 2/118 Deposit, SRK Consulting August 30, 2010**

Classification	Tonnes (Kt)*	Copper (%)	Gold (g/t)	Silver (g/t)	Contained Copper (K lb.)*	Contained Gold (K oz)*	Contained Silver (K oz)*
Measured (M)	7,043	1.28	0.49	4.4	198,344	110	996
Indicated (I)	19,411	0.92	0.3	3.32	393,939	186	2,071
<b>Sub-total (M+I)**</b>	<b>26,454</b>	<b>1.02</b>	<b>0.35</b>	<b>3.61</b>	<b>592,283</b>	<b>296</b>	<b>3,066</b>
<b>Inferred</b>	<b>5,573</b>	<b>0.83</b>	<b>0.26</b>	<b>2.89</b>	<b>101,519</b>	<b>47</b>	<b>518</b>

\*Rounded to nearest thousand

\*\*Totals may not add exactly due to rounding

**Table 4: Mineral Resource Statement at 0.5% Cu Cut-off for the Ridgetop Deposit, SRK Consulting August 30, 2010**

Classification	Tonnes (Kt)*	Copper (%)	Gold (g/t)	Silver (g/t)	Contained Copper (K lbs)*	Contained Gold (K oz)*	Contained Silver (K oz)*
Measured (M)	1,531	0.98	0.25	2.14	33,204	12.3	105
Indicated (I)	3,534	0.87	0.3	2.87	67,901	33.8	326
<b>Sub-total (M+I)**</b>	<b>5,064</b>	<b>0.91</b>	<b>0.28</b>	<b>2.65</b>	<b>101,104</b>	<b>46.2</b>	<b>431</b>
<b>Inferred</b>	<b>318</b>	<b>0.75</b>	<b>0.13</b>	<b>1.57</b>	<b>5,250</b>	<b>1.3</b>	<b>16</b>

\*Rounded to nearest thousand

\*\*Totals may not add exactly due to rounding

**Table 5: Mineral Resource Statement at 0.5% Cu Cut-off for the Minto North Deposit, Kirkham Geosystems December 1, 2009**

Classification	Tonnes (Kt)*	Copper (%)	Gold (g/t)	Silver (g/t)	Contained Copper (K lbs)*	Contained Gold (K oz)*	Contained Silver (K oz)*
Measured (M)	1,844	2.15	1.11	7.7	87,530	66	456
Indicated (I)	264	1.04	0.6	5.76	6,055	5	49
<b>Sub-total (M+I)**</b>	<b>2,108</b>	<b>2.01</b>	<b>1.04</b>	<b>7.46</b>	<b>93,585</b>	<b>71</b>	<b>505</b>
<b>Additional Inferred</b>	<b>25</b>	<b>0.84</b>	<b>0.40</b>	<b>4.4</b>	<b>457</b>	<b>0</b>	<b>3</b>

\*Rounded to nearest thousand

\*\*Totals may not add exactly due to rounding

**Table 6: Mineral Resource Statement at 0.5% Cu Cut-off for the East Deposit, Kirkham Geosystems October, 2010**

Classification	Tonnes (Kt)*	Copper (%)	Gold (g/t)	Silver (g/t)	Contained Copper (K lbs)*	Contained Gold (K oz)*	Contained Silver (K oz)*
Measured (M)	688	2.30	1.07	6.30	34,842	24	139
Indicated (I)	489	1.74	0.70	4.60	18,805	11	72
<b>Sub-total (M+I)**</b>	<b>1177</b>	<b>2.07</b>	<b>0.92</b>	<b>5.57</b>	<b>53,647</b>	<b>35</b>	<b>211</b>
<b>Additional Inferred</b>	<b>14</b>	<b>1.03</b>	<b>0.45</b>	<b>2.80</b>	<b>316</b>	<b>0</b>	<b>1</b>

\*Rounded to nearest thousand

\*\*Totals may not add exactly due to rounding

**Table 7: Combined Mineral Resource Statement at 0.5% Cu Cut-off for Main, Area 2/118, Ridgetop, North and East Deposits (Effective dates as per Tables 2-6)**

Classification	Tonnes (Kt)*	Copper (%)	Gold (g/t)	Silver (g/t)	Contained Copper (K lbs)*	Contained Gold (K oz)*	Contained Silver (K oz)*
Measured (M)	13,136	1.40	0.57	4.71	406,624	239	1,989
Indicated (I)	24,341	0.93	0.31	3.33	498,917	240	2,604
<b>Sub-total (M+I)**</b>	<b>37,476</b>	<b>1.10</b>	<b>0.40</b>	<b>3.82</b>	<b>905,540</b>	<b>479</b>	<b>4,592</b>
<b>Additional Inferred</b>	<b>5,955</b>	<b>0.83</b>	<b>0.25</b>	<b>2.82</b>	<b>107,879</b>	<b>48</b>	<b>540</b>

\*Rounded to nearest thousand

\*\*Totals may not add exactly due to rounding



## Mine Production and Mineral Reserve Estimate

The Area 2/118, Ridgetop and Minto North (“Phase V”) deposits are proposed to be developed both as open pit (“OP”) and by underground (“UG”) methods, following completion of mining in the Minto Main deposit. The planning for this Pre-feasibility study assumes a start date of January 1, 2011. The proposed Main Pit mine plan (as provided by MintoEx) was incorporated into this pre-feasibility study.

Based on a start date of January 2011, the Main/Phase V open pit and underground mines will produce a total of 12.9 million tonnes (“Mt”) of ore (includes Main Pit stockpile balance as of beginning of 2011) and 58.5 Mt of waste over approximately an 7.5-year mine operating life ending in mid-2018. Approximately 2.4 Mt of ore is planned to be produced from UG mining at a rate of 2,000 tpd. Mill operations continue for an additional 2 years, processing the accumulated 2.0 Mt of ore stockpiled when mining ceases, for a total mill operating life of 9.5 years.

The life-of-mine (“LOM”) plan focuses on accessing and milling high-grade ore first, with lower grade material sent to stockpiles for blending and processing later in the mine life. This is based on repeated exploration success that has supported successive deferrals in the timing of the processing of this lower grade material, as additional higher grade mineralization is discovered and defined.

Mine design for the Phase V open pits and UG mine was initiated with the development of a Net Smelter Return (“NSR”) model. The mine model included estimates of metal prices (US\$2.25/lb Cu or C\$2.62/lb), exchange rate, mining dilution, mill recovery, concentrate grade smelting and refining payables and costs, freight and marketing costs and royalties. The NSR model was based on a 10 m x 10 m x 3 m block size for Phase V (see Table 8).

For the OP mine, Gemcom Whittle™ software was then used to determine the optimal mining shells for each of the deposits. Detailed mine design, planning and scheduling was then conducted on the optimal pit shells to produce the current pit designs.

**Table 8: Summary of Whittle™ Parameters Used for Pit Design**

Item	Unit	Value
<b><i>Metal Prices and Exchange Rate</i></b>		
Copper	US\$/lb	2.25
Gold*	US\$/oz	300.00
Silver*	US\$/oz	3.90
Exchange rate	C\$/US\$	1.16
<b><i>Processing</i></b>		
Copper recovery to concentrate	max	92%
Gold recovery to concentrate	max	70%
Silver recovery to concentrate	max	80%
Copper grade in concentrate	%	40
Gold grade in concentrate	g/t	variable with Cu
Silver grade in concentrate	g/t	variable with Cu
Concentrate moisture content		8%
<b><i>Smelter Payables</i></b>		
Payable copper in concentrate	%	96.75
Payable gold in concentrate	%	per MRI contract
Silver deduction	g/t in conc	30.00
Remaining payable silver in concentrate	%	100%
<b><i>Other Parameters</i></b>		
Pit slope angles	overall	As per 2009 PFS
Dilution	%	8%
Mining recovery	%	100
Annual Plant Throughput	Mtpa	1,460,000

<b>Costs</b>		
Waste mining cost	C\$/waste tonne	2.25
Ore mining cost	C\$/ore tonne	2.25
Processing cost	C\$/milled tonne	12.90
G&A cost	C\$/milled tonne	11.90
Royalties	%	1.00%
Transport, marketing, ins, etc.	US\$/dmt conc	162.40

\*Base on terms of royalty stream agreement with Silver Wheaton

UG mine planning also started with the NSR block model and then assumed a 1.2% Cu equivalent cut-off grade ("COG") within Datamine™ MRO software to determine economic UG mining shapes. Small mineralized zones distant from any proposed access were excluded from the mine plan.

The mineral reserves estimate for both OP and UG are summarized in Table 9 below. The mineral reserve for Main Pit includes the ore stockpile balance predicted for the beginning of 2011 as well as proposed mining from 2011 going forward. The various estimated copper cut-off grades used are also noted in Table 9.

**Table 9: Minto - Mineral Reserves by Class for Phase V**

Deposit	Reserve Class	Tonnes (Mt)	Cut-off Grade (%Cu equiv.)	Diluted grade			Contained Metal		
				Cu (%)	Au (g/t)	Ag (g/t)	Cu (Mlb)	Au (koz)	Ag (koz)
Main*	Proven	2.25	0.62	1.35	0.46	4.79	67	33	346
	Probable								
	Sub-total	2.25	0.62	1.35	0.46	4.79	67	33	346
North	Proven	1.52	0.52	2.36	1.28	8.55	79	63	419
	Probable	0.005	0.52	2.25	0.81	9.38	0	0	2
	Sub-total	1.53	0.52	2.36	1.27	8.56	79	63	421
Ridgetop	Proven	0.63	0.54	1.10	0.25	2.05	15	5	41
	Probable	0.71	0.54	1.11	0.37	3.55	17	9	81
	Sub-total	1.34	0.54	1.11	0.32	2.85	33	14	122
Area 2	Proven	3.37	0.54	1.41	0.53	4.94	105	58	536
	Probable	1.45	0.54	1.08	0.31	3.59	35	15	167
	Sub-total	4.82	0.54	1.32	0.47	4.53	140	72	703
118	Proven								
	Probable	0.49	0.54	1.29	0.09	1.73	14	1	27
	Sub-total	0.49	0.54	1.29	0.09	1.73	14	1	27
Under-ground	Proven								
	Probable	2.44	1.20	1.90	0.82	6.71	102	64	527
	Sub-total	2.44	1.20	1.90	0.82	6.71	102	64	527
Total	Proven	7.77	0.56	1.56	0.63	5.37	266	158	1,343
	Probable	5.09	0.86	1.50	0.54	4.91	169	89	804
	Total	12.87	0.68	1.53	0.60	5.19	435	247	2,146

\*includes stockpile balance of 1,631 kt at beginning of 2011 for Main pit but excludes approximately 0.25Mt of partially oxidized material from stockpile.

The post-2010 mining sequence was divided into various stages. The first stage sees the completion of mining in the Main Pit followed by the first stage of Area 2 (maintaining Pelly as the mining contractor), followed by owner-operated mining of, Minto North, 118, second stage of Area 2, the two stages in Ridgetop, and finally the last 2 stages in Area 2. The underground production supplements the open pit mine ore feed. The stages were designed to provide the required ore per period, to maximize grade and defer stripping waste as long as possible. The Main and Phase V deposits, including the underground ore, are most economical when mined in sequence with the stripping of the Phase V pits beginning at the completion of mining in the current or Main Pit. The LOM mine production schedule is shown in Table 10 with the processing schedule summarized in Table 11.

Table 10: Phase V LOM Mine Production Schedule

Parameter	Unit	Total	2011	2012	2013	2014	2015	2016	2017	2018
<b>Total OP/UG</b>										
Overburden	kt	<b>14.10</b>	<b>3.55</b>	<b>2.04</b>	<b>0.87</b>	<b>0.98</b>	<b>0.50</b>	<b>1.44</b>	<b>4.57</b>	<b>0.15</b>
Rock	kt	<b>44.42</b>	5.48	8.51	7.21	4.73	6.96	6.09	3.25	2.19
Total Waste	kt	<b>58.52</b>	9.03	10.55	8.08	5.72	7.46	7.53	7.82	2.34
ROM ore	kt	<b>11.24</b>	0.82	1.97	1.01	2.53	1.55	1.51	1.01	0.82
Cu Grade	%Cu	<b>1.58</b>	1.47	1.56	1.73	2.14	1.36	1.40	1.14	1.07
Au Grade	g/t	<b>0.63</b>	0.61	0.58	0.80	0.98	0.51	0.53	0.31	0.33
Ag Grade	g/t	<b>5.33</b>	5.50	5.78	5.23	7.21	4.81	4.58	2.74	4.05
Total Mined Cu	Mlbs Cu	<b>391</b>	27	68	38	120	47	47	25	19
Total Mined Au	koz Au	<b>229</b>	16	37	26	80	26	26	10	9
Total Mined Ag	koz Ag	<b>1927</b>	145	366	170	587	240	223	89	107
ROM ore	t/day	<b>3,848</b>	2,243	5,392	2,770	6,940	4,260	4,150	2,776	2,252
Total Material	t/day	<b>22,937</b>	26,701	32,071	22,834	20,595	23,664	24,768	24,196	8,669

Table 11: Phase V LOM Process Production Schedule

Parameter	UNIT	2011-2020 Total	Y E A R									
			2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Mill Feed Rate	dmt/day	<b>3,718</b>	3,442	3,750	3,750	3,750	3,750	3,750	3,750	3,750	3,750	3,750
Mill Feed Total	Mt	<b>12.9</b>	1.256	1.373	1.369	1.369	1.369	1.373	1.369	1.369	1.369	0.653
Feed Grade	Cu %	<b>1.53</b>	1.60	1.86	1.70	2.86	1.62	1.68	1.11	0.96	0.78	0.78
	Au g/t	<b>0.6</b>	0.6	0.7	0.7	1.5	0.6	0.7	0.3	0.3	0.2	0.2
	Ag g/t	<b>5.2</b>	6.0	7.2	5.4	10.0	5.8	5.7	2.9	3.2	2.2	2.2
Recovery to Conc.	Cu	<b>92.0%</b>	92.0%	92.0%	92.0%	92.0%	92.0%	92.0%	92.0%	92.0%	92.0%	92.0%
	Au	<b>70.0%</b>	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%
	Ag	<b>78.0%</b>	78.0%	78.0%	78.0%	78.0%	78.0%	78.0%	78.0%	78.0%	78.0%	78.0%
Conc. Grade	% Cu	<b>39%</b>	41.5%	38.0%	39.0%	38.0%	38.0%	38.0%	38.6%	38.6%	38.7%	38.7%
Conc. Production	dmt	<b>470,478</b>	44,633	61,728	54,846	94,937	53,519	55,956	36,066	31,201	25,449	12,134
Conc. Metal	Mlb Cu	<b>400.4</b>	40.8	51.7	47.2	79.5	44.8	46.9	30.7	26.6	21.7	10.4
	oz Au	<b>173,146</b>	16,807	22,531	22,259	45,118	19,488	20,538	9,375	8,246	5,948	2,836
	oz Ag	<b>1,673,940</b>	188,612	246,680	184,654	341,791	197,647	194,509	100,627	110,290	73,897	35,234

### *Waste Management and In-pit Tailings Disposal*

Tailings from the mill will be sent to the currently permitted existing dry-stack location for the life of the Main Pit (to mid-2011). Upon completion of mining in the Main Pit, thickened tailings generated from processing ores from other Phase V deposits will then be deposited into the Main Pit. The permit application for the deposition of tailings into the Main Pit was part of the Phase IV permit that was filed in August 2010 and is assumed to be approved in March 2011. Additional capacity required to store approximately 700,000 cubic metres of water associated with freshet flows, plus incremental storage to meet minimum and maximum operational requirements has been taken into consideration.

Further in-pit tailings storage capacity becomes available once Area 2 is mined and this Area 2 storage capacity will be required in order to hold a portion of the tailings to be produced from the Phase V LOM plan. Ridgetop North is also used as an in-pit storage facility until mining is completed in the final stages of Area 2.

This deposition of tailings into the Area 2 and Ridgetop North Pits will form part of the Phase V permit application to be submitted early in 2011 and is assumed to be approved before the 2<sup>nd</sup> quarter of 2012.

Although these tailings deposition plans are not yet permitted, they offer a potentially viable solution to tailings disposal that provides backfill material for the Main, Area 2 and Ridgetop North pits, reduces the amount of disturbed land that would normally be required by mining of the Phase V deposits, and provides a significant cost savings over the current dry-stack method.

Waste rock from the current Main pit, as well as a significant portion of the Phase V deposits, will be deposited in an expansion of the existing permitted West Valley Fill waste dump located in the lower valley southwest of the Main pit. In addition, waste rock from Minto North is proposed to be stacked onto the existing Main pit dump, while some waste material from the Phase V deposits will be deposited in a proposed Mill Valley dump to the east of the existing mill facilities. Waste rock material from Area 2 will also be placed in the Main pit to act as a south wall buttress. Backfilling of Ridgetop South and 118 pits will also provide waste storage capacity and will add to the final reclamation plan. Overburden material will be placed in temporary dumps adjacent to the various deposits and used for final reclamation. Any excess overburden will be added to existing Overburden dump.

### *Metallurgical Test Work*

Metallurgy testing, by G&T Metallurgical Services LTD ("G&T") during 2010, was performed on three potential new zones at the Minto mine site. The zones were Copper Keel, Minto East and Wildfire.

The main objectives of the test program were:

- Determine the material content and fragmentation properties of the three deposits;
- Investigate ore hardness properties for the composites;
- Determine bulk density distribution on a select group of core samples;
- Investigate the flotation response for samples using open circuit and locked cycle testing; and
- Determine the concentration of deleterious minor elements in the final copper concentrates.

The test work campaigns conducted by G&T Metallurgical Services Ltd. in 2009 and 2010 have demonstrated performance consistent with the current Main Pit ore flotation characteristics.

Due to their stage of development the Copper Keel, Inferno and Wildfire zones have not been included in the most recent mine plan. The test work results have been reported, however the three zones have not been considered when evaluating the process plant design.

In addition to Minto East the latest mine plan includes material from Minto Main, Minto North, Minto South, Ridgetop East and Area 2/118. Metallurgy test work results for these deposits can be found in the 2009 Phase IV PFS.

### *Process Plant*

The process design for this pre-feasibility study is based on treating ore with similar hardness to the current Minto Main ore being processed, or similar to that tested by DJB Consultants in October 2007.

The throughput selected is a function of the existing Minto plant milling circuit capacity. Ausenco Minerals Canada Inc. ("Ausenco") has modelled the current plant and predicted a throughput of 171 dry metric tonnes per hour based on a portion of the SAG mill feed being crushed to 80% passing 25mm in a pre-crushing circuit.. An average of 3,750 tonnes per day will be processed at a design availability of 91.3%.

The key criteria selected for the plant design are:

- Treatment of an average 3,442 dry metric tonnes per day for 2011, increasing to 3,750 dry tonnes per day for 2012 and beyond;
- Material from Minto Main, Minto North, Mino East, Minto South, Ridgetop East and Area 2/118 will be processed through the Minto plant;
- Design availability of 91.3%, being 7,997 operating hours per year, with standby equipment in critical areas, and
- Sufficient plant design flexibility for treatment of all ore types as per test work completed at design throughput.

### **Environmental Assessment and Licensing**

In the Yukon, mining projects require an environmental assessment prior to the issuance of significant operating permits for mining, including a Type A Water Use License and a Quartz Mining Production Licence. Elements of the Minto Project have undergone environmental assessment under three different federal and territorial assessment bodies. A previous milling and mining rate increase (2008) and the Phase IV expansion (2010) have also been assessed under the current regime, the Yukon Environmental and Socioeconomic Assessment Board (YESAB). The project is currently (February 2010) about to enter the assessment process again for the Phase V expansion project.

The major instruments or authorizations permitting and governing operations for the project include Type A and B Water Use licences, issued by the Yukon Water Board, a Quartz Mining Licence issued by Yukon Government, Energy Mines and Resources, and an Authorization to Deposit a Deleterious Substance under the federal Metal Mining Effluent Regulations.

The expansion of the Minto Mine in the Phase IV development required an environmental assessment under YESAA and major licence amendments all of which are expected to be approved in the 1<sup>st</sup> Qtr 2011. Water management planning, as expected, is of particular interest to the assessors. The amendment to the Water Use Licence is also expected to be approved in the 1<sup>st</sup> Qtr 2011.

#### *Selkirk First Nation*

MintoEx claims continue to lie within Selkirk First Nation (SFN) Category A Settlement Lands (Parcel R-6A), where both surface and mineral rights are reserved for SFN and the SFN are afforded the rights to exercise certain powers over land use and environmental protection. Therefore, if any of the Minto Exploration claims are allowed to lapse, they cannot be re-staked, and the surface and mineral rights would revert to the SFN. In addition, the mine access road lies within parcels Parcel R-6A and Parcel R-44A, and the east barge landing access point lies on Parcel R-43B.

On September 16, 1997, the company and the SFN entered a Cooperation Agreement concerning the Minto Project with respect to the development of the Minto Mine. This agreement was amended (November 4, 2009). In addition to establishing cooperation with respect to permitting and environmental monitoring, this confidential document deals with other economic and social measures and communication between Selkirk First Nation and the company. This agreement will continue to guide SFN involvement in the project as mine expansion planning and development proceeds.

#### *Environmental Conditions*

Environmental conditions pre-mine development have been compiled, assessed and referenced in previous environmental assessments, but the environmental assessment and permitting process for the

Phase IV expansion will require that these conditions be further updated based on recent site monitoring program results.

Specifically, baseline environmental conditions of the drainage to the north of the Minto Creek drainage will be of interest to assessors, as the Minto North deposit is located approximately 100 m into the drainage. Although physically there will likely be minimal disturbance in this drainage from the mining activities, there is potential for there to be effects to the aquatic receiving environment downstream.

An updated Environmental Conditions report has been completed that will support the Phase IV development which updated all environmental data for the project area and is being used for the assessment and permitting processes that are projected to be approved in the 1<sup>st</sup> Qtr 2011.

#### *Water Management and Effluent Discharge*

MintoEx, in its original water licence application submitted in 1996, outlined a water management plan based on the limited baseline information and project projections available for the Minto Mine at the time. In the intervening period since the application, screening and issuance of the Type A water use licence, significant additional baseline and operational data have been collected. These data show that the conditions upon which the initial water management and treatment assumptions were predicated were not representative of actual conditions observed.

MintoEx has therefore revised the site Water Management Plan and has submitted an environmental assessment Project Proposal and Water Use Licence amendment request to authorize the implementation of a new water management strategy. This includes the construction and use of storm water diversions, a water treatment plant and revised project effluent discharge standards.

Although the major elements of these water management revisions were designed to be functional beyond the mining of the Main Pit and into mine expansion proposed for the Phase IV and Phase V developments, the plan will require further reassessment during the Phase V development planning process.

The critical consideration with respect to water management for Phase V planning will be contingency runoff storage of water requiring treatment of settling prior to discharge and ensuring that effects to the unnamed drainage for the Minto North deposit are minimized and fully mitigated. Water treatment will continue to be a critical component of the water management strategy into the Phase V expansion, as it is in the currently proposed water management plan.

#### *Closure Planning*

Closure philosophies and measures for the Phase V mine plan will mirror those presented in the previously submitted and approved closure plans. Although closure and reclamation concepts will be required for the Phase V environmental assessment and attendant authorization amendments, it is expected that actual details (including closure cost estimates) will be presented in a subsequent revision of the closure plan on the existing Quartz Mining Licence schedule (every 2 years on the anniversary of the mill start up - August 1). Revisions to the closure plan reflecting the Phase V mine plan would not be required until the amendments to the Water Use Licence and Quartz Mining Licence authorizing mining and milling activities in the Phase V deposits are issued, as the closure plan applies to authorized mining activities and plans.

Closure measures for the site following the completion of the Phase V mine plan are expected to generally follow those currently authorized.

#### *Metal Leaching/ Acid Rock Drainage*

Characterization of mine rock and tailings from the Area 2/118, Ridgetop, and Minto North deposits has shown that there is sufficient neutralization potential (NP) to offset the acid potential (AP) within the waste materials. Both bulk mine rock and tailings had NP/AP > 3 and the majority of mineralized rock samples tested also had NP/AP > 3.

A small proportion of the mineralized waste has lower NP/AP values (a single sample had NP/AP < 1) indicating that localized pockets of potentially acid generating rock do exist. Overall, however, the Phase V characterization results indicate that waste management planning does not need to take prevention of acid rock drainage (ARD) into consideration.

Bulk mine rock has elemental concentrations typical of granitic rocks, therefore metal leaching from bulk waste is not expected to be environmentally significant. Mineralized waste has elevated concentrations of copper and other trace elements. Segregation of mineralized waste with elevated copper and disposal in a way the limits copper leaching (e.g. co-disposal with in-pit tailings) will be required to minimize loadings to the receiving environment over the long term.

#### *Operating Costs*

Table 12 presents a summary of the operating costs by major area, while Table 13 summarizes the capital costs.

**Table 12: Unit Operating Costs by Major Area**

Area	Unit	Cost Estimate
Open Pit Mining	\$/t mined	2.57
	\$/t milled	13.37
Underground Mining	\$/t milled	35.17
Total Mining (weighted average)	\$/t milled	20.04
Processing	\$/t milled	12.94
General, administration, camp, royalties	\$/t milled	12.13
<b>Total</b>	<b>\$/t milled</b>	<b>45.11</b>

#### *Capital Costs*

Table 13 shows the capital costs without closure costs. A closure cost allowance of \$16M was used in the cash flow analysis, as per an estimation done in 2010. The 2009 PFS closure cost allowance was \$20M and was a very preliminary estimate. The 2010 estimate was done in more detail and is considered to be more accurate.

**Table 13: Capital Costs by Major Area**

Area	Unit	Cost Estimate
OP mining equipment fleet	M\$	32.0
UG equipment (fixed and mobile)	M\$	18.3
UG development	M\$	15.8
Process plant	M\$	5.0
Contingency	M\$	3.1
Sustaining Capital	M\$	1.8
<b>TOTAL CAPITAL COST</b>	<b>M\$</b>	<b>76.0</b>

Contingency capital is relatively low due to good quality recent mobile equipment and UG development expenditure estimates. Sustaining capital is relative low due to the short mine life that avoids major rebuilds on mobile equipment and also replacement of various components in the process plant during the mill expansion project.



## Economics

The estimated economic benefit of mining the Minto Phase V deposits is sufficient to continue with the company's expansion plans. While more detailed work will be required to optimize the project, there is adequate economic justification for MintoEx to proceed with further work and, in particular, the application for licence and permit amendments from the Yukon Government.

Table 14 shows the comparison of Phase V PFS economic cases. The Phase V deposits add economic benefit to the mine, yielding pre-tax NPV<sub>7.5%</sub> as follows:

	Pre-tax NPV <sub>7.5%</sub>	After-tax NPV <sub>7.5%</sub>
• Case A (Base Case) (US\$2.75/lb Cu):	\$284M	\$206M
• Case B (US\$2.25/lb Cu):	\$180M	\$142M
• Case C (variable US\$3.60/lb Cu to US\$2.25/lb Cu):	\$266M	\$194M

Case B represents the metal price used in the mineral reserve estimate.

The break-even copper price for the project is US\$1.80/lb or C\$1.96/lb.

**Table 14: Comparison of Phase V Economic Cases**

Item	Unit	Case A	Case B	Case C
Waste mined	Mt		58.5	
Ore mined	Mt		11.2	
Total mined	Mt		69.8	
Mill Feed*	Kt		12.9	
Copper millhead grade	% Cu		1.53	
Gold millhead grade	g/t Au		0.60	
Silver millhead grade	g/t Ag		5.2	
Copper in cons	Mlb		400	
Gold in cons	Koz		173	
Silver in cons	Koz		1,674	
Concentrate Grade	% Cu		39	
Base Copper Price (ex. hedging)	US\$/lb	2.75	2.25	3.60 to 2.25
Ave. Copper Price (inc. hedging)	US\$/lb	2.73	2.25	2.65
Gold price (inc. hedging)	US\$/oz	331	324	333
Silver price (inc. hedging)	US\$/oz	3.90	3.90	3.90
Exchange rate	C\$/US\$	1.09	1.16	1.08
NSR (inc. royalties)	C\$/t milled	84.29	73.99	80.63
Unit Total OPEX	C\$/t milled		45.11	
Unit On-site OPEX	C\$/lb Cu payable		1.50	
Unit Off-site OPEX (ex. royalty)	C\$/lb Cu payable	0.30	0.31	0.30
Unit By-product Credit	C\$/lb Cu payable	(0.16)	(0.15)	(0.16)
Unit OPEX net by-product credits	C\$/lb Cu payable	1.33	1.32	1.33
Total Capital (initial & sustaining)	\$M		76	
Allowance for closure cost	\$M		16	
NPV <sub>7.5%</sub> pre-tax	\$M	284	180	266

\*Note Mill Feed includes Ore Stockpile

Sensitivity analyses were run on all Cases for Cu grade, Cu price, capital expense (“CAPEX”), and operating expense (“OPEX”). Each variable was changed from -20% to +20% of the base value and the resultant PT -NPV<sub>7.5%</sub> values were graphed (Figure 1 for Case A). Each variable was changed independently of the other variables eliminating the compounding effect of multiple variable modifications. As expected all Cases showed high variability to copper price and grade, moderate sensitivity to operating costs and low sensitivity to capital costs.

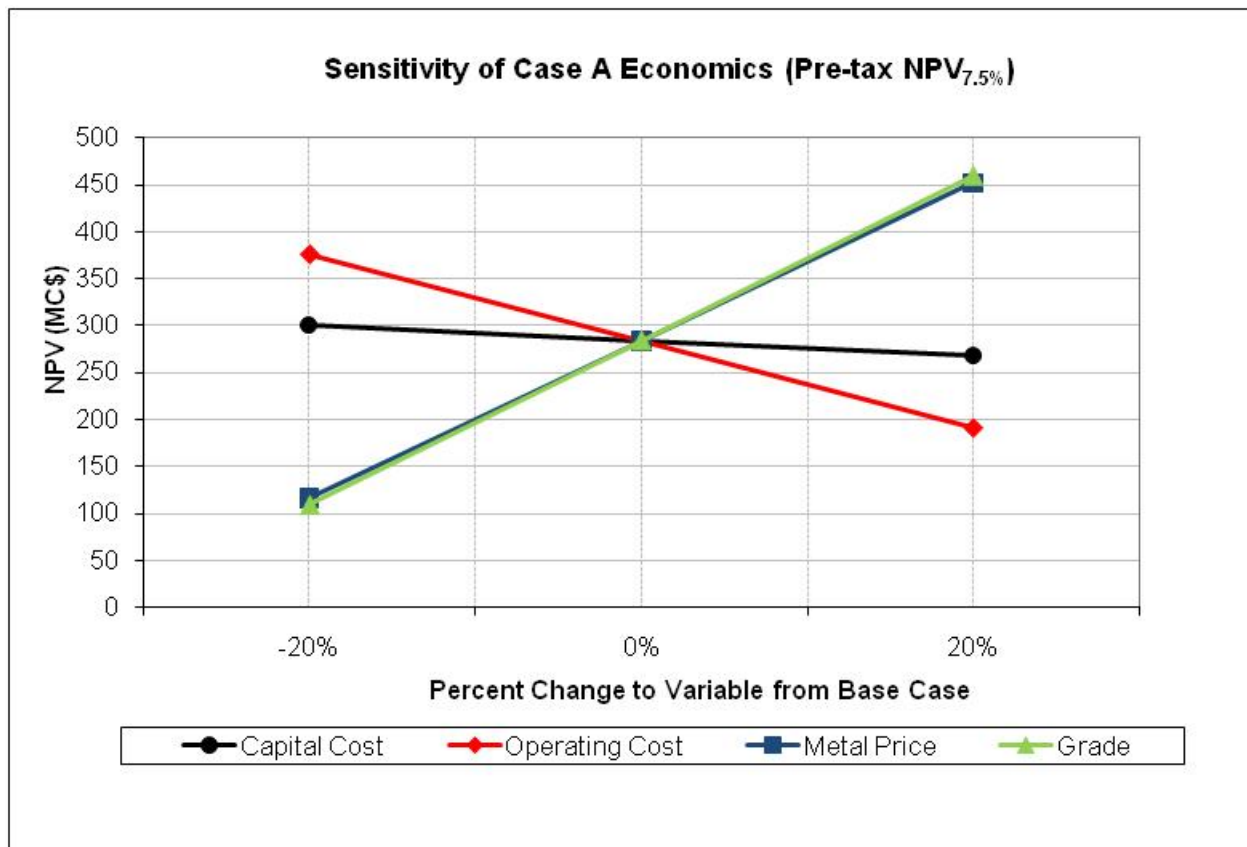


Figure 1: Case A Pre-tax NPV<sub>7.5%</sub> Sensitivities

## Conclusions

The conclusions of note are:

- The Minto deposits, Phase V pits and underground, contain a significant mineral reserve. The current mining in the Main Pit has helped confirm the expected grade and extent of the mineral reserves and the detailed drilling has provided a further measure of confidence in the mineral reserve estimate.
- The Phase V deposits are estimated to be economic to exploit and, according to the assumptions of this study, add value to the Minto mine by increasing the NPV of the overall project.
- There are strong exploration targets in the immediate vicinity of the known deposits and management has demonstrated its ability and commitment to explore for new deposits.
- Based on the preliminary test work conducted to date, the Phase V waste rock does not appear to have any ARD issues.

The major risk areas identified in this study are:

- Timing and approval of Phase IV and Phase V mine permit revisions;
- Exchange rates, metal prices and external influences;
- The ability to develop the UG mine as per the mining schedule;
- The ability to transform open pit mining operations to an owner-operated fleet;
- Acquisition of experienced personnel for underground and open pit mining; and
- The ability to maintain minimum dilution through effective grade control practices.

The most important opportunities to improve the project are:

- Optimization of mine plan;
- Continued strong demand for copper resulting in sustained high copper prices; and
- Discovering new mineral resources and converting them to mineral reserves.
- Expansion potential

Risks associated with the process plant include:

- The secondary crusher (S4800) installed by MintoEx does not facilitate screening of the feed material prior to the crusher to remove fines. The name plate capacity of the S4800 cone crusher (205 tph) is below the required capacity of 228 tph.
- The design for the plant throughput increase is based on a pre-crushing a portion of the SAG Mill feed to an  $F_{80}$  of less than 25mm. This is significantly finer than the current crushing circuit product size of 75 mm. There has not been any material flow test work on this size material. The impact the finer size will have on the draw down angles of the ore into the coarse ore reclaim feeder chute, and therefore the live stockpile capacity are uncertain.

The following measures are proposed to reduce the project risk associated with the process plant:

- Install a scalping screen and a belt conveyor prior to the secondary crusher. This will allow the site to feed divert jaw crusher product (8" maximum size) directly to the SAG Mill and also improves the overall operation and throughput of the crushing circuit. This is planned for 2011.
- An opportunity exists to review the crushed ore properties through further test work and/or experience in operating the recently installed secondary crusher. Stockpile live capacity may be increased by installing a second reclaim feeder. A second feeder will have the added benefit of providing improved blending to the SAG mill and operating redundancy.
- The comminution test work completed is suitable for this level of study. Additional comminution test work is recommended for future stages of the project to confirm the assumptions relating to SAG mill throughput made in this report.

The following opportunities exist to improve the project economics:

- A conceptual level review was completed on a potential Phase V plant upgrade to 7,500 tonnes per day. The review indicated that the plant operating cost could be further lowered to C\$9.20/t based on a C\$27 million capital expenditure. This estimate excludes capital cost associated with the mine and associated infrastructure, water supply, access roads or tailings storage facility. Both the operating and capital cost estimates are at an accuracy of  $\pm 40\%$  and would require further investigation.

## *Recommendations*

Detailed recommendations of this PFS are contained in Section 27 of this report. The main recommendations of note are:

- Further exploration drilling is recommended to further define drilled targets that indicate anomalous metal values, in particular, deeper targets that could have underground mining potential are under-explored;
- Further tailings settling tests need to be undertaken to confirm assumed deposition densities;
- Optimization of the PFS mine plan should be undertaken to obtain smoother production and grade curve;
- Conduct further waste rock dump geotechnical engineering studies to test all assumptions made in this and other reports.
- Conduct further laboratory tests on representative samples of the tailings to evaluate the initial settled density and the density under loading.

**The above information is repeated verbatim from the Minto Report dated December 15, 2010 and effective March 2011. The following information provides updates on developments since the date of that report.**

### **MINTO UPDATE (to March 31, 2011)**

Due to the timing of the filing of the Minto Report and this AIF, readers are referred to the Executive Summary of the Minto Report, provided above for an update on the Minto Mine.

### **Outlook**

The Minto Mine is projected to produce 39 to 41 million pounds of copper contained in concentrates at a cost of \$1.60 to \$1.70 per pound of payable copper in 2011. The production schedule is based on mining the remaining ore in Stage 5 of the Main pit, which will augment stockpile grades. The majority of the ore processed in 2011 will come from lower grade stockpiles as the Area 2/118 pit is stripped. The Area 2/118 pit will not produce any mill feed during 2011. Permitting timeline risk is present both for the issuance of the proposed WUL modification as well as the amended QML for the Phase IV mine plan. A significant delay in the issuance of the QML would compromise the long-term mine plan. Delay in the approval of the proposed WUL would imply an increase in water management costs in 2011.

The mill processing rate is projected to increase over the year to the 3,700 tonnes per day level by Q4 2011, resulting in a total of 1.25 million tonnes milled in 2011 at an average grade of 1.59% Cu. The increase is expected to result from modification to the pre-crushing circuit that will permit finer crushing of a portion of the SAG feed. Until this modification is completed in August of 2011, there is a risk of lower than expected mill throughput. This risk will be mitigated by bringing in a portable crushing unit if necessary, to augment the capacity of the existing crushing circuit.

Per tonne costs are projected to decline over the course of 2011 as a result of increased throughput and by the cost savings that will be realized by conversion to in-pit tailing disposal. Due to the lower grades processed in 2011, the savings will not translate in to lower unit copper production costs.

\$17.2 million of capital expenditures are anticipated in 2011; \$12 million on underground mine development and equipment, \$2.3 million on permitting and \$2.9 million on sustaining capital. As well an estimated \$26 million is expected to be incurred related to the pre-stripping of the Area 2 open pit.

The Phase V PFS will trigger an application to YESAB for the environmental and socio-economic assessment of the Phase V project in the second quarter of 2011.

A preliminary mineral resource estimate for the vertically stacked Wildfire/Copper Keel system is underway and is expected in Q2 of 2011. Multiple horizons of high grade copper-gold mineralization still remain open on several elevations and drilling is planned to resume in early 2011 to support a subsequent

mineral resource estimate to be completed in 2011. A total of \$5.2 million is projected to be spent on exploration during 2011, focusing on (a) step out and infill drilling at Wildfire/Copper Keel (b) step out drilling at Inferno and (c) continuing the exploration on the balance of the prospective Minto Mine property, focusing primarily on drill testing targets generated from the 2009 Titan-24 geophysical survey.

The success in the exploration program in 2010 has triggered a Phase VI pre-feasibility study which is anticipated to be completed in Q1 2012 aimed at incorporating Copper Keel and Wildfire resources into the reserve base.

### **Kutcho Project (British Columbia)**

A report titled "Kutcho Copper Project, Prefeasibility Study, British Columbia" dated February 15, 2011 (the "Kutcho Report") was prepared by JDS Energy & Mining Inc. The Kutcho Report was written by: Michael Makarenko, P.Eng. of JDS Energy & Mining Inc.; Ali Sheykholeslami, P.Eng. of JDS Energy & Mining Inc.; Garth Kirkham, P.Geo. of Kirkham Geosystems Inc.; Hoe Teh, P.Eng. of Hoe Teh Consulting Inc.; Guangwen (Gordon) Zhang, P.Eng., EBA Engineering Consultants Ltd.; Carlos Chaparro, P.Eng., EBA Engineering Consultants Ltd.; Dan Jarratt, P.Eng., Allnorth Consultants Ltd.; David Archibald, B.Sc., MBA, R.P. Bio., Allnorth Consultants Ltd.; Frank Palkovits, P.Eng., Mine Paste Engineering Inc.; and Brad Mercer, P. Geo., Capstone Mining Corp., each a Qualified Person as defined in NI 43-101. The Kutcho Report is available in its entirety on SEDAR at [www.sedar.com](http://www.sedar.com) under the Company's profile and is incorporated by reference herein.

**The Executive Summary of the Kutcho Report dated February 15, 2011, is repeated verbatim below.**

### **EXECUTIVE SUMMARY**

#### **Introduction**

This Prefeasibility Study ("PFS") Technical Report was compiled by JDS Energy & Mining Inc. ("JDS") for Kutcho Copper Corporation ("Kutcho Copper" or "KCC" or "Kutcho Copper Corp."), a wholly owned subsidiary of Capstone Mining Corporation ("Capstone" or "CMC").

Preliminary Economic Assessment Technical Reports were completed by JDS for Kutcho Copper Corporation, a wholly owned subsidiary of Capstone Mining Corporation on September 2, 2009 ("2009 PEA") and July 6, 2010 ("2010 PEA").

A pre-feasibility study on the project was completed by Wardrop Engineering Inc. ("Wardrop") in October 2007 for Western Keltic Mines Inc. ("Western Keltic" or "WKM"). On May 27, 2008 Sherwood Copper Corp. ("Sherwood") completed the acquisition of Western Keltic Mines Inc. The amalgamated company, a 100% owned subsidiary of Sherwood, operated under the name Kutcho Copper Corp. A Preliminary Economic Assessment was completed by SRK Consulting (Canada) Inc. ("SRK") for Kutcho Copper Corp.

On May 27, 2008 Sherwood acquired 100% ownership in WKM by amalgamating WKM with a subsidiary so that Kutcho Copper Corp. now owns the Kutcho property. On November 27, 2009,

Capstone completed a plan of arrangement with Sherwood, whereby Capstone acquired Sherwood and Kutcho Copper became a wholly owned subsidiary of Capstone.

The main purpose of completing this Prefeasibility Study is to determine if the Main and Esso Mineral Resources can be converted to an NI 43-101 Mineral Reserve. This includes Esso Mineral that resulted from additional exploration drilling completed in October 2010. The PFS will also increase the level of accuracy of capital and operating cost estimates and associated Economic Key Performance Indicators.

Other key improvements & differences incorporated into this PFS include:

- Additional metallurgical testing;
- A dedicated concentrate storage facility at an existing port & load-out facility in Stewart, British Columbia;

- Thickened paste for tailings disposal on surface and underground as backfill;
- Comprehensive waste & water management planning; and
- Detailed LNG power generation design & planning.

### Location

The Kutcho property is located approximately 100 km due east of Dease Lake in the Liard mining division of Northern British Columbia. The site is located at approximately 1500m elevation, has an average annual temperature of -1° C and experiences 0.5 m of precipitation annually, half of which is snow.

The site is accessible via a 900 m long gravel airstrip located 10 km from the deposit and a 100 km long seasonal road from Dease Lake that is only suitable for off-highway vehicles during the summer months.

### **GEOLOGY & MINERALIZATION**

Located near the eastern end of an east - west striking narrow allochthonous belt of island arc volcanic rocks of Permian Age, the Kutcho property contains three known Kuroko-type volcanogenic massive sulphide (“VMS”) deposits. They are aligned in a westerly plunging linear trend and from east to west they are called the Main, Sumac, and Esso deposits. The largest of the three, the Main deposit comes to surface near the eastern end of this trend, whereas the Esso deposit occurs at depths about 400 - 520 m below surface at the western or down plunge end of the trend as it is currently known. The trend is open down plunge but is poorly explored presumably due to the great depths of any projected extension. The Main deposit is by far the largest of the three deposits and coupled with its near surface position it is the prime focus for this PFS study.

The mineralized zone in the Main deposit dips at an average of 45° to the north but ranges from 38° in the east to 63° in the west. Changes in foliations angles and the dip of the mineralized zone also suggest it is openly buckled. Internal stratigraphy and mineral zoning is known from drillhole interpretations and from one continuous cross-section mapped in an adit located roughly at the center of the strike length. Grade trends exhibited on long-sections suggest there are other controls to higher grade copper and zinc mineralization however these controls are not known.

In cross-section, the sulphide mineralization generally changes from a thick pyritic footwall zone to a copper-zinc enriched pyritic zone toward the hanging wall with the hanging wall contact often marked by a narrow, less than 1 metre thick band of zinc dominated mineralization. Based upon VMS models, this is considered to be primary and syngenetic in nature. The assay contact between the largely barren footwall pyrite mineralization and the potentially economic copper-zinc-pyrite mineralization is gradational over a very short distance or often quite sharp but it does not appear to be controlled either by a change in volcanic stratigraphy or by a latter structure. Visually, it is marked by the presence or absence of chalcopyrite disseminated throughout the pyrite dominated sulphide mineralization.

In contrast, the hanging wall contact is identified not only by a change in host rock but also displays a sharp break in sulphide mineralization. Often, at this upper contact, veinlets of bornite and sphalerite crosscut the contact within a confined band of about one metre or less. This zone of vein mineralization appears to be a secondary, structurally controlled remobilization of sulphide mineralization that overprints the original contact. In this zone the sulphides are texturally much coarser grained than the syngenetic VMS mineralization. This zone sometimes shows a sharp increase in copper grade due to an abundance of bornite.

### **MINERAL PROCESSING AND METALLURGY**

The mineralogy of the Kutcho deposit is complex and requires a similarly complex approach to produce copper and zinc concentrates at reasonable recoveries and concentrate grades.

The copper concentrate is expected to grade 28.7% copper with a zinc content of 5.4%. The sphalerite mineralization is low in iron and the grade of the zinc concentrate is expected to be 57.2%. Recoveries are expected to be 85.6% for copper and 82.9% for zinc. The recovery assumptions used in this report are shown in Table 1-1.

Table 1-1 Cash Flow Calculation Metallurgical Parameters

Metal	Recovery	Cu Concentrate Grade	Zn Concentrate Grade
Copper	85.6%	28.7%	0.8%
Zinc	82.9%	5.4%	57.2%
Gold	43.0%	2.65 g/t	-
Silver	66.1%	380 g/t	-

Considerable metallurgical test work was undertaken by several of the prior owners of the project over the past 40 years, which was used to guide Kutcho Copper's test work.

A preliminary metallurgical program carried out for the pre-feasibility study in 2010 using new samples from the drill program conducted in 2008 (Main deposit drill core samples) and in 2010 (Esso deposit drill core samples). These samples had been stored in a nitrogen atmosphere to protect from oxidation. Results from this testing program have been incorporated into the design parameters.

Further metallurgical test work is required to optimize the size of primary grind, circuit layout and the reagent scheme. Variability testing will refine the metallurgical response with depth. The recent drill program was designed to collect fresh samples for this pre-feasibility study to evaluate the metallurgical response to variations in bornite/chalcopyrite ratios, the degree of dissemination and pyrite content and relate these characteristics to metallurgical response. Results of the current mineralogy tests are shown in section 16 of this report.

The pre-feasibility level flotation works performed by Cozamin Metallurgical Laboratory in Zacatecas, Mexico tested 6 composite samples under the supervision of JDS and Hoe Teh Consulting. These samples were assembled from drill cores from the Main and Esso deposits according to the geographical locations and yearly production plan.

Flotation testing showed an elevated level of zinc in the copper concentrate. These zinc values were used in this report. This is considered a conservative approach and may overstate the potential penalties for zinc in the copper concentrate (\$2/tonne) as it is believed that further test work could result in improved separation of the zinc.

Additional metallurgical test work is recommended to achieve higher copper recovery with a lower zinc grade in the copper concentrate.

#### MINERAL RESOURCE ESTIMATE

The mineral resource estimate was completed by Garth Kirkham, P.Geo., Kirkham Geosystems Ltd., using industry standard methods that conform to National Instrument 43-101 ("NI 43-101") and utilizing MineSight™ Software.

The data and methodology utilized for the resource estimate is as follows:

- The database consists of a total of 462 drill holes and one adit, which includes all holes prior to the drilling performed by Western Keltic Mines plus the drilling performed in 2004 for 40 drill holes, 2005 for 27 drill holes, 2006 for 23 drill holes, 81 drill holes completed by Kutcho Copper in 2008 and 34 drillholes completed in 2010. Drill hole data was composited to 2.5 meter intervals for Main and Sumac whilst 1.5m was used as the composite length for Esso;
- Bulk densities were estimated on a block-by-block basis for the Main Deposit based on 2,109 measurements taken from drill core. Composites of the SG's from the drill holes are created and these were then interpolated into the blocks using the inverse distance interpolator;
- Sectional interpretations were created for each on the Main, Esso and Sumac Deposits. These sections were then wire-framed to form a solid which were then edited to match the drillhole intercepts precisely in 3D. The solids were used to then code the drillhole assays and composites for subsequent geostatistical analysis and for block matching in the grade interpolation process;

- Geostatistical analyses were performed on the assays and composites using no constraints in addition to the coded intervals within the mineralized zone solids;
- Therefore, for the purpose of the mineral resource model, the solids zones were utilized to constrain the block model by matching assays to those within the solid and those outside the solid zones. The orientation and ranges (distances) utilized for search ellipsoids used in the estimation process were derived from the dimensions and orientation of the mineralized zones;
- In terms of selectivity and estimation quality, it was decided that a 2.5m for Main and Sumac and 1.5m for Esso composite lengths provided the best compromise between number of composites available for estimation, and a reasonable degree of dilution and regularization;
- Grades of 15% Cu, 17.5% zinc, 100 gpt silver and 3 gpt gold were chosen as the most reasonable threshold at which to limit grades for Main and 15% Cu, 20% zinc, 100 gpt silver and 8 gpt gold for Sumac. The range chosen at which to limit grades greater than threshold was 12 meters. The outlier strategy utilized for the Esso deposit was to cut values greater than 11% Cu, 27% Zn, 300 g/t Ag, and 2.2 g/t Au. In the case of the Esso Deposit, it was determined that the best approach would be to utilize cutting for the purpose of grade limiting therefore the composite grades were cut to the threshold limits as shown above;
- The ellipsoid direction chosen for the estimation process within the Main Deposit was chosen to be 10 degrees azimuth and -45 degrees dip for the major axis, 100 degrees and 0 degrees for the minor axis and 10 degrees and 45 degrees for the vertical axis. Sumac and Esso was chosen to be 0 degrees azimuth and -50 degrees dip for the major axis, 90 degrees azimuth and 0 degrees dip for the minor axis and 0 degrees azimuth and 40 degree dip for the vertical axis;
- The block size chosen was 5m x 5m x 5m oriented orthogonally in an effort to adequately deconvolute the mineralized zones so as not to inject an inordinate amount of internal dilution and to somewhat reflect drill hole spacing available;
- The choice of interpolator was ordinary kriging for the Main and Esso deposits whilst inverse distance to the 3<sup>rd</sup> power was used for the Sumac deposit. Nearest neighbour, inverse distance and ordinary kriging were run for all deposits for comparison and validation purposes;
- Three estimation passes were used to estimate the Resource Model because a more realistic block-by-block estimation can be achieved by using more restrictions on those blocks that are closer to drill holes, and thus better informed; and
- Classification of mineral resources is based on a number of criteria namely; distance to first composite' average distance of all composites used in a block and the number of drillholes used to estimate a block.

Mineral resource estimates are tabulated at a 1.5% copper cut-off for all three deposits combined & individually and are summarized in Table 1-2.

Table 1-2 Kutcho Project Mineral Resource Summary

Kutcho Project - Mineral Resource Estimate at a 1.5% Copper Cut-Off for All Deposits <sup>(1)</sup>									
Class	Tonnes (000's)	Grade				Contained Metal			
		Copper (%)	Zinc (%)	Gold (g/t)	Silver (g/t)	Copper (M lb)	Zinc (Mlb)	Gold (Koz)	Silver (Koz)
Measured (M)	5,421	2.15	2.86	0.34	31.4	256.6	341.8	59	5,482
Indicated (I)	5,859	2.24	3.67	0.45	41.6	289.2	473.5	84	7,831
<b>M &amp; I</b>	<b>11,280</b>	<b>2.19</b>	<b>3.28</b>	<b>0.39</b>	<b>36.7</b>	<b>545.8</b>	<b>815.3</b>	<b>143</b>	<b>13,313</b>
Inferred	1,090	1.74	2.04	0.35	30.7	41.9	49.1	12	1,077

Notes for Table 1-2:

1-Numbers may not total due to rounding.



## **Mineral Reserves**

The mineral reserve classifications used in this report conform to the Canadian Institute of Mining, Metallurgy and Petroleum classification of NI 43-101 mineral resource and reserve definitions and Companion Policy 43-101CP and are listed below.

A 'Proven Mineral Reserve' is the economically mineable part of a Measured Mineral Resource demonstrated by at least a Preliminary Feasibility Study. This Study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction is justified. Application of the Proven Mineral Reserve category implies that the Qualified Person has the highest degree of confidence in the estimate with the consequent expectation in the minds of the readers of the report. The term should be restricted to that part of the deposit where production planning is taking place and for which any variation in the estimate would not significantly affect potential economic viability.

A 'Probable Mineral Reserve' is the economically mineable part of an Indicated Mineral Resource, and in some circumstances a Measured Mineral Resource, demonstrated by at least a Preliminary Feasibility Study. The study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. The Mineral Reserves estimate is listed in Table 1-3.

Table 1-3 Mineral Reserve Estimate

<b>Deposit</b>	<b>Classification</b>	<b>Tonnes</b>	<b>Cu %</b>	<b>Zn %</b>	<b>Ag g/t</b>	<b>Au g/t</b>
<b>Main</b>	<b>Probable</b>	8,106,267	1.92	2.51	28.02	0.31
<b>Esso</b>	<b>Probable</b>	2,334,894	2.32	5.53	57.48	0.59
<b>Total</b>	<b>Probable</b>	<b>10,441,161</b>	<b>2.01</b>	<b>3.19</b>	<b>34.61</b>	<b>0.37</b>

The Mineral Reserves identified in Table 1-3 comply with CIM definitions and standards for an NI 43-101 Preliminary Feasibility (Prefeasibility) Study. Detailed information on mining, processing, metallurgical, and other relevant factors are contained in the followings sections of this report and demonstrate, at the time of this report, that economic extraction is justified.

The economic viability of the project is presented in the economic analysis section, and confirms the probable reserve estimates meet and comply with CIM definitions and NI 43-101 standards. At the time of this report, and currently, the project is economically viable using lower than current metal prices in the economic analysis.

This Prefeasibility Study did not identify any mining, metallurgical, infrastructure or other relevant factors that may materially affect the estimates of the mineral reserves or potential production.

## **Mine Plan**

Development of the underground mine and pre-stripping of a small starter pit commences in Year -1. The small starter pit ore will supplement initial production of ore in order to attain full mill capacity (2,500 tpd) in the first year of production. The underground mine then provides all mill feed commencing in Year 2 to the end of the mine life.

Two underground mining methods are proposed: mechanized cut & fill ("MCF") for the shallow dipping mineralization, and sublevel long-hole ("LH") stoping with backfill for those blocks amenable to bulk mining. The initial pre-production development period is estimated to 18 months (Year -1 to mid Year 1). All lateral capital development is assumed to be completed by Kutcho Copper.

The primary access for the Main mine will be a single straight incline from a starting floor elevation of 1,522m. The cross-sectional area will be 5m high by 5m wide to provide clearance for equipment, ventilation and services.

Two ramp systems will be driven off the primary access ramp, one to the east and the other to the west to provide access to the other Main deposit ore zones. The east incline ramp will be driven at a maximum grade of +15%. The west ramp will split into upper and lower ramps driven at grades of +/- 15%.

Access to the Esso deposit will be via a 2,600 metre long decline ramp from surface to the 1090m elevation at the top of the Esso ore body. This ramp will also be 5m x 5m and will have an average grade of -15%. A central ramp will then be developed to the bottom of the Esso deposit, with sublevels and accesses driven east and west to the Esso mining zones. Although not designed for exploration purposes, the Esso access ramp could be utilized for future exploration drilling of the Sumac deposit.

During pre-production, the primary ramp in the Main zone will be established as well as secondary access ramps to the west, centre and east mining zones. Production is exclusively from the Main ore deposits in Years 1-2, while Esso is being developed.

The access ramp to Esso begins in Year -1 and is complete in Year 1. Esso's pre-production period is approximately 40 months. Ore production from Esso begins in Year 3 and continues at 1,500 tpd until the deposit is exhausted in Year 8. While Esso is in production, Main's rate is reduced to 1,000 tpd for a total rate of 2,500 tpd from both mines. Once Esso is exhausted, Main production returns to 2,500 tpd until the end of the mine in Year 12. The mine production plan is shown in Table 1-4.

Backfill is an integral part of the underground mine plan and will incorporate process plant tailings as well as mine development waste. The primary purposes of the backfill are:

- Underground support and working platform in MCF mining; and
- Storage of Potentially Acid Generating ("PAG") waste rock and process plant tailings.

Waste rock will be scheduled so that material mined early in the underground development effort and more likely to be classified as non-PAG will be hauled and used on surface. As the stoping reaches a steady state underground, development rock will preferentially be used as backfill. The backfill plan calls for all waste rock generated after production Year 2 to be stored underground. Therefore there are no permanent PAG or non-PAG waste dumps. Any temporary dumps during the initial start up will be utilized for construction (non-PAG) or placed into the vacant open pit (PAG and non-PAG) or back underground as fill (PAG and non-PAG).will not be required.

An insufficient volume of waste rock is available for the backfill requirement; hence the use of paste fill has been incorporated into the mine plan. Paste fill consists of process tailings partially dewatered and mixed with cement. This material is of a consistency that can be directed to specific locations by positive displacement pumps and pipeline. The fill plant will be operated such that all tailings required for backfill will be converted to thickened slurry and pumped to the mine for use as fill. Tailings not required for backfill will be directed to a permanent surface tailings storage facility ("TSF") In general, 50% of the tailings are suitable for paste backfill.

Table 1-4 Mine Production Plan

Parameter	Unit	Production Year												Totals	
		-1	1	2	3	4	5	6	7	8	9	10	11		12
Starter Pit Production	tonnes	-	446,215	-	-	-	-	-	-	-	-	-	-	-	446,215
Main Production	tonnes	-	466,285	912,500	673,863	365,000	365,000	365,000	458,744	912,500	912,500	912,500	912,500	403,661	7,660,052
Esso Production	tonnes	-	-	-	238,637	547,500	547,500	547,500	453,756	238,637	-	-	-	-	2,334,894
<b>Total Mine Production</b>	<b>tonnes</b>	<b>-</b>	<b>912,500</b>	<b>912,500</b>	<b>912,500</b>	<b>912,500</b>	<b>912,500</b>	<b>912,500</b>	<b>912,500</b>	<b>912,500</b>	<b>912,500</b>	<b>912,500</b>	<b>912,500</b>	<b>403,661</b>	<b>10,441,161</b>
Daily Production Rate	tpd	-	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Starter Pit Waste	tonnes	1,532,608	1,215,414	-	-	-	-	-	-	-	-	-	-	-	2,748,021
Copper Grade	%	-	1.94	2.13	2.01	2.02	2.26	2.12	2.06	1.88	1.91	2.07	1.81	1.87	2.01
Zinc Grade	%	-	1.92	2.62	2.91	3.71	5.30	4.41	3.76	2.64	3.06	2.78	2.43	2.27	3.19
Silver Grade	g/t	-	26.41	31.00	42.34	47.19	41.49	46.87	35.22	27.64	29.21	27.97	27.32	30.15	34.61
Gold Grade	g/t	-	0.30	0.32	0.44	0.47	0.45	0.47	0.35	0.36	0.31	0.32	0.27	0.39	0.37
Capital Development	metres	3,875	2,637	1,465	362	-	-	-	-	-	-	-	-	-	8,339
Sustaining Development	metres	360	1,400	2,350	1,952	2,034	2,267	973	1,772	1,184	1,234	789	351	170	16,835
<b>Total Lateral Development</b>	<b>metres</b>	<b>4,235</b>	<b>4,037</b>	<b>3,815</b>	<b>2,314</b>	<b>2,034</b>	<b>2,267</b>	<b>973</b>	<b>1,772</b>	<b>1,184</b>	<b>1,234</b>	<b>789</b>	<b>351</b>	<b>170</b>	<b>24,174</b>
	<b>metres/day</b>	<b>11.6</b>	<b>11.1</b>	<b>10.5</b>	<b>6.3</b>	<b>5.6</b>	<b>6.2</b>	<b>2.7</b>	<b>4.9</b>	<b>3.2</b>	<b>3.4</b>	<b>2.2</b>	<b>1.0</b>	<b>1.0</b>	<b>5.5</b>
Capital Raise Development	metres	467	809	441	40	-	-	-	-	-	-	-	-	-	1,757
Mined UG Waste	tonnes	297,211	274,098	261,714	156,185	137,271	153,033	65,669	119,637	79,904	83,264	53,248	23,693	11,475	1,716,401
Paste Backfill Placed	tonnes	-	227,969	408,344	408,344	408,344	383,921	408,344	408,344	408,344	408,344	408,344	408,344	180,638	4,467,622

## MINERAL WASTE MANAGEMENT

Mineral waste will consist of tailings and waste rock including overburden materials.

The waste management plan has been developed based on the mine plan that includes an initial small starter pit in the Main deposit and underground mines in the Main and Esso deposits. The starter pit will be pre-stripped in Year -1 and will provide ore in Year 1 while the underground mine is being developed.

Geochemical characterization indicates that the tailings are approximately 80% pyrite and are strongly net acid generating with some acid neutralization potential. The waste rock from the mine operation includes potentially acid generating (PAG) and non-acid generating (NAG) waste rock, all of which is stored permanently in the starter pit or underground.

The tailings from the mill will be disposed of in three areas: 1) underground mines as backfill material, 2) on-land paste tailings lined storage facility, and 3) mined-out starter pit as backfill.

The PAG and NAG waste rock will be separated at the sources during mine operation. The majority of waste rock generated in the underground mines will remain underground as backfill. The remaining waste rock will be hauled to the surface to the pit.

A portion of the on-surface NAG waste rock will be used as site construction materials during the initial site construction stage. The remaining NAG waste rock will be temporarily stored in a stockpile and used as site construction materials during the late stages of mine operation and at mine closure as well as underground mine backfill.

The on-surface PAG waste rock disposal will consist of three methods: 1) co-disposal with paste tailings in the on-land paste tailings storage facility, 2) co-disposal with paste tailings as backfill in the mined-out starter pit, and 3) hauled back to underground mines as backfill. The PAG waste rock generated from the starter pit in Year -1 and early Year 1 will be temporarily stored in a PAG waste rock dump. The waste rock in the PAG waste rock pile will be later moved to the mined-out starter pit or hauled down to underground as backfill.

Table 1-5 summarizes the overall mineral waste production and disposal plans.

Table 1-5 Overall Mineral Waste Production & Disposal Plan Summary

Mineral Waste	Stage	Location	Total Dry Tonnage (M tonnes)
Tailings	Production	Mill (or process plant)	9.35
	Disposal	Underground mines as backfill	4.90
		On-land paste tailings storage facility	3.45
		Mined-out starter pit	1.00
NAG Waste Rock	Production	Starter pit	1.22
		Underground mines	1.61
	Disposal	Remaining in underground as backfill	0.85
		Used as on-site construction materials	1.61
		Hauled to underground mines as backfill	0.37
PAG Waste Rock	Production	Starter pit	1.52
		Underground mines	0.14
	Disposal	Remaining in underground as backfill	0.13
		Co-disposed with paste tailings in on-land paste tailings storage facility	0.62

Mineral Waste	Stage	Location	Total Dry Tonnage (M tonnes)
		Co-disposed with paste tailings in mined-out starter pit	0.80
		Hauled to underground mines as backfill	0.11

The proposed on-land paste tailings storage facility consists of a containment berm, a bottom liner system, and a top closure cover system. The containment berm would be a zoned earth and rock fill structure with an upstream low-permeability clay silt zone covered with a geomembrane liner to contain the paste tailings. The ground below the proposed mine waste footprint in the facility will be excavated to a depth of 4.5 m to increase the storage capacity of the facility and obtain till fill for construction. The bottom liner system consists of a geomembrane liner over a low-permeability clay silt layer and a basal drainage layer. The design storage capacity of the tailing facility is approximately 2.04 M m<sup>3</sup> or 4.08 M tonnes of dry mine waste.

A multiple-layer soil cover will be placed over the top of the paste tailings at mine closure to minimize the water infiltration into the facility and provide an oxygen diffusion barrier to minimize the influx of oxygen. The cover system consists of a top native soil layer, a top capillary barrier layer, a compacted low-permeability clay silt layer, and a bottom capillary barrier layer over the paste tailings. The key design objective for the low-permeability layer is to maintain a high degree of saturation under all conditions. This objective is achievable for the current cover design under the meteorological, hydrological, hydrogeological, and ground conditions of this project site.

The moisture content in the majority of the paste tailings placed in the on-land paste tailings storage facility will be maintained in a nearly saturated condition over the long-term because of the lined sides and bottom of the facility, the fine-grained nature and intrinsic low permeability of the paste tailings, the cover design that limits moisture loss of the tailings, and a gentle surface slope.

The closure cover design for the mine waste in the mined-out starter pit applies best engineering measures to minimize or prevent surface infiltration and ingress of oxygen to reduce the risk of mine waste oxidation and generation of acid drainage. The cover system consists of a top native soil layer followed by a capillary barrier layer, a low-permeability clay silt layer, and a geomembrane liner installed over the final paste tailings that is placed above the waste rock/tailings mixture.

A temporary PAG waste rock dump is required to store the PAG waste rock during early mine operation before the waste rock is permanently disposed. The storage capacity of the dump is approximately 0.46 M m<sup>3</sup>. The PAG waste rock will be placed in the dump in Years -1 and 1. The PAG waste will be re-handled and placed back to the mined-out starter pit in Years 2 and 3.

A temporary NAG waste rock stockpile is required to store a portion of the NAG waste rock generated during early years of mine operation and be later used as site construction materials and as underground mine backfill. The stockpile has a maximum storage capacity of 0.36 M m<sup>3</sup> in Year 3. The storage volume will be gradually reduced to zero over the rest of mine life when some NAG waste rock is used as construction materials, reclamation and underground mine backfill.

## WATER MANAGEMENT

The water management during the mine operation includes the following components:

- Diversion ditches and berms around the proposed mine waste management facilities to divert the clean surface runoff water from the undisturbed ground above the mine facilities to minimize the overall quantity of the contact water;
- A water collection pond dam to store contact water from the mine waste facility areas;
- Pumping the contact water from the water collection pond to a water treatment plant;

- Pumping contact water from underground mines and other mine site areas to the water treatment plant for treatment;
- Reclaiming a portion of the treated or untreated site contact water and process water for mineral processing; and
- Discharging the treated water to the receiving environment after the water quality meets the discharge criteria.

The proposed water collection pond dam is a zoned earth and rock fill structure with an upstream low-permeability clay silt zone to control the seepage through the dam. The ground under the upstream side of the dam and the pond will be excavated to a depth of approximately 4m. This will increase the water storage capacity of the water collection pond, reduce the seepage through the overburden zone in the dam foundation, and obtain sufficient till fill materials for construction. The shallow bedrock below the clay silt zone could be highly fractured. A zone of curtain grout is proposed in the bedrock below the clay silt zone to reduce the potential seepage through the bedrock foundation.

The water collection pond was designed to have a sufficient capacity under various design conditions. Pumping water from the water collection pond to the water treatment plant is required during the freshet period and the following period each year to control the maximum pond water level within the design range.

A seepage collection sump located immediately downstream of the water collection pond is proposed to collect minor seepage through the dam. The water in the seepage collection sump will be regularly pumped back to the water collection pond.

After mine closure, the water from the covered on-land paste tailings storage facility and starter pit areas will be collected in the water collection pond and sumps and then pumped to the water treatment plant for treatment. The water can be discharged directly to the environment when the water quality meets the discharge criteria. The water collection pond can be decommissioned and the dam be breached after a monitoring period specified in the water use license.

## **ENVIRONMENTAL CONSIDERATIONS**

The Kutcho Project is subject to the British Columbia Environmental Assessment Act and the Canadian Environmental Assessment Act. The former requires that the project undergo an environmental assessment and obtain an Environmental Assessment (EA) Certificate. The Project was initiated into the BC EA process through the issuance of a Section 10 order by the BC Environmental Assessment Office (EAO) on July 29, 2005. The provincial and federal processes will be integrated in a harmonized review, with the EAO taking the lead. On December 24, 2007, the Canadian Environmental Assessment Agency announced that the Project would be subject to a Comprehensive Study.

In 2005, a program of environmental and socio-economic baseline studies was begun to provide the information necessary to prepare the EA Application and to develop management and monitoring plans. It covered all facets of the biophysical and human environment, including meteorology, air quality, hydrology, hydrogeology, metal leaching and acid rock drainage, aquatic ecology, fish and fish habitat, soils, vegetation, ecosystem mapping, wildlife, wetlands, archaeology, socio-economics, land use, country foods and human health, and traditional use and traditional ecological knowledge. The program was completed in 2007. Monitoring of meteorology, air quality, and hydrology and water quality will continue throughout the construction, operation, closure and post-closure phases.

The most significant environmental issue for the project will be maintaining water quality in the receiving environment. Treatment of mine effluent to BC water quality criteria will be required during all mining phases.

The project is in the traditional territories of the Tahltan and Kaska Dena First Nations. Consultation with these First Nations and other stakeholders has been ongoing since the project began.

## ECONOMIC ANALYSIS

Three price scenarios were evaluated for this pre-feasibility study. The Base Case utilized metals prices closer to current prices, while Case 2 considered lower metals prices and is comparable to the assumptions used in previous PEA studies. Base case and Case 2 did not consider any escalation or de-escalation over the life of the mine. Case 3 initially uses higher prices which de-escalate going forward. All cases were examined by use of sensitivity analysis.

The price assumptions for economic modeling are shown in Table 1-6 and analysis results are detailed in Table 1-7.

Table 1-6 Metal Price Assumptions

Metal	Unit	Base Case	Case 2	Case 3 (range)
Copper	US\$/lb Cu	\$2.75	\$2.25	\$2.25 - \$3.00
Zinc	US\$/lb Zn	\$0.95	\$0.80	\$0.85 - \$1.00
Gold	US\$/oz Au	\$1000	\$850	\$950 - \$1,100
Silver	US\$/oz Ag	\$16.50	\$13.50	\$14.50 - \$17.00
Exchange Rate	CAD/USD	\$1.09	\$1.15	\$1.08

Case 3 considers an escalation in the relative value of the US dollar going forward, with the assumed rate going from \$1.06 CAD/USD to \$1.09 CAD/USD by year 3 of mine operations.

Table 1-7 Economic Analysis Results

Item	Unit	Base Case	Case 2	Case 3
Average Copper Price	US\$/lb	\$2.75	\$2.25	\$2.36
Average Zinc Price	US\$/lb	\$0.95	\$0.80	\$0.88
Average Gold price	US\$/oz	\$1000	\$850	\$984
Average Silver price	US\$/oz	\$16.50	\$13.50	\$15.11
Exchange rate	C\$:US\$	\$1.09:\$1.00	\$1.15:\$1.00	\$1.08:\$1.00
Unit OP Mining Costs*	\$/t milled	\$0.29	\$0.29	\$0.29
Unit UG Mining Costs	\$/t milled	\$29.92	\$29.92	\$29.92
Unit Milling Costs	\$/t milled	\$18.44	\$18.44	\$18.44
Unit G&A and Site Services	\$/t milled	\$10.37	\$10.37	\$10.37
Capital Leases	\$/t milled	\$4.21	\$4.21	\$4.21
Unit Total OPEX	\$/t milled	\$63.23	\$63.23	\$63.23
Unit Total OPEX (with royalties)	\$/t milled	\$66.15	\$65.69	\$65.73
Unit OPEX (net of credits)	US\$/lb Cu	\$0.75	\$0.89	\$0.87
Total Initial Capital	\$M	\$187.353	\$187.353	\$187.353
NPV10% Pre Tax	\$M	\$244	\$122	\$146
NPV10% After Tax	\$M	\$155	\$72	\$91
IRR Pre Tax	%	32%	22%	26%
IRR After Tax	%	27%	18%	21%
Payback Period (Post-tax)	Years	3.4	4.4	3.8

\* Open pit mining costs in year 1 are \$1.84/tonne moved which averaged over the life of mine milled tonnes is \$0.29 per tonne.

The key economic analysis parameters for the Base Case are summarized annually in Table 1-8.

Full taxation burden starts in Years 6 which decreases the post tax cash flow.

Table 1-8 Base Case Annual Economic Summary

Parameter	Totals	Production Year												
		-1	1	2	3	4	5	6	7	8	9	10	11	12
<b>Payable Metals</b>														
<b>Copper (M lbs)</b>	<b>382.7</b>	0.0	31.0	33.9	33.7	34.9	36.6	35.5	34.5	31.6	32.0	34.8	30.3	13.9
<b>Zinc (M lbs)</b>	<b>524.2</b>	0.0	23.1	31.4	42.3	51.5	83.6	64.2	54.7	38.5	44.5	40.4	35.3	14.6
<b>Gold (oz)</b>	<b>48,113</b>	0.0	3,354	3,680	5,017	5,390	5,152	5,314	4,021	4,041	3,474	3,644	3,090	1,936
<b>Silver (K oz)</b>	<b>6,911.2</b>	0.0	301.3	352.8	826.2	955.7	425.0	914.6	687.3	539.4	570.0	545.7	533.0	260.2
<b>Net Smelter Return (C\$M)</b>	<b>\$1,522</b>	\$0	\$104	\$119	\$137	\$147	\$165	\$157	\$143	\$122	\$127	\$132	\$116	\$53
<b>Operating Cost (C\$M)</b>	<b>\$690.7</b>	\$0	\$59.2	\$62.7	\$62.1	\$62.3	\$63.6	\$61.8	\$61.9	\$60.0	\$59.5	\$57.2	\$53.8	\$26.5
<b>Total By-Product Credits (C\$M)</b>	<b>\$718</b>	\$0	\$33	\$43	\$64	\$76	\$99	\$89	\$73	\$54	\$60	\$55	\$49	\$22
<b>Unit Cost, net of Credits (\$US/lb cu)</b>	<b>\$0.75</b>	\$0.00	\$1.41	\$1.23	\$0.71	\$0.53	\$0.19	\$0.28	\$0.58	\$0.93	\$0.80	\$0.78	\$0.87	\$1.00
<b>Capital (C\$M)</b>	<b>\$213.5</b>	\$187.4	\$13.4	\$4.2	\$1.5	\$1.2	\$2.5	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.0	\$1.9
<b>Pre-Tax Cash Flow (C\$M)</b>	<b>\$618.3</b>	-\$187.4	\$31.8	\$51.6	\$73.1	\$83.0	\$99.3	\$95.3	\$81.0	\$62.0	\$67.6	\$74.3	\$62.0	\$24.5
<b>Post Tax Cash Flow (C\$M)</b>	<b>\$416.3</b>	-\$187.4	\$30.9	\$50.4	\$71.6	\$81.3	\$82.8	\$43.9	\$52.9	\$40.5	\$45.3	\$48.6	\$38.9	\$16.7
<b>Cumulative Post Tax Cash Flow (C\$M)</b>	<b>-</b>	-\$187.4	-\$156.5	-\$106.1	-\$34.5	\$46.8	\$129.6	\$173.5	\$226.4	\$266.8	\$312.1	\$360.7	\$399.6	\$416.3



## Capital and Operating Costs

All capital costs are in Canadian dollars. Total capital and operating costs are summarized in Tables 1-9 and 1-10.

Table 1-9 Capital Cost Summary

Item	Initial Capital	Production Capital	Total Capital	Capital Leases
	C\$ Millions			
Mine	\$22.7	\$11.8	\$34.5	\$19.6
Plant	\$58.7	-	\$58.7	-
Backfill System	\$4.5	\$1.3	\$5.8	-
Power	-	-	-	\$12.8
Waste & Water Management	\$8.4	\$5.4	\$13.8	-
Site Infrastructure	\$18.4	-	\$18.4	-
Capitalized OPEX	\$8.7	-	\$8.7	-
Off-site Infrastructure	\$17.9	\$3.5	\$21.4	-
<b>DIRECT COSTS TOTAL</b>	<b>\$139.3</b>	<b>\$22.0</b>	<b>\$161.3</b>	<b>\$32.4</b>
Indirects	\$34.1	-	\$34.1	-
Contingency (10%)	\$13.9	\$2.2	\$16.1	-
Sustaining Capital	-	\$2.0	\$2.0	-
<b>GRAND TOTAL CAPITAL</b>	<b>\$187.3</b>	<b>\$26.2</b>	<b>\$213.5</b>	<b>\$32.4</b>

Table 1-10 Total Project Operating Cost

Activity/Item	Unit Cost (\$/tonne)
Open Pit Mining (based on Life of Mine ore tonnes)	\$0.29
Underground Mining	\$29.92
Processing	\$18.44
Administration	\$10.37
Capital Leases - Mining, Buildings & Power	\$4.21
Royalties	\$2.92
<b>Total</b>	<b>\$66.15</b>

A production summary is shown in Table 1-11. Open pit mining costs in Year 1 are \$1.84/tonne moved which averaged over the life of mine milled tonnes is \$0.29 per tonne.

Table 1-11 Production Summary

Parameter	Unit	Total	Production Year											
			1	2	3	4	5	6	7	8	9	10	11	12
Mill Feed	Kt	10,441.2	912.5	912.5	912.5	912.5	912.5	912.5	912.5	912.5	912.5	912.5	912.5	403.7
Copper	%	2.01%	1.94%	2.13%	2.01%	2.02%	2.26%	2.12%	2.06%	1.88%	1.91%	2.07%	1.81%	1.87%
Zinc	%	3.19%	1.92%	2.62%	2.91%	3.71%	5.30%	4.41%	3.76%	2.64%	3.06%	2.78%	2.43%	2.27%
Gold	g/t	0.37	0.30	0.32	0.44	0.47	0.45	0.47	0.35	0.36	0.31	0.32	0.27	0.39
Silver	g/t	34.61	26.41	31.00	42.34	47.19	41.49	46.87	35.22	27.64	29.21	27.97	27.32	30.15
Cu Con Produced	dmt	628,115	52,531	57,520	54,324	61,260	60,401	57,208	55,553	50,805	51,505	55,947	48,748	22,312
Zinc Con Produced	dmt	485,679	22,833	31,060	39,092	49,791	73,092	59,308	50,534	35,502	41,077	37,314	32,587	13,490
Copper in Cu Con	t	179,865	14,551	15,933	15,863	16,418	17,214	16,705	16,221	14,835	15,039	16,337	14,234	6,515
Copper in Cu Con	M lbs	396.5	32.1	35.1	35.0	36.2	38.0	36.8	35.8	32.7	33.2	36.0	31.4	14.4
Gold in Cu Con	oz	53,495	3,727	4,089	5,574	5,989	5,724	5,904	4,468	4,490	3,860	4,048	3,433	2,151
Silver in Cu Con	K oz	7,679.1	334.7	392.0	918.0	1,061.9	472.2	1,016.2	763.6	599.3	633.3	606.4	592.2	289.1
Zinc in Zn Con	t	279,719	12,330	16,772	22,595	27,484	44,586	34,280	29,209	20,520	23,743	21,568	18,835	7,797
Zinc in Zn Con	M lbs	616.7	27.2	37.0	49.8	60.6	98.3	75.6	64.4	45.2	52.3	47.5	41.5	17.2

## Sensitivity Analysis

Sensitivity analysis was carried out using metal prices, mill head grade, capital costs and operating costs as variables. Each variable was changed independently. Sensitivities were generated using the NPV@10% discount rate as the measure of project performance.

The net present value (“NPV”) of the project is most affected by the price of metal or parameters directly affecting revenue such as metal recovery, and head grade. Also, project performance is significantly more sensitive to Operating than Capital costs. These results identify two areas on which to focus in order to effect positive changes to economic performance of the Kutcho project. Other than metal pricing which is out of the operator’s control, metallurgical recovery, and operating cost control have a marked effect. The significance of the capital on the NPV has been reduced by utilizing a leasing program that had reduced the amount of pre-production capital and in effect has moved the burdens to operating.

Cumulative cash flow and sensitivity results are shown in Figures 1-1 to 1-2.

Figure 1-1 Cumulative Post-Tax Cash Flow

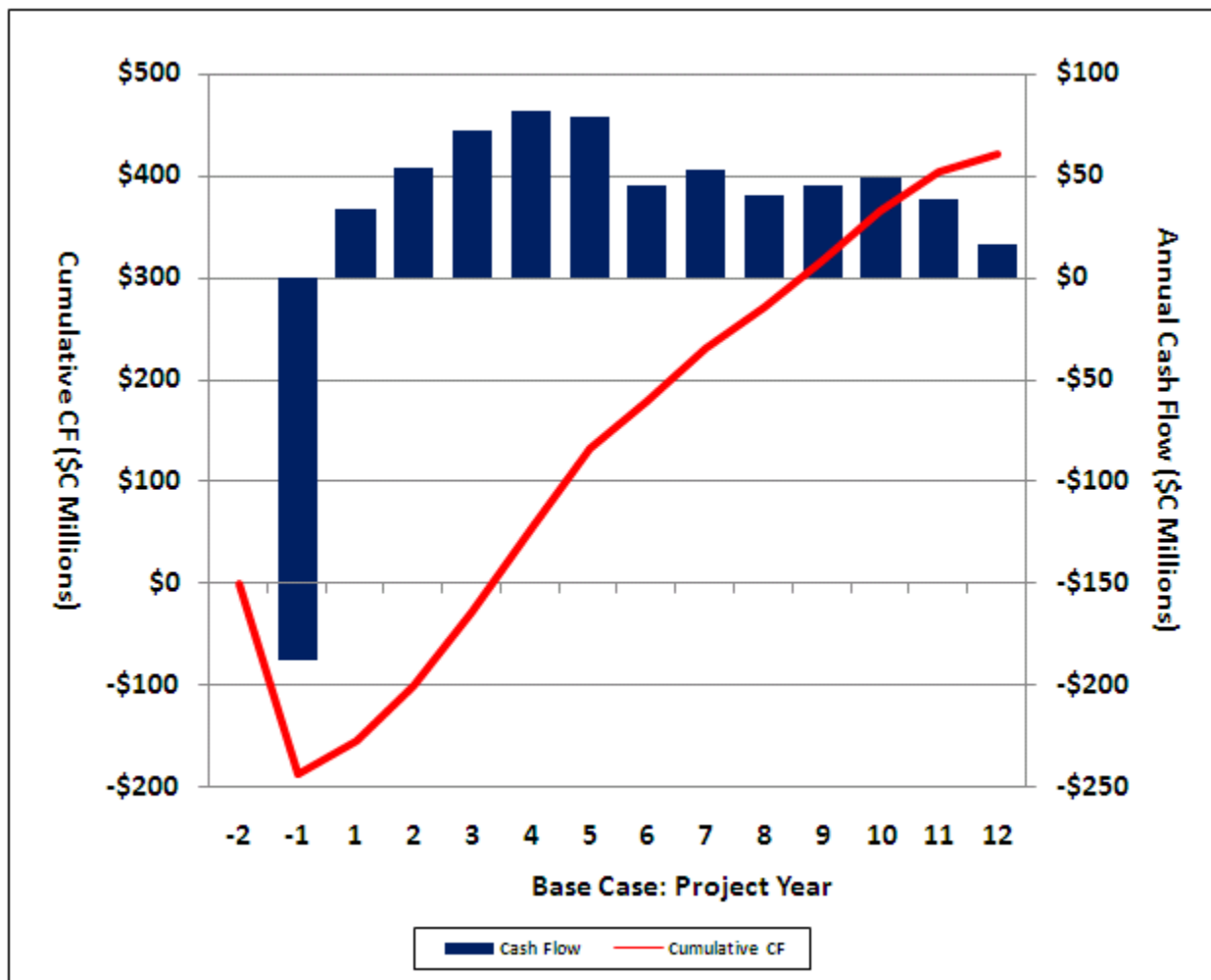
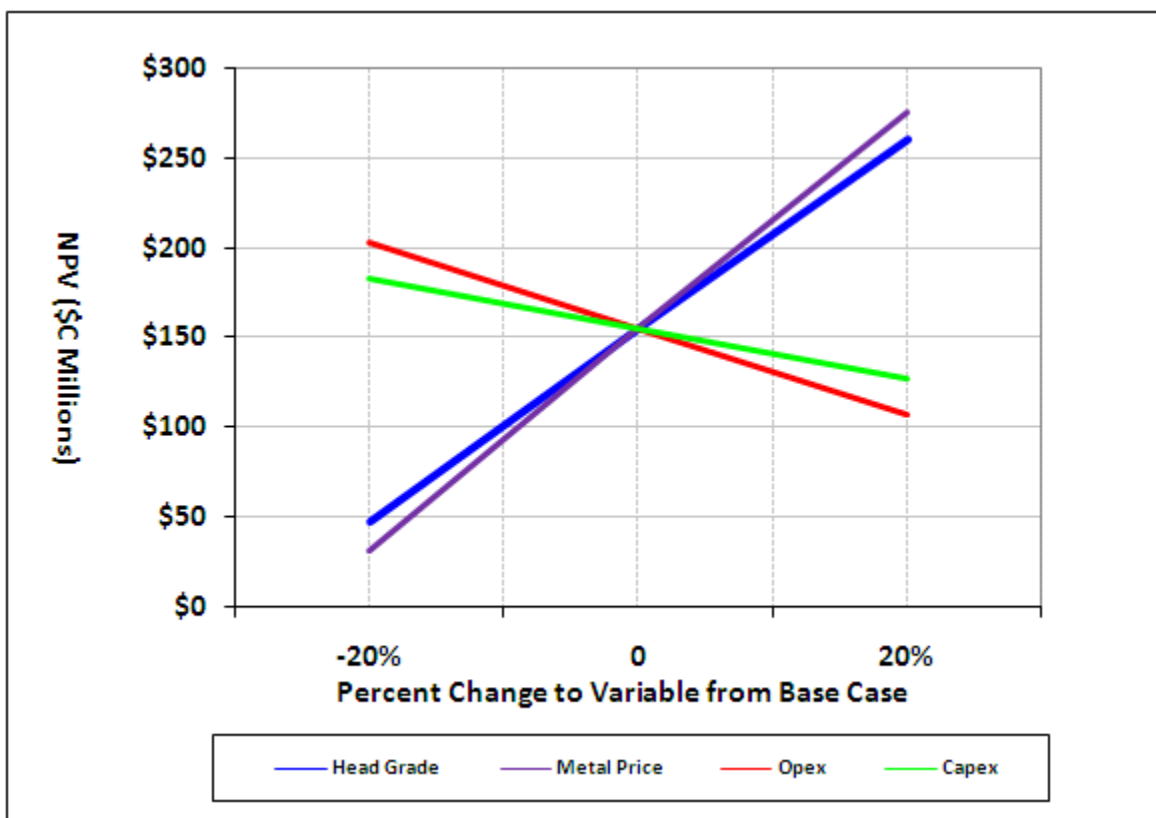


Figure 1-2 +/- 20% Sensitivity Case Graph



### Conclusions

The Kutcho Project contains a substantial sulphide resource that can be selectively mined by underground mining methods. It has several potential advantages versus mining by large scale open pit methods including but not limited to:

- Selectivity in mining which would deliver a higher grade feed to the process plant;
- Less total material moved, which translates into decreased surface disturbance and waste material stored;
- Significantly reducing the exposed PAG rock in the footwall of the deposit which, in the larger open pit scenario, resulted in greater ongoing acid generating potential; and
- The opportunity to permanently store a large portion of the tailings and significant quantities of PAG waste rock underground.

The environmental advantages for local stakeholders should increase the likelihood of receiving permits and approvals to proceed with the project in a timely manner since it offers an attractive alternative to open pit mining.

At the metal prices used for evaluation, the project is economic and should proceed to the feasibility stage.

### **RECOMMENDATIONS**

The Kutcho Copper Project is economic based on the parameters of this study. Several technical parameters need to be established in greater detail and include the following:

- Continued exploration to identify additional high grade mineral resources;

- Further metallurgical testing to enhance copper-zinc separation and overall metal recoveries;
- Underground geotechnical design criteria requires additional geotechnical drilling and analysis;
- Tailings' testing is required to confirm paste amenability for backfill as well as surface disposal; and
- Determine if any additional baseline or technical information may be required to develop the project before entering the formal permitting process.

Kutcho Copper should use this study as the basis to re-engage the project stakeholders, including the regulators, First Nations and local communities in order to re-initiate the pre-permitting process for the project. The consultation process should be started with First Nations so that these matters can be reflected in the pre-feasibility study if and when it is completed.

The development scenario minimizes both environmental effects and provides a robust economic production plan. It is recommended that the project proceed to the feasibility stage.

**The above information is repeated verbatim from the Kutcho Report dated February 15, 2011. The following information provides updates on developments since the date of that report.**

#### **KUTCHO UPDATE (to March 31, 2011)**

Due to the timing of the filing of the Kutcho Report and this AIF, readers are referred to the Executive Summary of the Kutcho Report, provided above for an update on the Kutcho Project.

#### **Outlook**

With completion of the PFS, Kutcho is entering the next phase of development. Development activities in 2011 will be focused on carrying the environmental and socio-economic assessment process forward and consultations with the goal of obtaining all necessary permits for mine development by mid-2012.

Exploration efforts now focus more on exploring for new mineral deposits within the project area. Exploration expenditures for 2011 are expected to be approximately \$2.2 million and will focus on identifying and drill testing geophysical targets within the main Kutcho mineralized horizon. An independent compilation of all previous geophysical surveying (mostly conducted using out-dated technology) at Kutcho is being completed by an outside consultant and is expected to include recommendations for further surveying with more modern technology.

#### **DIVIDENDS**

The Company has neither declared nor paid any dividends on its common shares in the last three financial years and has no present intention of paying dividends on its common shares, as it anticipates that all available funds will be invested to finance the growth of its business.

#### **DESCRIPTION OF CAPITAL STRUCTURE**

##### **Share Capital**

The Company has an authorized capital of an unlimited number of common shares without par value, 201,454,802 of which were issued and outstanding as of December 31, 2010 and 203,943,373 of which were outstanding as of March 30, 2011.

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

holders of the common shares are entitled to receive, subject to the prior rights, if any, of the holders of any other class of shares of the Company, the remaining property and assets of the Company.

## MARKET FOR SECURITIES

### Common Shares - Trading Price and Volume

The Company's shares are listed for trading through the facilities of The Toronto Stock Exchange under the symbol "CS". During the 12 months ended December 31, 2010 and the two months ended February 28, 2011, the Company's shares traded as follows:

Month	Volume	High (C\$)	Low (C\$)
February 2011	24,661,300	4.98	4.19
January 2011	23,142,800	4.84	4.10
December 2010	31,222,800	4.83	4.24
November 2010	25,890,000	4.64	3.59
October 2010	22,763,700	3.94	3.19
September 2010	16,966,100	3.60	2.56
August 2010	10,030,200	2.60	2.26
July 2010	12,777,600	2.56	2.10
June 2010	23,822,800	2.56	2.05
May 2010	28,843,500	2.93	2.11
April 2010	28,950,100	3.17	2.78
March 2010	29,040,700	3.18	2.78
February 2010	18,709,100	2.88	2.56
January 2010	31,726,500	3.19	2.55

### Debentures - Trading Price and Volume

The Company's Debentures are listed for trading through the facilities of the Toronto Stock Exchange under the symbol "CS.DB". During the 12 months ended December 31, 2010 and the two months ended February 28, 2011, the Company's Debentures traded as follows:

Month	Volume	High (C\$)	Low (C\$)
February 2011	410	\$118	\$118
December 2010	980	\$119	\$116
September 2010	3,850	\$101	\$100.25
January 2010	3	\$92	\$92

All market prices are in Canadian dollars.

## DIRECTORS AND OFFICERS

### Name, Occupation and Security Holding

The name, province or state, country of residence, position or office held with the Company and principal occupation during the past five years of each director and executive officer of the Company are described below:

Name and Address	Office or Position Held	Service as a Director	Principal Occupation during past five years
<b>Lawrence I. Bell</b> <sup>(1)(2)</sup> British Columbia, Canada	Director	Since November 24, 2008	Businessman; a director of Silver Wheaton Corp., International Forest Products Limited, Matrix Asset Management Inc. and Goldcorp Inc.; previously Chair of Canada Line Rapid Transit Project and Chair of BC Hydro.
<b>Colin K. Benner</b> <sup>(2)</sup> British Columbia, Canada	Chairman and Director	Since November 24, 2008	Mining Engineer and Business Executive; currently Chairman of the Company and serves on several other public company boards. Served as CEO of HudBay Minerals Ltd. in 2009, Executive Chairman of PBS Coals Ltd. from 2007 to 2008, Vice Chairman and CEO of Skye Resources in 2007, Vice Chairman and CEO of Lundin Mining Corporation from 2006 to 2007 and Vice Chairman and CEO of EuroZinc Mining Corp. from 2005 to 2006.
<b>George L. Brack</b> <sup>(1)(2)</sup> British Columbia, Canada	Director	Since May 19, 2009	Businessman, currently serving on several other public company boards; previously Managing Director and Industry Head, Mining Group of Scotia Capital from December 2006 to February 2009 and President of Macquarie North America Ltd. from 2000 to 2006.
<b>Chantal Gosselin</b> <sup>(3)</sup> Ontario, Canada	Director	Since July 26, 2010	Senior Mining Analyst with Sun Valley Gold LLP; previously with Genuity Capital Markets from May 2006 to March 2008.
<b>D. Bruce McLeod</b> <sup>(3)</sup> British Columbia, Canada	Director	Since November 24, 2008	Mining Engineer and Business Executive; President & CEO of Troon Ventures Ltd. since 1989; President and CEO of Creston Moly Corp since Aug 2009; prior to that Executive Chairman and Director of Sherwood Copper Corp. from Sept. 2005 to Nov. 2008, President & CEO of Tenajon Resources Ltd. from 1989 to Aug. 2009, COO and Director of Stornoway Diamond Corp. from July 2003 to Sept 2007.
<b>Dale C. Peniuk</b> <sup>(1)</sup> British Columbia, Canada	Director	Since May 19, 2009	Chartered Accountant, financial consultant to the mining industry and corporate director, March 2006 to present; previously Partner KPMG LLP Chartered Accountants 1996 to 2006.
<b>Darren M. Pylot</b> British Columbia, Canada	President and CEO and Director	Director since February 13, 1995	President and CEO of the Company and a Director of the Company since February 1995; Director of East Asia Minerals Corp. from January 2004 to present; President of Stealth Investments Corp. from March 1996 to present; Director of Lithium 1 Inc. from July 2009 to present; Director of Zena Mining from 2009 to present; previously President, CEO, Chairman and Director of Silverstone Resources Corp. from April 2005 to 2009.

Name and Address	Office or Position Held	Service as a Director	Principal Occupation during past five years
<b>Stephen P. Quin</b> <sup>(3)</sup> British Columbia, Canada	Director	Since November 24, 2008	Professional Geoscientist. Former President of the Company since November 2008; previously President and CEO of Sherwood Copper Corporation from September 2005 to November 2008; prior to Sept. 1, 2005 Executive Vice President of Miramar Mining Corporation. Current director of Mercator Minerals Ltd., Rare Element Resources, Kimber Resources, Bear Lake Gold, Troon Ventures and Chalice Gold.
<b>Gregg Bush</b> Texas, USA	Senior Vice President and Chief Operating Officer	NA	Chief Operating Officer of the Company since May 2010; previously Chief Operating Officer of Minefinders Corporation from May 2008 to May 2010 and VP, Operations for Minefinders from May 2007 to May 2008; prior to May 2007, General Manager for Compania de Minera Zaldivar.
<b>Richard R. Godfrey</b> British Columbia, Canada	Senior Vice President and Chief Financial Officer	NA	Chief Financial Officer of the Company since November 2008; previously Chief Financial Officer of Sherwood Copper Corporation from May 2007 to November 2008 and Chief Financial Officer of Northair Group of Companies from May 2007 to January 2009; previously VP Finance of EuroZinc Mining from 2006 to March 2007 and Chief Financial Officer of Breakwater Resources Ltd. from 2003 to 2006.
<b>Cindy L. Burnett</b> British Columbia, Canada	Vice President, Investor Relations	NA	Vice President, Investor Relations since March 2011; previously Vice President, Investor Relations for Western Lithium Corp. from August 2009 to February 2011 and Investor Relations Consultant from February 2009 to August 2009; Vice President, Investor Relations for Skye Resources from November 2007 to September 2008; Vice President Ivanhoe Energy Inc. from November 2005 to November 2007.
<b>Peter T. Hemstead</b> British Columbia, Canada	Vice President, Marketing and Treasurer	NA	Vice President, Marketing and Treasurer of Capstone since November 2008; previously Treasurer of Sherwood Copper Corporation from October 2006 to November 2008 and Senior Manager at PricewaterhouseCoopers LLP from January 1997 to October 2006.
<b>Jason P. Howe</b> British Columbia, Canada	Vice President, Business Development	NA	Vice President, Business Development for Capstone since March 2009; President & CEO of Zena Mining from 2008 to present; previously Vice President Finance for the Company from November 2008 to March 2009, Chief Finance Officer of Capstone from April 2004 to November 2008 and Tax Manager at PricewaterhouseCoopers LLP from November 2000 to April 2004.
<b>Brad J. Mercer</b> Alberta, Canada	Vice President, Exploration	NA	Vice President, Exploration for Capstone since November 2008; previously Vice President of Exploration for Sherwood Copper Corp. from April 2008 to November 2008 and Exploration Manager of Sherwood from July 2005 to March 2008; Director of Northern Tiger Resources Inc. since June 2008 and of Aurion Resources Ltd. since October 2009.



Name and Address	Office or Position Held	Service as a Director	Principal Occupation during past five years
John J. Kim British Columbia, Canada	Corporate Secretary	NA	Corporate Secretary of the Company since June 2010; previously, Assistant Corporate Secretary of Silver Standard Resources Inc. from September 2007 to May 2008 and October 2009 to June 2010 and Corporate Secretary from May 2008 to October 2009; previously, paralegal with MacNeill Law from June 2004 to September 2007.

- (1) Denotes members of the Audit Committee.  
(2) Denotes members of the Human Resources & Corporate Governance Committee.  
(3) Denotes members of the Environmental, Health, Safety & Sustainability Committee.

### Control of Securities

As at March 31, 2011, the directors and executive officers of the Company as a group beneficially owned, directly or indirectly, or exercised control or direction over, an aggregate of 1,991,251 common shares of the Company, representing approximately 0.98% of the issued and outstanding common shares of the Company. In addition, the director and executive officers of the Company as a group held incentive stock options for the purchase of an aggregate of 7,321,254 common shares in the capital of the Company, which options are exercisable between C\$1.30 and C\$4.48 per common share and expire between October 10, 2011 and March 1, 2016.

### Committees of the Board of Directors

The committees of the Board of Directors of the Company and the directors serving on each of the committees are described below:

#### Audit Committee

The members of the Company's Audit Committee are Dale C. Peniuk (Chair), Lawrence I. Bell and George L. Brack. The Audit Committee oversees the Company's financial reporting obligations, financial system and disclosures. It reviews the quarterly and annual financial statements, management's discussion and analysis and earnings press releases, monitors and assesses the integrity of the Company's internal control systems, meets with the Company's auditors and liaises between the board of directors and the auditors.

#### Human Resources & Corporate Governance Committee

The members of the Company's Human Resources & Corporate Governance Committee are George L. Brack (Chair), Lawrence I. Bell and Colin K. Benner. This committee is responsible for recommending to the board the compensation paid to the Company's executive officers and directors and for recommending to the board stock option grants for directors, officers and employees.

#### Environmental, Health, Safety & Sustainability Committee

The members of the Company's Environmental, Health, Safety & Sustainability Committee are D. Bruce McLeod (Chair), Chantal Gosselin and Stephen P. Quin. This committee's mandate is to develop, implement and monitor the Company's environmental, health, safety and sustainability practices.

### Cease Trade Orders, Bankruptcies, Penalties or Sanctions

To the knowledge of the Company, no director or executive officer of the Company is, as at the date of this Annual Information Form, or was, within 10 years before the date of this Annual Information Form, a director, chief executive officer ("CEO") or chief financial officer ("CFO") of any company (including the Company) that:

- (a) was the subject, while the director or executive officer was acting in the capacity as director, CEO or CFO of such company, of a cease trade or similar order or an order that denied the relevant

company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days; or

- (b) was subject to a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued after the director or executive officer ceased to be a director, CEO or CFO but which resulted from an event that occurred while the proposed director was acting in the capacity as director, CEO or CFO of such company.

Other than as set out herein, to the knowledge of the Company, none of the Company's directors or executive officers or any shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company:

- (a) is, as at the date of this Annual Information Form, or has been within 10 years before the date of this Annual Information Form, a director or executive officer of any company (including the Company) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets;
- (b) has, within the 10 years before the date of this Annual Information Form, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder;
- (c) has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- (d) has been subject to any penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Colin K. Benner was a director of Tahera Diamond Corporation which, on January 16, 2008, was granted creditor protection by the Ontario Superior Court of Justice under the Companies' Creditors Arrangement Act (Canada). Mr. Benner resigned as a director of Tahera Diamond Corporation on September 29, 2008.

### **Conflicts of Interest**

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

## AUDIT COMMITTEE INFORMATION

### Audit Committee Charter

The Company's Audit Committee has a charter (the "Audit Committee Charter") in the form attached to this Annual Information Form as Schedule "A".

### Composition of the Audit Committee

The following are the members of the Audit Committee:

Dale C. Peniuk (Chair)	Independent <sup>(1)</sup>	Financially literate <sup>(1)</sup>
Lawrence I. Bell	Independent <sup>(1)</sup>	Financially literate <sup>(1)</sup>
George L. Brack	Independent <sup>(1)</sup>	Financially literate <sup>(1)</sup>

(1) As defined by National Instrument 52-110 ("NI 52-110").

### Relevant Education and Experience

#### **Dale C. Peniuk**

Mr. Peniuk is a chartered accountant and a graduate of the University of British Columbia (B.Comm). Mr. Peniuk was an assurance partner with KPMG LLP Canada from 1996 to 2006 and was the leader of their British Columbia mining practice. In addition to Capstone, he is presently a Director and audit committee Chair of Lundin Mining Corporation, Argonaut Gold Inc., Sprott Resource Lending Corp. (formerly Quest Capital Corp.) and Rainy River Resources Ltd.

#### **Lawrence I. Bell**

Mr. Bell served as the non-executive Chairman of British Columbia Hydro and Power Authority until December 2007. From August 2001 to November 2003, Mr. Bell was Chairman and Chief Executive Officer of British Columbia Hydro and Power Authority and, from 1987 to 1991, he was Chairman and Chief Executive Officer of British Columbia Hydro and Power Authority. He is also a director of International Forest Products Limited and Silver Wheaton Corp. and is former Chairman of the University of British Columbia Board of Directors and former Chairman of Canada Line (Rapid Transit) Project. Prior to these positions, Mr. Bell was Chairman and President of the Westar Group and Chief Executive Officer of Vancouver City Savings Credit Union. In the province's public sector, Mr. Bell has served as Deputy Minister of Finance and Secretary to the Treasury Board. He holds a Bachelor of Arts degree and an Honours Ph.D. from the University of British Columbia. He also holds a Masters of Arts degree from San Jose State University.

#### **George L. Brack**

Mr. Brack was Managing Director and Industry Head - Mining of Scotia Capital Inc. from December 2006 to January 2009. Prior to joining Scotia Capital, he held the position of President of Macquarie North America Ltd., an investment banking firm specializing in mergers and acquisitions as well as other advisory functions for North American resource companies. Mr. Brack has also held positions with Placer Dome as Vice President Corporate Development and with CIBC Wood Gundy where he was Vice President of the Investment Banking Group. Mr. Brack is financially literate, possessing extensive experience in corporate finance and investment banking, particularly with respect to the mining sector.

### Audit Committee Oversight

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

### **Reliance on Certain Exemptions**

At no time since the commencement of the Company's most recently completed financial year has the Company relied on an exemption in Section 2.4 of NI 52-110 (*De Minimis Non-audit Services*), Section 3.2 of NI 52-110 (*Initial Public Offerings*), Section 3.3(2) of NI 52-110 (*Controlled Companies*), Section 3.4 of NI 52-110 (*Events Outside Control of Member*), Section 3.5 of NI 52-110 (*Death, Disability or Resignation of Audit Committee Member*) or Section 3.6 of NI 52-110 (*Temporary Exemption for Limited and Exceptional Circumstances*), on an exemption from NI 52-110, in whole or in part, granted under Part 8 of NI 52-110 (*Exemptions*) or on Section 3.8 of NI 52-110 (*Acquisition of Financial Literacy*).

### **Pre-Approval Policies and Procedures**

The Audit Committee pre-approves all non-audit services to be provided by the Company's external auditor and has established policies and procedures accordingly.

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

The aggregate fees billed by the Company's external auditors in the last two fiscal years ended December 31, 2010 and 2009 are as follows:

<b>Financial Year Ending</b>	<b>Audit Fees</b>	<b>Audit Related Fees</b>	<b>Tax Fees</b>	<b>All Other Fees</b>
December 31, 2010	C\$537,000	-	C\$44,000	Nil
December 31, 2009	C\$363,000	C\$45,000	C\$175,000	Nil

### **LEGAL PROCEEDINGS**

The Company is not subject to any legal proceedings as of December 31, 2010, and was not subject to any proceedings throughout the recently completed financial year, save for:

A number of individual labour lawsuits were filed in November 2010 against Capstone Gold S.A. de C.V. These suits were settled out of court through mediation with the Mexican Labour Authorities during December 2010 and during the first quarter of 2011.

The directors and the management know of no active or pending proceedings against anyone that might materially adversely affect an interest of the Company, save for:

On March 4, 2011, MintoEx filed a Complaint in the State of Alaska against the Pacific and Arctic Railway and Navigation ("PARN") Company. The basis of the claim is in regard to a disagreement on PARN's right to charge a wharfage fee to MintoEx.

### **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

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

### **TRANSFER AGENT AND REGISTRAR**

The Company's transfer agent and registrar is Computershare Investor Services Inc., 2<sup>nd</sup> Floor, 510 Burrard Street, Vancouver, British Columbia, V6C 3B9. The Company has appointed Computershare Investor Services Inc., 11<sup>th</sup> Floor, 100 University Avenue, Toronto, Ontario, M5J 2Y1 as its co-transfer agent and registrar.

## MATERIAL CONTRACTS

Contracts of the Company, other than contracts entered into in the ordinary course of business, that are material to the Company and that were entered into by the Company between January 1, 2010 and December 31, 2010 are listed below:

Shareholders Rights Plan Agreement between the Company and Computershare Investor Services Inc. ("Computershare") dated September 16, 2010 appointing Computershare as Rights Agent for the Company.

## EXPERTS

Deloitte & Touche LLP, Chartered Accountants, have prepared an auditor's report dated March 10, 2011 on the Company's annual comparative financial statements to December 31, 2010 which have been filed on SEDAR. Deloitte & Touche LLP have confirmed they are independent with respect to the Company within the meaning of the rules of professional conduct of the Institute of Chartered Accountants of British Columbia.

### Names of Experts

The following is a list of the persons or companies named as having prepared or certified a statement, report or valuation in this Annual Information Form, either directly or in a document incorporated by reference, and whose profession or business gives authority to the statement, report or valuation made by the person or company:

- Mr. Jeffrey L. Woods, Principal Metallurgical Consultant of SRK Consulting Inc., is responsible for Section 16 of the Cozamin Report.
- Ms. Jenna Hardy, P.Geo., of SRK Consulting Inc., is responsible for Section 19.5 of the Cozamin Report.
- Mr. Robert C. Sim, P.Geo., of SIM Geological Inc., is responsible for Sections 12-14 and 17.1-17.13 of the Cozamin Report.
- Mr. Gordon Doerksen, P.Eng., of SRK Consulting (Canada) Inc., is responsible for the Executive Summary and Sections 1-4, 14, 17, 20-23, 24.1, 24.2, 25, 27.2 and 28-31 of the Minto Report.
- Mr. Wayne Barnett, PhD, Pr.Sci.Nat, of SRK Consulting (Canada) Inc., is responsible for Sections 5-12 and 26.2 of the Minto Report.
- Mr. Michael Levy, PE, of SRK Consulting Inc., is responsible for Sections 17.1 and 27.3 of the Minto Report.
- Mr. Dino Pilotto, P.Eng., of SRK Consulting (Canada) Inc., is responsible for Sections 16.7, 16.8, 18.2, 18.3.1-18.3.3, 18.4.1-18.4.2, 24.1.2, 24.2.2 and 26.3 of the Minto Report.
- Mr. David Brimage, MAusIMM, of Ausenco Solutions Canada Inc. is responsible for Sections 15, 19, 24.1.3, 24.2.3, 26.1 and 27.1 of the Minto Report.
- Mr. Iouri Iakovlev, P.Eng., of SRK Consulting (Canada) Inc., is responsible for Sections 16.9, 18.1, 18.3.4, 24.1.1 and 24.2.1 of the Minto Report.
- Mr. Marek Nowak, P.Eng., of SRK Consulting (Canada) Inc., is responsible for Sections 13 and 16.1-16.4 of the Minto Report.
- Mr. Scott Carlisle, P.Eng., of SRK Consulting (Canada) Inc., is responsible for Section 17.2 of the Minto Report.

- Mr. Cameron C. Scott, P.Eng., of SRK Consulting (Canada) Inc., is responsible for Sections 18.4.3 and 26.4 of the Minto Report.
- Mr. Garth Kirkham, P.Geo., of Kirkham Geosystems Ltd., is responsible for Sections 16.5 and 16.6 of the Minto Report and is responsible for and/or shared responsibility for Sections 1.5, 17.1 and 19.14.1 of the Kutcho Report.
- Mr. Michael Makarenko, P.Eng., of JDS Energy & Mining Inc., is responsible for and/or shared responsibility for Sections 1.6-1.7, 1.10-1.13, 2-9, 15, 17.2, 18, 19.1.1, 19.1.3-19.1.6, 19.2-19.6, 19.9, 19.11-19.13, 19.14.1, 19.16-19.20 and 20.24 of the Kutcho Report.
- Mr. Ali Sheykhleslami, P.Eng., of JDS Energy & Mining Inc., is responsible for and/or shared responsibility for Sections 1.4, 16 and 19.8 of the Kutcho Report.
- Mr. Hoe Teh, P.Eng., of Hoe The Consulting Inc., is responsible for and/or shared responsibility for Sections 1.4, 16 and 19.11 of the Kutcho Report.
- Mr. Guangwen (Gordon) Zhang, P.Eng., of EBA, a Tetra Tech Company, is responsible for and/or shared responsibility for Sections 1.8, 1.9 and 19.10 of the Kutcho Report.
- Mr. Carlos Shaparro, P.Eng., of EBA, a Tetra Tech Company, is responsible for Section 19.1.2 of the Kutcho Report.
- Mr. Daniel Jarratt, P.Eng., of Allnorth Consultants Limited, is responsible for and/or shared responsibility for Sections 19.14.2 to 19.14.5 of the Kutcho Report.
- Mr. David Archibald, R.P.Bio (BC), of Allnorth Consultants Limited, is responsible for and/or shared responsibility for Sections 19.14.2 to 19.14.5 of the Kutcho Report.
- Mr. Frank Palkovits, P.Eng., of Mine Paste Engineering Ltd., is responsible for and/or shared responsibility for Section 19.7 of the Kutcho Report.
- Mr. Brad Mercer, P.Geo., is responsible for and/or shared responsibility for Sections 1.1-1.3 and 10.14 of the Kutcho Report and is responsible for supervising the exploration activities at the Company's Cozamine Mine, Minto Mine and Kutcho Project.
- Mr. Robert B. Barnes, P.Eng., is responsible for the preparation or supervising the updated information regarding the Cozamin Mine, including the updated Cozamin mineral reserves and is responsible for all mine operations in this Annual Information Form.
- Mr. John Sagman, P.Eng., is responsible for the preparation and supervision of the updated mineral reserves at Minto Mine and the Kutcho Project in this Annual Information Form.

### **Interests of Experts**

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

Brad J. Mercer, P.Geo., is the Vice President, Exploration of the Company and, as of the date hereof, held 539 common shares of the Company and 359,160 stock options exercisable into common shares of the Company.

Robert B. Barnes, P.Eng., is the former Vice President, Operations of the Company and, as of the date hereof held 610,000 stock options exercisable into common shares of the Company.

John Sagman, P.Eng., is the Manager of Projects for the Company and, as of the date hereof, held 300,000 stock options exercisable into common shares of the Company.

#### **ADDITIONAL INFORMATION**

Additional information relating to the Company may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities, and securities authorized for issuance under equity compensation plans, where applicable, is contained in the Company's Information Circular for its most recent annual general meeting of security holders that involved the election of directors. Additional financial information is provided in the Company's consolidated financial statements and management's discussion and analysis for the year ended December 31, 2010.

## **SCHEDULE "A"**

### **CAPSTONE MINING CORP. (the "Company")**

#### **AUDIT COMMITTEE CHARTER**

1. Each member of the Audit Committee (the "Committee") shall be a member of the Board of Directors, in good standing, and all of the members of the Committee shall be independent in order to serve on the Committee.
2. All members of the Committee shall be financially literate.
3. Review the Committee's charter annually, reassess the adequacy of this charter, and recommend any proposed changes to the Board of Directors. Consider changes that are necessary as a result of new laws or regulations.
4. The Committee shall meet at least four times per year, and each time the Company proposes to issue a press release with its quarterly or annual earnings information. These meetings may be combined with regularly scheduled meetings, or more frequently as circumstances may require. The Committee may ask members of the Management or others to attend the meetings and provide pertinent information as necessary.
5. Conduct executive sessions with the external auditors, outside counsel, and anyone else as desired by the Committee.
6. The Committee shall be authorized to hire outside counsel or other consultants as necessary (this may take place any time during the year).
7. Approve all services provided by the external auditors, including tax and other non-audit services. Review and evaluate the performance of the external auditors and review with the full Board of Directors any proposed discharge of the external auditors.
8. Review with the Management the policies and procedures with respect to officers' expense accounts and perquisites, including their use of corporate assets, and consider the results of any review of these areas by the external auditors.
9. Receive a report annually from Management of all accounting firms employed, other than the principal external auditors, with such report to include the nature of the services performed and the fees charged.
10. Inquire of the Management and the external auditors about significant risks or exposures facing the Company; assess the steps the Management has taken or proposes to take to minimize such risks to the Company; and periodically review compliance with such steps.
11. Review with the external auditors, the audit scope and plan of the external auditors. Address the coordination of the audit efforts to assure the completeness of coverage, reduction of redundant efforts, and the effective use of audit resources.
12. Inquire regarding the "quality of earnings" of the Company from a subjective as well as an objective standpoint.
13. Review with the external auditors: (a) the adequacy of the Company's internal control over financial reporting including computerized information systems controls and security; and (b) any related significant findings and recommendations of the external auditors together with the Management's responses thereto.
14. Review with the Management and the external auditors the effect of any regulatory and



accounting initiatives, as well as off-balance-sheet structures, if any.

15. Review with the Management, the external auditors, the interim and annual financial report before it is filed with the regulatory authorities.
16. Review with the external auditors that perform an audit: (a) all critical accounting policies and practices used by the Company; and (b) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with the Management of the Company, the ramifications of each alternative and the treatment preferred by the Company.
17. Review all material written communications between the external auditors and the Management.
18. Review with the Management and the external auditors: (a) the Company's annual financial statements and related footnotes; (b) the external auditors' audit of the financial statements and their report thereon; (c) the external auditors' judgments about the quality, not just the acceptability, of the Company's accounting principles as applied in its financial reporting; (d) any significant changes required in the external auditors' audit plan; and (e) any serious difficulties or disputes with the Management encountered during the audit.
19. Periodically review the Company's code of conduct to ensure that it is adequate and up-to-date.
20. Review the procedures for the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters that may be submitted by any party internal or external to the organization. Review any complaints that might have been received, current status, and resolution if one has been reached.
21. Review procedures for the confidential, anonymous submission by employees of the organization of concerns regarding questionable accounting or auditing matters. Review any submissions that have been received, the current status, and resolution if one has been reached.
22. Review and approve hiring policies for employees or former employees of the past and present external auditors.
23. Receive a report annually from the external auditors confirming their independence and actively engage in a dialogue with the external auditors as to any disclosed relationships or services that may impact their independence. Ensure the external auditors are not engaged to provide non-audit services for which the applicable securities legislation prohibits them from providing.
24. The Committee will perform such other functions as assigned by law, the Company's articles, or the Board of Directors.