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Q1 RESULTS CONFERENCE CALL**  
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**DATE: MAY 13, 2010**

OPERATOR: Good afternoon. My name is Tracey and I will be your conference operator today. At this time I would like to welcome everyone to the Capstone Mining Corporation Q1 financial results conference call.

All lines have been placed on mute to prevent any background noise. After the speakers' remarks there'll be a question-and-answer session. If you would like to ask a question during this time, simply press \*, then the number 1 on your telephone keypad. If you would like to withdraw your question, press the # key. Thank you.

Mr. Pylot, you may begin your conference.

DARREN PYLOT (Vice Chairman and Chief Executive Officer, Capstone Mining Corp.): Thank you, Operator, and good morning, everyone, and thanks for attending Capstone's first quarter conference call.

On the line with me today is our President, Stephen Quin; Richard Godfrey, our Chief Financial Officer; and Jason Howe, our Vice President of Business Development.

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All the numbers today will be quoted in U.S. dollars unless otherwise stated. And before I summarize the quarter highlights, I'd like to announce the appointment of Mr. Gregg Bush as Chief Operating Officer for Capstone effective on May the 24th. Gregg has 30 years of experience in the mining industry, most recently as Chief Operating Officer for Minefinders Corporation. And prior to that, he's had 17 years with Barrick/Placer Dome where he was Mine General Manager and Operations Manager.

Gregg's got very relevant experience, having worked in Alaska, Nevada and Latin America, including Mexico. He'll be responsible for all of Capstone's mining operations, and Stephen as President will now be able to dedicate and focus more time on growth, both internally and externally, which is a key aspect for Capstone to continue to provide shareholder value.

And I'd also like to thank Stephen very much for all of his efforts in the expansions that he's put through to date, and overseeing all of the mining operations to date for Capstone.

Net earnings: \$13.5 million or \$0.07 a share, which included earnings from operations of \$34.1 million. A realized loss of 7.7 million on metal hedges settled within the quarter, and an unrealized loss of

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\$400,000 on derivative instrument mark-to-market value due to an increase in metal prices and less volume left outstanding in the total hedge position that gets factored into the forward curve. Current and future tax expenses o \$10.4 million.

Taking the non-cash items out, the adjusted net earnings were 21.7 million, or \$0.11 per share. We generated cash flow from mining activities of \$4.4 million, or \$0.02 a share. That's much lower than the previous quarters, and that's due to the build-up of copper concentrate inventory at the Cozamin mine where throughout 2009 typical quarterly inventory levels ranged between 5,000 and 7,000 tonnes of copper concentrate compared to the end of Q1 of this year, we had 13,834 tonnes.

All of the Q1 inventory is being trucked in the second quarter, and we expect to have inventory levels down back in the range between 5,000 and 7,000 tonnes throughout the rest of 2010.

The reason for the higher-than-normal inventory is that we changed our principal trucking company during the first quarter, and it took a period of time to have the required number of trucks available and able to ship the copper con down to the port. Those trucks, as I said, have been in place now, and we're trucking all of that excess inventory down to the port.

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Also impact the cash flow at Minto, we'd accelerated our mine plan, as we've previously discussed and disclosed in prior press releases over the past six months to be well ahead of freshet, which has just happened and finished, and we've currently got 994,000 tonnes of ore on surface stockpiled at the end of the first quarter. And that's for sustained milling for the rest of the year and beyond, and we're now using that stockpile for mill feed.

Working capital was 110.9 million at the end of the quarter, which included 111.9 million in unrestricted cash. We produced a total of 21.2 million pounds of payable copper at an estimated total cash cost of \$1.12 per pound.

Recorded sales revenue of 88 million on the sale of 21.2 million pounds of copper, 3.1 million pounds of zinc, 2.5 million pounds of lead, 11,000 ounces of gold, and 352,000 ounces of silver.

We'll now run through the operations, and Stephen will take you through those.

STEPHEN QUIN (President, Capstone Mining Corp.): Great. Thanks so much, Darren.

Talking about Minto first, it was affected by the under-performance of the new crusher that we put in late in Q4 during the first two months. Just

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getting that set up between the jaw-crusher, the new cone crusher, and the SAG full-mill combination to maximize throughput. And that was resolved and got the crusher up to full capacity in March. However, as we ramped the mill up, we ran into unanticipated constraints in the tailings pond, where we've got excessive sliming, which caused issues both in the tailings thickener and the tailings filter presses. And remember that we dry stack tailings, so we filter our tailings before dry-stacking them. That limited the throughput of the plant.

The cause of the sliming was identified and resolved in early May. However, tailings do remain an issue. When we previously reported that the tailings issue had been resolved, the plant immediately returned to 3,200 tonnes a day, essentially our nominal design capacity, for about four days. But subsequently the throughput started to fall down to 2,800-2,900 tonnes a day and was not heading in the right direction, primarily as tailings filtration capacity became the limiting factor to plant throughput.

Since the plant has run well above these levels for extended periods of time without any issues in tailings, we have determined there are no differences in the ore feed or anything else in the nature of the material that we're processing. We believe these constraints are temporary, so we're working with independent consultants to essentially get this resolved

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as quickly as possible. But as of today, we have not resolved those issues to our satisfaction.

As Darren mentioned, freshet, the mine after last year's major runoff took extensive steps to ensure that we are prepared for the onset of freshet, which commenced in mid April and was over by May 9th. We had 994,000 tonnes of ore and stockpiles outside of the pit, which is sufficient to keep operations running through the end of the year.

And we had a water conveyance network put in place, and essentially that had two purposes. One is to divert unaffected water around the site, so we didn't even collect that. So that took some of the water right off site immediately. And then other water that was affected by operations to the appropriate locations, which includes our water storage pond, and it required our pit.

We also completed a new water treatment plant during the quarter, and we're currently commissioning that.

The encouraging thing was the water volumes collected on site in freshet this year are estimated to be less than one-third of the water volume collected in 2009, primarily as the result of a long slow spring, so we saw significant sublimation of the so-pack(ph) essentially evaporation direct away.

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Mining has resumed on site. We're stripping on the south side of the pit, but there is water in the pit at the moment, not a substantial quantity, and we'll be processing that material and moving it to regain access to the pit a bit later this summer. But because of the large stockpile, it does not affect operations.

During the quarter we processed 230,000 tonnes of material, which averages about 25-50 tonnes per day, which is obviously significantly below our design capacity, because of the tailings and crusher constraints in the first quarter.

The ore averages about 2.5 per cent copper and 1.3 grams gold, which was pretty much on track. We produced 11.9 million pounds of contained copper and concentrate, along with about 7,500 ounces of gold and 60,000 ounces of silver; 13,000 tonnes of concentrate, averaging 41 per cent copper. So the key thing about these numbers and the recoveries, we also reported in the production news release earlier was that none of these throughput constraints have affected recoveries, concentrate grades or other aspects of the milling operation.

We produced 11.7 million pounds of payable copper, and the total cash costs were \$1.37 U.S. a pound, and that price is driven higher simply

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by lower throughput or lower payable copper produced during the quarter with costs remaining largely on track.

On the exploration front at Minto, we started exploration in January, exploration drilling in January, and we already reported some encouraging results from the Minto East discovery, which we're taking from a three-hole discovery in 2009 to a mineral resource this year. And we included results, like 10 metres at 2.3 per cent, 10 metres at 2.6 per cent copper, 18 metres of 3.6 per cent copper, and 16 metres at 3.6 per cent copper. So Minto East is building out quite nicely to a nice high-grade deposit.

We also started stepping out south from Area 2, focused on underground mineable material where we stopped drilling in the past because it wouldn't fall inside the pit, but now we are seriously looking at going underground. We continue to step out on those deeper zones, which are about 200 metres below surface. And we've got some nice hit there, 4 metres of 5 per cent, 4 metres of 3 per cent, 14 metres of 2.3 per cent, in that area.

And we also started stepping over towards the Copper Keel area where we had made a discovery about three years ago. But again, because it was deeper and likely underground mines had not... mineable had not really focused on that, and we started stepping across there and

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linking up Area 2 to Copper Keel and hitting things like 4 metres of 3.3 per cent copper.

So it's a very encouraging result coming from those areas. Drilling has temporarily stopped during freshet, and we will be restarting drilling in June and continuing through the rest of the year.

Switching to Cozamin, we put out updated mineral resources and then subsequently mineral reserves, which the resources did not change significantly. Essentially it replaced, kept it constant despite mining. We essentially made up the losses from mining. But we did see significant bumps in lead and zinc, and that's primarily a result of conversion of material that was previously below our NSR cut-off back into resources because of higher metal prices. And that formed the basis of a new mineral reserve update, which we published during the quarter, which resulted in a mine-life of more than eight years.

Cozamin mine performance was generally in line with expectations. It was modestly affected by production constraints from underground. The mill when it had the mill feed was well able to outperform mine production, and we did have slightly lower head grades in copper. But that was supplemented by high-grade lead feed, which pushed those lead numbers up significantly. And that temporarily, the high lead temporarily affected the

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zinc recoveries, and the poor performance of a flash sell, which was rectified at the end of the quarter. But they're all relatively minor amounts.

This performance, as I mentioned, on the downside was affected by high lead numbers, and these, we mentioned in the news release, and I've already had a couple of questions: what does opportunistic mining mean, these veins in the hanging wall of the main Mala Noche are not, to a large extent, part of the mineral resource or reserve. And essentially as we go down, we open up a working, we explore the hanging wall, see if there is good continuous mineralization. If it's there, we go and mine it.

So these are tonnes that are not in our current mine plan that we're bringing in and boosting our production from those areas. Typically a material's in 2.5-3 per cent lead plus zinc on top of that, and a modest amount of copper.

Unit operating costs were marginally higher as we did some more development as we're obviously trying to bring on more underground areas for production, and we did have an unexpected increase in electricity rates, some of which we believe is temporary, but the rates are just set by CFE. We have no control of that.

We processed about 260,000 tonnes of material, which is just under 3,000 tonnes a day, which was essentially on budget through the mill. We

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produced 9.9 million pounds of contained copper and concentrate, along with 3.8 million pounds of zinc and 3.6 million pounds of lead; obviously that lead number being substantially higher than our resource or reserve would indicate because of those opportunistic tonnes in the hanging wall.

We produced 18,500 tonnes of copper concentrate to a grade of about 24 per cent and 9.5 million pounds of payable copper with cash costs of \$0.82 a pound, obviously driven down somewhat by those higher lead by-product credits.

Now one exciting thing we're looking forward to over the next few months is we commenced exploration drilling at Cozamin. The first target is a new zone in the footwall of the Mala Noche vein, and we put some first (inaudible) out from our own underground drill, 2.5 metres of 2.1 per cent copper; 2 metres of 2.6 per cent copper. But we do believe this zone has some potentially significant size potential, so we have an independent contractor in there who's just started drilling with a rig capable of longer holes. And so we aim to go across and assess that over the next six weeks or so. And then that drill will move to the south part of the main San Roberto resource where we have the widest and highest grade material in our reserves, which we did not drill to the east of before because we did

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not own the claims. But now we own those claims, we're going to step across and see if we can't expand that key component to the mine.

And lastly I'll just mention Kutcho. We have been talking about pushing things forward over the last few months, but we have advanced our metallurgical test programs significantly and we have got quite encouraging results on Kutcho where we've been able to essentially double the primary and the secondary grind sizes without negatively affecting the recoveries, maybe even slightly improving the recoveries over those studies in the PEA.

That has a significant potential cost benefit, both in capital, you need less grinding capacity, but also in operating costs; so essentially an exponential increase in grinding costs as you go to a finer grind. So by coarsening it up substantially that will reduce costs quite a bit. We also have looked at a number of power options, and we have some pretty good progress on that front. So the two key focuses are recommendations out of the PEA have made good progress, and we aim to put out a new PEA during mid 2010, assuming all of that comes together positively. We would then push towards a prefeasibility study.

So that's the operational and exploration side, and I'll turn it back to Darren.

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DARREN PYLOT: Thank you, Stephen. Before I open the floor to questions, I'll give a brief statement on guidance.

Given the above issues that Stephen went through, we felt we should comment on the company's guidance for 2010. In December of last year we provided guidance that we expect to produce between 90 and 100 million pounds of copper at an estimated cash cost of \$1.10 to \$1.20 per pound of payable copper net of by-products.

Given we have some production constraints, albeit we believe temporary, at the Minto mine in the first quarter and these constraints are not fully resolved, combined with Cozamin being at the lower end of its guidance range, we believe it's appropriate to express at least some caution to the ability to reach our guidance range unless production exceeds nominal capacity for the balance of the year. And both Cozamin and Minto have exceeded their nominal capacities of 3,032 tonnes a day for extended periods in the past, and we believe this outer-performance is definitely achievable, and it will be the focus and the company's objective moving forward. So we'll comment further on guidance at the end of the next quarter.

At this time I'd like to open the floor to any questions anybody may have.

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OPERATOR: At this time I would like to remind everyone in order to ask a question, press \* then the number 1 on your telephone keypad. I'd also like to remind participants, please do not use hands-free during the Q&A session. Thank you and we'll pause for just a moment to compile the Q&A roster.

Your first question comes from the line of Stefan Ioannou from Haywood Securities. Your line is open.

STEFAN IOANNOU: Hey, guys. Just a question. It's a little bit off topic. The detail you gave in the MD&A's pretty detailed, but just on a sort of a slightly different note, just with the denial of the water permit over at Carmacks, does that affect or do you foresee that affecting you guys going forward at Minto with any sort of future I guess renewal processes for on the environmental side, or is that sort of an issue specific to Carmacks?

STEPHEN QUIN: I would characterize it as an issue specific to Carmacks. It was a new project and there has been historic concern expressed over at being a heap leach mine. And particularly they've probably been affected somewhat by the very high rainfall and snow packs we had last year and the year before, where a concern is, well, what if that happens in a heap leach type environment? How do you contain it? How

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will this water in the pit, how do you handle it? And I can't really comment too much on the specifics of their application or anything.

STEFAN IOANNOU: Sure, no, I understand, yes.

STEPHEN QUIN: But I think it is quite a different situation, and particularly given the capital we put in with the new water treatment plant and the sort of water conveyance network, which allows us to essentially ensure that no water goes off site in the event of high rainfall or high water events. I think there is considerably more comfort with where we are now as opposed to an unknown.

STEFAN IOANNOU: Okay, great. Thanks very much, guys.

OPERATOR: Your next question comes from the line of Orest Wowkodaw, from Canaccord. Your line is open.

OREST WOWKODAW: Hi, good morning, guys. I just wanted to touch on Minto. I'm wondering when we can expect an announcement on the next phase of the expansion there. Is that something that you're still sort of aiming for a start-up next year, or just curious on the update on that.

STEPHEN QUIN: Sure. Essentially where we are is we took the PFS that we published in December, and the one thing that really came out of that study was the ability to bring in material from underground, and we put some outlines of the possibilities there. But once you kind of made that

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decision to go underground, then you step back and you sort of re-look at everything you've got and say, well, if you're going to go underground anyway it doesn't make sense to bring other areas underground into the underground mine plan as opposed to open pit.

And probably the key component to that is the deeper part of the Area 2 pit, which has about a 14- to-1 strip ratio in the last pushback, but it's mining an area that you only get about a third to a half of the tonnes out, and the rest are going to be mined underground anyway. So maybe you just take that entire zone from underground and push your strip ratio down significantly in those earlier phases of the Area 2 pit. So that's definitely one area that needs to be incorporated, and we're working on that.

Now the other two areas are Minto East obviously. There's a significant potential there, and it's only about 300 metres away from where you're going to be mining in the underground anyway, because of its very good grade. It's obviously something you'd want to bring into that estimate.

And then the third area is, as I mentioned, as we're talking about, that we started drilling those deeper areas at Area 2 and towards Copper Keel because we didn't see them falling into the open pit. But there was clearly opportunities to extend that mineralization, essentially on the edge

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of what will be a stope, we believe, to just push that out. So we've been drilling those areas too.

So a long answer to a short question: to actually get all of those things into a PFS I think will not be done until the end of this year. However, because of our regulatory permitting process that we need to go to bring the underground into a plan, a permitted plan, we will be making applications during this summer. So because that's all the public forum, we will have to be providing some guidance to the market as to what that plan is going to look like. So it won't be a PFS with feasibility study quality information in, but obviously all the operating costs and so on will be pretty specific because we're an operating mine.

But the tonnes and grade won't be mineable reserves to a PFS standard at that point. But at least we'll be able to provide some guidance as to where we're going to go. So I would expect that over the summer, and a full PFS with reserves and a new mine plan to be published towards the end of the year.

OREST WOWKODAW: And does that imply for a start up of the expansion now I guess the end of 2011, early '12 or...?

STEPHEN QUIN: What we we'd aim to do it to be permitted, to go underground around the end of the year or early next year and start the

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underground development in early next year, and then the Area 2 stripping, which is likely to be the next pit, would start, again once that's permitted, but probably in early 2011 as well. And then the ore would be exposed about, I think it's about eight, nine months later.

OREST WOWKODAW: Okay.

STEPHEN QUIN: So the stripping would start in 2011, but production basically at the end of 2011, early 2012.

OREST WOWKODAW: Got it. Thanks, guys.

STEPHEN QUIN: Okay.

OPERATOR: Again, if you would like to ask a question, please press \* then the number 1 on your telephone keypad.

Your next question comes from the line of Tim Ferguson, a private investor. Your line is open.

TIM FERGUSON: Good morning, gentlemen. Did I hear you correctly when you said that the cost of power had increased unexpectedly? My understanding was, and I may be absolutely wrong, that there was a contract signed that gave power at a constant rate over a five-year period.

Could you comment on that, please?

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STEPHEN QUIN: I think you're mixing Minto and Cozamin. Minto had a fixed, I think it was a three-year contract, but Cozamin, essentially CFE sets the rates at its discretion, and it's basically a national power rate, industrial power rate. So those rates fluctuate essentially with the price of oil because a lot of Mexico's power is fuel generated, and the fuel price is subsidized in Mexico at a below-market rate. But as those costs of fuel go up, you do see an increase in power rate, and then as they go down, the power rates fall as well.

TIM FERGUSON: Okay. Thanks. Yes, obviously I got the two confused there. I appreciate that.

STEPHEN QUIN: Okay.

OPERATOR: There are no further questions at this time. I turn the call back over to the presenters.

DARREN PYLOT: Thank you, Operator, and thank you, everybody, for calling in on the conference call, and look forward to talking to everybody at the end of the second quarter. Have a great day. Bye-bye.

OPERATOR: This concludes today's conference call. You may now disconnect.

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