

EVENT: CAPSTONE MINING CORP. Q2 CONFERENCE CALL  
TIME: 8:00 AM Pacific Time  
DATE: AUGUST 14, 2009  
PREPARED BY: CNW Group

OPERATOR: Good morning, ladies and gentlemen and thank you for standing by. Welcome to the Capstone Mining Corporation Second Quarter Results Conference Call. At this time, all participants are in a listen-only mode. Following the presentation we will conduct a question and answer session. Instructions will be provided at that time for you to queue up for questions. If anyone has any difficulties hearing the conference, please press the star key followed by zero for operator assistance at any time. I'd like to remind everyone that this conference call is being recorded today, Friday, August 14th, 2009 at 11 a.m. Eastern Time.

I would now like to turn the conference over to Mr. Darren Pylot, Vice-Chairman and Chief Executive Officer. Please go ahead, sir.

DARREN PYLOT (Vice-Chairman and Chief Executive Officer, Capstone Mining Corp.): Thank you, Operator and good morning, everyone and thank you for attending Capstone's second quarter and year-to-date financial results conference call. On the line with me today up at

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our Minto mine is our President and COO, Stephen Quin and our Chief Financial Officer, Richard Godfrey is also here with me today.

All the financial numbers quoted in this call will be in US dollars unless otherwise stated. We do not compare Q2 numbers to the prior-year quarter as we don't think this is useful information, given it would only be comparative to Sherwood's pre-merger, previous quarter numbers. We do, however, go forward and discuss year-to-date results, which gives cumulative and comparative information for the first two quarters of 2009.

Financial and production highlights for the three months ended June 30th are as follows. We recorded a net income of \$25.8 million, or \$0.14 a share, which includes earnings from mining operations of 18.6 million; a gain on disposal of investments of 40.7 million; and a net loss of 31.3 million on derivative instruments, which is made up of a realized cash gain of \$5.7 million on positions, hedged positions settled during the period and an unrealized non-cash loss of 37 million, as the value of the derivative asset, or the hedge book, was reduced over the period due to the increase in the copper price from \$1.83 per pound at March 31st to \$2.32 a pound at June 30th.

Adjusted net earnings were \$16.8 million or \$0.09 a share and that's making adjustments and backing out the non-cash items, which includes

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the unrealized loss on the outstanding derivative positions and the above, the gain on the disposal of the investments.

We generated cash flow from mining operations of \$22.6 million, or \$0.12 a share. Our working capital at June 30th had increased to \$111.6 million, that's up from 77 million at March 31st and that 111 million includes unrestricted cash of \$7.4 million.

We sold a total of 17.8 million pounds of copper, 6.6 million pounds of zinc, 2.1 million pounds of lead, 6,000 ounces of gold and 381,000 ounces of silver during the quarter. We produced a total of 22.2 million pounds of payable copper at an estimated cash cost, total cash cost of \$0.97 per pound of payable copper.

For the first half of 2009, our financial and production highlights include, up to June 30th, include net earnings of \$9.6 million, or \$0.05 a share, which includes earnings from mining operations of \$38.3 million; a gain on the disposal of assets of ~~of~~ investments of 40.7 million; and a net loss of 66.7 million on derivative instruments, which is comprised of a realized cash gain of \$23.8 million, which our position settled in the first half of the year, an unrealized non-cash loss of 90.5 million on the reduction of the derivative asset mark-to-market value over the period due

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to the increase in the copper price of \$1.36 per pound at December 31st up to \$2.32 per pound at June 30th.

Adjusted net earnings were \$47.3 million, or \$0.27 a share, after making adjustments for the non-cash and one-time items, including the derivative loss, the non-cash derivative loss and the gain on disposal of investments.

Generated cash flow from mining operations of \$48.9 million, or \$0.28 a share. Working capital has increased up to \$111 million at June 30th, that's up from 35.4 million at December 31st, 2008.

We sold a total of 45.1 million pounds of copper, 7.5 million pounds of zinc, 3.8 million pounds of lead, 17,300 ounces of gold and 877,000 ounces of silver so far this year; and produced a total of 47.3 million pounds of payable copper at an estimated total cash cost of \$0.93 per pound of payable copper.

Also during the quarter, we repaid \$18.9 million of the project loan facility, 11 million which, of that number, was scheduled with the balance representing early payments made at the company's election. These payments reduced the balance owing under the project loan facility to \$11 million, which is now scheduled to be fully repaid by December 31st of this year. We also repaid the \$40 million balance on the corporate revolving

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term facility. These funds can be redrawn over the next three years. We completed a bought deal equity financing, issuing 31.2 million shares at \$1.85 per share, for gross proceeds of \$57.7 million. The proceeds were used to repay the debt, for future acquisition opportunities and general working capital purposes.

We announced a new eight-year life-of-mine plan at the Cozamin mine.

We announced drill results for the Minto North discovery, Minto Mine Phase 1 drill program. Including some exceptional high-grade copper-gold intercepts over significant thicknesses and these intercepts have been the best intercepts drilled at the Minto mine in the past 35 years. It opens up the whole north side of the property, which we'll obviously continue to explore. We commenced the Phase 2 drill program on Minto North in late June with the objective of upgrading the mineralization at Minto North to standards suitable for a detailed mine plan.

We announced assay results for exploration drill holes completed in areas south of Minto Mine open pit, including several high-grade copper-gold intersections from the southeast portion of Ridgetop. That's an area that's not been known for the high-grade mineral utilization that we encountered in the intercept.

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We also announced the results of a 43-101 Compliant Mineral Resource Estimate for the Minto mine, providing an estimated increase in the measured and indicated mineral resource of: 32 percent increase for contained copper, 38 percent for contained gold and 28 percent for contained silver over the last Mineral Resource done in 2007.

We also reported a high-grade resource for the Kutcho Copper Project, with a measured and indicated mineral resource of 10.4 million tons grading 2.1 percent copper, 2.8 percent zinc, 0.4 grams gold and 32 grams silver. Following up on that, we've commenced with an internal evaluation of options for the development of a smaller tonnage, higher grade operation at Kutcho, most likely to be an underground method.

We also reported a gain of \$39.9 million on the 4.95 million Silver Wheaton shares that we received in exchange for our Silverstone shares. Subsequent to that exchange and that gain, we then sold a total of 2.5 million Silver Wheaton shares, resulting in cash proceeds of \$24.2 million and a further gain of \$700,000. We currently hold 2.45 million shares of Silver Wheaton. We have no immediate plans to sell the balance of those shares but obviously we could do so at any time. We're very confident with the silver and gold streams that we've sold to Silver Wheaton and we want

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to see, we've got views that our gold production will increase at Minto and we would like to see our investment grow at Silver Wheaton.

At this time, I'll pass the floor to our President and COO, Mr. Stephen Quin and he will take you through the operational results.

STEPHEN QUIN (President and Chief Operating Officer, Capstone Mining Corp.): Thank you very much, Darren. I'm up at the Minto mine, so apologies if you hear a hum in the background but that's the sound of making money in copper.

Talking about the Cozamin mine first, we completed an expansion to 3,000 tons a day in the first quarter, around the middle of the first quarter and focused on establishing access to higher grade, deeper parts of the mine. Some of those areas are now in production and some of them are going to come in during the third quarter in 2009 and I'll touch on those a bit more in a second.

Production for the quarter was just under 10 million pounds of copper in concentrates, with obviously by-product zinc, lead and silver. We saw the benefits of the expansion of the mill with an average processed rate of 27,040 tons a day, grading just under two percent copper for the quarter. However, the mill production in, overall for the

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quarter was constrained because we were delayed in accessing some of those deeper, higher grade, wider zones of mineralization.

And just briefly, to touch on that, essentially, the eastern part of the mine, there is areas which range in width up to 20 to as much as 35 metres and that entire block, which is going to be the core of production for the next several years for the Cozamin mine, has to be mined from the bottom up. So we pushed the ramp down over the last year to get to the bottom of that block, started the development and slashing out of that block to start mining at the bottom.

However when we slashed it out, the anticipated width of eight to 10 metres turned into 24, 25 metres, so we realized the wider path to mineralization extended deeper than previously anticipated in the mine plan, so we had to drop down another level which obviously delayed the start of soaking from those areas. So, obviously, in some ways it's a nice problem to have. There's more tonnage of high grade than was originally planned but obviously a delay to start up for production from those areas.

So in the interim, we've been mining other areas. They generally have higher lead and lower copper, so it will lead to a bit of a shift around during Q3 until those areas come into production. But as a result of that, the mill was constrained in throughput because we didn't have enough ore

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coming out, because those big stopes were intended to be very high productivity. So we averaged about 27,050 tons a day but that includes several periods of two to three days where we had no water process at all and the mill was shut down and we were doing maintenance or whatever.

So in reality, on operating days, we were probably averaging 3,500 to 3,700 tons a day and we even achieved a single-day record of 4,088 tons a day in June, just showing what this mill is potentially capable of going forward. So we're very confident once we have the ore, the wide stopes opened up, that we'll be able to produce significantly more ore and the mill will be able to handle that additional output and post us at a much higher rate than the original design.

We produced about 17,500 tons of concentrate. The concentrate grade was about 25.5 percent and as we comment in our MD&A, you know, it's about two percent higher than has previously been the case and that's primarily a result of some improvements in the mill circuits that we've made over the last few months, with good results.

We produced about 9.5 million pounds of copper and total cash costs were about \$0.81 a pound, somewhat driven down by higher by-product credits as we mined more zinc and lead, which gave a bit better

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by-product credits but also just simple unit cost reductions at the operation related to the higher throughput.

Switching to the Minto mine now, which is where I am, the Phase 3 mill expansion to 3,200 tons a day was completed at the end of the first quarter. It obviously involved a ramp up in mine production as well. We produced 13.2 million pounds of copper, along with gold and silver by-products. We processed, on average for the entire 90-day period, 2,937 tons a day, averaging about 2.4 percent copper with about a gram gold.

However, again, as with Cozamin, the mill has proven its ability to significantly outperform design capacity and we have had extended periods of up to a week or 10 days where we have averaged 3,500 to 3,600 tons a day and we averaged just under 3,000 overall, including allowances for maintenance days and so on. And we did achieve a single-day record of 3,762 tons a day processed in July. Overall, we're pretty optimistic that as we complete a couple of changes, one of which we're doing right now, this week, that that mill production can be sustained at much higher than design capacity.

We produced 14,667 tons of concentrate. As has been usual for Minto, the concentrates were just over 40 percent copper; a really, truly outstanding concentrate with no impurities, no penalties. We produced

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12.7 million pounds of copper, payable copper and costs were \$1.08 a pound and that's primarily related to the slightly lower than forecast production, which I'll come to in a second as to what's going on there.

So, looking forward to the balance of the year, you know, we look forward to a very good second half. We maintained our guidance of 95 to 105 million pounds of copper at approximately \$1 a pound. However, there are two items to address, one at each mine. At Cozamin, the put guidance is 35 to 40 million pounds this year with, obviously, by-products lead, zinc and silver and cost of about \$1 a pound. This production primarily come, for the balance of the year, from the deeper, wider stopes that I was just talking about and so delivery of the plan is to, you know, requires access to those higher productivity areas.

So, provided we bring them on schedule, online on schedule towards the end of this quarter, we should see a lot of tonnage coming out during Q4 and those areas are significantly higher grade than the reserve average. They're up in the 2.6, 2.7 percent copper range. So what we'd expect is a gradual ramp up in production Q3 but still dependent on some of those other areas for additional feed. So, a bit more copper grade, higher lead, zinc grades in Q3, switching in Q4 to much higher throughput

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and much higher grades. And that is the basis of our achieving guidance for the year.

So the and on the capital side of Cozamin, we do have about \$8.7 million in forecast capital for this year. There are a mix of different programs. There were some things that were deferred from the Phase 3 expansion that was completed last year, the principal one there being putting in new power line that bypasses the city of Zacatecas. There's a couple of million dollars related to that. It was more reliable and somewhat lower cost power. That's in construction at the moment. And then there's other things that we're doing really just to improve throughput and essentially be able to sustain those higher throughput rates of plus 3,500, 3,700 tons a day, where we can tweak a few things and get that higher throughput.

On the exploration front, our provided guidance was only for \$0.3 million in 2009 but we have completed an assessment of the exploration potential, which we believe is outstanding and some of the analysts who were down in, I think January or late January, early February this year, you know, saw some of that. Well, that process has been completed and we're now finalizing the details of that execution of an exploration plan, so kind of

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ramp up towards the end of Q3 into Q4 and then continuing to 2010. So once we have details of that we will provide some guidance.

Switching to the Minto mine, the forecast for the year is for 60 to 65 million pounds, again, about a dollar a pound. As people are aware in our previous disclosure we have, had a lot of excess water from high snowfalls melting and essentially it would've overtopped our water storage pond. So we diverted the excess water into the pit and that essentially restricted access to the pit and so we have been dependent on stockpiles since that happened. Because that water is somewhat out of compliance with our water license but still well below federal standards, we had to go through some processes to get approval to release that water on a controlled and environmentally safe manner. And we have worked through that process and as of a couple of days, received approval to release the rest of that water.

Because of the timing of that release and what it will take, we anticipate being back into fresh ore inside the pits towards the end of Q3, right at the end of Q3. And not unlike the Cozamin forecast, because of that, we'll be dependent on stockpiles until then and then we should see a significant kick up in grade in Q4 as we will have high grade exposed for the rest of the year on both the south and north side of the pit. And there

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are some very high grades, particularly on the north side where you see five or six percent copper. So, clearly, achieving the forecast is dependent on getting that water out, getting access to the pit and processing higher tons and higher grade than the original budget for that period but on average, ending up about where we should've been for the year.

Moving forward on where do we go to expand Minto again, we have a significant amount of resource, as per our June announcement and we have a pre-feasibility study in process now, which really has two objectives. One is to convert a significant portion of those new mineral resources into reserves but also to look at further expansions in mining and mill throughput somewhere in the range of 4,000 to 5,000 tons a day. And as we have discussed in our prior disclosure, there are potential options to go beyond that, too.

Capital expenditures for the year are \$9.3 million approximately, of which roughly half is plant improvements. And just to give an example of one of them is the flotation cell mechanisms that were put into the original mill are substandard, shall we say, where therefore we have never been able to float cells on ideal circumstances and we are currently replacing those float cell mechanisms. Not huge amounts of dollars and it will only take about a year, sorry, a week to do the change out. So it'll be a

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relatively minor impact on production but better to do it now when we only have low grade available and have it ready for when we hit the high grade. So there's a few things like that that we'll do around the mines to sort of see that sustained throughput in the mill able to continue at much higher rates than design.

The second half of the exploration is essentially exploration, which program is coming towards the end of that budget of \$3.9 million but there are some additional holes remaining to be drilled. And the focus of that exploration is, obviously, we have drilled off Minto North now to reserve standards and we are moving on to do exploration on other targets in that northern part of the property.

So, to wrap up, you know, we expect strong cash flow from operations. You know, we'll be somewhat split between Q3 and Q4, with a much higher Q4 than Q3 anticipated but we did produce 16.4 million pounds; or sorry, we have 16.4 million pounds forward-sold for the remainder of the year at an average \$2.56 a pound.

And the last point to touch on is Kutcho, the Kutcho project. We are nearing completion of a preliminary assessment on a complete redesign of the mine from a, sort of, a medium-scale open-pit mine to a smaller scale, higher grade, underground mine. That process has taken a bit longer than

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anticipated to pull everything together because it is a pretty radical redesign but it is largely complete. And we are only doing minor exploration there, more on a regional basis, really focused on the study.

Post the end of the quarter we have completed 56 infill drills, drill holes at Minto North. Some of the results have been released. The balance will be released over the next coming weeks, probably within a month. And we aim to get all that water out of the pit by the end of September and be mining fresh, high grade ore by the end of this quarter.

So, thank you very much and I'll turn it back to Darren who will open up for questions.

DARREN PYLOT: Great. Thanks, Stephen. And yes, Operator, please open the floor to any questions anybody has at this time.

OPERATOR: Certainly. Ladies and gentlemen, we will now conduct the question and answer session. If you have a question, please press the star key followed by the one on your touchtone phone. You will hear a tone acknowledging your request. Your questions will be polled in the order they are received. Ensure you lift the handset if you're using a speakerphone before pressing any keys. One moment, please, for your first question.

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Your first question comes from Orest Wowkodaw of Canaccord Adams. Please proceed.

OREST WOWKODAW: Hi. Good morning, guys. Stephen, how concerned are you about the moving semi-frozen overburden at Minto?

STEPHEN QUIN: We are continuing to monitor it with independent geotechnical consultants, both EDA, who are providing the permafrost expertise and SRK, who are providing the geotech expertise. What we are seeing to date is a decelerating slow creep of that material. The principal concern about that material now, you know, after three months or more monitoring, is having large volumes of water in the pit. That water is obviously warm and it is in contact with the lower parts of that overburden. And so, essentially, it will warm it up and melt it and therefore increase the risk of failure. Plus, water infiltrating potentially fluidizes that material. So, one of the key things to do is to get the water out of there so that material remains frozen.

For that material to be clear is largely within our next pushback of the pit and the timing of that pushback is to start stripping that material away in the winter. And we time the pit to remove that frozen material during the winter because it's easier to move. So, starting sometime October, November, we will start stripping that material and removing it

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from the edge of the pit. And it was always anticipated to be removed. So we don't see, provided the water is removed in a timely manner and we're now approved and set up and are discharging, we don't see an imminent risk of a catastrophic failure. It's more very slow, sort of, glacial creep type of thing.

OREST WOWKODAW: Okay. So it sounds like you're saying that, you know, by the end of the year, this problem will go away as you start stripping.

STEPHEN QUIN: It's going to be through the winter. The vast majority will be stripped out before first shed next year. So you know, I mean, remember this is the north so winter lasts from, sort of, October till May. So it's over that kind of six, seven-month timeframe that the majority of that material will be removed.

OREST WOWKODAW: And is there anything you can do to prevent the, you know, the same thing in terms of the excess water into the pit at midterm next year? Like, can you increase the pond capacity, or do you always sort of run this risk of excess water?

STEPHEN QUIN: No, this was, excess water was recognized as a problem in our first year of operation because we built the dam and it was supposed to take two years to fill and it was filled in five months. And the,

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it became pretty apparent that there was significantly more water than was in the original modeling and whether that was because the '90s when they did that modeling was drier, or currently it's wetter than average but for whatever reason it is different.

So we started a process two and a half years ago to collect environmental baseline and water modeling data to go in and put an amended application, or an amended water management plan into the Water Board to change the basis on which water is handled on site. That was filed on July 31 and we are now in the regulatory process to amend that.

And essentially, the principal component to that is to put diversion ditches in to take essentially uncontaminated water and I'm being, uncontaminated meaning just regular snowmelt off areas that we have done no work in whatsoever and divert them right off site so they never go into our water management, or I'd say, our water processing circuit. Because, obviously, once they mix up with processed water then they have to be treated as mine effluence and treated and managed and so on. So that plan is in place. Some components of it do not require an amendment to our current license. They just require a different way of

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handling it and those will be commencing imminently to put those diversion ditches in.

So that's, you know, one of the biggest components is to keep a lot that water and that's roughly half of all the water that comes into the site, comes from areas which we, you know, have no activity in whatsoever. But they are above our dams so they get corrected, currently.

OREST WOWKODAW: Great and just one financial question. Am I correct that the, you know, the adjusted tax rate, once you strip out all these one-time items is actually still close to zero in the quarter? On the income statement?

STEPHEN QUIN: I'll let Richard answer that one.

RICHARD GODFREY (CFO, Capstone Mining Corp.): Sorry, could you ask the question again, please?

OREST WOWKODAW: Yes. I was just wondering if, what the adjusted tax rate was in the quarter once you strip out all these one-time items. I mean, by my estimate, it was still close to zero.

RICHARD GODFREY: The only taxable areas are down in Mexico at this time. There's no income tax implications for Minto at this time.

OREST WOWKODAW: But can you give us what the adjusted, sort of, the clean tax rate was on your income statement?

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RICHARD GODFREY: Offhand, no. I don't have that number but I can certainly come back to you with it.

OREST WOWKODAW: Okay. Thanks a lot, guys.

OPERATOR: Your next comes from Stefan Ioannou of Haywood Securities. Please proceed.

STEFAN IOANNOU: Sure. Good-looking quarter, guys. I just, quick question just with regards to maybe the grade profile at Minto, you know, going forward. If you're getting into, you know, back into the pits in Q3, Q4, any idea what the grade might look like, copper grade coming out of Minto in, say, 2010? Is it going to be, sort of, close to three percent or should we expect something in the lower twos?

STEPHEN QUIN: No, the forecast previously was averaging about three percent in 2010 and, I think it's 2.9, somewhere in that range. So there wouldn't be a significant change in the forecast because we'll be mining, you know, we'll essentially be back on schedule. All that's really happened in 2009 is the timing of processing stockpiles versus fresh, high grade ore is kind of switched around. And, so overall, we should end up averaging about the same.

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STEFAN IOANNOU: Okay, perfect. And then just with Cozamin, can you just remind me, is the workforce down there unionized or not? And just, how that's going down there?

STEPHEN QUIN: That's a non-unionized workforce. You know, the unions come up once a year or so and talk to the workers and it's their option to what they do but we have a good relationship with our workforce. I mean, one unusual thing about Cozamin is that it is a hundred percent Mexican mining operation. We don't have any expats as the senior management, or whatever, down there. Bob Barnes, our VP Operations, goes down regularly, of course, just to see what's happening but it is run entirely by a Mexican workforce and run very well by them.

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

OPERATOR: Your next question comes from George Topping of Blackmont Capital. Please proceed.

GEORGE TOPPING: Thank you. Steve, can you give us an indication of the one-off operating costs that that water inflow has cost this year so far and what you're budgeting to get it fixed?

STEPHEN QUIN: Don't have all the details because it's, sort of, essentially happening in the moment but you're probably talking in the range of about \$1 million. And, you know, the combination of buying

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piping, consultants, reagents, treating the water, et cetera, you know, it's somewhere in that range so far. And the diversion ditch and so on for the new water management plan we haven't costed out yet but you're probably talking in the, you know, probably towards \$2 million range for the entire system of diversions, et cetera.

But there could potentially be some offsetting costs in that because the construction material will be primarily waste. So we have to mine the waste and move it anyway, so you know, the net cost may not be as high as that because we're, you know, the 2 million just kind of assumes we're going to go mine a bunch of waste to make ditches. So, exact number is not really sure. We'll provide guidance in the next quarterly as to where we are but, you know, they're not huge amounts of money.

I would say the more important impact is on production. You know, we're processing roughly 1.7 percent grade at the moment versus the budget is for the three percent and for right now. Now, higher throughput, as we said earlier, should allow us to offset and catch up and we can also process higher than three percent in Q4 because there is four and five percent material, so, which we can handle. We've done it before.

GEORGE TOPPING: Okay. You're processing 1.7 percent copper just now. Is that roughly the grade of the remaining ore inventory?

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STEPHEN QUIN: At the stockpiles, the average grade in the stockpiles is about 1.4 percent copper. But the average grade going into the mill is about 1.7 percent. Where the difference is, is either the, you know, we're, just by fortuitously mining a portion of the stockpile that averages higher grade than the rest but we don't really see a, you know, we have no plans to store it that way. So we're just randomly picking up stockpile or the stockpile head grade is underestimated and we're outperforming. And the latter is probably more likely the case. We have generally seen a positive reconciliation in all categories of ore from day one, so you know but we'll see, you know, as we continue to process stockpile whether we maintain those kind of grades.

GEORGE TOPPING: Thank you.

OPERATOR: Your next question comes from Alex Terentiew with Scotia Capital. Please proceed.

ALEX TERENCEW: Hi. Good morning, guys. Just one financial question for you, I guess. Now that copper prices have risen a bit, have your thoughts on closing out any of your copper forward sales changed or are you still looking to keep them on to provide some downside price insurance?

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DARREN PYLOT: Yes. Alex, we're, at this point, looking to keep them on. I mean, we've had them on, obviously, previous merger with both Sherwood and Capstone. I mean, they're there for insurance purposes and when the copper price was lower, we obviously made some good money from the hedges and when the copper price rises, we may lose a little bit. But, you know, 20 to 30 percent of our copper is hedged maximum over the years and the other 70 to 80 percent is exposed to the higher copper price and we're comfortable with that level. So we're not looking to add to our hedges in the current year's but we're not really looking to take them off, either.

ALEX TERENCEW: Okay. That's it, great. Thank you.

OPERATOR: Again, ladies and gentlemen, if there are any additional questions at this time, please press the star key followed by the one. As a reminder, if you're using a speakerphone, please lift the handset before pressing any keys.

Your next question comes from Tim Ferguson, a private investor. Please proceed.

TIM FERGUSON: Yes. Good morning, gentlemen. Just with regard to the water issue in the Minto pit, is the plan to, once the water is removed in September, to stockpile the ore from the pit sufficient so that if

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this problem reoccurs next year that there'll be sufficient supplies to keep the mill running? That's part one of the question.

Part two of the question: if that is the plan, do you have the capacity to (a) stockpile it and to be able to, or mine it to have a big enough stockpile? Thank you.

STEPHEN QUIN: Sure. I can answer that. I mean, down to, really, twofold is, one is, the water management plan that we are, amended water management plan we are currently in the process of amending and getting approved would, should be in place prior to the next (inaudible). All the diversion ditches should be in place hopefully later this year. So (a) we should avoid that in the future just by simply not having the water come into the pit. But even if we ended with some water coming into the pit, the second answer is, yes, we can and will stockpile significantly excess ore.

But, you know, that's not even driven necessarily by the risk of water coming in. Essentially, we run our pit on a series of pushbacks and so we mine waste for, you know, on average, about eight to nine months of the year. What we're over-mining is waste and then we get into ore and then we mine the entire year's ore supply in three or four months and that is all stockpiled. And it is stockpiled in four different grade stockpiles: from low grade of 0.6 to 1; median grade of 1 to 2; high grade of 2 to 4; and super

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high grade of plus 4 percent. And so, that material, you know, there'll be substantially an excess off the amount that we need, you know, for say, a temporary interruption, which is essentially what happened this year. We had over a million tons of ore stockpiled and we process roughly a million tons a year, so we had almost a year's worth of ore stockpiled.

Now, from a processing perspective, we process the highest grade first and leave the lowest grade to the end. So, obviously over time, the grade you process from stockpiles gradually goes down.

OPERATOR: Your next question comes from Ian Howat of National Bank Financial. Please proceed.

IAN HOWAT: Yes, good morning. If you keep finding more ore at Minto, is there ever a situation where you, sort of, have to go back and get the whole thing re-permitted? Just on a size issue that, you know, you had a fairly small footprint originally. You know, you're just using barges to carry it across. That if you sort of, you went to a 10,000 ton a year scenario that, you know, would you have to build a bridge? Would you suddenly face a whole bunch more capital or permitting issues?

STEPHEN QUIN: We would never build a bridge, a \$60 million exercise or something like that. But, you know, all changes to the operation are permitted, require permit amendments. So we have done

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two expansions to date, which have both been permit amendments. We are planning another one for our Phase 4 expansion which will go into that 4,000 or 5,000 ton a day rate, which will go in perhaps late this year or early next year. And then, you know if we choose, as we've talked about in some of our disclosure, to go to 10,000 or 20,000 tons a day, there will be another permit amendment process.

Obviously, the intensity of the amendment process goes up the bigger the changes. You know, you're just mining the same pit at a higher rate like the last two applications, you know, it was about a three-month exercise for each permit. But as you get above a certain level, more than 750 ton a day expansion or throwing other new things in like new pits, then you jump up to the next level of permitting which is probably more like a 12-month process or somewhere in that range. So, you know, it will be a process. It all changes but the intensity of that and length of that process will change depending on the scope of the changes.

IAN HOWAT: Okay, so in that regard, to any of the newer zones you've identified, is reserve you know, from deciding you want to mine it and gain a permit, you think that would be about a 12-month period because?

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STEPHEN QUIN: From when we file the application, it should be approximately that kind of timeframe. It's never been done under the current system on an existing mine. You know, all the permit applications that have gone through those larger reviews have been for new projects, which is obviously more complicated but the expectation is about a 12-month process.

IAN HOWAT: Okay. Thanks very much, Steve.

OPERATOR: Your next question is a follow up question from Orest Wowkodaw of Canaccord Adams. Please proceed.

OREST WOWKODAW: Hi, guys. Thanks for taking my follow up. Just a question on, sort of, where you're headed at in regards to M&A. I mean, how actively are you still looking out there for growth opportunities or, you know, just given the run in all the share prices and have you sort of taken a step back from that process?

DARREN PYLOT: Hi. No, we're looking. We're very busy in M&A. We have been before the run up and we still are now. Same objectives as trying to acquire another producing mine. We are looking at some development opportunities if they're on the lower side of capital, you know, under the \$200 million range, so we have brought those in as well. But no, still actively looking as hard as ever.

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OREST WOWKODAW: You think there's a, I mean, what kind of probability, you think, that we could see something by the end of the year?

DARREN PYLOT: Well, you know, it's tough to give that because we're, especially we've got, we probably have three or four CAs signed. We're active on some file but you just, it's pretty tough to give probabilities with so many things, the markets move and change. I guess all we can say is we've said we remain, we've remained committed by bulking up our balance sheet, by spending a lot of time on M&A, so you know, our plan is to get something done but it's tough to give a probability on it.

OREST WOWKODAW: Okay. Thanks.

OPERATOR: Mr. Pylot, there are no further questions at this time. Please continue.

DARREN PYLOT: Okay. Well, thank you, everyone for attending the call. Capstone has delivered another strong quarter of earnings and cash flow along with some great exploration success up at Minto for the first half of the year. We remain committed to do the same in the second half and beyond. We also remain committed to growth both internally, by completing the Phase 4 study at Minto and ramping up there, as well as the preliminary assessment at Kutcho and also externally, by continuing to evaluate and work on potential merger and acquisition opportunities.

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So I thank you very much again. Have a great weekend and we'll talk to you next quarter.

OPERATOR: Ladies and gentlemen, this concludes our conference call for today. Thank you for participating. You may now disconnect your line.

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