



## TERMS OF REFERENCE FOR THE BOARD OF DIRECTORS

### 1. INTRODUCTION

The Board of Directors (the “Board”) has the responsibility for the overall stewardship of the conduct of the business of Capstone Mining Corp. (“Capstone”) and the activities of management. Management is responsible for the day-to-day conduct of the business. The Board’s fundamental objectives are to enhance and preserve long-term shareholder value, and to ensure Capstone meets its obligations on an ongoing basis and that Capstone operates in a reliable and safe manner. In performing its functions, the Board should also consider the legitimate interests that its other stakeholders, such as employees, customers and communities, may have in Capstone. In overseeing the conduct of the business, the Board, through the Chief Executive Officer (“CEO”), shall set the standards of conduct for Capstone.

In performing its function, the Board will act honestly and in good faith with a view to the best interest of Capstone.

### 2. COMPOSITION

The Board operates by delegating certain of its authorities to management and by reserving certain powers to itself. The Board retains the responsibility for managing its own affairs including selecting its Chair, nominating candidates for election to the Board and constituting committees of the Board. Subject to the Articles of Capstone and the British Columbia Business Corporations Act (the “Act”), the Board may constitute, seek the advice of and delegate powers, duties and responsibilities to committees of the Board.

### 3. CORE RESPONSIBILITIES

The Board’s principal duties and responsibilities fall into a number of categories which are outlined below.

#### A. Legal Requirements

The Board has the responsibility to direct management to ensure that all legal requirements have been met and documents and records have been properly prepared, approved and maintained.

The Board has the statutory responsibility to:

- i. Manage or, to the extent it is entitled to delegate such power, to supervise the management of the business and affairs of Capstone by the senior officers of Capstone;
- ii. Act honestly and in good faith with a view to the best interests of Capstone;
- iii. Exercise the care, diligence and skill that reasonable, prudent people would exercise in comparable circumstances;

- iv. Act in accordance with its obligations contained in the Act and the regulations thereto, Capstone's Articles, applicable securities legislation of Canada, and other relevant legislation and regulations; and
- v. To ensure that management has established an effective risk management system.

## **B. Independence**

The Board has the responsibility to ensure that appropriate structures and procedures are in place to permit the Board to function independently of management, including endeavouring to have a majority of independent directors as well as an independent Chair or an independent Lead Director, as the term "independent" is defined in National Instrument 58-101 "Disclosure of Corporate Governance Practices".

## **C. Strategy Determination**

The Board has the responsibility to ensure that long term goals and a strategic planning process for Capstone is put in place and to participate with management through its committees in approving the mission of the business of Capstone and the strategic plan by which it proposes to achieve its goals, which strategic plan takes into account, among other things, the opportunities and risks of Capstone's business.

## **D. Managing Risk and Insurance**

The Board has the responsibility to identify and understand the principal risks of the business in which Capstone is engaged, to achieve a proper balance between risks incurred and the potential return to shareholders, and to ensure management has put in place systems which effectively identify, monitor and manage those risks with a view to the long-term viability of Capstone. The Board also has the responsibility to take appropriate steps to minimize material risk exposures by assessing Capstone's risk profile, categories of risk Capstone faces, strategies implemented to mitigate identified risks, and maintaining appropriate insurance programs to transfer risks where appropriate, including Capstone's captive insurance program. Board Committees assist the Board in fulfilling its risk oversight responsibilities in certain areas of risk, as outlined in each Board Committee's Terms of Reference document.

## **E. Division of Responsibilities**

The Board has the responsibility to:

- i. Appoint the delegate responsibilities to committees where appropriate to do so; and
- ii. Develop position descriptions for:
  - a) The Board;
  - b) The Chairman of the Board;

- c) The Chair of each Board Committee;
  - d) The President and Chief Executive Officer;
  - e) The Chief Financial Officer; and
- iii. Ensure that the directors of Capstone's subsidiaries are qualified and appropriate and that they are provided with copies of Capstone's policies for consideration for implementation by the subsidiaries.

To assist it in exercising its responsibilities, the Board has established four standing committees of the Board: the Audit Committee, the Human Resources & Compensation Committee, the Corporate Governance & Nominating Committee and the Technical, Health, Environment, Safety & Sustainability Committee. The Board may also establish other standing committees from time to time.

Each committee shall have written Terms of Reference that clearly establishes its purpose, composition, responsibilities, authority, accountability and meetings.

#### **F. Appointment, Training and Monitoring Senior Management**

The Board has the responsibility:

- i. to appoint the CEO, to monitor and assess the CEO's performance, to satisfy itself as to the integrity of the CEO, and to provide advice and counsel in the execution of the CEO's duties;
- ii. to approve the corporate goals or objectives that the CEO is responsible for;
- iii. to approve the appointment of all corporate officers, acting upon the advice of the CEO and to satisfy itself as to the integrity of such corporate officers;
- iv. to ensure that adequate provision has been made to train and develop management and for the orderly succession of management;
- v. to ensure that all new directors receive a comprehensive orientation, to fully understand the role of the Board and its committees, the nature and operation of Capstone's business and the contribution that individual directors are required to make;
- vi. to ensure a culture of integrity throughout Capstone;
- vii. to set out expectations and responsibilities of directors including attendance at meetings and review of meeting materials.
- viii. to ensure that management is aware of the Board's expectations of management;

- ix. to ensure that succession plans have been made for corporate officers; and

## **G. Policies, Procedures and Compliance**

The Board has the responsibility:

- i. to ensure that Capstone has in place a corporate policy framework that enables Capstone to operate at all times within applicable laws, regulations and its ethical standards; and
- ii. to approve and monitor compliance with significant policies and procedures by which Capstone is operated.
- iii. To adopt a code of conduct and ensure effective systems are in place such that all directors, officers and employees comply with the code.

## **H. Reporting and Communication**

The Board has the responsibility:

- i. to ensure Capstone has in place policies and programs to enable Capstone to communicate effectively with its shareholders, other stakeholders and the public generally;
- ii. to ensure that the financial performance of Capstone is adequately reported to shareholders, other security holders and regulators on a timely and regular basis;
- iii. to ensure that the financial results are reported fairly and in accordance with international financial reporting standards ("IFRS")
- iv. to ensure the timely reporting of developments that have a significant and material impact on the value of Capstone;
- v. to report annually to shareholders on its stewardship of the affairs of Capstone for the preceding year;
- vi. to develop appropriate measures for receiving shareholder feedback; and
- vii. to develop Capstone's approach to corporate governance and to develop a corporate governance guideline.

## **I. Monitoring and Acting**

The Board has the responsibility:

- i. to monitor Capstone's progress towards its goals and objectives and to revise and alter its direction through management in response to changing circumstances;
- ii. to take action when performance falls short of its goals and objectives or when other special circumstances warrant;
- iii. to ensure that Capstone has implemented adequate control and information systems which ensure the effective discharge of its responsibilities; and
- iv. to conduct regular assessments of the Board and Directors effectiveness.

#### **J. Non-Delegation**

The following are responsibilities of the Board that cannot be delegated to management or any Committee of the Board.

- i. Declare dividends;
- ii. On behalf of the Company, purchase, redeem, or otherwise acquire shares issued by the Company
- iii. Approve a management proxy circular
- iv. Approve a take-over bid circular
- v. Approve any financial statements or other statutory disclosure documents