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Capstone Mining Corp.

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CS-T: C\$1.26

TARGET: C\$1.80 (FROM C\$1.90)

RECOMMENDATION: BUY

RISK RATING: ABOVE AVERAGE

Cozamin resource update

		1.26	Event
C\$ Price (02/17/2009)		1.26	
Shares O/S basic (m)		165	
Shares O/S diluted (m)		179	
Market cap (C\$m)		225	
Fiscal year end		Dec-31	
	<u>Previous</u>	<u>Current</u>	
EPS (diluted, US\$)			
2008E	0.09	0.09	• Capstone has released a NI 43-101 compliant resource estimate for its Cozamin mine in Mexico.
2009E	0.24	0.24	• As expected, the additional drilling completed during 2008 has successfully converted most of the Inferred resource into the Measured and Indicated category, while overall resource tonnage increased by 3%. However, despite the higher cut-off grade used in the resource calculation, Cu, Pb, and Ag grades declined. Measured and Indicated resources in the San Roberto area now total 7.8mt grading 2.00% Cu, 1.15% Zn, and 68.2 g/t Ag. An additional 1.1mt grading 1.58% Cu and 0.95% Zn is in the Inferred category.
2010E	0.23	0.23	• The company has also delineated 1.5mt of Measured and Indicated resources in the new San Rafael area, located 500m east of San Roberto. Cu grades in this area are lower (i.e., 0.23%), while Zn grades are higher (3.64%), but the company believes that Cu grades should increase at depth. San Roberto also hosts 0.6mt of Inferred resources grading 3.5% Zn.
EBITDA (US\$m)			• The updated resources will now be used as the basis of a new mine plan for Cozamin, which is expected to be released in mid-2009.
2008E	41	41	
2009E	92	92	
2010E	88	88	
Adj. NAV (C\$/sh)	2.01	1.84	
			Impact
			• While the overall resource tonnage was in line with our expectations, the grades (especially Cu) were lower than we had expected. We have lowered the Cu grade assumption in our DCF by 9% to reflect the lower grades outlined in the new resource statements. Our DCF valuation for Cozamin is now based on 7.4mt grading 2.23% Cu, 1.15% Zn, and 76 g/t Ag. Our NAV value for the asset has declined by C\$32 million to C\$87 million.
			• We continue to rate Capstone Mining with a BUY recommendation, but we are lowering our target from C\$1.90 to C\$1.80 to reflect the decrease in our NAV value for Cozamin. Our target represents a weighted blend of multiples, including a 30% discount to our Adjusted NAV, a 3.5x multiple on our 2009E and 2010E cash flows, and a 2.6x multiple on our 2009E and 2010E EV/EBITDA.

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