UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 40-F

[Check one]

o REGISTRATION STATEMENT PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

OR

x ANNUAL REPORT PURSUANT TO SECTION 13(a) OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011 **Commission File Number 001-34244**

HUDBAY MINERALS INC.

(Exact name of Registrant as specified in its charter)

N/A
(Translation of Registrant's name into English (if applicable))

Canada
(Province or other jurisdiction of incorporation or organization)

1000
(Primary Standard Industrial Classification Code Number (if applicable))

98-0485558
(I.R.S. Employer Identification Number (if applicable))

25 York Street
Suite 800
Toronto, Ontario
M5J 2V5, Canada
416 362-8181
(Address and telephone number of Registrant's principal executive offices)

Andrew W. Bongiorno
Bevan, Mosca, Giuditta & Zarillo, P.C.
200 Madison Avenue, Suite 510
New York, N.Y. 10016
908 385-4289
(Name, address (including zip code) and telephone number (including area code)
of agent for service in the United States)

copy to:

Mark L. Mandel
Milbank, Tweed, Hadley & McCloy LLP
1 Chase Manhattan Plaza
New York, NY 10005
212 530-5026

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
Common Shares, no par value	**The New York Stock Exchange**

Securities registered or to be registered pursuant to Section 12(g) of the Act.

N/A
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

N/A
(Title of Class)

For annual reports, indicate by check mark the information filed with this form:

x Annual Information Form x Audited Annual Financial Statements

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: As at December 31, 2011, 171,937,665 common shares outstanding.

Indicate by check mark whether the registrant by filing the information contained in this form is also thereby furnishing the information to the U.S. Securities and Exchange Commission (the "Commission") pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934 (the "Exchange Act"). If "Yes" is marked, indicate the file number assigned to the registrant in connection with such rule.

Yes o No x

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13(d) or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements in the past 90 days.

Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

Yes o No o

EXPLANATORY NOTE

HudBay Minerals Inc. (the "Registrant") is a Canadian issuer eligible to file its annual report ("Annual Report") pursuant to Section 13(a) of the Exchange Act, on Form 40-F pursuant to the multi-jurisdictional disclosure system under the Exchange Act. The Registrant is a "foreign private issuer" as defined in Rule 405 under the Securities Act of 1933, as amended, and Rule 3b-4 under the Exchange Act. The equity securities of the Registrant are accordingly exempt from Sections 14(a), 14(b), 14(c), 14(f) and 16 of the Exchange Act pursuant to Rule 3a12-3 under the Exchange Act.

The Registrant is permitted, under the multi-jurisdictional disclosure system adopted by the United States and Canada, to prepare this Annual Report on Form 40-F in accordance with Canadian disclosure requirements, which are different from those of the United States.

This Annual Report contains references to both United States dollars and Canadian dollars. All dollar amounts referenced, unless otherwise indicated, are expressed in Canadian dollars, and United States dollars are referred to as "United States dollars" or "US$".

DOCUMENTS INCORPORATED BY REFERENCE

The Registrant's Annual Information Form ("AIF") for the fiscal year ended December 31, 2011 is incorporated herein by reference as Exhibit 99.1.

The audited consolidated financial statements (the " Audited Annual Financial Statements") of the Registrant for the years ended December 31, 2011 and 2010, including the reports of the auditors with respect thereto, are incorporated herein by reference as Exhibit 99.2. The Audited Annual Financial Statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The Canadian Institute of Chartered Accountants' Accounting Standards Board previously announced that Canadian publicly accountable enterprises are required to adopt IFRS, as issued by the International Accounting Standards Board, effective January 1, 2011.

For more information regarding the Registrant's conversion to IFRS, refer to the heading "Accounting Changes — Adoption of International Financial Reporting Standards" on page 51 of the Registrant's management's discussion and analysis ("MD&A") for the year ended December 31, 2011 and to note 31 of the audited consolidated financial statements for the year ended December 31, 2011, which contains further information and an explanation of the effect of the transition from Canadian generally accepted accounting principles to IFRS on the Registrant's financial position, financial performance and cash flows.

The Registrant's MD&A for the year ended December 31, 2011 is incorporated herein by reference as Exhibit 99.3.

The Registrant's Disclosure Pursuant to Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act is incorporated herein by reference as Exhibit 99.4.

The Registrant's amended Code of Business Conduct and Ethics is incorporated herein by reference as Exhibit 99.5.

The Report of Independent Registered Chartered Accountants in respect of the Registrant's internal control over financial reporting is incorporated herein by reference as Exhibit 99.6.

DISCLOSURE CONTROLS AND PROCEDURES

As of the end of the period covered by this Annual Report for the Registrant's fiscal year ended December 31, 2011, an evaluation of the effectiveness of the Registrant's "disclosure controls and procedures" (as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) was carried out by the Registrant's management with the participation and supervision of the principal executive officer and principal financial officer. Based upon that evaluation, the Registrant's principal executive officer and principal financial officer have concluded that as of the end of that fiscal year, the Registrant's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Registrant in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in Commission rules and forms and (ii) accumulated and

communicated to the Registrant's management, including its principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The disclosure provided under "Internal control over financial reporting ("ICFR")" on page 55 of Exhibit 99.3, Management's Discussion & Analysis for the Year Ended December 31, 2011, is incorporated by reference herein.

During the fiscal year ended December 31, 2011, we implemented a new enterprise resource planning ("ERP") information system at our Manitoba business unit, which included the replacement of its key financial systems. The implementation of the new ERP system followed our project plans, which included a number of typical project controls, such as the testing of data conversion and system reports, user training and user acceptance testing, in order to ensure internal controls were in place during and after the implementation. We did not make any other changes to "internal control over financial reporting" (as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the year ended December 31, 2011 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

All internal control systems, no matter how well designed, have inherent limitations. As a result, even systems determined to be effective may not prevent or detect misstatements on a timely basis, as systems can provide only reasonable assurance that the objectives of the control system are met. In addition, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may change.

ATTESTATION REPORT OF THE REGISTERED PUBLIC ACCOUNTING FIRM

The disclosure provided under "Report of Independent Registered Chartered Accountants" on pages 1 through 2 of Exhibit 99.2, Audited Annual Financial Statements for the years ended December 31, 2011 and 2010, and the disclosure provided in the "Report of Independent Registered Chartered Accountants" filed as Exhibit 99.6 to this Annual Report on Form 40-F are incorporated by reference herein.

BLACKOUT PERIODS

There were no "blackout periods", as defined under Rule 100(b) of Regulation BTR, requiring notice pursuant to Rule 104 of Regulation BTR during the fiscal year ended December 31, 2011.

AUDIT COMMITTEE IDENTIFICATION AND FINANCIAL EXPERT

The audit committee consists of J. Bruce Barraclough, Alan J. Lenczner and John. L. Knowles. The Registrant's board of directors has determined that each of Messrs. Barraclough, Lenczner and Knowles is an "audit committee financial expert" within the meaning of the Commission's rules. Each of Messrs. Barraclough, Lenczner and Knowles is also "independent" under the criteria of Rule 10A-3 of the Exchange Act as required by the New York Stock Exchange (the "NYSE"). The Commission has indicated that the designation of Messrs. Barraclough, Lenczner and Knowles as audit committee financial experts does not make any of them an "expert" for any purpose or impose any duties, obligations or liability on Messrs. Barraclough, Lenczner and Knowles that are greater than those imposed on members of the audit committee and board of directors who do not carry this designation. The Audit Committee's charter sets out its responsibilities and duties, qualifications for membership, procedures for committee appointment and reporting to the Registrant's board of directors. A copy of the current charter is attached to the AIF as Schedule D and is available on the Registrant's website at http://www.hudbayminerals.com/English/About-Us/Governance/default.aspx.

CODE OF ETHICS

The Registrant has adopted a Code of Business Conduct and Ethics (the "Code of Ethics") that applies to its principal executive officer, principal financial officer, principal accounting officer or controller and persons performing similar functions. During the fiscal year ended December 31, 2011, the Registrant conducted a review of its Code of Ethics with a view toward revising it to read more clearly and

updating it with respect to certain matters. A copy of the amended Code of Ethics is attached hereto as Exhibit 99.5. No waivers of the Registrant's Code of Ethics were granted to any principal officer of the Registrant or any person performing similar functions during the fiscal year ended December 31, 2011.

The following is a summary of the material amendments that were made to the Registrant's Code of Ethics during the fiscal year ended December 31, 2011. The following description is qualified in its entirety by reference to the Registrant's amended Code of Ethics, which is attached hereto as Exhibit 99.5 and incorporated herein by reference.

Purpose

The purpose section of the Registrant's Code of Ethics was revised to more concisely set forth its stated purpose, particularly with respect to internal reporting of violations of the Code of Ethics. The purpose section was also amended to include a reference to the Registrant's confidential "whistleblower" service as a means of reporting violations.

Third Party Relationships

The Registrant revised portions of its Code of Ethics regarding gifts or entertainment to customers, suppliers or contractors to make its policies more clear and concise. It also added new guidance relating to the conduct of business to ensure compliance with legal, regulatory and policy requirements regarding payments to government officials, namely with respect to compliance with the *Corruption of Foreign Public Officials Act* (Canada) and the *Foreign Corrupt Practices Act* (U.S.). It also clarified the Registrant's policy with respect to government relations and influencing testimony, with an added emphasis on the importance of separating personal political activity from the Registrant's interests.

In addition, the Registrant removed certain provisions regarding competitive practices, which were already covered by general policies with respect to compliance with laws. It also removed provisions detailing the execution of agreements by personnel.

Information and Records

The Registrant added a provision to its Code of Ethics regarding the implementation of internal accounting controls to ensure compliance with the FCPA and the maintenance of accurate documentation of the Registrant's transactions.

Waivers of the Code of Ethics

The Code of Ethics was amended to provide that the Registrant's board of directors is responsible for granting waivers of the Code of Ethics for any of the Registrant's Vice Presidents and above. Waivers for other personnel are now within the scope of authority of the Registrant's Chief Executive Officer.

Compliance Procedures

The Registrant also amended the compliance procedures section of the Code of Ethics to make it more concise and easier to read.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information provided under the heading "Audit Committee Disclosure" on page 36 of the AIF is incorporated by reference herein. All audit services, audit-related services, tax services, and other services provided for the fiscal year ended December 31, 2011 were preapproved by the audit committee in accordance with the Registrant's preapproval policy as described under the heading "Policy Regarding Non-Audit Services Rendered by Auditors" on page 36 of the AIF.

Audit Fees

The aggregate fees billed by Deloitte & Touche LLP ("Deloitte"), the Registrant's independent auditor, for the fiscal years ended December 31, 2010 and December 31, 2011, respectively, for auditing annual financial statements and reviewing the interim financial statements, as well as services normally provided by Deloitte in connection with the Registrant's statutory and regulatory filings for such fiscal years were $1,151,039 and $1,245,553, respectively.

Audit-Related Fees

The aggregate fees billed by Deloitte for the fiscal years ended December 31, 2010 and December 31, 2011, respectively, for audit-related fees, which are fees for assurance and services related to Deloitte's role, including attest services not required by statute or regulation and other audit related services, for such fiscal years were $300,132 and $476,640, respectively.

Tax Fees

The aggregate fees billed by Deloitte for the fiscal years ended December 31, 2010 and December 31, 2011, respectively, for certain tax advisory fees provided to management for such fiscal years were $16,700 and nil, respectively.

All Other Fees

In addition to the fees described above, Deloitte billed an aggregate of $49,350 for the fiscal year ended December 31, 2010 for other services, which involved fees for reviewing the Registrant's corporate social responsibility report for 2009. There were no fees billed by Deloitte for the fiscal year ended December 31, 2011, except as described above.

OFF-BALANCE SHEET ARRANGEMENTS

The Registrant has no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Registrant's financial condition, changes in financial condition, revenues or expenses, results of operation, liquidity, capital expenditures or capital resources that is material to investors.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The disclosure provided under "Contractual Obligations and Commitments" on page 36 of Exhibit 99.3, Management's Discussion & Analysis for the Year Ended December 31, 2011, is incorporated by reference herein.

COMPARISON WITH NEW YORK STOCK EXCHANGE GOVERNANCE RULES

The NYSE requires that each listed company meet certain corporate governance standards. These standards supplement the corporate governance reforms adopted by the United State Securities and Exchange Commission pursuant to the Sarbanes-Oxley Act of 2002.

Under the NYSE's Listed Company Manual, a "foreign private issuer", such as the Registrant, is not required to comply with most of the NYSE corporate governance standards. However, foreign private issuers are required to disclose any significant ways in which their corporate governance practices differ from those followed by U.S. companies under the NYSE corporate governance standards.

The Registrant is subject to the listing standards of the Toronto Stock Exchange (the "TSX") and the corporate governance rules of Canadian Securities Administrators. These listing standards and corporate governance rules are substantially similar to the NYSE listing standards. The Registrant complies with these TSX listing standards and Canadian corporate governance rules.

The following are the significant ways in which the Registrant's governance practices differ from those followed by domestic companies under the NYSE corporate governance standards:

Director Independence

The Registrant determines independence of its directors under the policies of the Canadian Securities Administrators. For a director to be considered independent under the policies of the Canadian Securities Administrators, he or she must have no direct or indirect material relationship with us, being a relationship that could, in the view of the board of directors reasonably be expected to interfere with the exercise of his or her independent judgment, and must not be in any relationship deemed to be not independent pursuant to such policies. To assist in determining the independence of directors for purposes that include compliance with applicable legal and regulatory requirements and policies, the board of

directors has adopted certain categorical standards, which are part of our Corporate Governance Guidelines. The Registrant's board of directors also determines whether each member of the Registrant's Audit Committee is independent pursuant to National Instrument 52-110 Audit Committees and Rule 10A-3 of the Exchange Act. The Registrant's board of directors has not adopted the director independence standards contained in Section 303A.02 of the NYSE's Listed Company Manual.

Approval of Equity Compensation Plans

Section 303A.08 of the NYSE's Listed Company Manual requires shareholder approval of all equity compensation plans and material revisions to such plans. The definition of "equity compensation plans" covers plans that provide for the delivery of both newly issued and treasury securities, as well as plans that rely on securities re-acquired in the open market by the issuing company for the purpose of redistribution to employers and directors. The TSX rules provide that the creation of any equity compensation plans that provide for new issuances of securities is subject to shareholder approval. Any amendments to such plans are subject to shareholder approval unless the specific equity compensation plan contains detailed provisions, approved by the shareholders, that specify those amendments requiring shareholder approval and those amendments which can be made without shareholder approval. The Registrant follows the TSX rules with respect to the requirements for shareholder approval of equity compensation plans and revisions to such plans.

Shareholder Approval Requirement

In lieu of Section 312 of the NYSE's Listed Company Manual, the Registrant will follow the TSX rules for shareholder approval of new issuances of its common shares. Following the TSX rules, shareholder approval is required for certain issuances of shares that (i) materially affect control of the Registrant or (ii) provide consideration to insiders in aggregate of 10% or greater of the market capitalization of the listed issuer and have not been negotiated at arm's length. Shareholder approval is also required, pursuant to the TSX rules, in the case of private placements (x) for an aggregate number of listed securities issuable greater than 25% of the number of securities of the listed issuer which are outstanding, on a non-diluted basis, prior to the date of closing of the transaction if the price per security is less than the market price or (y) that during any six month period are to insiders for listed securities or options, rights or other entitlements to listed securities greater than 10% of the number of securities of the listed issuer which are outstanding, on a non-diluted basis, prior to the date of the closing of the first private placement to an insider during the six month period.

MINE SAFETY DISCLOSURE

Pursuant to Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, issuers that are operators, or that have a subsidiary that is an operator, of a coal or other mine are required to disclose in their periodic reports filed with the Commission information regarding specified health and safety violations, orders and citations, related assessments and legal actions, and mining-related fatalities. For information regarding the Registrant's mine safety disclosures, see "Disclosure Pursuant to Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act" filed as Exhibit 99.4 to this Annual Report on Form 40-F.

UNDERTAKING

The Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to: the securities registered pursuant to Form 40-F; the securities in relation to which the obligation to file an annual report on Form 40-F arises; or transactions in said securities.

CONSENT TO SERVICE OF PROCESS

The Registrant has previously filed with the Commission a written consent to service of process and power of attorney on Form F-X. Any change to the name or address of the Registrant's agent for service shall be communicated promptly to the Commission by amendment to the Form F-X referencing the file number of the Registrant.

* * *

SIGNATURES

Pursuant to the requirements of the Exchange Act, the Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this Annual Report to be signed on its behalf by the undersigned, thereto duly authorized.

HUDBAY MINERALS INC.

By: /s/ Patrick Donnelly
Name: Patrick Donnelly
Title: Vice President, Legal and Corporate Secretary
Date: April 2, 2012

EXHIBIT INDEX

Exhibit Description and Date of Document

Annual Information; Management's Discussion and Analysis; Mine Safety Disclosure

99.1 Annual Information Form for the Year Ended December 31, 2011

99.2 Audited Annual Financial Statements for the Years Ended December 31, 2011 and 2010

99.3 Management's Discussion & Analysis for the Year Ended December 31, 2011

99.4 Disclosure Pursuant to Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act

99.5 Amended Code of Business Conduct and Ethics

99.6 Report of Independent Registered Chartered Accountants

Certifications

99.7 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

99.8 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

99.9 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

99.10 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Consents

99.11 Consent of Cashel Meagher, P.Geo., dated April 2, 2012

99.12 Consent of Robert Carter, P.Eng., dated April 2, 2012

99.13 Consent of Deloitte & Touche LLP, dated April 2, 2012

Exhibit 99.1



HUDBAY MINERALS INC.

ANNUAL INFORMATION FORM

FOR THE

YEAR ENDED DECEMBER 31, 2011

March 30, 2012

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FORWARD-LOOKING INFORMATION

This annual information form (“**AIF**”) contains “forward-looking information”, within the meaning of applicable Canadian and U.S. securities legislation. Forward looking information includes, but is not limited to, information with respect to our ability to develop our Lalor, Constancia and Reed projects and our other mineral properties, changes to the scope of our Constancia project, project development plan, and the anticipated timing of a project decision by our board of directors, the ability of management to execute on key strategic and operational objectives and meet production forecasts, exploration expenditures and activities and the possible success of such exploration activities, the estimation of mineral reserves and resources, the realization of mineral estimates, the timing and amount of estimated future production, costs of production, capital expenditures, costs and timing of the development of new deposits, mineral pricing, reclamation costs, economic outlook, government regulation of mining operations, mine life projections, the ability to maintain a regular dividend on our common shares, the

availability of third party concentrate for processing in our facilities and the availability of third party processing facilities for our concentrate, business and acquisition strategies and the timing and possible outcome of pending litigation. Often, but not always, forward looking information can be identified by the use of forward looking words like “plans”, “expects”, or “does not expect”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “understands”, “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”. Forward looking information is based on the opinions and estimates of management as of the date such information is provided and is subject to known and unknown risks, uncertainties and other factors that may cause our actual results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward looking information, including the ability to develop and operate our Lalor, Constancia and Reed projects on an economic basis and in accordance with applicable timelines, the ability to receive permits required to achieve production at Lalor, Constancia and Reed, geological and technical conditions at our key projects being adequate to permit development, the ability to meet required solvency tests to support a dividend payment, risks associated with the mining industry such as economic factors (including future commodity prices, currency fluctuations and energy prices), failure of plant, equipment, processes and transportation services to operate as anticipated, dependence on key personnel and employee relations, environmental risks, government regulation (including anti-bribery legislation), aboriginal rights and title, actual results of current exploration activities, possible variations in ore grade or recovery rates, permitting timelines, capital expenditures, reclamation activities, land titles, and social and political developments and other risks of the mining industry as well as those risk factors discussed or referred to in this AIF under the heading “Risk Factors”. Although we have attempted to identify important factors that could cause actual results to differ materially from those contained in forward looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that forward looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward looking information. We do not undertake to update or revise any forward looking information whether as a result of new information, future events or otherwise, except as required by applicable securities laws, or to comment on analyses, expectations or statements made by third parties in respect of our financial or operating results or our securities.

NOTE TO UNITED STATES INVESTORS

Information concerning our mineral properties has been prepared in accordance with the requirements of Canadian securities laws, which differ in material respects from the requirements of the U.S. Securities and Exchange Commission (“**SEC**”) Industry Guide 7. Under SEC Industry Guide 7, mineralization may not be classified as a “reserve” unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time of the reserve determination, and the SEC does not recognize the reporting of mineral deposits which do not meet the SEC Industry Guide 7 definition of “Reserve”. In accordance with National Instrument 43-101 - Standards of Disclosure for Mineral Projects (“**NI 43-101**”) of the Canadian Securities Administrators, the terms “mineral reserve”, “proven mineral reserve”, “probable mineral reserve”, “mineral resource”, “measured mineral resource”, “indicated mineral resource” and “inferred mineral resource” are defined in the Canadian Institute of Mining, Metallurgy and Petroleum (“**CIM**”) Definition Standards for Mineral

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Resources and Mineral Reserves adopted by the CIM Council on December 11, 2005. While the terms “mineral resource”, “measured mineral resource”, “indicated mineral resource” and “inferred mineral resource” are recognized and required by NI 43-101, the SEC does not recognize them. You are cautioned that, except for that portion of mineral resources classified as mineral reserves, mineral resources do not have demonstrated economic value. Inferred mineral resources have a high degree of uncertainty as to their existence and as to whether they can be economically or legally mined. It cannot be assumed that all or any part of an inferred mineral resource will ever be upgraded to a higher category. Therefore, you are cautioned not to assume that all or any part of an inferred mineral resource exists, that it can be economically or legally mined, or that it will ever be upgraded to a higher category. Likewise, you are cautioned not to assume that all or any part of measured or indicated mineral resources will ever be upgraded into mineral reserves. For more information on the technical terms as they are used under NI 43-101, please see Schedule A “Glossary of Mining Terms”.

CURRENCY AND EXCHANGE RATES

This AIF contains references to both United States dollars and Canadian dollars. All dollar amounts referenced, unless otherwise indicated, are expressed in Canadian dollars, and United States dollars are referred to as “United States dollars” or “US$”. For Canadian dollars to United States dollars, the average exchange rate for 2011 and the closing exchange rate at December 30, 2011, as reported by the Bank of Canada, were one Canadian dollar per 0.989 and 0.983 United States dollars, respectively. On March 29, 2012 the Bank of Canada noon rate of exchange was C$1.00 = US$1.00.

OTHER IMPORTANT INFORMATION

Certain scientific and technical terms and abbreviations used in this AIF are defined in the “Glossary of Mining Terms” attached as Schedule A.

Unless the context suggests otherwise, references to “we”, “us”, “our” and similar terms, as well as references to “Hudbay” and “Company”, refer to HudBay Minerals Inc. and its direct and indirect subsidiaries.

CORPORATE STRUCTURE

Incorporation and Registered Office

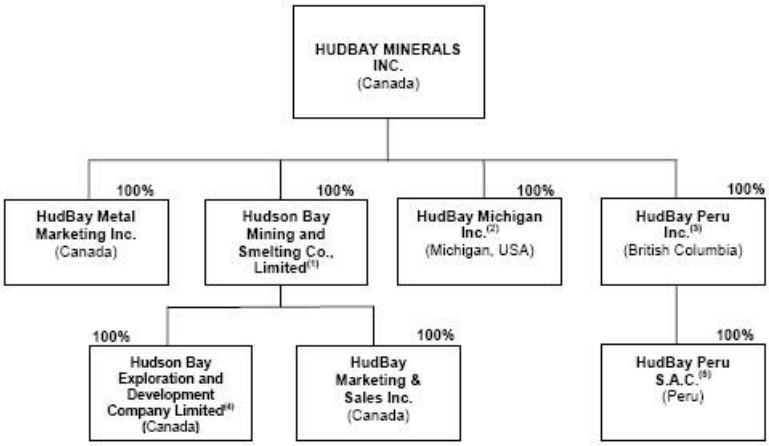
We were formed by the amalgamation of Pan American Resources Inc. and Marvas Developments Ltd. on January 16, 1996, pursuant to the *Business Corporations Act* (Ontario) and changed our name to Pan American Resources Inc. On March 12, 2002, we acquired ONTZINC Corporation, a private Ontario corporation, through a reverse takeover and changed our name to ONTZINC Corporation. On December 21, 2004, we acquired Hudson Bay Mining and Smelting Co., Limited (“**HBMS**”) and changed our name to HudBay Minerals Inc. In connection with the acquisition of HBMS, on December 21, 2004, we amended our articles to consolidate our common shares on a 30 to 1 basis. On October 25, 2005, we were continued under the *Canada Business Corporations Act* (“**CBCA**”). On August 15, 2011, we completed a vertical short-form amalgamation under the CBCA with our subsidiary, HMI Nickel Inc.

Our registered office is located at 2200-201 Portage Avenue, Winnipeg, Manitoba R3B 3L3 and our principal executive office is located at 25 York Street, Suite 800, Toronto, Ontario M5J 2V5.

Our common shares are listed on the Toronto Stock Exchange (" **TSX**") and the New York Stock Exchange (" **NYSE**") under the symbol "HBM".

Intercorporate Relationships

The following chart shows our principal subsidiaries, their jurisdiction of incorporation and the percentage of voting securities we beneficially own or over which we have control or direction.



Notes:

(1) HBMS owns our 777, Trout Lake and Chisel North mines, our Lalor project and our 70% owned Reed copper project.
(2) HudBay Michigan Inc. owns a 51% interest in the Back Forty project, a joint venture with Aquila Resources Inc. (" **Aquila**").
(3) HudBay Peru Inc. changed its name from Norsemont Mining Inc. on September 26, 2011.
(4) Hudson Bay Exploration and Development Company Limited (" **HBED**") holds our key exploration properties in Canada and acts as agent for HBMS.
(5) HudBay Peru S.A.C. owns the Constancia copper project.

DEVELOPMENT OF OUR BUSINESS

General

We are an integrated mining company with assets in North and South America. We produce copper concentrate (containing copper, gold and silver) and zinc metal and are focused on the discovery, production and marketing of base and precious metals. Through our subsidiaries, we own copper/zinc/gold mines, ore concentrators and a zinc production facility in northern Manitoba and Saskatchewan, and a copper project in Peru. Our mission is to create sustainable value through increased commodity exposure on a per share basis, in high quality and growing long life deposits in mining friendly jurisdictions.

The key elements of our strategic plan are as follows: (i) optimize operations and grow our principal operating platform in northern Manitoba, including aggressively pursuing development of our Lalor project and continuing exploration in the Flin Flon Greenstone Belt; and (ii) grow beyond our Manitoba base, including through the development of our Constancia project, and seek acquisitions of volcanogenic massive sulphide ("**VMS**") and porphyry deposits with exploration upside in mining friendly jurisdictions in the Americas.

As described below, under the heading "Three Year History", we have been able to execute on this strategy in recent years by, among other things, acquiring and beginning to develop the Constancia project in Peru, making a full commitment to the development of our 100% owned Lalor project, approving the construction of our 70% owned Reed copper project, disposing of our interest in the Fenix project and other non-core assets and expanding our investment portfolio in junior exploration companies.

Three Year History

Reed Copper Project

On December 19, 2011 our board of directors approved a capital investment of $71 million toward the construction of the Reed copper project, which has an indicated mineral resource of 2.55 million tonnes of 4.52% copper and an inferred mineral resource of 170,000 tonnes of 4.26% copper. Pursuant to our agreement with VMS Ventures Inc. ("**VMS Ventures**"), we have a 70% interest and VMS has a 30% interest in

the Reed project. For additional information, refer below to the heading “Description of Our Business — Other Assets — Joint Ventures — Reed Copper Project”.

Dispositions of Fenix Project and Zochem Inc.

On September 9, 2011 we completed the sale of our interest in the Fenix ferro nickel project in Guatemala to the Solway Group. We acquired the Fenix project in August 2008, through our acquisition of all of the issued and outstanding common shares of HMI Nickel Inc. (formerly Skye Resources Inc.). Pursuant to the terms of our agreement with the Solway Group, we received US$140 million in cash at closing and, if Solway successfully develops the project and certain conditions are satisfied, will receive an additional US$30 million upon the occurrence of such events. The sale proceeds have further strengthened our balance sheet as we develop our Lalor and Constancia projects.

On November 1, 2011 we sold our interest in Zochem Inc. to a third party for cash consideration of US$15.1 million. Zochem Inc. owns and operates a zinc oxide production facility in Brampton, Ontario.

Lalor

On August 4, 2010 our board of directors made a full commitment to the development of our 100% owned Lalor project near Snow Lake, Manitoba by authorizing a $560 million investment to put the project into full production. On July 5, 2011 we announced the results of our Lalor optimization study. Following our optimization study, our board of directors approved an incremental capital expenditure investment of $144 million to build a new 4,500 tonne per day concentrator at Lalor instead of refurbishing our existing Snow Lake concentrator. First production from the 985 metre production shaft is anticipated in late 2014 which is scheduled to coincide with the completion of the new concentrator. Including the new concentrator, the total estimated project cost for Lalor is $704 million, of which approximately $206 million had been spent as of December 31, 2011. Full production, use of the new concentrator and an increase to the capacity of the tailings facility are contingent upon receipt of required permits, which we believe to be forthcoming.

Our board of directors had previously approved the development of an access ramp from our Chisel North mine to the deposit, which is expected to facilitate early production of zinc rich ore from the ventilation shaft in the middle of 2012 and provide access to the Lalor gold zone for additional underground exploration. Development of the 3,200 metre ramp commenced in December 2009 and was completed on time and on budget in the fourth quarter of 2011. For additional information, refer below to the heading “Description of Our Business — Material Mineral Projects — Lalor Project”.

Acquisition of Norsemont Mining Inc.

We acquired Norsemont Mining Inc. (“**Norsemont**”) pursuant to a support agreement dated January 9, 2011 and an offer dated January 24, 2011 (as extended by a notice of extension dated March 1, 2011, the “**Offer**”). As set forth in the Offer, Norsemont shareholders were entitled to elect to receive, as consideration for each deposited common share of Norsemont (“**Norsemont Share**”), either: (a) 0.2617 of a Hudbay common share and $0.001 in cash, or (b) cash in an amount that is greater than $0.001, not to exceed $4.50, and, if less than $4.50 in cash was elected, the number of Hudbay common shares equal to the excess of $4.50 over such elected cash amount, divided by $17.19, subject, in each case, to pro-ration and rounding as set out in the Offer.

On March 15, 2011, upon expiry of the Offer, we had taken up an aggregate of 112,185,931 Norsemont Shares validly deposited under the Offer which, together with the Norsemont Shares already owned by us, represented approximately 98% of the issued and outstanding Norsemont Shares (on a fully-diluted basis). This constituted a significant acquisition for us pursuant to Part 8 of National Instrument 51-102 and we filed a business acquisition report on April 28, 2011 in respect of the acquisition. On July 6, 2011, we announced that we had acquired all of the remaining Norsemont Shares pursuant to a compulsory acquisition carried out under the provisions of the *Business Corporations Act* (British Columbia). Pursuant to the Offer and compulsory acquisition, we issued 22,475,704 Hudbay common shares and paid an aggregate of $130 million in cash to former Norsemont shareholders.

Following completion of our acquisition of Norsemont, we changed Norsemont’s name to HudBay Peru Inc. (“ **Hudbay Peru**”). Hudbay Peru’s wholly-owned subsidiary, HudBay Peru S.A.C., owns 100% of the Constancia copper project in southern Peru. The Constancia project has proven and probable mineral reserves containing 372 million tonnes grading 0.39% copper, 105 g/t molybdenum, 0.05 g/t gold and 3.6 g/t silver. In addition, the higher grade Pampacancha deposit, approximately 2.5 kilometres from the proposed Constancia open pit, contains a measured mineral resource of 32.7 million tonnes of 0.48% copper and an indicated mineral resource of 18.5 million tonnes of 0.38% copper.

As a result of general cost escalation, scope enhancements, local currency appreciation and other factors, our capital cost estimate for Constancia is estimated to be US$1.5 billion. This amount represents gross capital costs, with no credits for revenue from production prior to achieving commercial production and includes sunk costs incurred during 2012. Capitalized costs expected to be incurred prior to a formal project decision total US$141 million. To support the continuing pre-construction development of Constancia during the second quarter of 2012, our board of directors has approved an incremental US$34 million in capitalized spending on Constancia, over and above the US$107 million approved for the first quarter of 2012. These expenditures will support ongoing engineering and procurement activity, hydrogeological drilling and camp construction among other activities.

The anticipated project schedule currently remains unchanged, with first production expected in 2015 and full production in 2016. By mid-2012, we expect to present our board of directors with a formal project recommendation, including a financing plan expected to involve project financing for Constancia. For additional information, refer below to the heading “Description of our Business — Material Mineral Projects — Constancia Project”.

New Credit Facility

On November 3, 2010 we announced a new four-year $300 million revolving credit facility with a syndicate of lenders.

New York Stock Exchange Listing

Our common shares commenced trading on the NYSE on October 25, 2010 under the ticker symbol “HBM”, which is the same ticker symbol HBMS was listed under on the NYSE from 1938 until 1983. Our listing on the NYSE is intended to increase the trading liquidity of our common shares and provide greater visibility among U.S.-based investors.

Back Forty Joint Venture

On September 1, 2010 we exercised our option to earn a 51% interest in the Back Forty project in Michigan’s Upper Peninsula. For additional information, refer below to the heading “Description of Our Business — Other Assets — Joint Ventures — Back Forty Project”.

Investment in Augusta Resource Corporation

On August 27, 2010 we acquired 10,905,590 units of Augusta Resource Corporation (“ **Augusta**”) at a subscription price of $2.75 per unit and an aggregate acquisition cost of approximately $30 million. Each unit consisted of one Augusta common share and one half of a common share purchase warrant,

which was exercisable for one common share at an exercise price of $3.90 until February 27, 2012. On March 18, 2011, we exercised all of our Augusta warrants after receiving notice from Augusta that, in accordance with Augusta’s rights under the warrants, the expiry time of the warrants had been accelerated to March 21, 2011. Following our exercise of the warrants, we own approximately 14.1% of Augusta’s issued and outstanding common shares. Augusta’s primary asset is the Rosemont copper project in Arizona. The investment in Augusta was consistent with our strategy of investing in junior companies with near-development mineral projects.

777 North Expansion

On August 4, 2010 we announced plans to expand our 777 mine. The 777 North expansion involves driving a 2,500 metre ramp from surface to the 440 metre level below surface to access mineral resources of 550,000 tonnes grading 1.5 g/t gold, 22.5 g/t silver, 1.0% copper and 3.6% zinc. These zones are connected to the underground workings of our 777 mine. Total capital costs for the expansion are estimated at $20 million. Production is expected to begin in mid-2012 at a rate of 200 tonnes per day and full production is planned for 2013 at a rate of 330 tonnes per day, producing approximately 5,500 tonnes of copper metal and 20,000 tonnes of zinc metal over the six year life of the project. For additional information, refer below to the heading “Description of our Business — Material Mineral Projects — 777 Mine”.

CEO Appointment

David Garofalo joined us as our President and Chief Executive Officer (“ **CEO**”) on July 12, 2010, succeeding W. Warren Holmes, who had served as our Interim CEO since January 1, 2010 and our Executive Vice Chairman since November 12, 2009.

Mr. Garofalo was previously Senior Vice President, Finance and Chief Financial Officer and a director at Agnico-Eagle Mines Limited, where he had been employed since 1998. Between 1990 and 1998, Mr. Garofalo served as Treasurer and in various finance roles with another international mining company.

Closure of Copper Smelter and Refinery

On June 11, 2010 we completed the closure of our copper smelter in Flin Flon, which had been in operation for over 80 years. We closed our White Pine copper refinery soon thereafter and sold it in the second quarter of 2011.

Re-Start of Chisel North Mine and Snow Lake Concentrator

On October 30, 2009 we announced the re-start of operations at our Chisel North mine and Snow Lake concentrator, which were placed on care and maintenance in the first quarter of 2009 due to depressed metals prices.

Board and Executive Transition

Our previous board of directors resigned on March 23, 2009 following the resolution of a proxy contest initiated by a shareholder and on that date, the current board of directors (as constituted at the time) was appointed. In connection with the board transition, Colin K. Benner resigned as Interim CEO and Peter R. Jones was appointed CEO. Mr. Benner had replaced Allen J. Palmiere, who resigned as CEO on March 9, 2009.

On November 12, 2009 we announced that Mr. Jones would be retiring, effective December 31, 2009, and our President and Chief Operating Officer, Michael D. Winship, was resigning from the Company. On that date we also announced that W. Warren Holmes had been appointed Executive Vice Chairman and, from January 1, 2010 to July 12, 2010, Mr. Holmes also served as Interim CEO.

Arrangement Agreement with Lundin Mining Corporation and Share Subscription

On November 21, 2008 we entered into an arrangement agreement (the “ **Arrangement Agreement**”) with Lundin Mining Corporation

("**Lundin**") pursuant to which we would have acquired all of the issued and outstanding common shares of Lundin. Also, on November 21, 2008, we entered into a subscription agreement with Lundin whereby we agreed to acquire 96,997,492 common shares of Lundin at a price of $1.40 per share (the "**Share Subscription**"), with aggregate gross proceeds to Lundin of $135.8 million. The Share Subscription was completed on December 11, 2008, and on its completion we held 19.9% of the issued and outstanding Lundin common shares.

On January 23, 2009 the Ontario Securities Commission (" **OSC**") set aside a decision of the TSX granting conditional approval for the listing of the Hudbay common shares to be issued as consideration pursuant to the Arrangement Agreement. The OSC determined in its decision that Hudbay shareholder approval of the acquisition of Lundin was required as a condition to the listing of the additional common shares.

After the previous board of directors concluded that we were not likely to receive the requisite shareholder approval, we entered into a termination agreement with Lundin (the "**Termination Agreement**") on February 23, 2009, which provided for the termination of the Arrangement Agreement.

On May 26, 2009 we sold all of the Lundin shares we acquired in the Share Subscription for gross proceeds of approximately $236 million, representing a gain of approximately $100 million.

DESCRIPTION OF OUR BUSINESS

General

As described in further detail below, we have three material mineral projects, all of which are 100% owned:

1. our 777 underground mine in Flin Flon, Manitoba;
2. our Lalor project, a zinc, gold and copper deposit near Snow Lake, Manitoba; and
3. our Constancia copper project in Peru, which we acquired in the first quarter of 2011 through our acquisition of Norsemont.

In addition, our other assets include: our Trout Lake and Chisel North underground mines in northern Manitoba, both of which are scheduled to close in 2012; our joint ventures, including our 70% interest in the Reed copper project near Snow Lake, Manitoba which our board of directors has approved for construction and our 51% interest in the Back Forty project in Michigan's Upper Peninsula; our Balmat mine and concentrator in Balmat, New York, which were placed on care and maintenance in August 2008; exploration properties in North and South America; and strategic investments in junior exploration companies.

The following map shows where our material mineral projects and certain of our other assets are located.



Material Mineral Projects

777 Mine

Our 100% owned 777 mine is an underground copper, zinc, gold and silver mine located within the Flin Flon Greenstone Belt, immediately adjacent to our principal concentrator and zinc pressure leach plant in Flin Flon, Manitoba. Development of the 777 mine

commenced in 1999 and commercial production began in 2004. The anticipated mine life is until 2020.

Ore produced at the 777 mine is transported to our Flin Flon concentrator for processing into copper and zinc concentrate. Copper concentrate is sold to third party purchasers and zinc concentrate is sent to our Flin Flon zinc plant where it is further processed into special high grade zinc before being sold to third party purchasers. For additional information, refer below to the headings “Description of our Business — Other Information — Processing Facilities” and “Description of our Business — Other Information — Products and Marketing”.

For additional details on our 777 mine, refer to Schedule B of this AIF.

Production

The following table sets forth our production forecast for the 777 Mine for 2012, and actual production for the years ended December 31, 2011, 2010 and 2009.

		December 31			
	Units	2012E	2011	2010	2009
Ore mined	000s tonnes	1,553.00	1,491.72	1,488.01	1,540.35
Copper grade in ore	%	2.30	3.18	2.89	2.49
Zinc grade in ore	%	4.30	3.71	4.01	4.35
Gold grade in ore	grams/tonne	1.90	2.37	2.09	2.12
Silver grade in ore	grams/tonne	28.00	26.78	25.89	26.39

Strong production is expected again in 2012 from our flagship 777 mine. Copper grades at 777 are expected to be slightly higher than reserve grades mainly due to the areas planned for mining during 2012. Operating costs are expected to be similar to costs experienced in the past several years. Costs in the first and fourth quarters are expected to be higher due to additional heating and other seasonal costs.

Mineral Reserves and Resources

The following tables set forth our estimates of the mineral reserves and resources at the 777 mine.

In-Mine Mineral Reserves — January 1, 2012 (1)(2)(3)

	Tonnes	Au (g/t)	Ag (g/t)	Cu (%)	Zn (%)
777 Mine					
Proven	4,827,000	1.98	26.81	2.39	4.15
Probable	7,011,000	1.84	28.25	1.67	4.51
777 North					
Proven	94,000	1.57	25.48	0.74	4.58
Probable	453,000	1.47	21.77	1.10	3.37
Total Proven and Probable Reserves	**12,385,000**				

Notes:

(1) This table shows the estimated reserves at our 777 mine, including the 777 North expansion, in Manitoba. To estimate mineral reserves, measured and indicated mineral resources were first estimated in a 12-step process, which includes determination of the integrity and validation of the data collected, including confirmation of specific gravity, assay results and methods of data recording. The process also includes determining the appropriate geological model, selection of data and the application of statistical models including probability plots and restrictive kriging to establish continuity and model validation. The resultant estimates of measured and indicated mineral resources are then converted to proven and probable mineral reserves by the application of mining dilution and recovery, as well as the determination of economic viability using full cost analysis. Other factors such as depletion from production are applied as appropriate.

(2) The zinc price used for mineral reserve estimation was US$1.00 per pound (includes premium), the copper price was US$2.75 per pound, the gold price was US$1,100 per ounce and the silver price was US$22 per ounce using an exchange of 1.05 C$/US$.

(3) The estimate as at January 1, 2012 was prepared in accordance with NI 43-101 and the CIM Standards on Mineral Resources and Reserves: Definitions and Guidelines.

In-Mine Inferred Mineral Resources — January 1, 2012(1)(2)(3)

	Tonnes	Au (g/t)	Ag (g/t)	Cu (%)	Zn (%)
777 Mine	1,065,000	1.99	39.61	1.48	5.44
777 North	118,000	1.66	35.20	0.95	5.70
Total Inferred Resources	**1,183,000**				

Notes:

(1) This table shows our estimated inferred mineral resources at our 777 mine, including the 777 North expansion, in Manitoba. Estimated inferred mineral resources within our 777 mine were estimated by a 12-step process similar to the one used to estimate measured and indicated resources, as described in Note 1 to the In-mine Mineral Reserves table above.
(2) The zinc price used for mineral reserve estimation was US$1.00 per pound (includes premium), the copper price was US$2.75 per pound, the gold price was US$1,100 per ounce and the silver price was US$22 per ounce using an exchange of 1.05 C$/US$.
(3) The estimate as at January 1, 2012 was prepared in accordance with NI 43-101 and the CIM Standards on Mineral Resources and Reserves: Definitions and Guidelines.

777 North Expansion

The 777 North mine expansion was approved by our board of directors on August 4, 2010 and its development involves driving a ramp from surface to a depth of 440 metres below surface to access mineral resources located in the north and east zones. These zones are situated directly up plunge of the 777 ore body and are connected to underground workings of the 777 mine. Upon its completion, the 777 North mine expansion will provide an additional egress from the 777 mine and supply additional copper and zinc ore feed to the Flin Flon concentrator. It will also provide an underground exploration platform to enable the evaluation of additional exploration opportunities near the 777 mine.

The 777 North mine expansion is located entirely within the associated 777 mine property and is covered by 777's Saskatchewan Mineral Leases and Manitoba Order in Council leases.

Development of the portal, which is located adjacent to our metallurgical plant area, began in August 2010. The ramp had advanced a total of 1,706 metres (or approximately 60% of the total distance) as of December 31, 2011. Production is expected to begin in mid-2012 at a rate of 200 tonnes per day and full production is planned for 2013 at a rate of 330 tonnes per day.

Lalor Project

Lalor is a 100% owned zinc, gold and copper project currently under construction near Snow Lake, Manitoba. Our board of directors has made a full commitment to the development of the Lalor project by authorizing the expenditures necessary to put the project into full production. We undertook fast-track prefeasibility work in early 2010 and completed an updated prefeasibility study in February 2011 and an optimization study in July 2011. Following our optimization study, our board of directors approved an incremental capital expenditure investment of $144 million to build a new 4,500 tonnes per day concentrator at Lalor instead of refurbishing our existing Snow Lake concentrator. First production from the 985 metre production shaft is anticipated in late 2014 which is scheduled to coincide with the completion of the new concentrator. Including the new concentrator, the total estimated project cost for Lalor is $704 million, of which approximately $206 million had been spent as of December 31, 2011. Full production, use of the new concentrator and an increase to the capacity of the tailings facility are contingent upon receipt of required permits, which we believe to be forthcoming.

A 3,200 metre underground ramp from Hudbay's Chisel North mine to the Lalor deposit began in December 2009 and was completed on time and on budget in 2011. The ramp is expected to facilitate early production of zinc rich ore from the ventilation shaft and provide access to the gold zones for additional underground exploration. With the ramp now completed, the focus at Lalor has turned to completion of the ventilation shaft to allow first ore production up the temporary hoisting facilities by the middle of 2012. Other major activities contemplated at Lalor include the commencement of production shaft sinking early in 2012, delivery of underground equipment and completion of engineering and procurement for the new concentrator.

For additional details on our Lalor project, refer to Schedule B of this AIF.

Production

The following table sets forth our production forecast from the ventilation shaft for 2012. Full production from the 985 metre production shaft is anticipated in late 2014.

	2012 Production Forecast	
	Units	2012
Ore mined	000s tonnes	86.0
Zinc grade in ore	%	10.1
Copper grade in ore	%	0.4
Gold grade in ore	grams/tonne	1.1
Silver grade in ore	grams/tonne	16.9

Mineral Reserves and Resources

Lalor Probable Mineral Reserves — March 29, 2012(1)(2)(3)

Mineralization Type	Tonnes	Au (g/t)	Ag (g/t)	Cu (%)	Zn (%)
Base Metal	12,591,000	1.55	23.81	0.63	7.92
Gold Zone	1,841,000	3.99	21.77	0.38	0.38
Total	**14,432,000**				

Notes:

(1) To estimate mineral reserves, measured and indicated mineral resources were first estimated in a 12-step process, which includes determination of the integrity and validation of the data collected, including confirmation of specific gravity, assay results and methods of data recording. The process also includes determining the appropriate geological model, selection of data and the application of statistical models including probability plots and restrictive kriging to establish continuity and model validation. The resultant estimates of measured and indicated mineral resources are then converted to proven and probable mineral reserves by the application of mining dilution and recovery, as well as the determination of economic viability using full cost analysis.
(2) The weighted average (based on planned production tonnage) price from 2012 to 2016 used in the Lalor pre-feasibility study for mineral reserve estimation for zinc was US$1.11 per pound (includes premium), the copper price was US$3.12 per pound, the gold price was US$1,399 per ounce and the silver price was US$27.28 per ounce using an exchange of 1.03 C$/US$. Post 2016 the mineral reserve estimation used a zinc price of US$1.00 per pound (includes premium), a copper price of US$2.75 per pound, a gold price of US$1,100 per ounce and a silver price of US$22 per ounce using an exchange of 1.05 C$/US$.
(3) The estimate as at March 29, 2012 was prepared in accordance with NI 43-101 and the CIM Standards on Mineral Resources and Reserves: Definitions and Guidelines.

Lalor Inferred Mineral Resources — September 30, 2011(1)(2)(3)(4)(5)

Mineralization Type	Tonnes	Au (g/t)	Ag (g/t)	Cu (%)	Zn (%)
Base Metal	3,817,000	1.2	22.2	0.60	9.09
Gold Zone	7,338,000	4.6	31.3	0.41	0.32
Copper-Gold Zone	1,461,000	6.8	20.3	4.15	0.31
Total	**12,616,000**				

Notes:

(1) Estimated inferred mineral resources at Lalor were estimated by a 12-step process similar to the one used to estimate measured and indicated resources, as described in Note 1 to the Lalor Probable Mineral Reserves table above.
(2) Zinc rich base metal mineral resources are estimated at a Zinc Equivalency formula ("ZNEQ") cut-off of 4% (ZNEQ% equals Zn% + Cu% x 2.895 + Au g/t x 1.220 + Ag g/t x 0.023) and a minimum two metre true width. Long term $US metal prices of $1,100/oz gold, $22.00/oz silver, $2.75/lb copper and $0.95/lb zinc and metal recovery assumptions of 65% gold, 60% silver, 90% copper and 90% zinc were used for the estimation of ZNEQ.
(3) Gold zone mineral resources are estimated at a 1.0 g/t gold cut-off and a minimum two metre true width.
(4) Specific gravity measurements were taken on a large portion of the samples. Where actual measurements were not available stoichiometric values were calculated.
(5) The estimate as at September 30, 2011 was prepared in accordance with NI 43-101 and the CIM Standards on Mineral Resources and Reserves: Definitions and Guidelines.

Constancia Project

We hold a 100% interest in the Constancia copper project in Peru, which we acquired when we completed our acquisition of Norsemont in 2011.

Constancia is located in the districts of Chamaca, Livitaca and Velille, Province of Chumbivilcas in southern Peru, close to roads, major power lines and a port. The mine plan currently contemplates an open pit mine with a production rate of 85,000 tonnes of copper per year over a 15 year mine life, with molybdenum, silver and gold by-products. We have received the key environmental permit for Constancia and believe that additional required permits will be granted in the ordinary course. A portion of the surface rights for the Constancia project belong to the communities of Chilloroya and Uchucarcco. In the first quarter of 2012, we reached life of mine agreements with these communities to secure land required for project construction and operations.

The Constancia property also holds considerable exploration potential, as evidenced by the recently completed resource for the Pampacancha deposit, which contains a measured mineral resource of 32.7 million tonnes of 0.48% copper and an indicated mineral resource of 18.5 million tonnes of 0.38% copper. There are additional targets in the Chilloroya South prospect which we intend to explore starting in the second quarter of 2012.

We are currently completing optimization work on the feasibility study prepared by Norsemont as part of the FEED (front end engineering and design) for the Constancia project. Significant changes to the previous project design include:

- Value engineering and comminution optimization, which has yielded an annual ore production capacity increase from 24.5 million tonnes per year in Norsemont's Feasibility Study Optimization to 28.2 million tonnes per year, which represents a 15% increase in throughput.

- An expected increase in the in-pit reserve to incorporate additional economic mineralization. This will require an increase in the project's tailings dam capacity. The increase in reserve along with plans to incorporate the higher grade Pampacancha resource early into the mine plan are expected to be incorporated into a new mine plan by mid-2012.

- Value engineering efforts are underway with optimization efforts focused on areas such as camp accommodations, water management and tailings impoundment.

As a result of general cost escalation, the scope enhancements described above, local currency appreciation and other factors, our capital cost estimate for Constancia is estimated to be US$1.5 billion. This amount represents gross capital costs, with no credits for revenue from production prior to achieving commercial production and includes sunk costs incurred during 2012. Capitalized costs expected to be incurred prior to a formal project decision total US$141 million. To support the continuing pre-construction development of Constancia during the second quarter of 2012, our board of directors has approved an incremental US$34 million in capitalized spending on Constancia, over and above the US$107 million approved for the first quarter of 2012. These expenditures will support ongoing engineering and procurement activity, hydrogeological drilling and camp construction among other activities.

The anticipated project schedule currently remains unchanged, with first production expected in 2015 and full production in 2016. By mid-2012, we expect to present our board of directors with a formal project recommendation, including a financing plan expected to involve project financing for Constancia.

For additional details on our Constancia project, refer to Schedule B of this AIF.

Mineral Reserves and Resources

The following table sets forth our estimates of the mineral reserves and resources at the Constancia project as at February 21, 2011.(1)

Category	Tonnes	Au (g/t)	Ag (g/t)	Cu (%)	Mo (%)	Cu Equivalent (%)
Proven	195,000,000	0.04	3.49	0.42	0.0117	0.54
Probable	177,000,000	0.05	3.66	0.37	0.0092	0.49
Total Reserves	**372,000,000**	**0.05**	**3.57**	**0.39**	**0.0105**	**0.51**
Inferred Resources	20,963,000	0.04	3.69	0.26	0.0067	0.36

Notes:

(1) For additional details relating to the estimates of mineral reserves and resources at the Constancia project, including data verification and quality assurance/quality control processes, refer to the “Constancia Project Technical Report” as filed on SEDAR by Norsemont Mining Inc. on February 21, 2011.

Based on this estimate, the proven and probable reserves at Constancia contain approximately 3.23 billion pounds of copper, 105 million pounds of molybdenum, 42.7 million ounces of silver and 548,000 ounces of gold at a 0.2% copper cut-off.

The following table sets forth our estimates of the mineral resources at the Pampacancha deposit as at March 30, 2012.(1)(2)(3)

Category	Tonnes	Au (g/t)	Ag (g/t)	Cu (%)	Mo (%)	Cu Equivalent (%)
Measured	32,681,000	0.31	4.78	0.48	0.0166	0.79
Indicated	18,526,000	0.26	4.59	0.38	0.0145	0.65
Total Resources	**51,207,000**	**0.29**	**4.71**	**0.44**	**0.0158**	**0.74**

Notes:

(1) CuEq% is calculated for the in situ value of contained metals using the following $US metal price assumptions, Cu=2.75/lb Mo=13/lb, Ag=22/oz and Au=1100/oz.
(2) Measured and indicated mineral resources were estimated in house. The process includes determination of the integrity and validation of the data collected, including confirmation of specific gravity, assay results and methods of data recording. The process also includes determining the appropriate geological model, selection of data and the application of statistical models including probability plots to establish continuity and model validation.
(3) The estimate as at March 30, 2012 was prepared in accordance with NI 43-101 and the CIM Standards on Mineral Resources and Reserves: Definitions and Guidelines.

Other Assets

Trout Lake and Chisel North Mines

Our Chisel North and Trout Lake mines are mature operations reaching the end of their mine lives and we expect their production to end

in mid-2012.

Trout Lake

The Trout Lake mine is an underground zinc and copper mine located approximately six kilometres northeast of Flin Flon.

The main shaft has been sunk to a depth of 1,091 metres. The mine development includes a number of inclined ramps and steeply inclined ventilation shafts and ore passes. The ramp extends to approximately 1,460 metres below surface at an inclination of 15% from the horizontal. A 762 metre long inclined conveyor delivers the ore from the underground crusher to the ore bin adjacent to the shaft.

Mining is conducted by longhole open stoping using trackless equipment. Crushed ore is trucked from the mine site to the Flin Flon concentrator for processing. Commercial production commenced at the Trout Lake mine in 1982 and the mine is scheduled to reach the end of its mine life and be closed in mid-2012.

Chisel North

The Chisel North mine is an underground zinc mine located 15 kilometres west of the Snow Lake concentrator and about six kilometres south of the town of Snow Lake, Manitoba. The mine returned to commercial production in June 2010 after being placed on care and maintenance in January 2009 due to depressed metal prices related to the global downturn.

The Chisel North mineral reserves only consisted of zinc ore until 2011 when copper and gold mineralization, located downplunge to the north and northwest of Lens 1, were separately estimated. The mineral reserves are between 400 metre and 650 metre depths in four stacked zinc rich sulphide lenses.

The mine depth is to the 687 metre level. Mining is by room and pillar, post pillar cut and fill and blast hole stoping using trackless equipment with unconsolidated rock fill as backfill. Ore is hauled by truck to surface for crushing. The zinc ore is trucked to the Snow Lake concentrator while the copper ore is trucked to the Flin Flon concentrator.

The Chisel North mine is scheduled to close in September 2012. Mining personnel and equipment will be moved from Chisel North to Lalor on completion of the ventilation shaft at Lalor, which is expected in the middle of 2012.

In-Mine Mineral Reserves — January 1, 2012

	Tonnes	Au (g/t)	Ag (g/t)	Cu (%)	Zn (%)
Trout Lake Mine					
Proven	229,000	2.06	1.33	2.07	1.90
Probable	—	—	—	—	—
Chisel North Mine — Zinc					
Proven	48,000	—	—	—	7.97
Probable	60,000	—	—	—	6.57
Chisel North Mine — Copper					
Proven	—	—	—	—	—
Probable	57,000	2.06	20.58	1.49	2.65

Joint Ventures

Part of our strategy is to leverage our exploration expertise through strategic partnerships with junior resource companies. Between 2009 and 2011, we entered into agreements with Aquila, VMS Ventures and Halo Resources Ltd. ("**Halo**") which allow us to earn majority interests in promising exploration properties.

Reed Copper Project

On July 5, 2010 we entered into a joint venture agreement with VMS Ventures respecting the Reed copper project, a copper-rich development property near Snow Lake, Manitoba. We have a 70% interest in the Reed copper project and VMS Ventures has a 30% interest. We have agreed to provide full financing for VMS Ventures' proportionate share of the costs to develop the property, which will be repayable solely from VMS Ventures' share of cash flow generated by the project. We are also a party to four option agreements with VMS Ventures which allow us to earn a 70% interest in four properties adjacent to the Reed property by meeting certain work expenditure obligations and making cash payments to VMS Ventures. We intend to continue our exploration on these properties in 2012.

On December 19, 2011 our board of directors approved a capital investment of $71 million toward the construction of the Reed copper project based on our preliminary economic assessment of the project. Since December 2011 we have undertaken a pre-feasibility study with the assistance of Stantec Consulting and have upgraded 2,157,000 of indicated mineral resources into probable mineral reserves. Our estimates of mineral reserves and resources for the Reed copper project are set out below:

Reed Copper Project Probable Mineral Reserves — March 30, 2012(1)

Tonnes	Au (g/t)	Ag (g/t)	Cu (%)	Zn (%)
2,157,000	0.48	6.02	3.83	0.59

Notes:

(1) The copper price used for the mineral reserves estimation was US$2.95 per pound, the gold price was US$1269.09 per ounce and the silver price was US$24.78 per ounce using an exchange rate of 1.034 C$/US$.

Reed Copper Project Inferred Mineral Resources — March 15, 2011

Tonnes	Au (g/t)	Ag (g/t)	Cu (%)	Zn (%)
170,000	0.38	4.55	4.26	0.52

Back Forty Project

Pursuant to a subscription, option and joint venture agreement with Aquila, we have obtained a 51% joint venture interest in the Back Forty project, a zinc and gold rich VMS deposit in Michigan's Upper Peninsula. We can increase our joint venture interest to 65% by completing a feasibility study and making mine permitting applications. Our interest can be further increased to 75% if we notify Aquila of our intention to put the Back Forty project into production and Aquila elects to have us fund their share of the development costs, which would be repaid out of project cash flows.

On October 15, 2010 we announced the following updated NI 43-101 mineral resource estimate for the Back Forty project.(1)

Classification	Tonnes (millions)	Au (g/t)	Ag (g/t)	Cu (%)	Zn (%)
Open Pit					
Measured	14.1	1.59	16.97	0.15	2.54
Indicated	2.1	1.53	32.80	0.41	1.17
Measured and Indicated	16.2	1.58	19.00	0.18	2.36
Inferred	1.4	1.4	32.89	0.62	1.00
Underground					
Measured	0.8	1.67	25.83	0.24	3.45
Indicated	0.9	1.28	24.72	0.34	3.13
Measured and Indicated	1.7	1.46	25.23	0.29	3.13
Inferred	2.0	1.22	18.34	0.32	2.64
Combined Open Pit and Underground					
Measured and Indicated	17.9	1.57	19.60	0.19	2.44
Inferred	3.4	1.29	24.33	0.44	1.96

Notes:

(1) The cut-off grades are based on metal price assumptions of US$0.95 per pound zinc, US$2.50 per pound copper, US$0.59 per pound lead, US$900 per troy ounce gold and US$15.00 per troy ounce silver. Metallurgical recoveries were determined and used for each of the metallurgical domains determined for the deposit. For additional detail relating to the Back Forty mineral resource estimate see "Technical Report, Back Forty Deposit, Menominee County, Michigan" as filed on SEDAR by Aquila Resources Inc. on November 29, 2010.

Halo Option Agreements

In December 2009 we entered into an option agreement with Halo, pursuant to which we earned a 51% interest in Halo's Cold and Lost properties in the Sherridon VMS District in Manitoba, which have an indicated resource of 411,000 tonnes of 6.1% zinc and an inferred resource of 69,000 tonnes of 6.2% zinc. We can increase our interest to 60% by funding and completing a feasibility study and paying $2 million in cash to Halo, in each case, before the fourth anniversary date, and we may further increase our interest to 67.5% by paying Halo an additional $2.5 million prior to commencement of commercial production.

In October 2011, we entered into a second option agreement with Halo which allows us to earn up to a 75% joint venture interest in the western half of Halo's interest in the 200 square kilometre Sherridon VMS District in Manitoba (exclusive of the Cold and Lost properties), including the past-

producing Sherridon East and West mines. We can exercise our option to earn a 51% interest by making aggregate cash payments to Halo of $1.6 million and completing minimum expenditures of $5 million, in each case, over three years. We can increase our 51% interest to 75% by funding and completing a feasibility study for the project and making a cash payment to Halo of $1.75 million before the fifth anniversary date.

Balmat

The Balmat mine is an underground zinc mine located in Balmat, New York owned by our wholly-owned subsidiary, St. Lawrence Zinc Company, LLC ("**SLZ**"). The mine includes a 3,200 ft. deep shaft, underground development to five ore zones and extensive mining equipment as well as a 5,000 ton per day concentrator. The Balmat mine and concentrator were placed on care and maintenance on August 22, 2008 due to, among other factors, lower prices for zinc metal at that time.

In addition to the Balmat mine and concentrator, SLZ owns approximately 52,000 acres of exploration land in the Balmat district.

Exploration Properties

Our exploration properties are the key to our strategy of pursuing organic growth. Over the past 85 years, we and our predecessors have brought into production 26 ore bodies on our lands. Our exploration efforts were most recently recognized when we won the Prospectors' and Developers' Association of Canada's Bill Dennis Award in 2009 for our discovery of the Lalor deposit. For 2012, our board of directors has approved total exploration expenditures of approximately $54 million.

We hold a land position of approximately 400,000 hectares in Manitoba and Saskatchewan, primarily in the highly prolific Flin Flon Greenstone Belt. Since much of this property is within 100 kilometres of our two ore concentrators in the region, and given that we have available capacity at our processing facilities, we are in a good position to economically exploit mineral deposits that a mining company without such proximate facilities may not be able to develop profitably due to higher costs of transportation and treatment charges. In addition, we believe the exploration methodologies we have developed are suitable for other greenstone belts and other types of mineralization.

As a means of leveraging our exploration capabilities in the Flin Flon Greenstone Belt, we have optioned some of our properties to other exploration companies, which allows us to advance the exploration and development of new mineral deposits without incurring significant costs. These agreements typically allow the optionee to earn up to a 100% interest in the property by completing certain exploration expenditures and making cash payments to us, and we may elect to exercise back-in rights which allow us to earn back a majority interest in the properties, or retain a net smelter return royalty.

The Constancia project includes a considerable amount of land that has not yet been the subject of significant exploration, including the nearby Chilloroya target.

We also hold exploration properties and properties under option to us in the Yukon, Peru, Colombia and Chile. Our 100% owned Tom and Jason properties include an indicated mineral resource of 6.4 million tonnes of 6.33% zinc, 5.05% lead and 56.55 g/t silver and an inferred mineral resource of 24.6 million tonnes of 6.71% zinc, 3.48% lead and 33.85 g/t silver. We conducted a drill program in 2011 intended to enable the upgrading of some inferred resources to indicated and collecting of metallurgical samples. We intend to complete a preliminary economic assessment on the project in the second quarter of 2012.

In addition, through our exploration alliance with Aquila, we have rights to earn majority interests in a number of promising mineral properties in Michigan and elsewhere in the United States. We will continue to seek other exploration opportunities as they arise and we plan to conduct exploration on our other properties in North and South America with the intention of upgrading and expanding our current mineral resources.

Processing Facilities

Concentrators

Our primary ore concentrator is located in Flin Flon, Manitoba. The concentrator, which is directly adjacent to our metallurgical zinc plant, produces zinc and copper concentrates from ore mined at our 777 and Trout Lake mines. Its capacity is approximately 2.18 million tonnes of ore per year, and in 2011 approximately 2.04 million tonnes of ore were milled. The concentrator can handle ore from each mine separately, and blending is done at the grinding stage. The Flin Flon concentrator facility includes a paste backfill plant and associated infrastructure such as maintenance shops and laboratories. In 2010 we completed a copper concentrate filtration plant and other facilities to allow for the overseas shipping of the copper concentrate we produce. Tailings from the concentrator are pumped to the Flin Flon tailings impoundment immediately adjacent to the concentrator.

Our concentrator in Snow Lake, Manitoba was re-started in late 2009, reaching full production in the second quarter of 2010, after being placed on care and maintenance in January 2009. The concentrator processes zinc ore from the Chisel North mine and produces zinc concentrate, which is shipped by truck for processing at the zinc plant in Flin Flon. The concentrator, which has crushing, grinding, flotation, thickening, filtering and drying capabilities, has a capacity of approximately 1.2 million tonnes of ore per year. Tailings generated by the Snow Lake concentrator are deposited in our Anderson Lake tailings facility, which we believe mitigates environmental concerns, as the tailings are deposited in a subaqueous manner, minimizing the potential for generation of acid rock drainage. Pending the closure of the Chisel North mine, we intend to put a copper recovery circuit into the Snow Lake concentrator to allow for the processing of the early Lalor ores until the new concentrator is commissioned. For additional information, refer above to the heading "Description of our Business — Material Mineral Projects — Lalor Project".

We also have a concentrator in Balmat, New York, which processed zinc ore produced from our Balmat mine. The Balmat mine and concentrator were placed on care and maintenance on August 22, 2008.

Zinc Plant

Our zinc plant located in Flin Flon, Manitoba produces special high-grade zinc metal in three cast shapes from zinc concentrate. Our plant is one of three primary zinc producers in North America. We produced 107,704 tonnes of cast zinc in 2011. The capacity of the zinc plant is approximately 115,000 tonnes of cast zinc per year, and an additional approximate 15% expansion is possible at comparatively low capital investment. Included in the zinc plant are an oxygen plant, a concentrate handling, storage and regrinding facility, a zinc pressure leach plant, a solution purification plant, a modern electro-winning cell house, a casting plant and a zinc storage area with the ability to load trucks or rail cars. The zinc plant has a dedicated leach residue disposal facility. The bulk of the waste material is gypsum, iron and elemental sulphur. Wastewater is treated and recycled through the zinc plant.

Both domestic concentrate produced from our mines and concentrate purchased from third parties are processed at the zinc plant. Purchased concentrate accounted for approximately 29.6% of zinc metal produced at our zinc plant in 2011. The zinc plant currently has excess capacity beyond our domestic concentrate production and we intend to utilize this capacity by purchasing concentrate and advancing our development projects, including Lalor, to production.

Strategic Investments

As at December 31, 2011, we held minority equity positions in 16 junior exploration companies, representing investments valued at approximately $100 million, executing our strategy to populate a pipeline of projects ready for development following the construction of Lalor and Constancia. Our early stage opportunity pipeline consists of projects in Canada, the United States, Chile, Peru and Colombia. Among our strategic investments are the following companies: Augusta, VMS Ventures, Aquila, Panoro Minerals Ltd., MacDonald Mines Exploration Ltd. and CuOro Resources Corporation. We are continuing to evaluate new projects and potential investments to add to our portfolio.

Cash and Cash Equivalents

Our cash and cash equivalents as of December 31, 2011 were $899.1 million, and are held in low risk liquid investments and deposit accounts pursuant to our investment policy.

Other Information

Products and Marketing

Our principal products are copper concentrate and zinc. In 2011, we produced 107,704 tonnes of cast zinc and 222,932 tonnes of copper concentrate. In 2011 and 2010 combined copper metal and copper concentrate sales represented approximately 54% and 49% and zinc metal sales represented approximately 19% and 23% of our total consolidated revenue, respectively.

In 2011 we sold approximately 19% of our copper concentrate production to third party purchasers in North America and Europe on benchmark terms and in 2012 we expect that number to increase to approximately 75%. We sell the remainder of our copper concentrate production pursuant to shorter-term contracts as opportunities arise. Sales of our copper concentrate (including gold and silver contained in concentrate) were adversely affected in early 2011 by the inability of our rail service provider to supply sufficient railcars to transport our concentrate production. This issue was resolved over the course of the year and the excess inventory that had accumulated was substantially eliminated by December 31, 2011.

We ship cast zinc metal produced at our Flin Flon zinc plant to third party customers in North America by rail and truck. Following the sale of our Zochem Inc. subsidiary in November 2011, we agreed to sell approximately 20% of our zinc production to Zochem Inc. for one year at market terms, with the intent to sell lesser quantities at market terms for an additional two years.

Commodity Markets

Over the course of 2011, metal prices declined primarily as a result of concerns over the European sovereign debt crisis in the second half of the year, although average prices in 2011 were generally higher than average prices in 2010. For additional information refer to our market analysis of copper, zinc, gold and silver prices during this period on pages 10 and 11 of our management's discussion and analysis for the year ended December 31, 2011, a copy of which has been filed on SEDAR at www.sedar.com.

Specialized Skill and Knowledge

The success of our operations depends in part on our ability to attract and retain geologists, engineers, metallurgists and other personnel in the geographic areas in which we operate with specialized skill and knowledge about the mining industry. For additional information, refer below to the heading "Risk Factors — Human Resources".

Competitive Conditions

The mining industry is intensely competitive and we compete with many companies in the search for and the acquisition of attractive mineral properties. In addition, we also compete for the technical expertise to find, develop, and operate such properties, the labour to operate the properties, and the capital for the purpose of funding such properties. For additional information, refer below to the heading "Risk Factors — Competition".

Economic Dependence

We do not have any contracts upon which our business is substantially dependent, as our principal products, copper concentrate and zinc, are widely traded commodities and we may enter into contracts for the sale of such products with a variety of potential purchasers.

Environmental Protection

Our activities are subject to environmental laws and regulations, including proposed climate change initiatives aimed at reducing greenhouse gas emissions. Environmental laws and regulations are evolving in a manner that will require stricter standards and enforcement,

increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. For additional information, refer below to the heading “Risk Factors — Governmental and Environmental Regulation”.

In light of this and our goal of continually improving our environmental performance, we have established an environmental management program directed at environmental protection and compliance to achieve our goal of continually improving our environmental performance and address these regulatory changes. The program consists of an environmental policy, codes of practice, regular audits, the integration of environmental procedures with operating procedures, employee training and emergency prevention and response procedures. For additional information, refer below to the heading “Corporate Social Responsibility”.

Employees

As at December 31, 2011, we had approximately 47 employees at our Toronto head office, approximately 31 employees at HudBay Peru S.A.C.’s office in Lima, Peru and approximately 48 employees at the Constancia site. In addition, we had approximately 33 employees elsewhere in North and South America.

Our HBMS subsidiary had approximately 1,286 employees as at December 31, 2011, of whom approximately 986 were unionized. In 1998, we entered into a labour stability agreement in respect of our existing Flin Flon/Snow Lake collective bargaining agreements, whereby we agreed with the unions that any collective agreement expiring prior to July 1, 2012 would be settled by way of binding arbitration in the event that the parties could not otherwise agree to a negotiated contract settlement. This agreement is intended to ensure that there will be no strike or lockout through December 2014. In the first quarter of 2012, we negotiated new collective bargaining agreements with the majority of our unionized employees, thereby avoiding the need to settle such agreements by way of binding arbitration.

HBMS maintains a profit sharing plan pursuant to which 10% of its after-tax profit (excluding provisions or recoveries for deferred income and mining tax) for any given year is distributed among eligible employees in the Flin Flon/Snow Lake operations, with the exception of executive officers and key management personnel.

CORPORATE SOCIAL RESPONSIBILITY

At Hudbay, we apply the same discipline to Corporate Social Responsibility as we do to meeting operating and financial targets. We commit to our stakeholders to work to create benefits and opportunities that contribute to their economic and social sustainability, and to protect our natural environment. As described below, we have adopted a number of voluntary codes and other external instruments that we consider particularly relevant to our business, including ISO 14001, OHSAS 18001 and our Human Rights Policy.

Health and Safety and Environmental Policies

Among our core values are protecting the health and welfare of our employees and contractors and reducing the impact of our operations on the environment. All of our producing operations are certified to Occupational Health and Safety Assessment Series 18001 and Environmental Management System Standard ISO 14001. In addition, the production and supply of Manitoba’s final products are registered to the ISO 9001 quality standard.

We believe that ongoing improvements in the safety of our workforce assists in maintaining healthy labour relations and that our ability to minimize lost-time injuries and environmental regulatory

violations is a significant factor in maintaining and realizing opportunities to improve overall operational efficiency. Our safety management systems include the Positive Attitude Safety System (“**PASS**”), which is in use at our Manitoba operations. The PASS system is based on facilitated discussions at all levels of the organization to increase each person’s involvement in recognizing and managing workplace risks. In 2011, our lost time accident frequency per 200,000 hours worked was 0.3, compared to 1.2 for 2010. We remain committed to continuously improving the safety of our workplace.

We have established an environmental management program directed at environmental protection and compliance. The program consists of an environmental policy, codes of practice, regular audits, the integration of environmental procedures with operating procedures, employee training and emergency prevention and response procedures. We have a dedicated team which is charged with managing our environmental activities and our compliance with all applicable environmental standards and regulations. We did not have any material environmental non-compliances in 2011.

Human Rights Policy

In May 2011, we adopted our first formal Human Rights Policy. The policy is intended to capture and clearly state our commitments to human rights. Key aspects include our commitment to:

- Ethical business practices — further articulated in our Code of Business Conduct and Ethics;
- Labour practices and labour relations — including fair labour practices at our workplaces and to the health and safety of our employees;
- Community participation — including community consultation, contributing to long-term and sustainable opportunities for communities, respecting communities’ legal rights, and participating in a common effort to promote respect for human rights as they relate to our business; and
- Security measures that respect human rights — including our adoption of the Voluntary Principles on Security and Human Rights, and the United Nations Code of Conduct for Law Enforcement Officials.

Sustainability Reporting

We publish an annual corporate social responsibility report that further presents and discusses our environmental, health and safety performance. This report is prepared pursuant to the Global Reporting Initiative G3 guidelines, which is the world's most widely used sustainability framework. We also subscribe to the Mining Association of Canada's "Toward Sustainable Mining" initiative, which was designed to help mining companies evaluate the quality, comprehensiveness and robustness of their management systems under key performance elements, including tailings management, energy use and emissions, external outreach and crisis management planning. Our 2010 Corporate Social Responsibility Report is available on our website at www.hudbayminerals.com.

RISK FACTORS

An investment in our securities is speculative and involves significant risks that should be carefully considered by investors and prospective investors. In addition to the risk factors described elsewhere in this AIF, the risk factors that impact us and our business include, but are not limited to, those set out below. Any one or more of these risks could have a material adverse effect on our business, results of operations, financial condition and the value of our securities.

Metals Prices and Foreign Exchange

Our profit or loss and financial condition depend upon the market prices of metals, which are cyclical and which can fluctuate widely with demand for our metals. Demand is affected by numerous factors beyond our control, including the overall state of the economy, general level of industrial production, interest rates, rate of inflation, foreign exchange rates and investment demand for

commodities. Such external economic factors are in turn influenced by changes in international investment patterns, monetary systems and political developments.

Future price declines may, depending on hedging practices, materially reduce our profitability and could cause us to reduce output at our operations (including, possibly, closing one or more of our mines or plants), all of which could reduce our cash flow from operations.

In addition, since our core operations are located in Canada, our costs are incurred primarily in Canadian dollars. However, our revenue is tied to market prices for copper, zinc and other metals we produce, which are typically denominated in United States dollars. If the Canadian dollar appreciates in value against the United States dollar, our results of operations and financial condition could be materially adversely affected. Although we may use hedging strategies to limit our exposure to currency fluctuations, there can be no assurance that such hedging strategies will be successful or that they will mitigate the risk of such fluctuations.

Development of Key Projects

Our ability to develop our key mineral projects, including our Lalor and Constancia projects, is subject to many risks and uncertainties, including: our ability to upgrade mineral resources and conceptual estimates of tonnage and grade of a mineral deposit into mineral reserves; completion of feasibility studies; the ability to secure adequate financing to fund such projects; obtaining and maintaining various permits and approvals from governmental authorities; construction risk; securing required surface and other land rights; finding or generating suitable sources of power and water; potential resistance from stakeholders and other interested parties; political and social risk; and confirming the availability and suitability of appropriate local area infrastructure.

We have negotiated life of mine community agreements with two communities near the Constancia project to secure required land rights for the project. Any inability to enforce such agreements or otherwise maintain good relations with the nearby communities and other stakeholders could impair our ability to successfully develop the project. At Lalor, we require permits under Manitoba's *Environmental Act* in order to reach full production, expand the tailings facility and operate the concentrator that is planned at the site. While we believe that such permits are forthcoming, it is possible that one or more of such permits may be delayed or not granted, which could prevent us from developing the Lalor project.

In addition, significant amounts of capital will be required to bring each of our Lalor and Constancia projects to production. We are currently attempting to secure financing for the Constancia project but, given current economic circumstances and other factors, there can be no certainty that such financing will be available on acceptable terms, if at all. If such financing is not available, we may not be able to fund the development of one or both of the Constancia and Lalor projects from our existing cash resources and future cash flows.

The capital expenditures and timeline needed to develop a new mine are considerable and the economics of and ability to complete a project can be affected by many factors, including: inability to complete construction and related infrastructure in a timely manner; changes in the legal and regulatory environment; currency fluctuations; industrial disputes; availability of parts, machinery or operators; delays in the delivery of major process plant equipment; inability to obtain, renew or maintain the necessary permits, licences or approvals; unforeseen natural events; and political and other factors. Factors such as changes to technical specifications, failure to enter into agreements with contractors or suppliers in a timely manner, and shortage of capital, may also delay the completion of construction or commencement of production or require the expenditure of additional funds. Many major mining projects constructed in the last several years, or under construction currently, have experienced cost overruns that substantially exceeded the capital cost estimated during the basic engineering phase of those projects, sometimes by as much as 50% or more. There can be no assurance that our development projects will be able to be developed successfully or economically or that they will not be subject to the other risks described in this section.

Depletion of Reserves

Subject to any future expansion or other development, production from existing operations at our mines will typically decline over the life of mine. As a result, our ability to maintain our current production or increase our annual production of base and precious metals and generate revenues therefrom will depend significantly upon our ability to discover or acquire and to successfully bring new mines into production and to expand mineral reserves at existing mines. Exploration and development of mineral properties involves significant financial risk. Very few properties that are explored are later developed into operating mines. Whether a mineral deposit will be commercially viable depends on a number of factors, including: the particular attributes of the deposit, such as size, grade and proximity to infrastructure; metal prices, which are highly cyclical; and government regulation, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. Even if we identify and acquire an economically viable ore body, several years may elapse from the initial stages of development. We may incur major expenses to locate and establish mineral reserves, to develop metallurgical processes and to construct mining and processing facilities. As a result, we cannot provide assurance that our exploration or development efforts will result in any new commercial mining operations or yield new mineral reserves to replace or expand current mineral reserves.

Political and Social Risks

The implementation of new, or the modification of existing, laws and regulations affecting our operations and other mineral properties could have a material adverse impact on us and our projects. Such laws or steps could involve the expropriation of property, implementation of exchange controls and price controls, increases in production royalties and income and mining taxes, refusal to grant or renew required permits or licenses or requiring unfavourable amendments to or revoking current permits and licenses, and enacting environmental or other laws that would make contemplated operations uneconomic or impractical. The risk exists that further government limitations, restrictions or requirements, not presently foreseen, will be implemented. In addition, changes in policy that alter laws regulating the mining industry could have a material adverse effect on us.

There can be no assurance that industries which are deemed to be of national or strategic importance in countries in which we have operations or assets will not be nationalized. There also can be no assurance that our assets in these countries will not be subject to nationalization, requisition or confiscation, whether legitimate or not, by an authority or body.

In situations where we have acquired mineral rights, we may not be able to secure required surface rights. In addition, in situations where we possess surface rights, our land may be illegally occupied. Any inability to secure required surface rights or take possession of areas for which we hold surface rights could render us unable to carry out planned exploration, development and mining activities.

Political or social unrest or a political crisis in Peru could adversely affect our ability to develop and operate our Constancia project. Such adverse effects could result from local communities or other interested parties encroaching on our land, challenging the boundaries of such land or our rights to operate on such land, protesting the environmental or social impacts of our project, impeding project activities through roadblocks or other public manifestations or attacking project assets or personnel. In addition, social problems and uncertain land tenure for many indigenous people could have adverse effects on our project.

Aboriginal Rights and Title

Governments in many jurisdictions, including Canada, must consult with aboriginal peoples with respect to grants of mineral rights and the issuance of or amendment to project authorizations. Consultation regarding rights or claimed rights of aboriginal people may require accommodations, including undertakings with respect to employment and other matters. This may affect our ability to acquire within a reasonable time frame effective mineral titles in these jurisdictions, and may affect the timetable and costs of development of mineral properties in these jurisdictions. Aboriginal rights or title claims also could affect our existing operations, in addition to our development projects and future

acquisitions. These legal requirements, among other things, may affect our ability to develop our Lalor and Constancia projects and other mineral properties or may materially delay the development of such properties.

Community Relations

The Company's relationships with the communities in which it operates and other stakeholders are critical to ensure the future success of its existing operations and the construction and development of its projects. There is an increasing level of public concern relating to the perceived effect of mining activities on the environment and on communities impacted by such activities. Publicity adverse to us, our operations, or extractive industries generally, could have an adverse effect on us and may impact our relationships with the communities in which we operate and other stakeholders. While we are committed to operating in a socially responsible manner, there can be no assurance that our efforts, in this respect, will mitigate this potential risk.

Mining and Processing

Mining operations, including exploration, development and production of mineral deposits, generally involve a high degree of risk and are subject to conditions and events beyond our control. Our operations are subject to all of the hazards and risks normally encountered in the mining industry including: adverse environmental conditions; industrial and environmental accidents; metallurgical and other processing problems; unusual or unexpected rock formations; ground or slope failures; structural cave-ins or slides; flooding or fires; seismic activity; rock bursts; equipment failures; and periodic interruptions due to weather conditions. These risks could result in significant damage, including destruction of mines, equipment and other operations, resulting in partial or complete shutdowns, personal injury or death, environmental or other damage to our properties or the properties of others, delays in mining, monetary losses and potential legal liability. In addition, although we conduct extensive maintenance and incur significant costs to maintain and upgrade our fixed and mobile equipment and infrastructure, failures may occur that cause injuries or production loss.

Failure to achieve production, cost or life-of-mine estimates could have an adverse impact on our future cash flows, profitability, results of operations and financial condition. Our actual production, costs and the productive life of a mine may vary from estimates for a variety of

reasons, including actual ore mined varying from estimates of grade, tonnage, dilution and metallurgical and other characteristics, short-term operating factors relating to the mineral reserves, such as the need for sequential development of ore bodies and the processing of new or different ore grades, revisions to mine plans, risks and hazards relating to mining and availability of and cost of labour and materials.

Production of zinc concentrate from our mines has not been sufficient to operate our zinc plant at full capacity, which has had an impact on our profitability. We may attempt to fill the excess capacity at the zinc plant by purchasing concentrate from third parties (which is typically less profitable than processing our own concentrate). Any inability to provide adequate feed to our processing facilities could adversely impact our profitability.

Governmental and Environmental Regulation

Our activities are subject to various laws governing prospecting, development, production, taxes, labour standards, occupational health, mine safety, toxic substances, protection of the environment and other matters. Environmental regulation, including proposed climate change initiatives aimed at reducing greenhouse gas emissions, is evolving in a manner that will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There can be no assurance that existing or future environmental regulation will not materially adversely affect our business, financial condition and results of operations. There is contamination on properties that we own or owned or for which we have or have had care, management or control and, in some cases on neighbouring properties, that may result in a requirement to remediate, which could involve material costs. In addition, environmental hazards may exist on the properties on

which we hold interests that are unknown to us at present and that have been caused by previous or existing owners or operators of the properties. We may also acquire properties with environmental risks.

Although we believe that our activities are currently carried out in accordance with applicable laws and regulations, no assurance can be given that new laws and regulations will not be enacted or that existing laws and regulations will not be amended or applied in a manner that could have a material adverse effect on our business, financial condition and results of operations.

Any failure to comply with such laws and regulations may result in enforcement actions, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations, including us, may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Government Approvals and Permits

Government approvals and permits are currently required in connection with all of our operations, and further approvals and permits will be required in the future, including in respect of our key development projects. The duration and success of our efforts to obtain permits are contingent upon many variables outside of our control. Obtaining and complying with governmental permits may increase costs and cause delays. There can be no assurance that all necessary permits will be obtained and, if obtained, that the costs involved will not exceed our estimates or that we will be able to maintain such permits. To the extent such approvals are required and not obtained or maintained, our operations may be curtailed or we may be prohibited from proceeding with planned exploration, development, or operation of mineral properties.

Human Resources

The success of our operations depends in part on our ability to attract and retain geologists, engineers, metallurgists and other personnel with specialized skill and knowledge about the mining industry in the geographic areas in which we operate. We also are dependent on a number of key management and operating personnel, and our success will depend in large part on the efforts of these individuals and our ability to retain them. We do not have any key person insurance on any of these individuals.

Although the labour stability agreement that is in place at our Flin Flon and Snow Lake operations deals with resolving collective agreements that expire prior to July 1, 2012, effectively assuring no strike or lockout involving employees at these operations through December 2014, there can be no assurance that our business will not suffer from a work stoppage at any location where we operate. From time to time we may temporarily suspend or close certain of our operations and we may incur significant labour and severance costs as a result of a suspension or closure. Further, temporary suspensions and closures may adversely affect our future access to skilled labour, as employees who are laid off may seek employment elsewhere.

Energy Prices and Availability

Our mining operations and facilities are intensive users of electricity and carbon based fuels. Energy prices can be affected by numerous factors beyond our control, including global and regional supply and demand, political and economic conditions, and applicable regulatory regimes. The prices of various sources of energy we rely on may increase significantly from current levels and any such significant increase could have an adverse effect on our profitability.

Access to Capital

There is no assurance that sufficient funding or financing will be available to us on acceptable terms, or at all, for further exploration or development of our properties or to fulfill our outstanding

obligations. Global financial conditions have been subject to increased volatility and turmoil in recent years. This may affect our ability to obtain equity or debt financing on acceptable terms, or at all, in the future. Failure to obtain such additional funding or financing could result in the delay or indefinite postponement of the exploration and development of our properties, including Lalor and Constancia.

Transportation and Infrastructure

At our mines in northern Manitoba and Saskatchewan, we are dependent upon a single railway and certain short-line rail networks to transport purchased concentrate to our Flin Flon metallurgical complex and to transport products from the Flin Flon metallurgical complex for further processing or to our customers. In late 2010 and early 2011, we had difficulty securing sufficient rail cars to ship our copper concentrate production and excess inventory. In addition, the Constancia project will require transportation improvements and access, which will require the cooperation of local government and other third parties. We may have similar dependencies at future mining and processing operations. Inability to secure reliable and cost-effective transportation and other infrastructure, or disruption of these services due to weather-related problems, strikes, lock-outs or other events could have a material adverse effect on our operations. If transportation for our products is or becomes unavailable, our ability to market our products could suffer. In addition, increases in our transportation costs, relative to those of our competitors, could make our operations less competitive and could adversely affect our profitability.

Title to Mineral Properties

Although we believe we have taken reasonable measures to ensure valid title to our properties, there can be no assurance that title to any of our properties will not be challenged or impaired. Third parties may have valid claims underlying portions of our interests, including prior unregistered liens, agreements, transfers or claims, and aboriginal land claims, and title may be affected by, among other things, undetected defects or unforeseen changes to the boundaries of our properties by governmental authorities.

Competition

The mining industry is intensely competitive and we compete with many companies possessing greater financial and technical resources than us. Since mines have a limited life, we must compete with others who seek mineral reserves for attractive, high quality mining assets. In addition, we also compete for the technical expertise to find, develop, and operate such properties, the labour to operate the properties and the capital for the purpose of funding such properties. Existing or future competition in the mining industry could materially adversely affect our prospects for mineral exploration and success in the future.

Mineral Resource and Reserve Estimates

There are numerous uncertainties inherent in estimating mineral reserves and mineral resources and the future cash flows that might be derived from their production. Estimates of mineral reserves and mineral resources, and future cash flows necessarily depend upon a number of variable factors and assumptions, including, among other things, ability to achieve anticipated tonnages and grade, geological and mining conditions that may not be fully identified by available exploration data or that may differ from experience in current operations, historical production from the area compared with production from other producing areas, the assumed effects of regulation by governmental agencies and assumptions concerning metal prices, exchange rates, interest rates, inflation, operating costs, development and maintenance costs, reclamation costs, and the availability and cost of labour, equipment, raw materials and other services required to mine and refine the ore. In addition, there can be no assurance that mineral recoveries in small scale laboratory tests will be duplicated in larger scale tests under on-site conditions or during production. For these reasons, estimates of our mineral reserves and mineral resources in our public disclosure, and any estimates of future cash flows may vary substantially from our actual results.

Reclamation and Mine Closure Costs

The ultimate timing of and costs for future removal and site restoration could differ from current estimates. Our estimates for this future liability are subject to change based on amendments to applicable laws and legislation, the nature of ongoing operations and technological innovations.

In addition, regulatory authorities in various jurisdictions require us to post financial assurances to secure, in whole or in part, future reclamation and restoration obligations in such jurisdictions. Changes to the amounts required, as well as the nature of the collateral to be provided, could significantly increase our costs, making the maintenance and development of existing and new mines less economically feasible, and any capital resources we utilize for this purpose will reduce the resources available for our other operations and commitments. Although we accrue for future closure costs, we do not necessarily reserve cash in respect of these obligations or otherwise fund these obligations in advance. As a result, we will have significant cash costs when we are required to close and restore mine sites.

Post-Retirement Obligations

We have assets in defined benefit pension plans which arise through employer contributions and returns on investments made by the plans. The returns on investments are subject to fluctuations depending upon market conditions and we are responsible for funding any shortfall of pension assets compared to our pension obligations under these plans. Our liabilities under defined benefit pension plans are estimated based on actuarial and other assumptions. These assumptions may prove to be incorrect and may change over time and the effect of these changes can be material. We also have substantial commitments for post-retirement health and other benefits for which no specific funding arrangements are in place.

Anti-Bribery Legislation

We are subject to the U.S. Foreign Corrupt Practices Act (" **FCPA**"), which prohibits corporations and individuals from paying, offering to pay, or authorizing the payment of anything of value to any foreign government official, government staff member, political party, or political candidate in an attempt to obtain or retain business or to otherwise influence a person working in an official capacity. The FCPA also requires public companies to make and keep books and records that accurately and fairly reflect their transactions and to devise and maintain an adequate system of internal accounting controls. We are also subject to Canada's *Corruption of Foreign Public Officials Act* ("**CFPOA**"), which prohibits corporations and individuals from giving or offering to give a benefit of any kind to a foreign public official, or any other person for the benefit of the foreign public official, where the ultimate purpose is to obtain or retain a business advantage.

Our international activities, including our Constancia project, create the risk of unauthorized payments or offers of payments by our employees, consultants or agents. While we have implemented safeguards to prevent these practices, our existing safeguards and any future improvements to such safeguards may not be completely effective, and our employees, consultants or agents may engage in conduct for which we might be held responsible. Any failure to comply with the FCPA, the CFPOA and applicable laws and regulations in foreign jurisdictions could result in substantial penalties or restrictions on our ability to conduct business in certain foreign jurisdictions, which may have a material adverse impact on us and our share price.

Credit Risk

We mitigate credit risk relating to customers of our copper, zinc and precious metals by carrying out credit evaluations on our customers, making a significant portion of sales on a cash basis and maintaining insurance on trade receivables. If customers default on the credit extended to them and our loss is not covered by insurance, results of operations could be materially adversely affected. Further, we may enter into offsetting derivative contracts for which we do not obtain collateral or other security. In the event of non-performance by counterparties in connection with such derivative contracts, we are further exposed to credit risk.

Insurance

Our insurance will not cover all the potential risks associated with our operations. In addition, although certain risks are insurable, we may be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to us on acceptable terms. Losses from uninsured events may cause us to incur significant costs.

Market Price of Common Shares

Our share price may be significantly affected by short-term changes in commodity prices or in our financial condition or results of operations. Other factors unrelated to our performance that may have an effect on the price of our common shares include a lessening in trading volume and general market interest in our securities and the size of our public float. As a result of any of these factors, the market price of our common shares, at any given point in time, may not accurately reflect our long-term value. Securities class action litigation has been brought against companies following periods of volatility in the market price of their securities and issuers listed on U.S. stock exchanges (as we are), in particular, have been subject to increasing shareholder litigation. We may in the future be the target of similar litigation.

"Passive foreign investment company" under the U.S. Internal Revenue Code

We do not believe we are a "passive foreign investment company" under Section 1297(a) of the U.S. Internal Revenue Code (" **PFIC**") for the current taxable year. If we derive 75% or more of our gross income from certain types of ''passive'' income (such as rents, royalties, interest, dividends, and other similar types of income), or if the quarterly average value during a taxable year of our ''passive assets'' (generally, assets that generate passive income) is 50% or more of the average value of all assets held by us, then the PFIC rules may apply to U.S. taxpayers that hold our common shares (regardless of the extent of their ownership interest in us). Several ''look-through'' rules apply in determining PFIC status, including that a 25% or more owned subsidiary corporation's income and assets will be deemed those of its parent for purposes of the PFIC rules. Thus, a sufficiently active subsidiary may allow a parent corporation to avoid PFIC status, depending on the circumstances. Whether we are considered a PFIC for a specific taxable year is a factual determination that must be made annually at the end of that taxable year. As a result, our status in the current and future years will depend on the composition our gross income, our assets and activities in those years and our market capitalization as determined on the end of each calendar quarter, and there can be no assurance that we will or will not be considered a PFIC for any taxable year.

If we are classified as a PFIC during any portion of a U.S. taxpayer's holding period for our common shares, as determined for U.S. federal income tax purposes, such taxpayer would be subject to adverse U.S. federal income tax consequences under the PFIC rules. In such case (except as discussed below), any excess distribution (generally a distribution in excess of 125% of the average distribution over a three-year period or shorter holding period for our common shares) and realized gain on the sale, exchange or other disposition of our common shares will be treated as ordinary income and generally will be subject to tax as if (a) the excess distribution or gain had been realized ratably over the U.S. taxpayer's holding period, (b) the amount deemed realized in each year had been subject to tax in each such year at the highest marginal rate for such year (other than income allocated to the current period or any taxable period before we became a PFIC, which would generally be subject to tax at the U.S. taxpayer's regular ordinary income rate for the current year and would not be subject to the interest charge discussed in (c) below), and (c) the interest charge generally applicable to underpayments of tax had been imposed on the taxes deemed to have been payable in those years. Where a company that is a PFIC meets certain reporting requirements, a U.S. taxpayer may be able to mitigate certain adverse PFIC consequences described above by making a "qualified electing fund" ("**QEF**") election to be taxed currently on its proportionate share of the PFIC's ordinary income and net capital gains. If we determine that we are a PFIC for any taxable year, we will determine at that time whether we will comply with the necessary accounting and record keeping requirements that would allow a U.S. taxpayer to make a QEF election with respect to Hudbay. We have no obligation to determine whether we are a PFIC and may not make any such determination.

DESCRIPTION OF CAPITAL STRUCTURE

Common Shares

We are authorized to issue an unlimited number of common shares, of which there were 171,949,220 common shares issued and outstanding as of March 29, 2012.

Holders of common shares are entitled to receive notice of any meetings of our shareholders, to attend and to cast one vote per common share at all such meetings. Holders of common shares do not have cumulative voting rights with respect to the election of directors and, accordingly, holders of a majority of the common shares entitled to vote in any election of directors may elect all directors standing for election. Holders of common shares are entitled to receive, on a pro-rata basis, such dividends, if any, as and when declared by our board of directors at its discretion from funds legally available therefor. Upon our liquidation, dissolution or winding up, holders of common shares are entitled to receive, on a pro-rata basis, our net assets after payment of debts and other liabilities, in each case, subject to the rights, privileges, restrictions and conditions attaching to any other series or class of shares ranking senior in priority to or on a pro-rata basis with the holders of common shares with respect to dividends or liquidation. The common shares do not carry any pre-emptive, subscription, redemption or conversion rights, nor do they contain any sinking or purchase fund provisions.

Preference Shares

We are authorized to issue an unlimited number of preference shares, none of which were issued and outstanding as of the date of this AIF.

Preference shares may from time to time be issued and the directors may fix the designation, rights, privileges, restrictions and conditions attaching to any series of preference shares. Preference shares shall be entitled to preference over the common shares and over any other of our shares ranking junior to the preference shares with respect to the payment of dividends and the distribution of assets or return of capital in the event of our liquidation, dissolution or winding up or any other return of capital or distribution of our assets among our shareholders for the purpose of winding up our affairs. Preference shares may be convertible into common shares at such rate and upon such basis as the directors in their discretion may determine. No holder of preference shares will be entitled to receive notice of, attend, be represented at or vote at any annual or special meeting, unless the meeting is convened to consider our winding up, amalgamation or the sale of all or substantially all of our assets, in which case each holder of preference shares will be entitled to one vote in respect of each preference share held. Holders of preference shares will not be entitled to vote or have rights of dissent in respect of any resolution to, among other things, amend our articles to increase or decrease the maximum number of authorized preference shares, increase or decrease the maximum number of any class of shares having rights or privileges equal or superior to the preference shares, exchange, reclassify or cancel preference shares, or create a new class of shares equal to or superior to the preference shares.

DIVIDENDS

We paid an inaugural semi-annual dividend of $0.10 per common share on September 30, 2010 and in 2011 we paid dividends of $0.10 per common share on March 31 and September 30. On March 7, 2012, our board of directors approved the payment of a dividend of $0.10 per common share payable on March 30, 2012 to shareholders of record on March 20, 2012. While we presently intend to maintain a semi-annual dividend, the timing, payment and amount of any future dividends will be determined by our board of directors from time to time based upon, among other things, our cash flow, results of operations and financial condition, our need for funds to finance ongoing operations and such other business considerations as the board of directors considers relevant.

MARKET FOR SECURITIES

Price Range and Trading Volume

Our common shares are listed on the TSX and the NYSE under the symbol “HBM”. The volume of trading and the high and low closing price of our common shares on the TSX and NYSE during the periods indicated are set forth in the following table.

	Trading of Common Shares on TSX			Trading of Common Shares on NYSE		
Period	High ($)	Low ($)	Volume (millions of common shares)	High (US$)	Low (US$)	Volume (common shares)
2011						
January	17.86	16.20	18.9	18.04	16.32	295,788
February	17.50	15.94	11.7	17.70	16.15	134,699
March	17.00	15.47	20.6	17.61	15.61	143,055
April	16.72	15.00	14.8	17.43	15.73	240,947
May	14.96	13.83	12.7	15.71	14.27	229,916
June	14.80	12.83	16.7	15.16	13.11	171,580
July	15.14	13.15	11.3	15.72	13.77	197,428
August	12.96	11.35	17.1	13.76	11.37	232,586
September	12.49	9.77	14.6	12.70	9.55	142,994
October	11.50	9.48	18.2	11.59	8.99	247,073
November	11.01	9.21	18.0	10.92	8.81	269,576

December	10.70	9.54	12.4	10.55	9.31	194,837

On March 29, 2012, the closing prices of our common shares on the TSX and NYSE were $10.91 and US$10.96 per share, respectively.

DIRECTORS AND OFFICERS

Board of Directors

J. Bruce Barraclough
Mississauga, Ontario, Canada

Director since: March 23, 2009

Committee memberships:
- Audit Committee (Chair)
- Compensation Committee
- Corporate Governance and Nominating Committee

Mr. Barraclough is a corporate director who worked for Ernst & Young LLP for 37 years, 27 years as a partner, until his retirement on June 30, 2008.

Mr. Barraclough holds an MBA from the Schulich School of Business and a Bachelor of Applied Science from the University of Toronto. He is also a Fellow of the Institute of Chartered Accountants of Ontario (FCA) and holds the designation of Chartered Director (C.Dir.) from The Directors College (a joint venture of McMaster University and the Conference Board of Canada).

David Garofalo
Richmond Hill, Ontario, Canada

Director since: August 4, 2010

Committee memberships:
- Environmental, Health, Safety and Sustainability ("**EHSS**") Committee

Mr. Garofalo has been Hudbay's President and Chief Executive Officer since July 2010. Previously, he served as Senior Vice President, Finance and Chief Financial Officer and a director with Agnico-Eagle Mines Limited, where he was employed from 1998 to 2010 and as Treasurer and in various finance roles with Inmet Mining Corporation from 1990 to 1998.

Mr. Garofalo is a graduate of the University of Toronto (B.Comm.) and a Chartered Accountant, and serves on the board of directors of York Central Hospital Foundation and Malbex Resources Inc.

Board of Directors

Alan R. Hibben
Toronto, Ontario, Canada

Director since: March 23, 2009

Committee memberships:
- EHSS Committee (Chair)
- Compensation Committee

Mr. Hibben has held several senior positions with RBC Capital Markets, including his current role as Managing Director, which he assumed on his return to RBC in March 2011. He was head of strategy and development at RBC Financial Group from January 2005 to June 2007 and a principal with Shakerhill Partners Ltd. from July 2007 to January 2009. From January 2009 to February 2011 he was a partner with Blair Franklin Capital Partners Inc., a financial advisory firm.

Mr. Hibben has been a director of six public companies and six substantial private companies, including Pinetree Capital Inc., Discovery Air Inc., and the board of governors of Havergal College, where he is Past-Chairman. Mr. Hibben received his Bachelor of Commerce Degree from the University of Toronto. He is qualified as a Canadian Chartered Accountant and also holds the CFA designation. He is a certified director of the Institute of Corporate Directors (ICD.D).

W. Warren Holmes
Stratford, Ontario, Canada

Director since: March 23, 2009

Committee memberships:
- Compensation Committee (Chair)
- EHSS Committee
- Technical Committee

Mr. Holmes has over forty years of mining industry experience notably with Noranda Inc. (from 1964 to 1986) where he was Vice President and General Manager of Pamour Porcupine Mines Limited and with Falconbridge Limited (from 1986 to 2002) where he was Senior Vice-President of Canadian Mining Operations. From November 2009 to July 2010, Mr. Holmes served as Hudbay's Executive Vice Chairman and, from January 2010 to July 2010 served as our Interim Chief Executive Officer.

Since his retirement from Falconbridge, Mr. Holmes has served as a corporate director. He is Chairman and a director of Wallbridge Mining Company Limited, Lead Director of Foraco International SA, Vice Chairman and a director of Atlanta Gold Inc. and a director of Nuinsco Resources Limited. Mr. Holmes has been President of the Canadian Institute of Mining & Metallurgy, is a Professional Engineer and holds an engineering degree from Queens University and a MBA from the University of Western Ontario.

John. L. Knowles
Winnipeg, Manitoba, Canada

Director since: March 23, 2009

Committee memberships:
- Audit Committee
- Technical Committee

Mr. Knowles is President and CEO of Wildcat Exploration Ltd, a mining exploration company, prior to which he was Executive Vice President and Chief Financial Officer of Aur Resources Inc. from July 2005 to August 2006. He was Vice President and Chief Financial Officer of HBMS from 1996 to April 2005 and, following its acquisition by Hudbay, he was Vice President and Chief Financial Officer of Hudbay until April 2005.

Mr. Knowles has over 25 years of experience in senior roles with Canadian and international resource companies. He is a director of public and private companies involved in international gold exploration, bio-pharmaceuticals and real estate development. He is a Chartered Accountant and holds a Bachelor of Commerce degree from Queen's University.

Board of Directors

Alan J. Lenczner
Toronto, Ontario, Canada

Director since: March 23, 2009

Committee memberships:
– Audit Committee
– Corporate Governance and Nominating Committee

Mr. Lenczner is a partner at Lenczner Slaght Royce Smith Griffin LLP, a litigation-focussed law firm. He is a Director of Leon's Furniture Ltd. and was previously a Director of Eskay Creek Ltd.

Mr. Lenczner has a B.A. (Hon.) and an M.A. He graduated from the University of Toronto with an LL.B. (Hons. Standing) in 1967 and was admitted to the Ontario Bar in 1969. He was appointed Queen's Counsel in 1982.

Kenneth G. Stowe
Oakville, Ontario, Canada

Director since: June 24, 2010

Committee memberships:
– Technical Committee (Chair)
– EHSS Committee

Mr. Stowe was Chief Executive Officer of Northgate Minerals Corporation from 2001 until his retirement in 2011. He spent the first 21 years of his career with Noranda Inc. in various operational, research and development, and corporate roles. He has also held senior positions at Diamond Fields Resources Inc. and Westmin Resources Limited. He is currently a corporate director and he sits on the boards of Alamos Gold Inc. and Klondex Mines Ltd.

Mr. Stowe is a mining engineer with a Bachelor of Science and Masters of Science from Queens University.

G. Wesley Voorheis
Toronto, Ontario, Canada

Director since: March 23, 2009

Committee memberships:
– Corporate Governance and Nominating Committee (Chair)

Mr. Voorheis is Chairman of Hudbay. He is also Managing Director of VC & Co. Incorporated and a Partner of Voorheis & Co. LLP, which act as strategic advisors to institutional and other shareholders, including private equity and hedge funds.

Mr. Voorheis has a number of corporate directorships. He was previously the Chief Executive Officer and a director of Hollinger Inc. He also acted as an advisor to the institutional shareholders of YBM Magnex International, Inc. and subsequently as Chairman of its board of directors. Mr. Voorheis was also a member of the board of directors of Sun-Times Media Group, Inc. and Atlas Cold Storage Holdings Inc. Prior to the establishment of Voorheis & Co. LLP in 1995, Mr. Voorheis was a partner in a major Toronto law firm.

The term of office for each director of the Company will expire upon the completion of the next annual meeting of shareholders of the Company.

Executive Officers

David Garofalo
Richmond Hill, Ontario, Canada

Position with Hudbay: President and Chief Executive Officer

For biographical information for Mr. Garofalo, refer above to the heading "Board of Directors".

David S. Bryson
Toronto, Ontario, Canada

Position with Hudbay: Senior Vice President and Chief Financial Officer

Mr. Bryson has been with Hudbay since August 2008. He held senior finance positions with Skye Resources Inc. from March 2007 to August 2008 and was Treasurer of Terasen Inc. from January 2004 to February 2006. Mr. Bryson holds a Bachelor of Commerce (Finance) from the University of British Columbia and is a Chartered Financial Analyst.

Executive Officers

Ken Gillis
Toronto, Ontario, Canada

Position with Hudbay: Senior Vice President, Corporate Development

Mr. Gillis joined Hudbay in August 2010, prior to which he served as Executive Director of Macquarie Canada's North American Mining Investment Banking practice. Mr. Gillis has a 20 year history of corporate development and related activities in mining, both with mining companies and financial and investment firms. Mr. Gillis has a degree in Geological Science (BSc) from Saint Francis Xavier University and a Masters of Applied Science in Mineral Exploration and Masters of Business Administration from McGill University.

Tom A. Goodman(1)
Denare Beach, Saskatchewan, Canada

Position with Hudbay: Senior Vice President and Chief Operating Officer

Mr. Goodman has worked for Hudbay and its affiliates for over 30 years in a wide variety of operational, technical, and management positions. Mr. Goodman is a graduate in Chemical and Metallurgical Technology from the British Columbia Institute of Technology. He is a member of the Canadian Institute of Mining, Metallurgy and Petroleum and the Minerals, Metals & Materials Society.

Alan T.C. Hair(1) Toronto, Ontario, Canada **Position with Hudbay:** Senior Vice President, Business Development and Technical Services	Mr. Hair has been with Hudbay and its affiliates for over 15 years and has held a number of senior operational and business development roles. Mr. Hair graduated from the University of Leeds, England in 1983 with a Bachelor of Science Honours degree in Mineral Engineering. Prior to joining Hudbay, he worked in European base metals and African platinum group operations.
David Clarry Toronto, Ontario, Canada **Position with Hudbay:** Vice President, Corporate Social Responsibility	Mr. Clarry joined Hudbay in February 2011. From June 2009 to January 2011 he worked through his own firm, Innotain Inc., providing consulting services to the mining and energy industries. Prior to that he spent 18 years with Hatch Ltd., an international engineering and consulting firm, ultimately as Director — Climate Change Initiatives. He holds Bachelor of Science and Master of Science degrees in engineering from Queen's University, a Master of Business Administration degree (MBA) from INSEAD, and is a registered Professional Engineer in the Province of Ontario.
Patrick Donnelly Oakville, Ontario, Canada **Position with Hudbay:** Vice President, Legal and Corporate Secretary	Mr. Donnelly joined Hudbay in 2008 and was appointed to his current role in December 2011. Prior to joining Hudbay, he practiced corporate and securities law at Osler, Hoskin & Harcourt LLP from 2002 to 2007. He also spent a year and half in the legal department of the TDL Group Corp. Mr. Donnelly holds a law degree from the University of Victoria and a Bachelor of Arts from the University of Western Ontario.
Brad W. Lantz Flin Flon, Manitoba, Canada **Position with Hudbay:** Vice President, Manitoba Business Unit	Mr. Lantz has been Vice President, Manitoba Business Unit since September, 2011. From 2007 to September 2011 he was Vice President, Mining and from 2003 to July 2007 he was Mine Manager of the 777 mine. He has also held positions of progressively greater responsibility, at our Ruttan, Trout Lake and Callinan mines. Mr. Lantz graduated from the University of Waterloo in 1982 with a B.Sc. in Earth Sciences.

Executive Officers

Cashel Meagher Lima, Peru **Position with Hudbay:** Vice President, South America Business Unit	Mr. Meagher joined Hudbay in 2008 and was appointed to his current role in September 2011. He has an extensive background in precious metal and base metal exploration, resource and reserve estimation, engineering studies and open pit and underground operations. Prior to joining Hudbay, Mr. Meagher held management positions with Vale Inco in exploration, technical services, business analysis and mine operations. Mr. Meagher is a Professional Geoscientist registered with the Association of Professional Geoscientists of Ontario. He holds a Joint Advanced Major in Geology and Chemistry from Saint Francis Xavier University.
Sharon Sanzo Toronto, Ontario, Canada **Position with Hudbay:** Vice President, Human Resources	Ms. Sanzo joined Hudbay in January 2011, prior to which she served as Vice President, Human Resources at SAS Human Capital Consulting from 2007 to 2010 and as Director, Human Resources at Barrick Gold Corporation from 2006 to 2007. She has also held HR leadership positions at Unilever, Kraft and GlaxoSmithKline. Ms. Sanzo has a Bachelor of Arts degree in Employee Relations from University of Toronto, as well as H.R.C.C.C. (Human Resources and Compensation Committee Certified) status, and is an Adler-Trained Professional Coach.
Hernán Soza Toronto, Ontario, Canada **Position with Hudbay**: Vice President, Exploration	Mr. Soza joined Hudbay in late 2011, bringing more than forty years of mining and mineral exploration experience across South and Central America. Prior to joining Hudbay as Director, South American Exploration, he worked to advance world class deposits for Codelco, Saint Joe's Minerals, Exxon Minerals, Anaconda Minerals and Placer Dome. Mr. Soza graduated as a geologist from the Universidad de Chile in 1968, and currently serves as the Chilean representative on the Committee for Mineral Reserves International Reporting Standards (CRIRSCO).
John Vincic Toronto, Ontario, Canada **Position with Hudbay:** Vice President, Investor Relations and Corporate Communications	Mr. Vincic joined Hudbay in August 2009. Between February 2004 and August 2009 he was an executive vice president at Barnes McInerney Inc., an investor relations and communications firm based in Toronto. He has also held corporate communications positions with Royal Bank of Canada and Sun Life Financial Inc. Mr. Vincic holds a Bachelor of Arts degree from the University of Waterloo.

Notes:

(1) As previously announced, Tom Goodman, Senior Vice President and Chief Operating Officer will retire effective June 2012 and will stand for election to our board of directors at our next Annual Meeting of Shareholders. Alan Hair, currently Senior Vice President, Business Development and Technical Services and a 16 year veteran of the Company, will assume the role of Chief Operating Officer upon Mr. Goodman's retirement.

As of March 29, 2012, our directors and executive officers, as a group, beneficially owned, directly or indirectly, or exercised control or direction over 256,234 common shares, representing less than 1% of the total number of common shares outstanding.

Corporate Cease Trade Orders, Bankruptcies, Penalties and Sanctions

Mr. Barraclough was a director of Coalcorp Mining Inc. ("**Coalcorp**") from January 2009 to June 2010. On February 18, 2009, the OSC issued a temporary management cease trade order ("**MCTO**") related to Coalcorp securities against the chief executive officer and chief financial officer of Coalcorp for so long as the interim financial statements, certifications and related management's discussion and analysis for the quarter ended December 31, 2009 were not filed. Coalcorp subsequently filed the outstanding materials. However, on October 19, 2009, the OSC issued a temporary MCTO against Coalcorp's chief executive officer pending the filing of Coalcorp's 2009 audited annual financial statements, management's discussion and analysis and annual information form. The OSC, the Manitoba Securities Commission and the British Columbia Securities Commission each subsequently

issued a general cease trade order against Coalcorp for Coalcorp's failure to file its 2010 audited annual financial statements, management's discussion and analysis and annual information form. The MCTO and the subsequently issued general cease trade orders were all revoked on November 15, 2010 following the filing of Coalcorp's outstanding continuous disclosure documents.

Mr. Holmes was a director of Campbell Resources Inc. ("**Campbell**") from 2006 to 2008. Mr. Holmes joined Campbell as a director while it was already under the protection of the Companies' Creditors Arrangement Act (Canada) (the "**CCAA**"). Mr. Holmes resigned from the board of directors of Campbell in November 2008. On January 28, 2009, Campbell once again obtained creditor protection under the CCAA. On December 10, 2009, a receiver was appointed over Campbell's assets with power to solicit offers for the sale of the assets.

From September 2003 until June 24, 2004, Mr. Voorheis was a director of Atlas Cold Storage Holdings Inc. ("**Atlas**"), the entity through which Atlas Cold Storage Income Trust ("**Atlas Income Trust**") carried on its business. As a result of Atlas Income Trust not having filed its 2003 third quarter financial statements by the required deadline, the OSC issued a MCTO relating to any trading in securities of Atlas Income Trust against the trustees of Atlas Income Trust, certain members of the board of directors of Atlas and certain other then-current and former officers of Atlas. The cease trade order remained in effect until May 11, 2004, following the remediation of the filing default.

Mr. Voorheis was a director of Hollinger Inc. ("**Hollinger**") from May 2006 to June 2008 and its Chief Executive Officer from April 2007 to June 2008. On August 1, 2007, Hollinger obtained an initial court order granting it creditor protection under the CCAA and made a concurrent application for a companion order under Chapter 15 of the United States Bankruptcy Code. On May 14, 2008, Hollinger announced that it had reached an agreement with its two principal creditors addressing the various principal matters in dispute among those parties and that, upon Court approval of that agreement, Mr. Voorheis would resign as an officer and director of Hollinger. The Court formally approved that agreement on May 26, 2008, and Mr. Voorheis resigned as a director and officer of Hollinger effective June 17, 2008.

Hollinger has been the subject of several cease trade orders issued between 2004 and 2008, due to its failure to file financial statements on a timely basis. On August 5, 2008, the OSC issued a permanent cease trade order against Hollinger which remains in effect. Hollinger has stated that the cease trade order was issued as a result of its determination, in the interests of reducing its costs for the benefit of its stakeholders, not to prepare and file annual audited financial statements and other annual disclosure documents in respect of Hollinger's financial year ended March 31, 2008.

Mr. Voorheis was a director of Sun Times Media Group, Inc. ("**Sun Times**") from August 2007 to June 2008. On March 31, 2009, Sun Times and its domestic subsidiaries filed voluntary petitions under Chapter 11 of the United States Bankruptcy Code.

Conflicts of Interest

To the best of our knowledge, and other than as disclosed herein, there are no known existing or potential conflicts of interest among or between us, our subsidiaries, our directors, officers or other members of management, as a result of their outside business interests, except that certain of our directors, officers, and other members of management serve as directors, officers, promoters and members of management of other entities and it is possible that a conflict may arise between their duties as a director, officer or member of management of the Company and their duties as a director, officer, promoter or member of management of such other entities.

Our directors and officers are aware of the existence of laws governing accountability of directors and officers for corporate opportunity and requiring disclosures by directors of conflicts of interest and we will rely upon such laws in respect of any directors' and officers' conflicts of interest or in respect of any breaches of duty by any of our directors or officers. All such conflicts are required to be disclosed by such directors or officers in accordance with the CBCA, and such individuals are expected to govern

themselves in respect thereof to the best of their ability in accordance with the obligations imposed upon them by law.

AUDIT COMMITTEE DISCLOSURE

The Audit Committee is responsible for monitoring our systems and procedures for financial reporting and internal control, reviewing certain public disclosure documents and monitoring the performance and independence of our external auditors. The Audit Committee is also responsible for reviewing our annual audited consolidated financial statements, unaudited consolidated quarterly financial statements and management's discussion and analysis of results of operations and financial condition for annual and interim periods prior to their approval by the full board of directors. There was no instance in 2011 where our board of directors declined to adopt a recommendation of the Audit Committee.

The Audit Committee's charter sets out its responsibilities and duties, qualifications for membership, procedures for committee appointment and reporting to our board of directors. A copy of the current charter is attached hereto as Schedule C.

Composition

The Audit Committee consists of Messrs. Barraclough, Lenczner and Knowles. Each member of the Audit Committee is independent and financially literate within the meaning of Multilateral Instrument 52-110 - Audit Committees.

Relevant Education and Experience

Set out below is a description of the education and experience of each Audit Committee member that is relevant to the performance of his responsibilities as an Audit Committee member.

J. Bruce Barraclough worked for Ernst & Young LLP for 37 years, 27 years of which were as a partner. Mr. Barraclough holds an MBA from the Schulich School of Business and a Bachelor of Applied Science from the University of Toronto. He is also a Fellow of the Institute of Chartered Accountants of Ontario (FCA) and holds the designation of Chartered Director (C.Dir.) from The Directors College (a joint venture of McMaster University and The Conference Board of Canada).

Alan J. Lenczner has been a commercial litigator for over 40 years. During that time he has represented accounting firms with respect to accounting and auditing issues both in the Superior Court and before the Institute of Chartered Accountants of Ontario.

John L. Knowles has over 25 years of experience in senior roles with Canadian and international resource companies. He previously served as Executive Vice President and Chief Financial Officer of Aur Resources Inc. and was Vice President and Chief Financial Officer of HBMS from 1996 to April 2005 and, following its acquisition by Hudbay, he was Vice President and Chief Financial Officer of Hudbay until April 2005. He is a Chartered Accountant and holds a Bachelor of Commerce degree from Queen's University.

Policy Regarding Non-Audit Services Rendered by Auditors

We have adopted a policy requiring Audit Committee pre-approval of non-audit services. Specifically, the policy requires that proposals seeking approval by the Audit Committee for routine and recurring non-audit services describe the terms and conditions and fees for the services and include a statement by the independent auditor and Chief Financial Officer that the provision of those services could not be reasonably expected to compromise or impair the auditor's independence. The Audit Committee may pre-approve non-audit services without the requirement to submit a specific proposal, provided that any such pre-approval on a general basis shall be applicable for twelve months. The Chair of the Audit Committee has been delegated authority to pre-approve, on behalf of the Audit Committee, the provision of specific non-audit services by the independent auditor where (a) it would be impractical for the services to be provided by another firm; or (b) the estimated fees associated with such services

are not expected to exceed $50,000. Any approvals granted under this delegated authority are to be presented to the Audit Committee at its next scheduled meeting.

Remuneration of Auditor

The following table presents, by category, the fees accrued by Deloitte & Touche LLP as external auditor of, and for other services provided to, the Company for the fiscal years ended December 31, 2011 and 2010.

	2011	2010
Category of Fees		
Audit fees	$ 1,245,553	$ 1,151,039
Audit-related fees	$ 476,640	$ 300,132
Tax fees	—	$ 16,700
All other fees	—	$ 49,350

"Audit fees" include fees for auditing annual financial statements and reviewing the interim financial statements, as well as services normally provided by the auditor in connection with our statutory and regulatory filings. "Audit-related fees" are fees for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not reported under "Audit fees", including attest services not required by statute or regulation and financial information presentation assistance with finalization of accounting matters and certification and acquisition activities. "Tax fees" relates to certain tax advisory fees provided to management. "All other fees" relates to the reviewing of our Corporate Social Responsibility report. Management presents regular updates to the Audit Committee of the services rendered by the auditors as part of the Audit Committee's oversight regarding external auditor independence and pre-approved service authorizations.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

In 1995 HBMS was named as a co-defendant in two actions before the Saskatchewan Court of Queen's Bench challenging various wrongful actions committed in connection with the use and operation of the Whitesand Dam and the Island Falls Hydroelectric station (collectively, the "**Hydro Projects**") in Saskatchewan. The plaintiffs have claimed for an aggregate of $1 billion in compensatory damages and in excess of $100 million in punitive damages. One of Hudbay's former subsidiaries constructed and operated the dam until it was transferred to Saskatchewan Power Corporation ("**SaskPower**") in 1981. The plaintiffs in both actions claim that the lands on which the hydroelectric facilities were built are subject to aboriginal rights. As this matter has not been progressed since 1995, any potential liabilities are not reasonably determinable. The principal parties to this litigation are:

1. In the Court of Queen's Bench for Saskatchewan, Action No. 489 dated February 9, 1995

    - Plaintiffs: Cornelius Ballantyne of Deschambault Lake, and Eileen Ballantyne Linklater of The Peter Ballantyne Indian Reserve #184, and Richard Highway of The Peter Ballantyne Indian Reserve #184, representing the inheritors and followers

and members of the Peter Ballantyne Band and tribes of Indians who are traditional uses of land and water.

- Defendants: SaskPower, HBMS and Churchill River Power Company Limited (" **CRP**").

2. In the Court of Queen's Bench for Saskatchewan, Action No. 505 dated February 10, 1995

   - Plaintiffs: Gordon Bear of the Wapaskokimow Reserve, and Catherine Wapaskokimow Ballantyne, Emil Bear and Gary Morin of Sandy Bay, representing themselves and the inheritors and followers of the Chief Cornelius White Bear Band and tribes of Indians who are traditional users of land and water.

- Defendants: SaskPower, HBMS and CRP.

SaskPower has been named as a defendant in two other actions, one filed in Manitoba's Court of Queen's Bench in 1992 and one filed in Saskatchewan's Court of Queen's Bench in 2004. Both actions claim damages alleged as a result of the operation and use of the Hydro Projects. HBMS has been named as a third party in the Saskatchewan action, but has not been named as a party in the Manitoba action. SaskPower has also added CRP, formerly a wholly-owned subsidiary of HBMS, which was dissolved, as a third party in the Saskatchewan action. SaskPower revived CRP for the purpose of taking action for alleged breaches by CRP of its obligation under a certain Purchase and Sale Agreement made in 1981. HBMS has filed a Statement of Defence to the Third Party Claim and served same on counsel for the other parties. On September 27, 2010, HBMS and its counsel attended a mandatory mediation required pursuant to the Saskatchewan Court Rules. By agreement of the parties of this action, the mediation sessions were continued on December 7, 2010 and September 22 and 23, 2011. The parties to the Saskatchewan action have exchanged relevant documents and have had further discussion regarding a draft Negotiation Protocol submitted by legal counsel for the First Nation and are proceeding with motions to have certain issues decided by the Saskatchewan Court of Queen's Bench. A further mediation session will be scheduled to attempt to agree on certain issues that are to be decided by the Saskatchewan Court. The Statement of Claim does not specify the amount of damages being claimed but during the course of the mediation sessions, legal counsel for the plaintiff have indicated that the claim being advanced on behalf of Peter Ballantyne Cree Nation is in the range of $100,000,000. SaskPower is seeking contribution and/or indemnity as well as a separate damage claim from CRP and HBMS but has not specified the amount claimed in the Third Party Claim or during the mediation sessions. Given the number of parties and the early stages of the proceedings, the resolution of the claims against CRP and HBMS is not reasonably determinable.

In March 2007 a statement of claim was issued in Manitoba's Court of Queen's Bench by Callinan Mines Limited (" **Callinan**") against HBMS ("**Manitoba Action**") seeking declaratory relief, an accounting and an undisclosed amount of damages relating to an alleged breach of a Net Profits Interest and Royalty Agreement ("**NPI Agreement**") between HBMS and Callinan dated January 1, 1988. HBMS has filed a statement of defence denying liability to Callinan. Callinan has appointed an auditor to conduct an independent audit of the books and records of HBMS and the audited financial statements delivered pursuant to the NPI Agreement. Callinan's auditors had meetings with senior representatives of HBMS and the independent audit is underway. HBMS and Callinan entered into a Standstill Agreement not to take any further steps in connection with the Manitoba Action without giving at least thirty days written notice. The likelihood of success and potential liability of this claim are not reasonably determinable as no specific damages have yet been identified by the plaintiff.

Hudbay is subject to three claims in the Ontario Superior Court in connection with its previous ownership of the Fenix project in Guatemala through its subsidiary at the time, Compañía Guatemalteca De Níquel S.A. ("**CGN**").

The first action was served in September 2010. The plaintiff, Angelica Choc, asserts a claim of negligence against Hudbay and wrongful death, among other claims, against CGN in connection with the death of her husband Adolfo Ich Chaman on September 27, 2009. The plaintiff claims that the head of CGN security shot and killed Mr. Chaman during a confrontation between members of local communities who were unlawfully occupying CGN property and CGN personnel. The aggregate amount of the claim is $12 million.

In the second action, served in March 2011, eleven plaintiffs claim that they were victims of sexual assault committed by CGN security and members of the Guatemalan police and army during court ordered and state implemented evictions in January 2007 (before the project was acquired by Hudbay). These claims are asserted against Hudbay and its subsidiary at the time HMI Nickel Inc. The aggregate amount of the claims is $55 million.

The plaintiff in the third action, German Chub Choc, claims that he was shot and permanently injured by the head of CGN security during the same events that gave rise to the claim brought by Ms. Choc. This action was served in October 2011. The aggregate amount of the claim is $12 million.

We believe that all the claims are without merit. As a preliminary matter, we have brought motions to dismiss the three actions against Hudbay on the bases that the claims pleaded do not give rise to a reasonable cause of action and that Ontario is not the proper forum in which to hear the claims. We expect the preliminary motions to be heard together in late 2012.

Except as noted above, we are not aware of any litigation outstanding, threatened or pending against us as of the date hereof that would be material to our financial condition or results of operations.

Regulatory Actions

We have not: (a) received any penalties or sanctions imposed against us by a court relating to securities legislation or by a securities regulatory authority during the financial year; (b) received any other 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; and (c) entered any settlement agreements with a court

relating to securities legislation or with a securities regulatory authority during the financial year.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as disclosed in this AIF, since January 1, 2009, none of our directors, executive officers or 10% shareholders and no associate or affiliate of the foregoing persons has or has had any material interest, direct or indirect, in any transaction that has materially affected or is reasonably expected to materially affect us.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for our common shares is Equity Financial Trust Company at its principal office in Toronto, Ontario.

MATERIAL CONTRACTS

Except for those contracts entered into in the ordinary course of our business, the following are the material contracts we entered into (i) within the last financial year or (ii) between January 1, 2002 and the beginning of the last financial year and which are still in effect:

1. the Purchase Agreement with the Solway Group dated August 5, 2011 whereby we agreed to sell 100% of our interest in the Fenix project. For additional information, refer above to the heading “Development of Our Business — Three Year History — Disposition of Fenix Project”;

2. the Support Agreement with Norsemont dated January 9, 2011 whereby we agreed to make an offer to acquire all of Norsemont’s issued and outstanding common shares. For additional information, refer above to the heading “Development of Our Business — Three Year History — Acquisition of Norsemont Mining Inc.”; and

3. the credit facility with the lender’s party thereto from time to time and The Bank of Nova Scotia, as administrative agent, dated as of November 3, 2010 providing for a four year US$300 million revolving credit facility.

QUALIFIED PERSON

The scientific and technical information contained in this AIF related to the Constancia project has been prepared by or under the supervision of Cashel Meagher, P.Geo., our Vice President, South America Business Unit. The scientific and technical information related to all other sites and projects contained in this AIF has been prepared by or under the supervision of Robert Carter, P.Eng., our Manager, Project Evaluation. Messrs. Meagher and Carter are Qualified Persons for the purposes of NI 43-101.

INTEREST OF EXPERTS

Cashel Meagher, P.Geo. and Robert Carter, P.Eng. are experts who have prepared certain technical and scientific reports for us. As at the date hereof, to our knowledge, the aforementioned persons beneficially own, directly or indirectly, less than 1% of our outstanding securities and have no other direct or indirect interest in our company or any of its associates or affiliates.

Deloitte & Touche LLP is the auditor of Hudbay and is independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

ADDITIONAL INFORMATION

Additional information, including directors’ and officers’ remuneration and indebtedness, principal holders of our securities and securities authorized for issuance under equity compensation plans, as applicable, is contained in our management information circular dated May 16, 2011. Additional financial information is provided in our financial statements and management’s discussion and analysis for the fiscal year ended December 31, 2011.

Additional information relating to the Company may be found on SEDAR at www.sedar.com and in the United States on EDGAR at www.sec.gov.

SCHEDULE A
GLOSSARY OF MINING TERMS

The following is a glossary of terms used in this annual information form.

“AQ”, “BQ”, “NQ”	Letter names specifying the dimensions of bits, core barrels, and drill rods in the Q-group wireline diamond drilling system having a core diameters of 27mm, 36.5 mm, and 47.6 mm, respectively and hole diameters of 48mm, 60mm, and 75.7 mm, respectively.
“**CIM**”	Canadian Institute of Mining, Metallurgy and Petroleum.
“**concentrator**”	A plant where ore is separated into values (concentrates) and rejects (tails). An appliance in such a plant, e.g., flotation cell, jig, electromagnet, shaking table. Also called mill.

“**double-drum hoist**”	A hoist with two drums that can be driven separately or together by a clutch.
“**felsic**”	A mnemonic adj. derived from (fe) for feldspar, (l) for lenad or feldspathoid, and (s) for silica, and applied to light-coloured rocks containing an abundance of one or all of these constituents. Also applied to the minerals themselves, the chief felsic minerals being quartz, feldspar, feldspathoid, and muscovite.
“**grade**”	The amount of valuable metal in each tonne of ore, expressed as grams per tonne for precious metals. Cut-off grade is the minimum metal grade at which a tonne of rock can be processed on an economic basis.
“**mafic**”	Pertaining to or composed dominantly of the ferromagnesian rock-forming silicates; said of some igneous rocks and their constituent minerals.
“**mineral reserves**”	That part of a measured or indicated mineral resource which could be economically mined, demonstrated by at least a preliminary feasibility study that includes 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 materials and allowances for losses that may occur when the material is mined. Mineral reserves are those parts of mineral resources which, after the application of all mining factors, result in an estimated tonnage and grade which, in the opinion of the qualified person(s) making the estimates, is the basis of an economically viable project after taking account of all relevant processing, metallurgical, economic, marketing, legal, environment, socio-economic and government factors. Mineral reserves are inclusive of diluting material that will be mined in conjunction with the mineral reserves and delivered to the treatment plant or equivalent facility. The term “mineral reserve” need not necessarily signify that extraction facilities are in place or operative or that all governmental approvals have been received. It does signify that there are reasonable expectations of such approvals. Mineral reserves are subdivided into proven mineral reserves and probable mineral reserves. Mineral reserves fall under the following categories:
“**proven mineral reserves**”	That part of a measured mineral resource that is the economically mineable part of a measured mineral resource, demonstrated by at least a preliminary feasibility study that includes adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction is justified.
“**probable mineral reserves**”	That part of an indicated and in some circumstances a measured mineral resource that is economically mineable demonstrated by at least a preliminary feasibility

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	study that includes adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified.
“**mineral resources**”	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. Mineral resources fall under the following categories:
“**measured mineral resource**”	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.
“**indicated mineral resource**”	That part of a mineral resource for which quantity, densities, shape and physical characteristics can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parameters and 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 resource**”	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.
“**mineralization**”	The process or processes by which a mineral or minerals are introduced into a rock, resulting in a valuable or potentially valuable deposit. It is a general term incorporating various types; for example, fissure filling, impregnation and replacement.
“**NI 43-101**”	National Instrument 43-101 of the Canadian Securities Administrators — Standards of Disclosure for Mineral Projects.
“**ore**”	A natural aggregate of one or more minerals which, at a specified time and place, may be mined and sold at a profit, or from which some part may be profitably separated.

"**recovery**"	A term used in process metallurgy to indicate the proportion of valuable material obtained in the process. It is generally stated as a percentage of valuable metal in the processed material that is recovered compared to the total valuable metal present.
"**tailings**"	The gangue and other refuse material resulting from the washing, concentration, or treatment of ground ore.

SCHEDULE B
MATERIAL MINERAL PROJECTS

777 Mine

The technical and scientific information included in the following description of our 777 mine, including the estimated measured and indicated mineral resource and the estimated inferred mineral resource and the estimated mineral reserve have been prepared under the supervision of Robert Carter, P.Eng., who is employed by Hudbay as Manager, Project Evaluation and who is a Qualified Person under NI 43-101.

Project Description and Location

The 777 mine is an underground copper and zinc mine with significant precious metal credits located immediately adjacent to our principal concentrator and zinc pressure leach plant in Flin Flon and straddles the Manitoba/Saskatchewan border. Development of the mine commenced in 1999 and commercial production began in 2004. It is part of a cluster of interlinked ore bodies including the prior Callinan mine and the prior Flin Flon mine.

The 777 mine property is located on Saskatchewan Mineral Leases and Manitoba Order in Council (" **OIC"**) leases totalling approximately 4,400 hectares, including approximately 1,100 hectares in Manitoba and approximately 3,300 hectares in Saskatchewan. We own a 100% interest in these mineral leases. Annual lease rental payments are $16,730 and $1,600 to the Manitoba and Saskatchewan governments, respectively. There is an annual work expenditure requirement for the Saskatchewan property of $257,025. Individual leases have different expiry dates that range from 2012 to 2031. All mineral production from the 777 mine property is subject to a 6 2/3% net proceeds of production royalty and a $0.25 per ton royalty pursuant to a royalty agreement with Consolidated Callinan Flin Flon Mines Limited. Surface rights are held under several leases and permits that also host the concentrator and metallurgical plants and are sufficient for purposes of our current mining operations.

The 777 mine is an extension of mining activities and facilities in Flin Flon that have been in operation since the 1930s. Liabilities associated with the 777 mine are addressed by the closure plans that have been submitted to regulators in both Saskatchewan and Manitoba and financial assurance has been provided to cover the demolition and remediation activities outlined in such closure plans. In addition, closure plans have been submitted and are backed with financial assurance for the associated Flin Flon Metallurgical Plant (FFMC) and Flin Flon Tailings Impoundment System (FFTIS) utilized by the 777 mine.

Accessibility, Climate, Local Resources, Infrastructure and Physiography

Our 777 mine is located adjacent to Provincial Highway #10 in Flin Flon. Flin Flon has a population of approximately 6,000 people, with an additional 3,000 people living in the surrounding community, and is in an area with a rich history of operating mines. In addition, Flin Flon has well developed access to road, rail and air transportation and it is the site of our principal concentrator and zinc pressure leach plant. Personnel requirements for our 777 mine and processing facilities are largely drawn from the immediate area, which is sufficient for the mine.

The water supply for Flin Flon is taken from Trout Lake. Electrical power is supplied from the Manitoba Hydro and Saskatchewan Power Corporation power grids, which are fed by three hydroelectric generating stations. Our arrangement with Manitoba Hydro represents the single largest supply contract for our operations.

The waste water from the 777 mine and associated FFMC process discharges and tailings are all treated within the FFTIS. Due to the topography of the entire FFMC, all drainage flows to one main sump location, where it is collected and then treated within the FFTIS. Since the FFTIS is located in the Province of Saskatchewan, approval to operate the FFTIS has been granted by Saskatchewan regulators.

The geographical area has cool summers and very cold winters with a mean annual temperature of 0.6° C. The predominant vegetation is closed stands of black spruce and jack pine with a shrub layer of ericaceous shrubs and ground cover of mosses and lichens.

History

We have operated in the Flin Flon Greenstone Belt for more than 85 years. During this period, we have mined approximately 147 million tonnes of ore.

Under the ownership of Minorco, S.A. in the mid-1990s, a strategic review of the northern Manitoba and Saskatchewan operations depicted a company with declining reserves, lower ore grades, rising costs and a poor safety record. At that time, it was concluded that a less than a 10-year mine life was possible and closure of operations before 2005 was planned.

In connection with the closure plan, it was decided to continue exploration efforts until 1998, the latest time an ore body could be

developed for production prior to the planned closure. In 1993, based on the drilling program, the 777 deposit was first indicated by an underground exploration hole that intersected the mineralization at a depth of 1,000 metres. In 1995, a drilling program delineated the ore body and by 1997, this ore body was defined. In 1999, development of the 777 mine was commenced as part of the "777 Project" and commercial production from the mine commenced in January 2004. It was determined that the 777 ore body had the potential to extend operations to 2014 if a number of critical factors were first addressed. As a result, our northern Manitoba and Saskatchewan operations lowered their overall unit operating cost, improved safety performance and created a performance-oriented culture.

Geological Setting

Our 777 mine is located within the Flin Flon Greenstone Belt in the Canadian Shield, one of the world's largest exposed areas of Precambrian rocks. Within the Canadian Shield are large, deformed remnants of ancient volcanic-sedimentary terrain known as greenstone belts, which historically have been proven locations of base and precious metals.

The ore bodies of the Flin Flon Greenstone Belt occur in a highly prospective early Proterozoic island-arc assemblage that stretches for an exposed length of 250 kilometres east-west and 75 kilometres north-south. The deposits are copper-zinc VMS type, rich in gold and silver, hosted in both felsic and mafic volcanic rocks with the felsic type hosting the largest deposits. VMS ore bodies in the area have ranged in size from less than 100,000 tonnes to more than 60 million tonnes.

The Flin Flon formation is subdivided into three mappable members containing units of heterolithic and monolithic breccias, rhyolite flows and domes, and massive and pillowed basalt flows and flow-top breccias. It includes the Millrock member, which contains the 777 and Callinan mineralization, and the footwall to it, comprised of the Blue Lagoon and Club members.

The 777 mine ore is hosted in the Millrock member which consists of rhyolitic and basaltic volcanic lithofacies. The hanging wall consists of basaltic flows and intrusive volcanics of the overlying the Hidden formation. The Millrock member can be subdivided into five main mapping units in addition to the ore; fragmental basalt, chlorite schist, quartz porphyry rhyolite (QP), intrusives (typically diorite), and mafic/felsic tuffs.

Exploration

Diamond drilling is the only drilling type carried out at the 777 mine for the purposes of exploration, ore zone definition and sampling. In 2011, the drill focus changed from defining current reserves to a concentrated effort on exploration. Over 21,000 metres of exploration drilling was carried out at the 777 mine in 2011 with a focus on targeting additional resources in the hanging wall, footwall and along strike of the deposit. Significant knowledge was gained on the stratigraphy of the deposit and

this information will aid in the 20,600 metre exploration program planned for 2012. A further 10,542 metres of diamond drilling was conducted in our 777 mine to define parts of the orebodies to provide adequate definition for the purpose of ore extraction. This diamond drilling was separate from exploration diamond drilling that was done for the testing and discovery of new mineral deposits on the surface of our exploration lands.

We routinely conduct time-domain borehole electromagnetic surveys with three dimensional probes on drill holes. These probes used are induction coil probes which measure the secondary magnetic field induced by the primary field created by a loop. These electronic methods can generally detect off hole targets up to 150m or more from the hole depending on the size and conductivity of the target. The sample quality can be affected by active mine workings and the proximity of the geophysical apparatus to a large ore body, such as 777, which can leave an imprint of the mine itself on the data.

After the initial aggressive exploration program that defined the 777 deposit, few holes had downhole geophysical surveys. The first modern exploration drill hole at the 777 mine, T7X-001, was pulsed in late 2004. Following that hole, little exploration work was conducted between 2005 and 2008 with only 56 holes being drilled during that four year period. Since 2009, exploration efforts have increased with the downhole geophysical surveying of approximately 30 holes, 20 of these using one of the underground footwall loops. These were concentrated on deep footwall drilling, around the West Zone, and in the hanging wall. Among these 30 holes, eight were surveyed in the hanging wall using a surface loop. All high priority targets have been followed up with drilling as well as most of the lesser category targets. The few lesser category targets remaining are planned to be drill tested in 2012.

In 2011 a total of four holes, T7X-127, T7X-130, T7X-131, and T7X-170 were down hole pulsed with a surface loop approximately 1,500m by 1,000m. Results from the program are pending completion of the interpretation, though it was noted that the quality of the data obtained was good.

Mineralization

The Flin Flon cluster of ore bodies, which encompasses the Flin Flon, Callinan and 777 ore bodies, is hosted by a sequence of volcanic flow and volcaniclastic rocks that are predominantly basaltic in nature. In the mine area, the mine horizon stratigraphic sequence lies on the west side of the Hidden Lake Syncline and strikes about 350 degrees and dips 50 to 60 degrees to the east.

The Callinan and 777 deposits occur within an east-facing sequence of volcanic rocks documented as tholeiitic and basalt-dominated, and dated at 1904 Ma. The rocks immediately hosting the mineralization, however, consist of quartz-phyric (QP) and quartz-feldspar-phyric (QFP) rhyolite flows and quartz-feldspar crystal-lithic volcaniclastic rocks of rhyolitic composition.

The 777 deposit can be divided into two main southeast plunging trends, the North Limb and the South Limb, as well as the West Zone. All three zones lie within the same stratigraphic sequence with the same lithofacies as described above. The West Zone lies in the footwall and is interpreted to be a lower thrust slice. Both limbs show the same stratigraphic sequence and most likely represent a structural repeat. On average the lenses strike at 10° and dip to the east at 45°. All zones have a relatively shallow plunge trending at -35° towards 140°. Horizontal widths throughout the deposit range from 2.5 metres to 70 metres in thickness, and can be thicker where two or more zones overlap.

There are a total of eight distinct sulphide lenses contained within the 777 deposit. This consists of Zones 10, 15, 20 and 30 occurring in the North Limb, Zones 40, 50, 60 and 70 in the South Limb, as well as Zone 33 in the West Zone. Each of the zones is distinguishable based on grade and ore type and their spatial location. Zone 10 contains varying concentrations of pyrrhotite, pyrite, and chalcopyrite with local sphalerite, arsenopyrite, chalcocite, and chlorite. Zones 15, 50, and 70 are chlorite schist hosted and are typically pyrrhotite and chalcopyrite mineralized with minor amounts of sphalerite, pyrite, arsenopyrite, and magnetite. Zones 30, 33, 40, and 60 are zinc rich with variable amounts of pyrite, sphalerite, and chalcopyrite. Locally, minor pyrrhotite, magnetite, and arsenopyrite are present. In general, each trough is relatively zinc rich on the hanging wall and grading towards copper rich in the footwall. The 777 mineralization encompasses an area approximately 1,300 metres in the down plunge

direction by 550 metres along strike and varies in depth from approximately 870 to 1,600 metres below surface. Mineralization in general is fairly continuous with the exception of scattered diorite intrusions.

Drilling and Sampling and Analysis

Diamond drilling is the only drilling type carried out for the purposes of exploration, ore zone definition and sampling of our 777 mine. Drilling is done by drilling contractors under the supervision of our geologists.

Core recovered is placed in wooden core boxes covered with lids and transported to surface where it is logged by our geologists. Core from exploration holes outside the operating parts of the mine are generally re-boxed and saved after logging. Core from holes for the purposes of orebody definition that is not sampled is discarded after logging.

Core recovery from diamond drilling is generally excellent and the drill cores are considered a reliable sampling media. Core size is generally NQ or BQ.

Core recovered from diamond drilling within our 777 mine was logged and mineralized sections were marked for sampling and assaying by our geologists. The marked sections are either whole core sampled, placed in plastic bags and tagged with unique sample numbers, or sawn in half by a diamond saw and one half of the core is placed in plastic bags and tagged with unique sample numbers, while the second half is returned to the core box and stored.

Each bagged core sample is placed in a plastic pail with a sample submittal sheet and sealed prior to being transported to our assay laboratory in Flin Flon where it is dried, crushed and pulverized and a 250 gram sample is prepared for assaying.

From each 250 gram sample 0.25 grams is removed and leached in aqua regia and analyzed by ICP-AES for Ag, Cu, Zn, As, Pb, Ni and Fe. Also from the 250 gram sample, 15 to 30 grams is removed for gold determination by fire assaying with Atomic Absorption finish.

Assaying integrity is monitored internally with a quality control program, which includes the use of assay sample standards, blanks, duplicates and repeats and externally through national and international programs. In addition, within each group of 50 core samples, one core sample has a second 250 gram split collected for external independent lab check assaying at Acme Analytical Laboratories Ltd. in Vancouver, British Columbia.

Core samples obtained from exploration diamond drilling on the surface of our exploration lands are processed in a similar way except that all core samples are sawed in half and one check assay sample is collected from within each group of 20 core samples.

Security of Samples

Logging of drill cores is done by geologists directly from their secure laptop computers into our geology database. Drill hole validation is performed within the database for validity of reported lengths, geology intervals, and sample intervals such that there are no overlapping intervals, duplicate sample numbers, etc. The geology database is managed by one individual who is also responsible for downloading the assay information directly from the laboratory.

Bagged core samples are checked by laboratory personnel to ensure that they match the submittal sheet prepared by the geologist or technician.

All sample preparation, splitting, handling, and storage is done by our personnel according to a full chain of custody procedure. This involves the creation of a submittal sheet with all batches of drill core sent for assay by the geologist daily. The sheet is signed both by the geologist, to verify the samples were stored securely, and by the laboratory personnel, to verify it was in their control from the

time it left the core logging facility. This chain of custody is consistent with industry standards for base metal deposits.

Mining Operations

The 777 mine has an internal ramp system to allow movement between working levels and to the Callinan mine. The 777 shaft is a 6.7 metre diameter vertical shaft to a depth of 1,530 metres. Ore and waste hoisting is done with a double-drum hoist with a capacity in excess of 1.35 million tonnes per year using 16 tonne skips. A separate double drum hoist operates a man and material cage and counterweight and a single drum hoist operates a small man cage.

Mining is primarily by long-hole open stoping. Paste backfill is used to fill mined stopes and is delivered from the Flin Flon concentrator by pumping through a network of lined boreholes and pipes. Pillars are left as regional support in addition to the backfill. The host country rock, particularly in the hanging wall, is competent.

Ore produced is transported to our Flin Flon concentrator for processing into copper and zinc concentrate. Copper concentrate is sold to third party purchasers and zinc concentrate is sent to our Flin Flon zinc plant where it is further processed into special high grade zinc before being sold to third party purchasers. See "Description of our Business — Other Assets — Processing Facilities" and "Description of our Business — Other Information — Products and Marketing".

Ventilation control is adequate, and the main shaft is the primary fresh air intake. Compressors supply compressed air. Pipes are installed to distribute the compressed air and water through the mine. The mine also has adequate electrical power for mining purposes.

The anticipated mine life is until 2020.

Reconciliation of Reserves and Resources

A year over year reconciliation of our estimated reserves and resources at the 777 mine is set out below.

777 Mine

	Mineral Reserve Reconciliation (Proven & Probable)	**tonnes**
A	2011 Mineral Reserve	12,823,000
B	2011 Production (from Reserves)	1,400,000
C	(A - B)	11,423,000
D	Geology(1) Gain/(Loss)	(12,000)
E	Mine Planning(2) Gain/(Loss)	373,000
F	Economics(3) Gain/(Loss)	54,000
G	(D + E + F)	415,000
H	2012 Mineral Reserve (C + G)	11,838,000

(1) Geology - diamond drilling, interpretation, estimation (interpolation parameters)
(2) Mine Planning - dilution, recovery, resultant change in non-recoverable
(3) Economics - mine operating and capital, commodity price and CDN$/US$ exchange, concentrating, TC/RC, freight
(Upgrading of mineral resource and conversion to mineral reserves may economically improve previous non-economic mining areas).

777 Mine

	Mineral Resource Reconciliation (Inferred)	**tonnes**
I	2011 Mineral Resource	1,326,000
J	2011 Production (from resource unrecovered and undiluted)	—
K	(I - J)	1,326,000
L	2012 Mineral Resource	1,065,000
M	(L - K)	(261,000)

Lalor Project

The technical and scientific information included in the following description of the Lalor project, including the estimated mineral reserves and mineral resources have been prepared under the supervision of Robert Carter, P.Eng., who is employed by Hudbay as Manager, Project Evaluation and who is a Qualified Person under NI 43-101. On March 30, 2012, we filed a NI 43-101 technical report entitled "Pre-Feasibility Study Technical Report, on the Lalor Deposit, Snow Lake, Manitoba, Canada", dated March 29, 2012, a copy of which is available under our profile on SEDAR at www.sedar.com.

Project Description and Location

Lalor is a zinc, gold and copper project currently under construction near the town of Snow Lake in the province of Manitoba. Lalor is located approximately 210 km by road east of Flin Flon, Manitoba of which 197 km is paved highway. The project is three kilometres to the northwest of our Chisel North mine.

We own a 100% interest in the property through five claims and eight mineral leases that total approximately 916 hectares with annual rental payments payable to the Manitoba government of $1,742. An application has been submitted to convert the claims to a mineral lease

which has an initial term of 21 years. The mineral leases terminate in April and September 2023. There are no royalties payable other than those potentially payable to the province. Surface rights are held under general permits with total annual rental payments of $1,202 and are sufficient for purposes of our development plans.

A 3,200 metre underground production ramp from Hudbay's Chisel North mine to the Lalor deposit began in December 2009 and was completed on time and on budget in 2011. With the ramp now completed, the focus at Lalor has turned to completion of the ventilation shaft to allow additional ventilation to support the underground excavation work. A temporary hoisting arrangement will remain at the collar of this shaft until the main production shaft is commissioned. The hoisting arrangement will allow the majority of the waste material from the underground excavations to be hoisted versus trucked up the ramp distance, as well as early ore from one of the zinc rich lenses.

The Lalor project was envisaged to utilize, to the greatest extent possible, existing infrastructure in the Snow Lake area from previous mining activities and currently operating facilities. As such, liabilities associated with each operational area, have been addressed by the closure plans previously submitted to the regulators, and financial assurance has been provided to cover total closure and remediation costs. The project plan contemplated by the Advanced Exploration Project (AEP), which was approved by regulators, includes a closure plan for demolition and remediation of the AEP site. Financial assurance was also provided to cover costs detailed in the approved AEP closure plan.

As the Lalor project is in close proximity to our current operations in the Snow Lake area, it is possible for it to utilize existing facilities and infrastructure that have already been licensed and permitted. These licences and permits are tied to the currently operating Chisel North mine, Chisel Water Treatment Plant (WTP), Anderson Tailings Impoundment Area (TIA), and the Snow Lake concentrator.

Accessibility, Climate, Local Resources, Infrastructure and Physiography

The current project infrastructure includes a four kilometre main access road that was constructed in 2010 from provincial road 395 and provides access from the Chisel North mine site to the Lalor site. This access road includes a corridor with freshwater/discharge pipelines and a main hydro line. Access to the site is off of paved provincial highway 392 which runs between Snow Lake and Flin Flon.

The Snow Lake area has a typical mid-continental climate, with short summers and long, cold winters. Climate generally has only a minor effect on local exploration and mining activities. The project area is approximately 300 metres above sea level, consisting of ridged to hummocky sloping rocks with depressional lowlands, and has gentle relief that rarely exceeds 10 metres. The area of Lalor and surrounding water bodies (Snow, File, Woosey, Anderson and Wekusko lakes) are located in the Churchill River Upland Ecoregion in the Wekusko Ecodistrict. The dominant soils are well to excessively drained dystic brunisols that have developed on shallow, sandy and stony veneers of water-worked glacial till overlying bedrock. Significant areas consist of peat-filled depressions with very poorly drained typic and terric fibrisolic and mesisolic organic soils overlying loamy to clayey glaciolacustrine sediments.

Tailings production associated with the Lalor project will be impounded in the currently permitted Anderson TIA. Waste rock from the development permitted under the Lalor AEP and proposed Lalor mine will be deposited into and stored in the Chisel Open Pit mine. Mine discharge water from the existing Chisel North mine and proposed Lalor mine will be treated in the Chisel WTP along with water from the Chisel Open Pit.

Hudbay operates a mine water pump station for the Chisel North mine at the north end of Chisel Lake approximately eight kilometres from Lalor. In addition, Hudbay commissioned a 2,000 US gpm water treatment plant in the spring of 2008 at Chisel Lake, approximately seven kilometres by road from Lalor.

Power for the site construction is currently being transmitted at 25 kV using the current Chisel North mine substation via an eight kilometre long overhead transmission line.

Process water required for the construction phase of the project is estimated to be 45 to 50 m^3/hr. The process water will be drawn through existing pump stations located at Chisel Lake which is currently supplying process water to the Chisel North mine. Each pump station has a capacity of supplying 68 m^3/hr.

Work on the project components of shaft sinking and site construction is currently being done by specialized contractors with contracts in place. As of the end of 2011, 13 permanent employees were on staff and 120 construction contractors were on site. A 198 person temporary construction camp was operational January 2011 in the town of Snow Lake to accommodate the Lalor project construction crew.

Personnel requirements for the Lalor project will largely be drawn from the immediate area where there is a history of operating mines. We believe there are sufficient skilled operating, maintenance and technical personnel available to bring Lalor to its planned full production. The Lalor mine in full operation will require approximately 300 employees and the new concentrator will require approximately 74 employees.

History

The Lalor deposit is situated in the Chisel Basin. Exploration in the Chisel Basin has been active since 1955. The Chisel Basin area has hosted three producing mines, namely, Chisel Lake, Chisel Open Pit and Chisel North. All three mines have very similar lithological and mineralogical features.

A Crone Geophysics survey in 2003 indicated a highly conductive shallow-dipping anomaly at a vertical depth of 800 metres. In early 2007, drill hole DUB168 was drilled almost vertically to test the anomaly and intersected a band of conductive mineralization between 781.74 m and 826.87 m (45.13 m).

Assay results include 0.30% Cu and 7.62% Zn over the 45.13 metres, including 0.19% Cu and 17.26% Zn over 16.45 metres. Drilling at Lalor has been continuous since the discovery of mineralization on the property by Hudbay.

Geological Setting

The Lalor property lies in the eastern (Snow Lake) portion of the Paleoproterozoic Flin Flon Greenstone Belt and is overlain by a thin veneer of Pleistocene glacial/fluvial sediments. Located within the Trans-Hudson Orogen, the Flin Flon Greenstone Belt consists of a variety of distinct 1.92 to 1.87 Ga tectonostratigraphic assemblages including juvenile arc, back-arc, ocean-floor and ocean-island and evolved volcanic arc assemblages that were amalgamated to form an accretionary collage (named the Amisk Collage) prior to the emplacement of voluminous intermediate to granitoid plutons and generally subsequent deformation. The volcanic assemblages consist of mafic to felsic volcanic rocks with intercalated volcanogenic sedimentary rocks. The younger plutons and coeval successor arc volcanics, volcaniclastic, and sedimentary successor basin rocks include the older, largely marine turbidites of the Burntwood Group and the terrestrial metasedimentary sequences of the Missi Group.

The Snow Lake arc assemblage that hosts the producing and past-producing mines in the Snow Lake area is a 20 kilometres wide by 6 kilometres thick section that records a temporal evolution in geodynamic setting from ‘primitive arc’ (Anderson sequence to the south) to ‘mature arc’ (Chisel Basin sequence) to ‘arc-rift’ (Snow Creek sequence to the northeast). The ‘mature arc’ Chisel Basin sequence that hosts the zinc rich Chisel, Ghost, Chisel North, and Lalor deposits typically contains thin and discontinuous volcaniclastic deposits and intermediate to felsic flow-dome complexes.

The Lalor deposit is similar to other massive sulphide bodies in the Chisel Basin sequence (Chisel Lake, Ghost Lake and Chisel North), and lies along the same stratigraphic horizon as the Chisel Lake and Chisel North deposits. It is interpreted that the top of the zone is near a decollement contact with the overturned hanging wall rocks.

Exploration and Drilling

Exploration in the Lalor deposit area is conducted by Hudbay. A field office, including core logging and storage facilities, is situated at the Hudbay Snow Lake concentrator site.

Time-domain borehole electromagnetic surveys with three dimensional probes are routinely conducted on drill holes. The survey results identify any off-hole conductors that have been missed and indicate direction to the target as well as the dimensions and the attitude of the conductor. The survey also may detect any possible conductors which lie past the end of the hole allowing the geologist to know whether or not the hole should be deepened.

Diamond drilling is the only drilling type carried out for the purposes of exploration, ore zone definition and sampling of our Lalor project. During 2011 drilling was carried out on the copper-gold zone and was expanded to investigate targets immediately peripheral to the Lalor deposit. In 2012 drilling will continue with three drill rigs operating the winter season. Targets will include follow-up drilling on peripheral targets near the Lalor deposit and expand to other copper-zinc and copper-gold targets up to 3 kilometres away from the Lalor deposit. Compilation work will also be done in the Snow Lake area on Hudbay properties adjacent to historical mines. Follow-up work is anticipated as a result of these compilations.

As of December 31, 2011, 121 parent and 101 wedge holes, amounting to 198,399 metres of drilling, has been conducted on the property.

All diamond drilling was completed from surface retrieving whole core sizes of BQ and NQ. Wedge offsets and associated directional drilling were completed on parent holes, resulting in time and cost savings over drilling a new hole from surface. Wedging and directional drilling were used at Lalor to acquire metallurgical samples and delineate the ore body. For delineation purposes, wedge offsets are oriented towards specific targets selected by the geologists along a path calculated by the directional

drilling technicians. In metallurgical sampling, wedge offsets are not oriented and the wedge is set just above the zone that is to be sampled such that the core sample collected is generally within 10 to 20 metres of the parent hole intersection.

Core recovery at Lalor is near 100% on all holes and all the diamond drilling at Lalor was conducted by Major Drilling Inc.

Mineralization

Lalor is interpreted as a VMS deposit that precipitated at or near the seafloor in association with contemporaneous volcanism, forming a stratabound accumulation of sulphide minerals. VMS deposits typically form during periods of rifting along volcanic arcs, fore arcs, and in extensional back arc basins. Rifting causes extension and thinning of the crust, providing the high heat source required to generate and sustain a high-temperature hydrothermal system.

The location of VMS deposits is often controlled by synvolcanic faults and fissures, which permit a focused discharge of hydrothermal fluids. A typical deposit will include the massive mineralization located proximal to the active hydrothermal vent, footwall stockwork mineralization, and distal products, which are typically thin but extensive. Footwall, and less commonly, hanging wall semiconformable alteration zones are produced by high temperature water-rock interactions.

The depositional environment for the mineralization at Lalor is similar to that of present and past producing base metal deposits in felsic to mafic volcanic and volcaniclastic rocks in the Snow Lake mining camp. The deposit appears to have an extensive associated hydrothermal

alteration pipe.

The Lalor VMS deposit is flat lying, with zinc mineralization beginning at approximately 570 metres from surface and extending to a depth of approximately 1,160 metres. The mineralization trends about 270° to 310° azimuth and dips between 15° and 30° to the north. It has a lateral extent of about 900 metres in the north-south direction and 700 metres in the east-west direction.

Sulphide mineralization is pyrite, sphalerite and chalcopyrite. In the near solid (semi-massive) to solid (massive) sulphide sections, pyrite occurs as fine to coarse grained crystals ranging one to six millimetres and averaging two to three millimetres in size. Sphalerite occurs interstitial to the pyrite. A crude bedding or lamination is locally discernable between these two sulphide minerals. Near solid coarse grained sphalerite zones occur locally as bands or boudins that strongly suggest that remobilization took place during metamorphism. Disseminated blebs and stringers of pyrrhotite and chalcopyrite occur locally within the massive sulphides, adjacent to and generally in the footwall of the massive sulphides.

Notable gold and silver rich zones have also been intersected in the footwall of the zinc rich base metal mineral resources on the property. The precious metal mineralization begins at approximately 750 metres from surface and extends to a depth of approximately 1,480 metres. Their general shape is similar to the base metals. However, the current interpretation suggests the deeper copper-gold lens tends to have a much more linear trend to the north than the rest of the zones.

Gold and silver enriched zones occur near the margins of the sulphide lenses and in local silicified footwall alterations. These silicified areas often correlate with disseminated to stringer chalcopyrite and galena, whether together or independent of each other. This footwall gold mineralization is typical of VMS footwall feeder zones with copper-rich disseminated and vein style mineralization overlain by massive zinc-rich zones.

Six distinct stacked zinc rich mineralized zones, five stacked lens groups of gold mineralization of low sulphide either in contact with or entirely separate to the zinc rich base metal resources and one copper gold zone of mineralization were interpreted. The interpreted gold zones are generally co-paralleled and/or separate to the zinc rich base metal mineral resource zones. However, gold and potential gold zones locally merge, overlap and cut through zinc rich base metal resources.

The gold zones remain open down plunge to the north and northeast.

Sampling and Analysis

Bagged samples are delivered to our Flin Flon assay laboratory and after preparation the pulp samples are delivered to Acme Analytical Laboratories in Vancouver, British Columbia for analysis. Base metals and silver assaying is completed by aqua regia digestion and read by a simultaneous ICP unit. Gold analysis conducted by Acme is completed on ICP after fire assay lead collection. Samples greater than 10 g/t are re-assayed using a gravimetric finish. Assaying integrity is monitored internally with a quality control program which includes the use of assay sample standards, blanks, duplicates and repeats. In addition, within each group of 20 core samples, one sample is check assayed at a different laboratory.

Security of Samples

The measures taken to ensure the validity and integrity of samples taken at our Lalor project are substantially the same as those taken at our 777 mine, as described above.

Mineral Resource

The mineral resource estimates are effective as of a September 30, 2011 cut-off date for diamond drilling, which includes a total of 121 parent and 101 wedge offsets drilled from surface on the Lalor property. The zinc rich base metal estimate was completed using MineSight 6.5 block modeling software in UTM NAD83 coordinates (MineSight). The block model was constrained by interpreted 3D wireframes of the zinc rich base metal mineralized zones. Gold, silver, copper, zinc, lead, and iron grades and specific gravity were estimated into blocks using Ordinary Kriging (OK) interpolation. Zone intersections were selected based on a minimum 4% Zinc Equivalency formula (ZNEQ) over a two metre core length. The ZNEQ was calculated from metal price and metal recovery assumptions, with economic contributions from gold, silver, copper and zinc. Each block was assigned a ZNEQ.

The gold and copper-gold estimate was completed using MineSight in UTM NAD83 coordinates. The block model was constrained by interpreted 3D wireframes of the gold mineralized zones. A 1.0 g/t gold cut-off over a two metre core length was used to determine the zone outlines for continuity purposes to build the 3D wireframes. Gold, silver, copper, zinc, lead, and iron grades and specific gravity were estimated into blocks using OK interpolation.

In order to avoid any disproportionate influence of random, anomalously high grade assays on the estimated average metal grade, histograms, cumulative frequency log probability charts, cutting curves, and decile analysis charts were created to examine the assay grade distribution and assess the need for grade capping.

The zinc rich, gold and copper gold mineral resources are classified on the basis of the model blocks to the nearest composite, minimum number of composites, and minimum number of drill holes.

Mineral Reserve Estimates

The mineral reserves at Lalor are estimated from the indicated zinc-rich and gold zone mineral resources and are exclusive of the mineral resources stated above to produce the mineral reserves shown below. Mineral reserves are based on an updated mineral resource and prefeasibility study completed by Hudbay in March 2012. The updated prefeasibility study includes: re-calculated mineral resource model

incorporating the diamond drilling to September 30, 2011, detailed calculation of dilutions and recoveries per mining area, mine ore haulage and milling options, paste backfill requirement, detailed capital and operating cost estimates for a new concentrator located at the Lalor site. The mineral reserve also accounts for relevant economic, marketing, legal, environment and socio-economic factors.

Reconciliation of Reserves and Resources

A year over year reconciliation of our reserves and resources at the Lalor project is set out below.

Lalor Project **Mineral Reserve Reconciliation (Probable)**		**tonnes**
A	2011 Mineral Reserve	10,525,000
B	2011 Production (from Reserves)	—
C	(A - B)	10,525,000
D	Geology(1) Gain/(Loss)	3,525,000
E	Mine Planning(2) Gain/(Loss)	(1,181,000)
F	Economics(3) Gain/(Loss)	1,563,000
G	(D + E + F)	3,907,000
H	2012 Mineral Reserve (C + G)	14,432,000

(1)Geology - diamond drilling, interpretation, estimation (interpolation parameters)
(2)Mine Planning - dilution, recovery, resultant change in non-recoverable
(3)Economics - mine operating and capital, commodity price and CDN$/US$ exchange, concentrating, TC/RC, freight
(Upgrading of mineral resource and conversion to mineral reserves may economically improve previous non-economic mining areas).

Lalor Project **Inferred Resouce and Potential Estimate Reconciliation**		**tonnes (millions)**
I	2011 Mineral Resource	10.242
J	2011 Potential Estimate (range)	6.90 to 8.30
K	2012 Mineral Resource	12.616
L	2012 Potential Estimate	—
M	(K - I)	2.374
N	(L - J)	(6.90 to 8.30)

Mining Operations

Metallurgical Testing

Lalor mineralization is typical of the polymetallic base metal ores in the Chisel Basin, containing gold, silver, copper, zinc and lead. Metallurgical testing of the Lalor ores in the early years was focussed on developing an appropriate flowsheet for either the design of a new concentrator or modifications to the existing plant, and to determine expected concentrate grades and metal recoveries. Recent metallurgical testing has focussed on grind optimization, reagents selection, reducing talc in the bulk copper/lead concentrate, locked cycle testwork and locked cycle variability testwork were completed to support the metallurgical process selection, recoveries and concentrate grades. The mineralization is mostly coarse grained and exhibits a high degree of liberation at a relatively coarse grind. The high degree of mineralization has led to good concentrate grades and copper and zinc recoveries for the Lalor deposit.

Mine Planning

Current mine planning is based on underground mining of the 14.4 million tonnes of probable reserves from three principal base metal zones and two gold zones. The planned production rate is 3,300 tonnes per day. The total expected mine life is 15 years, which includes a three year ramp up to full

production, and the expected payback period of capital based only on such probable reserves is 2023. The capital expenditures approved by our board of directors is based on our plan to develop the whole Lalor deposit and build production and concentrator capacities of 4,500 tonnes per day at site.

Lalor reserves will be accessed from footwall access drifts off the main ramp. Mining is primarily by post pillar cut and fill and longhole methods with a combination of paste and unconsolidated waste backfill. The underground ore handling system will be done by truck to an ore pass with rock breaker and grizzly dump, hoisted to surface via a 6.7 metre diameter shaft and conveyed to the neighbouring surface crushing plant, then conveyed to the new concentrator. Concentrates will be shipped to Flin Flon where the zinc concentrates are processed at our zinc plant and bulk copper/lead concentrate will be loaded onto rail cars and sent to third party smelters. The Lalor shaft is based on the 777 shaft design and is designed to a planned vertical depth of 985 metres.

Permitting and Environmental

General permit GP59093 was originally granted to Hudbay's exploration group in Flin Flon in 2007 for the construction of an exploration road to service the exploration drill activities. Hudbay held a Quarry Lease (QL-1928) and this quarry provided a source of roadbed material for the exploration road.

In April 2010, we received an AEP for the Lalor project from the Manitoba government which allows us to upgrade the existing exploration road, construct an exploration shaft and related facilities, develop an underground exploration platform, and extract up to a 10,000 tonne sample from the gold and copper-gold zones for metallurgical testing.

We've also received additional permits to enable road construction and other site construction. However, before the Lalor project can move into full mine production an Environmental Act Licence (EAL) must be received. In addition, EALs are also required for: the Lalor Concentrator, Anderson TIA improvement, Chisel Substation, and Lalor Mine Sewage Treatment Plant. Mine site planning, engineering and baseline environmental field studies are sufficiently advanced to enable us to proceed with our EAL applications. Closure plans and financial assurance for demolition and remediation will be developed for the changes to the overall impact that the Lalor Project will have on Hudbay operations in the Snow Lake area.

Accordingly, our EAL applications are currently being worked on, and we are utilizing various consultants and the environmental baseline work conducted by AECOM to expedite this process. The EAL process is on schedule for each construction item and the estimated time lines of the various aspects of the Lalor project.

Exploration and Development

Since the AEP approval, construction at the Lalor site has started and is accelerating in support of the project activities. The access road to the site is complete, the main surface exhaust raise site has been cleared and construction on the 6.1 metre ventilation shaft raise is currently being developed to a depth of 500 metres below the surface. All power poles for the site have been installed and the line wiring is ongoing. Water lines for process water and discharge water are being placed and civil work on the pump stations is underway.

On the main site, construction is proceeding with the excavation of the polishing pond and water treatment plant. Temporary construction trailers have been brought in and are currently being installed. The construction camp located in the town of Snow Lake has been commissioned to accept a small number of contract employees and was fully commissioned in February 2011.

Procurement and tendering is ongoing. There are limited items remaining for the construction of the Lalor site. Focus in 2012 is the procurement of long lead items for the new concentrator.

We are continuing with the metallurgical testing of the Lalor ores, focusing on gold indexing and recoveries.

Constancia Project

The technical and scientific information contained in the following description of the Constancia project has been approved by Cashel Meagher, General Manager of HudBay Peru S.A.C., and a Qualified Person under NI 43-101. On February 21, 2011, Hudbay Peru (formerly Norsemont) filed a NI 43-101 technical report entitled "Norsemont Mining, Constancia Project, Technical Report", dated February 21, 2011, a copy of which is available under Norsemont's profile on SEDAR at www.sedar.com.

Property Description and Location

We hold a 100% interest in the Constancia project in southern Peru. The property is approximately 600 kilometres southeast of Lima at elevations of 4000 to 4500 metres above sea level. Geographic coordinates at the centre of the property are longitude 71° 47' west and latitude 14° 27' south.

The Constancia property comprises 22,516 hectares in 36 mineral concessions. The original Constancia property, consisting of 13 concessions, was obtained by Norsemont pursuant to an option agreement with Rio Tinto Mining and Exploration Ltd. ("Rio Tinto"). Norsemont acquired an initial 51% interest in the property from Rio Tinto in November 2007 by making cash payments totalling US$5 million, completing work expenditures of US$7.8 million and issuing 1,250,000 common shares to Rio Tinto. Pursuant to the option agreement, in March, 2008 Norsemont paid Rio Tinto US$8 million in order to acquire the remaining 19% interest in Constancia held by Rio Tinto. Norsemont acquired the remaining 30% interest in the project from Mitsui Mining and Smelting Company Limited Sucursal Del Peru ("Mitsui") pursuant to an agreement whereby Mitsui transferred its 30% interest in the Constancia property to Norsemont with no further obligation to Mitsui or the underlying owners of the property, for total consideration of US$9.8 million.

Upon commencement of commercial production, we will be required to make a final one-time payment of US$500,000 to Rio Tinto and will pay a net smelter return royalty (NSR) of 0.5% to a maximum of US$10 million to the previous underlying owners. The property will also be subject to an escalating state royalty of between 1% and 3% of sales.

Along with the initial concessions obtained by Norsemont, twenty-three additional concessions were obtained in 2007 and 2008. All of the concessions have been titled and have also been recorded with the Public Registry. The Constancia concessions are currently in good standing. The annual concession fee payments of US$3.00 per hectare are due on June 30 each year.

Most of the known mineralization is located in the claims Katanga J, Katanga O, Katanga K, and Peta 7, though small mineralized outcrops are common throughout the area.

Approval of the Environmental Impact Assessment for the Constancia property, the primary environmental permit, was obtained on November 24, 2010. Numerous minor permits are also required before construction of the project commences; we expect these permits will be granted in the second quarter of 2012.

Accessibility, Climate, Local Resources, Infrastructure and Physiography

The Constancia property is accessible from Lima by flying to either Arequipa or Cusco and then proceeding by paved and gravel highway to the project site, which in each case takes approximately seven hours.

The climate of the region is typical of the Peruvian altiplano in which the seasons are divided into the wet season between October and March with slightly higher temperatures and a dry season during

April to September with colder temperatures. Temperatures can dip below -10° Celsius and rise to 20° Celsius. The sun can be very strong with high ultraviolet readings being common during the mid-day period. There is a climate monitoring station installed at the project site.

Elevations on the property range from 4,000 to 4,500 metres above sea level with moderate relief and grass-covered altiplano terrain. Slopes are typically covered with grasses at lower elevations. At higher elevations, talus cover is common with very little vegetation. The grasslands are used as pasture for animals and at lower elevations for some limited subsistence agriculture.

Electrical power ends at Uchucarcco, 20 kilometres from the project site and the nearest community is Espinar, which is 50 kilometres from the property. Water resources are readily available from a number of year-round streams near the project site.

The nearby communities can provide unskilled labourers, but access to skilled mining talent must be obtained through training or enlisting personnel from outside the area.

The issue of land tenure is of increasing significance in Peru, particularly as the national cadastral system for agricultural land ownership is not always accurate. Since Peruvian law does not vest surface rights with mineral rights we are required to purchase the surface rights or otherwise reach an agreement with the surface rights owner for access to the property.

Since 2007, Norsemont purchased approximately 4,100 hectares of land from private property owners for aggregate consideration of approximately $4.7 million. The acquired property enables planning alternatives for the locations of construction camps, plant and equipment, and waste and tailings facilities.

In the first quarter of 2012 we entered into life of mine agreements with the communities of Chilloroya and Uchucarcco, which secure the land required for project construction and operations and specify Hudbay's commitments to these local communities over the course of mine construction and operations. In particular, the community agreements contemplate cash payments for the land access rights, as well as funds for facilitation of development projects and investment for local enterprises. The agreements also outline ongoing annual investments in community development including medical, educational and agricultural services.

History

The Katanga mine was the main mine in the Constancia area, located approximately three kilometres northwest of Constancia and outside the current property boundary. Copper and gold were mined at Katanga from early last century to the early 1990s. Mitsui and Minera Katanga operated the mine at different times. For approximately five years in the 1980s, Mitsui extracted a total of approximately 350,000 open pit tons of copper oxides in skarn. The cut-off grade of this copper oxide was 3.5% copper. The property was later sold and operated for only a short time due to low metal prices. Artisanal miners currently occupy the Katanga mine. The deposit at Katanga consists of narrow skarn bodies developed in the contact between marbles and monzonite stocks with copper, silver and gold mineralization in hypogenesulphides.

The San Jose Prospect (now part of the Constancia deposits as the San Jose zone) was explored by Mitsui during the 1980s as Mitsui focused on locating more high-grade ore to add to the nearby Katanga mine operation. Exploration consisted of detailed mapping, soil sampling, rock chip sampling, and ground magnetic and induced polarization, surveys with several drill campaigns. Drilling was mainly focused on the western and southern sides of the prospect. Mitsui completed 24 drill holes (4,200 metres) and Minera Katanga completed 24 shallow close-spaced drill holes at San Jose (1,200 metres).

In 1995, reconnaissance prospecting by Rio Tinto identified evidence for porphyry style mineralization exposed over an area 1.4 x 0.7 kilometres, open in several directions, with some copper enrichment below a wide spread leach cap developed in both porphyry and skarn.

In May 2003, Rio Tinto revisited the area and the presence of a leached cap and the potential for a significant copper porphyry deposit were confirmed. Negotiations with Mitsui, Minera Livitaca and Minera Katanga resulted in agreements being signed on October 31, 2003 with

the underlying owners. Rio Tinto renamed the prospect “Constancia”.

The Rio Tinto exploration activities consisted of geological mapping, soil, and rock chip sampling, and surface geophysics (magnetics and induced polarization). Rio Tinto completed 24 diamond drill holes for a total of 7,500 metres.

Geological Setting

The Constancia porphyry copper prospect is located on the eastern margin of the Andahuaylas-Yauri Batholith, approximately three kilometres southeast of the old Katanga mine.

Surface geologic mapping by Norsemont from 2005 to 2010 has been aided by the new drill roads and platforms for the 430 drill sites constructed to date, including 81 holes drilled at Pampacancha, Uchucarcco, Yanaccacca and Chilloroya South executed from August 2008 to September 2010. Interpretation of the results of the core drilling itself has been very useful to the interpretation of surficial geology.

Undifferentiated multiple phases of monzonite and monzonite porphyries characterize much of the surface map area of the prospect, as well as dominate the rock type observed in the majority of drilling to date.

As with most porphyry copper complexes, the structural activity at Constancia has played the most significant role in preparing and localizing the hydrothermal alteration and accompanying copper-molybdenum-silver-gold mineralization, including skarn formation.

The Constancia porphyry copper-molybdenum system, including skarn, exhibits five distinct deposit types of mineralization:

(1) Hypogene fracture-controlled and disseminated chalcopyrite mineralization in the monzonite (volumetrically small);
(2) Hypogene chalcopyrite (rare bornite) mineralization in the skarns (significant);
(3) Supergene digenite-covellite-chalcocite (rare native copper) in the monzonite (significant);
(4) Mixed secondary sulphides/chalcopyrite in the monzonite (significant); and
(5) Oxide copper mineralization (volumetrically small).

Molybdenite, plus gold and silver, occur within all the above deposit types.

Exploration and Drilling

Exploration has been ongoing since 2005 and has included:

- Geophysical surveying
- Geologic mapping
- Rock sampling
- Drilling
- Surveying
- Camp construction

Throughout 2007 to 2010, 11,444 hectares were mapped in the Constancia project at several scales, including 1:1000, 1:2000 and 1:5000. Of this, 8,905 hectares were mapped on our mining concessions, which represents 39% of our total mining rights in the area. Additionally, 2,595 rock samples and 41 stream sediments samples were collected during this period.

Exploration activities have been mainly focused on delineating the known Constancia and San Jose zones for the definitive feasibility study prepared by Norsemont. However, surface exploration of adjacent areas has also been carried out specifically focusing on the two new copper-gold-molybdenum targets. The exploration methods have assisted in the discovery of the Pampacancha porphyry-related skarn and Chilloroya South porphyry.

At the Constancia zone, a combination of secondary copper mineralization and skarn mineralization has now been delineated in outcrops and drilling over a minimum extent of approximately 1.1 kilometres north-south and 900 metres east-west. At the San Jose zone, similar mineralization has been delineated over an approximate extent of 300 metres north south and east west.

Exploratory drilling carried out in Pampacancha during August-September 2008 defined a higher grade skarn and porphyry exploration target with preliminary dimensions of 1,000 by 400 metres. Preliminary results indicate at least two zones of skarn mineralization. Drilling in Pampacancha continued during November to December 2009 and from June to September 2010. The main focus during 2009 was to confirm the copper-bearing skarns identified in 2008, whereas during 2010 drilling was focused to delineate their lateral and depth extensions of the skarn bodies, as well as to test the potential for additional copper-bearing skarns at the “magnetic halo”, a geophysical feature that occurs to the west of the main body for a distance of 1 kilometre.

On June 14, 2011 we announced exploration results from the Pampacancha zone, a higher grade satellite deposit approximately 2.5 kilometres from the proposed Constancia open pit. Hole PO-11-072 intersected two main intervals of mineralization, including 121.45 metres of 1.62% copper, 13.62 g/t silver and 1.02 g/t gold (2.4% copper equivalent(1)) and 87.50 metres of 0.46% copper, 2.30 g/t silver and 0.22 g/t gold (0.65% copper equivalent). Hole 11-072 demonstrates that significant high-grade intervals exist within our 22,500 hectare land position. The possible extension of the skarn mineralization intersected in Hole 11-072 is open to the west for up to 350 metres, where Hole 10-017 did not intersect significant mineralization. The area also remains open for up to 500 metres to the south.

As described under the heading “Pampacancha Resource” below, our initial resource estimate at the higher grade Pampacancha deposit includes 51.2 million tonnes of measured and indicated mineral resources with a copper equivalent grade of 0.74%. The mineral resource includes the drill results announced March 7, 2012, which expanded the Pampacancha deposit to the north and west.

On June 14, 2011 we also announced that a geophysical crew was onsite testing resistivity and chargeability anomalies at the Chilloroya South prospect. The total 2011 program consisted of 19 kilometres of line geophysics and was aimed at generating exploration targets for the 2012 exploration program.

Drilling at the Chilloroya South prospect area is scheduled to commence in May 2012 with two drills. This area contained interesting intersections from Norsemont's previous exploration program, which concentrated on porphyry copper targets, skarn targets and tourmaline breccia targets.

As of 22 September 2010, a total of 150,686 metres in 514 holes have been drilled at the Constancia project (including 7,484 metres drilled by Rio Tinto prior to 2005). Metreage is distributed in six drilling programs, namely: infill, condemnation, metallurgical, geotechnical, hydrogeological and exploration, the latter referred to drilling in Pampacancha, Chilloroya South, Yanaccacca and Uchucarcco areas, where 79 holes were drilled totaling 23,602 metres . Diamond drilling (core recovery) constitutes 87% of the total metreage, whereas reverse circulation (chips recovery) only 13%. Contractors engaged to conduct drilling include GEOTEC, AK Drilling and Perforaciones del Peru. During 2011 a total of 30,964 metres were drilled, 19,463 of those metres concentrated on the Pampacancha prospect focused on infill and deposit expansion. The remaining metres concentrated on project engineering requirements including 4,870 metres on condemnation drilling, 5,647 metres on geotechnical drilling and 984 metres of hydrogeological drilling.

A regional exploration program is aimed at identifying further drill targets with geophysical surveys, geochemical sampling and geological mapping of the largely unexplored 22,500 hectare mineral concessions.

Mineralization

The Constancia copper-molybdenum-silver deposit can be divided into two distinct mineralized zones — the Constancia zone and the San Jose zone to the west.

Within the boundaries of the projected 0.2% copper, oxidation and leaching are so intense within the monzonites that very few hypogenesulphides are recognized. Likewise, the skarns are intensely oxidized, but more copper oxides and occasional chalcopyrite are observed in the skarn outcrops. The depth of oxidation is variable in the Constancia zone — 30 metres to locally more than 150 metres within the monzonite. The depth of oxidation is in part controlled by the amount of stockwork quartz-sericite-sulphide filled fractures as well as the original concentrations of disseminated sulphides, but the amount of oxidation is also controlled by the amount of faulted and broken rock.

The secondary copper sulphides, including total secondary copper sulphide replacement of chalcopyrite and mixed secondary copper/primary chalcopyrite mineralization, occurs in four settings:

(1) remnants within the leached capping in monzonite;
(2) directly beneath the leached capping in monzonite (very high grades);
(3) directly beneath skarn mineralization along the south side of the South Fracture system in the Constancia zone; and
(4) within and beneath brecciated skarn/monzonite in the San Jose zone.

The secondary copper sulphides at Constancia have been identified as digenite/covellite as defined in preliminary studies by Rio Tinto, but more study is needed.

Sampling and Analysis and Security of Samples

Rio Tinto collected a total of 3,413 drill core samples from the 24 holes drilled. At the early stages in the project some secondary sulphides, mainly distributed in fractures, were washed and left in the core boxes as fine particles. Sampling of the sludge in the core saw and of the fine residuum in the base of the core boxes returned higher values than the corresponding samples demonstrating potential for significant under-reporting of copper in Rio Tinto's drill core samples due to poor sampling.

In 2005 Norsemont did not have a comprehensive QA/QC program in place for part of the drilling season. Chain of custody and sample preparation protocols were part of Norsemont's 2005 program, but much more rigid standards were imposed in 2006. From 2006 to June 2008, the core samples, after photographing, logging, and splitting, were being shipped on a regular basis to ALS Chemex's lab in Lima. From July 2008, the primary lab was changed to SGS in Lima.

In Lima the samples were logged into the SGS tracking system, weighed, dried and finely crushed to better than 70% passing a 2mm (Tyler 10 mesh) screen. A split of up to 250 g is taken and pulverized to better than 85% passing a 75 micron (Tyler 200 mesh) screen. This method is appropriate for rock chip or drill core samples.

The geochemical procedure ICP 40B (Inductively Coupled Plasma) is currently used to report 35 elements. Copper above 1% Cu is fused and analyzed by atomic absorption and a sequential leach procedure was used to report the acid soluble copper, cyanide soluble copper and residual sulphide copper. The geochemical procedure FAA313 is used to analyze gold. Assaying integrity is monitored internally with a quality assurance/quality control program which includes the use of samples, blanks and duplicates. In addition, samples are frequently check assayed at a different laboratory.

Norsemont implemented security measures to ensure the validity and integrity of the samples collected, including storing unshipped samples in a secure location at the Uchucarcco camp, with 24 hour

armed guards present. Once shipped, chain of custody is maintained and recorded and the assaying lab is never informed about the identity of the control samples.

Mineral Resource and Mineral Reserve Estimates

Composites assay data were capped between 0.050% Mo and 0.060% Mo for Molybdenum for three of nine estimation domains. Silver grade data from three of the domains was capped between 30 g/t Ag and 35 g/t Ag. No capping was applied to copper data.

The resource model for Constancia included drilling completed during 2004 by Rio Tinto and 2005 to 2007 by Norsemont. Drill holes completed by Mitsui were not used in the resource estimate. The drilling consisted of 206 core holes mainly of HQ diameter, included 182 drilled by Norsemont and 24 drilled by Rio Tinto. The 2004 drilling was distributed randomly to test various targets and not completed on a grid. Most of the 2005-2007 drilling was completed on 100 x 100 metre spacing with some infill drill holes. All of the valid drill holes were used in defining the constraints for the resource but the final resource area did not include all of the drill holes. The data was loaded into a Gemcom database and the existing 2 metre assays were used as composites.

Statistical and variogram analyses were completed on the data. The statistical analysis produced reasonable results and these search ellipsoids were used for grade interpolation. The model was interpolated in two passes using an inverse distance squared method.

The database contains 46,598 core samples assayed for copper, molybdenum, silver and gold. 38,126 of the samples had a length of 2 metres. Of the remaining samples, 3,311 samples were greater than 2 metres in length and 5,161 samples were less than 2 metres in length. The samples less than 2 metres were from all the drill holes where the samples were terminated against contacts and the samples greater than 2 metres were mainly odd lengths from the ends of the drill holes.

Specific gravity samples were collected from drill core and sent to ALS Chemex for determination. The specific gravities used in the resource estimation are based on 1,114 specific gravity determinations completed by ALS Chemex.

Tables in Gemcom were created for assays, composites and lithology. These tables were used for sectional interpretations during resource modeling.

The existing 2 metre assay samples were used as composites and the old drill holes were composited to two metres, for those areas with other assay lengths. The composites were coded within the grade shell and the compositing produced 6,456 composites used for the interpolation of grade.

The model was domained using a 0.2% copper cut-off grade shell. The grade shell included the phyllicly-altered intrusives and skarn but excluded the leached zone at the top of the deposit. The grade shell was modelled in 2 parts: the Constancia zone and the San Jose zone. These domains formed the basis for the variogram and statistical analyses.

Variogram analyses were performed for copper, molybdenum and silver in the grade shell. Down hole variograms had moderate nuggets (<0.25). Correlograms were produced for copper, molybdenum and silver. The correlograms were modelled using one exponential model. The variograms modelled produced ellipsoids with reasonable ranges and a 2:1:0.75 ratio for copper. The variogram analyses produced good results and the modeled ellipsoids were used for grade model interpolation.

The block model was interpolated using an inverse distance squared methodology. Interpolation of grade into a block required a minimum of 3 composites and a maximum of 18. The model was interpolated in two passes. The second pass was at double the search distance to fill “zero” blocks not filled in the first pass.

Sample grades were capped to minimize the influence of high-grade samples during grade interpolation. The capping levels were included in the interpolation profiles. Grades were capped at approximately the 99.4 to 99.6 percentile for each metal. The capping levels are as follows: copper was capped at 4.5 Cu%, molybdenum at 0.20 Mo% and silver at 65 ppm Ag. The capping levels were picked off of log normal probability plots for copper, molybdenum and silver.

The Constancia project has preliminary metallurgical testing results with positive results.

Mining Operations

Norsemont’s optimized feasibility study, completed in February 2011, contemplated an open pit mining operation producing up to 70,000 tonnes of ore per day over a 15.3 year mine life, using a standard milling and froth flotation plant. It also estimated capital development costs at US$920 million and deferred and sustaining capital costs of US$241 million. On this basis, the project was expected to pay back the initial capital after three years of production.

We are currently completing optimization work on the feasibility study prepared by Norsemont as part of the FEED (front end engineering and design) for the Constancia project, including significant changes to the previous project design. For additional information, refer above to the heading “Description of our Business — Material Mineral Projects — Constancia Project”.

Exploration and Development

Pre-construction activities are ongoing at Constancia and camp preparation is underway in preparation for the transition from exploration to major construction efforts with camp capacity targeting 700 beds by the end of the second quarter 2012. The engineering firm Ausenco has

been engaged to conduct basic engineering and critical long-lead equipment has been ordered including SAG mills, grinding mills, primary crusher, and float cells among other items.

Pampacancha Resource

A resource model was completed in the first quarter of 2012 for the Pampacancha deposit. While the deposit remains open in several directions Hudbay has chosen to outline the current resource with an aim to include the Pampacancha deposit in the overall mine plan update for Constancia scheduled for late second quarter 2012. The higher value per tonne is anticipated to benefit the overall mine plan in preparation for project approval.

The deposit mineralisation location and description is described above. The QAQC and sample chain of custody is the same process and procedure as outlined above.

The database for the drill hole data utilised was maintained in Access spreadsheets and was validated by Hudbay personnel for errors and compatibility to the assay certificates.

A total of 110 holes were used in the resource calculation with 14 of those being derived from reverse circulation drilling and the remaining 96 from HQ diameter diamond drilling. The minimum hole length was 54 meters and the maximum hole length was 610 meters with a total of 30,863 meters being used in the evaluation.

The data was loaded into a GEMS database and the composites were calculated at 2 meter intervals assays. Copper assay values were capped at 4.22% Cu. This represents 99.7% of the copper values. The specific gravity used for estimating resources within the Skarn Unit was 3.22.

A block model for Pampacancha was created in GEMS® and copper grades estimated using the method of ordinary kriging. Variograms were created using GEMS®tools to determine parameters for the search ellipsoid. Following parameters were used for copper grade estimations:

- Estimation Type: Ordinary Kriging.
- Search Directions: Ellipsoid with Strike/Dip/Plunge of 134,338°/-44,961°/0°
- Search Distances: Major Axis, 82 m. Semi
- Major Axis, 77 m. Minor Axis 57 m.
- Minimum of 4 samplers per estimate, maximum of 12.
- Limit of 3 samples per drill hole.
- Samples were limited to those within the Skarn and Endoskarn.
- Only blocks inside the Skarn solid were estimated.

Visual inspection of cross sections and plan view through the model were conducted to verify the geometry of mineralization meets configuration expected by project geologists. Furthermore, additional estimation using Inverse Distance Square and Inverse Distance Cube were done to compare.

The Pampacancha resource was classified into measured, indicated and inferred based on the following criteria:

- Measured: X=41, Y=38, Z=28 and min 8 composites, max 12 composites and 3 composites per drill hole.
- Indicated: X=82, Y=77, Z=57 and min 6 composites, max 12 composites and 3 composites per drill hole.
- Inferred: X=164, Y=154, Z=114 and min 4 composites, max 12 composites and 3 composites per drill hole.

Note: some of the blocks were re-categorized due to the isolated location to other categories for continuity purposes.

The Pampacancha resource was derived from a pit shell generated from the following net smelter return parameters and a conservative pit slope of 40 degrees:

1. Metal price: US$2.75 Cu/lb, US$13 Mo/lb, US$22/oz Ag and US$1100/oz Au.
2. Cost assumed for floating the pit shell was: Cost per mined tonne US$1.30/tonne, incremental mining cost per bench (5 meter height) US$0.05/bench from top, processing cost US$4.80/tonne and US$0.76/tonne General and administrative cost.
3. Metallurgical recoveries: Copper 88%, Gold 50% and Molybdenum 45%
4. Concentrate Grade: Copper concentrate 26% grade and 8% moisture and Molybdenum 50% grade and 10% moisture.

The resulting resource yielded the combined measured and indicated resource of 51 million tonnes at 0.44% Cu and 0.3 g/tonne gold and 88 million tonnes of waste.

SCHEDULE C
AUDIT COMMITTEE CHARTER

PURPOSE

The Audit Committee is appointed by the Board of Directors to assist the Board of Directors in its oversight and evaluation of:

- the quality and integrity of the financial statements of the Company,
- the compliance by the Company with legal and regulatory requirements in respect of financial disclosure,
- the qualification, independence and performance of the Company's independent auditor,
- the assessment, monitoring and management of the strategic, operational, reporting and compliance risks of the Company's business (the "**Risks**"), and
- the performance of the Company's Chief Financial Officer.

In addition, the Audit Committee provides an avenue for communication between the independent auditor, the Company's Chief Financial Officer and other financial senior management, other employees and the Board of Directors concerning accounting, auditing and Risk management matters.

The Audit Committee is directly responsible for the recommendation of the appointment and retention (and termination) and for the compensation and the oversight of the work of the independent auditor (including oversight of the resolution of any disagreements between senior management and the independent auditor regarding financial reporting) for the purpose of preparing audit reports or performing other audit, review or attest services for the Company.

The Audit Committee is not responsible for:

- planning or conducting audits,
- certifying or determining the completeness or accuracy of the Company's financial statements or that those financial statements are in accordance with generally accepted accounting principles.

Each member of the Audit Committee shall be entitled to rely in good faith upon:

- financial statements of the Company represented to him or her by senior management of the Company or in a written report of the independent auditor to present fairly the financial position of the Company in accordance with generally accepted accounting principles; and
- any report of a lawyer, accountant, engineer, appraiser or other person whose profession lends credibility to a statement made by any such person.

The fundamental responsibility for the Company's financial statements and disclosure rests with senior management.

REPORTS

The Audit Committee shall report to the Board of Directors on a regular basis and, in any event, before the public disclosure by the Company of its quarterly and annual financial results. The reports of the Audit Committee shall include any issues of which the Audit Committee is aware with respect to the quality or integrity of the Company's financial statements, its compliance with legal or regulatory requirements, the performance and independence of the Company's independent auditor and changes in Risks.

The Audit Committee also shall prepare, as required by applicable law, any audit committee report required for inclusion in the Company's publicly filed documents.

COMPOSITION

The members of the Audit Committee shall be three or more individuals who are appointed (and may be replaced) by the Board of Directors on the recommendation of the Company's Corporate Governance and Nominating Committee. The appointment of members of the Audit Committee shall take place annually at the first meeting of the Board of Directors after a meeting of shareholders at which directors are elected, provided that if the appointment of members of the Audit Committee is not so made, the directors who are then serving as members of the Audit Committee shall continue as members of the Audit Committee until their successors are appointed. The Board of Directors may appoint a member to fill a vacancy that occurs in the Audit Committee between annual elections of directors. Any member of the Audit Committee may be removed from the Audit Committee by a resolution of the Board of Directors. Unless the Chair is elected by the Board of Directors, the members of the Audit Committee may designate a Chair by majority vote of the members of the Audit Committee.

Each of the members of the Audit Committee shall meet the Company's Categorical Standards for Determining Independence of Directors and shall be financially literate (or acquire that familiarity within a reasonable period after appointment) in accordance with applicable legislation and stock exchange requirements. No member of the Audit Committee shall:

- accept (directly or indirectly) any consulting, advisory or other compensatory fee from the Company or any of its subsidiaries(1) (other than remuneration for acting in his or her capacity as a director or committee member) or be an "affiliated person"(2) of the Company or any of its subsidiaries, or
- concurrently serve on the audit committee of more than three other public companies without the prior approval of the Audit Committee, the Corporate Governance and Nominating Committee and the Board of Directors and their determination that such simultaneous service would not impair the ability of the member to effectively serve on the Audit Committee (which determination shall be disclosed in the Company's annual management information circular).

A majority of the members of the Audit committee shall be “resident Canadians”, as contemplated by the *Canada Business Corporations Act*.

RESPONSIBILITIES

Independent Auditor

The Audit Committee shall:

- Recommend the appointment and the compensation of, and, if appropriate, the termination of the independent auditor, subject to such Board of Directors and shareholder approval as is required under applicable legislation and stock exchange requirements.
- Obtain confirmation from the independent auditor that it ultimately is accountable, and will report directly, to the Audit Committee and the Board of Directors.

(1) A company is a subsidiary of another company if it is controlled, directly or indirectly, by that other company (through one or more intermediaries or otherwise).

(2) An “affiliate” of a person is a person that, directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with the first person.

- Oversee the work of the independent auditor, including the resolution of any disagreements between senior management and the independent auditor regarding financial reporting.
- Pre-approve all audit and non-audit services (including any internal control-related services) provided by the independent auditor (subject to any restrictions on such non-audit services imposed by applicable legislation, regulatory requirements and policies of the Canadian Securities Administrators).
- Adopt such policies and procedures as it determines appropriate for the pre-approval of the retention of the independent auditor by the Company and any of its subsidiaries for any audit or non-audit services, including procedures for the delegation of authority to provide such approval to one or more members of the Audit Committee.
- Provide notice to the independent auditor of every meeting of the Audit Committee.
- Approve all engagements for accounting advice prepared to be provided by an accounting firm other than independent auditor.
- Review quarterly reports from senior management on tax advisory services provided by accounting firms other than the independent auditor.
- Review expense reports of the Chairman and the Chief Executive Officer.

The Audit Process, Financial Statements and Related Disclosure

The Audit Committee shall:

- Meet with senior management and/or the independent auditor to review and discuss,
  - the planning and staffing of the audit by the independent auditor,
  - before public disclosure, the Company’s annual audited financial statements and quarterly financial statements, the Company’s accompanying disclosure of Management’s Discussion and Analysis and earnings press releases and make recommendations to the Board of Directors as to their approval and dissemination of those statements and disclosure,
  - financial information and earnings guidance provided to analysts and rating agencies: this review need not be done on a case by case basis but may be done generally (consisting of a discussion of the types of information disclosed and the types of presentations made) and need not take place in advance of the disclosure,
  - any significant financial reporting issues and judgments made in connection with the preparation of the Company’s financial statements, including any significant changes in the selection or application of accounting principles, any major issues regarding auditing principles and practices, and the adequacy of internal controls that could significantly affect the Company’s financial statements,
  - all critical accounting policies and practices used,
  - all alternative treatments of financial information within GAAP that have been discussed with senior management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor,
  - the use of “*pro forma*” or “adjusted” non-GAAP information,

- the effect of new regulatory and accounting pronouncements,
- the effect of any material off-balance sheet structures, transactions, arrangements and obligations (contingent or otherwise) on the Company's financial statements,
- any disclosures concerning any weaknesses or any deficiencies in the design or operation of internal controls or disclosure controls made to the Audit Committee in connection with certification of forms by the Chief Executive Officer and/or the Chief Financial Officer for filing with applicable securities regulators, and
- the adequacy of the Company's internal accounting controls and management information systems and its financial, auditing and accounting organizations and personnel (including any fraud involving an individual with a significant role in internal controls or management information systems) and any special steps adopted in light of any material control deficiencies.

- Review disclosure of financial information extracted or derived from the Company's financial statements.
- Review with the independent auditor,
  - the quality, as well as the acceptability of the accounting principles that have been applied,
  - any problems or difficulties the independent auditor may have encountered during the provision of its audit services, including any restrictions on the scope of activities or access to requested information and any significant disagreements with senior management, any management letter provided by the independent auditor or other material communication (including any schedules of unadjusted differences) to senior management and the Company's response to that letter or communication, and
  - any changes to the Company's significant auditing and accounting principles and practices suggested by the independent auditor or other members of senior management.

Risks

The Audit Committee shall:

- Recommend to the Board of Directors for approval a policy that sets out the Risks philosophy of the Company and the expectations and accountabilities for identifying, assessing, monitoring and managing Risks (the "**ERM Policy**") that is developed and is to be implemented by senior management.
- Meet with senior management to review and discuss senior management's timely identification of the most significant Risks, including those Risks related to or arising from the Corporation's weaknesses, threats to the Corporation's business and the assumptions underlying the Corporation's strategic plan ("**Principal Risks**").
- Approve a formalized, disciplined and integrated enterprise risk management process (the " **ERM Process**") that is developed by senior management and, as appropriate, the Environmental Health and Safety Committee, to monitor, manage and report Principal Risks.
- Recommend to the Board of Directors for approval policies (and changes thereto) setting out the framework within which each identified Principal Risks of the Corporation shall be managed.

- At least semi-annually, obtain from senior management and, as appropriate, the Environmental Health and Safety Committee, a report specifying the management of the Principal Risks of the Corporation including compliance with the ERM Policy and other policies of the Corporation for the management of Principal Risks.
- Review with senior management the Company's tolerance for financial Risk and senior management's assessment of the significant financial Risks facing the Company.
- Discuss with senior management, at least annually, the guidelines and policies utilized by senior management with respect to financial Risk assessment and management, and the major financial Risk exposures and the procedures to monitor and control such exposures in order to assist the Audit Committee to assess the completeness, adequacy and appropriateness of financial Risk disclosure in Management's Discussion and Analysis and in the financial statements.
- Review policies and compliance therewith that require significant actual or potential liabilities, contingent or otherwise, to be reported to the Board of Directors in a timely fashion.
- Review the adequacy of insurance coverages maintained by the Company.

Compliance

The Audit Committee shall:

- Obtain reports from senior management that the Company's subsidiary/foreign affiliated entities are in conformity with applicable legal requirements and the Company's Code of Business Conduct and Ethics including disclosures of insider and affiliated party transactions

and environmental protection laws and regulations.

- Review with senior management and the independent auditor any correspondence with regulators or governmental agencies and any employee complaints or published reports, which raise material issues regarding the Company's financial statements or accounting policies.

- Review senior management's written representations to the independent auditor.

- Advise the Board of Directors with respect to the Company's policies and procedures regarding compliance with applicable laws and regulations and with the Company's Code of Business Conduct and Ethics.

- Review with the Company's General Counsel legal matters that may have a material impact on the financial statements, the Company's compliance policies and any material reports or inquiries received from regulators or governmental agencies.

- Establish procedures for,

  - the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, and

  - the confidential, anonymous submission by employees of the Company with concerns regarding any accounting or auditing matters.

Delegation

To avoid any confusion, the Audit Committee responsibilities identified above are the sole responsibility of the Audit Committee and may not be allocated by the Board of Directors to a different committee without revisions to this Charter.

INDEPENDENT ADVICE

In discharging its mandate, the Audit Committee shall have the authority to retain (and authorize the payment by the Company of) and receive advice from special legal, accounting or other advisors as the Audit Committee determines to be necessary to permit it to carry out its duties.

Exhibit 99.2

Consolidated Financial Statements
(In Canadian dollars)

HUDBAY MINERALS INC.

Years ended December 31, 2011 and 2010

Deloitte.

Deloitte & Touche LLP
Brookfield Place
181 Bay Street
Suite 1400
Toronto, ON M5J 2V1
Canada

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Report of Independent Registered Chartered Accountants

To the Shareholders and Board of Directors of HudBay Minerals Inc.

We have audited the accompanying consolidated financial statements of HudBay Minerals Inc. and subsidiaries (the "Company"), which comprise the consolidated balance sheets as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of income, changes in equity, comprehensive income and cash flows for the years ended December 31, 2011 and December 31, 2010 and the notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2011, December 31, 2010 and January 1, 2010 and the results of its operations and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Member of Deloitte Touche Tohmatsu

Other Matter

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2011, based on the criteria established in *Internal Control — Integrated Framework*

issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 7, 2012 expressed an unqualified opinion on the Company's internal control over financial reporting.

Deloitte & Touche LLP

Independent Registered Chartered Accountants
Licensed Public Accountants

March 7, 2012
Toronto, Canada

Member of Deloitte Touche Tohmatsu

HUDBAY MINERALS INC.
Consolidated Balance Sheet
(in thousands of Canadian dollars)

	Note	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Assets				
Current assets				
Cash and cash equivalents	8	**$ 899,077**	$ 901,693	$ 886,814
Trade and other receivables	9	**40,309**	78,168	40,185
Inventories	10	**77,150**	115,642	125,940
Prepaid expenses and other current assets		**13,964**	9,994	7,990
Other financial assets	11	**3,112**	3,795	955
Taxes receivable		**4,352**	99	15,313
		1,037,964	1,109,391	1,077,197
Receivable	9	**5,212**	—	—
Inventories	10	**5,721**	6,052	5,188
Prepaid expenses		**1,227**	1,884	—
Other financial assets	11	**102,193**	117,686	86,676
Intangible assets - computer software	12	**11,872**	7,083	1,967
Property, plant and equipment	13	**1,203,045**	817,558	796,669
Goodwill	5	**68,246**	—	—
Deferred tax assets	19b	**13,340**	23,890	31,334
		$ 2,448,820	$ 2,083,544	$ 1,999,031
Liabilities				
Current liabilities				
Trade and other payables	14	**$ 163,187**	$ 133,597	111,802
Taxes payable		**17,413**	33,088	—
Derivative liabilities		**1,159**	2,767	2,907
Other liabilities	15	**14,500**	56,453	42,660
		196,259	225,905	157,369
Provisions	16	**147,304**	112,514	81,021
Pension obligations	17	—	822	63
Other employee benefits	18	**100,236**	93,066	87,744
Derivative liabilities		—	1,632	7,068
Deferred tax liabilities	19b	**189,663**	15,786	16,182
		633,462	449,725	349,447
Equity				
Share capital	20b	**1,020,126**	642,161	656,427
Reserves		**55,097**	50,772	33,280
Retained earnings		**737,940**	931,464	958,518
Equity attributable to owners of the Company		**1,813,163**	1,624,397	1,648,225
Non-controlling interests	24	**2,195**	9,422	1,359
		1,815,358	1,633,819	1,649,584
		$ 2,448,820	$ 2,083,544	$ 1,999,031

Commitments and contingencies (note 27)

On behalf of the Board of Directors:

"J. Bruce Barraclough, FCA" Director "John L. Knowles" Director

HUDBAY MINERALS INC.
Consolidated Income Statement
(in thousands of Canadian dollars, except share and per share amounts)

	Note	Year ended December 31 2011	2010
Revenue	7a	**$ 890,817**	$ 781,032
Cost of sales			
Mine operating costs		**476,621**	431,513
Depreciation and amortization	7b	**103,915**	116,488
Impairment losses	7g	**6,839**	—
		587,375	548,001
Gross profit		**303,442**	233,031
Selling and administrative expenses		**38,737**	28,192
Exploration and evaluation		**46,923**	81,729
Other operating income	7e	**(3,374)**	(812)
Other operating expenses	7e	**9,305**	13,789
		211,851	110,133
Finance income	7f	**(8,770)**	(6,351)
Finance expenses	7f	**6,605**	4,378
Other finance losses	7f	**4,991**	3,437
Net finance loss		**2,826**	1,464
Profit before tax		**209,025**	108,669
Tax expense	19a, d	**133,829**	68,254
Profit from continuing operations		**75,196**	40,415
Loss from discontinued operations (net of taxes)	6	**(238,784)**	(19,398)
(Loss) profit for the year		**$ (163,588)**	$ 21,017
Attributable to:			
Owners of the Company		**$ (153,895)**	$ 23,971
Non-controlling interests		**(9,693)**	(2,954)
(Loss) profit for the year		**$ (163,588)**	$ 21,017
(Loss) earnings per share - basic and diluted: (note 22)			
Profit from continuing operations		**$ 0.48**	$ 0.29
Loss from discontinued operations		**(1.40)**	(0.13)
(Loss) profit for the year		**$ (0.92)**	$ 0.16
Weighted average number of common shares outstanding (note 22):			
Basic		**167,863,427**	150,636,835
Diluted		**167,863,427**	151,336,399

HUDBAY MINERALS INC.
Consolidated Statement of Comprehensive Income (Loss)
(in thousands of Canadian dollars)

	Year ended December 31 2011	2010
(Loss) profit for the year	**$ (163,588)**	$ 21,017
Other comprehensive income (loss) (note 23):		
Recognized directly in equity:		
Net exchange gain (loss) on translation of foreign operations	**15,793**	(15,070)
Effective portion of change in fair value of cash flow hedges	**6,279**	7,523
Change in fair value of available-for-sale financial assets	**(49,117)**	38,465
Tax effect	**5,266**	(7,016)
	(21,779)	23,902
Transferred to income statement:		
Net exchange loss on translation of foreign operations	**20,416**	—

Change in fair value of cash flow hedges	**(992)**	(3,267)
Change in fair value of available-for-sale financial assets	**5,367**	(2,163)
Tax effect	**(485)**	1,323
	24,306	(4,107)
Total other comprehensive income for the year (net of tax)	**2,527**	19,795
Total comprehensive (loss) income for the year	**$ (161,061)**	$ 40,812
Attributable to:		
Owners of the Company	**(151,472)**	44,092
Non-controlling interests	**(9,589)**	(3,280)
Total comprehensive (loss) income for the year	**$ (161,061)**	$ 40,812

HUDBAY MINERALS INC.
Consolidated Statement of Changes in Equity
(in thousands of Canadian dollars)

	Attributable to owners of the Company								
	Share capital	**Other capital reserves**	**Foreign currency translation reserve**	**Available-for-sale reserve**	**Hedging reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance, Jan. 1, 2010	$ 656,427	$ 26,484	$ —	$ 11,718	$ (4,922)	$ 958,518	$ 1,648,225	$ 1,359	$ 1,649,584
Total comprehensive income (loss) for the year:									
Profit (loss)	—	—	—	—	—	23,971	23,971	(2,954)	21,017
Other comprehensive (loss) income (note 23)	—	—	(14,744)	31,847	3,018	—	20,121	(326)	19,795
Total comprehensive (loss) income	—	—	(14,744)	31,847	3,018	23,971	44,092	(3,280)	40,812
Contributions by and distributions to owners									
Share repurchases	(21,147)	(3,399)	—	—	—	(35,763)	(60,309)	—	(60,309)
Share issue costs	—	—	—	—	—	(361)	(361)	—	(361)
Share based payment expense	—	2,401	—	—	—	—	2,401	—	2,401
Stock options exercised	6,881	(1,631)	—	—	—	—	5,250	—	5,250
Dividends	—	—	—	—	—	(14,901)	(14,901)	—	(14,901)
Total contributions by and distributions to owners	(14,266)	(2,629)	—	—	—	(51,025)	(67,920)	—	(67,920)
Change in ownership interests in subsidiaries that do not result in a loss of control	—	—	—	—	—	—	—	11,343	11,343
Balance, Dec. 31, 2010	$ 642,161	$ 23,855	$ (14,744)	$ 43,565	$ (1,904)	$ 931,464	$ 1,624,397	$ 9,422	$ 1,633,819

HUDBAY MINERALS INC.
Consolidated Statement of Changes in Equity
(in thousands of Canadian dollars)

	Attributable to owners of the Company								
	Share capital	**Other capital reserves**	**Foreign currency translation reserve**	**Available-for-sale reserve**	**Hedging reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance, Jan. 1 2011	$ 642,161	$ 23,855	$ (14,744)	$ 43,565	$ (1,904)	$ 931,464	$ 1,624,397	$ 9,422	$ 1,633,819
Total comprehensive income (loss) for the year:									
Loss	—	—	—	—	—	(153,895)	(153,895)	(9,693)	(163,588)
Other comprehensive income (loss) (note 23)	—	—	36,105	(37,404)	3,722	—	2,423	104	2,527
Total comprehensive income (loss)	—	—	36,105	(37,404)	3,722	(153,895)	(151,472)	(9,589)	(161,061)

Contributions by and distributions to owners									
Shares issued for acquisition	345,119	—	—	—	—	—	345,119	—	345,119
Share issue costs	(239)	—	—	—	—	—	(239)	—	(239)
Share-based payment expense	—	1,965	—	—	—	—	1,965	—	1,965
Stock options exercised	216	(63)	—	—	—	—	153	—	153
Dividends	—	—	—	—	—	(34,346)	(34,346)	—	(34,346)
Total contributions by and distributions to owners	345,096	1,902	—	—	—	(34,346)	312,652	—	312,652
Change in ownership interests in subsidiaries that do not result in a loss of control	32,869	—	—	—	—	(5,283)	27,586	2,362	29,948
Balance, Dec. 31, 2011	**$ 1,020,126**	**$ 25,757**	**$ 21,361**	**$ 6,161**	**$ 1,818**	**$ 737,940**	**$ 1,813,163**	**$ 2,195**	**$ 1,815,358**

HUDBAY MINERALS INC.
Consolidated Statement of Cash Flows
(in thousands of Canadian dollars)

	Note	Year ended December 31 2011	2010
Cash generated from (used in) operating activities:			
Profit from continuing operations		**$ 75,196**	$ 40,415
Add back: tax expense from continuing operations		**133,829**	68,254
Profit before tax		**209,025**	108,669
Loss from discontinued operations		**(238,784)**	(19,398)
		(29,759)	89,271
Items not affecting cash:			
Depreciation and amortization	7b	**104,601**	116,740
Share-based payment expense	7c	**3,037**	6,131
Net finance income		**(2,165)**	(1,973)
Change in fair value of derivatives		**4,298**	(3,636)
Items reclassified from other comprehensive income		**(2,212)**	(5,429)
Impairment losses	7f, g	**13,426**	**—**
Loss from discontinued operations	6	**238,784**	19,398
Gain on disposition	7e	**(2,453)**	**—**
Other		**(506)**	(3,594)
Operating finance fees paid		**(318)**	(306)
Operating cash flows of discontinued operations		**(2,126)**	(13,322)
Change in non-cash working capital	29	**15,791**	7,619
Taxes paid		**(90,179)**	(15,736)
		250,219	195,163
Cash generated from (used in) investing activities:			
Interest received		**8,468**	5,664
Proceeds on disposition of assets		**154,709**	8,051
Acquisition of property, plant and equipment		**(241,617)**	(112,785)
Acquisition of intangible assets		**(5,692)**	(4,691)
Acquisition of investments		**(44,488)**	(52,619)
Acquisition of subsidiary, net of cash acquired	5	**(94,855)**	**—**
Release of restricted cash		**2,713**	54,626
Sale of short-term investments		**20,115**	**—**
Acquisition of non-controlling interests	5	**(11,476)**	—
Investing cash flows of discontinued operations		**(7,163)**	(94)
		(219,286)	(101,848)
Cash generated from (used in) financing activities:			
Repurchase of common shares		**—**	(63,294)
Share issue costs		**(237)**	**—**
Proceeds from exercise of stock options		**145**	5,253
Financing costs		**(2,059)**	(2,668)
Dividends paid	20	**(34,346)**	(14,901)

	(36,497)	(75,610)
Effect of movement in exchange rates on cash and cash equivalents	**2,948**	(2,826)
Net (decrease) increase in cash and cash equivalents	**(2,616)**	14,879
Cash and cash equivalents, beginning of year	**901,693**	886,814
Cash and cash equivalents, end of year	**$ 899,077**	$ 901,693

For supplemental information, see note 29.

1. Reporting entity

HudBay Minerals Inc. (the "Company") is a Canadian company continued under the *Canada Business Corporations Act* on October 25, 2005. The address of the Company's principal executive office is 25 York Street, Suite 800, Toronto, Ontario. The consolidated financial statements of the Company for the year ended December 31, 2011 represent the financial position and results of operations of the Company and its subsidiaries (together referred to as the "Group" or "Hudbay" and individually as "Group entities").

Significant subsidiaries include Hudson Bay Mining and Smelting Co., Limited ("HBMS"), Hudson Bay Exploration and Development Company Limited ("HBED"), HudBay Marketing and Sales Inc. ("HMS"), HudBay Peru S.A.C., ("Hudbay Peru") (previously named Norsemont Mining Inc.), St. Lawrence Zinc Company LLC ("St. Lawrence"), HudBay Michigan Inc. and HudBay Metal Marketing Inc.

Hudbay is a Canadian integrated mining company with shares listed under the symbol "HBM" on the Toronto and New York stock exchanges. With assets in North and South America, Hudbay produces copper concentrate (containing copper, gold and silver) and zinc metal and is focused on the discovery, production and marketing of base and precious metals. Through its subsidiaries, Hudbay owns copper/zinc/gold mines, ore concentrators and zinc production facilities in northern Manitoba and Saskatchewan and a copper project in Peru. The Group also has investments in a number of exploration companies with promising mineral properties. Hudbay's mission is to create sustainable value through increased commodity exposure on a per share basis for its shareholders.

2. Basis of preparation

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These are the Group's first annual IFRS consolidated financial statements, and IFRS 1, *First-time Adoption of International Financial Reporting Standards*, has been applied. These consolidated financial statements have been prepared on a going concern basis as management believes there are no uncertainties that lead to significant doubt the entity can continue as a going concern in the foreseeable future.

Note 31 contains an explanation of the effect of transition to IFRS on the Group's reported financial position, financial performance and cash flows, including reconciliations of equity and profit for comparative periods reported under Canadian generally accepted accounting principles ("GAAP") to those reported for those periods under IFRS.

The Board of Directors approved these consolidated financial statements on March 7, 2012.

(b) Functional and presentation currency:

The Group's consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. All values are rounded to the nearest thousand ($000) except where otherwise indicated.

(c) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the balance sheet:

- Derivatives, other financial instruments at fair value through profit or loss and available-for-sale financial assets are measured at fair value.

- Liabilities for cash-settled share-based payment arrangements are measured at fair value.
- A defined benefit asset is recognized as the net total of the plan assets, unrecognized past service costs and unrecognized actuarial losses, less unrecognized actuarial gains and the present value of the defined benefit obligation.

(d) Use of judgment:

The preparation of the consolidated financial statements in conformity with IFRS requires the Group to make judgments, apart from those involving estimations, in applying accounting policies that affect reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and reported amounts of revenue and expenses during the reporting period.

Significant areas where the Group applies judgment include:
- Acquisition method accounting (notes 3a and 5)
- Taxes (notes 3o and 19)
- In process inventory quantities and provision for inventory obsolescence (note 3f)
- Property, plant and equipment
    - Cost allocations for mine development (note 3j)
    - Mining properties expenditures capitalized (note 3i(ii))
    - Determining when exploration and evaluation assets should be transferred to capital works in progress within property, plant and equipment (notes 3h)
- Assessment of impairment, including determination of cash-generating units and assessing for indications of impairment (notes 3j and 6)
- Recoverability of exploration and evaluation assets, including determination of cash-generating units and assessing for indications of impairment (notes 3h and 3j)

(e) Use of estimates:

The preparation of the consolidated financial statements in conformity with IFRS requires the Group to make estimates and assumptions that affect the application of accounting policies, reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

The Group reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that the Group believe to be reasonable under the circumstances. Revisions to accounting estimates are recognized prospectively in the period in which the estimates are revised and in any future periods affected.

Significant areas where the Group applies estimates include:

Estimates that affect multiple areas of the financial statements:
- Estimating mineral reserves and resources
- Acquisition method accounting (notes 3a and 5)
- Estimates of fair value of financial instruments (notes 3c, 3n and 26)
- Taxes (notes 3o and 19)

Asset-based estimates (these estimates also affect other areas of the financial statements):
- In-process inventory quantities and provision for inventory obsolescence (note 3f)
- Property, plant and equipment
    - Units-of-production depreciation (note 3i)
    - Plant and equipment estimated useful lives and residual values (note 3i)
- Assessment of impairment, including the determination of recoverable amount (notes 3j and 6)

Liability-based estimates (these estimates also affect other areas of the financial statements):
- Pensions and other employee benefits (notes 3(l), 17 and 18)
- Decommissioning, restoration and similar liabilities (notes 3m and 16)
- Contingent liabilities (note 27)

Estimates that relate mainly to the income statement:

- Assaying used to determine revenue (note 3c)

There are numerous uncertainties inherent in estimating mineral reserves and resources, including many factors beyond the Group's control. Ore reserves and resources are estimated based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the ore body. Complex geological judgments are required to interpret this data. Changes in management's assumptions, including economic assumptions such as metal prices and market conditions, could have a material effect on the Group's financial position and results of operation. Changes in the reserve or resource estimates may affect:

- The carrying value of exploration and evaluation assets, capital works in progress, mining properties and plant and equipment;
- Depreciation expense for assets depreciated either on a unit-of-production basis or on a straight-line basis where useful lives are restricted by the life of the related mine or plan;
- The provision for decommissioning, restoration and similar liabilities; and
- The carrying value of deferred tax assets.

The Group estimates mineral reserves and resources to determine future recoverable mine production based on assessment of geological, engineering and metallurgical analyses, estimates of future production costs, capital costs and restoration costs, as well as long-term commodity prices and foreign exchange rates.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS balance sheet as at January 1, 2010 for the purposes of the transition to IFRS. These accounting policies set out below have been applied consistently by all Group entities.

(a) Basis of consolidation:

Intercompany balances and transactions are eliminated upon consolidation. When a Group entity transacts with an associate or jointly controlled entity of the Group, unrealized profits and losses are eliminated to the extent of the Group's interest in the relevant associate or joint venture. The accounting policies of Group entities are changed when necessary to align them with the policies adopted by the Company.

Subsidiaries

A subsidiary is an entity controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Interests in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control. Joint control exists when strategic financial and operating policy decisions relating to the activities of a joint venture require the unanimous consent of the parties sharing control.

When the Group undertakes its activities under joint venture arrangements directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognized in the financial statements and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognized when it is probable that the economic benefits associated with the transactions will flow to or from the Group and their amount can be measured reliably.

To the extent that the Group has an interest in jointly controlled entities, which are those joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest, the Group will use proportionate consolidation to account for its interest. Under proportionate consolidation, the Group combines its share of the assets, liabilities, income and expenses of jointly controlled entities with the equivalent items in the consolidated financial statements on a line-by-line basis. Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is accounted for in accordance with the Group's accounting policy for goodwill arising in a business combination.

Non-controlling interests

Non-controlling interests in subsidiaries are identified separately from the Group's equity in the subsidiaries. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Business combinations and goodwill

When the Group makes an acquisition, it first determines whether the assets acquired and liabilities assumed constitute a business, in which case the acquisition requires accounting as a business combination. Management applies judgment in determining whether the acquiree is capable of being conducted and managed for the purpose of providing a return, considering the inputs of the acquiree and processes applied to those inputs that have the ability to create outputs.

The Group applies the acquisition method of accounting to business combinations, whereby the goodwill is measured at the acquisition date as the fair value of the consideration transferred including the recognized amount of any non-controlling interests in the acquiree, less the net recognized amount (fair value) of assets acquired and liabilities and contingent liabilities assumed (identifiable net assets) on the basis of fair value at the date of acquisition. When the excess is negative, a bargain purchase gain is recognized immediately in the income statement. The assessment of fair values on acquisition includes those mineral reserves and resources that are able to be reliably measured. In determining these fair values, management must also apply judgment in areas including future cash flows, metal prices, exchange rates and appropriate discount rates. Changes in such estimates and assumptions could result in significant differences in the amount of goodwill recognized.

The consideration transferred is the aggregate of the fair values at the date of acquisition of the sum of the assets transferred, the liabilities incurred or assumed, and the equity instruments issued by the acquirer in exchange for control of the acquiree. Acquisition-related costs are recognized in the income statement as incurred, unless they relate to issue of debt or equity securities.

Where applicable, the consideration transferred includes any asset or liability resulting from a contingent consideration arrangement and measured at its acquisition date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRS. Changes in the fair value of contingent consideration classified as equity are not recognized.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date, which is the date the Group attains control, and any resulting gain or loss is recognized in the income statement. Amounts previously recognized in other comprehensive income related to interests in the acquiree prior to the acquisition date are reclassified to the income statement, where such treatment would be appropriate if that interest were disposed of.

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After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Goodwill is allocated to the lowest level at which it is monitored for internal management purposes and is not larger than an operating segment before aggregation. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the determination of any gain or loss on disposal. An impairment loss in respect of goodwill is not reversed.

Goodwill is not amortized and is tested for impairment annually and whenever there is an indication of impairment for intangible assets with indefinite useful lives. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is determined as the higher of fair value less direct costs to sell and the asset's value in use.

Fair value for mineral interests and related goodwill is generally determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account.

Value in use is determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and its eventual disposal. Value in use is determined by applying assumptions specific to the Group's continued use and cannot take into account future development.

The weighted average cost of capital of the Group or comparable market participants is used as a starting point for determining the discount rates, with appropriate adjustments for the risk profile of the countries in which the individual cash generating units operate and the specific risks related to the development of the project.

Where the asset does not generate cash flows that are independent of other assets, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. If the carrying amount of an asset or cash generating unit exceeds its recoverable

amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount. An impairment loss is recognized as an expense in the consolidated income statement.

(b) Translation of foreign currencies:

Management determines the functional currency of each Group entity as the currency of the primary economic environment in which the entity operates.

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates in effect at the transaction dates.

At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated to the functional currency using the closing exchange rate. Non-monetary assets and liabilities measured at fair value are translated using the exchange rates at the date when fair value was determined. Non-monetary assets and liabilities measured at historical cost in a foreign currency are translated using exchange rates that were in effect at the transaction dates. The same translations are applied when an entity prepares its financial statements from books and records maintained in a currency other than its functional currency, except revenues and expenses may be translated at monthly average exchange rates that approximate those in effect at the transaction dates.

Foreign currency gains and losses arising on translation are recognized in the income statement, except for differences arising on translation of available-for-sale equity instruments, a financial liability designated as a hedge of a net investment in a foreign operation, or qualifying cash flow hedges, which are recognized in other comprehensive income.

Foreign operations

For the purpose of the consolidated financial statements, assets and liabilities of Group entities that have functional currencies other than the Canadian dollar are translated to Canadian dollars at the reporting date using the closing exchange rate. Revenue and expenses are translated at monthly average exchange rates that approximate those in effect at the transaction dates. Differences arising from these foreign currency translations are recognized in other comprehensive income and presented within equity in the foreign currency translation reserve. When a foreign operation is disposed, the relevant exchange differences accumulated in the foreign currency translation reserve are transferred to the income statement as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such amount is reattributed to non-controlling interests. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit and loss.

Net investment in a foreign operation

Foreign currency gains and losses arising on translation of a monetary item receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future are considered to form part of a net investment in the foreign operation. Such gains and losses are recognized in other comprehensive income and presented within equity in the foreign currency translation reserve.

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(c) Revenue recognition:

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of treatment and refining charges.

Sales revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, the Group has insignificant continuing management involvement with the goods, the amount of revenue can be measured reliably, recovery of the consideration is probable and the associated costs and possible return of goods can be estimated reliably. Transfers of risks and rewards vary depending on individual contract terms; this frequently occurs at the time when title passes to the customer. For medium and long-term contracts, revenue recognition criteria are assessed for individual sales within the contracts. Revenues from the sale of by-products are included within revenue.

Sales of concentrate and certain other products are “provisionally priced”. For these contracts, sales prices are subject to final adjustment at the end of a future period after shipment, based on quoted market prices during the quotational period specified in the

contract. Revenue is recognized when the above criteria are met, using weight and assay results and forward market prices to estimate the fair value of the total consideration receivable. Such a provisional sale contains an embedded derivative that must be separated from the host contract. At each reporting date, provisionally priced metal sales are marked to market, with adjustments (both gains and losses) recorded in revenue in the income statement and in trade and other receivables on the balance sheet.

The Group recognizes deferred revenue in the event it receives payments from customers before a sale meets criteria for revenue recognition. Deferred revenue is presented within current other liabilities.

Interest revenue is recognized in finance income as it accrues, using the effective interest method.

Dividend revenue from investments is recognized when the shareholder's right to receive payment has been established provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

(d) Cost of sales:

Cost of sales consists of those costs previously included in the measurement of inventory sold during the period, as well as certain costs not included in the measurement of inventory, such as the cost of warehousing and distribution to customers, provisional pricing adjustments related to purchased concentrates, and profit sharing, royalty payments, share-based payments and other indirect expenses related to producing operations.

(e) Cash and cash equivalents:

Cash and cash equivalents include cash, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash equivalents normally have maturities of three months or less at the date of acquisition. Interest earned is included in finance income on the income statement and in investing activities on the statement of cash flows.

Amounts that are restricted from being used for at least twelve months after the reporting date are classified as non-current assets and presented in restricted cash on the balance sheet. Changes in restricted cash balances are classified as investing activities on the cash flow statement.

(f) Inventories:

Inventories consist of in-process inventory (concentrates and metals), metal products and supplies. Concentrates, metals and all other saleable products are valued at the lower of cost and estimated net realizable value. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Where the net realizable value is less than cost, the difference is charged to the income statement as an impairment charge in cost of sales.

Cost of production inventory is determined on a weighted average cost basis and includes direct costs associated with conversion of production inventory: material, labour, contractor expenses, purchased concentrates, and attributable portion of production overheads and depreciation of all property, plant and equipment involved with the mining and production process. Hudbay measures in-process inventories based on assays of material received at metallurgical plants and estimates of recoveries in the production processes. Due to significant uncertainty associated with volume and metal content, costs are not allocated to routine operating levels of stockpiled ore. Estimates and judgment are required to assess the nature of any significant changes to levels of ore stockpiles and determining whether allocation of costs is required.

Supplies are valued at the lower of average cost and net realizable value. Supplies are written down below cost if the finished products they are used in are expected to be sold below cost. A regular review is undertaken to determine the extent of any provision for obsolescence.

(g) Intangible assets:

Computer software is measured at cost less accumulated amortization and accumulated impairment losses. Cost includes all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating it in the manner intended by management.

Amortization methods, useful lives, and residual values if any, are reviewed at each year end and adjusted prospectively. When an

intangible asset is disposed of, or when no further economic benefits are expected, the asset is derecognized, and any resulting gain or loss is recorded in the income statement.

Currently, the Group's intangible assets relate primarily to an enterprise resource planning ("ERP") information system. Amortization commenced in April 2011 upon implementation of the ERP system and is calculated on a straight-line basis over its estimated useful life. The Group estimates the useful life of the ERP system is approximately 10 years.

(h) Exploration and evaluation expenditures:

Exploration and evaluation activity begins when the Group obtains legal rights to explore a specific area and involves the search for mineral reserves, the determination of technical feasibility, and the assessment of commercial viability of an identified resource. Expenditures incurred in the exploration and evaluation phase include the cost of acquiring interests in mineral rights, licenses and properties and the costs of the Group's exploration activities, such as researching and analyzing existing exploration data, gathering data through geological studies, exploratory drilling, trenching, sampling, and certain feasibility studies.

The Group expenses the cost of its exploration and evaluation activities and capitalizes the cost of acquiring interests in mineral rights, licenses and properties in business combinations, asset acquisitions or option agreements. Amounts capitalized are recognized as exploration and evaluation assets and presented in property, plant and equipment. Exploration and evaluation assets acquired as a result of an asset acquisition or option agreement are initially recognized at cost, and those acquired in a business combination are recognized at fair value on the acquisition date. They are subsequently carried at cost less accumulated impairment. No depreciation is charged during the exploration and evaluation phase. The Group expenses the cost of subsequent exploration and evaluation activity related to acquired exploration and evaluation assets. Cash flows associated with acquiring exploration and evaluation assets are classified as investing activities in the statement of cash flows; those associated with exploration and evaluation expenses are classified as operating activities.

Judgment is required in determining whether the respective costs are eligible for capitalization where applicable, and whether they are likely to be recoverable by future exploration, which may be based on assumptions about future events and circumstances. Estimates and assumptions made may change if new information becomes available.

The Group monitors exploration and evaluation assets for factors that may indicate their carrying amounts are not recoverable. If such indicators are identified, the Group tests the exploration and evaluation assets or their cash-generating units, as applicable, for impairment. The Group also tests impairment when assets reach the end of the exploration and evaluation phase.

Exploration and evaluation assets are transferred to capital works in progress within property, plant and equipment once the Group has completed a preliminary feasibility study, some of the resources have been converted to reserves, and management determines it is probable the property will be developed into a mine. At that time, the property is considered to enter the development phase, and subsequent evaluation costs are capitalized.

(i) Property, plant and equipment:

The Group measures items of property, plant and equipment at cost less accumulated depreciation and any accumulated impairment losses. Upon first-time adoption of IFRS, the Group has elected to use fair value as deemed cost for its Balmat property, plant and equipment.

The initial cost of an item of property, plant and equipment includes its purchase price or construction costs, including import duties and non-refundable purchase taxes, any costs directly attributable to bringing the asset into operation, and for qualifying assets, borrowing costs. The initial cost of property, plant and equipment also includes the initial estimate of the cost of dismantling and removing the item and restoring the site on which it is located, the obligation for which the Group incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Capitalization of costs ceases once an asset is in the location and condition necessary for it to be capable of operating in the manner intended by management. At this time, depreciation commences. For a new mine, this occurs upon commencement of commercial production. Any revenue earned in the process of preparing an asset to be capable of operating in the manner intended by management is included in the cost of the constructed asset. Any other incidental revenue earned prior to commencement of commercial production is recognized in the income statement.

Carrying amounts of property, plant and equipment, including assets under finance lease, are depreciated to their estimated residual value over the estimated useful lives of the assets or the estimated life of the related mine or plant, if shorter. Where components of an asset have different useful lives, depreciation is calculated on each separate component. Components may be physical or non-physical, including the cost of regular major inspections and overhauls required in order to continue operating an item of property, plant and equipment.

Certain items of property, plant and equipment are depreciated on a unit-of-production basis. The unit-of-production method is based on proven and probable tonnes of ore reserves. There are numerous uncertainties inherent in estimating ore reserves, and assumptions that were valid at the reporting date may change when new information becomes available. The actual volume of ore extracted and any changes in these assumptions could affect prospective depreciation rates and carrying values.

The carrying amount of an item of property, plant and equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Upon derecognition of an item of property, plant and equipment, the difference between its carrying value and net sales proceeds, if any, is presented as a gain or loss in other operating income or expense in the income statement.

(i) Capital works in progress:

Capital works in progress consist of items of property, plant and equipment in the course of construction or mineral properties in the course of development, including those transferred upon completion of the exploration and evaluation phase. On completion of construction or development, costs are transferred to plant and equipment and/or mining properties as appropriate.

Capital works in progress are not depreciated.

(ii) Mining properties:

Mining properties consist of costs transferred from capital works in progress when a mining property reaches commercial production, costs of subsequent mine and exploration development, and acquired mining properties in the production stage.

Mining properties include costs directly attributable to bringing a mineral asset into the state where it is capable of operating in the manner intended by management and includes such costs as the cost of shafts, ramps, track haulage drifts, ancillary drifts, sumps, electrical substations, refuge stations, ventilation raises, permanent manways, and ore and waste pass raises. The determination of development costs to be capitalized during the production stage of a mine operation requires the use of judgment and estimates such as estimates of tonnes of waste to be removed over the life of the mining area and economically recoverable reserves extracted as a result.

A mining property is considered to be capable of operating in a manner intended by management when it commences commercial production. Upon commencement of commercial production, a mining property is depreciated on a unit-of-production method. Unit-of-production depreciation rates are determined based on the related proven and probable mineral reserves and associated future development costs.

Subsequent mine development costs are capitalized to the extent they are incurred in order to access reserves mineable over more than one year. Ongoing maintenance and development expenditures are expensed as incurred and included in cost of sales in profit or loss. These include ore stope access drifts, footwall and hangingwall drifts in stopes, drawpoints, drill drifts, sublevels, slots, drill raises, stope manway access raises and definition diamond drilling.

(iii) Plant and equipment:

Plant and equipment consists of buildings and fixtures, surface and underground fixed and mobile equipment and assets under finance lease.

Plant and equipment are depreciated on either unit-of-production or straight-line basis based on factors including the production life of assets and mineable reserves. In general, mining assets are depreciated using a unit-of-production method; equipment is depreciated using the straight-line method, based on the shorter of its useful life and that of the related mine or facility; and plants are depreciated using the straight-line method, with useful lives limited by those of related mining assets.

(iv) Commercial production:

Commercial production is the level of activities intended by management for a mine, or a mine and mill complex, to be capable of operating in the manner intended by management. The Group considers a range of factors when determining the level of activity that represents commercial production for a particular project, including a pre determined percentage of design capacity for the mine and mill; achievement of continuous production, ramp ups, or other output; or specific factors such as recoveries, grades, or inventory build-ups. In a phased mining approach, management may consider achievement of specific milestones at each phase of completion. Management assesses the operation's ability to sustain production over a period of approximately one to three months, depending on the complexity related to the stability of continuous operation. Commercial production is considered to have commenced, and depreciation expense is recognized, at the beginning of the month after criteria have been met.

(v) Capitalized borrowing costs:

The Group capitalizes borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale. Capitalization of borrowing costs ceases once the qualifying assets commence commercial production or are otherwise ready for their intended use or sale.

Where funds are borrowed specifically to finance a project, the amount capitalized represents the actual borrowing costs incurred. Where the funds used to finance a project form part of general borrowings, the amount capitalized is calculated using a weighted average of interest rates applicable to relevant general borrowings of the Group during the period, to a maximum of actual borrowing costs incurred. Investment income earned by temporarily investing specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. Capitalization of interest is suspended during extended periods in which active development is interrupted.

All other borrowing costs are recognized in the income statement in the period in which they are incurred.

(vi) Depreciation rates of major categories of assets:

· Capital works in progress	- not depreciated
· Mining properties	- unit-of-production
· Mining assets	- unit-of-production
· Other plant assets	- straight line over 1 to 10 years
· Equipment	- straight-line over 1 to 10 years

The Group reviews its depreciation methods, remaining useful lives and residual values at least annually and accounts for changes in estimates prospectively.

(j) Impairment of non-financial assets:

At the end of each reporting period, the Group reviews the carrying amounts of property, plant and equipment, exploration and evaluation assets and computer software to determine whether there is any indication of impairment. If any such indication exists, the Group estimates the recoverable amount of the asset in order to determine the extent of the impairment loss, if any. The Group generally assesses impairment at the level of cash-generating units, which are the smallest identifiable groups of assets that generate cash inflows that are largely independent of cash inflows from other assets.

The Group's cash-generating units consist of Manitoba, Peru and Balmat. Prior to their disposition during the year ended December 31, 2011, HMI Nickel and Zochem also formed separate cash-generating units.

The Group allocates exploration and evaluation assets to cash-generating units based on their operating segment, geographic location and management's intended use for the property. Exploration and evaluation assets are allocated to cash-generating units separate from those containing producing or development-phase assets, except where exploration and evaluation assets have the potential to significantly affect the future production of producing or development-phase assets.

Any goodwill is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Where an indicator of impairment exists, a formal estimate of the recoverable amount of the asset or cash-generating unit is made. The recoverable amount is the higher of the fair value less costs to sell and value in use:

· Fair value less costs to sell is the amount obtainable from the sale of the asset or cash-generating unit in an arm's length transaction between knowledgeable, willing parties, less costs of disposal. Fair value for mineral assets is often determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted by an appropriate discount rate that reflects current market assessments of the time value of money and the risks specific to the asset to arrive at a net present value of the asset.

· Value in use is determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset or cash-generating unit in its present form and its eventual disposal, discounted using a pre-tax rate that reflects current market assessments of the time value of money and risks specific to the asset for which estimates of future cash flows have not been adjusted. Value in use calculations apply assumptions specific to the Group's continued use and cannot take into account future development. These assumptions are different to those used in calculating fair value, and consequently the value in use calculation is likely to give a different result to a fair value calculation.

The Group estimates future cash flows based on estimated future recoverable mine production, expected sales prices (considering current and historical commodity prices, price trends and related factors), production levels and cash costs of production, all based on detailed engineering life-of-mine plans. Future recoverable mine production is determined from reserves and resources after taking into account estimated dilution and recoveries during mining, and estimated losses during ore processing and treatment. Estimates of recoverable production from measured, indicated and inferred mineral resources are considered economically mineable and are based on management's confidence in converting such resources to proven and probable reserves. Gains from the expected disposal of assets are not included in estimated future cash flows. Assumptions underlying future cash flow estimates are subject to risks and uncertainties. Changes in estimates may affect the expected recoverability of the Group's investments in mining properties.

If the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the carrying amount is reduced to the recoverable amount, and an impairment loss is recognized in the income statement in the expense category consistent with the function of the impaired asset or cash-generating unit. The Group presents impairment losses related to operating assets in cost of sales. Impairment losses recognized in respect of a cash-generating unit are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to reduce the carrying amounts of other assets in the cash-generating unit on a pro rata basis.

The Group assesses previously recognized impairment losses each reporting date for any indications that the losses have decreased or no longer exist. Such an impairment loss is reversed, in full or in part, if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized for the asset in prior years. Such reversals of impairment losses are recognized in the income statement. An impairment loss recognized in relation to goodwill is not reversed for subsequent increases in the recoverable amount.

(k) Assets held for sale and discontinued operations:

Assets held for sale

The Group classifies non-current assets, or disposal groups consisting of assets and liabilities, as held for sale when it expects to recover their carrying amounts primarily through sale rather than through continuing use. To meet criteria to be held for sale, the sale must be highly probable, and the assets or disposal groups must be available for immediate sale in their present condition. The Group must be committed to a plan to sell the assets or disposal group, and the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

The Group measures assets or disposal groups at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognized in profit or loss; however, gains are not recognized in excess of any cumulative impairment loss. Upon classifying assets or disposal groups as held for sale, the Group presents the assets separately as a single amount and the liabilities separately as a single amount on the

balance sheet.

Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or classified as held for sale. The operations and cash flows can be clearly distinguished from the rest of the Group, both operationally and for financial reporting purposes. When the Group classifies an operation as a discontinued operation, it re-presents the comparative income statement as if the operation had been discontinued from the start of the comparative year. In doing this, the Group excludes the results of the discontinued operations and any gain or loss from disposal from the income statement subtotal of profit or loss from continuing operations and presents them on a separate line as profit or loss (net of tax) from the discontinued operation.

(l) Pension and other employee benefits:

The Group has non-contributory and contributory defined benefit programs for the majority of its Canadian employees. The defined benefit pension benefits are based on years of service and final average salary for the salaried plans and are based on a flat dollar amount combined with years of service for the hourly plans. The Group provides non-pension health and other post-employment benefits to certain active employees and pensioners (post-employment benefits) and also provides disability income, health benefits and other post-employment benefits to hourly and salaried disabled employees (other long-term employee benefits).

The Group accrues its obligations under the defined benefit plans as the employees render the services necessary to earn the pension and post-employment benefits. The actuarial determination of the accrued benefit obligations for pensions and post-employment

benefits uses the projected benefit method prorated on service (which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors). For other long-term employee benefits, the Group recognizes the full cost of the benefit obligation at the time the employee becomes disabled. Actuarial advice is provided by external consultants.

For the funded defined benefit plans, the Group recognizes the deficit or excess of the fair value of plan assets over the present value of the defined benefit obligation as a liability or an asset in the balance sheet, taking into account any unrecognized past service cost and any unrecognized actuarial gains and losses. However, the Group recognizes an excess of assets only to the extent that it represents a future economic benefit which is available in the form of refunds from the plan or reductions in future contributions to the plan. When these criteria are not met, it is not recognized but is disclosed in the notes. Impacts of minimum funding requirements in relation to past service are considered when determining the balance sheet position.

Actuarial gains (losses) on plan assets arise from the difference between the actual return on plan assets for a period and the expected return on plan assets for that period. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation. Cumulative actuarial gains (losses) in excess of 10% of the greater of the accrued benefit obligation and the fair value of plan assets (in respect of pension and post-employment benefits) are amortized over the average remaining service period of active members expected to receive benefits

under the plan. The average remaining service period of the active employees covered by the pension plans is 9.53 years. The average remaining service period of the active employees covered by the other retirement benefits plan is 12.6 years. Annual gains and losses in respect of other long-term post-employment benefits are recognized immediately through the income statement in the year they occur.

For the defined benefit plans, the benefit cost charged to the income statement consists of current service cost, interest cost, expected return on plan assets, effects of early retirements, curtailments or settlements, amortization of actuarial gains and losses in excess of the corridor and past service cost. The past service cost for the enhancement of pension benefits is accounted for when such benefits vest or become a constructive obligation.

Actuarial determinations used in estimating obligations relating to these plans incorporate assumptions using management's best estimates of factors including plan performance, salary escalation, retirement dates of employees and drug cost escalation rates. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. In determining the appropriate discount rate, management considers the interest rates on corporate bonds in the respective currency with at least an AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables for the specific country. Future salary increases and pension increases are based on expected future inflation rates for the respective country.

The Group also has defined contribution plans providing pension benefits for certain of its salaried employees and certain of its US employees utilizing 401K plans. The Group recognizes the cost of the defined contribution plans based on the contributions required to be made during each period.

Termination benefits are recognized as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. Benefits that are payable more than one year after the reporting period are discounted to their present value.

(m) Provisions:

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable than an outflow of resources will be required to settle the obligation, and a reliable estimate can be made. The provisions are recorded as management's best estimate of the amount required to settle an obligation.

Where the effect of time value of money is significant, provisions are stated at their present value. The present value is determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Decommissioning, restoration and similar liabilities

Provisions are recorded for legal and constructive obligations associated with the future costs of rehabilitating the Group's operating sites. Such costs are associated with decommissioning and restoration activities such as dismantling and removing structures, rehabilitating mines and tailings, and reclamation and re-vegetation of affected areas.

The present value of estimated costs is recorded in the period in which the asset is installed or the environment is disturbed and a reasonable estimate of future costs and discount rates can be made. The provision is discounted using a risk-free rate and estimates of future cash flows are adjusted to reflect risk.

Subsequent to the initial measurement, the obligation is adjusted to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance expense, whereas increases and decreases due to changes in the estimated future cash flows are capitalized and depreciated over the life of the related asset. Actual costs incurred upon settlement of the site restoration obligation are charged against the provision to the extent the provision was established for those costs. Upon settlement of the liability, a gain or loss may be recorded.

The Group assesses the reasonableness of its estimates and assumptions each year and when conditions change. The estimates are revised accordingly. Judgment is required to determine such estimates and assumptions including discount rates, expected timing of decommissioning and restoration costs, inflationary factors and market risks. Changes in cost estimates, which may arise from changes in technology and pricing of the individual components of the cost, result in offsetting changes to the asset and liability and corresponding changes to the associated depreciation and finance costs. In view of the uncertainties concerning these future obligations, the ultimate timing and cost of reclamation and mine closure may differ materially from these estimates.

If the change in estimate results in a significant increase in the decommissioning liability and therefore an addition to the carrying value of the asset, the Group considers whether this is an indication of impairment of the asset as a whole and, if so, tests for impairment in accordance with IAS 36, *Impairment of Assets.* If, for mature mines, the revised mine assets net of decommissioning and restoration liabilities exceeds the recoverable value, that portion of the increase is charged directly to expense. For closed sites, changes to estimated costs are recognized immediately in the income statement within other operating expenses.

In view of the uncertainties concerning environmental remediation, the ultimate cost of decommissioning and restoration liabilities could differ materially from the estimated amounts provided. The estimate of the total liability is subject to change based on amendments to laws and regulations and as new information concerning the Group's operations becomes available. Future changes, if any, to the estimated total liability as a result of amended requirements, laws, regulations and operating assumptions, as well as discount rates, may be significant and would be recognized prospectively as a change in accounting estimate, when applicable. Environmental laws and regulations are continually evolving in all regions in which the Group operates. The Group is not able to determine the impact, if any, of environmental laws and regulations that may be enacted in the future on its results of operations or financial position due to the uncertainty surrounding the ultimate form that such future laws and regulations may take.

Onerous contracts

A contract is considered to be onerous when the unavoidable costs of meeting obligations under the contract exceed the economic benefits expected to be received under it. The Group records a provision for any onerous contracts at the lesser of costs to comply with a contract and costs to terminate it.

Restructuring provisions

A provision for restructuring is recognized when management, with appropriate authority within the Group, has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

(n) Financial Instruments:

Financial assets, financial liabilities, and non financial derivative contracts are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, directly attributable transaction costs. Measurement in subsequent periods depends on the financial instrument's classification. The Group uses trade date accounting for regular way purchases or sales of financial assets. The Group determines the classification of its financial instruments and non-financial derivatives at initial recognition.

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(i) Non-derivative financial instruments — classification:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified or designated as fair value through profit or loss ("FVTPL") or available-for-sale ("AFS"). Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Gains and losses are recorded in the income statement when the loans and receivables are derecognized or impaired, and through the amortization process.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity, other than financial assets that meet the definition of loans and receivables or that are designated as fair value through profit or loss or available-for-sale. Subsequent to initial recognition, financial assets classified as held-to-maturity are held at amortized cost using the effective interest method, less any impairment losses. The Group does not currently have any financial assets classified as held-to-maturity.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity, or fair value through profit or loss. Subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Gains and losses are recorded in other comprehensive income ("OCI") and presented in equity within the available-for-sale reserve, with the exception of impairment losses and foreign currency differences on monetary available-for-sale financial assets, which are immediately recognized in the income statement. When available-for-sale assets are derecognized or determined to be impaired, the cumulative gain or loss previously recognized in the available-for-sale reserve is transferred to the income statement. The Group has classified investments in shares of Canadian metals and mining companies as available-for-sale assets.

Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities at FVTPL consist of those classified as held-for-trading and those designated as FVTPL on initial recognition. Financial instruments are classified as held-for-trading if they are acquired for the purpose of selling or repurchasing in the near term or if they are derivatives that are not designated in effective hedging relationships. Upon initial recognition, transaction costs are recognized in the income statement as incurred. Financial assets and financial liabilities at FVTPL are measured at fair value, and changes in fair value are recognized in other finance gains and losses. The Group's FVTPL category currently contains only derivatives and embedded derivatives. During the years ended December 31, 2011 and December 31, 2010, the Group's financial assets and liabilities at FVTPL consisted of derivatives, embedded derivatives and investments in warrants classified as held-for-trading; the Group did not have any financial assets or liabilities designated as FVTPL on initial recognition.

Financial liabilities at amortized cost

Subsequent to initial recognition, the Group measures financial liabilities, other than those at FVTPL and those that are derivatives in designated hedging relationships, at amortized cost using the effective interest method. Gains and losses on derecognition are recognized in other finance gains and losses.

(ii) Derivatives:

Derivatives are initially recognized at fair value when the Group becomes a party to the derivative contract and are subsequently re-measured to fair value at the end of each reporting period. The resulting gain or loss is recognized in the income statement immediately unless the derivative is designated and effective as a hedging instrument. Derivatives with positive fair value are recognized as assets; derivatives with negative fair value are recognized as liabilities.

Contracts to buy or sell non-financial items that meet the definition of a derivative but were entered into and are held in accordance with the Group's expected purchase, sale or usage requirements are not recognized as derivatives. Such contracts are recorded as non-derivative purchases and sales.

(iii) Embedded derivatives:

The Group considers whether a contract contains an embedded derivative when it becomes a party to the contract. Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

(iv) Hedge accounting:

The Group may use derivatives and non derivative financial instruments to manage exposures to interest, currency, credit and other market risks. Where hedge accounting can be applied, a hedging relationship is designated as a fair value hedge, a cash flow hedge or a hedge of a net investment in a foreign operation. The purpose of hedge accounting is to ensure that gains, losses, revenues and expenses from effective hedging relationships are recorded in the income statement in the same period.

At the inception of a hedge, the Group formally documents the hedging relationship and the risk management objective and strategy for undertaking the hedge. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows. The Group tests effectiveness each period.

During the years ended December 31, 2011 and December 31, 2010, the Group had only cash flow hedging relationships. Cash flow hedges are hedges of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction that could affect profit or loss.

In a cash flow hedging relationship, the effective portion of changes in the fair value of the hedging derivative is recognized in other comprehensive income and presented in the hedging reserve in equity. The gain or loss relating to the ineffective portion is recognized immediately in the income statement and is included in other finance gains and losses. Amounts previously recognized in other comprehensive income are reclassified to the income statement in the same periods as the hedged cash flows affect profit or loss and are presented on the same line of the income statement as the recognized hedged item. When the hedged item is a non-financial asset or liability, the amounts previously recognized in other comprehensive income are reclassified to the carrying amount of the non-financial asset or liability.

Hedge accounting is discontinued prospectively if the hedging instrument is sold, terminated or exercised, if the hedge no longer meets criteria for hedge accounting, or if the Group revokes the hedge designation. In these cases, any gain or loss accumulated in equity (in the hedging reserve) remains in equity until the forecast transaction occurs, at which time it is reclassified to the income statement. If the forecast transaction is no longer expected to occur, any gain or loss accumulated in equity is reclassified immediately from equity to the income statement.

(v) Fair values of financial instruments:

The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction.

Fair values of financial instruments traded in active markets are determined based on quoted market prices, where available. Bid prices are used for assets held or liabilities to be issued; asking prices are used for assets to be acquired or liabilities held.

For financial instruments not traded in an active market, fair values are determined based on appropriate valuation techniques. Such techniques may include discounted cash flow analysis, using recent arm's-length market transactions, reference to the current fair value of another instrument that is substantially the same, and other valuation models.

The Group applies a hierarchy to classify valuation methods used to measure financial instruments carried at fair value. Levels 1 to 3 are defined based on the degree to which fair value inputs are observable and have a significant effect on the recorded fair value, as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Valuation techniques use significant observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices), or valuations are based on quoted prices for similar instruments; and
- Level 3: Valuation techniques use significant inputs that are not based on observable market data (unobservable inputs).

An analysis of fair values of financial instruments is provided in note 26.

(vi) Impairment of financial instruments:

Each reporting date, the Group assesses financial assets not carried at FVTPL to determine whether there is objective evidence of impairment. A financial asset or group of financial assets is impaired if objective evidence indicates that one or more events occurred after initial recognition of the asset that negatively affected the estimated future cash flows of the financial asset or group of financial assets.

Objective evidence that financial assets are impaired can include significant financial difficulty of the issuer or debtor, default or delinquency in interest or principal payments, restructuring of an amount due to the Group on terms that the Group would not

consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. For an investment in an equity security, a significant or prolonged decline in the fair value of the security below its cost is also objective evidence of impairment.

Impairment of financial assets carried at amortized cost:

The Group considers evidence of impairment for loans and receivables and any held-to-maturity investments at both a specific asset and collective level. First, the Group specifically assesses financial assets that are individually significant and groups of financial assets that are not individually significant. If evidence of impairment is not identified in the specific assessment, the Group then groups assets based on similar credit risk characteristics (excluding any assets that were specifically determined to be impaired) and collectively assesses them for impairment. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

If there is objective evidence that an impairment loss has been incurred, the Group measures the amount of the loss as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred), discounted at the financial asset's original effective interest rate.

In recording the impairment loss, the Group recognizes impairment loss in the income statement and reduces the carrying amount of the financial asset using an allowance account, unless the Group is satisfied that no recovery of the amount owing is possible; at that point amounts are considered unrecoverable and are written off against the financial asset directly.

If, in a subsequent year, the amount of the estimated impairment loss decreases as a result of an event occurring after the impairment was recognized, the Group reverses all or a portion of the previously recognized impairment loss by adjusting the asset carrying value or the allowance account and recognizing the reversal in the income statement in other finance gains and losses.

Impairment of available-for-sale financial assets:

Impairment losses on available-for-sale investments are recognized by transferring the cumulative loss that has been recognized in other comprehensive income (and presented in the available-for-sale reserve in equity) to the income statement. The amount of the impairment loss is the difference between the investment's acquisition costs, net of any principal repayments and amortization, and its current fair value, less any impairment loss previously recognized in the income statement.

Impairment losses recognized in the income statement related to available-for-sale equity investments are not subsequently reversed. Any subsequent increases in fair value of the equity investments are recognized in other comprehensive income. However, impairment losses recognized related to available-for-sale debt instruments are subsequently reversed, in whole or in part, if the fair value of the debt instrument increases as a result of an event occurring after the impairment loss was recognized, and the amount of the reversal is recognized in the income statement in other finance gains and losses.

The Group presents impairment losses and reversals of impairment losses recognized in the income statement in other finance gains and losses.

(vii) Derecognition of financial instruments:

The Group derecognizes financial assets when the contractual rights to the cash flows from the assets expire, or when the Group transfers the rights to receive the contractual cash flows on the financial assets in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability. The Group derecognizes financial liabilities when its contractual obligations are discharged or cancelled or expire.

(o) Taxation:

Current Tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or

paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Hudbay is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the income tax and deferred tax provisions in the period in which such determination are made.

Additionally, future changes in tax laws in the jurisdictions in which the Group operates could limit the ability of the Group to obtain tax deductions in future periods.

Deferred Tax

Deferred tax is recognized using the balance sheet method in respect of temporary differences at the balance sheet date between the tax basis of assets and liabilities, and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilized, except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

To the extent that is probable that taxable profit will be available to offset the deductible temporary differences, the Group recognizes the deferred tax asset regarding the temporary difference on decommissioning, restoration and similar liabilities and recognizes the corresponding deferred tax liability regarding the temporary difference on the related assets.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will be available to allow the deferred tax asset to be recovered.

Judgment is required in determining whether deferred tax assets are recognized on the balance sheet. Deferred tax assets, including those arising from unutilized tax losses, require management to assess the likelihood of taxable earning in future periods in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability to realize the net deferred tax assets recorded at the balance sheet date could be affected.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which the asset is realized or the liability is settled, based on tax rates and tax laws enacted or substantively enacted at the balance sheet date.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Current and deferred taxes relating to items recognized outside profit or loss (whether in other comprehensive income or directly in equity) are recognized outside profit or loss and not in the income statement. Mining taxes and royalties are treated and disclosed as current and deferred taxes if they have the characteristics of an income tax.

(p) Share capital and reserves:

Transaction costs

Transaction costs directly attributable to equity transactions are recognized as a deduction from equity.

Share repurchases

The Company has repurchased and canceled its own shares pursuant to normal course issuer bids with approval from the Toronto Stock Exchange ("TSX"). The cost of share repurchases, including directly attributable transaction costs, is recognized as a deduction from equity as follows: common share capital is reduced by an amount not exceeding the average carrying value of the same class of shares prior to the repurchase, and any excess is recorded to other capital reserves, for example to the extent that amounts remain from forfeited stock options, or to retained earnings.

Other capital reserve

The other capital reserve is used for equity-settled share-based payments and includes amounts for stock options granted and not exercised.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations. Translation gains and losses remain in the reserve until disposal of all or a portion of the foreign operation.

Hedging reserve

The hedging reserve contains the effective portion of the cumulative change in the fair value of cash flow hedging derivative instruments related to hedged transactions that have not yet occurred.

Available-for-sale reserve

The available-for-sale reserve contains the cumulative change in the fair value of available-for-sale investments with the exception of impairment losses and foreign currency differences on monetary available-for-sale assets. Gains and losses are reclassified to the income statement when the available-for-sale investments are impaired or derecognized.

(q) Share-based payments:

Hudbay offers a Deferred Share Unit ("DSU") plan for non-employee members of the Board of Directors and a Restricted Share Unit ("RSU") plan and stock option plan for employees. These plans are included in provisions on the balance sheet and further described in note 21.

Cash-settled transactions, consisting of DSUs and RSUs, are initially measured at fair value and recognized as an obligation at the grant date. The liabilities are remeasured to fair value at each

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reporting date up to and including the settlement date, with changes in fair value recognized in the income statement. The Group values the liabilities based on the change in the Company's share price. Additional DSUs and RSUs are credited to reflect dividends paid on Hudbay common shares over the vesting period. DSU and RSU liabilities are included in provisions on the balance sheet, and changes in the fair value of the liabilities are recorded in the income statement. The current portion of the liability reflects those grants that have vested or that are expected to vest within twelve months.

DSUs vest on the grant date and are redeemable when a participant is no longer a member of the Board of Directors. Issue and redemption prices of DSUs are based on the average closing price of the Company's common shares for the five trading days prior to issuance or redemption.

RSUs vest on or before December 31st of the third calendar year after the grant date. Hudbay settles RSUs on the vest date with a cash payment based on the closing price of the Company's common shares for the last trading date before the vest date. Except in specified circumstances, RSUs terminate when an employee ceases to be employed by the Group. Valuations of RSUs reflect estimated forfeitures.

Equity-settled transactions with employees relate to stock options and are measured by reference to the fair value at the earlier of the grant date and the date that the employees unconditionally became entitled to the awards. Fair value is determined using a Black-Scholes option pricing model, which relies on estimates of the future risk-free interest rate, future dividend payments, future share price volatility and the expected average life of the options. The Group believes this model adequately captures the substantive features of the option awards and is appropriate to calculate their fair values. The fair value determined at the grant date is recognized over the vesting period in accordance with vesting terms and conditions, with a corresponding increase to other capital reserves. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met.

(r) Earnings per share:

The Company presents basic and diluted earnings (loss) per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares, which consist of stock options granted to employees.

When calculating earnings per share for periods where the Group has a loss, Hudbay's calculation of diluted earnings per share excludes any incremental shares from the assumed conversion of stock options as they would be anti-dilutive.

(s) Leases:

Finance leases, under which substantially all the risks and rewards incidental to ownership of the leased item are transferred to the Group, are capitalized as assets at the inception of the lease at the lower of fair value or the present value of the minimum lease payments. Lease payments are apportioned between finance charges and the reduction of the liability so as to achieve a constant periodic rate of interest on the remaining balance of the liability. Finance charges are reflected in the income statement as finance costs. The Group currently does not have any finance leases.

Under operating lease arrangements, the risks and rewards incidental to ownership are not transferred to the Group. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

(t) Segment reporting:

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses. The Group's CEO regularly reviews the operating results of all operating segments to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. In determining operating segments, the Group considers location and decision-making authorities. Refer to note 30.

4. New standards and interpretations not yet adopted

IFRS 9 *Financial Instruments*

IFRS 9 *Financial Instruments* ("IFRS 9 (2009)") replaces the guidance in IAS 39 *Financial Instruments: Recognition and Measurement,* on the classification and measurement of financial assets. IFRS 9 (2009) retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on an entity's business model and the contractual cash flow of the financial asset. Gains and losses on remeasurement of financial assets measured at fair value will be recognized in profit or loss, except that for an investment in an equity instrument which is not held-for-trading, IFRS 9 (2009) provides, on initial recognition, an irrevocable election to present all fair value changes from the investment in OCI. The election is available on an individual share-by-share basis. Amounts presented in OCI will not be reclassified to profit or loss at a later date. The new standard also requires use of a single impairment method, replacing the multiple impairment methods in IAS 39, and amends some of the requirements of IFRS 7 *Financial Instruments: Disclosures*.

IFRS 9 (2010) added guidance to IFRS 9 (2009) on the classification and measurement of financial liabilities, and this guidance is consistent with the guidance in IAS 39, except for changes related to financial liabilities measured at fair value under the fair value option and derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument.

IFRS 9 (2010) supersedes IFRS 9 (2009) and is effective for annual periods beginning on or after January 1, 2015, with early adoption permitted. For annual periods beginning before January 1, 2015, either IFRS 9 (2009) or IFRS 9 (2010) may be applied.

The Group intends to adopt IFRS 9 (2010) in its financial statements for the annual period beginning on January 1, 2015. The Group has not yet determined the effect of adoption of IFRS 9 (2010) on its consolidated financial statements.

Amendments to IAS 12 *Deferred Tax: Recovery of Underlying Assets*

In December 2010, the IASB published *Deferred Tax: Recovery of Underlying Assets Amendments to IAS 12* . This amendment introduces an exception to the current measurement principles of deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with IAS 40 *Investment Property*. The exception also applies to investment properties acquired in a business combination accounted for in accordance with IFRS 3, *Business Combinations* provided the acquirer subsequently measures these assets applying the fair value model. The effective date for the amendment is for periods beginning on or after January 1, 2012 and is applied retrospectively. Early application is permitted. The Group does not expect the amendment to have a material effect on its consolidated financial statements.

Amendments to IFRS 7 Disclosures — *Transfers of Financial Assets*

In October 2010, the IASB issued *Amendments to IFRS 7 Disclosures - Transfers of Financial Assets,* which require disclosure of information that enables users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities and to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognized financial assets. The effective date for the amendment is for periods beginning on or after January 1, 2012. The Group does not expect the amendment to have a material effect on its consolidated financial statements.

IFRS 10 *Consolidated Financial Statements*

In May 2011, the IASB issued IFRS 10 *Consolidated Financial Statements,* which replaces the guidance in IAS 27 *Consolidated and Separate Financial Statement*s and SIC-12 *Consolidation - Special Purpose Entities.* IAS 27 (2011) Separate Financial Statements, carries forward the existing accounting requirements for separate financial statements. IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are special purpose entities within the scope of SIC-12, stating that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In addition, IFRS 10 carries forward the consolidation procedures substantially unmodified from IAS 27 (2008). IFRS 10 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. If an entity applies this Standard earlier, it also applies IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011) at the same time. The Group does not expect the adoption of IFRS 10 to have a material effect on its consolidated financial statements based on its current facts and circumstances.

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IFRS 11 Joint Arrangements

In May 2011, the IASB issued IFRS 11 *Joint Arrangements*, which replaces the guidance in IAS 31 *Interests in Joint Ventures*. IFRS 11 classifies joint arrangements as either joint operations or joint ventures based on an entity's rights and obligations. A joint operator will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. A joint venturer will recognize an investment and account for that investment using the equity method. Under existing IFRS, entities have the choice to proportionately consolidate or apply the equity method to interests in jointly controlled entities. IFRS 11 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. If an entity applies this Standard earlier, it shall also apply IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011) at the same time. The Group does not expect the adoption of IFRS 11 to have a material effect on its consolidated financial statements based on its current facts and circumstances.

IFRS 12 *Disclosure of Interests in Other Entities*

In May 2011, the IASB issued IFRS 12 *Disclosure of Interests in Other Entities* , which contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e., joint operations or joint ventures), associates and/or unconsolidated structured entities. The required disclosures aim to enable users to evaluate the nature of, and the risks associated with, an entity's interest in other entities, and the effects of those interests on the entity's financial position, financial performance and cash flows. IFRS 12 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Group will provide additional disclosures as required and does not otherwise expect the adoption of IFRS 12 to have a material effect on its consolidated financial statements.

IFRS 13 *Fair Value Measurement*

In May 2011, the IASB published IFRS 13 *Fair Value Measurement*, which replaces the fair value measurement guidance contained in individual IFRS with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., an exit price). The standard establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 is

effective prospectively for annual periods beginning on or after January 1, 2013. The disclosure requirements of IFRS 13 need not be applied in comparative information for periods before initial application. The Group has not yet determined the effect of adoption of IFRS 13 on its consolidated financial statements.

Amendments to IAS 28 *Investments in Associates and Joint Ventures*

In May 2011, the IASB issued Amendments to IAS 28 *Investments in Associates and Joint Ventures*, which carries forward the requirements of IAS 28 (2008), with limited amendments related to associates and joint ventures held for sale, as well as to changes in interests held in associates and joint ventures when an entity retains an interest in the investment. IAS 28 (2011) is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. If an entity applies this Standard earlier, it shall also apply IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011) at the same time. The Group does not expect the amendments to have a material effect on its consolidated financial statements based on the current facts and circumstances.

Amendments to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*

In June 2011, the IASB issued amendments to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income.* The amendments require separate presentation of the items of OCI that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. The standard is effective for annual periods beginning on or after July 1, 2012, with early adoption permitted. The Group has not yet determined the effect of adoption of the amendments on its consolidated financial statements.

IAS 19 *Employee Benefits*

In June 2011, the IASB issued an amended version of IAS 19 *Employee Benefits* to revise certain aspects of the accounting for pension plans and other benefits. The amendments eliminate the corridor method of accounting for defined benefit plans and require immediate recognition of actuarial gains and losses in OCI; eliminate use of an expected rate of return on plan assets and require use of the discount rate to determine the interest on the plan asset component of the net interest cost; and set out additional disclosure requirements. The standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Group has not yet determined the effect of adoption of the amendments on its consolidated financial statements.

IFRIC 20*, Stripping Costs in the Production Phase of a Surface Mine*

In October 2011, the IASB issued IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine,* which provides guidance on the accounting for waste removal costs that are incurred in surface mining activity during the production phase of a mine when two benefits accrue to the entity from the stripping activity: useable ore that can be used to produce inventory and improved access to further quantities of material that will be mined in future periods. IFRIC 20 must be applied starting January 1, 2013 with early adoption permitted. The Group has not yet determined the effect of adoption of IFRIC 20 on its consolidated financial statements.

5. Acquisition of Hudbay Peru

On March 1, 2011, the Group obtained control of Hudbay Peru (formerly Norsemont Mining Inc.), a Canadian mineral exploration and development company focused on its wholly-owned Constancia copper project in southern Peru. Hudbay obtained control of Hudbay Peru by acquiring 90.5% of the share capital and voting interests in the company. As a result, the Group's equity interest in Hudbay Peru increased from 1.2% to 91.7%. On July 5, 2011, Hudbay acquired the remaining common shares and now wholly owns Hudbay Peru. Acquiring control of Hudbay Peru allows the Group an opportunity to develop the Constancia project and significantly increase Hudbay's future copper production.

Since acquisition, Hudbay Peru has contributed a loss of $25,010 to the Group's results. Hudbay Peru does not currently earn revenue as it is in the development stage. If the acquisition had occurred on January 1, 2011, management estimates that consolidated revenue would have been $890,817 and consolidated loss for the year would have been $164,125. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on January 1, 2011.

Consideration transferred

The following summarizes the acquisition date fair value of the major classes of consideration transferred:

Cash consideration	$	118,525
Equity instruments (20,372,986 common shares) (note 20b)		345,119
Total consideration transferred		463,644
Less: cash acquired		(23,670)
Total consideration transferred, net of cash acquired	$	439,974

The fair value of the common shares issued was based on Hudbay's listed share price of $16.94 at the March 1, 2011 acquisition date.

The Group incurred acquisition related costs of $5,778 mainly relating to external legal and advisory fees and due diligence costs. These costs have been included in selling and administrative expenses in the Group's consolidated income statement. In addition, the Group incurred share issue costs of $239 and presented them as a deduction from share capital. For cash flow purposes, the Group paid $94,855 upon acquisition of Hudbay Peru representing $118,525 of cash paid, net of $23,670 cash received.

Identifiable assets acquired and liabilities assumed

The Group has completed the purchase price allocation, resulting in recognized amounts of identifiable assets acquired and liabilities assumed as follows:

		Fair value
Cash and cash equivalents	$	23,670
Short-term investments		20,052
Receivables and prepaid expenses		19,447
Mineral properties		520,768
Other property, plant and equipment		561
Deferred tax assets		750
Trade and other payables		(13,827)
Provisions - decommissioning and restoration liabilities		(978)
Deferred tax liabilities		(129,586)
Total net identifiable assets	$	440,857

Acquired receivables were valued at $19,248. Based on the valuation performed at the acquisition date, management expected all contractual cash flows to be collectible. Receivables related primarily to the timing of receipt of proceeds by Hudbay Peru from exercises of stock options and warrants. Subsequent to the acquisition date, all receivables relating to the exercises of stock options and warrants were collected. Upon finalization of the purchase price allocation, the deferred tax liabilities were adjusted from $128,211 to $129,586. There was also an insignificant adjustment to other property, plant and equipment. These adjustments resulted in a corresponding change to the goodwill balance.

Goodwill

The Group recognized goodwill as a result of the acquisition as follows:

Total consideration transferred	$	463,644
Fair value of previous 1.2% interest in the acquiree (note 11)		6,043
Non-controlling interests of 8.3% measured based on the proportionate share of identifiable net assets		36,591
Less: value of net identifiable asset acquired		(440,857)
Goodwill upon acquisition March 1, 2011		65,421
Effects of movement in exchange rate		2,825
Goodwill balance as at December 31, 2011	$	68,246

The goodwill balance arose from the requirement to record deferred income tax liabilities measured at the tax effect of the difference between the fair values of the assets acquired and liabilities assumed and their tax bases. None of the goodwill recognized is expected to be deductible for income tax purposes.

During the year, the Group assessed its goodwill for impairment and determined that the fair value less cost to sell of the cash-generating unit to which the goodwill relates (Peru) represented a recoverable amount that exceeded the cash-generating units carrying value. Therefore, no goodwill impairment was recognized during the year. The Group noted that the assets and liabilities comprising the cash-generating units did not change significantly since the most recent calculation of recoverable amount which was at March 1, 2011, the date of the acquisition and that such previous calculation resulted in a recoverable amount that exceeded the carrying amount and that there was a remote likelihood that at the reporting date, the recoverable amount would be less than the asset's carrying amount. Hudbay will perform annual goodwill impairment tests as at September 30th every year, or whenever adverse events occur at dates other than the date of the annual assessment.

Acquisition of non-controlling interests

On March 15, 2011, the Group acquired an additional 6.9% interest in Hudbay Peru. The Group transferred consideration of $33,914 to the non-controlling interest holders, consisting of cash of $9,156 and 1,566,945 Hudbay common shares, as shown in the table below. The carrying amount of Hudbay Peru's net assets in the Group's financial statements on the acquisition date was $511,495 and the carrying value of the additional interest acquired was $30,809. The Group recognized the difference of $3,105 between the consideration transferred and the carrying value of the interest acquired in retained earnings.

Subsequent to the acquisition, Hudbay Peru issued additional shares to non-controlling interest holders upon the exercise of warrants. The Group received proceeds of $2,472 and recognized an increase to non-controlling interests of $3,549 and a decrease to retained earnings of $1,077.

On July 5, 2011, the Group acquired the remaining shares in Hudbay Peru pursuant to a compulsory acquisition. The Group transferred consideration of $10,431, consisting of cash of $2,320 and 535,773 Hudbay common shares, as shown in the table below, and recognized a decrease to non-controlling interests of $9,469 and a decrease to retained earnings of $962.

The following summarizes the consideration transferred to acquire non-controlling interests in Hudbay Peru subsequent to acquisition of control:

	Share Consideration			
March 15, 2011 - acquired additional 6.9% interest in Hudbay Peru	1,566,945	$ 24,758	$ 9,156	$ 33,914
July 5, 2011 - acquired remaining shares in Hudbay Peru	535,773	8,111	2,320	10,431
	2,102,718	$ 32,869	$ 11,476	$ 44,345

As at December 31, 2011, the Group's ownership interest in Hudbay Peru was 100%.

The following summarizes the effect of changes in the Group's ownership interest in Hudbay Peru:

Ownership interest before acquisition	$ 6,043
Effect of increase in ownership interest upon acquisition of control on March 1, 2011	463,644
Effect of increase in ownership interest upon acquisition of non-controlling interest, on March 15, 2011	30,809
Effect of decrease from Hudbay Peru shares issued upon exercises of warrants	(1,077)
Effect of increase in ownership interest upon acquisition of remaining common shares on July 5, 2011	9,468
Less: share of comprehensive loss	(3,924)
Ownership interest at December 31, 2011	$ 504,963

6. Discontinued operations

On September 9, 2011, Hudbay sold its interest in the Fenix ferro-nickel project in Guatemala to the Solway Group for consideration of US$140 million in cash at closing and will receive an additional $30 million upon the satisfaction of certain conditions during the course of Solway's development of the project. The Group has presented the results of the Fenix project as discontinued operations for current and comparative periods. For the year ended December 31, 2011, the loss from discontinued operations included an impairment loss of $212,739 recognized during the three months ended June 30, 2011 to reduce the carrying value of the Fenix nickel project in Guatemala to an estimate of the fair value less costs to sell. The loss from discontinued operations also includes additional losses on disposal of $2,061 and losses of $20,416 transferred from the foreign currency translation reserve to the income statement upon disposal of the Fenix project.

The following summarizes results from discontinued operations:

	Year ended December 31	
	2011	2010
Expenses	**$ (3,500)**	$ (19,233)

Tax (loss) benefit	**(68)**	(165)
	(3,568)	(19,398)
Loss on remeasurement to fair value less costs to sell:		
- Impairment loss	**(212,739)**	—
- Additional loss on disposal	**(2,061)**	—
Foreign exchange losses transferred from the foreign currency reserve (note 23)	**(20,416)**	—
	(235,216)	—
Loss from discontinued operations	**$ (238,784)**	$ (19,398)

7. Revenue and expenses

(a) Revenue:

The Group's revenue by significant product types:

	Year ended December 31	
	2011	**2010**
Copper	**$ 480,978**	$ 380,847
Zinc	**170,091**	180,490
Gold	**149,321**	103,631
Silver	**26,349**	20,807
Zinc oxide	**75,698**	99,441
Other	**23,788**	8,711
	926,225	793,927
Less: treatment and refining charges	**(35,408)**	(12,895)
	$ 890,817	$ 781,032

During the year ended December 31, 2011, copper, gold and silver revenues were from the sale of metal contained in concentrates or anodes after deducting applicable treatment and refining costs. During 2010, copper revenues also included sales of copper cathode.

A portion of the Group's revenue from sales of zinc is hedged and designated as cash flow hedges. For the year ended December 31, 2011, revenues from zinc sales include gains of $992 (2010 - $3,267) from the hedging reserve (notes 23 and 26b).

(b) Depreciation and amortization

Depreciation of property, plant and equipment and amortization of intangible assets - computer software are reflected in the income statement as follows:

	Year ended December 31	
	2011	**2010**
Total depreciation and amortization presented in:		
Cost of sales	**$ 103,915**	$ 116,488
Selling and administrative expenses	**686**	252
	$ 104,601	$ 116,740

(c) Share-based payment and expense

	Equity-settled Stock Options	Cash-settled		Total share-based payment expense
		RSUs	**DSUs**	
Year ended December 31, 2011				
Share-based payment expense presented in:				
Cost of sales	$ 38	$ 463	$ —	$ 501
Selling and administrative	1,927	1,344	(753)	2,518
Other operating expenses	—	6	—	6
Exploration and evaluation	—	12	—	12
	$ 1,965	$ 1,825	$ (753)	$ 3,037
Year ended December 31, 2010				
Share-based payment expense presented in:				
Cost of sales	$ 191	$ 576	$ —	$ 767

Selling and administrative expenses	2,190	960	2,175	5,325
Other operating expenses	7	10	—	17
Exploration and evaluation	13	9	—	22
	$ 2,401	$ 1,555	$ 2,175	$ 6,131

(d) Employee benefits expense

	Year ended December 31	
	2011	**2010**
Current employee benefits	**123,185**	118,012
Profit-sharing plan expense	**21,785**	19,117
Share-based payments		
Equity settled stock options	**2,033**	2,633
Cash-settled deferred share units	**(134)**	2,293
Cash-settled restricted share units	**2,307**	2,241
Post-employment benefits		
Defined benefit plans	**9,008**	8,599
Defined contribution plans	**775**	558
Other post-retirement employee benefits	**10,795**	8,648
Termination benefits	**2,071**	233
	171,825	162,334

This table presents employee benefit expense recognized in our income statement, including amounts transferred from inventory upon sale of goods.

Manitoba has a profit sharing plan whereby 10% of Manitoba's after tax profit (excluding provisions or recoveries for deferred income tax and deferred mining tax) for any given fiscal year will be distributed to all eligible employees in the Flin Flon/Snow Lake operations, with the exception of executive officers and key management personnel.

(e) Other operating income and expenses:

	Year ended December 31	
	2011	**2010**
Other operating income		
Gain on sale of property, plant and equipment	**$ 2,453**	$ 11
Other	**921**	801
	3,374	812
Other operating expenses		
Cost of non-producing properties	**9,275**	13,768
Other	**30**	21
	$ 9,305	$ 13,789

In June 2011, the Group disposed of its shares in the White Pine Copper Refinery for proceeds of $2,906 and recognized a gain on sale of $1,999.

(f) Finance income and expenses:

	Year ended December 31	
	2011	**2010**
Finance income		
Interest income on cash and cash equivalents	**$ (8,742)**	$ (6,110)
Other finance income	**(28)**	(241)
	(8,770)	(6,351)

Finance expense		
Other finance expense	**3,283**	1,612
Unwinding of discounts on provisions	**3,322**	2,766
	6,605	4,378
Other finance gains/losses		
Net foreign exchange (gains) losses	**$ (832)**	$ 8,325
Ineffective gains on cash flow hedges	**(884)**	(327)
Change in fair value of financial assets and liabilities at FVTPL:		
Classified as held-for-trading	**2,221**	(2,398)
Remeasurement to fair value of existing interest in Hudbay Peru (note 5):		
Recognized in the income statement	**(881)**	—
Reclassified from equity (note 23)	**(1,220)**	—
Net gain reclassified from equity on disposal of available-for-sale investments	**—**	(2,163)
Net loss reclassified from equity on impairment of available-for-sale investments (notes 11 and 23)	**6,587**	—
	4,991	3,437
Net finance expense	**$ 2,826**	$ 1,464

(g) Impairment losses

On November 1, 2011, Hudbay sold Zochem Inc., its zinc oxide production facility in Ontario for proceeds of US$15,078. The Group recognized a total impairment loss of $6,839 related to Zochem, consisting of a loss of $5,878 recognized upon classification as held for sale based on the excess of carrying value over fair value less costs to sell and an additional loss of $961 recognized on disposal. On the income statement, the impairment loss is presented within cost of sales. Zochem was included within the Manitoba operating segment.

8. Cash and cash equivalents

	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Cash on hand and demand deposits	**$ 899,077**	$ 149,543	$ 76,297
Short-term money market instruments with maturities of three months or less at acquisition date	**—**	752,150	810,517
	$ 899,077	$ 901,693	$ 886,814

9. Trade and other receivables

	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Current			
Trade receivables	**$ 27,405**	$ 67,472	$ 33,819
Embedded derivatives - provisional pricing (note 26c)	**(1,407)**	5,841	—
Statutory receivables	**8,325**	3,550	3,221
Other receivables	**6,063**	1,305	3,180
	40,386	78,168	40,220
Less: allowance for bad debts	**(77)**	—	(35)
	40,309	78,168	40,185
Non-current			
Statutory receivables - Peruvian sales tax	**5,212**	—	—
Total	**$ 45,521**	$ 78,168	$ 40,185

10. Inventories

	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Current			
Work in progress	**$ 4,362**	$ 18,775	$ 51,250
Finished goods	**58,730**	81,277	59,595
Materials and supplies	**14,058**	15,590	15,095
	77,150	115,642	125,940
Non-current			
Materials and supplies	**5,721**	6,052	5,188

Total	**$ 82,871**	$ 121,694	$ 131,128

During the year ended December 31, 2011, the Group recognized an expense of $5,420 (2010 - nil) in cost of sales related to a write-down of zinc inventories to net realizable value.

The cost of inventories recognized as an expense and included in cost of sales amounted to $385,940 (2010 - $381,061).

11. Other financial assets

	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Current			
Derivative assets	**$ 3,112**	$ 3,795	$ 955
Non-current			
Available-for-sale investments	**98,279**	104,990	27,249
Investments at fair value through profit or loss	**2,090**	7,688	138
Derivative assets	**132**	603	258
Restricted cash	**1,692**	4,405	59,031
	102,193	117,686	86,676
	$ 105,305	$ 121,481	$ 87,631

Derivative assets

Derivative assets costs of cash flow hedges and non-hedge derivatives. See note 26b for more descriptions of the Group's non-hedge derivative and cash flow hedges.

Available-for-sale investments

Available for sale investments consist of investments in Canadian metals and mining companies, most of which are publicly traded. The following table summarizes the change in available-for-sale investments during the years ended December 31, 2011 and December 31, 2010:

	Dec. 31, 2011	Dec. 31, 2010
Balance, beginning of year	**$ 104,990**	$ 27,249
Additions	**47,570**	47,366
Increase (decrease) from remeasurement to fair value (note 23)	**(49,117)**	38,465
Reclassification upon acquisition of control of Hudbay Peru	**(5,164)**	**—**
Disposals	**—**	(8,090)
Balance, end of year	**98,279**	104,990

Refer to note 3n(i) for a description of the Group's accounting policy for available-for-sale investments.

Prior to acquiring control of Hudbay Peru on March 1, 2011 (note 5), the Group held an available-for-sale investment in Hudbay Peru, consisting of 1.2% of Hudbay Peru's issued and outstanding common shares. The Group's historical cost for the available-for-sale investment was $3,942. At December 31, 2010, the Group had recognized mark-to-market gains on this investment of $1,220 within OCI to reflect its fair value of $5,164. Upon acquiring control of Hudbay Peru on March 1, 2011, the Group began accounting for Hudbay Peru as a subsidiary and reclassified this amount out of available-for-sale investments. At the same time, the Group transferred the previously recognized mark-to-market gains of $1,220 out of OCI (note 23) and into other financial gains and losses (note 7f) and also recognized a gain of $881 (note 7f)to reflect remeasurement of the investment to its fair value of $6,043 (note 5) on the acquisition date.

During the year ended December 31, 2011, the Group recognized impairment losses on investments in listed shares and transferred pre-tax losses of $6,587 from the available-for-sale reserve within equity to the income statement.

Credit facility, letters of credit and restricted cash

On November 3, 2010, Hudbay arranged a new US$300 million revolving credit facility with a syndicate of lenders. The facility has an initial

term of four years, is secured by a pledge of assets of the Company, and is unconditionally guaranteed by Hudbay's material subsidiaries. Upon closing, restricted cash on deposit to support letters of credit was reclassified to cash and cash equivalents. As at December 31, 2011, the Group had outstanding letters of credit in the amount of $61,954 (2010 - $57,051).

12. Intangible assets - computer software

	Dec. 31, 2011	Dec. 31, 2010
Cost		
Balance, beginning of year	**$ 7,095**	$ 1,967
Additions	**5,584**	5,128
Balance, end of year	**12,679**	7,095
Accumulated amortization		
Balance, beginning of year	**12**	**—**
Amortization for the year	**795**	12
Balance, end of year	**807**	12
Net book value	**$ 11,872**	$ 7,083

13. Property, plant and equipment

Dec. 31, 2011

	Exploration and evaluation	Capital works in	Mining properties	Plant and equipment	Total
Cost					
Cost, beginning of year	$ 33,041	$ 366,931	$ 358,202	$ 589,336	$ 1,347,510
Additions	3,487	236,210	19,713	4,980	264,390
Acquisition of subsidiary	—	526,015	—	—	526,015
Decommissioning and restoration	—	1,279	—	29,329	30,608
Depreciation capitalized	—	109	420	—	529
Transfers and other movements	—	(30,524)	—	30,524	—
Disposals	—	(333,160)	—	(77,271)	(410,431)
Effects of movement in exchange rates	466	19,984	—	—	20,450
Balance, end of year	36,994	786,844	378,335	576,898	1,779,071
Accumulated depreciation					
Balance, beginning of year	—	—	263,809	266,143	529,952
Depreciation for the year	—	109	44,426	45,031	89,566
Disposals	—	—	—	(43,695)	(43,695)
Other	—	203	—	—	203
Balance, end of year	—	312	308,235	267,479	576,026
Net book value	$ 36,994	$ 786,532	$ 70,100	$ 309,419	$ 1,203,045

Dec. 31, 2010

	Exploration and evaluation	Capital works in	Mining properties	Plant and equipment	Total
Cost					
Cost, beginning of year	$ 17,703	$ 365,603	$ 317,178	$ 509,326	$ 1,209,810
Additions	15,829	72,414	40,605	2,719	131,567
Decommissioning and restoration	—	7,247	—	24,537	31,784
Depreciation capitalized	—	—	419	—	419
Transfers and other movements	—	(54,593)	—	54,593	—

Disposals	—	—	—	(532)	(532)
Effects of movement in exchange rates	(491)	(23,740)	—	(1,307)	(25,538)
Balance, end of year	33,041	366,931	358,202	589,336	1,347,510
Accumulated depreciation					
Balance, beginning of year	—	—	212,852	200,383	413,235
Depreciation for the year	—	—	50,957	66,310	117,267
Disposals	—	—	—	(532)	(532)
Effects of movement in exchange rates	—	—	—	(18)	(18)
Balance, end of year	—	—	263,809	266,143	529,952
Net book value	$ 33,041	$ 366,931	$ 94,393	$ 323,193	$ 817,558

In the course of preparing these consolidated financial statements, The Group identified a misclassification in the beginning of the year amounts for 2010 in plant and equipment cost and the related accumulated amortization, reflected in Note 19a (the "Note") included in Hudbay's Q1, 2011 interim consolidated financial statements. In the Note, the Group had previously disclosed a beginning of the year plant and equipment balance for 2010 of $1,192,433 and the related accumulated amortization balance of $883,490. The net book value of the Plant and equipment as reflected in the Note was correct as presented.

Refer to note 3i for a description of depreciation methods used by the Group, as well as depreciation rates of major classes of assets; note 5 for the acquisition of Hudbay Peru; and note 6 for the disposition of Fenix. Depreciation of property, plant and equipment and intangible assets related to producing properties is initially recognized in inventory and is then transferred to the cost of sales in the income statements as sales occur. Refer to note 7b for amounts recognized in the income statement.

As described in note 3j, at the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment, exploration and evaluation assets and computer software to determine whether there is any indication of impairment. One of the factors management considers in making this assessment is whether the carrying amounts of the Group's net assets exceeds its market capitalization, in which case management applies judgment to determine the reason for the difference. Based on Hudbay's listed share price of $10.14 at December 31, 2011, the carrying amount of the Group's net assets exceeded its market capitalization by approximately $70,000. Management determined that this decline reflected a temporary correction in the market and was not a reflection of issues in any one of the Group's cash-generating units. Management concluded this decline was not an indicator of impairment as at December 31, 2011.

Subsequent to December 31, 2011, Hudbay's share price increased such that its market capitalization exceeded the carrying value of its assets.

14. Trade and other payables

	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Trade payables	**$ 94,557**	$ 60,731	$ 60,871
Accruals and payables	**62,893**	59,781	46,918
Exploration and evaluation payables	**1,258**	3,938	912
Embedded derivatives - provisional pricing (note 26c)	**35**	941	—
Statutory payables	**4,444**	8,206	3,101
	$ 163,187	$ 133,597	$ 111,802

15. Other liabilities

	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Current portion of			
Provisions (note 16)	**$ 4,434**	$ 11,771	$ 10,686
Pension obligations (note 17)	**6,553**	16,283	28,447
Other employee benefits (note 18)	**3,513**	3,994	3,527
Deferred revenue	**—**	24,405	—
	$ 14,500	$ 56,453	$ 42,660

Deferred revenue recognized as at December 31, 2010 related to the receipt of payment on the sale of copper concentrate, the terms of which did not meet the Group's criteria for revenue recognition.

16. Provisions

Dec. 31, 2011	Decommissioning, restoration and similar liabilities	Deferred share units (Note 21)	Restricted share units (Note 21)	Other	Total
Balance, beginning of year	$ 117,003	$ 3,166	$ 1,641	$ 2,475	$ 124,285
Additional provisions made	1,971	874	3,984	—	6,829
Acquisitions (note 5)	978	—	—	—	978
Amounts used	(1,524)	—	(905)	(1,980)	(4,409)
Unused amounts reversed	(277)	—	—	—	(277)
Disposal of subsidiary (note 6)	(8,242)	—	—	—	(8,242)
Unwinding of discount	3,438	—	—	—	3,438
Effect of change in discount rate	32,806	—	—	—	32,806
Effect of foreign exchange	(71)	—	—	—	(71)
Effect of change in share price	—	(1,625)	(1,974)	—	(3,599)
Balance, end of year	$ 146,082	$ 2,415	$ 2,746	$ 495	$ 151,738
Reflected in the balance sheet as follows:					
Current (note 15)	$ 1,524	$ 2,415	$ —	$ 495	$ 4,434
Non-current	144,558	—	2,746	—	147,304
	$ 146,082	$ 2,415	$ 2,746	$ 495	$ 151,738

Dec. 31, 2010	Decommissioning, restoration and similar liabilities	Deferred share units (Note 21)	Restricted share units (Note 21)	Other	Total
Balance, beginning of year	$ 85,535	$ 1,190	$ —	$ 4,982	$ 91,707
Additional provisions made	23,440	2,175	1,641	—	27,256
Amounts used	(2,761)	(199)	—	(2,507)	(5,467)
Unused amounts reversed	(797)	—	—	—	(797)
Unwinding of discount	2,967	—	—	—	2,967
Effect of change in discount rate	9,079	—	—	—	9,079
Effect of foreign exchange	(460)	—	—	—	(460)
Balance, end of year	$ 117,003	$ 3,166	$ 1,641	$ 2,475	$ 124,285
Reflected in the balance sheet as follows					
Current (note 15)	$ 6,480	$ 3,166	$ —	$ 2,125	$ 11,771
Non-current	110,523	—	1,641	350	112,514
	$ 117,003	$ 3,166	$ 1,641	$ 2,475	$ 124,285

Decommissioning, restoration and similar liabilities

The Group's decommissioning, restoration and similar liabilities relate to the rehabilitation and closure of currently operating mines and metallurgical plants, and closed properties. The amount of the provision has been recorded based on estimates and assumptions that management believes are reasonable; however, actual decommissioning and restoration costs may differ from expectations.

During the year ended December 31, 2011, the Group recognized a provision of $978 upon acquisition of Hudbay Peru and de-recognized provisions of $6,606 upon disposition of the Fenix project and $1,636 upon disposition of the White Pine Copper Refinery. Additional provisions made during the year related mainly to the Lalor project, which is in the development stage. During the year ended December 31, 2010, additional provisions resulted mainly from additional estimates for the Manitoba operations' Flin Flon complex, as well as additional amounts recognized upon settlement of the satisfaction of certain terms from the Group's 2003 purchase agreement for Balmat.

The Group's decommissioning and restoration liabilities relate mainly to its Manitoba operations. Management anticipates that these liabilities will substantially be settled at or near the closure of the mining and processing facilities, anticipated to occur from 2012 to 2021 for Flin Flon operations and up to 2031 for Snow Lake operations (including the Lalor project). However, these provisions also reflect estimated post-closure cash flows that extend to 2100 for ongoing monitoring and water treatment requirements. The Balmat site is currently closed; management anticipates that future cash flows related to its decommissioning and restorations liabilities will extend to 2042.

These estimates have been discounted to their present value at rates ranging from 0.9% to 2.9% per annum, using pre-tax risk-free interest

rates that reflect the estimated maturity of each specific liability.

17. Pension obligations

The Group maintains non-contributory and contributory defined benefit pension plans for certain of its employees.

The Group uses a December 31 measurement date for all of its plans. For the Group's significant plans, the most recent actuarial valuations filed for funding purposes were performed during 2011 using data as at December 31, 2010. For these plans, the next actuarial valuation required for funding purposes will be performed during 2012 as at December 31, 2011.

The average remaining service period of the active employees covered by the pension plans was 9.53 years as at December 31, 2011.

	2011	2010
Obligations and funded status:		
Changes in pension obligation:		
Obligation, beginning of year	**$ 299,920**	$ 264,350
Current service cost	**8,243**	6,603
Interest cost	**16,471**	17,075
Employee contributions	**153**	157
Actuarial loss	**9,072**	35,570
Special termination benefits	**—**	510
Benefits paid (funded plans)	**(18,893)**	(23,960)
Benefits paid (unfunded plans)	**(371)**	(385)
Plan settlements - disposal of subsidiary	**(3,668)**	**—**
Obligation, end of year	**$ 310,927**	$ 299,920
Change in pension plan assets:		
Fair value of plan assets, beginning of year	**$ 259,743**	$ 234,527
Expected return on plan assets	**16,284**	15,413
Actuarial (losses) gains	**(8,540)**	12,507
Employer contributions	**19,570**	21,099
Employee contributions	**153**	157
Benefits paid (funded plans)	**(18,893)**	(23,960)
Plan settlements - disposal of subsidiary	**(4,076)**	**—**
Fair value of plan assets, end of year	**$ 264,241**	$ 259,743

The actual return on plan assets during 2011 was $7,744 (2010 - $27,920).

	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Reconciliation of assets and liabilities recognized in the balance sheet:			
Funded pension obligations	**$ (297,565)**	$ (287,800)	$ (253,532)
Fair value of plan assets	**264,241**	259,743	234,527
Unfunded pension obligations	**(13,362)**	(12,120)	(10,818)
Unrecognized past service cost of non-vested benefits	**—**	—	1,313
Unrecognized net actuarial gain	**40,133**	23,102	—
Unrecognized amounts resulting from balance sheet asset limitation	**—**	(30)	—
Net (liabilities) assets	**(6,553)**	(17,105)	(28,510)
Net (liabilities) assets:			
Pension obligations - current	**(6,553)**	(16,283)	(28,447)
Pension obligations - non-current	**—**	(822)	(63)
Total pension obligation	**$ (6,553)**	$ (17,105)	$ (28,510)

	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
History of experience gains and losses:			
Difference between expected and actual return on assets	**3.0%**	5.3%	5.8%
Experience loss on plan liabilities	**(3.0)%**	(13.5)%	(15.7)%

	Year ended December 31	
	2011	2010
Pension expense recognized:		
Current service cost	**$ 8,243**	$ 6,603
Interest cost	**16,471**	17,075
Expected return on plan assets	**(16,284)**	(15,413)
Amortization of actuarial loss	**2**	**—**
Early retirements, curtailments and settlements	**948**	510
Past service cost of benefits	**—**	1,313
Effect of asset limitation and minimum funding requirement	**(30)**	**—**
Defined benefit pension expense	**$ 9,350**	$ 10,088
Defined contribution pension expense	**$ 662**	$ 637

Pension amounts recognized include those directly related to production of inventory; such amounts are recognized initially as costs of inventory and are expensed in the income statement within cost of sales upon sale of the inventory. Refer to note 7d for a summary of pension expense recognized in the income statement.

Expected employer contributions to the pension plans for the fiscal year ending December 31, 2012 is $17,665.

	2011	2010
To determine the net benefit expense for the year:		
Discount rate - defined benefit	**5.50%**	6.50%
Expected return on plan assets	**6.25%**	6.50%
Rate of compensation increase(1)	**2.50%**	2.25%
To determine the accrued benefit obligations at the end of the year		
Discount rate - defined benefit	**5.25%**	5.50%
Rate of compensation increase(1)	**2.00%**	2.50%

(1)plus merit and promotional scale based on member's age

The Group's pension cost is significantly affected by the discount rate used to measure obligations, the level of plan assets available to fund those obligations and the expected long term rate of return on plan assets.

The Group reviews the assumptions used to measure pension costs (including the discount rate) on an annual basis. Economic and market conditions at the measurement date affect these assumptions from year to year.

In determining the discount rate, the Group considers the duration of the pension plan liabilities.

In determining the expected future rate of return on pension assets, the Group considers the types of investment classes in which the plan assets are invested and the expected compound returns on those investment classes.

Plan assets

The pension plan asset allocations, by asset category, are as follows:

	2012		2011	
	Weighted average	Target	Weighted average	Target
Equity securities	**46.9%**	**50.0%**	49.8%	50.0%
Debt securities	**53.1%**	**50.0%**	50.2%	50.0%
	100.0%	**100.0%**	100.0%	100.0%

The pension plans do not invest directly in either securities or property/real estate of the Group.

The Group's primary quantitative investment objectives are maximization of the long-term real rate of return, subject to an acceptable degree

of investment risk, and preservation of principal. Risk tolerance is established through consideration of several factors, including past performance, current market conditions and the funded status of the plan.

With the exception of fixed income investments, the plan assets are actively managed by investment managers, with the goal of attaining returns that potentially outperform passively managed investments. Within appropriate limits, the actual composition of the invested funds may vary from the prescribed investment mix.

Mortality tables and life expectancies

The mortality assumptions reflect best practice and have been chosen with regard to the latest available published tables.

	Life expectancy at age 65 for a male member currently aged 65 (in years)		Life expectancy at age 65 for a female member currently aged 65 (in years)	
	2011	2010	2011	2010
UP94 with generational improvements	**19.7**	**19.6**	22.1	22.0

18. Other employee benefits

The Group sponsors both other long-term employee benefit plans and non-pension post-employment benefits plans and uses a December 31 measurement date. The obligations for these benefits consist mainly of end of service indemnities, which do not have the character of pensions. Information about the Group's post-employment and other long-term employee benefits is as follows:

	2011	2010
Obligations and funded status:		
Change in other employee benefits obligation:		
Obligation, beginning of year	**$ 108,045**	$ 86,961
Current service cost	**3,726**	2,610
Interest cost	**6,138**	5,753
Actuarial loss	**5,977**	15,269
Benefits paid	**(2,461)**	(2,548)
Obligation, end of year	**$ 121,425**	$ 108,045
Change in pension plan assets:		
Fair value of plan assets, beginning of year	**$ —**	$ —
Employer contributions	**2,461**	2,548
Benefits paid	**(2,461)**	(2,548)
Fair value of plan assets, end of year	**$ —**	$ —

	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Reconciliation of assets and liabilities recognized in the balance sheet:			
Unfunded benefit obligation	**$ (121,425)**	$ (108,045)	$ (86,961)
Unrecognized net actuarial loss	**20,870**	15,269	—
	(100,555)	(92,776)	(86,961)
Vacation accrual and other - non-current	**(3,194)**	(4,284)	(4,310)
Net liability	**$ (103,749)**	$ (97,060)	$ (91,271)
Reflected in the balance sheet as follows:			
Other employee benefits liability - current	**(3,513)**	(3,994)	(3,527)
Other employee benefits liability - non-current	**(100,236)**	(93,066)	(87,744)
	$ (103,749)	$ (97,060)	$ (91,271)

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	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
History of experience gains and losses:			
Experience adjustment on plan liabilities	**$ (669)**	$ (330)	$ —
Change of assumptions on plan liabilities	**6,646**	15,999	—

	Year ended December 31	
	2011	2010
Benefit expense recognized in the income statement:		
Current service cost	**$ 3,726**	$ 2,610
Interest cost	**6,138**	5,753
Actuarial loss recognized in year	**376**	—
Other employee benefits expense	**$ 10,240**	$ 8,363

Other employee benefit amounts recognized include those directly related to production of inventory; such amounts are recognized initially as costs of inventory and are expensed in the income statement within cost of sales upon sale of the inventory. Refer to note 7d for a summary of other post-retirement employee benefit expense recognized in the income statement.

Additional information:

The weighted average assumptions used in the determination of other employee benefits expense and obligations were as follows:

	2011	2010
To determine the net benefit expense for the year:		
Discount rate	**5.75%**	6.75%
Initial weighted average health care trend rate	**8.01%**	8.16%
Ultimate weighted average health care trend rate	**4.50%**	4.50%
To determine the benefit obligations at the end of the year:		
Discount rate	**5.40%**	5.75%
Weighted average health care trend rate	**7.85%**	8.01%
Ultimate weighted average health care trend rate	**4.50%**	4.50%

If the health care cost trend rate was increased or decreased by one percentage point, the accumulated post-employment benefit obligation and the aggregate service and interest cost would have increased (decreased) as follows:

	2011	2010
Effect of health care cost trend rate increase by one percentage point:		
Accumulated post-employment benefit obligation	**$ 25,260**	$ 21,028
Aggregate of service and interest cost	**2,082**	1,627
Effect of health care cost trend decrease by one percentage point:		
Accumulated post-employment benefit obligation	**$ (19,842)**	$ (16,767)
Aggregate of service and interest cost	**(1,606)**	(1,277)

The Group's post-employment and other long-term employee benefit cost is materially affected by the discount rate and health care cost trend rates used to measure obligations.

The Group reviews the assumptions used to measure post-employment and other long-term employee benefit costs (including the discount rate) on an annual basis.

In determining the discount rate, the Group considers the duration of the other retirement benefit plan liabilities.

19. Income and mining taxes

(a) Tax expense:

	Year ended December 31	
	2011	2010
Tax expense applicable to:		
Current:		
Taxable income	**$ 47,688**	$ 45,261
Taxable mining profits	**29,977**	26,427

Benefits related to tax settlement and tax return amendments	—	(5,502)
	77,665	66,186
Deferred:		
Income taxes - origination and reversal of temporary difference	**22,840**	879
Canadian mining taxes - origination and reversal of temporary difference	**15,994**	1,189
Benefit arising from previously unrecognized tax loss, or temporary difference	**(1,679)**	—
Peruvian mining tax - origination and reversal of temporary difference	**19,009**	—
	56,164	2,068
Tax expense	**$ 133,829**	$ 68,254

(b) Deferred tax assets and liabilities as represented on the balance sheet:

	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Deferred income tax asset	**$ 12,277**	$ 6,833	$ 13,088
Deferred mining tax asset - Canada	**1,063**	17,057	18,246
	13,340	23,890	31,334
Deferred income tax liability	**(170,381)**	(15,786)	(16,182)
Deferred mining tax liability - Peru	**(19,282)**	—	—
	(189,663)	(15,786)	(16,182)
Net deferred tax (liability) asset balance, end of year	**$ (176,323)**	$ 8,104	$ 15,152

(c) Changes in deferred tax assets and liabilities:

	Year ended December 31	
	2011	2010
Deferred tax asset balance, beginning of year	**$ 8,104**	$ 15,152
Deferred tax expense	**(56,164)**	(2,068)
OCI transactions (note 23)	**6,346**	(4,455)
Acquisition of Hudbay Peru (note 5)	**(128,836)**	—
Foreign currency translation on Hudbay Peru deferred tax liability	**(5,773)**	—
Other	**—**	(525)
Net deferred tax (liability) asset balance, end of year	**$ (176,323)**	$ 8,104

(d) Reconciliation to statutory tax rate:

As a result of its mining operations, the Group is subject to both income and mining taxes. Generally, most expenditures incurred are deductible in computing income tax, whereas mining tax legislation, although based on a measure of profitability from carrying on mining operations, is more restrictive in respect of the deductions permitted in computing income subject to mining tax. These restrictions include costs unrelated to mining operations as well as deductions for financing expenses, such as interest and royalties. In addition, income unrelated to carrying on mining operations is not subject to mining tax.

A reconciliation between tax expense and the product of accounting profit multiplied by the Group's statutory income tax rate for the years ended December 31, 2011 and 2010 is as follows:

	Year ended December 31	
	2011	2010
Statutory tax rate	**28.49%**	30.11%
Tax expense from continuing operations at statutory rate	**$ 59,551**	$ 32,720

Effect of:		
Non controlling interest	**2,762**	888
Resource allowance and deductions related to resource taxes	**(14,213)**	(8,323)
Adjusted income taxes	**48,100**	25,285
Mining taxes	**64,981**	27,616
	113,081	52,901
Temporary income tax differences not recognized	**14,651**	18,529
Permanent differences related to:		
- capital items	**1,360**	(436)
- share-based payment expense	**554**	773
Other income tax permanent differences	**3,091**	1,532
Impact related to tax rates	**1,092**	457
Benefit related to tax settlement and tax return amendment	**—**	(5,502)
Tax expense	**$ 133,829**	$ 68,254

The average statutory income tax rate is the average of the standard income tax rates applicable in the jurisdictions in which the Group operates, weighted by the profit (loss) before tax of the subsidiaries included in the consolidated accounts.

The change in the average statutory income tax rate is primarily due to a decline in the Canadian federal income tax rate in 2011.

(e) Income tax effect of temporary differences - recognized:

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets or deferred tax liabilities at December 31, 2011 and 2010 are as follows:

	Balance sheet			Income Statement	
	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010	2011	2010
Deferred income tax asset (liability) / expense (recovery)					
Property, plant and equipment	**$ 2,033**	$ 2,633	$ 797	**$ 600**	$ (1,836)
Pension obligation	**91**	25	(5)	**(66)**	(30)
Other employee benefits	**1,020**	1,184	350	**164**	(834)
Non-capital losses	**7,112**	7,218	8,034	**106**	816
Share issue and debt costs	**261**	1,234	2,138	**973**	904
Capital losses	**—**	—	16	**—**	16
Other	**1,760**	(5,461)	1,758	**4,116**	2,239
Deferred income tax asset	**12,277**	6,833	13,088	**5,893**	1,275
Deferred income tax liability (asset) / expense (recovery)					
Property, plant and equipment	**182,578**	22,821	37,868	**22,109**	(15,047)
Pension obligation	**(1,604)**	(4,805)	(8,550)	**3,201**	3,745
Other employee benefits	**(10,175)**	(1,141)	(9,969)	**(9,034)**	8,828
Share issue and debt costs	**38**	(1,252)	(2,580)	**1,290**	1,328
Other	**(456)**	163	(587)	**(619)**	750
Deferred income tax liability	**170,381**	15,786	16,182	**16,947**	(396)
Deferred income tax asset (liability) / expense (recovery)	**$ (158,104)**	$ (8,953)	$ (3,094)	**$ 22,840**	$ 879

The above reconciling items are disclosed at the tax rates that apply in the jurisdiction where they have arisen.

(f) Income tax temporary differences - not recognized:

The Group has not recognized a deferred tax asset in respect of the following deductible income tax temporary differences:

Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010

Property, plant and equipment	**$ 50,600**	$ 52,130	$ 50,194
Capital losses	**46,742**	597	597
Other employee benefits	**63,234**	62,889	53,168
Asset retirement obligations	**143,731**	103,260	76,491
Non-capital losses	**68,389**	60,889	44,487
Other	**11,079**	10,632	10,469
Deferred tax assets not recognized	**$ 383,775**	$ 290,397	$ 235,406

The deductible temporary differences excluding non-capital losses do not expire under current tax legislation.

The Canadian non capital losses were incurred between 2004 and 2011 and expire between 2012 and 2031. The Group incurred United States net operating losses between 2004 and 2011 which have a 20 year carry forward period. Peruvian net operating losses were incurred from 2008 to 2011 and expire between 2012 and 2015.

(g) Mining tax effect of temporary differences:

The tax effects of temporary differences that give rise to significant portions of the deferred mining tax assets and liabilities at December 31, 2011, December 31, 2010 and January 1, 2010 are as follows:

Canada	**Dec. 31, 2011**	**Dec. 31, 2010**	**Jan. 1, 2010**
Deferred mining tax assets:			
Property, plant and equipment	**$ 1,063**	$ 17,057	$ 18,246

Peru	**Dec. 31, 2011**	**Dec. 31, 2010**	**Jan. 1, 2010**
Deferred mining tax liabilities:			
Property, plant and equipment	**$ (19,282)**	$ —	$ —

The Group did not have any unrecognized deferred tax assets at January 1, 2010, December 31, 2010 and December 31, 2011.

(h) Unrecognized taxable temporary differences associated with investments:

The temporary differences associated with investments in subsidiaries, associates and joint ventures, for which a deferred tax liability has not been recognized, aggregate to $166.6 million (2010 - $181.6 million).

The Group has not recognized a deferred tax liability at December 31, 2011 or December 31, 2010 for taxes that would be payable. The Company is able to control the timing of reversal of the temporary difference and it is probable that the temporary difference will not reverse in the forseeable future.

(i) Other disclosure:

The tax rules and regulations applicable to mining companies are highly complex and subject to interpretation. The Group may be subject in the future to a review of its historic income and other tax filings, and in connection with such reviews, disputes can arise with the taxing authorities over the interpretation or application of certain tax rules and regulations to the Group's business. These audits may alter the timing or amount of taxable income or deductions. The amount ultimately reassessed upon resolution of issues raised may differ from the amount accrued.

20. Share capital

(a) Preference shares:

Authorized: Unlimited preference shares without par value

(b) Common shares:

Authorized: Unlimited common shares without par value

Issued and fully paid:

	Year ended Dec. 31, 2011		**Year ended Dec. 31, 2010**	
	Common shares	**Amount**	**Common shares**	**Amount**
Balance, beginning of year	**149,431,339**	**$ 642,161**	153,854,655	$ 656,427
Exercise of options	**30,622**	**216**	623,784	6,881

Shares repurchased	—	—	(5,047,100)	(21,147)
Share issue costs, net of tax	—	(239)	—	—
Issued - acquisition of Hudbay Peru (note 5)	20,372,986	345,119	—	—
Issued - acquisition of non-controlling interest (note 5)	2,102,718	32,869	—	—
Balance, end of year	171,937,665	$ 1,020,126	149,431,339	$ 642,161

In the reporting periods, the Company declared and paid semi-annual dividends of $0.10 per share. The first dividend payment was $14,901 on September 30, 2010 to shareholders of record as of September 15, 2010. Subsequent dividend payments were $17,152 and $17,194, on March 31, 2011 and September 30, 2011 to shareholders of record as of March 21, 2011 and September 15, 2011, respectively.

The Company declared a semi-annual dividend of $0.10 per share on March 7, 2012. The dividend will be paid on March 30, 2012 to shareholders of record as of March 20, 2012 and is expected to total $17,194.

On September 29, 2009, the Group announced a share repurchase program, through the facilities of the Toronto Stock Exchange, for cancellation of up to 13,655,000 common shares (approximately 10% of the Group's public float) by way of a normal course issuer bid. Purchases of common shares were made from time to time at market prices and in accordance with the rules of the Toronto Stock Exchange. This repurchase program was authorized to be in effect until September 30, 2010. During the year ended December 31, 2010, the Group repurchased for cancellation 5,047,100 common shares at a net cost of $60,309. The Group recorded a reduction in share capital of $21,147. The excess net cost over the average book value of the shares was recorded as a reduction to other capital reserves of $3,399 and a reduction to retained earnings of $35,763.

21. Share-based payments

(a) Cash-settled share-based payments:

The Group has two cash-settled share-based payment plans, as described below.

Deferred share units (DSU)

At December 31, 2011, the carrying amount and the intrinsic value of the outstanding liability related to the DSU plan was $2,415 (December 31, 2010 - $3,166) (note 16). The following table outlines information related to DSUs granted, expenses recognized and payments made during the year.

	Year ended	
	Dec. 31, 2011	Dec. 31, 2010
Granted during the year:		
Number of units	61,835	100,831
Weighted average price ($/unit)	$ 14.11	$ 12.92
(Gain) expenses recognized during the year(1) (note 7c)	$ (753)	$ 2,175
Payments made during the year	$ —	$ 199

(1) This expense relates to the grant of DSUs, as well as mark-to-market adjustments, and is presented within selling and administrative expenses on the income statement.

Restricted share units (RSU)

At December 31, 2011, the carrying amount of the outstanding liability related to the RSU plan was $2,746 (December 31, 2010 - $1,641) (note 16). No RSUs were vested at December 31, 2011 and December 31, 2010. RSUs are settled on the vest date and therefore the intrinsic value at December 31, 2011 and December 31, 2010 of vested RSUs was nil. The following table outlines information related to RSUs granted, expenses recognized and payments made in the year

	Year ended

	Dec. 31, 2011	Dec. 31, 2010
Granted during the year:		
Number of units	**323,116**	433,927
Weighted average price ($/unit)	**15.79**	$ 12.95
Expenses (gain) recognized during the year(1) (note 7c)	**$ 1,825**	$ 1,555
Payments made during the year	**$ 905**	$ —

(1) This net expense reflects recognition of RSU expense over the service period, as well as mark-to-market adjustments, and is presented mainly within cost of sales and selling and administrative expenses.

(b) Equity-settled share-based payment - stock options:

The Group's stock option plan was approved in June 2005 and amended in May 2008 (the "Plan").

Under the amended Plan, the Group may grant to employees, officers, directors or consultants of the Group or its affiliates options to purchase up to a maximum of 13 million common shares of the Group. The maximum number of common shares issuable to insiders pursuant to the Plan is limited to 10% of the then issued and outstanding common shares of the Group. The maximum number of common shares issuable to each non employee directors under the Plan shall not exceed the lesser of $100,000 in value per year and 1% in number of the then issued and outstanding common shares of the Group per year. Options granted under the amended Plan have a maximum term of five years and become exercisable as follows: the first 33 1/3% are exercisable after one year, the next 33 1/3% are exercisable after two years, and the last 33 1/3% are exercisable after three years. Except in specified circumstances, options are not assignable and terminate upon, or within a specified time following, the optionee ceasing to be employed by or associated with the Group. The Plan further provides that the price at which common shares may be issued under the Plan cannot be less than the market price of the common shares on the last trading date before the relevant options are approved by the Board.

Prior to the May 2008 amendment, the Plan approved in June 2005 allowed the Group to grant options up to 10% (to a maximum of 8 million issued outstanding options) of the issued and outstanding common shares of the Group to employees, officers, and directors of the Group for a maximum term of ten years. Of the common shares covered by the stock option plan, the first 33 1/3% were exercisable immediately, the next 33 1/3% were exercisable after one year, and the last 33 1/3% were exercisable after two years.

No options were granted during the year ended December 31, 2011. The fair value of options granted in the year ended December 31, 2010 were estimated as at the date of grant using a Black Scholes option pricing model with the following weighted average assumptions and results: expected volatility of 67%; risk-free interest rate of 1.8%, expected life of three years, weighted average exercise price of $14.50, and weighted average grant-date fair value of $4.53 per stock option.

The Group estimates expected life of options and expected volatility based on historical data, which may differ from actual outcomes.

	Year ended Dec. 31, 2011		Year ended Dec. 31, 2010	
	Number of shares subject to option	Weighted average exercise price	Number of shares subject to option	Weighted average exercise price
Balance, beginning of year	**4,368,784**	**$ 14.50**	4,637,113	$ 14.25
Granted	**—**	**—**	900,000	12.17
Exercised	**(30,622)**	**5.00**	(623,784)	8.42
Forfeited	**(290,007)**	**17.27**	(145,557)	10.42
Expired	**(149,450)**	**17.95**	(398,988)	17.31
Balance, end of year	**3,898,705**	**$ 14.24**	4,368,784	$ 14.50

For stock options exercised during the year, the weighted average share price at the exercise date was $14.83 (2010 - $17.65)

The following table summarizes the options outstanding:

Dec. 31, 2011

Range of exercise prices	Number of options outstanding	Weighted-average remaining contractual life (years)	Weighted-average exercise price	Number of options exercisable	Weighted-average exercise price
$ 2.59 - 10.20	981,653	3.6	$ 6.91	904,988	$ 6.82
10.21 - 14.02	1,007,000	2.4	12.01	707,000	11.95
14.03 - 16.55	700,033	6.2	15.86	700,033	15.86
16.56 - 21.28	1,030,019	4.9	20.76	1,030,019	20.76
21.29 - 23.74	180,000	5.7	23.01	180,000	23.01
$ 2.59 - 23.74	3,898,705	4.2	$ 14.24	3,522,040	$ 14.55

Dec. 31, 2010

Range of exercise prices	Number of options outstanding	Weighted-average remaining contractual life (years)	Weighted-average exercise price	Number of options exercisable	Weighted-average exercise price
$ 2.59 - 10.20	1,017,942	4.6	$ 6.85	857,940	$ 6.65
10.21 - 14.02	1,008,000	3.4	12.01	354,667	11.94
14.03 - 16.00	756,703	7.2	15.86	756,703	15.86
16.01 - 20.78	355,200	3.7	17.53	351,867	17.53
20.79 - 23.74	1,230,939	6.3	21.16	1,230,939	21.16
$ 2.59 - 23.74	4,368,784	5.2	$ 14.50	3,552,116	$ 15.24

22. Earnings per share data

	Year ended December 31	
	2011	2010
Weighted average common shares outstanding	**167,863,427**	150,636,835
Plus net incremental shares from assumed conversions:		
- Stock options	**498,930**	699,564
Diluted weighted average common shares outstanding	**168,362,357**	151,336,399

For the basic and diluted earnings per share calculations, 167,863,427 common shares (2010 - 150,363,835) were used when calculating earnings per share for periods where the Group had a loss. Hudbay's calculation of diluted earnings per share for 2011 excludes 498,930 incremental shares from the assumed conversion of stock options as they would be anti-dilutive.

	Year ended December 31	
	2011	2010
Profit (loss) from continuing operations attributable to:		
Owners of the Company	**$ 81,375**	$ 43,139
Non-controlling interests	**(6,179)**	(2,724)
	$ 75,196	$ 40,415
Loss from discontinued operations attributable to:		
Owners of the Company	**$ (235,270)**	$ (19,168)
Non-controlling interests	**(3,514)**	(230)
	$ (238,784)	$ (19,398)

23. Other comprehensive income (loss) ("OCI")

	Year ended Dec. 31, 2011	Year ended Dec. 31, 2010

	Pre-tax	Tax	Net of tax	Pre-tax	Tax	Net of tax
Foreign currency translation						
Net exchange gain (loss) on translation of foreign operations	**$ 15,793**	**$ —**	**$ 15,793**	$ (15,070)	$ —	$ (15,070)
Transfer to income statement on disposal of foreign operations	**20,416**	**—**	**20,416**	—	—	—
	36,209	**—**	**36,209**	(15,070)	—	(15,070)
Available-for-sale						
Change in fair value of available-for-sale investments	**(49,117)**	**7,036**	**(42,081)**	38,465	(4,764)	33,701
Transfer to income statement on impairment of investments	**6,587**	**(842)**	**5,745**	—	—	—
Transfer to income statement on sale of investments	**—**	**—**	**—**	(2,163)	309	(1,854)
Transfer to income statement on acquisition of subsidiary	**(1,220)**	**152**	**(1,068)**	—	—	—
	(43,750)	**6,346**	**(37,404)**	36,302	(4,455)	31,847
Cash flow hedge						
Effective portion of change in fair value of cash flow hedge	**6,279**	**(1,770)**	**4,509**	7,523	(2,252)	5,271
Transfer to income statement as hedged transactions occurred	**(992)**	**205**	**(787)**	(3,267)	1,014	(2,253)
	5,287	**(1,565)**	**3,722**	4,256	(1,238)	3,018
Total OCI (loss)	**$ (2,254)**	**$ 4,781**	**$ 2,527**	$ 25,488	$ (5,693)	$ 19,795

Gains and losses transferred from equity into profit or loss during the year are included in the following line items in the income statement:

	2011	2010
Revenue (note 7a)	**992**	3,267
Other finance gains/losses (note 7f)	**(5,367)**	2,163
Discontinued operations (note 6)	**(20,416)**	**—**
Tax expense	**485**	(1,323)
	(24,306)	4,107

24. Non-controlling interests

Prior to the disposition of the Fenix project on September 9, 2011, the Group owned 98.2% of Compañía Guatemalteca de Níquel ("CGN"). As a result of the transaction, the Group is no longer required to account for the related non-controlling interest.

Hudbay owns 51% of the Back Forty project in accordance with a subscription, option and joint venture agreement with Aquila Resources Inc. ("Aquila"). Hudbay has control over the Back Forty project and accordingly consolidates the Back Forty project in its consolidated financial statements.

In accordance with a joint venture agreement with VMS Ventures Inc. ("VMS"), Hudbay owns 70% of the Reed copper deposit and the two claims immediately to the south. Hudbay has control over the project and accordingly consolidates the Reed copper project in its consolidated financial statements.

The Group acquired 90.5% of Hudbay Peru on March 1, 2011 and increased its ownership throughout the year, resulting in a 100% ownership interest as at December 31, 2011 (note 5).

	CGN	Back Forty Project	Reed Copper Deposit	Hudbay Peru	Total
Balance, January 1, 2010	$ 1,359	$ —	$ —	$ —	$ 1,359
Share of assets acquired	—	10,221	1,122	—	11,343
Share of OCI	—	(326)	—	—	(326)
Share of net loss	(230)	(1,865)	(859)	—	(2,954)
Balance, December 31, 2010	1,129	8,030	263	—	9,422
Share of assets acquired	**—**	**—**	**—**	**9,446**	**9,446**
Share of OCI	**—**	**104**	**—**	**—**	**104**

Share of net loss	**(3,514)**	**(5,041)**	**(1,161)**	**23**	**(9,693)**
Disposition of subsidiary	**2,385**	**—**	**—**	**—**	**2,385**
Acquisition of non- controlling interests	**—**	**—**	**—**	**(9,469)**	**(9,469)**
Balance December 31, 2011	**$ —**	**$ 3,093**	**$ (898)**	**$ —**	**$ 2,195**

25. Capital management

The Group's definition of capital includes total equity and long term debt. Hudbay had no long-term debt during the years ended December 31, 2011 and December 31, 2010.

The Group's objectives when managing capital are to maintain a strong capital base in order to:

- Advance the Group's corporate strategies to create long-term value for its stakeholders; and
- Sustain the Group's operations and growth throughout metals and materials cycles.

Hudbay monitors its capital and capital structure on an ongoing basis to ensure they are sufficient to achieve the Group's short-term and long-term strategic objectives. Hudbay monitors its cash and cash equivalents, which were $899,077 as at December 31, 2011 (December 31, 2010 - $901,693, January 1, 2010 - $886,814). The Group invests its cash and cash equivalents primarily in Canadian bankers' acceptances, deposits at major Canadian banks, or treasury bills issued by the federal or provincial governments. The Group does not currently have debt outstanding, and so it is not subject to externally imposed capital requirements other than the requirement to maintain sufficient cash balances to fund continuing operations. Interest coverage ratios, debt to book capitalization ratios and debt to cash flow ratios are metrics that would also be evaluated during periods when financial leverage was employed as an element of the Group's capital structure.

26. Financial instruments

(a) Fair value and carrying value of financial instruments:

The following presents the fair value and carrying value of the Group's financial instruments and non-financial derivatives:

	Dec. 31, 2011		Dec. 31, 2010		Jan. 1, 2010	
	Fair Value	Carrying value	Fair Value	Carrying value	Fair Value	Carrying value
Financial assets						
Loans and receivables						
Cash and cash equivalents (1)	**$ 899,077**	**$ 899,077**	$ 901,693	$ 901,693	$ 886,814	$ 886,814
Restricted cash(1)	**1,692**	**1,692**	4,405	4,405	59,031	59,031
Trade and other receivables(1) (2)	**33,391**	**33,391**	68,778	68,778	36,755	36,755
Fair value through profit or loss						
Trade and other receivables embedded derivatives(3)	**(1,407)**	**(1,407)**	5,841	5,841	209	209
Non-hedge derivative assets(3)	**36**	**36**	2,724	2,724	955	955
Investments at FVTPL(4)	**2,090**	**2,090**	7,688	7,688	138	138
Designated in cash flow hedges						
Hedging derivative assets(3)	**3,076**	**3,076**	1,674	1,674	258	258
Available-for-sale						
Available-for-sale investments(4)	**98,279**	**98,279**	104,990	104,990	27,249	27,249
	1,036,234	**1,036,234**	1,097,793	1,097,793	1,011,409	1,011,409
Financial liabilities						
Financial liabilities at amortized cost						

Trade and other payables(1) (2)	**158,708**	**158,708**	124,449	124,449	108,144	108,144
Fair value through profit or loss						
Trade and other payables - embedded derivatives(3)	**35**	**35**	941	941	557	557
Non-hedge derivative liabilities(3)	**1,159**	**1,159**	17	17	152	152
Designated in cash flow hedges						
Hedging derivative liabilities(3)	**—**	**—**	4,383	4,383	9,823	9,823
	159,902	**159,902**	129,790	129,790	118,676	118,676
Net financial assets	**$ 876,332**	**$ 876,332**	$ 968,003	$ 968,003	$ 892,733	$ 892,733

(1) Cash and cash equivalents, restricted cash, trade and other receivables and trade and other payables are recorded at carrying value, which approximates fair value due to their short-term nature and generally negligible credit losses.
(2) Excludes embedded provisional pricing derivatives, as well as tax and other statutory amounts.
(3) Derivatives and embedded provisional pricing derivatives are carried at their fair value, which is determined based on internal valuation models that reflect observable forward market commodity prices, currency exchange rates, and discount factors based on market US dollar interest rates and adjusted for credit risk.
(4) Available-for-sale investments are carried at their fair value, which is determined using quoted market bid prices in active markets for listed shares and determined using valuation models for shares of private companies. Investments at FVTPL consist of warrants to purchase listed shares, which are carried at fair value as determined using a Black-Scholes model.

Fair value hierarchy

The table below provides an analysis by valuation method of financial instruments that are measured at fair value subsequent to recognition.

December 31, 2011	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value				
Financial assets at FVTPL:				
Embedded derivatives	**$ —**	**$ (1,407)**	$ —	**$ (1,407)**
Non-hedge derivatives	**—**	**36**	**—**	**36**
Investments at FVTPL	**—**	**2,090**	**—**	**2,090**
Hedging derivatives	**—**	**3,076**	**—**	**3,076**
Available-for-sale investments	**94,279**	**—**	**4,000**	**98,279**
	94,279	**3,795**	**4,000**	**102,074**
Financial liabilities measured at fair value				
Financial liabilities at FVTPL:				
Embedded derivatives	**—**	**35**	**—**	**35**
Non-hedge derivatives	**—**	**1,159**	**—**	**1,159**
	$ —	**$ 1,194**	**$ —**	**$ 1,194**

December 31, 2010	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value				
Financial assets at FVTPL:				
Embedded derivatives	$ —	$ 5,841	$ —	$ 5,841
Non-hedge zinc derivatives	—	2,724	—	2,724
Investments at FVTPL	—	7,688	—	7,688
Hedging derivatives	—	1,674	—	1,674
Available for sale investments	102,990	—	2,000	104,990
	102,990	17,927	2,000	122,917
Financial liabilities measured at fair value				
Financial liabilities at FVTPL:				
Embedded derivatives	**—**	941	—	941
Non-hedge derivatives	—	17	—	17
Hedging derivatives	—	4,383	—	4,383
	$ —	$ 5,341	$ —	$ 5,341

There were no transfers between levels during the period.

(b) Derivatives and hedging:

Non-hedge derivative zinc contracts

Hudbay enters into fixed price sales contracts with zinc customers and, to ensure that the Group continues to receive a floating or unhedged realized zinc price, enters into forward zinc purchase contracts that effectively offset the fixed price sales contracts. The fixed-price sales contracts with customers are not recognized as derivatives, as they are executory contracts entered into and held for the purpose of the Group's expected sale requirements. However, the zinc forward purchase contracts are recorded as derivatives. Gains and losses on these contracts are recorded in revenues, and cash flows are classified in operating activities.

At December 31, 2011, the Group held contracts for forward zinc purchases of 8,011 tonnes (2010 - 891 tonnes) that related to forward customer sales of zinc. Prices ranged from US$1,757 to US$2,209 per tonne (2010 - US$1,722 to US$2,340), and settlement dates extended out up to June 2012.

Cash flow hedging derivatives

In 2009, the Group entered into a foreign exchange swap contract to hedge foreign exchange risk for future receipts of US dollars and commodity swap contracts to hedge prices for a portion of future sales of zinc. These contracts expire in July 2012. The risk management objective for these hedging relationships is to mitigate the impact on the Group of fluctuating zinc prices and exchange rates. Cash flow hedge accounting has been applied to the hedging relationships. The effective portion of the change in fair value of cash flow hedging derivatives recognized in other comprehensive income is presented in note 23, and the ineffective portion recognized in other finance gains and losses in the income statement is presented in note 7f. Gains and losses reclassified from the cash flow hedge reserve to revenue are presented in note 23.

In 2007, the Group applied hedge accounting to zinc swap contracts to hedge prices for a portion of zinc sales in 2010. By 2008, the Group had terminated the zinc swap contracts and prospectively discontinued hedge accounting for those hedging relationships. Related gains and losses in the hedging reserve were reclassified to the income statement as the hedged forecast zinc sales occurred. As at December 31, 2010, no further amounts remained in the hedging reserve related to these hedging relationships.

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The following tables summarize the Group's cash flow hedging derivatives, indicating the periods in which cash flows associated with the cash flow hedging derivatives are expected to occur:

December 31, 2011	Quantity	Weighted average price	Fair value of derivative asset	Expected cash flows
Zinc swaps - US$ denominated contracts				
	Metric tonnes	US$/MT		
Maturing between 0 to 12 months	7,320	2,220	$ 2,564	$ 2,564
Foreign currency swaps - sell US$/buy C$				
	C$	C$/US$		
Maturing between 0 to 12 months	11,600	1.0668	$ 512	$ 512

December 31, 2010	Quantity	Weighted average price	Fair value of derivative asset (liability)	Expected cash flows
Zinc swaps - US$ denominated contracts				
Maturing between:	Metric tonnes	US$/MT		
0 to 12 months	11,437	2,220	$ (2,559)	$ (2,559)
13 to 24 months	7,320	2,220	(1,824)	(1,824)
	18,757	2,220	$ (4,383)	$ (4,383)
Foreign currency swaps - sell US$/buy C$				
Maturing between:	C$	C$/US$		
0 to 12 months	16,310	1.0668	$ 1,071	$ 1,071
13 to 24 months	10,873	1.0668	603	603
	27,183	1.0668	$ 1,674	$ 1,674

(c) Embedded derivatives

The Group records embedded derivatives related to provisional pricing in concentrate purchase, concentrate sale and certain other sale contracts. Under the terms of these contracts, prices are subject to final adjustment at the end of a future period after title transfers based on quoted market prices during the quotational period specified in the contract. The period between provisional pricing and final pricing is typically up to three months.

Embedded derivatives are presented in trade and other receivables when they relate to sales contracts and in trade and other payables when they relate to purchase contracts. At each reporting date, provisionally priced metals are marked to market based on the forward market price for the quotational period stipulated in the contract, with changes in fair value recognized in revenues for sales contracts and in cost of sales for purchase concentrate contracts. Cash flows related to provisional pricing embedded derivatives are classified in operating activities.

At December 31, 2011, the Group's net position consisted of contracts awaiting final pricing for sales of 7,854 tonnes of copper (2010 - 6,236 tonnes), purchases of 4,664 tonnes of zinc (2010 - 5,178 tonnes), sales of 13,147 ounces of gold (2010 - 10,740 ounces) and sales of 136,828 ounces of silver (2010 - 99,071 ounces).

(d) Financial risk management

The Group's financial risk management activities are governed by Board-approved policies addressing risk identification, hedging authorization procedures and limits and reporting. Hudbay's policy objective, when hedging activities are undertaken, is to reduce the volatility of future profit and cash flow within the strategic and economic goals of the Group. The Group from time to time employs derivative financial instruments, including forward and option contracts, to manage risk originating from exposures to commodity price risk, foreign exchange risk and interest rate risk. Significant derivative transactions are approved by the Board of Directors, and hedge accounting is applied when certain criteria have been met. The Group does not use derivative financial instruments for trading or speculative purposes.

The following is a discussion of the Group's risk exposures.

(i) Market risk

Market risk is the risk that changes in market prices, including foreign exchange rates, commodity prices and interest rates, will cause fluctuations in the fair value or future cash flows of a financial instrument.

Foreign currency risk

The Group's primary exposure to foreign currency risk arises from:

- Translation of US dollar denominated revenues and expenses and, to a lesser extent, Peruvian nuevo sol expenses into Canadian dollars. Substantially all of the Group's revenues are denominated in US dollars, while less than half of its expenses are denominated in US dollars. As a result, appreciation of the Canadian dollar relative to the US dollar will reduce the Group's profit, and a weakening of the Canadian dollar will increase the Group's profit.

- Translation of US dollar and Peruvian nuevo sol denominated operating accounts, consisting mainly of certain cash and cash equivalents, trade and other receivables, trade and other payables and derivatives. Cash balances in nuevos soles are restricted to amounts required to fund near-term operating requirements. Appreciation of the Canadian dollar relative to the US dollar or nuevo sol will reduce the net asset value of these operating accounts once they have been translated to Canadian dollars, resulting in foreign currency translation losses on foreign currency denominated assets and gains on foreign currency denominated liabilities.

The Group's exposure to foreign currency risk was as follows based on notional amounts:

	Dec. 31, 2011		Dec. 31, 2010	
	USD	PEN	USD	PEN
Cash and cash equivalents	**129,465**	**3,323**	5,066	—
Trade and other receivables	**16,848**	**330**	6,594	—
Restricted cash	**—**	**—**	183	—
Derivative assets (liabilities)	**1,511**	**—**	(391)	—

Trade and other payables	**(18,571)**	**(15,446)**	(786)	—
	129,253	**(11,793)**	10,666	—

The Group's foreign currency cash flow hedges are described in note 26b.

The following sensitivity analysis for foreign currency risk relates solely to financial instruments and non financial derivatives that were outstanding as at the year-end date; each sensitivity calculation assumes all other variables are held constant. This analysis does not reflect the overall effect that changes in market variables would have on the Group's results of operations.

December 31, 2011	A change of:	Would have changed 2011 after-tax profit by:	Would have changed 2011 after-tax OCI by:
Foreign currency risk			
USD/CAD exchange rate(1)	$ +0.10	$ 8.2 million	$ (0.6) million
USD/CAD exchange rate(1)	$ -0.10	(8.2) million	0.8 million
PEN/CAD exchange rate(2)	$ +0.25	0.4 million	—
PEN/CAD exchange rate(2)	$ -0.25	(0.5) million	—

December 31, 2010	A change of:	Would have changed 2010 after-tax profit by: (millions)	Would have changed 2010 after-tax OCI by: (millions)
Foreign currency risk			
USD/CAD exchange rate(1)	$ +0.10	$ 6.9 million	$ (1.8) million
USD/CAD exchange rate(1)	$ -0.10	(6.9) million	1.9 million

(1)Effect on profit due to translation of operating accounts denominated in US dollars; effect on OCI due to foreign currency cash flow hedging derivatives.

(2)Effect on profit due to translation of operating accounts denominated in Peruvian nuevo sol.

Commodity price risk

Hudbay is exposed to market risk from prices for the commodities the Group produces and sells, such as zinc, copper, gold and silver. From time to time, the Group maintains price protection programs and conducts commodity price risk management through the use of derivative contracts.

The Group's non-hedge zinc derivatives and zinc cash flow hedges are described in note 26b. Embedded derivatives are described in note 26c.

The following sensitivity analysis for commodity price risk relates solely to financial instruments and non financial derivatives that were outstanding as at the year-end date; each sensitivity calculation assumes all other variables are held constant. This analysis does not reflect the overall effect that changes in market variables would have on the Group's results of operations.

December 31, 2011	Change of:	Would have changed 2011 after-tax profit by:	Would have changed 2011 after-tax OCI by:
Commodity price risk			
Copper prices (US$/lb)(3)	$ +0.30	$ 2.6 million	—
Copper prices (US$/lb)(3)	$ -0.30	(2.6) million	—
Zinc prices (US$/lb)(4)	$ +0.10	(1.3) million	1.2 million
Zinc prices (US$/lb)(4)	$ -0.10	1.3 million	(1.2) million

December 31, 2010	Change of:	Would have changed 2010 after-tax profit by:	Would have changed 2010 after-tax OCI by:
Commodity price risk			
Copper prices (US$/lb)(3)	$ +0.30	$ 2.1 million	—
Copper prices (US$/lb)(3)	$ -0.30	(2.1) million	
Zinc prices (US$/lb)(4)	$ +0.10	—	(2.7) million
Zinc prices (US$/lb)(4)	$ -0.10	—	2.3 million

(3)Effect on profit due to embedded provisional pricing derivatives.

(4)Effect on profit due to embedded provisional pricing derivatives and non-hedge zinc derivatives; effect on OCI due to zinc swap cash flow hedging derivatives.

Share price risk

Hudbay is exposed to market risk from share prices for the Group's investments in listed Canadian metals and mining companies. These investments are made to foster strategic relationships, in connection with joint venture agreements and for investment purposes. Management monitors the value of these investments for the purposes of determining whether to add to or reduce the Group's positions.

The following sensitivity analysis for share price risk relates solely to financial instruments and non financial derivatives that were outstanding as at the year-end date; each sensitivity calculation assumes all other variables are held constant. This analysis does not reflect the overall effect that changes in market variables would have on the Group's results of operations.

December 31, 2011	Change of: %	Would have changed 2011 after-tax profit by:	Would have changed 2011 after-tax OCI by:
Share price risk			
Share prices(5)	+25%	—	$ 21.5 million
Share prices(5)	-25%	—	(24.6) million

December 31, 2010	Change of: %	Would have changed 2010 after-tax profit by:	Would have changed 2010 after-tax OCI by:
Share price risk			
Share prices(5)	+25%	—	$ 26.8 million
Share prices(5)	-25%	—	(26.8) million

(5)Effect on OCI due to available-for-sale investments in listed shares.

Interest rate risk

The Group is not exposed to significant interest rate risk other than cash flow interest rate risk on its cash and cash equivalents. At December 31, 2011, the Group did not have any cash equivalents, therefore there would be no impact on the Group's net earnings by an increase or decrease in interest rates. At December 31, 2010 if interest rates had been higher by 2% with all other variables held constant, net earnings would have been $10.5 million higher. A downward change to interest rates of 0.25% would have decreased the Group's net earnings by $1.3 million.

Refer to notes 3e and 8 for information about the Group's cash and cash equivalents.

(ii) Credit risk:

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its obligations. The Group's maximum exposure to credit risk at the reporting date is represented by the carrying amount, net of any impairment losses recognized, of financial assets and non-financial derivative assets recorded on the balance sheet. Refer to note 26a.

Substantially all of the Group's cash and cash equivalents are represented by deposits with major Schedule 1 Canadian banks. Deposits and other investments with one of these banks represented 49.9% of total cash and cash equivalents as at December 31, 2011. The Group's investment policy requires it to comply with a list of approved investments, concentration and maturity limits, as well as credit quality. The Group has not invested in asset backed commercial paper. Credit concentrations in the group's short-term investments are monitored on an ongoing basis.

Transactions involving derivatives are with counterparties the Group believes to be creditworthy. The Group's swap agreements are governed by master agreements.

Management has a credit policy in place that requires the Group to obtain credit insurance from an investment grade credit insurance provider to mitigate exposure to credit risk in its receivables. At December 31, 2011, approximately 62% of the Group's trade receivables were insured, with a credit insurance deductible of 10%. The deductible and any additional exposure to credit risk is monitored and approved on an ongoing basis.

One customer accounted for approximately 27% of total trade receivables as at December 31, 2011 (2010 - 62%). Credit risk for this customer is assessed as medium to low risk.

As at December 31, 2011, approximately 1% of the Group's trade receivable was aged more than 30 days (2010 - less than 1%).

(iii) Liquidity risk:

Liquidity risk is the risk that the Group will not be able to meet its obligations associated with financial liabilities. Hudbay's objective is to maintain sufficient liquid resources to meet operational and investing requirements.

The following summarizes the contractual undiscounted cash flows of the Group's non-derivative and derivative financial liabilities, including any interest payments, by remaining contractual maturity. The table includes all instruments held at the reporting date for which payments had been contractually agreed at the reporting date. The undiscounted amounts shown are gross amounts, unless the liabilities will be settled net. Amounts in foreign currency are translated at the closing rate at the reporting date. When a counterparty has a choice of when an amount is paid, the liability is allocated to the earliest possible time period.

Dec. 31, 2011	Carrying amount	Contractual cash flows	12 months or less	1-2 years	2-5 years	Maturing in over 5 years
Assets used to manage liquidity risk						
Cash and cash equivalents	899,077	899,077	899,077	—	—	—
Non-derivative financial liabilities						
Trade and other payables, including embedded derivatives	(163,187)	(163,187)	(163,817)	—	—	—
	735,890	735,890	735,260	—	—	—
Derivative financial liabilities						
Non-hedge zinc derivative contracts	(1,159)	(1,159)	(1,159)	—	—	—
Cash flow hedging derivatives						
- zinc	2,638	2,638	2,638	—	—	—
- foreign currency swaps	607	607	607	—	—	—
	2,086	2,086	2,086	—	—	—

Dec. 31, 2010	Carrying amount	Contractual cash flows	12 months or less	1-2 years	2-5 years	Maturing in over 5 years
Assets used to manage liquidity risk						
Cash and cash equivalents	901,693	901,693	901,693	—	—	—
Non-derivative financial liabilities						
Trade and other payables, including embedded derivatives	(133,597)	(133,597)	(133,597)	—	—	—
	768,096	768,096	768,096	—	—	—
Derivative financial liabilities						
Non-hedge zinc derivative contracts	2,723	2,723	2,723	—	—	—
Cash flow hedging derivatives						
- zinc	(4,399)	(4,399)	(2,767)	(1,632)	—	—
- foreign currency swaps	1,674	1,674	1,071	603	—	—
	(2)	(2)	1,027	(1,029)	—	—

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27. Commitments and contingencies

(a) Operating lease commitments

The Group has entered into various lease commitments for facilities and equipment. The leases expire in periods ranging from one to ten years. There are no restrictions placed on the Group by entering into these leases. Future minimum lease payments under non-cancelable operating leases recognized in operating expenses at December 31, 2011 are:

	2011	2010
Within one year	**2,457**	2,210
After one year but not more than five years	**9,848**	10,390
More than five years	**8,479**	11,521
	20,784	24,121

Payments recognized in operating expenses:

	2011	2010
Minimum lease payments	**1,901**	1,096
Sub-lease payments received	**(109)**	—

	1,792	1,096

Future minimum sub-lease payments expected to be received on non-cancelable leases are $2 million.

(b) Capital commitments

	2011	2010
Capital commitments		
Property, plant and equipment	**126,150**	15,809

(c) Contingent liabilities

Contingent liabilities

The Group is involved in various claims and litigation arising in the ordinary course and conduct of business. As the outcomes are uncertain, no amounts have been recorded in these consolidated financial statements. By their nature, contingencies will be resolved only when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

The significant claims and litigation matters are as follows:

(a) Statements of claim were filed against Saskatchewan Power Corporation ("SaskPower"), HBMS and Churchill River Power Company Limited ("CRP") on February 10, 1995, seeking an aggregate of $1 billion in compensatory damages and in excess of $100 million in punitive damages. These claims were filed in connection with the use and operation of the Whitesand Dam and the Island Falls Hydro Electric Station in Saskatchewan, which were transferred by CRP, formerly a wholly-owned subsidiary of HBMS, to SaskPower in 1981. As this matter has not been progressed since 1995, any potential liabilities are not reasonably determinable.

(b) On December 20, 2004, a Statement of Claim was filed by the Peter Ballantyne Cree Nation against SaskPower, the Government of Canada and the Province of Saskatchewan. The action claims damages alleged as a result of the operation and use of the Whitesand Dam and Island Falls Hydro-Electric Station. HBMS and CRP have both been named as third parties in the action by SaskPower. It has come to Hudbay's attention that CRP, a former subsidiary of HBMS that was dissolved, has been revived by SaskPower for the purpose of taking legal action against CRP for alleged breaches by CRP of its obligations under a certain Purchase and Sale Agreement made in 1981. Given the number of parties and the early stages of the proceedings, the resolution of the claims against CRP and HBMS is not reasonably determinable.

(c) On March 2, 2007, a Statement of Claim was issued in the Manitoba Court of Queen's Bench by Callinan Mines Limited against HBMS seeking declaratory relief, an accounting and an undisclosed amount of damages in connection with a Net Profits Interest and Royalty Agreement between HBMS and Callinan Mines Limited dated January 1, 1988. HBMS is defending the claims and the likelihood of success and potential liability are not reasonably determinable as no specific damages have yet been identified by the plaintiff.

Contingent assets

There were no significant contingent assets at December 31, 2011 or December 31, 2010.

28. Related parties

(a) Group companies

The financial statements include the financial statements of the Company and the following significant subsidiaries, joint ventures and associates:

Name	Country of incorporation	Business	Percentage owned or economic interest 2011	2010
Subsidiaries:				

Hudson Bay Mining and Smelting Co. Limited	Canada	Zinc and copper production	100%	100%
Hudson Bay Exploration and Development Company Limited	Canada	Exploration	100%	100%
Zochem Inc.	Canada	Zinc oxide production	—	100%
HudBay Marketing and Sales Inc.	Canada	Marketing and sales	100%	100%
White Pine Copper Refinery Inc.	U.S.	Copper refinery	—	100%
HudBay Metal Marketing Inc.	Canada	Marketing	100%	100%
Balmat Holding Corp.	U.S.	Holding company	100%	100%
St. Lawrence Zinc Company LLC	U.S.	Zinc	100%	100%
HudBay Michigan Inc.	U.S.	Exploration	100%	100%
HMI Nickel Inc.	Canada	Holding company	—(1)	100%
HudBay Peru Inc.	Canada	Holding company	100%	—
HudBay Peru S.A.C.	Peru	Exploration and development	100%	—

(1)During 2011, after the sale of Fenix, HMI Nickel Inc. was amalgamated with HudBay Minerals Inc.

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

(b) Compensation of key management personnel

The Group's key management includes members of the Board of Directors, Hudbay's Chief Executive Officer, the Group's senior vice presidents and vice presidents.

Total compensation to key management personnel was as follows:

	2011	2010
Short-term employee benefits(1)	**$ 7,391**	$ 6,036
Post-employment benefits	**761**	436
Termination benefits	**2,310**	4,828
Share-based payments	**3,331**	9,232
	$ 13,793	$ 20,532

(1) Such as salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees.

29. Supplementary cash flow information

(a) Change in non-cash working capital:

	December 31	
	2011	2010
Change in:		
Trade and other receivables	**$ 28,315**	$ (37,825)
Inventories	**17,993**	10,300
Prepaid expenses and other current assets	**(3,679)**	(2,004)
Trade and other payables	**(22,389)**	42,337
Change in taxes payable relating to investment tax credits	**(4,449)**	(5,189)
	$ 15,791	$ 7,619

(b) Non-cash transactions:

During the year ended December 31, 2011, the Group entered into the following non-cash investing and financing activities which are not reflected in the statement of cash flows:

- Remeasurements of the Group's provision for decommissioning liability led to increases in related assets of $30,875 primarily as a result of discount rate changes. For the year ended December 31, 2010, such increases in property, plant and equipment were $24,965;

- Depreciation of $420 was capitalized for fixed assets in construction; and

- As at December 31, 2011, additions to property, plant and equipment of $23,964 were purchased using trade credit which was not yet paid. These additions will be reflected in the statement of cash flows in the period payment is made.

(c) Cash flows arising from the exploration for and evaluation of mineral properties:

	2011	2010
Operating activities:		
Exploration and evaluation expenses	**(46,923)**	(81,729)
Change in exploration and evaluation receivables(1)	**(2,696)**	**—**
Change in exploration and evaluation payables	**35**	(101)
	(49,584)	(81,830)
Investing activities:		
Exploration and evaluation asset additions	**3,577**	2,441
	3,577	2,441

(1) Relates to exploration expenditures expected to be reimbursed by a third party.

30. Segmented information

The Group is an integrated metals producer. When making decisions on expansions, opening or closing mines, as well as day to day operations, management evaluates the profitability of the overall operation of the Group. The Group's main mining operations are located in Manitoba and Saskatchewan and are included in the Manitoba segment. The Manitoba revenue segment generates the Group's revenues as it sells copper, zinc, gold, silver and other metals. The South America segment consists of the Group's Constancia project in Peru, which Hudbay acquired on March 1, 2011, Hudbay Chile, Hudbay Colombia and Hudbay Panama. The "Other Segment" includes operating segments that are not individually significant, as they do not meet the quantitative thresholds, and include the Balmat segment which consists of a zinc mine and concentrator and the Michigan segment which includes the Back Forty property and other exploration properties. The Balmat mine suspended operations in August 2008. The Group previously disclosed HMI Nickel as a segment; however, upon selling the Fenix project in September 2011 (note 6), Hudbay reclassified these activities to loss from discontinued operations. Corporate activities are not considered a segment and are included as a reconciliation to total consolidated results. Accounting policies for each reported segment are the same. Segment profit or loss represents the profit earned by each segment without allocation of corporate costs. This is the measure reported to the chief operating decision-maker for the purposes of resource allocation and the assessment of segment performance. Total assets and liabilities do not reflect intercompany balances, which have been eliminated on consolidation.

2011	Manitoba	South America	Other	Corporate activities and unallocated costs	Total
Revenue from external customers	**$ 890,817**	**$ —**	**$ —**	**$ —**	**$ 890,817**
Cost of sales - mine operating costs	**476,621**	**—**	**—**	**—**	**476,621**
Cost of sales - depreciation and amortization	**103,915**	**—**	**—**	**—**	**103,915**
Cost of sales - impairment loss	**6,839**	**—**	**—**	**—**	**6,839**
Gross profit	**303,442**	**—**	**—**	**—**	**303,442**
Selling and administrative expenses	**2,300**	**—**	**—**	**36,437**	**38,737**
Exploration and evaluation	**25,699**	**8,561**	**12,335**	**328**	**46,923**
Other operating income	**(3,170)**	**—**	**—**	**(204)**	**(3,374)**
Other operating expense (income)	**2,675**	**901**	**5,893**	**(164)**	**9,305**
	$ 275,938	**$ (9,462)**	**$ (18,228)**	**$ (36,397)**	**$ 211,851**
Finance income					**(8,770)**
Finance expenses					**6,605**
Other finance losses					**4,991**
Profit before tax					**209,025**
Tax expense					**133,829**
Profit from continuing operations					**75,196**
Loss from discontinued operations					**(238,784)**
Loss for the year					**$ (163,588)**

2011	Manitoba	South America	Other	Corporate activities and unallocated costs	Total
Total assets	**$ 1,011,146**	**$ 722,870**	**$ 23,040**	**$ 691,764**	**$ 2,448,820**
Total liabilities	**436,659**	**154,903**	**20,864**	**21,036**	**633,462**
Property, plant and equipment	**588,775**	**588,532**	**19,773**	**5,965**	**1,203,045**
Additions to property, plant and equipment(1):					
- continuing operations	**199,580**	**33,837**	**3,577**	**4,623**	**241,617**
- discontinued operations	**—**	**—**	**7,163**	**—**	**7,163**
Additions to other non-current assets (intangibles)	**5,692**	**—**	**—**	**—**	**5,692**

(1) Additions to property, plant and equipment represent cash additions only. For non-cash additions, see note 29.

2010	Manitoba	South America	Other	Corporate activities and unallocated costs	Total
Revenue from external customers	$ 781,032	$ —	$ —	$ —	$ 781,032
Cost of sales - mine operating costs	431,513	—	—	—	431,513
Cost of sales - depreciation and amortization	116,488	—	—	—	116,488
Gross profit	233,031	—	—	—	233,031
Selling and administrative expenses	2,831	—	—	25,361	28,192
Exploration and evaluation	69,644	447	11,304	781	81,729
Other operating income	(812)	—	—	—	(812)
Other operating expense (income)	4,227	—	9,562	—	13,789
	$ 157,141	$ (447)	$ (20,866)	$ (26,142)	$ 110,133
Finance income					(6,351)
Finance expenses					4,378
Other finance losses					3,437
Profit before tax					108,669
Tax expense					68,254
Profit from continuing operations					40,415
Loss from discontinued operations					(19,398)
Profit for the year					$ 21,017
Total assets(1)	$ 1,517,713	$ —	$ 18,476	$ 547,355	$ 2,083,544
Total liabilities(1)	420,216	100	17,758	11,751	449,725
Property, plant and equipment(1)	444,371	—	371,605	1,582	817,558
Additions to property, plant and equipment(2):					
- continuing operations	107,671	—	4,985	129	112,785
- discontinued operations	—	—	94	—	94
Additions to other non-current assets (intangibles)	4,691	—	—	—	4,691

(1) Other includes amounts related to discontinued operations.
(2) Additions to property, plant and equipment represent cash additions only. For non-cash additions, see note 29.

During the year ended December 31, 2011, four customers accounted for approximately 21%, 17%, 15% and 11% respectively of total revenue during the year. During the year ended December 31, 2010 three customers accounted for approximately 22%, 8% and 5% of total revenue, respectively. Revenues from these customers have been presented in the Manitoba operating segment.

31. Transition to IFRS

These consolidated financial statements are the first annual consolidated financial statements prepared in accordance with IFRS.

The accounting policies disclosed in note 3 of these consolidated financial statements have been applied in preparing the consolidated

financial statements for the year ended December 31, 2011, the comparative information for year ended December 31, 2010 and in the preparation of an opening IFRS balance sheet as at January 1, 2010 (the Group's transition date).

In preparing its opening IFRS balance sheet, the Group has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. An explanation of the effect of transition from Canadian GAAP to IFRS on the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Exemptions applied:

IFRS 1, *First-time Adoption of International Financial Reporting Standard*s, allows first-time adopters certain optional exemptions from full retrospective application of IFRS. The Group applied the following exemptions as at January 1, 2010, its date of transition to IFRS:

- **Business combination exemption** — The Group has elected not to apply IFRS 3, *Business Combinations*, retrospectively to acquisitions of subsidiaries or of interests in associates and joint ventures that occurred before January 1, 2010. This exemption also applies to purchases accounted for as asset acquisitions under Canadian GAAP that would qualify as business combinations under IFRS 3 (2008), which contains a broader definition of a business. The Group has determined that its 2008 acquisition of HMI Nickel would qualify as a business combination under IFRS 3 (2008). Accordingly, the Group has carried forward its Canadian GAAP accounting treatment for such acquisitions. In addition, and as a condition under IFRS 1 in applying this exemption, goodwill relating to business combinations that occurred prior to January 1, 2010 requires testing for impairment at the date of transition. However, no goodwill was recognized in the Canadian GAAP accounting treatment for such acquisitions.

- **Employee benefits exemptions** — The Group has elected to recognize all cumulative (and previously unrecognized) actuarial gains and losses in retained earnings for defined benefit plans as at January 1, 2010. The Group has also elected not to provide additional disclosures regarding employee benefit plans, including certain information in respect of defined benefit plans for the previous four annual periods, to the extent that such disclosures relate to a period prior to the Group's date of transition to IFRS.

- **Exemption for decommissioning, restoration and similar liabilities included in the cost of property, plant and equipment** — The Group has elected not to apply IFRIC 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, retrospectively to determine the amount of decommissioning, restoration and similar liabilities to be included in the carrying value of property, plant and equipment as at January 1, 2010. Instead, the Group has determined such carrying values by determining the amount of the liability as at January 1, 2010 in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, estimating the amount that would have been included in the cost of the related asset when the liability first arose and calculating the accumulated depreciation on that amount as at January 1, 2010 based on the Group's current estimate of the useful life of the asset and the depreciation policy applied in accordance with IFRS.

- **Deemed cost exemption** — The Group has elected to use its GAAP revaluation amount as at September 30, 2008 as deemed cost for its Balmat property, plant and equipment as at this date. On September 30, 2008, the Group revalued these Balmat assets to their fair value of nil as a result of recognizing impairment losses, as previously reported in the Group's Canadian GAAP December 31, 2008 audited annual consolidated financial statements.

- **Cumulative translation differences exemption** — The Group has elected to deem cumulative translation differences for all foreign operations to be zero at January 1, 2010, and reclassify any such amounts determined in accordance with Canadian GAAP at that date to retained earnings.

- **Borrowing costs exemption** — The Group has elected to apply IAS 23, *Borrowing Costs*, prospectively to borrowing costs related to qualifying assets for which the commencement date for capitalization was on or after August 1, 2008. Accordingly, the Group has carried forward its Canadian GAAP accounting treatment for borrowing costs related to qualifying assets for which the commencement date for capitalization was prior to August 1, 2008.

- **Share-based payment exemption** — The Group has elected not to apply IFRS 2, *Share-based Payment*, retrospectively to equity instruments in share-based payment transactions that were granted on or before November 7, 2002, equity instruments granted after November 7, 2002 that vested before January 1, 2010, and liabilities for cash-settled share-based payment transactions that were settled before January 1, 2010.

- **Lease exemption** — The Group has elected to determine whether arrangements existing at January 1, 2010 contain a lease on the basis of facts and circumstances existing at that date.

Mandatory exceptions:

IFRS 1 requires certain mandatory exceptions to retrospective application of IFRS. The following mandatory exceptions were applicable to the Group's transition to IFRS:

- **Estimates** — Hindsight is not used to create or revise estimates. The Group has not revised estimates previously made under Canadian GAAP, except for adjustments required to reflect any difference in accounting policies or calculations. In particular, estimates at the date of transition to IFRS of market prices, interest rates and foreign exchange rates reflect market conditions at that date.

- **Hedge accounting** — Hedging relationships cannot be retrospectively designated or retrospectively de-designated. The Group designated new hedging relationships in 2009 using documentation that satisfied both Canadian GAAP and IFRS requirements. In addition, in 2010, the Group continued to reclassify gains and losses from its hedging reserve to the income statement for a hedging relationship that was designated in 2007 under Canadian GAAP and discontinued in 2008 upon settlement of the hedging derivatives. This treatment was consistent with IFRS requirements. The Group did not record any retrospective adjustments to hedge accounting upon transition to IFRS.

Reconciliation of equity as at January 1, 2010 and December 31, 2010

	Notes	Jan. 1, 2010 (transition date)	Dec. 31, 2010
Total equity under Canadian GAAP		$ 1,698,484	$ 1,748,981
Adjustments to equity, net of tax			
Exploration and evaluation	a	(21,339)	(54,005)
Decommissioning and restoration liabilities and assets	b	(14,930)	(24,164)
Property, plant and equipment	c	(5,058)	(10,796)
Functional currency	d	(4,561)	(25,033)
Employee benefits	e	(3,641)	(2,682)
Provisions	f	(1,034)	(698)
"Own-use" derivatives	g	307	1,896
Non-controlling interest	h	1,356	49
Effect of re-measuring taxes	i	—	271
Net adjustment to equity		(48,900)	(115,162)
Total equity under IFRS		$ 1,649,584	$ 1,633,819

Reconciliation of statement of comprehensive income for the year ended December 31, 2010

	Notes	Before tax	Year ended Dec. 31 2010 Net of tax
Total comprehensive income under Canadian GAAP			$ 105,290
Adjustments to profit:			
Exploration and evaluation	a	(53,569)	(32,666)
Decommissioning and restoration liabilities and assets	b	(4,499)	(9,236)
Property, plant and equipment	c	(9,336)	(5,738)
Functional currency	d	(5,397)	(5,397)
Employee benefits	e	1,330	959
Provisions	f	473	337
"Own-use" derivatives	g	2,215	1,589
Effect of re-measuring taxes	i	—	1,019
Share-based payment	j	118	118
Other		(6)	(6)
Total adjustment to profit		(68,671)	(49,021)
Adjustment to other comprehensive income (loss):			
Functional currency	d	(15,070)	(15,070)
Available-for-sale investments	i		(386)
Other		(2)	(1)
Total adjustment to OCI (loss)		(15,072)	(15,457)

Total adjustment to comprehensive income	(83,743)	(64,478)
Total comprehensive income under IFRS		$ 40,812

Notes to reconciliations:

Transition to IFRS has resulted in the following adjustments as a result of applying the Group's IFRS accounting policies as at January 1, 2010:

(a) Exploration for and evaluation of mineral resources

The Group has selected an IFRS policy to expense the cost of its exploration and evaluation ("E&E") activities and to capitalize the cost of acquiring interests in mineral rights, licenses and properties in business combinations, asset acquisitions or option agreements. Application of this policy resulted in a transition adjustment to reverse the Lalor project assets previously capitalized under Canadian GAAP, as the amounts arose from E&E activities rather than acquisitions. Under IFRS, the Group began capitalizing Lalor project expenditures in January 2011, when it reached the end of the E&E phase. At that time, the Group had completed a preliminary feasibility study, some

of the resources had been converted to reserves, and management had determined it was probable the property would be developed into a mine.

Under IFRS, the Group capitalizes option payments and records option payments received as a reduction to the cost of the related E&E asset, with any excess over cost recognized as a gain in the income statement. Upon transition to IFRS, the Group recorded adjustments to reduce the cost of E&E assets for option payments previously received and recorded in the income statement under Canadian GAAP. The Group also recorded adjustments to increase the cost of E&E assets for option payments it previously expensed under Canadian GAAP.

Balance sheet	**Jan. 1, 2010**	**Dec. 31, 2010**
Decrease in exploration and evaluation assets within property, plant and equipment:		
- Lalor Project	$ (32,779)	$ (86,123)
- Option payments	(882)	(1,107)
Tax effect:		
- Income taxes	9,070	23,474
- Mining taxes	3,252	9,751
Decrease in retained earnings	$ (21,339)	$ (54,005)

Statement of comprehensive income	**Year ended Dec. 31, 2010**
Increase in exploration and evaluation expense	$ (53,569)
Tax effect:	
- Income taxes	14,404
- Mining taxes	6,499
Decrease in comprehensive income	$ (32,666)

(b) Decommissioning and restoration

As noted above, the Group applied the IFRS 1 exemption related to decommissioning, restoration and similar liabilities included in the cost of property, plant and equipment.

Under Canadian GAAP, the Group applied a credit-adjusted, risk-free rate to measure its decommissioning and restoration liabilities

and did not re-measure the liabilities as a result of changes in the discount rate. Under IFRS, the Group reflects risk in estimated future cash flows and applies a risk-free rate when measuring decommissioning and restoration liabilities and, in subsequent periods, re-measures the liabilities to reflect changes in the discount rate. Differences between historical, credit-adjusted Canadian GAAP discount rates and current, risk-free IFRS discount rates resulted in IFRS transition adjustments to increase decommissioning and restoration liabilities.

The increase in these liabilities also led to IFRS transition adjustments to increase the carrying value of decommissioning and restoration assets. Changes in decommissioning and restoration liabilities related to properties that have no remaining useful life are recorded against other operating expense. The changes to liability and asset balances also affected finance expense related to the unwinding of discounts on liabilities and depreciation expense.

Balance sheet	Jan. 1, 2010	Dec. 31, 2010
Increase in decommissioning, restoration and similar liabilities	$ (31,100)	$ (51,814)
Increase in decommissioning and restoration assets within property, plant and equipment	24,275	40,490
Tax effect:		
- Income taxes	(5,880)	(9,119)
- Mining taxes	(2,169)	(3,668)
Increase in non-controlling interest	(56)	(53)
Decrease in retained earnings	$ (14,930)	$ (24,164)

Statement of comprehensive income	Year ended Dec. 31, 2010
Decrease in finance expense - unwinding of discounts on provisions	$ 1,389
Increase in other operating expense - cost of non-producing properties	(2,562)
Increase in cost of sales - depreciation and amortization	(3,326)
Tax effect:	
- Income taxes	(3,238)
- Mining taxes	(1,499)
Decrease in comprehensive income	$ (9,236)

(c) Property, plant and equipment

IFRS requires capitalized costs to be directly attributable to bringing assets to a working condition for their intended use and requires depreciation to be calculated separately for individual components of an item of property, plant and equipment that have costs significant in relation to the total cost of the item. Under IFRS, components may be physical or non-physical. Costs of major inspections and overhauls are capitalized as separate components and depreciated over the useful lives of the major inspection or overhaul. Requirements under Canadian GAAP, while similar, are less specific.

Application of IFRS required the Group to account for components at a more detailed level. Identification of additional components with shorter useful lives than that of the item of property, plant and equipment resulted in IFRS transition adjustments to increase accumulated depreciation. For certain equipment, the increase in accumulated depreciation also reflected a change in depreciation method from unit-of-production to straight-line because the expected pattern of future economic benefits was different at the lower level of componentization.

The Group recorded IFRS transition adjustments to increase the carrying value of property, plant and equipment for major inspection and overhauls of mobile equipment that required capitalization as separate components under IFRS but were expensed under Canadian GAAP.

In addition, IFRS requires depreciation of equipment used in construction projects to be capitalized. Canadian GAAP requirements, while similar, are less specific. The Group has recorded IFRS adjustments to reflect the capitalization of depreciation of equipment used in capital mine development. This resulted in increases to the capital cost of mining properties.

The Group recorded IFRS transition adjustments to decrease the carrying value of property, plant and equipment for owners' costs that were capitalized to a development project under Canadian GAAP but under IFRS are not considered directly attributable to bringing the assets to a working condition for their intended use.

These changes resulted in adjustments to the Group's depreciation expense throughout its 2010 transition year.

Balance sheet	Jan. 1, 2010	Dec. 31, 2010
Decrease in property, plant and equipment	$ (7,994)	$ (17,330)
Tax effect:		
- Income taxes	2,149	4,656
- Mining taxes	787	1,878
Decrease in retained earnings	$ (5,058)	$ (10,796)

Statement of comprehensive income	Year ended Dec. 31, 2010
Increase in cost of sales - depreciation and amortization and cost of sales - mine operating costs	$ (9,336)
Tax effect:	
- Income taxes	2,507
- Mining taxes	1,091
Decrease in comprehensive income	$ (5,738)

(d) Functional currency

IFRS requirements for determining the functional currency of an entity are more specific than those in Canadian GAAP. Under Canadian GAAP, the measurement currency of all Group entities was the Canadian dollar. Under IFRS, the Group determined the functional currency of its Guatemalan operations is the US dollar. To simplify the calculation of the transition adjustments, the Group elected the IFRS 1 exemption to deem cumulative translation differences to be zero as at January 1, 2010; accordingly, the Group recorded the differences identified against retained earnings, rather than determining the portion that would otherwise have been recognized as cumulative translation differences in the foreign currency reserve. The Group gained control of the Back Forty project in Michigan during the third quarter of 2010 and identified a similar difference in functional currency between Canadian GAAP and IFRS.

Balance sheet	Jan. 1, 2010	Dec. 31, 2010
Decrease in capital works in progress within property, plant and equipment	$ (4,566)	$ (24,302)
Decrease in E&E assets within within property, plant and equipment	(18)	(979)
Decrease in decommissioning and restoration liabilities	24	240
(Increase) decrease in other liabilities	(1)	8
Decrease in equity	$ (4,561)	$ (25,033)

Statement of comprehensive income	Year ended Dec. 31, 2010
Change in other finance losses - foreign exchange	$ (5,397)
Decrease in other comprehensive income - net loss on translation of foreign operations	(15,070)
Decrease in comprehensive income	$ (20,467)

(e) Employee benefits

Under IFRS, past service costs are recognized over the vesting period, whereas Canadian GAAP allows recognition of past service costs over the expected average remaining service period. As a result, the Group recorded a transition adjustment to charge unamortized, vested past service costs to retained earnings. Also, as noted above, the Group elected the IFRS 1 exemption to reset unamortized actuarial gains and losses to zero as at January 1, 2010 with an adjustment against retained earnings.

IFRS currently in effect provide a policy choice for ongoing recognition of actuarial gains and losses. Entities may opt to recognize actuarial gains and losses in profit or loss, applying either the corridor method or an approach that results in faster recognition; alternately, entities may recognize actuarial gains and losses immediately in other comprehensive income. The Group chose to continue to apply the corridor method to recognize actuarial gains and losses in profit or loss under IFRS.

The transition adjustments described above, together with the Group's policy choice for recognition of actuarial gains and losses under the corridor method, caused ongoing IFRS adjustments during the Group's 2010 transition year.

Balance sheet	**Jan. 1, 2010**	**Dec. 31, 2010**
Charge unamortized, vested past service costs to retained earnings: increase in pension obligations	$ (3,923)	$ (2,617)
Charge unamortized actuarial gains and losses to retained earnings:		
- Decrease in pension obligations	4,376	4,400
- Increase in other employee benefits	(3,988)	(3,988)
Tax effect - income taxes	(106)	(477)
Decrease in retained earnings	$ (3,641)	$ (2,682)

Statement of comprehensive income	**Year ended Dec. 31, 2010**
Decrease in cost of sales - mine operating costs	$ 1,330
Tax effect - income taxes	(371)
Increase in comprehensive income	$ 959

(f) Provisions

IFRS requires recognition of provisions that are constructive obligations, which arise when an entity's past practice or sufficiently detailed public statements have created a valid expectation in other parties that it will carry out an action. The Group recorded transition adjustments for donation commitments previously made that require recognition under IFRS as constructive obligations but under Canadian GAAP were recorded as payments were made.

Balance sheet	**Jan. 1, 2010**	**Dec. 31, 2010**
Increase in other provisions		
- Current (presented in other liabilities)	$ (546)	$ (524)
- Non-current	(810)	(359)
Tax effect - income taxes	317	181
Decrease in non-controlling interest	5	4
Decrease in retained earnings	$ (1,034)	$ (698)

Statement of comprehensive income	**Year ended Dec. 31, 2010**
Decrease in cost of sales - mine operating costs	$ 237
Decrease in selling and administrative expenses	200
Decrease in other operating expenses	36
Tax effect - income taxes	(136)
Increase in comprehensive income	$ 337

(g) "Own-use" derivatives

Under IFRS, contracts to buy or sell non-financial items that meet the definition of a derivative but were entered into and are held in accordance with the Group's expected purchase, sale or usage requirements are exempt from being treated as derivatives. This exemption is applied automatically under IFRS. Under Canadian GAAP, this exemption from derivative treatment is elective, not mandatory, and must be documented before it can be applied.

The Group recorded an IFRS transition adjustment to de-recognize derivative assets and liabilities recorded under Canadian GAAP for fixed-price zinc sales contracts that are accounted for using the "own-use" exemption under IFRS. Under Canadian GAAP, the Group had chosen not to apply the elective exemption to these contracts.

Balance sheet	Jan. 1, 2010	Dec. 31,
Decrease in derivative assets	$ (151)	$ (17)
Decrease in derivative liabilities	596	2,677
Tax effect - income taxes	(138)	(764)
Increase in retained earnings	$ 307	$ 1,896

Statement of comprehensive income	Year ended Dec. 31, 2010
Increase in revenue - zinc	$ 2,215
Tax effect - income taxes	(626)
Increase in comprehensive income	$ 1,589

HUDBAY MINERALS INC.
Notes to Consolidated Financial Statements
(in thousands of Canadian dollars, except where otherwise noted)
Years ended December 31, 2011 and 2010

(h) Non-controlling interest

IFRS requires presentation of non-controlling interests within equity on the balance sheet, separate from the equity of the owners of the parent entity. The Group has recorded a transition adjustment to reclassify non-controlling interests to equity from other long-term liabilities. The Group reflected the same reclassification as at January 1, 2010 in its Canadian GAAP financial statements upon early adoption of a new Canadian GAAP standard for non-controlling interests. This transition adjustment had no impact on retained earnings.

In addition, the Group recorded changes to non-controlling interests as a result of other transition adjustments.

Balance sheet	Jan. 1, 2010	Dec. 31, 2010
Decrease in other long-term liabilities	$ 1,305	$ —
Effect on non-controlling interest as a result of other transition adjustments	51	49
Increase in equity (non-controlling interest)	1,356	49
Effect on non-controlling interest arising from a change in functional currency	—	(326)
Total increase (decrease) in non-controlling interest	$ 1,356	$ (277)

(i) Equity reclassifications and adjustments for tax purposes

Under IFRS, current and deferred taxes are normally recognized in the income statement except to the extent that tax arises from an item that has been recognized outside the income statement. Accordingly, the effect of re-measuring taxes that were initially recognized outside the income statement is recorded in equity or other comprehensive income as applicable. The practice of tracking the re-measurement of taxes back to the item that originally triggered the recognition is commonly referred to as "backwards tracing". Canadian GAAP prohibits backwards tracing, except on business combinations and financial reorganizations; accordingly, the effect of re-measuring taxes is generally recognized in the income statement, even if the taxes were initially recognized outside the income statement.

Under Canadian GAAP, the Group recognized the effect of re-measuring taxes related to available-for-sale investments, cash flow

hedges and certain share issue costs in the income statement. Upon transition to IFRS, Hudbay recorded an adjustment to reclassify the effect of re-measuring taxes related to these items within equity, from retained earnings to reserves within share capital. These backwards tracing adjustments had no impact on total equity. Backwards tracing adjustments during the 2010 fiscal year also affected income tax expense.

In the past under Canadian GAAP, the Group recognized the effect of the renunciation of tax deductions to holders of flow-through shares as a cost of issuing equity while under IFRS the renunciation of tax deductions is treated as a future tax expense. Upon transition to IFRS, Hudbay recorded an adjustment to reclassify the effect of the renunciation of tax deductions related to flow-through shares within equity, from reserves within share capital to retained earnings.

In addition, during the three months ended June 30, 2010, the Group adjusted its estimate of deferred mining taxes related to IFRS adjustments as a result of changes in assumptions related to the tax rate that will be applicable when temporary differences reverse. The province of Manitoba imposes a mining tax rate based on the level of mining profit of mineral products mined in the province. Consequently, changes in assumptions regarding future mining profit can significantly affect the applicable tax rate.

Balance sheet	Jan. 1, 2010	Dec. 31, 2010
Backwards tracing - share issue costs		
- Increase to share capital	$ (5,931)	$ (5,931)
Flow through shares		
- Increase to share capital	(6,369)	(6,369)
Backwards tracing - other comprehensive income		
- Increase to available-for-sale reserve	(491)	(491)
- Decrease to hedging reserve	140	140
Effect of change in estimates		
- Income taxes - increase to deferred tax liability	—	(300)
- Mining taxes - increase to deferred tax asset	—	571
Decrease in retained earnings	$ (12,651)	$ (12,380)

Statement of comprehensive income	Year ended Dec. 31, 2010
Transfer from available-for-sale reserve to income statement:	
Decrease in income tax expense	$ 386
Decrease in OCI	(386)
Decrease in income tax expense	62
Decrease in mining tax expense	571
Increase in comprehensive income	$ 633

(j) Share-based payment

IFRS requires measurement of equity-settled instruments based on the number of equity instruments that are expected to vest, unless forfeitures are due to market-based conditions. Under Canadian GAAP, Hudbay accrues compensation cost as if all equity instruments granted were expected to vest and recognizes the effect of actual forfeitures as they occur.

Upon transition to IFRS, the Group calculated an adjustment to reflect the effect of estimating forfeitures for unvested stock options outstanding as at January 1, 2010 and reclassified amounts within equity, from other capital reserve to retained earnings. The Group determined its estimate of forfeitures using historical information available at the transition date.

This transition adjustment had no impact on total equity.

Balance sheet	Jan. 1, 2010	Dec. 31, 2010

Decrease in other capital reserve	$ 232	$ 350
Increase in retained earnings	$ 232	$ 350

Statement of comprehensive income	Year ended Dec. 31, 2010
Decrease in selling and administrative expenses - share-based payment	$ 118
Increase in comprehensive income	$ 118

(k) Other reclassifications not affecting total equity

The Group's opening balance sheet reflects the following reclassifications:

- Materials and supplies inventory of $5,188 (December 31, 2010 - $6,052) was reclassified to non-current inventories.
- Current future tax assets of $23,152 (December 31, 2010 - $15,431) and current future tax liabilities of $75 (December 31, 2010 - $0; presented in current portion of other liabilities) were reclassified to non-current deferred tax assets and liabilities, as IFRS does not permit current asset / liability presentation for deferred taxes.
- Available-for-sale investments of $27,249 (December 31, 2010 - $104,990) were presented on a separate balance sheet line under Canadian GAAP and have been reclassified to other financial assets under IFRS.
- Non-current prepaid expenses of $0 (December 31, 2010 - $1,884) were included in other assets under Canadian GAAP and have been reclassified to a separate balance sheet line under IFRS.
- Non-current future tax assets of $19,720 (December 31, 2010 - $8,636; presented in other assets) were reclassified to a separate line titled deferred tax assets.
- Intangible assets (capitalized computer software) of $1,967 (December 31, 2010 - $7,083) were reclassified from other assets to a separate line on the balance sheet.
- Current derivative liabilities of $3,503 (December 31, 2010 - $5,445) were reclassified from current portion of other liabilities to a separate line on the balance sheet.
- Accruals of $3,626 (December 31, 2010 - $1,603) were reclassified from accounts payable and accrued liabilities to current provisions (presented in other liabilities).
- Accruals of $651 (December 31, 2010 - $879) were reclassified from accounts payable and accrued liabilities to current other employee benefits (presented in other liabilities).
- Accruals of $3,659 (December 31, 2010 - $3,446) were reclassified from accounts payable and accrued liabilities to non-current other employee benefits.
- Liabilities for deferred share units of $1,190 (December 31, 2010 - $3,167) were reclassified from other employee future benefits and stock-based compensation to current provisions (presented in other liabilities).
- Liabilities for restricted share units of $0 (December 31, 2010 - $1,641) were reclassified from other employee future benefits and stock-based compensation to non-current provisions.
- Contributed surplus of $26,717 (December 31, 2010 - $24,205) was reclassified within equity to reserves (other capital reserves).

The Group's statement of comprehensive income for the year ended December 31, 2010 reflects the following reclassifications:

- Depreciation expense of $103,399 was reclassified into the functions cost of sales, selling and administrative expenses and other operating expenses.
- Stock-based compensation expense of $6,511 was reclassified primarily into the functions cost of sales and selling and administrative expenses.
- Accretion expense of $4,352 related to decommissioning and restoration liabilities was reclassified to finance expense (unwinding of discounts on provisions).
- Foreign exchange losses of $8,477 were reclassified from operating expenses to other finance gains/losses.
- Costs of non-producing properties of $22,882 were reclassified out of operating expenses and into other operating expenses.
- Administrative expenses of $8,139 directly related to producing properties were reclassified out of general and administrative expenses and into cost of sales.
- Selling costs of $2,769 were reclassified out of operating expenses and into selling and administrative expenses.
- Capital tax and other expenses of $597 were reclassified from operating expenses to finance expenses.
- Gains on the disposal of available-for-sale investments of $2,124 were reclassified from interest and other income to other finance gains/losses.
- Amounts of $162 were reclassified among interest and other income, other operating income and finance expenses.

Effect of transition to IFRS on the balance sheet as at January 1, 2010 (date of transition to IFRS)

	Canadian GAAP	IFRS Reclassification	IFRS adjustment	Notes	IFRS	IFRS captions
Assets:						**Assets:**
Current assets:						Current assets:
Cash and cash equivalents	886,814				886,814	Cash and cash equivalents
Accounts receivable	40,187	(1)	(1)		40,185	Trade and other receivables
Inventories	131,128	(5,188)		*k*	125,940	Inventories
Prepaid expenses and other current assets	7,990				7,990	Prepaid expenses and other current assets
Current portion of fair value of derivatives	1,106		(151)	*g*	955	Other financial assets
Income taxes receivable	15,313				15,313	Taxes receivable
Future tax assets	23,152	(23,152)		*k*	—	
	1,105,690	(28,341)	(152)		1,077,197	
	—	5,188		*k*	5,188	Inventories
AFS investments	27,249	(27,249)		*k*	—	
Other assets	81,113	5,563	—	*k*	86,676	Other financial assets
	—	1,967		*k*	1,967	Intangible assets
Property, plant and equipment	818,634		(21,965)	*a,b,c,d*	796,669	Property, plant and equipment
	—	29,597	1,737	*a,b,c,f,k*	31,334	Deferred tax assets
	2,032,686	(13,275)	(20,380)		1,999,031	
Liabilities and Shareholders' Equity:						**Liabilities and Equity:**
Current liabilities:						Current liabilities:
Accounts payable and accrued liabilities	119,738	(7,936)		*k*	111,802	Trade and other payables
Taxes payable	—				—	Taxes payable
	—	3,503	(596)	*g,k*	2,907	Derivative liabilities
Current portion of other liabilities	40,228	1,889	543	*d,f,k*	42,660	Other liabilities
	159,966	(2,544)	(53)		157,369	
Pension obligations	516		(453)	*e*	63	Pension obligations
Other employee future benefits and DSUs	81,287	2,469	3,988	*e,k*	87,744	Other employee benefits
Asset retirement obligations	49,133		31,888	*b,d,f*	81,021	Provisions
Fair value of derivatives	7,068				7,068	Derivative liabilities
Other liabilities	1,305		(1,305)	*h*	—	
Future income tax	34,927	(13,200)	(5,545)	*a,b,c,e,f,g,k*	16,182	Deferred tax liabilities
	334,202	(13,275)	28,520		349,447	
Shareholders' equity:						Equity:
Common shares	644,127		12,300	*i*	656,427	Share capital
Contributed surplus	26,717	(26,717)		*k*	—	
Retained earnings	1,021,195		(62,677)	*a,b,c,d,e,f,g,i,j*	958,518	Retained earnings

Accumulated other comprehensive income	6,445	26,717	118	*i,j,k*	33,280	Reserves
Non-controlling interest	—		1,359	*b,f,h*	1,359	Non-controlling interests
	1,698,484	—	(48,900)		1,649,584	
	2,032,686	(13,275)	(20,380)		1,999,031	

Effect of transition to IFRS on the balance sheet as at December 31, 2010

Canadian GAAP captions	Canadian GAAP	Reclassification	IFRS adjustment	Notes	IFRS	IFRS captions
Assets:						**Assets:**
Current assets:						Current assets:
Cash and cash equivalents	901,693				901,693	Cash and cash equivalents
Accounts receivable	78,168				78,168	Trade and other receivables
Inventories	121,694	(6,052)		*k*	115,642	Inventories
Prepaid expenses and other current assets	9,992	2			9,994	Prepaid expenses and other current assets
Current portion of fair value of derivatives	3,813		(18)	*g*	3,795	Other financial assets
Income taxes receivable	99				99	Taxes receivable
Future tax assets	15,431	(15,431)		*k*	—	
	1,130,890	(21,481)	(18)		1,109,391	
	—	6,052		*k*	6,052	Inventories
AFS investments	104,990	(104,990)		*k*	—	
	—	1,884	—	*k*	1,884	Prepaid expenses
Other assets	30,300	87,386	—	*k*	117,686	Other financial assets
	—	7,083		*k*	7,083	Intangible assets
Property, plant and equipment	906,906		(89,348)	*a,b,c,d*	817,558	Property, plant and equipment
	—	15,550	8,340	*a,b,c,f,i,k*	23,890	Deferred tax assets
	2,173,086	(8,516)	(81,026)		2,083,544	
Liabilities and Shareholders' Equity:						**Liabilities and Equity:**
Current liabilities:						Current liabilities:
Accounts payable and accrued liabilities	139,480	(5,928)	45	*d,k*	133,597	Trade and other payables
Taxes payable	33,088				33,088	Taxes payable
	—	5,445	(2,678)	*g,k*	2,767	Derivative liabilities
Current portion of other liabilities	55,800	204	449	*d,f,k*	56,453	Other liabilities
	228,368	(279)	(2,184)		225,905	
Pension obligations	2,604		(1,782)	*e*	822	Pension obligations
Other employee future benefits and stock-based compensation	90,439	(1,362)	3,989	*e,k*	93,066	Other employee benefits
Asset retirement obligations	58,915	1,641	51,958	*b,d,f,k*	112,514	Provisions
Fair value of derivatives	1,633		(1)		1,632	Derivative liabilities
Future income tax	42,146	(8,516)	(17,844)	*a,b,c,e,f,g,i*	15,786	Deferred tax liabilities
	424,105	(8,516)	34,136		449,725	
Shareholders' equity:						Equity:
Common shares	629,861		12,300	*i*	642,161	Share capital
Contributed surplus	24,205	(24,205)		*k*	—	
Retained earnings	1,043,516		(112,052)	*a,b,c,d,e,f,g,i,j*	931,464	Retained earnings
Accumulated other comprehensive income	41,697	24,205	(15,130)	*d,i,j,k*	50,772	Reserves
Non-controlling interest	9,702		(280)	*b,d,f,h*	9,422	Non-controlling interests
	1,748,981	—	(115,162)		1,633,819	
	2,173,086	(8,516)	(81,026)		2,083,544	

Effect of transition to IFRS on statement of comprehensive income for the year ended December 31, 2010

Canadian GAAP captions	Canadian GAAP	IFRS reclass-ification	IFRS adjust-ment	Reclassify loss from discontinued operations	Notes	IFRS	IFRS captions
Revenue	778,818		2,214	—	*g*	781,032	Revenue

Operating expenses	(451,106)	17,216	2,377	—	*c,e,f,k*	(431,513)	Cost of sale - mine operating costs
Depreciation and amortization	(103,399)	382	(13,471)	—	*b,c,k*	(116,488)	Cost of sales - depreciation and amortization
General and administrative	(28,132)	(378)	318	—	*f, j,k*	(28,192)	Selling and administrative
Stock-based compensation	(6,511)	6,511			*k*	—	
Accretion	(4,352)	4,352			*k*	—	
Foreign exchange gain (loss)	(8,477)	8,477			*k*	—	
Exploration	(29,822)	(104)	(53,568)	1,765	*a,k*	(81,729)	Exploration and evaluation
		803		9	*k*	812	Other operating income
		(23,032)	(2,525)	11,768	*b,f,k*	(13,789)	Other operating expenses
Interest and other income	8,323	(1,961)		(11)	*k*	6,351	Finance income
	—	(5,914)	1,383	153	*b,k*	(4,378)	Finance expenses
Gain (loss) on derivative instruments	2,763	(6,352)	(5,397)	5,549	*d,k*	(3,437)	Other finance gains (losses)
Earnings before tax	158,105	—	(68,669)	19,233		108,669	Profit before tax
Tax (expense) benefit	(88,067)		19,648	165	*a,b,c,e,f,g,i*	(68,254)	Tax (expense) benefit
Profit from continuing operations	70,038		(49,021)	19,398		40,415	Profit from continuing operations
Loss from discontinued operations	—			(19,398)		(19,398)	Loss from discontinued operations
Net earnings for the period	70,038		(49,021)	—		21,017	Profit for the year

Canadian GAAP captions	Canadian GAAP	IFRS reclass-ification	IFRS adjust-ment	Reclassify loss from discontinued operations	Notes	IFRS	IFRS captions
Net earnings for the period	70,038		(49,021)			21,017	Profit for the year
Other comprehensive income (loss), net of tax:							Other comprehensive income (loss), net of tax:
Cash flow hedges	3,019		(1)	—	*i*	3,018	Cash flow hedges
AFS investments	32,233		(386)	—		31,847	AFS investments
Currency translation adjustments	—		(15,070)	—	*d*	(15,070)	Foreign currency translation
Other comprehensive income (loss), net of tax	35,252		(15,457)	—		19,795	Other comprehensive income (loss), net of tax
Total comprehensive income for the period	105,290	—	(64,478)	—		40,812	Total comprehensive income
Attributable to:							Attributable to:
Equity holders of the Company	108,237	—	(64,145)	—	*a,b,c,d,e,f,g,i,j*	44,092	Equity holders of the Company
Non-controlling interest	(2,947)	—	(333)	—	*b,h*	(3,280)	Non-controlling interest
Total comprehensive income	105,290	—	(64,478)	—		40,812	Total comprehensive income
Earnings per share							Earnings per share
Basic	$ 0.48		$ (0.33)			$ 0.15	Basic
Diluted	$ 0.48		$ (0.33)			$ 0.15	Diluted

Effect of transition to IFRS on statement of cash flows for the year ended December 31, 2010:

	Canadian GAAP	IFRS changes	IFRS
Net cash flows from operating activities	$ 255,590	$ (60,427)	$ 195,163
Net cash flows from investing activities	(162,275)	60,427	(101,848)

Net cash flows from financing activities	(75,610)	—	(75,610)
Effect of movement in exchange rates on cash and cash equivalents	(2,826)	—	(2,826)
Net increase (decrease) in cash and cash equivalents	14,879	—	14,879
Cash and cash equivalents, beginning of period	886,814	—	886,814
Cash and cash equivalents, end of period	$ 901,693	$ —	$ 901,693

Significant reclassifications in the Group's statement of cash flows for the year ended December 31, 2010 include:

- Expenditures of $53,344 on the Group's Lalor project have been classified in operating activities, consistent with the adjustment to reverse the Lalor project assets previously capitalized under Canadian GAAP.

- Expenditures of $810 on major overhauls and inspections have been classified as investing activities. These costs are capitalized under IFRS but were previously expensed under Canadian GAAP.

- Option payments received of $225 have been classified in investing activities. These amounts were recognized in the income statement under Canadian GAAP.

- Interest income received of $5,664 has been reclassified from operating activities to investing activities, consistent with the Group's IFRS policy choice.

Exhibit 99.3

HUDBAY MINERALS INC.

Management's Discussion and Analysis of
Results of Operations and Financial Condition

For the year ended
December 31, 2011

March 7, 2012

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NOTES TO READER

This Management's Discussion and Analysis ("MD&A") dated March 7, 2012 is intended to supplement and complement HudBay Minerals Inc.'s audited consolidated financial statements and related notes for the year ended December 31, 2011 (the "consolidated financial statements"). The consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and IFRS 1 *First-time Adoption of International Financial Reporting Standards.*

Except as otherwise noted, the financial information contained in this MD&A and our consolidated financial statements has been prepared in accordance with IFRS. We previously prepared our financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). For more information regarding our conversion to IFRS, refer to the heading "Accounting Changes - Adoption of International Financial Reporting Standards" on page 51 of this MD&A and to note 31 of the consolidated financial statements, which contain further information and a reconciliation to IFRS of our previously reported financial information prepared under GAAP. For a description of accounting policies applied, refer to note 3 of the consolidated financial statements. Additional information regarding Hudbay is contained in our continuous disclosure materials, including our most recent Annual Information Form ("AIF"), annual MD&A, audited consolidated financial statements, and Management Information Circular, available on our website at www.hudbayminerals.com, on SEDAR at www.sedar.com and on EDGAR at www.sec.gov and our most recent Form 40-F is also available on EDGAR at www.sec.gov.

All amounts are in Canadian dollars unless otherwise noted.

References to "Hudbay", the "Company", "we", "us", "our" or similar terms refer to HudBay Minerals Inc. and its direct and indirect subsidiaries. "HBMS" refers to Hudson Bay Mining and Smelting Co., Limited and "Hudbay Peru" refers to Hudbay Peru Inc. (previously named Norsemont Mining Inc.), both wholly-owned subsidiaries of Hudbay. "HMI Nickel" refers to HMI Nickel Inc., which was amalgamated into HudBay Minerals Inc. during the third quarter of 2011. "CGN" refers to Compañía Guatemalteca de Níquel, S.A., which was sold as part of the Fenix disposition in the third quarter of 2011. "WPCR" refers to the White Pine Copper Refinery Inc., which was sold during the second quarter of 2011. "Zochem" refers to Zochem Inc., which was sold during the fourth quarter of 2011.

Forward-Looking Information

This MD&A contains “forward-looking information” within the meaning of applicable Canadian and United States securities legislation. Forward-looking information includes, but is not limited to, information with respect to our ability to develop our Lalor, Constancia and Reed projects and our other mineral properties, the ability of management to execute on key strategic and operational objectives and meet production forecasts, exploration expenditures and activities and the possible success of such exploration activities, the estimation of mineral reserves and resources, the realization of mineral estimates, the timing and amount of estimated future production, costs of production, capital expenditures, costs and timing of the development of new deposits, mineral pricing, reclamation costs, economic outlook, government regulation of mining operations, mine life projections, the ability to maintain a regular dividend on our common shares, the availability of third party concentrate for processing in our facilities and the availability of third party processing facilities for our concentrate, business and acquisition strategies and the timing and possible outcome of pending litigation. Often, but not always, forward-looking information can be identified by the use of forward-looking words like “plans”, “expects”, or “does not expect”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “understands”, “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”. Forward-looking information is based on the opinions and estimates of management as of the date such information is provided and is subject to known and unknown risks, uncertainties and other factors that may cause our actual results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking information, including the ability to develop and operate our Lalor and Constancia projects on an economic basis and in accordance with applicable timelines, the ability to receive permits required to achieve production at Lalor, Constancia and Reed, the ability to reach agreements with local communities at Constancia in order to enable us to commence construction of the project, geological and technical conditions at our key projects being adequate to permit development, the ability to meet required solvency tests to support a dividend payment, risks associated with the mining industry such as economic factors (including future commodity prices, currency fluctuations and energy prices), failure of plant, equipment, processes and transportation services to operate as anticipated, dependence on key personnel and employee relations, environmental risks, government regulation (including anti-bribery legislation), aboriginal rights and title, actual results of current exploration activities, possible variations in ore grade or recovery rates, permitting timelines, capital expenditures, reclamation activities, land titles, and social and political developments and other risks of the mining industry as well as those risk factors discussed or referred to in our AIF under the heading “Risk Factors”. Although we have attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. In addition, certain forward-looking information in this MD&A relate to prospective results of operations, financial positions or cash flows based on assumptions about future economic conditions or courses of action. Such information is provided in an attempt to assist the reader in identifying trends and anticipated events that may affect our business, results of operations and financial position and may not be appropriate for other purposes. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information. Specific reference is made to our most recent Form 40-F on file with the United States Securities and Exchange Commission (the “SEC”) and our most recent AIF on file with Canadian provincial securities regulatory authorities for a discussion of some of the factors underlying forward-looking statements. We do not undertake to update or revise any forward-looking information whether as a result of new information, future events or otherwise, except as required by applicable securities laws, or to comment on analyses, expectations or statements made by third parties in respect of our financial or operating results or our securities.

Note to United States Investors

This MD&A 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 applicable to U.S. companies. We have adopted IFRS as issued by the International Accounting Standards Board for the first time in our consolidated annual financial statements for the year ending December 31, 2011, which include comparative figures for the year ended December 31, 2010. Accordingly, the consolidated financial statements and related notes for the year ended December 31, 2011 are prepared in accordance with IFRS, including IFRS 1 *First-time Adoption of International Financial Reporting Standards.*

Information concerning our mineral properties has been prepared in accordance with the requirements of Canadian securities laws, which differ in material respects from the requirements of the SEC Industry Guide 7. Under SEC Industry Guide 7, mineralization may not be classified as a “reserve” unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time of the reserve determination, and the SEC does not recognize the reporting of mineral deposits which do not meet the SEC Industry Guide 7 definition of “Reserve”. In accordance with National Instrument 43-101 - Standards of Disclosure for Mineral Projects (“NI 43-101”) of the Canadian Securities Administrators, the terms “mineral reserve”, “proven mineral reserve”, “probable mineral reserve”, “mineral resource”, “measured mineral resource”, “indicated mineral resource” and “inferred mineral resource” are defined in the Canadian Institute of Mining, Metallurgy and Petroleum (the “CIM”) Definition Standards for Mineral Resources and Mineral Reserves adopted by the CIM Council on December 11, 2005. While the terms “mineral resource”, “measured mineral resource”, “indicated mineral resource” and “inferred mineral resource” are recognized and required by NI 43-101, the SEC does not recognize them. You are cautioned that, except for that portion of mineral resources classified as mineral reserves, mineral resources do not have demonstrated economic value. Inferred mineral resources have a high degree of uncertainty as to their existence and as to whether they can be economically or legally mined. Under Canadian securities laws, estimates of inferred mineral resources may not form the basis of an economic analysis. It cannot be assumed that all or any part of an inferred mineral resource will ever be upgraded to a higher category. Therefore, you are cautioned not to assume that all or any part of an inferred mineral resource exists, that it can be economically or legally mined, or that it will ever be upgraded to a higher category. Likewise, you are cautioned not to assume that all or any part of measured or indicated mineral resources will ever be upgraded into mineral reserves. You are urged to consider closely the disclosure on the mining industry technical terms in Schedule A “Glossary of Mining Terms” of our Annual Information Form (“AIF”) for the fiscal year ended December 31, 2010, available on SEDAR at www.sedar.com and incorporated by reference as Exhibit 99.1 in our Form 40-F filed on EDGAR on March 31, 2011 (File No. 001-34244).

Changes in Presentation of Non-IFRS Financial Performance Measures

We use operating cash flow before changes in non cash working capital, operating cash flow per share, co product cash costs and cash cost per pound of zinc sold as non-IFRS financial performance measures in our MD&A. For a detailed description of each of the non-IFRS financial performance measures used in this MD&A, please see the discussion under "Non-IFRS Financial Performance Measures" beginning on page 47 of our MD&A.

Qualified Person

The technical and scientific information in this MD&A related to the Constancia project has been approved by Cashel Meagher, P. Geo, our Vice-President, South America. The technical and scientific information related to all other sites and projects contained in this MD&A has been approved by Robert Carter, P. Eng, our Manager, Project Evaluation. Mr. Meagher and Mr. Carter are qualified persons pursuant to NI 43-101.

OUR BUSINESS

We are a Canadian integrated mining company governed by the *Canada Business Corporations Act* with shares listed under the symbol "HBM" on the Toronto Stock Exchange and the New York Stock Exchange. With assets in North and South America, we produce copper concentrate (containing copper, gold and silver) and zinc metal and we are focused on the discovery, production and marketing of base and precious metals. Through our subsidiaries, we own copper/zinc/gold mines, ore concentrators and a zinc production facility in northern Manitoba and Saskatchewan, and a copper project in Peru. We also have equity investments in a number of exploration companies with promising mineral properties. Our mission is to create sustainable value through increased commodity exposure on a per share basis for our shareholders.

HIGHLIGHTS

- 2011 production and operating cost targets achieved with strong fourth quarter operating results. Fourth quarter operating cash flow before changes in non cash working capital increased 42% to $52.2 million compared with the same period last year.
- Lalor project construction and development proceeding well with first ore production remaining on schedule for mid-2012, subject to receipt of required regulatory approvals. New copper-gold mineralization discovered approximately 400 metres northeast of the main Lalor deposit.
- Key construction permits for Reed copper project received as site construction commences slightly ahead of schedule, with first ore production still expected by the fourth quarter of 2013, subject to receipt of required regulatory approvals.
- Front-end engineering and design of the Constancia project is well advanced with some long-lead orders secured. A further project update is expected by the end of the first quarter of 2012.
- Exploration success continues at the high-grade Pampacancha deposit adjacent to the Constancia project as recent drill results have expanded the deposit to the north and west and demonstrated higher grades in the middle of the deposit.
- Semi-annual dividend of $0.10 per share declared.

In the fourth quarter, we recorded a profit of $34.3 million, as compared to a profit of $7.9 million for the fourth quarter of 2010. Profits and operating cash flow for the fourth quarter were higher as a result of higher revenue resulting from increased sales volumes as excess copper concentrate inventories were sold, which offset lower copper and zinc prices, compared to the same period of 2010.

We have also announced that after 34 years of exceptional service, Tom Goodman, Senior Vice President and Chief Operating Officer will retire effective June 2012 and will stand for election to our Board of Directors at its next Annual Meeting of Shareholders. Alan Hair, currently Senior Vice President, Business Development and Technical Services and a 16-year veteran of the company, will assume the role of Chief Operating Officer upon Mr. Goodman's retirement.

2011 RESULTS SUMMARY

Our 2011 financial results reflect strong operating and cost performance, together with the successful drawdown of copper concentrate inventory that had accumulated during 2010 following the closure of our copper smelter. Results also benefited from stronger copper and precious metal prices, compared to the same period of 2010.

Operational performance was strong again in 2011. Our 777 mine produced at full capacity with strong copper grades. We managed the challenges associated with late-stage mining operations at our Trout Lake and Chisel North mines. Production of contained metal in concentrate met our production targets for 2011, and we addressed challenges with limited rail car availability to eliminate our excess copper concentrate inventory by year-end.

On July 5, 2011, we completed a compulsory acquisition of the remaining common shares of Hudbay Peru that we did not already own. We now own 100% of Hudbay Peru's issued and outstanding common shares. We had previously acquired a 90.5% interest in Hudbay Peru on March 1, 2011 for share and cash consideration totaling $440.0 million, net of cash acquired.

On September 9, 2011, we completed the sale of our interest in the Fenix ferro nickel project in Guatemala to the Solway Group for consideration of approximately US$140 million in cash at closing. We also expect to receive US$30 million upon the satisfaction of certain conditions during the course of Solway's development of the project. The Fenix project and related entities were recorded as discontinued operations in the consolidated financial statements. During the second quarter of 2011, we recognized an impairment of the carrying value of Fenix of $212.7 million. Upon completion of the sale, we recognized a further loss on disposal of $22.5 million, including accumulated foreign exchange losses transferred from the foreign currency translation reserve within equity to the income statement.

On November 1, 2011 we sold Zochem, our zinc oxide production facility, to a third party for cash consideration of US$15.1 million and recognized an impairment loss of $6.8 million as a result. During the third quarter of 2011, we recorded $19.0 million in deferred tax expense as a result of changes to Peruvian mining tax laws. Including losses from discontinued operations due mainly to the disposition and related carrying value impairment of our investment in the Fenix project, we recorded a loss of $163.6 million in 2011 as compared to a profit of $21.0 million in 2010.

We paid semi-annual dividends of $0.10 per share on each of March 31, 2011 and September 30, 2011.

Profit from continuing operations in 2011 was $75.2 million compared to $40.4 million in 2010, as higher sales volumes and metal prices more than offset the impact of deferred Peruvian mining taxes noted above. Operating cash flow (not including changes in working capital) was $220.3 million in 2011 compared with $140.5 million in 2010, also reflecting higher metal prices and sales volumes.

We reinvested our cash flow into investments in Lalor, Constancia and other growth opportunities as well as our common share dividend. At the end of 2011 we had no debt, cash and cash equivalents of $899.1 million and total available liquidity of $1.1 billion, which provides us with a strong base to fund the development of Lalor and Constancia.

Key Financial and Production Results

Financial Condition ($000s)	**Dec. 31 2011**	**Dec. 31, 2010**
Cash and cash equivalents	**899,077**	901,693
Working capital	**841,705**	883,486
Total assets	**2,448,820**	2,083,544
Equity(1)	**1,813,163**	1,624,397

Financial Performance ($000s except per share and cash cost amounts)	**Three Months Ended**		**Year Ended**	
	Dec. 31 2011	**Dec. 31 2010**	**Dec. 31 2011**	**Dec. 31 2010**
Revenue	**254,314**	184,607	**890,817**	781,032
Profit before tax	**69,813**	26,594	**209,025**	108,669
Profit (loss) from continuing operations	**34,286**	13,694	**75,196**	40,415
Basic and diluted earnings (loss) per share(1)	**0.21**	0.07	**(0.92)**	0.16
Profit (loss) for the period	**34,286**	7,868	**(163,588)**	21,017
Operating cash flow before changes in non-cash working capital (2)	**52,194**	36,713	**220,313**	140,482
Operating cash flow per share (2)	**0.30**	0.25	**1.31**	0.93
Cash cost (on a co-product basis) (2)				
Copper *($/pound)*	**1.52**	1.33	**1.44**	1.43
Zinc *($/pound)*	**0.87**	0.86	**0.95**	0.88
Gold *($/troy oz)*	**617**	360	**437**	378
Cash cost per pound of zinc sold (2)	**US (0.98)**	US (0.43)	**US (0.80)**	US (0.40)
Production (contained metal in concentrate)(3)				
Copper *(tonnes)*	**13,834**	13,660	**54,324**	52,413
Zinc *(tonnes)*	**21,534**	19,120	**75,780**	77,314
Gold *(troy oz.)*	**27,059**	22,375	**94,610**	87,176
Silver *(troy oz.)*	**245,216**	209,788	**875,817**	843,401
Metal Sold				
Copper — Cathode & anodes *(tonnes)*	**—**	50	**481**	31,795
Copper — Payable metal in concentrate *(tonnes)*	**18,336**	8,543	**56,880**	15,407
Zinc — Refined *(tonnes)*	**26,989**	27,200	**100,935**	104,941
Gold — Contained in slimes & anode *(troy oz.)*	**—**	1,948	**2,324**	55,868
Gold — Payable metal in concentrate *(troy oz.)*	**31,407**	13,458	**91,328**	25,239
Silver — Contained in slimes & anode *(troy oz.)*	**—**	21,082	**30,313**	789,305

Payable metal in concentrate *(troy oz.)*	**247,576**	121,270	**734,460**	217,534

(1) Attributable to owners of the Company.
(2) Operating cash flow before changes in non-cash working capital, operating cash flow per share, cash cost (on a co-product basis) and cash cost per pound of zinc sold are non-IFRS financial performance measures with no standardized definition under IFRS. For further information and a detailed reconciliation, please see page 47 of this MD&A.
(3) Metal reported in concentrate is prior to refining losses or deductions associated with smelter terms.

STRATEGY

We believe that the greatest opportunities for shareholder value creation in the mining industry are in the discovery of new mineral deposits and the development of new facilities to profitably extract ore from those deposits. We also believe that our long history of mining in northern Manitoba and our highly experienced workforce provide us with a competitive advantage relative to other mining companies of similar scale.

To capitalize on these opportunities, our mission is to create sustainable value through increased commodity exposure on a per share basis, in high quality, long life deposits with exploration potential in mining friendly jurisdictions.

We intend to grow Hudbay through exploration and development of properties we already control, such as our Lalor project in northern Manitoba, as well as through the acquisition of exploration and development properties, such as our Constancia project in Peru. We also intend to optimize the value of our producing assets through efficient and safe operations.

In order to ensure that any acquisitions we undertake create sustainable shareholder value, we have established a number of criteria for evaluating mineral property acquisition opportunities against our mission, which include the following:

- Potential acquisitions should be located in jurisdictions that are supportive of mining activity and have acceptable levels of political risk. Given our current scale and geographic footprint, our current geographic focus is on investment grade countries in the Americas;
- We believe we have particular expertise in the exploration and development of volcanogenic massive sulphide and porphyry mineral deposits. While these types of deposits typically contain copper, zinc and precious metals in varying quantities, we are not targeting any one type of metal; rather, we focus on properties where we see the greatest opportunities for risk-adjusted returns based on our expectations for future metal prices;
- Any properties that we acquire must have excellent exploration potential. We believe that the markets for mining assets are sophisticated and fully value the delineated resources and reserves, especially at properties that are already in production, which makes it difficult to acquire properties for substantially less than their fair value. However, markets may undervalue the exploration potential of prospective properties, providing us with an opportunity to create value through exploration on acquired properties;
- We believe that large, transformational mergers or acquisitions are risky and potentially value-destructive in the mining industry, so we focus on transactions with a value of up to approximately 20% of our market capitalization, except where exceptional opportunities present themselves;
- Before we make an acquisition, we develop a clear understanding of how we can add value to the acquired property. We intend to add value through the application of technical exploration and development expertise, the provision of needed financial capacity and other opportunities; and
- Acquisitions should be accretive to Hudbay on a per share basis. Given that our strategic focus includes the acquisition of non-producing assets at various stages of development, when evaluating accretion we will consider measures such as net asset value per share and the contained value of reserves and resources per share.

Our key strategic objectives for 2012 and early 2013 are to:

- Advance the Lalor project, including advancing construction on the production and ventilation shafts, commencing delineation and exploration from underground, finalizing engineering and beginning construction on the new Lalor concentrator, and commencing initial production from Lalor later in 2012 using the ventilation shaft;
- Complete front-end engineering design, permitting, land acquisition and arrange project debt financing for the Constancia project to support a formal construction decision by the middle of 2012, and continue exploration near Constancia to identify satellite deposits that can enhance the amount and grade of ore feed to the planned concentrator on site;
- Manage the upcoming closures of the Trout Lake and Chisel North mines;
- Continue our grassroots exploration program in the Flin Flon Greenstone Belt, Peru, Chile and Colombia and continue to partner with junior mining companies to access promising exploration opportunities;
- Initiate construction on the Reed copper project;
- Advance the Back Forty and Tom & Jason projects toward completion of economic assessments and determine our strategy for these assets; and
- Continue to evaluate acquisition opportunities that meet our criteria described above.

OUTLOOK

The outlook and financial targets are for 2012 only. This outlook includes forward-looking information about our operations and financial expectations based on our expectations and outlook as of March 7, 2012. This outlook, including expected results and targets, is subject to various risks, uncertainties and assumptions, which may impact future performance and our achievement of the results and targets discussed in

this outlook. For additional information on forward-looking information, refer to “Forward- Looking Information” on page 2 of this MD&A.

We may update our outlook depending on changes in metals and prices and other factors.

In addition to this section, refer below to the “Operations Review” and “Financial Review” sections for additional details on our outlook for 2012. For information on our sensitivity to metal prices and foreign exchange rates, refer below to the “Sensitivity Analysis” and “Commodity Markets” sections of this MD&A.

Material Assumptions

Our 2012 operational and financial performance will be influenced by a number of factors. At the macro-level, the general performance of the North American and global economies will influence the demand for our products. The realized prices we achieve in the commodity markets significantly affect our performance. Our general expectations regarding metal prices and foreign exchange rates are included below to the “Commodity Markets” and “Sensitivity Analysis” sections of this MD&A.

2012 Domestic Mine and Mill Production (Contained Metal in Concentrate)

		Year Ended December 31, 2011	2012 Guidance
Copper	(tonnes)	54,324	35,000-40,000
Zinc	(tonnes)	75,780	70,000-85,000
Precious Metals(1)	(oz.)	112,126	85,000-105,000

(1) Precious metals production includes gold and silver production. Silver converted to gold at a ratio of 50:1.

We expect contained metal production in concentrate in 2012 to be somewhat lower than 2011 as the Trout Lake and Chisel North mines reach the end of their mine lives. Copper production is also expected to be affected by lower copper grades at the 777 mine, as normal mine sequencing brings copper grades back in line with reserve grades.

COMMODITY MARKETS

In addition to our production, financial performance is directly affected by a number of factors including metal prices, foreign exchange rates, and input costs including energy prices. Over the course of 2011, metal prices declined primarily as a result of concerns over the European sovereign debt crisis in the second half of the year. However, average prices in 2011 generally were higher than average prices in 2010.

We have developed the following market analysis from various information sources including analyst and industry experts.

Copper

In 2011, the London Metal Exchange (“LME”) copper price averaged US$4.00 per pound (“/lb”), with prices ranging between US$4.00/lb and US$4.50/lb in the first half of the year, followed by a significant drop in prices during the third quarter and average prices of approximately US$3.40/lb in the fourth quarter of 2011. Although demand growth in 2011 was somewhat weaker than originally expected due mainly to challenges in Europe, supply disruptions at major producing mines maintained a deficit position in the copper market during the year. LME inventories rose during the first half of the year with higher prices, but declined later in 2011 following the decline in copper prices.

Assuming continued global economic growth, copper demand growth is expected to continue with copper markets in deficit for the next several years. New mine development has the potential to turn the copper market into a surplus position beyond that time, but recent delays in new mine construction and disruptions at existing mines remain a significant risk to medium-term copper industry supply projections.

Zinc

In 2011, the LME zinc price averaged US$0.99/lb, with prices ranging from US$1.00/lb to US$1.10/lb in the first half of the year, followed by a significant drop in prices during the third quarter to approximately US$0.86/lb in the fourth quarter of 2011. Zinc demand grew in 2011 as it did in 2010, but growth in production acted to maintain a zinc market surplus in 2011, with LME inventories continuing to increase

to historically high levels.

Zinc markets are forecast to remain in surplus through 2012 and 2013, which may result in additional near-term zinc price volatility. However, the market is expected to move into a deficit position, starting in 2014 as major zinc mines reach the end of their reserve lives over the next several years. This should provide a positive medium-term outlook for zinc prices.

Gold

Gold prices averaged US$1,573 per ounce during 2011. These prices continued to appreciate over the course of 2011, benefiting from concerns

about the risk of rising inflation as a result of the aggressive monetary response to macroeconomic weakness from the world's major central banks.

Silver

Silver prices averaged US$35.32 per ounce during 2011. Silver prices reached a speculative high of $48 per ounce in April, before retreating to an average of approximately US$32 per ounce in the fourth quarter of 2011.

Foreign Exchange

As revenues from our principal products are substantially denominated in US dollars and the majority of our operating costs are denominated in Canadian dollars, we are affected by fluctuations in the Canadian/US dollar exchange rate. In general, a stronger Canadian dollar causes our revenue, and therefore profit, to decrease when we convert our US dollar receipts into Canadian dollars. In addition, a stronger Canadian dollar may result in foreign exchange losses due to depreciation in the value of US dollar denominated cash balances.

The Canadian dollar traded in a relatively narrow range between $1.05 and $0.95 per US dollar through 2011. As in previous years, during 2011 the Canadian/US dollar exchange rate was closely correlated with prices of commodities such as crude oil and base metals, which are important parts of Canada's resource-based economy.

SENSITIVITY ANALYSIS

Profit Sensitivity

The following table displays the estimated impact of changes in metal prices and exchange rates on our 2012 net profit, assuming that our operational performance is consistent with our guidance for 2012.

		Change of 10%, as represented by:(1) (2)		Would change 2012 net profit by (1) (C$ million)	Would change 2012 net profit per share by (3) (C$/share)
Copper (1)	*lb.*	US$	0.38	16.9	0.10
Zinc (1)	*lb.*	US$	0.10	11.0	0.06
Gold (1)	*troy oz.*	US$	180.00	7.2	0.04
Silver (1)	*troy oz.*	US$	3.50	1.5	0.01
Exchange Rates (2)	*C$/US$*	C$	0.10(4)	36.7	0.21

(1) Based on exchange rate of US$1 to C$1.
(2) Based on metal prices of US$3.75/lb copper, US$1.00/lb zinc, US$1,800/oz gold and US$35.00/oz silver.
(3) Based on weighted average number of common shares outstanding of 171.9 million.
(4) Representing a movement from C$1/US$ to C$1.1/US$.

DEVELOPMENT AND EXPLORATION UPDATE

Current Phase of Project Optimization at Constancia is Ongoing; Full Project Update Expected by the end of March 2012

Capital expenditures on the 100% owned Constancia project were $43.6 million in 2011 and our Board of Directors have approved an additional $107 million for pre-construction activities during the first quarter of 2012. Preconstruction activity is continuing, including ongoing engineering and procurement activity, hydrogeological drilling and camp construction. Orders were placed for the grinding mills in late 2011 and will be placed for mobile equipment during the first quarter of 2012. Other ongoing activities include monitoring of applications for key permits governing beneficiation, mining and water. These permits are expected to be awarded in the ordinary course in the second quarter of 2012, as Constancia received its key environmental permit in late 2010.

Optimization and front end engineering and design are well-advanced and we expect to provide a further project update by the end of the first quarter of 2012. Among the project scope changes we are considering are incorporating high grade Pampacancha ore into the mine plan, adding tailings capacity to accommodate a significant increase in the in-pit reserve and maximizing mill throughput.

While capital and operating cost estimates for Constancia have not been finalized, these scope changes, along with local currency appreciation and general cost escalation common to other mining projects globally, are expected to result in capital costs higher than the US$920 million cost estimate released by Norsemont Mining Inc. in February 2011. We are incorporating scope changes and a new resource model on the main pit into a new project economic model and mine plan. Initiatives to arrange long-term debt financing for Constancia are well-advanced and expected to be complete before a formal project recommendation is made to our Board of Directors. The project schedule currently remains unchanged, with first production expected in 2015 and full production in 2016.

Pampacancha Deposit Expanded to the North and West; Initial Resource Estimate by end of March 2012

We also announced exploration results from the high-grade Pampacancha deposit, which is 2.5 kilometres from the proposed Constancia open pit. Recent drill results have expanded the deposit to the north and west. In addition, hole PO-11-097, with 1.07% copper and 0.44 g/t gold over 38.9 metres, demonstrates significantly higher grades than other previously released intersections from the middle of the deposit.

Highlights from the drill program at Pampacancha included:

Hole	Core Length (m)	From (m)	To (m)	Cu (%)	Au (g/t)	Ag (g/t)	Cu Eq (1) (%)
PO-11-094	86.70	147.00	233.70	1.78	0.65	12.74	2.31
PO-11-097	38.90	207.00	245.90	1.07	0.44	7.77	1.48
PO-11-101	46.90	170.00	216.90	0.85	0.63	5.02	1.28
PO-11-107	28.10	191.15	219.25	1.23	0.33	25.87	1.88

(1) Calculated using commodity prices of US$1,100/oz Au, US$22.00/oz Ag, US$2.75/lb Cu and US$13.00/lb Mo. Copper cut-off reported as 0.2%. Composited intersections are reported as core length and do not represent true width.

Hole	East	North	Elevation	Azimuth	Dip	Total Depth
PO-11-094	204,621.00	8,397,424.00	4312.2	25	-75	370.75
PO-11-097	204,791.00	8,397,403.00	4270.8	270	-85	344.4
PO-11-101	204,617.00	8,397,427.00	4312.2	85	-75	352.4
PO-11-107	204,737.00	8,397,602.00	4328.1	242	-75	413.05

Note: Collar coordinates, National Grid UTM coordinates based on the Provisional South America 1956 (PSAD56) datum 19S

These results are being incorporated into an initial resource estimate for Pampacancha, which will form part of a corporate reserve and resource update expected to be released in late March 2012. Following a focus on hydrogeological drilling, exploration is scheduled to restart in the second quarter of 2012 with the aim of expanding the Pampacancha deposit and exploring targets in the Chilloroya South prospect.

Lalor Development and Construction Advancing Well; Initial Production on Track for Mid-2012

On July 5, 2011, our Board of Directors authorized an additional $144 million in incremental expenditures to construct a new concentrator and paste backfill plant at the Lalor site instead of refurbishing the existing Snow Lake concentrator. This change in capital expenditures increased the overall budget for Lalor to $704 million, which consists of $441 million for the construction of the mine and associated infrastructure and $263 million for a concentrator and backfill plant adjacent to the main production shaft. We have spent approximately $206 million on the project to December 31, 2011. The new concentrator will be designed to have a milling capacity of 4,500 tonnes per day and is expected to allow for reduced operating costs, improved economies of scale and other efficiencies, as compared with upgrading the current Snow Lake concentrator.

We expect the remaining capital spending to occur over the 2012 - 2014 period as follows:

	(in $ millions)
2012	$ 147
2013	200
2014	151
Total future capital spending	**498**
Total spent in 2010/2011	206
Total	**$ 704**

At the 100% owned Lalor project, the planned 3,200 metre access ramp from the Chisel North mine to the Lalor project was completed during the fourth quarter on schedule and on budget. Initial production up the ventilation shaft remains on track for mid-2012, subject to receipt of required regulatory approvals.

The ventilation shaft is now sunk to approximately 500 metres and is expected to reach its ultimate depth of 835 metres by July 2012. Project development on the 810 metre level has been completed as have the undercut and development for the ventilation shaft breakthrough.

Diamond drilling commenced in January 2012 from the 810 metre level, delineating the first ore production zone in the base metal lens number 10. This represents the first time we have been able to conduct underground drilling at Lalor. This drilling has enabled confirmation of the ore body location, grades and thicknesses, which allow for the development of the detailed mining plan and sequencing.

Construction on the main site is progressing well. The headframe has been substantially completed and the main production hoist has been commissioned. The production hoist will be used to sink the main shaft, beginning late in March 2012, and will also be used for production when the main shaft has been commissioned, eliminating the cost and time delay associated with changeover from sinking to production. Other site activities included completion of the site warehouse and surface shop and the commissioning of the water treatment plant and temporary sewage plant. Basic engineering for the concentrator is well underway as we expect to place procurement orders for the surface crusher and the sag and ball mills by the end of the first quarter of 2012. Full production at Lalor is expected to remain on track for late 2014, subject to receipt of required regulatory approvals.

New Lalor Copper-Gold Mineralization Discovered

We also announced results from our recent surface exploration drill program at Lalor, including a new copper-gold occurrence located approximately 400 metres northeast of the main Lalor deposit. Hole DUB283 intersected 8.26% copper and 5.91 g/t gold over a core length of 6.12 metres. A follow-up hole DUB283W02 intersected 7.79% copper and 2.49 g/t gold over a core length of 5.55 metres. Drilling continues in the area with hole DUB287, which was started in late February. Two other drills are testing targets approximately two kilometres south of Lalor.

Highlights from the drill program at Lalor include:

Hole	Core Length(1) (m)	From (m)	To (m)	Cu (%)	Au (g/t)	Ag (g/t)	Zn (%)
DUB283	6.12	1241.50	1247.62	8.26	5.91	31.63	0.09
Includes:	2.81	1242.69	1245.50	10.77	9.60	46.79	0.11
DUB283W02	5.55	1270.75	1276.30	7.79	2.49	34.24	0.31

(1) Intersection assays are either a single assay of a sample of the entire intersection length or a composite

Hole	Status	Core Size	NAD83 Zone 14 East	NAD83 Zone 14 North	Grid Elevation (m)	Length (m))	Grid Direction	Azimuth	Dip
DUB283	Complete	NQ	427260	6081519	303	1488	50	7	-82.0
DUB283W02	Complete	NQ	427260	6081519	303	1418	50	7	-82.0

Reed Copper Project Construction Commences

On December 19, 2011, we announced that our Board of Directors approved a $71 million capital investment towards the construction of the Reed copper project, in which we hold a 70% joint venture interest. A preliminary economic assessment study was completed in December 2011. The study contemplates daily ore production of approximately 1,300 tonnes per day by late 2013 over a five year mine life.

Key permits required for construction at the Reed copper project have been received slightly ahead of schedule and site preparation began in the first quarter of 2012. The ramp decline is anticipated to commence in the second half of 2012.

Two exploration drills are operating within a few kilometres of the Reed copper project testing known mineralized horizons and geophysical anomalies. A 4,000 metre exploration drill program is planned at the Reed deposit for 2012 to test possible down plunge extensions of the known mineralized zones. An additional 4,000 metres is planned to test regional geophysical anomalies and to follow up on the Reed North mineralization in Hole RLE006, which intersected 7.18 metres of 7.44% copper at a property under option to us, which is two kilometres northeast from the Reed deposit.

Additional drill results at Reed North include 3.95 metres of 9.31% copper, 1.87% zinc, 3.59 g/t gold and 35.53 g/t silver from Hole RLE021 and 4.15 metres of 2.16% copper, 0.18% zinc, 0.71 g/t gold and 8.01 g/t silver from Hole RLE022.

Exploration Update

($ millions) (1)	Year Ended Dec. 31, 2011 Actual	Year Ended Dec 31, 2010 Actual	Year Ended 2011 Guidance	Year Ended 2012 Guidance
Manitoba	37	70	34	31
South America	9	2	7(2)	13
Other North America	13	13	18	10
Total exploration expenditures	59	85	59	54
Capitalized spending	(12)	(3)	(10)	(5)
Total exploration expense	47	82	49	49

(1) Amounts are net of investment tax credits where applicable.
(2) The 2012 guidance provided for Constancia is for the first quarter only.

In 2010, we expensed $53.6 million of costs relating to Lalor, as it was in the exploration and evaluation stage. In 2011, the project fulfilled the criteria for a development project, and we began capitalizing Lalor costs.

We are planning another year of strong exploration investments in 2012 with total budgeted expenditures of approximately $54 million, which would enable over 130,000 metres of drilling across our portfolio. Within the Flin Flon Greenstone Belt, we intend to explore near our active and historical mining areas as well as fund grassroots exploration projects. In South America, we expect to continue exploration activities at Constancia along with funding other initiatives within Peru, Chile and Colombia. Exploration spending in North America will include spending on the Back Forty project, Tom and Jason deposits and other opportunities.

OPERATIONS REVIEW

Operating Mines

Mines		Three Months Ended Dec. 31 2011	Three Months Ended Dec. 31 2010	Year Ended Dec. 31 2011	Year Ended Dec. 31 2010	Guidance 2011	Guidance 2012
777							
Ore	*tonnes*	**382,329**	364,181	**1,491,722**	1,488,014	1,490,000	1,553,000
Copper	*%*	**3.17**	3.24	**3.18**	2.86	2.80	2.30
Zinc	*%*	**4.04**	3.89	**3.71**	4.01	4.20	4.30
Gold	*g/tonne*	**2.60**	2.25	**2.37**	2.09	1.90	1.90
Silver	*g/tonne*	**30.01**	25.42	**26.78**	25.89	25.30	28.00
Trout Lake							
Ore	*tonnes*	**129,792**	118,918	**509,998**	540,636	450,000	230,000
Copper	*%*	**1.68**	2.05	**2.01**	2.35	1.80	1.80
Zinc	*%*	**3.92**	2.23	**3.53**	2.67	2.80	2.30
Gold	*g/tonne*	**2.13**	0.95	**1.37**	1.30	—	1.50
Silver	*g/tonne*	**16.62**	10.12	**13.47**	12.03	—	7.10
Chisel North Zinc Ore							
Ore	*tonnes*	**48,090**	61,536	**196,406**	207,642	206,000	108,000
Zinc	*%*	**9.29**	8.38	**8.18**	7.49	7.50	7.10
Chisel North Copper Ore							
Ore	*tonnes*	**16,973**	5,996	**68,056**	5,996	54,000	57,000
Copper	*%*	**1.52**	1.76	**1.50**	1.76	1.60	1.60
Zinc	*%*	**2.26**	0.77	**2.30**	0.77	1.20	0.90
Gold	*g/tonne*	**2.33**	1.71	**2.23**	1.71	2.40	2.10
Silver	*g/tonne*	**22.78**	18.38	**22.22**	18.38	27.00	20.60
Total Mines							
Ore	*tonnes*	**577,184**	550,631	**2,266,182**	2,242,288	—	—
Copper	*%*	**2.54**	2.63	**2.60**	2.51	—	—
Zinc	*%*	**4.40**	3.40	**4.02**	4.00	—	—
Gold	*g/tonne*	**2.32**	1.79	**1.99**	1.78	—	—
Silver	*g/tonne*	**26.25**	21.87	**23.93**	22.63	—	—

Unit Operating Costs		Three Months Ended Dec. 31 2011	Three Months Ended Dec. 31 2010	Year Ended Dec. 31 2011	Year Ended Dec. 31 2010	Guidance C$/tonne 2011	Guidance C$/tonne 2012
Mines							
777	*$/tonne*	**41.02**	41.77	**37.44**	36.53	37-41	38-42
Trout Lake	*$/tonne*	**85.37**	67.09	**89.03**	66.20	70-86	60-74
Chisel North	*$/tonne*	**92.97**	85.97	**87.15**	71.52	80-100	93-114
Total Mines	*$/tonne*	**56.85**	52.66	**54.85**	47.02		

777 Mine

Ore production at our 777 mine for the fourth quarter of 2011 was 5% higher, as compared to the same period in 2010. Compared with the grades in the same period in 2010, copper grades in 2011 were lower by 2%, and zinc grades were higher by 4%, due to the areas in which we mined during the fourth quarter of 2011. Gold grades were 16% higher, and silver grades were 18% higher, also due to the areas mined in the fourth quarter of 2011. Operating costs per tonne of ore in the fourth quarter of 2011 at $41.02 were 2% lower as compared to the same period in 2010, primarily due to lower operating development costs.

Ore production at the 777 mine for the year ended 2011 was similar to production in 2010 and was consistent with the guidance for 2011. Compared with grades in 2010 and guidance for 2011, copper and gold grades were higher and zinc grades were lower. This was due to better than expected copper and gold grades as compared to reserve estimates and mining fewer high grade zinc stopes than planned. Operating costs of $37.44 per tonne of ore, for fiscal 2011, were 2% higher as compared to 2010 and were at the low end of the range of operating cost guidance for 2011.

Higher ore production in 2012 reflects production from the 777 North expansion. Forecast copper, zinc and gold grades are consistent with a return to reserve grades from the relatively copper/gold-rich zones mined in 2011. Forecast unit operating costs have increased slightly from 2011 guidance due to general inflation trends.

Trout Lake Mine

Ore production at Trout Lake for the fourth quarter of 2011 was 9% higher as compared to the same quarter in 2010 as the mine nears the end of its reserve life. The increase in production was due to a successful zinc pillar removal at the 780 metre level north zone, which allowed for increased production. The copper grades were 18% lower and zinc grades were 76% higher, in the fourth quarter of 2011, due to the areas mined during the quarter. Also, due to the areas mined in the Deep West, gold grades were 124% higher and silver grades were 64% higher in the fourth quarter of 2011, when compared to the same period in 2010. Operating costs per tonne of ore were 27% higher in the fourth quarter of

2011, as compared to the fourth quarter of 2010, as we directly expensed development costs due to Trout Lake's short remaining mine life. We expect development activities will be lower during the remaining life of the mine in 2012, resulting in lower forecast unit operating costs in 2012 compared to 2011. Reduced forecast 2012 ore production reflects the anticipated mid-year closure of Trout, with forecast ore grades consistent with the remaining mine reserves.

Due to a reassessment of economic ore and additional development work, compared to initial 2012 plans, we were able to extend the expected closure date of Trout Lake from late 2011 to mid-2012. As a result, ore production at Trout Lake decreased by 6% for the year ended 2011, as compared to the year ended 2010. However, ore production in 2011 was significantly higher than the initial 2011 guidance. In addition, copper grades were 14% lower, zinc grades 32% higher, gold grades 5% higher and silver grades 12% higher in 2011, as compared to 2010. Operating costs per tonne of ore mined were 34% higher in 2011 as compared to 2010 and also higher than the 2011 guidance range, as we expensed all development costs in 2011 due to the short remaining reserve life and incurred additional development costs to extend Trout Lake's reserve life.

Chisel North Mine

On October 9, 2009, we announced that we would restart operations at our Chisel North mine in Snow Lake and commenced full production in the second quarter of 2010.

Total ore production at Chisel North for the fourth quarter of 2011 was consistent with expectations for the quarter. Operating cost per tonne of ore for the fourth quarter of 2011 was $92.97, an increase of 8% as compared to the same quarter in 2010.

Ore production at Chisel North for the year ended 2011 was 24% higher compared to the year ended 2010, mostly due to a full year of operation in 2011 and the additional production of copper ore. Zinc ore grades in 2011 were 9% higher than in 2010. Production was generally consistent with 2011 guidance. Operating cost per tonne for fiscal 2011 was 22% higher than 2010 although in line with guidance, with the increase over 2010 related primarily to the higher cost of underground consumables, increased maintenance costs and higher development costs. Unit costs in 2012 are expected to increase due to the complex nature of late-stage mining operations and reduced cost capitalization as, Chisel North approaches the end of its mine life in mid-2012. Reduced forecast ore production in 2012 reflects the expected end of mine life in mid-2012, with forecast ore grades consistent with the remaining mine reserves.

As Chisel North reaches the end of its mine life in mid-2012, initial production from Lalor is expected to begin, with total 2012 production guidance from Lalor set at 86,000 tonnes with average grades of 0.4% copper, 10.1% zinc, 1.1 g/t gold and 16.9 g/t silver.

Concentrators

		Three Months Ended		Year Ended		Guidance	
Concentrators		**Dec. 31 2011**	**Dec. 31 2010**	**Dec. 31 2011**	**Dec. 31 2010**	**2011**	**2012**
Flin Flon Concentrator							
Ore	*tonnes*	**521,661**	495,752	**2,036,693**	2,041,618	2,000,000	1,840,000
Copper	*%*	**2.83**	2.95	**2.84**	2.74	—	—
Zinc	*%*	**3.95**	3.49	**3.59**	3.67	—	—
Gold	*g/tonne*	**2.48**	1.92	**2.09**	1.89	—	—
Silver	*g/tonne*	**26.79**	21.51	**23.28**	22.25	—	—
Copper concentrate	*tonnes*	**58,638**	55,373	**222,932**	210,893	—	—
Concentrate grade	*% Cu*	**23.59**	24.67	**24.37**	24.85	—	—
Zinc concentrate	*tonnes*	**33,901**	27,936	**119,220**	120,769	—	—
Concentrate grade	*% Zn*	**51.06**	50.94	**51.29**	51.91	—	—
Copper recovery	*%*	**93.8**	93.6	**94.0**	93.8	93	93
Zinc recovery	*%*	**83.9**	82.2	**83.5**	83.8	83	85
Gold recovery	*%*	**64.6**	72.6	**68.5**	70.5	69	70
Silver recovery	*%*	**54.6**	61.2	**57.5**	57.8	—	—
Snow Lake Concentrator							
Ore	*tonnes*	**47,613**	60,200	**194,786**	202,197	200,000	190,000
Zinc	*%*	**9.18**	8.32	**7.79**	7.48	—	—
Zinc concentrate	*tonnes*	**8,168**	9,597	**28,560**	29,072	—	—
Concentrate grade	*% Zn*	**51.74**	50.96	**51.25**	50.28	—	—
Zinc recovery	*%*	**96.7**	97.6	**96.4**	96.7	95	95

		Three Months Ended		Year Ended		Guidance	
		Dec. 31	**Dec. 31**	**Dec. 31**	**Dec. 31**	**C$/tonne**	
Unit Operating Costs		**2011**	**2010**	**2011**	**2010**	**2011**	**2012**
Concentrators							
Flin Flon	*$/tonne*	**12.82**	13.88	**12.90**	11.77	11-13	12-15

Snow Lake	*$/tonne*	**30.43**	27.23	**27.68**	24.35	25-29	32-37

		Three Months Ended		Year Ended		Guidance	
		Dec. 31 2011	Dec. 31 2010	Dec. 31 2011	Dec. 31 2010	2011	2012
Manitoba contained metal in concentrate							
Copper	*tonnes*	**13,834**	13,660	**54,324**	52,413	40,000-55,000	35,000-40,000
Zinc	*tonnes*	**21,534**	19,120	**75,780**	77,314	70,000-90,000	70,000-85,000
Gold	*troy oz.*	**27,059**	22,375	**94,610**	87,176	—	—
Silver	*troy oz.*	**245,216**	209,788	**875,817**	843,401	—	—
Precious metals(1)	*troy oz.*	**31,963**	26,571	**112,126**	104,044	95,000-120,000	85,000-105,000

(1) Precious metals include gold and silver production. For the precious metal guidance, silver is converted to gold at a ratio of 50:1.

Flin Flon Concentrator

For the fourth quarter of 2011, ore processed increased by 5% compared to the same period in 2010. Copper head grades were 4% lower and zinc head grades were 13% higher in the fourth quarter of 2011 as compared to the fourth quarter of 2010. Compared to the same period in 2010, gold head grades were 29% higher, and silver head grades were 25% higher in the fourth quarter of 2011. Recovery of copper to concentrate was unchanged from the same period in 2010 and recovery of zinc to concentrate was 2% higher. Operating cost per tonne of ore processed, in the fourth quarter of 2011, decreased by 8% compared to the same period in 2010, primarily related to higher volumes.

Ore processed for the year ended December 31, 2011 was essentially unchanged as compared to 2010 levels, as reduced production from Trout Lake was offset by higher copper ore production from Chisel North. Ore processed was higher than 2011 guidance due to the extension of Trout Lake's mine life. Zinc head grades were 2% lower than 2010, while copper head grades were 4% higher, consistent with the ore received from the 777 and Trout Lake mines. Recoveries of copper and zinc to concentrate in 2011 were similar to 2010 recoveries with small fluctuations due to head grade differences. Operating costs per tonne of ore processed in 2011 were 10% higher than 2010, primarily related to higher maintenance and consumable costs. Processed ore is expected to decline in 2012, with a corresponding increase in the guidance range for 2012 unit operating costs, as a result of reduced ore feed from the Trout Lake mine.

Snow Lake Concentrator

On October 30, 2009, we announced the restart of the Chisel North mine and Snow Lake concentrator. Full production was reached in the second quarter of 2010.

During the fourth quarter of 2011 the concentrator treated 21% less tonnes of zinc than in the fourth quarter of 2010 at a grade of 10% higher and a recovery similar to the fourth quarter of 2010. Operating costs for the fourth quarter were $30.43 per tonne milled, an increase of 12% from the same period in 2010.

For the year ended December 31, 2011, ore processed was 4% lower in 2011 than in 2010 and slightly lower than 2011 guidance, mainly as a result of reduced zinc ore production from Chisel North. In 2011, zinc ore head grades were higher by 4%, and zinc recovery to concentrate was essentially unchanged as compared to 2010. The 2011 operating costs at $27.68 per tonne were 14% higher than for 2010 due to the reduced throughput received from the Chisel North mine.

Unit costs in 2012 are expected to increase due to the transition to processing the Lalor ore. There will be additional manpower and training requirements in 2012 to prepare for increased concentrator throughput in 2013.

Metallurgical Plants

Metal Produced and Sold

		Three Months Ended		Year Ended		Guidance	
		Dec. 31 2011	Dec. 31 2010	Dec. 31 2011	Dec. 31 2010	2011	2012
Refined Metal Produced (1)							
Metal from Manitoba Concentrates							
Copper (2)	*tonnes*	—	—	—	19,770	—	—

Zinc	*tonnes*	**21,383**	15,262	**75,814**	74,083	—	—
Gold (2)	*troy oz.*	**—**	—	**—**	35,649	—	—
Silver (2)	*troy oz.*	**—**	—	**—**	372,372	—	—
Metal from Manitoba Purchased Concentrates							
Copper (2)	*tonnes*	**—**	—	**—**	48	—	—
Zinc	*tonnes*	**8,526**	10,162	**31,890**	25,964	—	—
Total Manitoba Metal Produced							
Copper (2)	*tonnes*	**—**	—	**—**	19,818	—	—
Zinc	*tonnes*	**29,909**	25,424	**107,704**	100,047	115,000	113,000
Gold (2)	*troy oz.*	**—**	—	**—**	35,649	—	—
Silver (2)	*troy oz.*	**—**	—	**—**	372,372	—	—
Metal Sold							
Copper	*tonnes*						
Cathode & anodes **(3)**		**—**	50	**481**	31,795	—	—
Payable metal in concentrate **(3)**		**18,336**	8,543	**56,880**	15,407	—	—
Zinc refined	*tonnes*	**26,989**	27,200	**100,935**	104,941		
Gold	*troy oz.*						
Contained in slimes and anode		**—**	1,948	**2,324**	55,868	—	—
Payable metal in concentrate **(3)**		**31,407**	13,458	**91,328**	25,239	—	—
Silver	*troy oz.*						
Contained in slimes and anode		**—**	21,082	**30,313**	789,305	—	—
Payable metal in concentrate **(3)**		**247,576**	121,270	**734,460**	217,534	—	—

(1) Due to the closure of the copper smelter in 2010, we now produce refined zinc and copper concentrate only.
(2) Production excludes recycled spent anode and represents non-recycled anode production only.
(3) Copper concentrate was not sold in the first quarter of 2010 while the smelter was in operation. We sold copper concentrate throughout 2011 and sold minimal amounts of cathode and anode during the first quarter only.

Metallurgical Plant Production

		Three Months Ended		Year Ended		Guidance	
		Dec. 31 2011	Dec. 31 2010	Dec. 31 2011	Dec. 31 2010	2011	2012
Zinc Plant							
Zinc Concentrate Treated							
Domestic	*tonnes*	**44,289**	28,480	**157,738**	153,742	155,000	164,000
Purchased	*tonnes*	**16,414**	17,083	**62,323**	47,990	65,000	56,000
Total	*tonnes*	**60,703**	45,563	**220,061**	201,732	220,000	220,000

		Three Months Ended		Year Ended		Guidance C$/tonne	
Unit Operating Costs		Dec. 31 2011	Dec. 31 2010	Dec. 31 2011	Dec. 31 2010	2011	2012
Metallurgical Plant							
Zinc Plant	*$/lb. Zn*	**0.332**	0.343	**0.343**	0.334	0.31-0.35	0.32-0.37

Zinc Plant

Our Flin Flon, Manitoba zinc plant uses leading-edge technology to produce special high grade zinc and includes an oxygen plant, a two-stage pressure leaching plant, a four-step solution purification, an electrolysis plant and a casting plant.

Production of cast zinc in the fourth quarter of 2011 was 18% higher than the same quarter in 2010 Production in the fourth quarter of 2010 was affected by concentrate impurities that limited plant throughput. Operating costs per pound of zinc metal produced were 3% lower during the fourth quarter of 2011 as a result of higher production.

For fiscal 2011, production was 107,704 tonnes of cast metal, 8% higher than in 2010 which included a biennial shutdown, and 6% lower than 2011 guidance. The variance to guidance was due to slightly lower plant recoveries achieved together with slightly lower concentrate grades from both domestic and purchased concentrates. Operating costs per pound were essentially unchanged from 2010 and in line with 2011 guidance.

Production in 2012 is expected to be similar to 2011 levels, although this forecast assumes the availability of 56,000 tonnes of purchased concentrate from third parties, of which only 30,000 tonnes has been secured. Based on these throughput levels, unit operating costs in 2012 are expected to be generally consistent with 2011.

FINANCIAL REVIEW

Financial Results

In the fourth quarter of 2011, profit was $34.3 million, as compared to a profit of $7.9 million for the fourth quarter of 2010. For the full year, we recorded a loss of $163.6 million as compared to a profit of $21.0 million in 2010. For an explanation of classification of expenses on our income statement, refer to the "Accounting Changes - Adoption of International Financial Reporting Standards" section on page of this MD&A. Significant variances affecting the fourth quarter results compared to the same period in 2010 are as follows:

(in $ millions)	Three Months Ended Dec. 31, 2011	Year Ended Dec. 31, 2011
Increase (decrease) in components of profit or loss:		
Revenues	**69.7**	**109.8**
Cost of sales		
Depreciation and amortization	**(2.9)**	**12.6**
Impairment loss	**(1.0)**	**(6.8)**
Mine operating costs	**(45.3)**	**(45.1)**
Selling and administrative expenses	**0.8**	**(10.5)**
Exploration and evaluation	**20.6**	**34.8**
Other operating income	**—**	**2.6**
Other operating expenses	**1.1**	**4.5**
Finance income	**0.3**	**2.4**
Finance expenses	**—**	**(2.2)**
Other finance gains	**(0.2)**	**(1.6)**
Tax	**(22.6)**	**(65.6)**
Increase in profit from continuing operations compared to the same period in 2010	**20.5**	**34.9**
Decrease (Increase) in loss from discontinued operations	**5.8**	**(219.4)**
Increase (decrease) in profit for the period	**26.3**	**(184.5)**

The increase in profit for the fourth quarter of 2011 is driven primarily by higher sales volumes of contained copper, gold, and silver metal in copper concentrate as compared with the prior year. Cost of sales were also higher in 2011, in part due to the higher volume with the remainder of the increase arising from higher unit costs incurred at the end of life of the Trout and Chisel North mines. In addition, exploration and evaluation expenses was lower as activities related to the Lalor project were capitalized in 2011; offsetting this was higher tax expense.

In fiscal 2011, profit declined primarily as a result of the disposal of the Fenix and Zochem operations during the year, accounting for $219.0 million and $6.8 million of the change respectively, offset by

significantly higher volumes and prices of contained copper, gold, and silver in copper concentrate. In addition, exploration and evaluation expenses was lower as activities related to the Lalor project were capitalized in 2011. Prevailing market conditions resulted in several other accounting adjustments, including $3.9 million related to the change in discount rate used to calculate the decommissioning and restoration liability, an after-tax impairment on available for sale investments of $6.6 million ($0.8 million tax), and the pre-tax write down of $5.4 million on zinc inventory to net realizable value. Furthermore, a non-cash deferred tax charge of $19 million was recognized in the current year as a result of changes in Peruvian mining tax laws.

Revenue increased in the fourth quarter of 2011 and the year ended December 31, 2011

Total revenue for the fourth quarter of 2011 was $254.3 million; $69.7 million higher than the same quarter in 2010. For the full year revenue was $890.8 million, $109.8 million higher than the same period in 2010. These variances are due to the following:

(in $ millions)	Three Months Ended Dec. 31, 2011	Year Ended Dec. 31 ,2011
Metal prices(1)		
(Lower) higher copper prices	**(21.1)**	**30.7**
(Lower) higher zinc prices	**(8.6)**	**3.8**
Higher gold prices	**3.0**	**30.0**
Sales volumes		
Higher copper sales volumes	**76.1**	**85.2**
Lower zinc sales volumes	**(0.4)**	**(9.1)**
Higher gold sales volumes	**27.0**	**20.0**
Other		
Favourable (unfavourable) change in foreign exchange	**1.6**	**(31.0)**
Other volume and pricing differences	**(3.4)**	**2.7**
Treatment and refining charges	**(4.5)**	**(22.5)**

Increase in net revenues in 2011 compared to 2010	**69.7**	**109.8**

(1) See discussion below for further information regarding metal prices.

Our revenue, segmented by significant product type is summarized below:

	Three Months Ended		Year Ended	
(in $ millions)	**Dec. 31 2011**	**Dec. 31 2010**	**Dec. 31 2011**	**Dec. 31 2010**
Copper	**143.2**	87.4	**481.0**	380.8
Zinc	**52.9**	45.4	**170.1**	180.5
Gold	**53.1**	22.8	**149.3**	103.6
Silver	**7.5**	4.8	**26.3**	20.8
Zinc Oxide	**6.8**	28.3	**75.7**	99.5
Other	**1.1**	1.6	**23.8**	8.7
Gross revenue	**264.6**	190.3	**926.2**	793.9
Less: treatment and refining charges	**(10.3)**	(5.7)	**(35.4)**	(12.9)
Revenue	**254.3**	184.6	**890.8**	781.0

Our realized prices for the fourth quarter of 2011 are summarized below:

			Realized prices(1) for quarter ended			Realized prices(1) for year ended	
		LME Q4 2011(2)	**Dec. 31 2011**	**Dec. 31 2010**	**LME YTD 2011 (2)**	**Dec. 31 2011**	**Dec. 31 2010**
Prices in US$							
Copper	*US$/lb.*	**3.40**	**3.46**	4.56	**4.00**	**3.85**	3.55
Zinc(3)	*US$/lb.*	**0.86**	**0.94**	1.08	**0.99**	**1.05**	1.03
Gold	*US$/troy oz.*	**1,685**	**1,652**	1,459	**1,569**	**1,612**	1,238
Silver	*US$/troy oz.*	**31.82**	**29.45**	33.25	**35.11**	**34.83**	20.03
Prices in C$							
Copper	*C$/lb.*	**3.48**	**3.54**	4.62	**3.95**	**3.80**	3.66
Zinc(3)	*C$/lb.*	**0.88**	**0.96**	1.10	**0.98**	**1.03**	1.06
Gold	*C$/troy oz.*	**1,725**	**1,690**	1,479	**1,553**	**1,594**	1,278
Silver	*C$/troy oz.*	**32.56**	**30.11**	33.70	**34.68**	**34.45**	20.67
Exchange rate	*US$1 to C$*		**1.02**	1.01		**0.99**	1.03

(1) Realized prices exclude refining and treatment charges and are on the sale of finished metal or metal in concentrate. Realized prices for copper in 2010 reflect an average of prices realized for copper cathode and spent anode sales and sales of contained copper in concentrate. Realized prices for gold and silver in 2010 reflect an average of prices realized for precious metal slimes and spent anode sales and sales of contained gold and silver in concentrate.
(2) LME average for copper, zinc and gold prices. London Spot US equivalent for silver prices.
(3) Zinc revenues include unrealized gains and losses related to forward zinc purchase contracts that are not included in the above realized prices. For the quarter, the unrealized components of these derivatives resulted in a gain of US$0.02/lb. for zinc. Refer below to “Risk Management - Base Metal Price Strategic Risk Management” on page 45 of this MD&A.

The price, quantity and mix of metals sold, along with movements in the Canadian dollar, affect our revenue, operating cash flow and profit. Revenue from metal sales can vary from quarter to quarter due to production levels, shipping volumes, and transfer of risk and title with customers.

Outlook (Refer above to the Forward-Looking Information section on page 2 of this MD&A)

Revenues will continue to be affected by the volume of domestic contained metal production, purchased zinc concentrates and the market prices of copper, zinc, gold and silver, together with fluctuation of the US dollar exchange rate compared to the Canadian dollar. Domestic metal production and purchased zinc concentrates are expected to be moderately lower in 2012 than 2011, although average market prices for copper and gold in 2012 to date have been similar to average prices in 2011.

In addition, 2011 revenues included the sale of excess copper concentrate inventory accumulated during late 2010. This will not be repeated in 2012, as the excess concentrate inventory was substantially drawn down by the end of 2011.

Cost of sales increased in the fourth quarter of 2011

	Three Months Ended		Year Ended	
	Dec. 31	**Dec. 31**	**Dec. 31**	**Dec. 31**

($000s)	2011	2010	2011	2010
Non-IFRS detailed cost of sales (1)				
Mines				
777	**15,685**	15,211	**55,844**	54,364
Trout Lake	**11,080**	7,978	**45,403**	35,788
Chisel North	**6,049**	5,805	**23,047**	16,272
Concentrators				
Flin Flon	**6,689**	6,882	**26,270**	24,024
Snow Lake	**1,449**	1,640	**5,391**	4,925
Metallurgical plants				
Zinc plant	**21,893**	19,209	**81,381**	73,585
Copper smelter	**—**	—	**—**	20,896
Zochem	**957**	3,179	**15,199**	23,460
Other				
Services and site administration	**13,680**	13,122	**54,923**	48,347
Purchased concentrate (before inventory changes)	**10,955**	17,049	**52,818**	47,252
Manitoba employee profit sharing	**6,265**	5,252	**19,934**	15,849
Net profits interest	**7,266**	8,213	**23,733**	22,059
Distribution, anode freight and refining	**17,514**	7,034	**51,817**	29,245
Other	**2,136**	(54)	**3,996**	5,031
Changes in domestic inventory	**13,210**	(20,927)	**11,446**	10,417
Depreciation and amortization	**25,290**	22,435	**103,914**	116,487
Inventory write-down	**69**	—	**5,420**	—
Asset impairment	**961**	—	**6,839**	—
Cost of sales, per financial statements	**161,148**	112,028	**587,375**	548,001

(1) Detailed cost of sales is a non-IFRS financial performance measure with no standardized definition under IFRS. For further information and a detailed reconciliation, please see page 47 of this MD&A.

Total cost of sales for the fourth quarter of 2011 was $161.1 million, reflecting an increase of $49.1 million from the fourth quarter of 2010, due mainly to a $34.1 million change in inventory as copper concentrate inventories were sold and an associated increase of $10.5 million related to distribution and freight costs primarily related to the higher volumes.

The cost of sales in 2011 was $587.4 million, reflecting an increase of $39.4 million from 2010. This increase was mainly attributable to an increase in distribution, freight and refining of $22.6 million, inventory write down of $5.4 million, asset impairment of $6.8 million and increases of $9.6 million, $6.8 million and $7.8 million in our Trout Lake mine, Chisel North mine and Zinc plant, respectively. This was offset by the elimination of smelter costs of $20.9 million and reduced depreciation of $12.6 million.

For details on unit operating costs refer to the respective tables in the Operations Review section on page 17.

For the fourth quarter of 2011, other significant variances in expenses, as compared to 2010 include the following:

- **Selling and administrative expenses** decreased by $0.8 million compared to the same period in 2010, totaling $9.0 million for the fourth quarter of 2011. The decrease was mainly due to a reduction in share-based payment expense resulting from fewer unvested stock options and lower mark-to-market adjustments on restricted and deferred share units, which were driven by lower share prices compared to the same period in 2010.

- **Exploration and evaluation expenses** decreased by $20.6 million to $10.3 million in the fourth quarter of 2011. In 2010, we expensed costs relating to Lalor, as it was in the exploration and evaluation stage. At January 1, 2011, the project fulfilled the criteria for a development project, and we began capitalizing Lalor costs.

- **Other operating expenses** decreased by $1.1 million to $1.0 million as a result of lower expenses for non-producing properties. This was mainly a result of selling the White Pine Copper Refinery during the second quarter of 2011.

For fiscal 2011, other significant variances in expenses from operations as compared to 2010 include the following:

- **Selling and administrative expenses** increased by $10.5 million, totaling $38.7 million for the full year 2011. Costs of $5.8 million arising from the acquisition of Hudbay Peru in the first quarter of 2011, increased staffing for managing new mine development and corporate development costs, including travel expenses and costs related to the corporate office move to a new location, and severance costs incurred during the second quarter. This was partially offset by a decrease in share-based payment expenses, resulting from fewer unvested stock options and lower mark-to-market adjustments on restricted and deferred share units, which were driven by lower share prices compared to the same period in 2010.

- **Exploration and evaluation expenses** decreased by $34.8 million to $46.9 million for the full year in 2011. The main contributor to the decrease was the change in status of Lalor from exploration and evaluation stage to development stage.

- **Other operating income** increased by $2.6 million to $3.4 million, mainly as a result of a gain recognized on our sale of WPCR during the second quarter of 2011.

- **Other operating expenses** decreased by $4.5 million to $9.3 million. In the second quarter of 2010, we recognized an expense of $6.4 million related to additional decommissioning and restoration obligations at Balmat. Partially offsetting this, discount rates for decommissioning and restoration liabilities dropped more significantly during 2011 as compared to 2010. As a result, other operating expenses related to the decommissioning and restoration liabilities were recognized for properties that have no remaining useful lives. In addition, spending on closed sites in Manitoba was lower in 2011.

- **Finance income** increased by $2.4 million to $8.8 million, mainly due to higher interest rates on cash and cash equivalents.

- **Finance expenses** increased by $2.2 million to $6.6 million, mainly due to increased fees related to our credit facility.

- **Other finance gains/losses** decreased by $1.6 million. In 2011, we recognized net losses of $6.7 million related to investments mainly due to impairment losses of $6.6 million on available-for-sale investments. In contrast, in 2010, we recognized net gains of $4.6 million related to investments as a result of gains of disposals and mark-to-market adjustments. Partially offsetting this comparison were foreign exchange gains, which were $0.8 million in 2011 as compared to foreign exchange losses of $8.3 million in 2010 as a result of movement in exchange rates.

Outlook (Refer above to the "Forward-Looking Information" section on page 2 of this MD&A)

Operating expenses will continue to be affected by the volume of purchased zinc concentrates as well as production volumes. The sale of excess copper concentrate inventory in 2011, which will not recur in 2012, was also reflected in 2011 operating costs. General and administrative costs are expected to decline slightly in 2012 compared to 2011 as $5.8 million in costs were expensed in connection with the acquisition of Hudbay Peru in 2011.

Tax Expense

During the year ended December 31, 2011, tax expense increased by $65.6 million compared to the same period in 2010.

	Three Months Ended		Year Ended	
	Dec. 31 2011	Dec. 31 2010	Dec. 31 2011	Dec. 31 2010
	($000s)			
Non-cash - income tax expense (1)	**7,282**	639	**21,161**	879
Non-cash - mining tax expense (1)	**3,253**	444	**35,003**	1,189
Total non-cash tax expense	**10,535**	1,083	**56,164**	2,068
Estimated current taxes payable - income tax	**11,782**	6,497	**47,688**	39,759
Estimated current taxes payable - mining tax	**13,210**	5,320	**29,977**	26,427
Total estimated current taxes payable	**24,992**	11,817	**77,665**	66,186
Tax expense	**35,527**	12,900	**133,829**	68,254

(1) Non-cash tax expenses represent our draw-down/increase of non-cash future income and mining tax assets/liabilities.

Income Tax Expense

Our effective income tax rate on profit before tax for fiscal 2011 was approximately 32.9% (fiscal 2010 - 37.4%). As a result, in fiscal 2011, we recorded a net income tax expense of $68.8 million.

Based on the statutory income tax rate of 28.5%, we would have expected to record a tax expense of approximately $59.6 million based on profit before tax of $209.0 million; however we recorded an income tax expense of $68.8 million (fiscal 2010 - income tax expense of $40.6 million). The significant items causing the Company's effective income tax rate to be different than the 28.5% statutory income tax rate include:

- Hudbay Peru transaction costs of $5.8 million which are not deductible for income tax purposes.

- Increases to our decommissioning and restoration liabilities resulting from a significant decrease in discount rates required us to record a corresponding non-cash increase to property, plant and equipment. We recognized deferred tax expense of $8.1 million related to the increase in the property, plant and equipment; however, we did not recognize a deferred tax recovery related to the increase in the decommissioning and restoration liabilities because we determined we are not more likely than not to realize the benefit of the recovery.

- Certain of our foreign operations recorded losses of $7.5 million (fiscal 2010 - $11.7 million). These losses cause deductible temporary differences. We have determined that we are not more likely than not to realize the benefit related to these deductible temporary differences; accordingly we have not recorded a related deferred tax asset.

Mining Tax Expense

Manitoba

The Province of Manitoba imposes mining tax on net profit related to the sale of mineral products mined in the Province of Manitoba (mining taxable profit) at the following rates:

- 10% of total mining taxable profit if mining profit is $50 million or less;
- 15% of total mining taxable profit if mining profits are between $55 million and $100 million; and
- 17% of total mining taxable profit if mining profits exceed $105 million.

We have accumulated mining tax pools over the years and recorded the related benefits as future mining tax assets. We estimate that the tax rate that will be applicable when temporary differences reverse will be 17%.

Based on the statutory mining tax rate of 17%, we would have expected to record a tax expense of approximately $35.5 million based on profit before tax of $209.0 million for the year; however, we recorded a tax expense of $65.0 million (fiscal 2010 tax expense of $27.6 million) mainly as a result of the change in Peruvian mining taxes described below. In fiscal 2011, our effective rate for mining taxes was approximately 31.1% (fiscal 2010 - 25.4%). Effective mining tax rates can vary significantly based on the composition of our earnings and the expected amount of mining taxable profits. Corporate costs and costs related to foreign operations are not deductible in computing mining profits.

Peru

In the third quarter, the Peruvian government enacted a new mining tax (the “Special Mining Tax”) that will be imposed on the mining sector in parallel with the existing royalty regime, which in turn will be amended in order to be applied on companies’ operating mining income, rather than sales (the “Modified Royalty”). Both the Special Mining Tax and the Modified Royalty are applied on operating mining income based on a sliding scale, with progressive rates ranging from 2% to 8.4% and 1% to 12% respectively. The addition of the Special Mining Tax and the changes to the Modified Royalty require us to record deferred tax expense at the tax rate we expect to apply when temporary differences reverse. We recorded deferred tax expense of $19.0 million in the third quarter related to these tax changes.

FINANCIAL CONDITION

Financial Condition

Financial Condition as at December 31, 2011 as compared to December 31, 2010

Cash and cash equivalents decreased by $2.6 million from December 31, 2010 to $899.1 million as at December 31, 2011. Significant factors affecting our cash and cash equivalents during 2011 were $94.9 million in net cash paid related to our acquisition of Hudbay Peru and capital expenditures on Lalor and Constancia of $200.4 million, partially offset by $136.9 million in proceeds from the sale of Fenix and operating cash flow generation. We hold our cash and cash equivalents in low-risk, liquid investments with major Canadian financial institutions.

Working capital decreased by $41.8 million to $841.7 million from December 31, 2010 to December 31, 2011. In addition to the lower cash and cash equivalents position, receivables decreased by $37.9 million in 2011, due to timing of payments, and inventory decreased by $38.5 million due to the successful drawdown of copper concentrate inventory. Offsetting these decreases in current assets were decreases in current liabilities; in particular taxes payable decreased due to payments that were made during the year. In addition other liabilities decreased by $42.0 million in 2011 as we recognized previously deferred revenue of $24.4 million and decreases in current pension liabilities of $9.7 million. These decreases were partially offset by an increase in trade and other payables of $29.6 million.

Cash Flows

The following table summarizes our cash flows for the year ended December 31, 2011 and December 31, 2010.

	Three Months Ended		Year Ended	
($000s)	**Dec. 31 2011**	**Dec. 31 2010**	**Dec. 31 2011**	**Dec. 31 2010**
Profit before tax	**69,813**	26,594	**209,025**	108,669
Loss from discontinued operations	**—**	(5,826)	**(238,784)**	(19,398)
Items not affecting cash	**33,630**	36,979	**356,810**	127,637
	103,443	57,747	**327,051**	216,908
Operating financing fees paid	**372**	(42)	**(318)**	(306)
Operating cash flows of discontinued operations	**—**	(10,923)	**(2,126)**	(13,322)
Net change in non-cash working capital items	**(4,910)**	2,367	**15,791**	7,619
Taxes paid	**(1,802)**	(6,879)	**(90,179)**	(15,736)
Cash generated by operating activities	**97,103**	42,270	**250,219**	195,163
Cash (used in) generated by investing activities	**(66,963)**	11,491	**(219,286)**	(101,848)
Cash used in financing activities	**(2,059)**	(2,751)	**(36,497)**	(75,610)
Effect of movement in exchange rates on cash and cash equivalents	**(93)**	(1,056)	**2,948**	(2,826)

Increase (decrease) in cash and cash equivalents	**27,988**	49,954	**(2,616)**	14,879
Operating cash flow before changes in non-cash working capital(1)	**52,194**	36,713	**220,313**	140,482

(1) Operating cash flow before changes in non-cash working capital is a non-IFRS financial performance measure with no standardized definition under IFRS. For further information and a detailed reconciliation, please see page 47 of this MD&A.

Cash Flow from Operating Activities

During the fourth quarter of 2011, operating cash flow before changes in non-cash working capital (refer to non-IFRS measures on page 47) increased to $52.2 million from $36.7 million in the same period of 2010 mainly as a result of higher sales volumes and higher prices received for copper and gold, partially offset by lower zinc sales volumes and lower zinc prices. Including the effect of changes in non-cash working capital (including taxes receivable and payable), operating activities generated $97.1 million of cash flows in the fourth quarter, representing a $54.8 million increase compared to the same period in 2010. This increase was mainly driven by stronger sales volumes and higher metal prices together with favourable movements in non-cash working capital balances.

For the full year operating cash flow before changes in non-cash working capital was $220.3 million, reflecting an increase of $79.8 million from the same period in 2010. This was mainly driven by higher sales volumes and higher prices received for copper and gold.

Cash Flow from Investing and Financing Activities

During the fourth quarter of 2011, our investing and financing activities utilized cash of $69.0 million, driven primarily by capital expenditures of $84.7 million partially offset by proceeds of $14.9 million from the disposition of Zochem.

For the full year, we used $255.8 million in investing and financing activities primarily driven by capital expenditures of $254.5 million (mainly on investments in Lalor and expenditures at our Constancia project acquired in March 2011), the net cash paid of $94.9 million relating to the acquisition of Hudbay Peru, acquisition of $44.5 million in strategic investments in junior mining companies, and $34.3 million in dividend payments, partially offset by proceeds from the sale of Fenix and Zochem of $136.9 million and $14.9 million, respectively.

Capital Expenditures

The following summarizes cash additions(1) to capital assets for the periods indicated:

	Three Months Ended		Year Ended	
(in $ millions)	**Dec. 31 2011**	**Dec. 31 2010**	**Dec. 31 2011**	**Dec. 31 2010**
Plant and Equipment	**15.7**	23.9	**40.4**	64.8
Capital Development	**4.2**	8.7	**17.1**	37.4
Capitalized Exploration	**2.1**	0.7	**14.3**	7.9
Capitalized Fenix Project	**—**	—	**7.2**	0.1
Capitalized Lalor Project	**43.2**	8.8	**156.8**	15.5
Capitalized Constancia Project	**18.7**	—	**43.6**	—
	83.9	42.1	**279.4**	125.7
Less: capital accruals	**0.8**	(6.6)	**(24.9)**	(8.1)
Total	**84.7**	35.5	**254.5**	117.6

(1) Excludes non-cash additions such as changes resulting from estimates relating to decommissioning and restoration liabilities and capitalized depreciation.

Our capital expenditures for the year ended December 31, 2011 were $136.9 million higher than the same period in 2010, primarily due to capitalized expenditures at Lalor and Constancia, offset by reduced sustaining capital expenditures.

Sustaining expenditures in 2011 were lower than guidance with the major differences being the deferral of expenditures relating to the Flin Flon office building, a new zinc filter plant, and certain information technology.

	Three Months Ended		Year Ended		Guidance	
(in $ millions)	**Dec. 31 2011**	**Dec. 31 2010**	**Dec. 31 2011**	**Dec. 31 2010**	**2011**	**2012**
777 Mine	**6.4**	7.2	**22.6**	22.0		
Trout Lake Mine	**0.1**	5.5	**0.1**	16.8		
Chisel North Mine	**0.3**	1.5	**0.8**	10.1		
Flin Flon and Snow Lake Concentrators	**0.8**	0.2	**1.2**	2.0		
Flin Flon and Snow Lake Other	**9.4**	8.2	**23.6**	34.6		
Zinc Plant	**3.4**	2.1	**6.7**	10.6		

Other	**—**	4.0	**5.2**	6.8		
Sustaining capital expenditures	**20.4**	28.7	**60.2**	102.9	105	95
Lalor Project	**43.2**	8.8	**156.8**	15.5	163	147
Fenix Project	**—**	—	**7.2**	0.1	13	—
Constancia Project(1)	**18.7**	—	**43.6**	—	—	107
777 North	**1.6**	3.0	**8.0**	4.8	8	6
Back Forty Project	**—**	1.6	**3.6**	2.4	—	2
Reed	**—**	—	**—**	—	—	34
Growth capital expenditures	**63.5**	13.4	**219.2**	22.8	184	296
Less: capital accruals	**0.8**	(6.6)	**(24.9)**	(8.1)	—	—
Total	**84.7**	35.5	**254.5**	117.6	289	391

(1) The 2012 guidance provided for Constancia is for the first quarter of 2012 only.

Our Board of Directors has approved a capital budget for 2012 of $391 million, of which $296 million is allocated toward growth opportunities. Capital expenditures at Lalor are expected to total approximately $147 million. With the ramp from Chisel North to Lalor completed on time and on budget, the focus at Lalor has turned to completion of the ventilation shaft to allow first ore production up the temporary hoisting facilities by the middle of 2012.

Other major activities at Lalor will include the commencement of production shaft sinking early in 2012, delivery of underground equipment and completion of engineering and procurement for the new concentrator.

Capital expenditures at Constancia for the first quarter of 2012 and other capitalized costs in Peru are expected to total approximately $107 million, in addition to the $43.6 million of capital expenditures incurred by the end of 2011. We expect to make a formal production decision in respect of Constancia by the middle of 2012, at which time we intend to provide a further update on expected Constancia capital spending.

Liquidity

We have a US$300 million revolving credit facility with a syndicate of banks. As at December 31, 2011, we were in compliance with the covenants required by the facility. Also as at December 31, 2011, we had $62.0 million in outstanding letters of credit collateralized by cash and cash equivalents which would have been classified as restricted cash in the absence of the credit facility.

Our cash and cash equivalents balance of $899.1 million provides a substantial cushion against unanticipated demands on liquidity, although expenditures on the Lalor project and the Constancia project are expected to utilize part of this cash balance. We are pursuing long-term debt financing to maintain our financial flexibility in anticipation of a formal decision in the middle of 2012 to commence construction at Constancia.

Contractual Obligations and Commitments

The following table summarizes, as at December 31, 2011, certain of our contractual obligations for the periods specified:

Payment Schedule	Total	Less than 1 Year	1 - 3 Years	4-5 Years	After 5 Years
			($000s)		
Operating lease obligations	20,784	2,457	5,488	4,360	8,479
Purchase obligations - capital commitments	126,150	100,429	25,109	612	—
Purchase obligation - other commitments	6,909	6,909	—	—	—
Pension and other employee future benefits obligations	107,109	10,056	8,091	9,418	79,544
Decommissioning and restoration obligations	134,829	1,345	4,332	9,402	119,750
Total	395,781	121,196	43,020	23,792	207,773

In addition to the contractual obligations included in the above payment schedule, we also have the following commitments:

- Commitments to purchase zinc concentrates, with payments related to market prices over a quotational period;
- A profit-sharing plan with most Manitoba employees;
- A royalty agreement and net profit interest agreement related to the 777 mine; and
- Collective Bargaining Agreements in place with unionized Flin Flon/Snow Lake workforce that prohibit strikes and lockouts and provide for binding arbitration.

Outstanding Share Data

As of March 6, 2012, there were 171,943,220 common shares of Hudbay issued and outstanding. In addition, options for a maximum aggregate of 3,893,150 common shares were outstanding.

TREND ANALYSIS AND QUARTERLY REVIEW

The following table sets forth selected consolidated financial information, prepared in accordance with IFRS, for each of our eight most recently completed quarters.

	2011				2010			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	($000s)							
Revenue	254,314	212,335	246,823	177,345	184,607	167,778	187,341	241,306
Profit before tax	69,813	37,473	67,368	34,371	26,594	22,416	15,969	43,689
Profit (loss) from continuing operations	34,286	(16,052)	41,092	15,870	13,694	7,376	165	19,180
(Loss) profit from discontinued operations	—	(25,031)	(212,970)	(783)	(5,826)	(9,119)	4,134	(8,587)
(Loss) profit	34,286	(41,080)	(171,878)	15,087	7,868	(1,743)	4,299	10,593
(Loss) earnings per share:								
Basic	0.21	(0.23)	(0.97)	0.11	0.07	(0.01)	0.03	0.07
Diluted	0.21	(0.23)	(0.97)	0.11	0.07	(0.01)	0.03	0.07

In the fourth quarter of 2011, we recorded a profit compared to the third quarter where we recorded a loss. This was mainly as a result of higher deferred tax expense of $26.9 million arising from changes in

Peruvian mining tax rates and an increase in the present value of decommissioning and restoration obligations and a loss of $22.5 million on disposal of the Fenix project. In the second quarter of 2011 we recognized an impairment loss of $212.7 million on the Fenix project.

Profits in 2010 were affected by accounting for expenditures on Lalor. Under IFRS, we expensed Lalor costs in 2010, as a reserve statement had not been completed until December 31, 2010, at which time we began to capitalize costs directly attributable to developing Lalor. 2011 revenues were significantly higher compared to 2010 due mainly to higher copper concentrate sales volumes and higher copper and zinc prices.

The price, quantity and mix of metals sold, along with movements in the Canadian dollar, affect our revenue, operating cash flow and profit. Revenue from metal sales can vary from quarter to quarter due to production levels, shipping volumes, and risk and title transfer terms with customers.

The following table sets forth selected consolidated financial information for each of the three most recently completed years.

	2011	2010	2009(3)
		($000s)	
Revenue	**890,817**	781,032	720,722
Profit before tax	**209,025**	108,669	152,182
Profit from continuing operations	**75,196**	40,415	120,773
Loss from discontinued operations	**(238,784)**	(19,398)	(8,293)
(Loss) profit	**(163,588)**	21,017	112,480
Earnings per share:			
Continuing operations - basic and diluted	**0.48**	0.29	0.79
Discontinued operations - basic and diluted	**(1.40)**	(0.13)	(0.05)
(Loss) earnings per share	**(0.92)**	0.16	0.73
Total assets	**2,448,820**	2,083,544	2,032,686
Operating cash flow before changes in non-cash working capital (1)	**220,313**	140,482	124,512
Total long-term financial liabilities (2)	**—**	—	—
Dividends declared per share	**0.20**(4)	0.10	—

(1) Operating cash flow before changes in non-cash working capital is a non-IFRS financial performance measure with no standardized definition under IFRS. For further information and a detailed reconciliation, please see page 47 of this MD&A.
(2) Total long-term financial liabilities include non-current portions of long-term debt and obligations under capital leases
(3) We adopted IFRS in fiscal 2011 with a transition date of January 1, 2010. The data for 2009 is presented in conformity with Canadian GAAP and has not been restated under IFRS. Accordingly, it may not be comparable with the information for fiscal 2010 and 2011. See “Adoption of IFRS” on page 51 for a description of the significant differences between Canadian GAAP and IFRS for Hudbay.
(4) Dividend declared March and September 2011

Revenues have increased year-over-year since 2009, primarily as a result of an upward trend in prevailing market prices for copper, zinc, gold,

and silver since the market lows experienced during the recession of 2008. In addition, 2011 revenues benefited from increased sales volumes as excess copper concentrate inventories were sold.

Profit from continuing operations in 2009 included a $99.9 million gain on the sale of an available-for-sale investment. Excluding this gain, profits from our core business increased from 2009 through 2011 due to revenue drivers, as noted above, and a continued focus on cost control.

Losses from discontinued operations consist of activities related to the Fenix project, which we sold during the third quarter of 2011. For 2011, the loss from discontinued operations includes an impairment loss of $212.7 million on the carrying value of Fenix, as well as a further loss of $22.5 million transferred from the foreign currency translation reserve within equity to the income statement upon disposal of the Fenix project.

Total assets increased significantly from 2010 to 2011 primarily due to our commitment to growth projects, including the acquisition of the Constancia project in Peru, as well as capitalized construction costs related to our Lalor project in Snow Lake, Manitoba.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the consolidated financial statements in conformity with IFRS requires us to make judgments, estimates and assumptions that affect the application of accounting policies, reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

We review these estimates and underlying assumptions on an ongoing basis based on our experience and other factors, including expectations of future events that we believe to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Significant areas where we apply judgments include:

- Acquisition method accounting;
- Taxes;
- In-process inventory quantities and provision for inventory obsolescence;
- Property, plant and equipment;
- Cost allocations for mine development;
    - Mining properties expenditures capitalized;
    - Determining when exploration and evaluation assets should be transferred to capital works in progress within property, plant and equipment ;
    - Assessment of impairment, including determination of cash-generating units and assessing for indications of impairment; and
    - Recoverability of exploration and evaluation assets, including determination of cash-generating units and assessing for indications of impairment.

Significant areas where we apply estimates include:

- Estimates that affect multiple areas of the financial statements:
    - Estimating mineral reserves and resources;
    - Acquisition method accounting;
    - Estimates of fair value of financial instruments; and Taxes.

- Asset-based estimates (these estimates also affect other areas of the financial statements):
    - Property, plant and equipment;
        - Units of production depreciation;
        - Plant and equipment estimated useful lives and residual values; and
    - Assessment of impairment, including determination of recoverable amount.

- Estimates that relate mainly to liabilities:
    - Pensions and other employee benefits;
    - Decommissioning, restoration and similar liabilities; and
    - Contingent liabilities.

- Estimates that relate mainly to the income statement:
    - Assaying used to determine revenue.

Mineral reserves and resources

We estimate mineral reserves and resources to determine future recoverable mine production based on assessment of geological, engineering and metallurgical analyses, estimates of future production costs, capital costs and reclamation costs, as well as long term commodity prices and foreign exchange rates.

There are numerous uncertainties inherent in estimating mineral reserves and resources, including many factors beyond our control. We base

our estimates on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the ore body, and interpreting this data requires complex geological judgments. Changes in our assumptions, including economic assumptions such as metal prices and market conditions, could have a material effect on our financial position and results of operation.

Changes in our reserve or resource estimates may affect:

- the carrying value of exploration and evaluation assets, capital works in progress, mining properties and plant and equipment;
- depreciation expense for assets depreciated either on a unit-of-production basis or on a straight line basis where useful lives are restricted by the life of the related mine or plan;
- the provision for decommissioning, restoration and similar liabilities; and
- the carrying value of deferred tax assets.

Acquisition method accounting

When we make an acquisition, we first determine whether the assets acquired and liabilities assumed constitute a business, in which case the acquisition requires accounting as a business combination. We apply judgement in determining whether the acquiree is capable of being conducted and managed for the purpose of providing a return, considering the inputs of the acquiree and processes applied to those inputs that have the ability to create outputs.

When we enter into a business combination, we apply the acquisition method of accounting. In doing this, we estimate the fair values of the assets we have acquired and the liabilities and contingent liabilities we have assumed as at the acquisition date. Determining such fair values frequently also requires us to estimate related mineral reserves and resources that can be reliably measured. In determining these fair values, we must also apply judgment in areas including future cash flows, metal prices, exchange rates and appropriate discount rates. We use the fair values when we recognize the assets and liabilities on the balance sheet, including goodwill. In certain circumstances, we may also have to make estimates or apply judgment to measure contingent consideration. We measure goodwill at the acquisition date as the fair value of the consideration transferred including the recognized amount of any non-controlling interests in the acquiree, less the net recognized amount (generally fair value) of assets acquired and liabilities and contingent liabilities assumed (identifiable net assets) on the basis of fair value at the date of acquisition. Changes in estimates and assumptions could result in significant differences in the amount of goodwill recognized.

Estimates of fair value of financial instruments

We record various financial assets, financial liabilities and derivatives at fair value. If quoted market prices are available, we use them for our fair value estimates, using bid prices for financial assets and asking prices for financial liabilities. If quoted market prices are not available, we use internal valuation models with observable forward market commodity prices, currency exchange rates and discount factors based on appropriate market interest rates, adjusted for credit risk. When we invest in warrants to

acquire shares of other companies, we estimate their fair values using a Black-Scholes model. When we invest in shares of private companies, we estimate their fair value using valuation models or techniques such as discounted cash flow analysis, consideration of recent arm's-length market transactions or reference to the current fair value of another instrument that is substantially the same. Valuation models can produce a fair value that may not reflect future fair value.

We separate and record at fair value embedded derivatives related to provisional pricing in concentrate purchase, concentrate sale, and certain other sale contracts. For these contracts, sales prices are subject to final adjustment at the end of a future period after shipment, based on quoted market prices during the quotational period specified in the contract. At each reporting date, we mark-to-market provisionally priced metals based on the forward market price for the quotational period stipulated in the contract with changes in fair value recognized in revenues for sales contracts and in cost of sales for purchase concentrate contracts.

Each reporting date, we exercise judgement as we assess financial assets not carried at fair value through profit or loss to determine whether there is objective evidence of impairment, For our available-for-sale investments in equity securities, this includes assessing whether there has been a significant or prolonged decline in the fair value of the security below its cost. Where we have previously recognized impairment of financial assets other than available-for-sale equity investments, we also apply judgement each reporting date to assess whether it is appropriate to reverse previous impairment based on improved conditions.

Taxes

We use the asset and liability method of tax allocation for accounting for income taxes. Deferred income and mining tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using substantively enacted tax rates expected to be in effect in the years that differences reverse. These determinations rely on management's estimate of when temporary differences will reverse, as well as management's interpretation of tax legislation. Deferred tax assets are recognized to the extent that it is probable that the deferred tax assets will be realized. We evaluate the carrying value of deferred tax assets on a quarterly basis and adjusts the amount that is probable to be realized as necessary. Factors used to assess the likelihood of realization include forecasts of future taxable income and available tax planning strategies that could be implemented to realize deferred tax assets.

In-process inventory quantities and provision for inventory obsolescence

We determine the cost of production inventory on a weighted average cost basis, including direct costs associated with conversion of production inventory: material, labour, contractor expenses, purchased concentrates, and attributable portion of production overheads and depreciation of all

property, plant and equipment involved with the mining and production process. We measure in process inventories based on assays of material received at metallurgical plants and estimates of recoveries in the production processes. Due to significant uncertainty associated with volume and metal content, we do not allocate costs to routine operating levels of stockpiled ore. Estimates and judgment are required to assess the nature of any significant changes to levels of ore stockpiles and determining whether allocation of costs is required.

We estimate the realizable value of in process inventories at reporting dates and carry inventories at the lower of cost and estimated net realizable value. Where the net realizable value is less than the accumulated costs that have been allocated to that inventory, we recognize an impairment charge as part of current period operating costs to reduce the carrying value of the inventory. If conditions improve subsequently, we determine whether it is appropriate to reverse impairment losses previously recorded.

Property, plant and equipment and exploration and evaluation

The carrying amounts of property, plant and equipment and exploration and evaluation assets on our balance sheet are significant and reflect multiple estimates and application of judgement.

We exercise judgment in determining whether the costs related to exploration and evaluation are eligible for capitalization and whether they are likely to be recoverable by future exploration, which may be based on assumptions about future events and circumstances. We use judgement and estimates when we determine whether exploration and evaluation assets should be transferred to capital works in progress within property, plant and equipment. In accordance with our accounting policy, the end of the exploration and evaluation phase occurs when we have completed a preliminary feasibility study, some of the resources have been converted to reserves, and we determine it is probable the property will be developed into a mine.

For mines in the production stage, we apply judgment to determine development costs to be capitalized based on the extent they are incurred in order to access reserves mineable over more than one year. In doing this, we use estimates such as estimates of tonnes of waste to be removed over the life of the mining area and economically recoverable reserves extracted as a result.

For depreciable property, plant and equipment assets, we make estimates to determine depreciation. For assets depreciated using the straight-line method, we estimate residual value and useful lives of the assets or components. Where the estimated life of the related mine or plant is shorter, we use that in our depreciation calculations. For assets depreciated on a unit-of-production basis, we use estimated associated future development costs and estimated proven and probable tonnes of mineral reserves, as described above. There are numerous uncertainties inherent in estimating ore reserves, and assumptions that were valid at the reporting date may change when new information becomes available. The actual volume of ore extracted and any changes in these assumptions could affect prospective depreciation rates and carrying values.

Assessment of impairment and recoverability of exploration and evaluation assets

At the end of each reporting period, we apply judgement when we review the carrying amounts of property, plant and equipment, exploration and evaluation assets and computer software to determine whether there is any indication of impairment. If any such indication exists, we estimate the recoverable amount of the asset in order to determine the extent of the impairment loss, if any.

The recoverable amount is the higher of the fair value less costs to sell and value in use. In our business, fair value less costs to sell is usually higher than value in use due to IFRS restricts value in use calculations from considering future development. Judgment is required to determine fair value less costs to sell. For mineral assets, fair value is is often determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted by an appropriate discount rate that reflects current market assessments of the time value of money and the risks specific to the asset to arrive at a net present value of the asset. During the year ended December 31, 2011, we recognized impairment losses on our Fenix and Zochem operations prior to selling them. In both situations, we determined the amount of impairment based on fair value less costs to sell, which we estimated based on indicative offers received.

Pensions and other employee benefits

Our post retirement obligations relate mainly to ongoing health care benefit plans. We estimate obligation related to our pension and other employee benefits plans using actuarial determinations that incorporate assumptions using our best estimates of factors including plan performance, salary escalation, retirement dates of employees and drug cost escalation rates. Due to the complexity of the

valuation, the underlying assumptions and its long term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. We review all assumptions at each reporting date. In determining the appropriate discount rate, we consider the interest rates on corporate bonds in the respective currency with at least an AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. We use a mortality rate based on publicly available mortality tables for the specific country, and we base future salary increases and pension increases on expected future inflation rates for the respective country.

Decommissioning, restoration and similar liabilities

Decommissioning, restoration and similar liabilities are estimated based on environmental plans, in compliance with current environmental and regulatory requirements. We estimate costs associated with decommissioning and restoration activities such as dismantling and removing structures, rehabilitating mines and tailings, and reclamation and re-vegetation of affected areas. When we provide for such future costs, we also record a corresponding decommissioning asset, except for closed sites where we recognize changes in estimated costs immediately in the

income statement. We record the present value of estimated costs in the period in which the asset is installed or the environment is disturbed and a reasonable estimate of future costs and discount rates can be made. We adjust estimates of future cash flows to reflect risk, and then we discount the provision using a risk free rate. In subsequent periods, we re-measure the liabilities to reflect changes in the discount rate. We accrue the unwinding of discounts on provisions over the life of each associated operating mine or plant (or, for non-operating sites, over the period until we estimate rehabilitation will be complete), such that at the end of that period the provision is equal to the balance estimated to be paid at that date. We depreciate the decommissioning asset over the life of the related asset. Judgment is required to determine assumptions including discount rates, expected timing of decommissioning and restoration costs, inflationary factors and market risks. Changes in cost estimates, which may arise from changes in technology and pricing of the individual components of the cost, result in offsetting changes to the asset and liability and corresponding changes to the associated depreciation and finance costs.

In view of the uncertainties concerning these future obligations, the ultimate timing and cost of reclamation and mine closure may differ materially from these estimates. The estimate of the total liability is subject to change based on amendments to laws and regulations and as new information concerning our operations becomes available. Future changes, if any, to the estimated total liability as a result of amended requirements, laws, regulations and operating assumptions, as well as discount rates, may be significant and would be recognized prospectively as a change in accounting estimate, when applicable. Environmental laws and regulations are continually evolving in all regions in which we operate. We are not able to determine the impact, if any, of environmental laws and regulations that may be enacted in the future on our results of operations or financial position due to the uncertainty surrounding the ultimate form that such future laws and regulations may take.

Contingent liabilities

We are involved in various claims and litigation arising in the ordinary course and conduct of business. As the outcomes are uncertain, no amounts have been recorded in our consolidated financial statements. By their nature, contingencies will be resolved only when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

Assaying used to determine revenue

We measure revenue from the sale of goods at the fair value of the consideration received or receivable, net of treatment and refining charges. In determining the amount of revenue to recognize on copper concentrate sales, we use assays to estimate the metal contained in the concentrate. When we issue provisional invoices, we may use our own estimated assays to calculate the metal content and measure provisional revenue; for final invoices, we reach agreement with the customer on assays reflecting metal content.

RISK MANAGEMENT

From time to time we maintain price protection programs and conduct commodity price risk management to reduce risk through the use of financial instruments.

Base Metal Price Strategic Risk Management

Our strategic objective is to provide our investors with exposure to base metal prices, unless a reason exists to implement a hedging arrangement. We may hedge base metal prices from time to time to ensure we will have sufficient cash flow to meet our growth objectives, or to maximize debt capacity (and correspondingly minimize equity dilution) to the extent that third party financing may be needed to fund growth initiatives. However, we will generally prefer to raise financing for attractive growth opportunities through equity issuance if the only alternative is to engage in a substantial amount of strategic metal price hedging. We may also hedge base metal prices to manage the risk of putting higher cost operations into production or the risk associated with provisional pricing terms in concentrate purchase and sales agreements.

In October 2009, we implemented a price protection program for the restart of our Chisel North mine. We entered into zinc commodity swap contracts with an average volume of approximately 2.0 million pounds of zinc per month for the period May 2010 through July 2012, at an average price of approximately $1.01 per pound. This volume represented approximately 50% of the anticipated production from Chisel North. Hedge accounting was applied to these transactions.

Our swap agreements are with counterparties we believe to be creditworthy and are governed by master trading agreements with customary wording under which we are not required to provide collateral.

Zinc

To provide a service to customers who purchase zinc from our plants and require known future prices, we enter into fixed price sales contracts. To ensure that we continue to receive a floating or unhedged realized zinc price, we enter into forward zinc purchase contracts that effectively offset the fixed price sales contracts with our customers.

Interest Rate and Foreign Exchange Risk Management

To the extent that we incur indebtedness at variable interest rates to fund our growth objectives, we may enter into interest rate hedging arrangements to manage our exposure to short-term interest rates. We typically do not enter into hedging of our exposure to the Canadian dollar - US dollar exchange rate, as the historic correlation between the foreign exchange rate and commodity prices has generally served to mitigate our risk exposure to commodity prices.

In October 2009, we also entered into foreign exchange forwards to hedge anticipated US dollar revenues in connection with the price protection program for the Chisel North Mine described above. We agreed to sell US dollars and purchase C$1.45 million per month for the same period as the zinc swap contracts described above, at an average rate of approximately C$1.07 per US dollar. We applied hedge accounting to these transactions.

Hedging Gains and Losses

During the year ended December 31, 2011, we reclassified pre-tax net gains of $1.0 million from other comprehensive income ("OCI") to profit related to the zinc and foreign exchange hedges described

above. As at December 31, 2011, our hedging reserves within equity consisted of $2.6 million of pre-tax gains; we will reclassify these gains to the income statement in the next twelve months as the final settlements of our 2009 hedges program take place.

ENVIRONMENT, HEALTH AND SAFETY

The Environment

There were no significant environmental non-compliances during the year.

All producing operations have management systems certified to both OHSAS 18001 for occupational health and safety and ISO 14001 for the environment. In addition, the production and supply of Manitoba's final products are registered to the ISO 9001 quality standard.

Health and Safety

For the fourth quarter, we recorded a lost time accident frequency of 0.6 per 200,000 hours worked (including by contractors) compared to 1.8 for the same quarter in 2010. For the full year, we recorded a lost time accident frequency of 0.3, compared to 1.2 in 2010.

Sustainability and Corporate Social Responsibility Reporting

We publish an annual sustainability report that further presents and discusses our environmental, health and safety performance. The 2010 report is available on our website at www.hudbayminerals.com.

NON-IFRS FINANCIAL PERFORMANCE MEASURES

Operating cash flow before changes in non-cash working capital, operating cash flow per share, detailed operating expenses, co-product cash costs and cash cost per pound of zinc sold are included in this MD&A because these measures are performance indicators that we use to monitor performance. We use these measures to assess how well we are performing relative to plan and to assess the overall effectiveness and efficiency of mining, processing and refining operations. We believe that the inclusion of these measures in the MD&A helps an investor to assess performance "through the eyes of management" and that certain investors use these measures to assess our performance. These measures do not have a meaning prescribed by IFRS and should not be considered in isolation or as a substitute for measures prepared in accordance with IFRS. These measures are not necessarily indicative of operating profit or cash flow from operations as determined under IFRS. Other companies may calculate these measures differently.

Operating cash flow before changes in non-cash working capital and operating cash flow per share

This measure is intended to provide an indication of our operating cash flow generation prior to the impact of fluctuations in working capital accounts, including taxes payable and receivable (but excluding the effect of OCI items and other adjustments). Under Canadian GAAP, "Changes in non-cash working capital" in our statement of cash flows included changes in taxes payable and receivable (but excluded the effect of OCI items and other adjustments), whereas IFRS presentation requires that taxes paid be presented separately in the statement of cash flows. This non-IFRS measure generates results that are comparable to our previous non-GAAP presentation of operating cash flow before changes in non-cash working capital.

The following table presents our calculations of operating cash flow before changes in non-cash working capital and operating cash flow per share for the year ended December 31, 2011 and December 31, 2010.

	Three Months Ended		Year Ended	
($000s except share and per share amounts)	**Dec. 31 2011**	**Dec. 31 2010**	**Dec. 31 2011**	**Dec. 31 2010**
Cash generated by operating activities, per financial statements	**97,103**	42,270	**250,219**	195,163
Adjustments:				
Changes in non-cash working capital	**4,910**	(2,367)	**(15,791)**	(7,619)
Changes in non-cash taxes receivable/payable	**(49,819)**	(3,190)	**(14,115)**	(47,062)
Operating cash flow before changes in non-cash working capital	**52,194**	36,713	**220,313**	140,482
Weighted average shares outstanding	**171,905,912**	149,219,230	**167,863,427**	150,636,835
Operating cash flow per share	**$ 0.30**	$ 0.25	**$ 1.31**	$ 0.93

Cash cost per pound of zinc sold

In the third quarter of 2010, we introduced cash costs per pound of zinc sold as a new non-IFRS measure (see "Non-IFRS Financial Performance Measures" above). We believe that these costs serve as meaningful indicators for investors to evaluate our operations.

For the fourth quarter of 2011, our cash cost per pound of zinc sold, net of by-product credits, was negative US$0.98 per pound, representing costs associated with Manitoba operations, as calculated in the following table.

	Three Months Ended		Year Ended	
($000s except as noted)	**Dec. 31 2011**	**Dec. 31 2010**	**Dec. 31 2011**	**Dec. 31 2010**
Mine operating costs	**134,896**	89,592	**476,621**	431,513
Impairment loss	**961**	—	**6,839**	—
Selling and other operating expense	**657**	2,213	**4,975**	7,059
	136,514	91,805	**488,435**	438,572
Less by-product credits (1)	**(196,144)**	(117,766)	**(664,480)**	(533,403)
Cash cost net of by-products	**(59,630)**	(25,961)	**(176,045)**	(94,831)
Exchange rate (US$1 to C$) (2)	**1.023**	1.013	**0.989**	1.030
Cash cost net of by-products	**US (58,289)**	US (25,628)	**US (178,003)**	US (92,069)
Zinc sales (000s lbs.)	**59,500**	59,966	**222,523**	231,355
Cash cost per pound of zinc sold, net of by-product credits in US$/lb.	**US (0.98)**	US (0.43)	**US (0.80)**	US (0.40)

(1) By-product credits include revenues from sale of copper, gold, silver, the value added by converting zinc to zinc oxide, and by-product sales.
(2) Weighted average exchange rate for sales during the period.

For the fourth quarter of 2011, our cash cost per pound of zinc sold was negative US$0.98, a net decrease of US$0.55 as compared to the same period in 2010, and for the year-to-date was negative US$0.80, a net decrease of US$0.40 from 2010. Our cash cost decreased overall due to higher prices and sales volumes of by-product credits.

Co-product cash costs per unit sold

We believe that cash costs per pound of zinc sold serve as a meaningful indicators for investors to evaluate our operations.

Whereas cash costs net of by product credits present the cash costs of a single metal, assuming that all other metals are by products of the given metal, co-product cash costs present a cost of producing each of our primary metals, copper, zinc and gold, based on an allocation of costs among the metals. Costs that can be readily associated with a specific metal are allocated to that metal. We allocate mining and milling costs for our Trout Lake and 777 mines proportionately based on the value of the contained metals at prevailing metals prices. We generally allocate operating overhead expenses and site administrative expenses (in both cases, excluding costs not related to our Manitoba operations) are generally allocated equally between zinc and copper with some further cost allocation to gold. Impairment charges on zinc inventory in a period are deducted from cost of sales in order to better match costs as they are incurred with sales; the deducted charges will be added back to cost of sales in future periods when the inventory in question is sold.

Prior to disposing of our Zochem operation in November 2011, we treated zinc oxide production as a by-product of zinc production, so we allocated Zochem's operating costs to zinc operating expenses, and we deducted zinc oxide revenues from total zinc cash costs. Similarly, we treat silver production as a by-product of gold production. Copper by-products include the one-time sale of copper bearing material from the closure of the WPCR. Other miscellaneous revenues are allocated among zinc, copper and gold in the same manner as general and administrative costs unless specific to either zinc or copper processing.

While we expect the impact of fluctuating metals prices to be less significant on co-product cash costs than it is on by-product cash costs, changes in relative metals prices may cause our reported cash costs to vary substantially over time, irrespective of our operating results. Significant management judgment is also required in determining how costs should be allocated among metals. Caution should also be exercised in using co-product cash costs to evaluate the profitability of a particular metal, as the profitability of our polymetallic mines is dependent on the production of all of our principal metals.

Three Months Ended December 31, 2011

('000s except as noted)	**Copper**	**Zinc**	**Gold**	**Total**
Mine operating costs	54,831	56,281	23,784	134,896
Impairment loss on zinc inventory	—	(69)	—	(69)
Treatment and refining costs(1)	7,097	—	3,067	10,164
	61,928	56,212	26,851	144,991
Zinc oxide and by-product revenues	(346)	(4,182)	(7,471)	(11,999)
Co-product costs	**61,582**	**52,030**	**19,380**	**132,992**
Sales volume(2)	40,425	59,499	31,407	
Co-product cash costs per unit(2) sold	**$ 1.52**	**$ 0.87**	**$ 617**	

(1) Treatment and refining costs are deducted from revenue.
(2) Copper and zinc sales volumes are denoted in 000s pounds, and gold sales volumes are denoted in troy oz.

Year Ended December 31, 2011

('000s except as noted)	Copper	Zinc	Gold	Total
Mine operating costs	175,481	242,564	58,576	476,621
Impairment loss on zinc inventory	—	(5,420)	—	(5,420)
Treatment and refining costs(1)	26,524	—	8,884	35,408
	202,005	237,144	67,460	506,609
Zinc oxide and by-product revenues	(19,876)	(25,110)	(26,547)	(71,533)
Co-product costs	**182,129**	**212,034**	**40,913**	**435,076**
Sales volume(2)	126,461	222,523	93,652	
Co-product cash costs per unit (2) sold	**$ 1.44**	**$ 0.95**	**$ 437**	

(1) Treatment and refining costs are deducted from revenue.
(2) Copper and zinc sales volumes are denoted in 000's pounds, and gold sales volumes are denoted in troy oz.

Three Months Ended December 31, 2010

('000s except as noted)	Copper	Zinc	Gold	Total
Mine operating costs	21,418	58,950	9,224	89,592
Treatment and refining costs(1)	4,549	—	1,121	5,670
	25,967	58,950	10,345	95,262
Zinc oxide and by-product revenues	(756)	(7,655)	(4,796)	(13,207)
Co-product costs	**25,211**	**51,295**	**5,549**	**82,055**
Sales volume(2)	18,943	59,965	15,406	
Co-product cash costs per unit (2) sold	**$ 1.33**	**$ 0.86**	**$ 360**	

(1) Treatment and refining costs are deducted from revenue.
(2) Copper and zinc sales volumes are denoted in 000s pounds, and gold sales volumes are denoted in troy oz.

Year Ended December 31, 2010

('000s except as noted)	Copper	Zinc	Gold	Total
Mine operating costs	141,384	239,417	50,712	431,513
Treatment and refining costs(1)	10,854	—	2,041	12,895
	152,238	239,417	52,753	444,408
Zinc oxide and by-product revenues	(3,403)	(36,282)	(22,130)	(61,815)
Co-product costs	**148,835**	**203,135**	**30,623**	**382,593**
Sales volume(2)	104,062	231,356	81,107	
Co-product cash costs per unit (2) sold	**$ 1.43**	**$ 0.88**	**$ 378**	

(1) Treatment and refining costs are deducted from revenue.
(2) Copper and zinc sales volumes are denoted in 000s pounds, and gold sales volumes are denoted in troy oz.

Co-product costs per unit sold in the fourth quarter of 2011 were $1.52 per pound of copper, $617 per ounce of gold and $0.87 per pound of zinc. For the full year, copper costs did not change significantly, while zinc costs were higher due to higher volumes of higher unit cost concentrates treated from Snow Lake and third party purchases as well as lower zinc oxide credits. Gold costs were higher due to lower by product silver credits and generally higher cost allocations due to higher selling prices. In the fourth quarter, copper costs were higher with reduced byproduct credits and higher distribution costs in 2011. Gold costs were significantly higher with a higher cost allocation to gold due to higher prices relative to copper and zinc and proportionately lower silver credits.

ACCOUNTING CHANGES

Adoption of International Financial Reporting Standards (IFRS)

The Canadian Accounting Standards Board set January 1, 2011 as the date that IFRS replaces existing Canadian GAAP for public companies with fiscal years beginning on or after that date, with comparative figures presented in the financial statements also required to comply with IFRS.

In accordance with these requirements, we adopted IFRS with effect from January 1, 2010.

We engaged external consultants to assist us through this complex transition project, which involved individuals from many aspects of the business, including accounting and finance, tax, information technology, legal, investor relations, logistics and operations. We established a project structure, including a charter and a detailed project plan that included phases for planning and assessment, design and implementation. We also conducted workshops and training. The project plan included activities in respect of all of our direct and indirect subsidiaries in all jurisdictions which were established as at December 31, 2010. Our execution of our IFRS project implementation plan included the review of related controls and we concluded that the adoption of IFRS did not require material changes to our internal controls. Our project team provided regular status and informational updates to our IFRS Steering Committee and the Audit Committee of the Board of Directors. Our IFRS Committee and the Audit Committee have approved our IFRS accounting policies. However IFRS Standards are evolving and subject to change going forward.

The following reconciliations summarize the effect of adjustments we made to convert our Canadian GAAP financial statements to IFRS for our 2010 transition year, with descriptions of significant adjustments provided below. For further explanation of the effect of transition from Canadian GAAP to IFRS on our financial position, financial performance and cash flows, refer to note 31 of our December 31, 2011 consolidated financial statements.

Reconciliation of equity as at January 1, 2010 and December 31, 2010

($000s)	Notes	Jan.1, 2010 (transition date)	Dec. 31, 2010
Total equity under Canadian GAAP		1,698,484	1,748,981
Adjustments, net of tax			
Exploration and evaluation	a	(21,339)	(54,005)
Decommissioning and restoration liabilities and assets	b	(14,930)	(24,164)
Property, plant and equipment	c	(5,058)	(10,796)
Functional currency	d	(4,561)	(25,033)
Employee benefits		(3,641)	(2,682)
Provisions		(1,034)	(698)
“Own-use” derivatives		307	1,896
Non-controlling interest		1,356	49
Effect of re-measuring taxes		—	271
Net adjustment to equity		(48,900)	(115,162)
Total equity under IFRS		1,649,584	1,633,819

Reconciliation of statement of comprehensive income for the three months and year ended December 31, 2010

	Notes	Three Months EndedDec. 31, 2010		Year Ended Dec. 31, 2010	
		Before tax	Net of tax	Before tax	Net of tax
Total comprehensive income under Canadian GAAP			33,586		105,290
Adjustments to profit (loss), net of tax:					
Exploration and evaluation	a	(20,152)	(12,228)	(53,569)	(32,666)
Decommissioning and restoration liabilities and assets	b	852	(453)	(4,499)	(9,236)
Property, plant and equipment	c	(598)	(383)	(9,336)	(5,738)
Functional currency	d	(1,898)	(1,898)	(5,397)	(5,397)
Employee benefits		331	239	1,330	959
Provisions		102	82	473	337
“Own-use” derivatives		1,328	953	2,215	1,589
Effect of re-measuring taxes		—	(126)	—	1,019
Share-based payment		27	27	118	118
Other		(3)	(2)	(6)	(6)
Net adjustment to profit (loss)		(20,011)	(13,789)	(68,671)	(49,021)
Adjustment to OCI (loss):					
Functional currency	d	(10,589)	(10,589)	(15,070)	(15,070)
Other		—	—	(2)	—
Available for sale investments		—	—	—	(387)
Adjustments to OCI (loss)		(10,589)	(10,589)	(15,072)	(15,457)
Total adjustment to comprehensive income		(30,600)	(24,378)	(83,743)	(64,478)
Total comprehensive income under IFRS			9,208		40,812

Explanation of significant adjustments

a. **Exploration for and evaluation of mineral resources** (“E&E”) — Under IFRS, we expense the cost of our E&E activities and capitalize the cost of acquiring interests in mineral rights, licenses and properties in business combinations, asset acquisitions or option agreements. We interpret the end of the E&E phase to be the point at which we have completed a preliminary feasibility study, some of the resources have been converted to reserves, and management has determined that it is probable the property will be developed into

a mine. To apply this policy, we recognized IFRS adjustments to reverse the Lalor project assets previously capitalized under Canadian GAAP, as the amounts arose from E&E activities rather than acquisitions. We determined that the Lalor project reached the end of the E&E phase as at December 31, 2010 and entered the development phase at that time; accordingly, in 2011, we have capitalized Lalor project expenditures and presented them within capital works in progress in property, plant and equipment.

a. **Decommissioning and restoration** - Under Canadian GAAP, we applied a credit-adjusted, risk-free rate to measure our decommissioning and restoration liabilities (previously called "asset retirement obligations"), and we did not re-measure the liabilities as a result of changes in the discount rate. Under IFRS, we apply a risk-free rate when measuring decommissioning and restoration liabilities and, in subsequent periods, we re-measure the liabilities to reflect changes in the discount rate. We also applied an optional exemption under IFRS 1, *First-time Adoption of International Financial Reporting Standards*, as explained in note 31 to our December 31, 2011 interim financial statements. Application of these changes resulted in increases to decommissioning and restoration liabilities and to the carrying value of related decommissioning and restoration assets within property, plant and equipment. For properties that have no remaining useful life, we recorded changes in the liabilities against other operating expense. The changes to liability and asset balances also affected finance expense related to the unwinding of discounts on the liabilities and depreciation expense during our 2010 transition year.

b. **Property, plant and equipment** — IFRS requires depreciation to be calculated separately for individual components of an item of property, plant and equipment that have costs significant in relation to the total cost of the item. Requirements under Canadian GAAP, while similar, were less specific. We identified additional components from those previously recorded under Canadian GAAP, resulting in IFRS adjustments to increase accumulated depreciation. For certain equipment, the adjustment also reflected a change in depreciation method from unit-of-production to straight-line because the expected pattern of future economic benefits was different at the lower level of componentization. We also recorded adjustments to increase the carrying value of property, plant and equipment for major inspections and overhauls of mobile equipment that require capitalization as separate components under IFRS but were expensed under Canadian GAAP. We recorded additional adjustments for assets related to mine development, as IFRS requires depreciation of equipment used in construction projects to be capitalized, and Canadian GAAP requirements, while similar, were also less specific. We recorded IFRS adjustments to reflect the capitalization of depreciation of equipment used in capital mine development, resulting in increases to the capital cost of mining properties. These IFRS adjustments to property, plant and equipment also resulted in additional adjustments to depreciation expense during our 2010 transition year.

c. **Functional currency** - IFRS requirements for determining the functional currency of an entity are more specific than the equivalent requirements under Canadian GAAP. We assessed the functional currency for each of Hudbay's entities under IFRS. During our 2010 transition year, we recorded IFRS adjustments for our Guatemalan operations (which we have subsequently sold during 2011) and for our Back Forty project in Michigan, which we determined have a US dollar functional currency under IFRS but had Canadian dollar functional currency under Canadian GAAP. To simplify our calculation of the transition adjustments, we elected the optional IFRS 1 exemption to deem cumulative translation differences to be zero as at January 1, 2010 (with an offsetting adjustment to retained earnings). Under Canadian GAAP, we did not previously have a currency translation adjustment, as the measurement currency of all Hudbay entities was Canadian dollars.

In addition to the accounting policy changes described above, extensive changes to financial statement presentation and disclosure were required upon adoption of IFRS. In particular, under IFRS we classify expenses within the income statement by function instead of by nature, as follows:

· **Cost of sales** — consists of expenses related to production, including the cost of inventory sold during the period and other expenses of operating sites, including depreciation and amortization, site administration and share-based payment expenses. Under Canadian GAAP, we presented depreciation and amortization and share-based payment expenses on separate lines of the income

statement and presented site administration costs in general and administrative expenses.

· **Selling and administrative expenses** — consists of corporate office expenses and selling expenses, including related share-based payment expense and depreciation and amortization.

· **Exploration and evaluation** — consists of expenses related to the exploration for and evaluation of mineral properties, including related share-based payment expense.

· **Other operating expense** — consists of expenses relating to operating activities other than production, selling and administration. The most significant component of this function is expenses of non-producing properties, such as those in the development phase and those under care and maintenance. Expenses of non-producing properties include amounts related to changes in estimates of decommissioning and restoration liabilities for properties with no remaining useful life, as well as share-based payment expense and depreciation and amortization. Under Canadian GAAP, we presented expenses of non-producing properties within operating expense.

· **Finance income** — consists mainly of interest income earned on cash and cash equivalents.

· **Finance expense** — this includes the unwinding of the discount rate on our decommissioning and restoration liabilities. Under Canadian GAAP, we referred to this as accretion expense and presented it on a separate line on the income statement.

· **Other finance gains/losses** — contains items that tend to fluctuate between gain and loss from period to period, such as foreign exchange gains/losses and mark-to-market gains/losses. Under Canadian GAAP, we presented foreign exchange gains/losses on a

separate line on the income statement.

On the cash flow statement, our most significant reclassification resulted from expensing the cost of expenditures on the Lalor project before it reached the end of the E&E phase; accordingly, under IFRS, we present these cash outflows within operating activities, whereas under Canadian GAAP we presented them within investing activities. In addition, under IFRS we classify interest income received within financing activities, whereas under Canadian GAAP we presented it in operating activities.

For a full description of our significant IFRS accounting policies, refer to note 3 of our annual consolidated financial statements.

New standards and interpretations not yet adopted

For information on new standards and interpretations not yet adopted, refer to note 3 of our December 31, 2011 consolidated financial statements.

Disclosure Controls and Procedures and Internal Control Over Financial Reporting

Disclosure controls and procedures

Management is responsible for establishing and maintaining adequate disclosure controls and procedures.

As of December 31, 2011, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures in accordance with requirements of National Instrument 52-109 of the Canadian Securities Commission ("NI 52-109") and the Sarbanes Oxley Act of 2002 (as adopted by the U.S. Securities and Exchange Commission). Our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") supervised and participated in this evaluation.

Based on management's evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports we file or submit is recorded, processed, summarized and reported within the time periods specified in securities legislation and is accumulated and communicated to our management, including our CEO and CFO, to allow timely decisions regarding required disclosure.

Our annual management report on internal control over financial reporting will be included in our Annual Report and our Form 40-F to be filed with the SEC and Canadian provincial regulatory authorities.

Internal control over financial reporting ("ICFR")

Management is responsible for establishing and maintaining adequate ICFR.

Under the supervision and with the participation of our management, including our CEO and CFO, we evaluated the effectiveness of our ICFR based upon the framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on management's evaluation, our CEO and CFO concluded that our ICFR were effective as of December 31, 2011.

Our annual management report on internal control over financial reporting will be included in our Annual Report and our Form 40-F to be filed with the SEC and Canadian provincial regulatory authorities.

Deloitte & Touche LLP, our Independent Registered Chartered Accountants, have audited our consolidated financial statements for the year ended December 31, 2011 for purposes of providing reasonable assurances regarding the reliability of financial reporting and the preparation of financial statements.

Changes in ICFR

During the second quarter of 2011, we implemented a new enterprise resource planning ("ERP") information system at our Manitoba business unit, which included the replacement of its key financial systems. The implementation of the new ERP system followed our project plans, which included a number of typical project controls, such as the testing of data conversion and system reports, user training and user acceptance testing, in order to ensure internal controls were in place during and after the implementation. We did not make any other changes to ICFR during the year ended December 31, 2011 that materially affected, or are reasonably likely to materially affect, our ICFR.

Inherent limitations of controls and procedures

All internal control systems, no matter how well designed, have inherent limitations. As a result, even systems determined to be effective may not prevent or detect misstatements on a timely basis, as systems can provide only reasonable assurance that the objectives of the control system are met. In addition, projections of any evaluation of the effectiveness of ICFR to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may change.

Exhibit 99.4

Disclosure Pursuant to Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act

HudBay Minerals Inc. ("Hudbay" or the "Registrant") is committed to the health and safety of its employees and to providing an incident free workplace.

Hudbay's U.S. mining operations are subject to Federal Mine Safety and Health Administration (the "MSHA") regulation under the U.S. Federal Mine Safety and Health Act of 1977 (the "FMSH Act"). The MSHA inspects Hudbay's mines on a regular basis and issues various citations and orders when it believes a violation has occurred under the FMSH Act. Whenever the MSHA issues a citation or order, it also generally proposes a civil penalty, or fine, related to the alleged violation.

Pursuant to Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), issuers that are operators, or that have a subsidiary that is an operator, of a coal or other mine are required to disclose in their periodic reports filed with the Commission information regarding specified health and safety violations, orders and citations, related assessments and legal actions, and mining-related fatalities. During the fiscal year ended December 31, 2011, the Registrant's Balmat Mine No. 4 and Mill received a total of four citations and orders from the MHSA alleging certain violations specified by the Dodd-Frank Act resulting in proposed MHSA assessments totaling $400 in the aggregate.

In addition, as required by the reporting requirements regarding mine safety included in section 1503(a)(2) of the Dodd-Frank Act, for the year ended December 31, 2011, none of the mines operated by Hudbay received written notice from the MSHA of (a) a pattern of violations of mandatory health or safety standards that are of such nature as could have significantly and substantially contributed to the cause and effect of mine health or safety hazards under section 104(e) of the FMSH Act or (b) the potential to have such a pattern.

The information in the table below reflects citations and orders that the MSHA issued to Hudbay during the year ended December 31, 2011, as reflected in Hudbay's records. The data in Hudbay's system may not match or reconcile with the data that the MSHA maintains on its public website. In evaluating this information, consideration should also be given to factors such as: (i) the number of citations and orders may vary depending on the size and operation of the mine, (ii) the number of citations issued may vary from inspector to inspector and mine to mine, and (iii) citations and orders may be contested and appealed, and in that process, may be reduced in severity and amount, and may be dismissed.

Mine ID Number	Mine or Operating Name	Section 104(a) Significant and Substantial Citations	Section 104(b) Orders	Section 104(d) Citations and Orders	Section 110(b)(2) Violations	Section 107(a) Orders	Proposed MSHA Assessments	Fatalities	Pending Legal Action
30-01185	Bamat Mine No. 4 & Milll	—	—	—	—	—	$ 400.00	—	—

Exhibit 99.5

HUDBAY MINERALS INC.
(the "**Company**")

CODE OF BUSINESS CONDUCT AND ETHICS

INTRODUCTION

This Code of Business Conduct and Ethics (" **Code**") sets out basic principles to guide all directors, officers and employees of the Company or any of its subsidiaries or affiliates(1) (collectively, the "**HB Group**") and all other persons acting on behalf of the HB Group (collectively, with the directors, officers and employees of the HB Group, "**HB Personnel**") in the ethical conduct of business. All HB Personnel must conduct themselves accordingly and seek to avoid even the appearance of improper behavior. If a law conflicts with a policy in this Code, HB Personnel must comply with the law.

HB Personnel who violate the standards in this Code will be subject to disciplinary action, which could include the termination of their employment or other relationship with the HB Group. **If you are in a situation that you believe may violate or lead to a violation of this Code, follow the guidelines described below under "Compliance Procedures"**.

PURPOSE

The purpose of the Code is to:

- Promote honest and ethical conduct of all HB Personnel and promote the HB Group's longstanding culture of honesty and accountability;
- Promote avoidance of conflicts of interest between personal interests of HB Personnel and professional interests of the HB Group, and provide guidance in the ethical handling of actual or apparent conflicts of interest;
- Promote full, fair, accurate, timely and understandable disclosure in the HB Group's documents submitted to or filed with securities regulators, and in its other public communications;
- Ensure compliance with applicable laws, rules and regulations;
- Promote the prompt internal reporting to an appropriate person of violations of this Code, including, through the use of the HB Group's confidential 'whistleblower' service.

(1) A company is a subsidiary of another company if it is controlled, directly or indirectly, by that other company (through one or more intermediaries or otherwise). A company is an affiliate of another company if either one of them is the subsidiary of the other company or if both are subsidiaries of the same company or if each of them is controlled by the same person or company.

LEGAL COMPLIANCE

Compliance with Laws, Rules and Regulations (including Insider Trading Laws and Timely Disclosure)

HB Personnel are expected to comply in good faith at all times with all applicable laws, rules and regulations and behave in an ethical manner.

HB Personnel are required to comply with the Company's Timely Disclosure, Confidentiality and Insider Trading Policy and all other policies and procedures applicable to them that are adopted by the Company from time to time.

HB Personnel must cooperate fully with Company officers in the preparation of documents to be filed with the securities regulatory authorities and all other publicly disclosed materials to ensure those persons are aware in a timely manner of all information that is required to be disclosed. HB Personnel should also cooperate fully with the independent auditors in their audits and in assisting in the preparation of financial disclosure.

THIRD PARTY RELATIONSHIPS

Conflict of Interest

HB Personnel are required to act with honesty and integrity and to avoid any relationship or activity that might create, or appear to create, a conflict between their personal interests and the interests of the HB Group.

"Conflicts of interest" arise where an individual's private interests interfere in any way with the interests of the HB Group. A conflict of interest can arise when HB Personnel take actions or have interests that may interfere with the performance of their work for the HB Group objectively, giving priority to the HB Group's professional interests over their personal interests, or interests of a third party. HB Personnel shall perform the responsibilities of their positions on the basis of what is in the best interests of the HB Group, free from the influence of personal considerations and third party relationships.

Conflicts of interest may not always be clear-cut. If you have a question, you should consult with your supervisor, department head, or the Chief Legal Officer. Any HB Personnel who become aware of a conflict or potential conflict should bring it to the attention of their supervisor,

department head or Chief Legal Officer and consult the procedures described below under "**Compliance Procedures**".

Gifts, Entertainment and Hospitality

Business gifts and entertainment are customary courtesies designed to build goodwill and constructive relationships among business partners. However, a problem may arise when these courtesies compromise, or appear to compromise, the HB Group's ability to make fair and objective business decisions or to gain an unfair advantage.

HB Personnel or their immediate families shall not use their position with the HB Group to solicit any cash, gifts or free services from any HB Group customer, supplier or contractor for

their or their immediate family's or friend's personal benefit. Gifts or entertainment from others should not be accepted if they could be reasonably considered to be extravagant for the employee, officer or director who receives it, or otherwise improperly influence the HB Group's business relationship with or create an obligation to a customer, supplier or contractor.

Similarly, no HB Personnel should ever offer, give or provide any gift, entertainment or hospitality unless it is not a cash gift, is consistent with customary business practices, is not excessive in value, cannot be construed as a bribe or payoff, and does not violate any applicable laws. **Strict rules apply when the HB Group does business with governmental agencies and officials, as discussed in more detail below.**

In general, nominal gifts such as pens, caps, shirts and mugs are acceptable. Invitations to social, cultural or sporting events may be accepted if the cost is reasonable and your attendance serves a customary business purpose such as networking. More extravagant or costly invitations should only be accepted in consultation with your manager, and when in doubt, the Company's Legal Department.

Payments to Government Personnel

All HB Personnel must comply with all laws prohibiting improper payments to government officials, including the *Corruption of Foreign Public Officials Act* (Canada) (the "**CFPOA**") and the *Foreign Corrupt Practices Act* (US) (the "**FCPA**"). These Acts prohibit, among other things, offering, promising or giving (or authorizing any of those activities) anything of value, directly or indirectly, to a foreign government official, official of a political party or political candidate, or to any official of any public international organization to influence any of their acts or decisions or to obtain or retain business or secure any other improper advantage.

Similarly, other governments have laws regarding business gifts that may be accepted by government personnel. The promise, offer or delivery to an official or employee of various governments of a gift, favour or other gratuity in violation of these laws would not only violate Company policy but could also be a criminal offense. It is important for HB Personnel to consult with the Company's Legal Department whenever they believe they may be embarking on conduct that may raise potential issues under applicable anti-corruption laws.

Penalties for violations of the FCPA are severe and may include fines against an individual of up to US$250,000 for each violation and fines against the Company of up to US$2 million. The financial consequences of an FCPA violation can escalate significantly through 'disgorgement of profits' and other penalty enhancers.

In the event that payments are made to third parties on behalf of governmental entities for legitimate purposes, HB Personnel should closely monitor such payments for fair valuation of the payments compared to the goods or services being provided to reduce the risk of kickbacks from the third-party suppliers to the applicable governmental personnel. HB Personnel should ensure that any such payments are properly recorded in the applicable business entity's books and records, including documentation of the specific deliverables received. HB Personnel may not make or authorize cash or cash equivalent (e.g., check) reimbursements or payments of any kind to individual government officials without prior written authorization from the Company's Legal Department.

There are narrow exceptions to the provisions of the FCPA. Because the legality of payments to government officials in particular situations is hard to determine, HB Personnel must consult with the Company's Legal Department before making any such payments to avoid potential liability or even the appearance of impropriety.

Government Relations; Influencing Testimony

HB Personnel may participate in the political process as private citizens. HB Personnel may not work on behalf of a candidate's campaign while at work or use the HB Group's facilities for that purpose. It is important to separate personal political activity from the HB Group's interests, in order to comply with applicable laws relating to lobbying or attempting to influence government officials.

In addition, HB Personnel are strictly prohibited from attempting to influence any person's testimony in any manner whatsoever in courts of justice or any administrative tribunals or other government bodies.

Directorship

HB Personnel shall not act as directors or officers of any other corporate entity or organization, public or private, without the prior written approval of the Chief Executive Officer. Directorships or officerships with such entities will not be authorized if they are considered to be contrary to the interest of the HB Group. HB Personnel may, however, act as directors or officers of charitable organizations whose purposes do not conflict with the HB Group's interests, and such directorship/officership will not otherwise interfere with the due performance of the their work.

INFORMATION AND RECORDS

Confidential and Proprietary Information and Trade Secrets

HB Personnel may be exposed to certain information that is considered confidential by the HB Group or entrusted to the HB Group by persons with whom the HB Group does business. HB Personnel shall not disclose such confidential information to persons outside the HB Group, including family members, and should share it only with other HB Personnel who have a "need to know" unless the disclosure is specifically authorized by the Chief Executive Officer or Chief Legal Officer.

Financial Reporting and Records

The HB Group requires honest and accurate recording and reporting of information to make responsible business decisions. The HB Group's accounting records are relied upon to produce reports for our management, directors, shareholders, governmental agencies and persons with whom the HB Group does business. All of the HB Group's financial statements and the books, records and accounts on which they are based must appropriately reflect the HB Group's activities and conform to applicable legal and accounting requirements and to the HB Group's system of internal controls. Unrecorded or "off the books" funds or assets should not be maintained unless required by applicable law or regulation.

The U.S. FCPA's accounting and internal-controls ("books-and-records") provisions, which require accurate and transparent accounting records and internal accounting controls sufficient to prevent improper payments, apply to the Company and to other companies in which the Company may be considered to have a controlling interest. These accounting, transparency, and internal-controls requirements are viewed by FCPA enforcers as bases for strict liability for any improper payment regardless of whether any knowledge of impropriety can be established regarding the Company.

Accordingly, companies within the HB Group must implement internal accounting controls based upon sound accounting principles and maintain and provide to the Company, upon request, accurate documentation regarding all transactions.

All HB Personnel have a responsibility, within the scope of their positions, to ensure that the HB Group's accounting records do not contain any false or intentionally misleading entries. The HB Group does not permit intentional misclassification of transactions as to accounts, departments or accounting records. All transactions must be supported by accurate documentation in reasonable detail and recorded in the proper accounts and in the proper accounting period.

Business records and communications often become public through legal or regulatory proceedings or the media. HB Personnel should avoid exaggeration, derogatory remarks, guesswork or inappropriate characterizations that can be misunderstood. This requirement applies equally to communications of all kinds, including internal and external e-mail, informal notes, internal memos, and formal reports.

Record Retention

The HB Group maintains all records in accordance with laws, rules and regulations regarding retention of business records. The HB Group prohibits the unauthorized destruction of or tampering with any records, whether written or in electronic form, where the HB Group is required by laws, rules or regulations to maintain such records or where it has reason to know of a threatened or pending government investigation or litigation relating to such records.

COMPANY ASSETS

Use of Company Property

All HB Personnel should endeavor to protect the HB Group's assets and ensure their efficient use. The HB Group's assets (such as funds, products or proprietary information) may be used only for legitimate business purposes. Theft, carelessness, and waste have a direct impact on the HB Group's profitability. Any suspected incident of fraud or theft should be reported immediately to your department head or the Chief Legal Officer for investigation.

Information Technology

The HB Group's information technology systems, including computers, e-mail, intranet and internet access, telephones and voice mail are the property of the HB Group and are to be used primarily for business purposes in compliance with the Company's Information Technology Policy.

Electronic documents and messages (including voice-mail, e-mail and SMS) sent, received, created or modified by HB Personnel are considered HB Group property and HB Personnel should recognize that they are not "personal" or "private". Unless prohibited by law, the Company reserves the right to access and disclose (both internally and externally) electronic documents and messages, as well as, to specify, configure and restrict its electronic systems as necessary for its business purposes. HB Personnel should use good judgment and not access, send messages or store any information that they would not want to be seen or heard by others.

WORKPLACE

A Nondiscriminatory and Harrassment-Free Workplace

The HB Group fosters a work environment in which all individuals are treated with respect and dignity. The HB Group is an equal opportunity employer and does not discriminate against HB Personnel or potential employees, officers or directors on the basis of race, color, religion, sex, national origin, age, sexual orientation or disability or any other category protected by applicable laws The HB Group is committed to actions and policies to assure fair employment and will not tolerate discrimination by HB Personnel.

The HB Group will not tolerate harassment of HB Personnel, customers or suppliers in any form.

Sexual Harassment

Sexual harassment is illegal and all HB Personnel are prohibited from engaging in any form of sexually harassing behavior. Sexual harassment means unwelcome sexual conduct, either visual, verbal or physical, and may include, but is not limited to, unwanted sexual advances; unwanted touching and suggestive touching, language of a sexual nature, telling sexual jokes, innuendoes, suggestions, suggestive looks and displaying sexually suggestive visual materials.

Substance Abuse

The HB Group is committed to maintaining a safe and healthy work environment free of substance abuse. HB Personnel are expected to perform their responsibilities in a professional manner and, to the degree that job performance or judgment may be hindered, be free from the effects of drugs and/or alcohol.

Workplace Violence

The workplace must be free from violent behavior. Threatening, intimidating or aggressive behavior, as well as bullying, subjecting to ridicule or other similar behavior toward fellow employees or others in the workplace will not be tolerated.

Employment of Family Members

Employment of more than one family member at an HB Group office or other premises is permissible but the direct supervision of one family member by another is not permitted unless otherwise authorized by the Chair of the Audit Committee. Except for summer and co-op students, indirect supervision of a family member by another is also discouraged and requires the

prior approval of the Chair of the Audit Committee. If allowed, any personnel actions affecting that employee must also be reviewed and endorsed by the Chair of the Audit Committee.

Health and Safety

The HB Group is committed to providing a healthy and safe workplace in compliance with applicable laws. HB Personnel must be aware of the safety issues and policies that affect their job, other HB Personnel and the community in general.

WAIVERS OF THE CODE

Any waiver of this Code for directors or members of senior management (Vice President and above) may be made only by the Board of Directors (or a committee of the Board of Directors to whom that authority has been delegated) and will be disclosed promptly(2) if required by law or stock exchange regulation, including the filing of a material change report describing the date of waiver, the parties involved, the reasons of the Board of Directors for approving the waiver or not sanctioning the respective departure and any measures taken by the Board of Directors to address the situation. Waivers for other HB Personnel may be provided by the Chief Executive Officer.

REPORTING ANY ILLEGAL OR UNETHICAL BEHAVIOR

HB Personnel are encouraged to talk to their supervisors, department head or other appropriate personnel about observed illegal or unethical behavior and about the best course of action in a particular situation. It is the policy of the HB Group not to allow retaliation for reports of misconduct by others made in good faith. It is, at the same time, unacceptable to file a report knowing that it is false. All HB Personnel are expected to cooperate in internal investigations of misconduct.

Procedures for the confidential and anonymous reporting of complaints concerning accounting, internal accounting control and auditing matters are provided in the Company's Whistleblower Policy.

COMPLIANCE PROCEDURES

HB Personnel must endeavour to ensure prompt and consistent action against violations of this Code. As situations that arise may not be clear cut the following steps provide an approach a new situations that may raise issues associated :

· Make sure you have all the facts. In order to reach the right solutions, we must be as fully informed as possible.

(2) The Canadian Securities Administrators consider that conduct of directors or executive officers that constitutes a material departure from the Code, whether or not sanctioned by the Board of Directors, will likely constitute a "material change" (which would require the Company to issue a press release forthwith and to file a material change report within ten days of the change).

- Ask yourself: What specifically am I being asked to do and does it seem unethical or improper? Use your judgment and common sense - if something seems unethical or improper, it probably is.

- Discuss the problem with your supervisor, department head or Chief Legal Officer.

- You may report ethical violations in confidence and without fear of retaliation. If your situation requires that your identity be kept secret, your anonymity will be protected. The HB Group does not permit retaliation of any kind against employees for good faith reports of ethical violations.

- Always ask first, act later: If you are unsure of what to do in any situation, seek guidance before you act.

APPLICABLE LAW

The provisions of this Code of Business Conduct and Ethics will be modified, as and to the extent necessary, to comply with applicable laws, regulations or policies imposed by the various jurisdictions in which the HB Group and HB Personnel operate.

Exhibit 99.6

Deloitte.

Deloitte & Touche LLP
Brookfield Place
181 Bay Street
Suite 1400
Toronto, ON M5J 2V1
Canada

Tel: 416-601-6150
Fax: 416-601-6610
www.deloitte.ca

Report of Independent Registered Chartered Accountants

To the Shareholders and Board of Directors of HudBay Minerals Inc.

We have audited the internal control over financial reporting of HudBay Minerals Inc. and subsidiaries (the "Company") as of December 31, 2011, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Member of Deloitte Touche Tohmatsu

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2011 of the Company and our report dated March 7, 2012 expressed an unqualified opinion on those financial statements.

Deloitte & Touche LLP

Independent Registered Chartered Accountants
Licensed Public Accountants

March 7, 2012
Toronto, Canada

Exhibit 99.7

Certification by the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, David Garofalo, certify that:

1) I have reviewed this annual report on Form 40-F of HudBay Minerals Inc.;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4) The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5) The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: April 2, 2012

/s/ David Garofalo
David Garofalo
Chief Executive Officer
(Principal Executive Officer)

Exhibit 99.8

Certification by the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, David S. Bryson, certify that:

1) I have reviewed this annual report on Form 40-F of HudBay Minerals Inc.;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4) The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5) The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: April 2, 2012

/s/ David S. Bryson
David S. Bryson
Chief Financial Officer
(Principal Financial Officer)

Exhibit 99.9

CERTIFICATION PURSUANT TO

18 U.S.C. §1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of HudBay Minerals Inc. (the "Registrant") on Form 40-F for the period ended December 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David Garofalo, Chief Executive Officer of the Registrant, hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

April 2, 2012

/s/ David Garofalo
David Garofalo
Chief Executive Officer
(Principal Executive Officer)

Exhibit 99.10

CERTIFICATION PURSUANT TO

18 U.S.C. §1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of HudBay Minerals Inc. (the "Registrant") on Form 40-F for the period ended December 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David S. Bryson, Chief Financial Officer of the Registrant, hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

April 2, 2012

/s/ David S. Bryson
David S. Bryson
Chief Financial Officer
(Principal Financial Officer)

Exhibit 99.11

LETTER OF CONSENT

I, Cashel Meagher, P.Geo., refer to (i) the Annual Report ("Annual Report") on Form 40-F of HudBay Minerals Inc. (the "Registrant") filed with the Securities and Exchange Commission on April 2, 2012 and (ii) Registration Statement No. 333-170295 on Form S-8 (the "Registration Statement"). I consent to (i) the appearance of my name in the Annual Report and (ii) the incorporation by reference of my name in the Registration Statement.

Yours very truly,

/s/ Cashel Meagher
Cashel Meagher, P.Geo.

Dated: April 2, 2012

Exhibit 99.12

LETTER OF CONSENT

I, Robert Carter, P. Eng., refer to (i) the Annual Report ("Annual Report") on Form 40-F of HudBay Minerals Inc. (the "Registrant") filed with the Securities and Exchange Commission on April 2, 2012 and (ii) Registration Statement No. 333-170295 on Form S-8 (the "Registration Statement"). I consent to (i) the appearance of my name in the Annual Report and (ii) the incorporation by reference of my name in the Registration Statement.

Yours very truly,

/s/ Robert Carter
Robert Carter, P. Eng.

Dated: April 2, 2012

Exhibit 99.13

CONSENT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

We consent to the incorporation by reference in Registration Statement No. 333-170295 on Form S-8 and to the use of our reports dated March 7, 2012 relating to the consolidated financial statements of HudBay Minerals Inc. (the "Company") and the effectiveness of the Company's internal control over financial reporting appearing in this Annual Report on Form 40-F of the Company for the year ended December 31, 2011.

/s/ Deloitte & Touche LLP

Toronto, Canada
April 2, 2012

INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS LICENSED PUBLIC ACCOUNTANTS