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, 2013 **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)

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.

9.500% Senior Notes due 2020
(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, 2013, 172,078,376 common shares outstanding.

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, 2013 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, 2013 and 2012, 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 Registrant's MD&A for the year ended December 31, 2013 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.

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, 2013, 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 pages 56 and 57 of Exhibit 99.3, Management's Discussion & Analysis for the Year Ended December 31, 2013, is incorporated by reference herein.

Management's report dated February 19, 2014 on the Registrant's internal control over financial reporting contained in Exhibit 99.2, Audited Annual Financial Statements, is incorporated by reference herein.

The Registrant did not make any changes to its "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,

2013 that materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

The Registrant's internal control over financial reporting as at December 31, 2013 has been audited by Deloitte LLP ("Deloitte"), Independent Registered Public Accounting Firm who also audited the Registrant's Consolidated Financial Statements for the year ended December 31, 2013. Deloitte expressed an unqualified opinion on the effectiveness of the Registrant's 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 in the two reports of Deloitte titled "Report of Independent Registered Public Accounting Firm" contained in

Exhibit 99.2, Audited Annual Financial Statements for the years ended December 31, 2013 and 2012, are incorporated herein by reference.

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, 2013.

AUDIT COMMITTEE IDENTIFICATION AND FINANCIAL EXPERT

As at December 31, 2013, the Registrant's audit committee consisted of Sarah B. Kavanagh Alan J. Lenczner and John. L. Knowles. The Registrant's board of directors has determined that each of Ms. Kavanagh and Messrs. Lenczner and Knowles is an "audit committee financial expert" within the meaning of the Commission's rules. Each of Ms. Kavanagh and Messrs. 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 Ms. Kavanagh and Messrs. 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 Ms. Kavanagh and Messrs. 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 C and is available on the Registrant's website at 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. A copy of the Code of Ethics is available on the Registrant's website at www.hudbayminerals.com/English/About-Us/Governance/default.aspx. The Registrant undertakes to provide to any person, without charge, upon request, a copy of the Code of Ethics. Requests for copies of the Code of Ethics should be made by contacting the Registrant's Vice President, Legal and Corporate Secretary at 416 362-8181. 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, 2013.

During the fiscal year ended December 31, 2013, the Registrant conducted a review of its Code of Ethics to consider whether any amendments were advisable or required. The following is a summary of the material amendments that were made to the Registrant's Code of Ethics following that review and during the fiscal year ended December 31, 2013. All further amendments to the Code of Ethics, and all waivers of the Code of Ethics with respect to any of the officers covered by it, will be posted on the Registrant's website at www.hudbayminerals.com/English/About-Us/Governance/default.aspx. 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.

Employment of Family Members

The Registrant revised the provision in its Code of Ethics which restricts the employment of family members. The provision, as revised, provides that the hiring of a family member must be approved by the head of the applicable business unit or the Chief Operating Officer and must not create a situation where there is preferential treatment or that might improperly influence sound, objective business decisions in compliance with the Registrant's internal policies and controls.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information provided under the heading "Audit Committee Disclosure" on page 39 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, 2013 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 40 of the AIF.

Audit Fees

The aggregate fees billed by Deloitte, the Registrant's independent auditor, for the fiscal years ended December 31, 2012 and December 31, 2013, 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 $1,066,374 and $1,471,503, respectively.

Audit-Related Fees

The aggregate fees billed by Deloitte for the fiscal years ended December 31, 2012 and December 31, 2013, 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 $372,076 and $414,155, respectively.

Tax Fees

There were no tax fees billed by Deloitte for the fiscal years ended December 31, 2012 and December 31, 2013.

All Other Fees

The aggregate fees billed by Deloitte for the fiscal years ended December 31, 2012 and December 31, 2013, respectively, for all other services were $Nil and $230,884, respectively.

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 38 of Exhibit 99.3, Management's Discussion & Analysis for the Year Ended December 31, 2013, 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 only require that shareholders approve the adoption of equity compensation plans that provide for new issuances of securities. 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: March 31, 2014

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, 2013

99.2 Audited Annual Financial Statements for the Years Ended December 31, 2013 and 2012

99.3 Management's Discussion & Analysis for the Year Ended December 31, 2013

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

Certifications

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

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

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

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

Consents

99.10 Consent of Cashel Meagher, P.Geo., dated March 31, 2014

99.11 Consent of Robert Carter, P.Eng., dated March 31, 2014

99.12 Consent of Deloitte LLP, March 31, 2014

Exhibit 99.1



HUDBAY MINERALS INC.

ANNUAL INFORMATION FORM

FOR THE

YEAR ENDED DECEMBER 31, 2013

March 28, 2014

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FORWARD-LOOKING INFORMATION

This annual information form (" **AIF**") contains "forward-looking statements" and "forward-looking information" (collectively, " **forward-looking information**") within the meaning of applicable Canadian and United States securities legislation. All information contained in this AIF, other than statements of current and historical fact, is forward-looking information. Often, but not always, forward-looking information can be

identified by the use of words such as “plans”, “expects”, “budget”, “guidance”, “scheduled”, “estimates”, “forecasts”, “strategy”, “target”, “intends”, “objective”, “goal”, “understands”, “anticipates” and “believes” (and variations of these or similar words) and statements that certain actions, events or results “may”, “could”, “would”, “should”, “might” “occur” or “be achieved” or “will be taken” (and variations of these or similar expressions). All of the forward-looking information in this AIF is qualified by this cautionary note.

Forward looking information includes, but is not limited to, statements with respect to the anticipated timing, mechanics, completion and settlement of the Offer (as defined below) to acquire all of the issued and outstanding shares of Augusta Resource Corporation (“**Augusta**”), the market for and listing of the common shares we may issue pursuant to the Offer, the value of our common shares that may be received as consideration under the Offer, our ability to complete the transactions contemplated by the Offer, the permitting, development and financing of Augusta’s Rosemont copper project (the “**Rosemont Project**”), the purpose of the Offer, the completion of any compulsory acquisition or subsequent acquisition transaction in connection with the Offer and any commitment to acquire outstanding shares of Augusta, our objectives, strategies, intentions, expectations and guidance and future financial and operating performance and prospects, our expectation as to the use of proceeds from the recently completed equity offering, production at our 777, Lalor and Reed mines and initial production from the Constancia project, continued processing at our Flin Flon concentrator, Snow Lake concentrator and Flin Flon zinc plant, our ability to complete the development of our Lalor, Constancia and Reed projects and the anticipated scope and cost of any development plans for these projects, anticipated timing of our projects and events that may affect our projects, including the anticipated issue of required licenses and permits, our expectation that we will receive the remaining deposit amount under our amended precious metals stream transaction with Silver Wheaton Corp. (“**Silver Wheaton**”) and additional funding under our equipment financing transaction with Caterpillar Financial Services Corporation (“ **CAT Financial**”), expectations with respect to additional credit facilities, the anticipated effect of external factors on revenue, such as commodity prices, anticipated exploration and development expenditures and activities and the possible success of such activities, estimation of mineral reserves and resources, mine life projections, timing and amount of estimated future production, reclamation costs, economic outlook, government regulation of mining operations, and business and acquisition strategies.

Forward-looking information is not, and cannot be, a guarantee of future results or events. Forward-looking information is based on, among other things, opinions, assumptions, estimates and analyses that, while considered reasonable by us at the date the forward-looking information is provided, inherently are subject to significant risks, uncertainties, contingencies and other factors that may cause actual results and events to be materially different from those expressed or implied by the forward-looking information.

The material factors or assumptions that we identified and were applied by us in drawing conclusions or making forecasts or projections set out in the forward looking information include, but are not limited to:

- the success of mining, processing, exploration and development activities;
- the accuracy of geological, mining and metallurgical estimates;
- the costs of production;
- the supply and demand for metals we produce;
- no significant and continuing adverse changes in financial markets, including commodity prices and foreign exchange rates;
- the supply and availability of concentrate for our processing facilities;
- the supply and availability of reagents for our concentrators;
- the availability of third party processing facilities for our concentrate;
- the supply and availability of all forms of energy and fuels at reasonable prices;
- the availability of transportation services at reasonable prices;

- no significant unanticipated operational or technical difficulties;
- the execution of our business and growth strategies, including the success of our strategic investments and initiatives;
- the availability of financing for our exploration and development projects and activities;
- the ability to complete project targets on time and on budget and other events that may affect our ability to develop our projects;
- the timing and receipt of various regulatory and governmental approvals;
- the availability of personnel for our exploration, development and operational projects and ongoing employee relations;
- our ability to secure required land rights to complete our Constancia project;
- maintaining good relations with the communities in which we operate, including the communities surrounding our Constancia project and First Nations communities surrounding our Lalor and Reed projects;
- no significant unanticipated challenges with stakeholders at our various projects;
- no significant unanticipated events or changes relating to regulatory, environmental, health and safety matters;
- no contests over title to our properties, including as a result of rights or claimed rights of aboriginal peoples;
- the timing and possible outcome of pending litigation and no significant unanticipated litigation;
- certain tax matters, including, but not limited to current tax laws and regulations and the refund of certain value added taxes from the Canadian and Peruvian governments;
- no significant and continuing adverse changes in general economic conditions or conditions in the financial markets; and
- the accuracy of Augusta’s public disclosure.

The risks, uncertainties, contingencies and other factors that may cause actual results to differ materially from those expressed or implied by the forward-looking information may include, but are not limited to, the impact of the issuance of our common shares as consideration under the Offer on the market price of our common shares, the development of the Rosemont Project not occurring as planned, the exercising of dissent and appraisal rights by Augusta shareholders should a compulsory acquisition or subsequent acquisition transaction be undertaken in connection with the Offer, Augusta becoming a minority-owned or majority-owned subsidiary of Hudbay after consummation of the Offer, the possibility that Hudbay may remain a minority shareholder of Augusta after consummation of the Offer without the ability to control the management or direction of Augusta, the inaccuracy of Augusta’s public disclosure upon which the Offer is predicated, the triggering of change of control provisions in Augusta’s agreements leading to adverse consequences, the failure to obtain the required approvals or clearances from government authorities on a timely basis, risks generally associated with the mining industry, such as economic factors (including future commodity prices, currency fluctuations, energy prices and general cost escalation), uncertainties related to the development and operation of our projects (including the impact on project cost and schedule of construction delays and unforeseen risks and other factors beyond our control), depletion of our reserves, risks related to political or social unrest or change and those in respect of aboriginal and community relations,

rights and title claims, operational risks and hazards, including unanticipated environmental, industrial and geological events and developments and the inability to insure against all risks, failure of plant, equipment, processes, transportation and other infrastructure to operate as anticipated, compliance with government and environmental regulations, including permitting requirements and anti-bribery legislation, dependence on key personnel and employee relations, volatile financial markets that may affect our ability to obtain financing on acceptable terms, uncertainties related to the geology, continuity, grade and estimates of mineral reserves and resources and the potential for variations in grade and recovery rates, uncertain costs of reclamation activities, our ability to comply with our pension and other post-retirement obligations, our ability to abide by the covenants in our debt instruments or other material contracts, tax refunds, hedging transactions, as well as the risks discussed under the heading “Risk Factors”.

Should one or more risk, uncertainty, contingency or other factor materialize or should any factor or assumption prove incorrect, actual results could vary materially from those expressed or implied in the forward-looking information. Accordingly, you should not place undue reliance on forward-looking information. We do not assume any obligation to update or revise any forward-looking information after the date of this AIF

or to explain any material difference between subsequent actual events and any forward-looking information, except as required by applicable law.

INFORMATION CONCERNING AUGUSTA

Except as otherwise expressly indicated herein, the information concerning Augusta contained in this AIF has been taken from and is based solely upon Augusta’s public disclosure on file with the relevant securities regulatory authorities. Augusta has not reviewed this document and has not confirmed the accuracy and completeness of the information in respect of Augusta contained in this AIF. Although we have no knowledge that would indicate that any information or statements contained in this AIF concerning Augusta taken from, or based upon, such public disclosure contain any untrue statement of a material fact or omit to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made, none of our directors or officers have verified the accuracy or completeness of such information or statements or are aware of any failure by Augusta to disclose events or facts which may have occurred or which may affect the significance or accuracy of any such information or statements. We have no means of verifying the accuracy or completeness of any of the information contained herein that is derived from Augusta’s publicly available documents or records or whether there has been any failure by Augusta to disclose events that may have occurred or may affect the significance or accuracy of any information. Except as otherwise indicated, information concerning Augusta is given based on information in Augusta’s public disclosure available as of the date of the Offer.

NOTE TO UNITED STATES INVESTORS

This AIF has been prepared in accordance with the requirements of the securities laws in effect in Canada, which may differ materially from the requirements of United States securities laws applicable to U.S. issuers.

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 Securities and Exchange Commission (the “**SEC**”) set forth in Industry Guide 7. Under the SEC’s 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. 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 should consider closely the disclosure on the mining industry technical terms in Schedule A “Glossary of Mining Terms” of this AIF.

CAUTIONARY NOTE IN RESPECT OF THE OFFER

The full details of the Offer are set out in the takeover bid circular and accompanying offer documents (collectively, the “ **Offer Documents**”), which we filed with the Canadian securities regulatory authorities. We also filed with the SEC a registration statement on Form F-10 (the “**Registration Statement**”), which contains a prospectus relating to the Offer (the “ **Prospectus**”), and a tender offer statement on Schedule TO (the “**Schedule TO**”). The disclosure related to the Offer in this AIF is not a substitute for the Offer Documents, the

Prospectus, the Registration Statement or the Schedule TO. AUGUSTA SHAREHOLDERS AND OTHER INTERESTED PARTIES ARE URGED TO READ THESE DOCUMENTS, ALL DOCUMENTS INCORPORATED BY REFERENCE, ALL OTHER APPLICABLE DOCUMENTS AND ANY AMENDMENTS OR SUPPLEMENTS TO ANY SUCH DOCUMENTS WHEN THEY BECOME AVAILABLE, BECAUSE EACH WILL CONTAIN IMPORTANT INFORMATION ABOUT HUDBAY, AUGUSTA AND THE OFFER. Materials filed with the Canadian securities regulatory authorities are available electronically without charge at www.sedar.com. Materials filed with the SEC are available electronically without charge

at the SEC's website at www.sec.gov. All such materials may also be obtained without charge at Hudbay's website, www.hudbayminerals.com or by directing a written or oral request to the information agent for the Offer, Kingsdale Shareholder Services at 1-866-229-8874 (North American Toll Free Number) or 1-416-867-2272 (outside North America), or by email at contactus@kingsdaleshareholder.com or to the Vice President, Legal and Corporate Secretary of Hudbay at 25 York Street, Suite 800, Toronto, Ontario, telephone (416) 362-8181.

This AIF does not constitute an offer to buy or the solicitation of an offer to sell any of the securities of Hudbay or Augusta, and the Offer does not constitute an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction in which such offer or solicitation is unlawful.

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 2013 and the closing exchange rate at December 31, 2013, as reported by the Bank of Canada, were one Canadian dollar per 0.9402 and 1.0299 United States dollars, respectively. On March 25**,** 2014 the Bank of Canada noon rate of exchange was 0.8948.

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

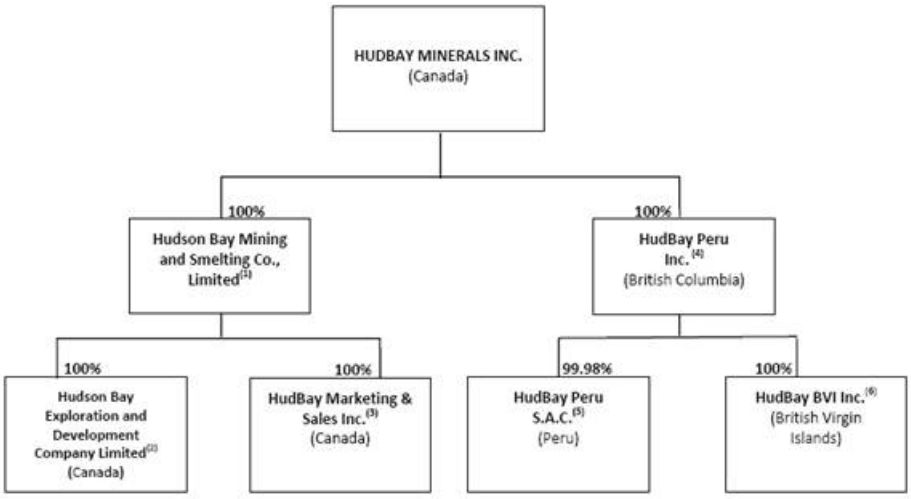
We were formed by the amalgamation of Pan American Resources Inc. and Marvas Developments Ltd. on January 16, 1996, pursuant to the *Business Corporations Act* (Ontario) and changed our name to Pan American Resources Inc. On March 12, 2002, we acquired ONTZINC Corporation, a private Ontario corporation, 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**"), New York Stock Exchange ("**NYSE**") and Bolsa de Valores de Lima 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 and Lalor mines and our 70% owned Reed mine and is a guarantor of our 9.50% senior unsecured notes.
(2) Hudson Bay Exploration and Development Company Limited (" **HBED**") holds our key exploration properties in Canada, acts as agent for HBMS and is a guarantor of our 9.50% senior unsecured notes.
(3) HudBay Marketing & Sales Inc. markets and sells our copper concentrate and zinc metal produced in Manitoba and is a guarantor of our 9.50% senior unsecured notes.
(4) HudBay Peru Inc. owns 99.98% of HudBay Peru S.A.C. (" **Hudbay Peru**"). The remaining 0.02% is owned by 6502873 Canada Inc., our wholly-owned subsidiary.
(5) Hudbay Peru S.A.C. owns the Constancia project.
(6) HudBay (BVI) Inc. ("**Hudbay BVI**") was incorporated for the sole purpose of entering into and fulfilling our obligations under the precious metals stream agreement in respect of the Constancia project.

DEVELOPMENT OF OUR BUSINESS

Strategy

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. Our growth strategy is focused on the exploration and development of properties we already control as well as other mineral assets we may acquire that fit our strategic criteria.

We intend to grow Hudbay through exploration and development of properties we already control, such as our Lalor and Reed projects in northern Manitoba and our Constancia project in Peru, as well as through the acquisition of exploration and development properties, as demonstrated by our Offer to acquire the issued and outstanding common shares of Augusta and its Rosemont Project. We also intend to optimize the value of our producing assets through efficient and safe operations.

Three Year History

Offer to Acquire Augusta

On February 9, 2014, we announced our intention to commence an offer to acquire all of the issued and outstanding common shares of Augusta not already owned by us (the "**Offer**"). Augusta owns the Rosemont Project near Tucson, Arizona.

Under the terms of the Offer, Augusta shareholders are entitled to receive 0.315 of a Hudbay common share for each Augusta common share held, representing approximately $2.96 per Augusta common share or an Augusta enterprise value of approximately $540 million (based on Hudbay's closing share price on the TSX on February 7, 2014). The Offer represents a premium of approximately 62% based on the 20-day volume-weighted average share prices of Hudbay and Augusta on the TSX for the period ended February 7, 2014.

The Offer is currently open for acceptance until 5:00 p.m. (Toronto time) on April 2, 2014, unless further extended or withdrawn.

Equity Financing

On January 9, 2014, we announced that we had entered into an agreement with a syndicate of underwriters who agreed to purchase, on a bought deal basis, 18,200,000 of our common shares at a price of $8.25 per common share. The underwriters were also granted an over allotment option, which they exercised in full, for an additional 2,730,000 common shares. The transaction closed on January 30, 2014, and the aggregate gross proceeds from the offering were $172.7 million.

We intend to use the net proceeds of the offering for general corporate purposes, including providing us the flexibility to pursue opportunities to advance our growth strategy.

Issuance of 9.50% Senior Unsecured Notes

On September 13, 2012, we issued US$500 million aggregate principal amount of 9.50% senior unsecured notes due October 1, 2020 (the "**Initial Notes**"). The Initial Notes were priced at 100% of their face value, and yielded proceeds of US$484 million net of directly attributable transaction costs. On June 20, 2013 and December 9, 2013, we issued US$150 million and US$100 million aggregate principal amount, respectively, of our 9.50% senior unsecured notes due October 1, 2020 (the "**Additional Notes**" and together with the Initial Notes, the " **Notes**"). The Additional Notes issued in June 2013 were priced at 102% of the aggregate principal amount, resulting in gross proceeds of US$153 million and will yield 9.11% to maturity. The Additional Notes issued in December 2013 were priced at 100% of their face value and yielded gross proceeds of US$100 million. The Notes are fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis, by substantially all of our existing and future subsidiaries other than our subsidiaries associated with the Constancia project. For additional information, see "Description of Capital Structure — Senior Unsecured Notes".

Amended and Restated Credit Facility

In connection with completing the issuance of the Additional Notes, in June 2013, we amended and restated our revolving credit facility. The amended and restated credit facility matures on September 12, 2016 and has a maximum availability equal to the lesser of US$100 million and a borrowing base related to the accounts receivable and inventory of our Manitoba business unit, which was US$73 million at December 31, 2013. The amendments also included the removal of debt to EBITDA and EBITDA to interest maintenance covenants, such that the only remaining financial maintenance covenant is the requirement to maintain a tangible net worth. The amended and restated credit facility contains other customary covenants for a facility of this type. As at December 31, 2013, we were in compliance with our covenants under the credit facility. Also as at December 31, 2013, we had $64.1 million in outstanding letters of credit collateralized by cash and cash equivalents that would have been classified as restricted cash in the absence of the credit facility.

Precious Metals Stream Transaction

On August 8, 2012, we entered into a precious metals stream transaction with Silver Wheaton pursuant to a precious metals purchase agreement (the "**777 Stream Agreement**") among Silver Wheaton, Hudbay and HBMS and a silver purchase agreement (the " **Constancia Stream Agreement**" and, together with the 777 Stream Agreement, the " **Stream Agreements**") among Silver Wheaton (Caymans) Ltd. (" **SW Caymans**"), Hudbay and Hudbay BVI.

Pursuant to the Stream Agreements, we agreed to receive aggregate upfront deposit payments of US$750 million against delivery of (i) 100% of payable gold and silver from our 777 mine until the later of December 31, 2016 and satisfaction of a completion test at Constancia, and thereafter 50% of payable gold and 100% of payable silver for the remainder of the 777 mine life, and (ii) 100% of payable silver from the Constancia project.

At closing, we received an upfront deposit payment of US$500 million and we have received two additional deposit payments of US$125 million each, upon incurrence of US$500 million and US$1 billion, respectively, in capital expenditures at our Constancia project.

On November 4, 2013, we amended and restated the Constancia Stream Agreement (the Constancia Stream Agreement, as amended, continues to be referred to herein as the "**Constancia Stream Agreement**"). The amendments provide that we will receive an additional US$135 million deposit against delivery of 50% of the payable gold from the Constancia project. Silver Wheaton has the option to make the deposit payment in cash or Silver Wheaton common shares, with the number of shares calculated at the time the payment is made. Gold recovery for purposes of calculating payable gold will be fixed at 55% for gold mined from Constancia and 70% for gold mined from Pampacancha. The US$135 million deposit will become payable following our incurrence of US$1.35 billion in capital expenditures at Constancia.

The stream transaction does not include precious metals production from our Lalor project or our land package in Peru outside of the Constancia and Pampacancha deposits or any other metals or minerals, including copper or zinc, from any of our properties.

In addition to the upfront payments, for gold and silver delivered in accordance with the Stream Agreements, we will receive cash payments equal to the lesser of (i) the market price and (ii) US$400 per ounce (for gold) and US$5.90 per ounce (for silver), subject to 1% annual escalation after three years. For additional information, refer to the complete copies of the Stream Agreements that have been filed on SEDAR and EDGAR and our Material Change Reports dated August 14, 2012 and November 13, 2013, also filed on SEDAR and EDGAR.

Constancia Project

On August 8, 2012, our board of directors approved a US$1.5 billion investment to fund the development and construction of our Constancia project in Peru. Following substantial completion of the detailed engineering in the third quarter of 2013, the board approved a revised capital cost estimate for the project of US$1.7 billion. As of the end of February 2014, the project was over 67% complete on a proportion spent basis; of the revised US$1.7 billion budget, we had incurred approximately US$1.15 billion in costs and had entered into an additional US$250 million in commitments as at that date. Construction activities remain on track for first production in late 2014 and commercial production in the second quarter of 2015.

We acquired the Constancia project through our acquisition of all of the outstanding shares of 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 "**Norsemont Offer**"). Pursuant to the Norsemont Offer, and subsequent compulsory acquisition, we issued 22,475,704 Hudbay common shares and paid an aggregate of $130 million in cash to former Norsemont shareholders. For additional information, see "Description of our Business — Material Mineral Projects — Constancia Project".

Reed

On December 19, 2011, our board of directors approved the construction of the Reed mine. The capital construction budget for Reed is $72 million. Construction of the Reed mine is substantially completed and production commenced in the third quarter of 2013. Pursuant to our agreement with VMS Ventures Inc. ("**VMS Ventures**"), we have a 70% interest and VMS Ventures has a 30% interest in the project. For additional information, see "Description of Our Business — Other Assets — Joint Ventures — Reed".

Closure of Trout Lake and Chisel North Mines

We closed our Trout Lake mine on June 29, 2012 after more than 30 years of operation, and our Chisel North mine closed on September 30, 2012.

Dispositions of Fenix Project and Zochem

On September 9, 2011, we completed the sale of our interest in the Fenix ferronickel project in Guatemala to the Solway Group ("**Solway**") for cash consideration of US$140 million. In the fourth quarter of 2012, we received an additional $1 million from Solway to settle contingent consideration amounts that would have otherwise been receivable upon the satisfaction of certain conditions during the course of Solway's development of the Fenix project and agreed with Solway to amend the terms of the indemnity to release us from all obligations except in respect of certain litigation matters. For additional information regarding these litigation matters, see "Legal Proceedings and Regulatory Actions". We acquired the Fenix project in August 2008 through our acquisition of all of the issued and outstanding common shares of Skye

Resources Inc.

On November 1, 2011, we sold our interest in Zochem Inc. to a third party for cash consideration of US$15 million. Zochem Inc. owns and operates a zinc oxide production facility in Brampton, Ontario.

DESCRIPTION OF OUR BUSINESS

General

We are an integrated mining company producing copper concentrate (containing copper, gold and silver) and zinc metal. With assets in North and South America, 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 junior exploration companies. Our growth strategy is focused on the exploration and development of properties we already control, as well as other mineral assets we may acquire that fit our strategic criteria. Our mission is to create sustainable value through increased commodity exposure on a per share basis for our shareholders.

We have three material mineral projects, all of which are 100% owned:

1. 777, an underground mine in Flin Flon, Manitoba, which has been producing since 2004;

2. Lalor, a zinc, gold and copper project currently under construction near Snow Lake, Manitoba, which commenced initial ore production from the ventilation shaft in August 2012 and is expected to begin production from the main shaft in the second half of 2014; and

3. Constancia, a copper project in Peru, which is expected to commence initial production in late 2014 and begin full production in the second quarter of 2015.

We also own a 70% interest in the Reed mine near Snow Lake, Manitoba, which commenced production in the third quarter of 2013, exploration properties in North and South America and minority equity investments in several junior exploration companies as part of our strategy to build a pipeline of projects with the potential for development.

In addition, we own and operate a portfolio of processing facilities in northern Manitoba, including our primary Flin Flon ore concentrator, which produces zinc and copper concentrates, our Snow Lake concentrator, which produces zinc and copper concentrates and our Flin Flon zinc plant, which produces high-grade zinc metal.

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.

In 2012, we completed the 777 North expansion, which involved driving a ramp from surface to the existing workings at the 440 metre level of 777 to enable access to ore zones and to additional underground exploration at 777. Full production from the 777 North expansion zones began in early 2013.

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, see “Description of our Business — Other Information — Processing Facilities” and “Description of our Business — Other Information — Products and Marketing”.

Pursuant to the 777 Stream Agreement, we received a US$455 million upfront deposit payment for a portion of the precious metals stream at our 777 mine (see “Development of our Business — Three Year History — Precious Metals Stream Transaction).

On November 6, 2012, we filed a NI 43-101 technical report titled “Technical Report, 777 mine, Flin Flon, Manitoba, Canada”, dated effective October 15, 2012 (the “**777 Technical Report**”), a copy of which is available under our profile on SEDAR at www.sedar.com and on EDGAR at www.sec.gov. For additional details on our 777 mine refer to Schedule B of this AIF.

Production

The following table sets forth our production from the 777 Mine for the years ended December 31, 2013, 2012 and 2011.

		December 31		
	Units	2013	2012	2011
Ore mined	tonnes	1,625,532	1,529,103	1,491,722
Copper grade in ore	%	1.85	2.32	3.18
Zinc grade in ore	%	3.81	4.16	3.71
Gold grade in ore	grams/tonne	2.02	2.18	2.37
Silver grade in ore	grams/tonne	23.01	25.77	26.78

Operating costs are expected to be similar to costs experienced in the past several years, as a result of ongoing productivity efforts. As in past 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, 2014 [(1)(2)(3)]

	Tonnes	Cu (%)	Zn (%)	Au (g/t)	Ag (g/t)
777 Mine					
Proven	4,893,000	2.27	4.01	1.84	24.71
Probable	5,707,000	1.34	4.24	1.79	24.69
Total Mineral Reserve	**10,600,000**	**1.77**	**4.14**	**1.81**	**24.70**

Notes:
(1) This table shows the estimated reserves at our 777 mine, including the 777 North expansion, in Manitoba.
(2) The zinc price used for mineral reserve estimation was US$1.06 per pound (includes premium), the copper price was US$3.00 per pound, the gold price was US$1,250.00 per ounce and the silver price was US$25.00 per ounce using an exchange of 1.05 C$/US$.
(3) For additional details relating to the estimates of mineral reserves and resources at our 777 mine, including data verification and quality assurance / quality control processes, refer to Schedule B and our technical report titled “Technical Report, 777 mine, Flin Flon, Manitoba, Canada” dated effective October 15, 2012, a copy of which is available on SEDAR at www.sedar.com and EDGAR at www.sec.gov.

In-Mine Inferred Mineral Resources — September 30, 2013 [(1)(2)(3)]

	Tonnes	Cu (%)	Zn (%)	Au (g/t)	Ag (g/t)
777 Mine	**784,000**	**1.05**	**4.49**	**1.77**	**30.61**

Notes:
(1) This table shows our estimated inferred mineral resources at our 777 mine, including the 777 North expansion, in Manitoba. Mineral resources that are not mineral reserves do not have demonstrated economic viability. The above mineral resources are exclusive of mineral reserves.
(2) The zinc price used for mineral resource estimation was US$1.06 per pound (includes premium), the copper price was US$3.00 per pound, the gold price was US$1,250.00 per ounce and the silver price was US$25.00 per ounce using an exchange of 1.05 C$/US$.

(3) For additional details relating to the estimates of mineral reserves and resources at our 777 mine, including data verification and quality assurance / quality control processes, refer to Schedule B and our technical report titled "Technical Report, 777 mine, Flin Flon, Manitoba, Canada" dated effective October 15, 2012, a copy of which is available on SEDAR at www.sedar.com and EDGAR at www.sec.gov.

Lalor Project

Our 100% owned Lalor project 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 kilometres by road east of Flin Flon, Manitoba.

In 2013, we hoisted 400,590 tonnes of ore from the ventilation shaft at our Lalor project at a copper grade of 0.84% and a zinc grade of 9.44%. Underground development is ongoing and it is expected that the main production shaft will be commissioned during the second half of 2014. In the first quarter of 2014, we received the *Environment Act* licence for Lalor, which will enable full production via the main shaft.

Of the total mine construction budget of $441 million, we have invested approximately $386 million to February 28, 2014 and have entered into an additional $36 million in commitments.

We are also investing US$9 million at our Snow Lake concentrator to refurbish existing equipment and facilities and to double production capacity to approximately 2,700 tonnes per day by mid-2014, when the production shaft at Lalor is being commissioned. This investment will allow for the deferral of the construction of the new Lalor concentrator until 2015. We have allocated $10.5 million of Lalor's $75 million capital budget to continue with engineering and optimization work for the new concentrator during 2014.

In January and March of 2013, members of the Mathias Colomb Cree Nation (" **MCCN**") staged two separate blockades that impeded access to our Lalor site for part of a business day. After the two blockades, we successfully applied to the Manitoba Court of Queen's Bench for an interlocutory injunction to prevent any further blockades at our Manitoba operations. On January 20, 2014, the Court of Appeal of Manitoba upheld the injunction order. We felt we had a responsibility to seek this injunction as any actions that prohibit access to our sites and operations present an unsustainable safety risk to our employees, contractors and others. Notwithstanding the court process, we remain committed to continued consultation and cooperation with the MCCN.

On March 30, 2012, we filed a NI 43-101 technical report titled "Pre-Feasibility Study Technical Report, on the Lalor Deposit, Snow Lake, Manitoba, Canada", dated March 29, 2012 (the "**Lalor Technical Report**"), a copy of which is available under our profile on SEDAR at www.sedar.com and on EDGAR at www.sec.gov. For additional details on our Lalor project, refer to Schedule B of this AIF.

Production

The following table sets forth actual production from the ventilation shaft for the years ended December 31, 2013 and 2012. Production from the 985 metre production shaft is anticipated to commence in the second half of 2014.

		December 31	
	Units	2013	2012
Ore mined	Tonnes	400,590	72,293
Copper grade in ore	%	0.84	0.63
Zinc grade in ore	%	9.44	11.83
Gold grade in ore	grams/tonne	1.21	1.67
Silver grade in ore	grams/tonne	19.39	19.29

Mineral Reserves and Resources

Lalor Mineral Reserves — January 1, 2014 (1)(2)

	Tonnes	Cu (%)	Zn (%)	Au (g/t)	Ag (g/t)
Lalor — Base Metal					
Proven	1,332,000	0.73	8.99	1.53	17.49
Probable	11,334,000	0.68	7.81	1.56	23.77
Lalor — Gold Zone					
Proven	—				
Probable	2,530,000	0.37	0.42	4.28	24.45
Total Mineral Reserve	**15,196,000**	**0.63**	**6.69**	**2.01**	**23.34**

Notes:
(1) The zinc price used for mineral reserve estimation was US$1.06 per pound (includes premium), the copper price was US$3.00 per pound, the gold price was US$1,250.00 per ounce and the silver price was US$25.00 per ounce using an exchange of 1.05 C$/US$.
(2) For additional details relating to the estimates of mineral reserves at our Lalor project, including data verification and quality assurance / quality control processes, refer to Schedule B and our technical report titled "Pre-Feasibility Study Technical Report, on the Lalor Deposit, Snow Lake, Manitoba, Canada" dated effective March 29, 2012, a copy of which is available on SEDAR at www.sedar.com and EDGAR at www.sec.gov.

Lalor Inferred Mineral Resources — September 30, 2013 (1)(2)(3

	Tonnes	Cu (%)	Zn (%)	Au (g/t)	Ag (g/t)
Lalor — Base Metal(4)					

Inferred	3,832,000	2.04	5.77	3.47	21.24
Lalor — Gold Zone					
Inferred	6,281,000	0.42	0.49	4.70	31.48
Total Inferred Mineral Resource	**10,113,000**	**1.04**	**2.49**	**4.24**	**27.60**

Notes:

(1) Mineral resources that are not mineral reserves do not have demonstrated economic viability. The above mineral resources are exclusive of mineral reserves.

(2) The zinc price used for mineral resource estimation was US$1.06 per pound (includes premium), the copper price was US$3.00 per pound, the gold price was US$1,250.00 per ounce and the silver price was US$25.00 per ounce using an exchange of 1.05 C$/US$.

(3) For additional details relating to the estimates of mineral reserves at our Lalor project, including data verification and quality assurance / quality control processes, refer to Schedule B and our technical report titled “Pre-Feasibility Study Technical Report, on the Lalor Deposit, Snow Lake, Manitoba, Canada” dated effective March 29, 2012, a copy of which is available on SEDAR at www.sedar.com and EDGAR at www.sec.gov.

(4) Includes the copper-gold zone.

Constancia Project

Constancia is our 100% owned copper project in Peru, which we acquired through our acquisition of Norsemont in 2011. It is located in the Province of Chumbivilcas in southern Peru and consists of the Constancia and Pampacancha deposits.

On August 8, 2012, our board of directors approved a US$1.5 billion investment to fund the development and construction of our Constancia project. Following substantial completion of the detailed engineering in the third quarter of 2013, the board approved a revised capital cost estimate for the project of US$1.7 billion. As of the end of February 2014, the project was over 67% complete on a proportion spent basis; of the revised US$1.7 billion budget, we had incurred approximately US$1.15 billion in costs and had entered into an additional US$250 million in commitments as at that date. Construction activities remain on track for first production in late 2014 and commercial production in the second quarter of 2015.

We have received approval of all required construction permits. In the third quarter of 2013, we received approval of our Environmental and Social Impact Assessment (“**ESIA**”) Modification 1 and submitted an application for a second amendment to the ESIA in December 2013 in respect of the final project configuration and to permit the incorporation of Pampacancha into the mine plan. We have received the first round of observations from the Ministry on ESIA Modification 2 and are addressing them with no critical items noted. All permitting remains on schedule. We have also obtained approval for the early refund of value added tax on purchases with retroactive effect to December 2012 and have received refunds of US$55 million to date from the tax authorities. Also in December 2013, we entered into a 15-year tax and fiscal stability agreement with the government of Peru. Pursuant to the agreement, the increase in the applicable income tax rate from 30% to 32% is expected to be largely offset by the accelerated depreciation that the agreement provides.

Pursuant to the Constancia Stream Agreement, we have received US$295 million in upfront deposit payments against delivery of 100% of the payable silver at Constancia. We are entitled to receive an additional deposit amount of US$135 million against delivery of 50% of the payable gold at Constancia following our incurrence of US$1.35 billion in capital expenditures. Gold recovery for purposes of calculating payable gold will be fixed at 55% for gold mined from Constancia and 70% for gold mined from Pampacancha (see “Development of our Business — Three Year History — Precious Metals Stream Transaction).

On November 6, 2012, we filed a technical report titled “National Instrument 43-101, Technical Report, Constancia Project, Province of Chumbivilcas, Department of Cusco, Peru”, dated October 15, 2012 (the “**Constancia Technical Report**”), a copy of which is available under our profile on SEDAR at www.sedar.com and on EDGAR at www.sec.gov. 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 at the Constancia project as at January 1, 2014.

	Tonnes	Cu (%)	Mo (g/t)	Au (g/t)	Ag (g/t)
Constancia					
Proven	483,000,000	0.32	93	0.040	3.04
Probable	94,000,000	0.22	61	0.036	2.77
Pampacancha					
Proven	23,000,000	0.52	142	0.298	4.28
Probable	20,000,000	0.44	159	0.252	3.74
Total Mineral Reserve	**620,000,000**	**0.32**	**92**	**0.056**	**3.07**

Notes:

(1) The above mineral reserves are based on a Peruvian Sole: US Dollar exchange rate of $2.85:1 and the following long term metals prices: Cu US$3.00/lb; Ag US$25.00/oz; Au US$1,250.00/oz; and Mo US$13.50/lb.

The following table sets forth our estimates of the mineral resources at the Constancia project as at September 30, 2013. [(1)(2)]

	Tonnes	Cu (%)	Mo (g/t)	Au (g/t)	Ag (g/t)
Constancia[(3)]					
Measured	68,000,000	0.22	59	0.036	2.17
Indicated	293,000,000	0.20	58	0.033	1.96
Inferred	200,000,000	0.19	51	0.031	1.86
Pampacancha[(4)]					
Measured	5,000,000	0.41	69	0.243	5.46
Indicated	6,000,000	0.34	98	0.211	4.68
Total Measured & Indicated	**372,000,000**	**0.20**	**59**	**0.039**	**2.09**
Total Inferred	**200,000,000**	**0.19**	**51**	**0.031**	**1.86**

Notes:

(1) Mineral resources that are not mineral reserves do not have demonstrated economic viability. The above mineral resources are exclusive of mineral reserves.

(2) The resources shown in the table above correspond to a resources pit shell. In compliance with NI 43-101 requirements for the disclosure of mineral resources, a pit optimization to delimit the portion of the block model having reasonable prospects for economic extraction was performed.

(3) The Constancia resource pit consists of a non-operational pit of Measured, Indicated and Inferred resources diluted to a 10x10x15m full block size using a 0.12% copper cut-off based on a copper price of US$2.88 per pound and a molybdenum price of US$16.00 per pound, copper recovery of 89%, molybdenum recovery of 60%, processing costs of US$5.50 per tonne and mining costs of US$1.30 per tonne.

(4) The Pampacancha resource pit consists of a non-operational pit of Measured, Indicated and Inferred resources diluted to a 10x10x15m full block size using a 0.1% copper cut-off based on a copper price of US$3.00 per pound, a molybdenum price of US$13.50 per pound, silver price of US$25.00 per ounce, gold price of US$1,250 per ounce, copper recovery of 85%, molybdenum recovery of 40%, gold and silver recovery of 65%; processing costs of US$4.72 per tonne and mining costs of US$1.90 per tonne.

Other Assets

Reed

During the third quarter of 2013, our 70% owned Reed mine near Flin Flon, Manitoba, received its *Environment Act* licence from the Manitoba government and commenced initial production. The licence permits the operation of a 1,300 tonne per day underground copper mine and supporting infrastructure. Of our $72 million estimated capital construction budget for the project, we have invested approximately $64.9 million to February 28, 2014. As of that date, project development had advanced 2,927 metres with the mine producing 82,062 tonnes of ore from a combination of drift development in ore and longhole stope mining. The Reed mine is expected to reach commercial production by the second quarter of 2014.

Our estimates of mineral reserves and resources for Reed are set out below.

Reed — Probable Mineral Reserves — January 1, 2014 [(1)(2)]

Tonnes	Cu (%)	Zn (%)	Au (g/t)	Ag (g/t)
2,121,000	3.80	0.50	0.42	5.28

Notes:

(1) The zinc price used for the mineral reserve estimations was US$1.06 per pound (includes premium), the copper price used for the mineral reserves estimation was US$3.00 per pound, the gold price was US$1,250.00 per ounce and the silver price was US$25.00 per ounce using an exchange rate of 1.05 C$/US$.

(2) For additional details relating to the estimates of mineral reserves and resources at the Reed mine, including data verification and quality assurance/quality control processes refer to the “Pre-Feasibility Study Technical Report on the Reed Copper Deposit, Central Manitoba, Canada” as filed on SEDAR by VMS Ventures Inc. on May 14, 2012.

Reed — Inferred Mineral Resources — September 30, 2013 [(1)]

Tonnes	Cu (%)	Zn (%)	Au (g/t)	Ag (g/t)
233,000	4.31	0.52	0.38	4.57

Notes:

(1) Mineral resources that are not mineral reserves do not have demonstrated economic viability. The above mineral resources are exclusive of reserves and were estimated using the same metals prices as were used for the estimate of mineral reserves at Reed.

Exploration Properties

Our exploration properties are key to our strategy of pursuing organic growth. Over the past 87 years, we and our predecessors have

brought into production 26 ore bodies on our lands and continue to pursue brownfield opportunities near our existing deposits. A key component of this will be the development of the 955-1025 metre level exploration drifts at Lalor during the second half of 2014, which is expected to enable tighter-spaced drilling to upgrade known inferred resources and to test the down plunge exploration potential of the gold and copper gold zones. Underground exploration drilling at 777 will also continue with the objective of extending the mine life beyond 2020, and in Peru we plan to drill newly discovered geophysical anomalies on our large land position around Constancia. For 2014, our board of directors has approved total exploration expenditures of approximately $20 million.

We hold a land position of approximately 370,000 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 from time to time, 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 processing. This, along with our 22,000 hectare land package in Peru, aligns well with our focus in 2014 on brownfield opportunities.

In addition, we will continue to look for greenfield opportunities in North and South America.

Our other exploration properties include our wholly-owned Tom and Jason zinc-lead properties in the Yukon, which contain mineral resources. On January 17, 2014 we completed the sale of our 51% interest in the Back Forty project in Michigan's Upper Peninsula to our former joint venture partner Aquila Resources Inc.

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 mine. Its capacity is approximately 2.18 million tonnes of ore per year. The concentrator can handle ore from

more than one mine separately, and blending is done at the grinding stage. As a result, ore mined from our Lalor and Reed projects may be transported to the Flin Flon concentrator for processing. The Flin Flon concentrator facility includes a paste backfill plant and associated infrastructure such as maintenance shops and laboratories. 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 and a new copper recovery circuit was installed in the third quarter of 2012 to facilitate processing of early Lalor ore. The concentrator currently processes ore from Lalor and produces zinc and copper concentrates. The zinc concentrate is shipped by truck for further processing at our zinc plant in Flin Flon. The concentrator, which has crushing, grinding, flotation, thickening, filtering and drying capabilities, has a design capacity of approximately 1.1 million tonnes of ore per year. We are refurbishing equipment and facilities at the concentrator to double production capacity to approximately 2,700 tonnes per by day by mid-2014, at a capital cost of $9 million. Tailings generated by the Snow Lake concentrator are deposited in our Anderson Lake tailings facility, which we believe mitigates environmental impacts, as the tailings are deposited in a subaqueous manner, minimizing the potential for generation of acid rock drainage.

Zinc Plant

Our zinc plant located in Flin Flon, Manitoba produces special high-grade metal in three cast shapes from zinc concentrate. Our plant is one of four primary zinc producers in North America. We produced 96,305 tonnes of cast zinc in 2013. The capacity of the zinc plant is approximately 115,000 tonnes of cast zinc per year. Included in the zinc plant are an oxygen plant, concentrate handling, storage and regrinding facility, a zinc pressure leach plant, a solution purification plant, a modern electro-winning cellhouse, 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.

Domestic concentrates produced from our mines and concentrate purchased from third parties are processed at the zinc plant. Purchased concentrate accounted for approximately 7% of zinc metal produced at our zinc plant in 2013, and is expected to account for 15-20% of zinc production in 2014. Domestic zinc concentrate production and purchased zinc concentrate are expected to support capacity utilization of approximately 95% in 2014. Upon full production from Lalor, domestic zinc concentrate production is expected to utilize fully the available capacity of the zinc plant.

Strategic Investments

As at December 31, 2013, we held minority equity positions in 15 junior exploration companies, representing investments with a fair market value of approximately $48 million, as part of our strategy to populate a pipeline of projects with the potential 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 and includes our investment in, and proposed Offer for, Augusta. We are continuing to evaluate new projects and potential investments to add to our portfolio and will seek to dispose of investments when the underlying projects are no longer consistent with our strategy.

Cash and Cash Equivalents

Our cash and cash equivalents as of December 31, 2013 were $631 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 2013, we produced 127,909 tonnes of copper concentrate and 96,305 tonnes of cast zinc. In 2013 copper concentrate sales represented

approximately 59% (2012 68%) and zinc metal sales represented approximately 40 % (2012 31%) of our total gross consolidated revenue, respectively.

In 2013, we sold approximately 72% of our copper concentrate production to third party purchasers in North America and Europe on benchmark terms and in 2014 we expect to sell approximately the same percentage. We sell the remainder of our copper concentrate production pursuant to shorter-term contracts as opportunities arise.

We sell gold and silver produced from our 777 mine and contained in our copper concentrate to Silver Wheaton pursuant to the terms of the 777 Stream Agreement. For additional information, see “Three Year History”.

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 have been selling approximately 20% of our zinc production to Zochem Inc. at market terms.

Commodity Markets

Over the course of 2013, prices for our key metals traded within a relatively narrow range when compared to the previous four years. However, average prices in 2013 generally were lower than average prices in 2012. For additional information refer to our market analysis of copper, zinc, gold and silver prices during this period on pages 21 and 22 of our management’s discussion and analysis for the year ended December 31, 2013, a copy of which has been filed on SEDAR at www.sedar.com and EDGAR at www.sec.gov.

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 and mineral processing industries. For additional information, see “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, see “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. 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, see “Risk Factors — Governmental and Environmental Regulation”.

Our goal is to continually improve our environmental performance. We have established an environmental management program directed at environmental protection and compliance to achieve our goal and address these regulatory changes. For additional information, see “Corporate Social Responsibility”.

Employees

As at December 31, 2013, we had 52 employees at our Toronto head office, 1,365 employees in Flin Flon and Snow Lake, Manitoba and 157 employees in Peru. In addition, we had 20 employees elsewhere in North and South America.

Of our 1,365 employees in Flin Flon and Snow Lake, approximately 1,047 were unionized as at December 31, 2013. 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. Our current collective bargaining agreements at HBMS expire December on 31, 2014 and subsequent collective bargaining agreements will not be subject to the labour stability agreement.

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.

Continuous Improvement

In early 2012, we began the process of formalizing our approach to continuous improvement in order to enhance our overall performance and contain costs. We refer to this approach as Continuous Improvement Process Optimization or CIPO. The key objectives of our CIPO program are to:

- establish a standard process to manage continuous improvement activities;
- establish targets and accountabilities related to continuous improvement projects;
- maintain our competitive edge, reduce our costs and enhance our growth potential; and
- enhance our company culture by incorporating continuous improvement into the normal course of business.

CIPO is not a project with a start and end date, but rather it is a structure that defines how projects are managed. Under the CIPO governance structure, Project Champions have been identified in each of the functional areas of our company. Their activities are overseen by a CIPO Steering Committee whose main focus is to ensure that CIPO projects are aligned with our overall strategy and objectives. The governance structure provides a formal means by which any employee can submit a continuous improvement idea and receive feedback as to its status. Typically, employees who suggest projects are involved in the implementation. As well, CIPO governance is structured to ensure that all ideas are captured, evaluated consistently, and prioritized — with the goal of maintaining a high value project pipeline and a sustainable program.

Since inception of the formal CIPO program, we have completed approximately 82 projects, which are expected, and in some cases have begun, to deliver financial as well as health and safety benefits. We currently have approximately 53 active CIPO projects underway as well as a robust pipeline of new ideas for the next generation of projects.

CORPORATE SOCIAL RESPONSIBILITY

At Hudbay, we view our responsible corporate behaviour as integral to the successful execution of our business strategy, particularly in maintaining a good reputation with our regulators and communities — and being able to bring that good reputation to new communities and jurisdictions when we embark on new projects. We therefore 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. We also commit to our employees to maintain a safe and healthy work 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, Occupational Health and Safety Assessment Series ("**OHSAS**") 18001 and our Human Rights Policy.

Health, 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 have management systems certified to OHSAS 18001 and Environmental Management System Standard ISO 14001. In addition, the production and supply of our cast zinc products are registered to the ISO 9001 quality standard.

We believe that ongoing improvements in the safety of our workplace 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 2013, our lost time accident frequency per 200,000 hours worked was 0.4. This is higher than our frequency of 0.3 in 2012, in part due to a number of lost time accidents at our exploration sites in Colombia in 2013. While the severity of these injuries was low, we nevertheless take seriously our commitment to reducing such incidents and have taken steps to better oversee our exploration activities. 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 dedicated teams which are 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 2013.

Human Rights Policy

In May 2011, we adopted a 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 a commitment 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, social, health and safety performance. This report is prepared pursuant to the Global Reporting Initiative 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 2012 Corporate Social Responsibility Report is available on our website at www.hudbayminerals.com and our 2013 report is expected to be released in the second quarter of 2014.

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. Prices are also affected by the overall supply of the metals we produce, which can be affected by the start-up of major new mines, production disruptions and closures of existing mines.

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. During August and September 2013, Hudbay entered into copper and zinc hedging transactions intended to manage the risk of adverse changes to operating cash flow as it approaches the expected completion of the Lalor and Constancia projects in the second half of 2014. For further details, see the risk factor, "Hedging Transactions" below.

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. Also, once our Constancia project reaches production, a substantial part of our operating costs will be incurred in Peruvian new soles, and future appreciation of the new sole relative to the United States dollar could adversely impact our future profitability. Although we may use hedging strategies to limit 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 estimates of mineral resources 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; developing and maintaining good relationships with communities, local government and other stakeholders and 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 directly affected by the Constancia project to secure required land rights for the project and efforts to relocate 36 families pursuant to one of the community agreements are underway. However, any inability to enforce these agreements, successfully relocate such families or maintain good relations with these and other nearby communities and other stakeholders could impair our ability to successfully develop or operate the project. At Lalor, we still require a permit under Manitoba's *The Environment Act* in order to operate the new concentrator that is planned at the site. While we believe that such permit will be forthcoming, it is possible that it may be delayed or not granted, which could prevent us from building the new concentrator.

Significant amounts of capital will be required to bring each of Lalor and Constancia projects to full production. Our capital and operating costs for such projects may be affected by a variety of factors, including

project scope changes, local currency appreciation and general cost escalation common to mining projects globally. While we believe that we will have sufficient liquidity to satisfy spending requirements to complete our key capital projects and meet our debt service obligations (including obligations under our Notes and the equipment financing facility with CAT Financial), to the extent that capital costs are higher than currently forecast, metal prices decline materially from current levels or we have another unanticipated demand on our liquidity, we may need to raise additional financing to complete our capital projects or seek other sources of liquidity or pursue other corporate initiatives. Given current economic circumstances and other factors, there can be no certainty that sufficient financing or other transactions will be available on acceptable terms. If such financing or transactions are not available, we may not be able to fund the development of one or both the Constancia and Lalor projects or other projects we intend to develop.

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; general cost escalation; 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, licenses or approvals; unforeseen natural events; and political, social and other factors. Factors such as changes to technical specifications, failure to enter into agreements with contractors or suppliers in a timely manner, including contracts in respect of Constancia project infrastructure, and shortages 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 current development projects or other projects we intend to develop will be able to be developed successfully or economically or that they will not be subject to the other risks described in this section.

Substantial Indebtedness

We have a significant amount of indebtedness. As of December 31, 2013, our total debt was approximately US$750 million (consisting of the Notes). In addition, we have subsequently incurred additional indebtedness pursuant to the equipment financing facility we have entered into with CAT Financial. We may also incur indebtedness under our credit facilities and would have additional indebtedness in the event the Offer to acquire the issued and outstanding common shares of Augusta is successful.

Subject to the limits contained in the indenture governing the Notes and any limits under our other debt instruments existing from time to time, we may incur substantial additional debt (including an offtake related financing in Peru) to finance working capital, capital expenditures, investments or acquisitions or for other purposes. If we do so, the risks related to our high level of indebtedness could intensify. Specifically, our substantial level of indebtedness could have important consequences, including:

- limiting our ability to obtain additional financing to fund future working capital, capital expenditures, acquisitions or other general corporate requirements;
- requiring a substantial portion of our cash flows to be dedicated to debt service payments instead of other purposes, thereby reducing the amount of cash flows available for working capital, capital expenditures, acquisitions and other general corporate purposes;
- increasing our vulnerability to general adverse economic and industry conditions;
- exposing the company to the risk of increased interest rates as certain of our borrowings are at variable rates of interest;
- limiting our flexibility in planning for and reacting to changes in the industry in which we compete;
- placing the company at a disadvantage compared to other less leveraged competitors; and
- increasing our cost of borrowing.

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 the 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; political and social stability; 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 significant 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 events 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, licenses, leases or other approvals 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 a government authority or other 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.

Notwithstanding the expressed intention of the current national government in Peru to support mining as a driver for the continued growth and future development of the country, other mining projects—like the Conga project in northern Peru and projects in the Cusco region in southern Peru—have been the target of initiatives that have delayed and disrupted project development and operations. Such initiatives, as well

as political or social unrest or instability, could adversely affect our ability to develop and operate the Constancia project. Such adverse effects could result from positions or actions that may be taken by the national government or at the regional, community or local levels including encroaching on our land, challenging the boundaries of such land or our rights to possess and operate on such land, protesting against our project (including the environmental or social impacts of our project), impeding project activities through roadblocks or other public manifestations and attacking project assets or personnel. During the last several years, certain mining projects in Peru have been the target of political and community protests. By way of example, in late 2011, construction activities at the Conga project in northern Peru were suspended at the request of the central government following increasing protests by anti-mining activists led by the regional president. While there have been some initiatives in respect of the Constancia project, including an attempt to restrict access by workers, those initiatives have been limited and have not significantly disrupted the project's development. There is the risk that more significant opposition may be mounted that may affect our ability to develop and operate the Constancia project.

Aboriginal Rights and Title

Claimed rights of aboriginal peoples, including the MCCN, may affect our ability to develop our Lalor and Reed projects and other mineral properties or may materially delay the development of such properties. For example, in January and March of 2013, members of the MCCN staged two separate blockades that impeded access to our Lalor site for part of a business day. After the two blockades, we successfully applied to the Manitoba Court of Queen's Bench for an interlocutory injunction to prevent any further blockades at our Manitoba operations. The Court's decision in respect of the injunction at the Lalor project was recently upheld by the Manitoba Court of Appeal. While the Court of Appeal removed the injunction application to our Reed project, it left open the possibility of extending the injunction to the Reed project should similar blockades occur in the future. There can be no assurance that other disruptions will not be initiated, which initiatives may affect our ability to explore and develop our properties and conduct our operations.

Community Relations

Our relationships and reputation, particularly with the communities in which we operate, are critical to the future success of our existing operations and the construction and development of our projects, including the Constancia project in Peru and the ability to explore and develop additional properties. There is an increasing level of public concern relating to the perceived effect of mining activities on the environment and on communities impacted by those activities. Publicity adverse to us, our operations, or extractive industries generally, including as a result of anti-mining protests in Peru, could have an adverse effect on us and may impact our reputation and relationship with the communities in which we operate, including the communities surrounding the Constancia project and other stakeholders. For example, while we have entered into life-of-mine agreements with two local communities directly affected by the Constancia project, there can be no assurance that disputes will not arise with other communities in the area or that we will be able to secure the agreements required to ensure we have the necessary surface rights to successfully complete the project. There is a risk that relations with local communities may be strained by real or perceived detrimental effects associated with our activities or those of other mining companies and that those strains may impact our ability to enforce these agreements or obtain necessary permits and approvals to develop and operate the Constancia project. While we are committed to operating in accordance with applicable laws and in a socially responsible manner, there can be no assurance that our efforts in this respect will mitigate this potential risk.

Hedging Transactions

During August and September 2013, we entered into copper and zinc hedging transactions intended to manage the risk of adverse changes to operating cash flow as we approach the expected completion of the Lalor and Constancia projects in the second half of 2014. The hedging transactions do not address all of the risk to revenues associated with fluctuations in our realized revenues, including foreign exchange rates, treatment and refining charges and refined metal premiums, and the notional volume of the hedging is less than our anticipated production during the hedged time period. Also, although we have entered into the hedging transactions with counterparties whom we believe to be creditworthy, non-performance by those counterparties could render our hedging ineffective.

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. Any inability to provide adequate feed to our processing facilities could adversely impact our profitability or impair the viability of our processing facilities.

Governmental and Environmental Regulation

Our activities are subject to various laws and regulations governing prospecting, development, production, taxes, labour standards, occupational health, mine safety, toxic substances, protection of the environment and other matters. Environmental regulation is evolving in a manner that will require stricter standards and enforcement, increased fines and penalties for non-compliance, and more stringent environmental assessments of proposed projects. 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. We could be held responsible for investigative-cleanup cost relating to presently unknown contamination on our properties. We may also acquire properties with environmental risks. Any investigative and remediation costs for known or unknown contamination, or for future releases of hazardous or toxic substances at our properties or related to our activities, could be material.

Although we believe that our activities are currently carried out in material compliance 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. We may be required to compensate those suffering loss or damage relating to mining activities, and we 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 success of our efforts to obtain and maintain permits is 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 and development projects depend 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. Our development plans for our Lalor project in Snow Lake, Manitoba and our Constancia project in southern Peru, in particular, depend in part on our ability to attract new skilled personnel to work for us in these geographic areas. Challenges in recruiting employees

to work at our Snow Lake operations has led to a higher reliance on contractor labour than expected and correspondingly higher costs.

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.

There can be no assurance that our business will not suffer from a work stoppage at any location where we operate and there can be no assurance that we will be able to successfully negotiate new collective agreements with our employees at our Flin Flon and Snow Lake operations before the existing agreements expire in December 2014. 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.

The Notes and Other Indebtedness

Our ability to make scheduled payments on or refinance our debt obligations, including the Notes, depends on our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and to certain financial, business, legislative, regulatory and other factors beyond our control. We may be unable to maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness, including the Notes.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we could face substantial liquidity problems

and could be forced to reduce or delay investments and capital expenditures or to dispose of material assets or operations, seek additional debt or equity capital or restructure or refinance our indebtedness, including the Notes. We may not be able to effect any such alternative measures on commercially reasonable terms or at all and, even if successful, those alternatives may not allow us to meet our scheduled debt service obligations. The indenture governing the Notes restricts our ability to dispose of assets and use the proceeds from those dispositions and may also restrict our ability to raise debt or equity capital to be used to repay other indebtedness when it becomes due. We may not be able to consummate those dispositions or to obtain proceeds in an amount sufficient to meet any debt service obligations then due.

If we cannot make scheduled payments on our debt, we will be in default and holders of the Notes could declare all outstanding principal and interest to be due and payable, causing a cross-acceleration or cross-default under certain of our other debt agreements, if any, and our other creditors could foreclose against the collateral securing our obligations and we could be forced into bankruptcy or liquidation.

In addition, the indenture governing the Notes contains a number of restrictive covenants that impose significant operating and financial restrictions on us and may limit our ability to engage in acts that may be in our long-term best interest, including restrictions on our ability to:

- incur additional indebtedness;
- pay dividends or make other distributions or repurchase or redeem capital stock;
- prepay, redeem or repurchase certain debt;
- make loans and investments;
- sell assets;
- incur liens;
- enter into transactions with affiliates;
- alter the businesses we conduct;
- enter into agreements restricting our subsidiaries' ability to pay dividends; and
- consolidate, amalgamate, merge or sell all or substantially all of our assets.

A breach of the covenants under the indenture governing the Notes or our other debt instruments from time to time could result in an event of default under the applicable indebtedness. Such a default may allow the creditors to accelerate the related debt and may result in the acceleration of any other debt to which a cross-acceleration or cross-default provision applies. In the event the holders of our Notes or our lenders accelerate the repayment of our borrowings, we and our subsidiaries may not have sufficient assets to repay that indebtedness. These restrictions may affect our ability to grow in accordance with our strategy. As a result of these restrictions, we may be:

- limited in how we conduct our business;
- unable to raise additional debt or equity financing to operate during general economic or business downturns; or
- unable to compete effectively or to take advantage of new business opportunities.

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 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 and exploration activities elsewhere in South America, 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.

Tax Refunds

We expect to receive substantial tax refunds in the next twelve months of previously paid income and value added taxes from the Canadian and Peruvian governments, respectively. Although we believe we are following the appropriate process to obtain the refunds and have started to receive payments of these refunds, there is no assurance that all amounts owing to us will be received on a timely basis or at all.

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.

Dividend Payments

The Notes impose certain restrictions on our ability to make restricted payments, including common dividends. Our ability to make

subsequent dividend payments at current levels will be subject to compliance with the covenants contained in our debt agreements along with other liquidity considerations. At all times, the declaration of dividends is subject to the discretion of our board of directors.

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 us. We have no obligation to determine whether we are a PFIC and may not make any such determination.

Growth Strategy

We evaluate growth opportunities and continue to consider the acquisition and disposition of exploration and development properties and mineral assets to achieve our strategy. We, from time to time, engage in discussions in respect of both acquisitions and dispositions, and other business opportunities, but there can be no assurance that any such discussions will result in a successfully completed transaction.

Fluctuations in the Value of Equity Investments

We are exposed to market risk from the share prices of our equity investments in listed junior exploration companies. These investments are made to foster strategic relationships, in connection with joint venture agreements and for investment purposes. The share prices of these equity investments may be significantly affected by short-term changes in capital markets, commodity prices or in their financial condition or results of their operations, and as a result, will affect the value of our investments.

Risks Related to the Offer

Development of the Rosemont Project

The Offer to acquire Augusta has been made with the expectation that its successful completion will result in increased copper and precious metals production and enhanced growth opportunities for us. These anticipated benefits will primarily depend on whether and when the Rosemont Project receives the permits required to commence construction and operate the mine. While we believe the permits will be granted, there may be a delay in their issuance and once the permits are issued they may be challenged which could cause further delays. In addition, most operational, strategic and staffing decisions with respect to the Rosemont Project have not yet been made. These decisions and the ability

to successfully bring the Rosemont Project into production will present challenges to management, including possible unanticipated costs and liabilities, the possibility that we will not be able to retain key employees, officers and contractors of Augusta, the ability to complete construction and related infrastructure in a timely manner, changes in the legal and regulatory environment, currency fluctuations, industrial disputes and community relations, unavailability of parts, machinery or operators and other personnel, delays in the delivery of major process plant equipment, unforeseen natural events, and political, social 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, and it is possible that cost overruns could occur during the construction of the Rosemont Project.

Issuance of Hudbay Common Shares as Consideration under the Offer

If all of the outstanding Augusta common shares are tendered to the Offer, 41,921,758 additional Hudbay common shares will be available for trading in the public market (assuming the exercise of only Augusta's in-the-money convertible securities). The overall increase in the number of our common shares may lead to sales of such shares or the perception that such sales may occur, either of which may adversely affect the market for, and the market price of, our common shares. The perceived risk of substantial sales of our common shares, as well as any actual sales of such our common shares in the public market, could adversely affect the market price of our common shares.

Dissent and Appraisal Rights

In order for Hudbay to acquire all of the issued and outstanding Augusta common shares, it will likely be necessary, following consummation of the Offer, to effect a second step transaction. A second step transaction may result in Augusta shareholders having the right to dissent and demand payment of the fair value of their Augusta common shares. If the statutory procedures governing dissent rights are available and are complied with, this right could lead to judicial determination of the fair value required to be paid to such dissenting Augusta shareholders for their Augusta common shares that is different from the consideration to be paid pursuant to the Offer. There is no assurance that a second step transaction can be completed without Augusta shareholders exercising dissent rights in respect of a substantial number of Augusta common shares, which could result in the requirement to make a substantial cash payment that could have an adverse effect on our financial position and liquidity.

Augusta's Public Disclosure

All information regarding Augusta contained in the Offer Documents, including Augusta financial information and all pro forma financial information reflecting the pro forma effects of a combination of Augusta and Hudbay that are derived in part from Augusta's financial information, has been derived from Augusta's public disclosure. Although we have no reason to doubt the accuracy or completeness of Augusta's public disclosure, any inaccuracy or material omission in Augusta's public disclosure, including the information about or relating to Augusta and its business, prospects, condition (financial or otherwise) and assets contained in the Offer Documents, could result in unanticipated liabilities or expenses, increase the cost of integrating the

two companies or adversely affect the operational plans or prospects of the two companies and its results of operations and financial condition.

Change of Control Provisions

Augusta may be a party to agreements (including in respect of its debt obligations) that contain change of control provisions that may be triggered following completion of the Offer, since we would hold Augusta common shares representing a majority of the voting rights of Augusta. The operation of these change of control provisions, if triggered, could result in unanticipated expenses and/or cash payments following consummation of the Offer or adversely affect Augusta's results of operations and financial condition. Unless these change of control provisions are waived by the other party to any such agreements, the operation of any of these provisions could adversely affect the results of operations and financial condition of the combined company.

DESCRIPTION OF CAPITAL STRUCTURE

Common Shares

We are authorized to issue an unlimited number of common shares, of which there were 193,008,376 common shares issued and outstanding as of March 25, 2014.

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.

Senior Unsecured Notes

On September 13, 2012, we issued US$500 million aggregate principal amount of Initial Notes pursuant to a private placement offering. Interest is payable on the Initial Notes semi-annually on April 1 and October 1 of each year, beginning on April 1, 2013. The Initial Notes were priced at 100% of their face value, and yielded proceeds of US$484 million net of directly attributable transaction costs. On June 20, 2013 and December 9, 2013, we issued US$150 million and US$100 million aggregate principal amount, respectively, of Additional Notes. The Additional Notes issued in June 2013 were priced at 102% of the aggregate principal amount, resulting in gross proceeds of US$153 million and will yield 9.11% to maturity. The Additional Notes issued in December 2013, were priced at 100% of their face value and yielded gross proceeds of US$100 million. The Additional Notes are incremental to the US$500 million aggregate principal amount of the Initial Notes.

The Notes are fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis, by substantially all of our existing and future subsidiaries other than our subsidiaries associated with the Constancia project. The Notes also contain certain customary covenants and restrictions for a financing instrument of this type. Although there are no maintenance covenants with respect to our financial performance, there are transaction-based restrictive covenants that limit our ability to incur additional indebtedness in certain circumstances. In addition, our ability to make restricted payments, including dividend payments, is subject to our compliance with certain covenants which require either the generation of sufficient net earnings or, in the case of semi-annual dividend payments in an amount not exceeding US$20 million, the maintenance of a ratio of consolidated debt to earnings before interest, tax, depreciation and amortization of 2.50 to 1.00 or less.

At any time prior to October 1, 2016, we may redeem the Notes, in whole but not in part, at a redemption price equal to 100.00% of the aggregate principal amount of the Notes plus an amount equal to the greater of (i) 1% of the principal amount of the Notes to be redeemed and (ii) the excess, if any, of (a) the present value as of the date of redemption of the October 1, 2016 redemption price of the Notes (as described below) plus required interest payments through October 1, 2016 over (b) the then outstanding principal amount of such Notes, plus, in either case, accrued and unpaid interest.

On or after October 1, 2016, we may redeem the Notes, at our option in whole or in part, at the redemption prices (expressed as percentages of the principal amount of the Notes to be redeemed) set forth below, plus accrued and unpaid interest, if redeemed during the twelve-month period beginning on October 1 of each of the years indicated below:

Year	Percentage
2016	104.750%
2017	102.375%
2018 and thereafter	100.000%

In addition, we may redeem up to 35% of the Notes prior to October 1, 2015 with the net cash proceeds from certain equity offerings at a redemption price equal to 109.500% of the aggregate principal amount thereof, plus accrued and unpaid interest.

Credit Ratings

The following table sets out the credit ratings we received from Standard and Poor's Ratings Services (" **S&P**") and Moody's Investors Services ("**Moody's**") on December 4, 2013 in connection with the offering of an additional US$100 million aggregate principal amount of Notes due October 1, 2020. These notes are additional to the US$650 million aggregate principal amount of Notes that we issued in September 2012 and June 2013.

	Credit Rating Organization	
	S&P	Moody's
Corporate Credit Rating	B-	B3
9.50% Senior Unsecured Notes	B-	B3

As at December 4, 2013, S&P has maintained its 'B-' issue-level rating, and '3' recovery rating, to the Notes and has maintained its 'B-' long-term corporate credit rating on us, with a stable outlook. S&P's credit ratings are on a rating scale that ranges from AAA (highest quality) to D (lowest quality). The ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories. According to S&P's rating system, an obligor rated 'B' currently has the capacity to meet its financial commitments, but adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitments. A

'B' rating is the sixth highest of ten categories in S&P's rating system.

S&P's issue credit ratings are based, in varying degrees, on its analysis of the following considerations: (i) likelihood of payment; (ii) nature of and provisions of the obligation; and (iii) protection afforded by, and relative position of, the obligation in the event of bankruptcy. S&P's recovery ratings focus solely on expected recovery in the event of a payment default of a specific issue, and utilize a numerical scale that runs from 1+ to 6. The recovery rating is not linked to, or limited by, the issuer credit rating or any other rating, and provides a specific opinion about the expected recovery. A '3' recovery rating indicates S&P's expectations of meaningful (50%-70%) recovery in the event of default.

S&P's issuer credit rating is a forward-looking opinion about an obligor's overall creditworthiness in order to pay its financial obligations. This opinion focuses on the obligor's capacity and willingness to meet its financial commitments as they come due. It does not apply to any specific financial obligation.

As at December 4, 2013, Moody's has maintained its 'B3' corporate family rating, its 'B3' probability of default rating and its SGL-4 speculative grade liquidity rating on us; it has assigned the Notes a 'B3' rating. Moody's ratings outlook is negative.

Moody's credit ratings are on a rating scale that ranges from Aaa (highest quality) to C (lowest quality). Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category. Moody's speculative grade liquidity ratings are on a rating scale that ranges from SGL-1 (best liquidity) to SGL-4 (weakest liquidity).

According to Moody's credit rating system, obligations rated 'B' are considered speculative and are subject to high credit risk. A 'B' rating is the sixth highest of nine categories in Moody's rating system.

According to Moody's speculative grade liquidity rating system, an issuer with an 'SGL-4' rating possesses weak liquidity and is expected to rely on external sources of financing whose availability is highly uncertain in Moody's opinion.

Moody's corporate family ratings are long-term ratings that reflect the likelihood of a default on a corporate family's contractually promised payments and the expected financial loss suffered in the event of default. A corporate family rating is assigned to a corporate family as if it had and a single class of debt and a single consolidated legal entity structure. A probability of default rating is a corporate family-level opinion of the relative likelihood that any entity within a corporate family will default on one or more of its long-term debt obligations.

Moody's long-term ratings are assigned to issuers or obligations with an original maturity of one year or more and reflect both on the likelihood of a default on contractually promised payments and the expected financial loss suffered in the event of default.

Moody's speculative grade liquidity ratings are opinions of an issuer's relative ability to generate cash from internal resources and the availability of external sources of committed financing, in relation to its cash obligations over the coming 12 months.

The credit ratings and stability ratings we received from S&P and Moody's are not a recommendation to buy, sell or hold our securities and may be subject to revision or withdrawal at any time by either such credit rating organization. S&P and Moody's each charged us a fee in respect of the credit ratings service they provided.

DIVIDENDS

We paid an inaugural semi-annual dividend of $0.10 per common share on September 30, 2010 and have continued to pay a semi-annual dividend in March and September of each year of $0.10 per share until the dividend paid on September 30, 2013, which was set at $0.01 per share. On February 19, 2014, our board of directors approved the payment of a dividend of $0.01 per common share payable on March 31, 2014 to shareholders of record on March 14, 2014. At all times, the declaration of dividends is subject to the discretion of our board of directors.

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 trading 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 - 2013	High ($)	Low ($)	Volume (common shares)	High (US$)	Low (US$)	Volume (common shares)
January	12.10	10.06	15,984,459	12.04	10.30	529,283
February	11.76	9.12	10,984,819	11.79	8.96	628,890
March	10.50	9.35	12,940,154	10.21	9.05	968,515
April	9.75	7.53	16,628,290	9.60	7.34	700,601
May	8.87	7.56	14,862,907	8.60	7.51	601,213
June	8.46	6.55	14,267,383	8.22	6.32	1,017,431

July	7.77	6.55	10,706,968	7.56	6.21	1,308,568
August	7.46	6.02	15,524,369	7.10	5.78	859,181
September	9.09	6.92	15,682,990	8.90	6.58	922,849
October	9.02	7.68	11,735,394	8.76	7.39	691,862
November	8.97	7.46	14,311,647	8.57	7.04	526,508
December	8.89	7.30	8,646,509	8.36	6.87	461,649

On March 25, 2014, the closing prices of our common shares on the TSX and NYSE were $8.57 and US$7.62 per common share, respectively.

Prior Sales

On September 13, 2012, we issued US$500 million aggregate principal amount of Initial Notes pursuant to a private placement offering. Interest is payable on the Initial Notes semi-annually on April 1 and October 1 of each year, beginning on April 1, 2013. The Initial Notes were priced at 100% of their face value, and yielded proceeds of US$484 million net of directly attributable transaction costs. The Additional Notes are incremental to the US$500 million aggregate principal amount of the Initial Notes. On June 20, 2013 and December 9, 2013, we issued US$150 million and US$100 million aggregate principal amount, respectively, of Additional Notes. The Additional Notes issued in June 2013 were priced at 102% of the aggregate principal amount, resulting in gross proceeds of US$153 million and will yield 9.11% to maturity. The Additional Notes issued in December 2013, were priced at 100% of their face value and yielded gross proceeds of US$100 million.

DIRECTORS AND OFFICERS

Board of Directors

David Garofalo Richmond Hill, Ontario, Canada	**Director since**: August 4, 2010	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.
Igor Gonzales Lima, Peru	**Director since:** July 31, 2013 **Committee memberships:** · Compensation Committee · Technical Committee	Mr. Gonzales has more than 30 years of experience in the mining industry. He was with Barrick Gold Corporation from 1998 to 2013, most recently as Executive Vice President and Chief Operating Officer. Between 1980 and 1996, Mr. Gonzales served in various roles with Southern Peru Copper Corporation.
Tom A. Goodman Denare Beach, Saskatchewan, Canada	**Director since**: June 14, 2012 **Committee memberships:** · EHSS Committee (Chair) · Technical Committee	Mr. Goodman worked for Hudbay for over 34 years in a wide variety of operational, technical and management positions, including his last two years as Senior Vice President and Chief Operating Officer. He retired as an executive officer effective June 1, 2012.
Alan R. Hibben Toronto, Ontario, Canada	**Director since:** March 23, 2009 **Committee memberships:** · Compensation Committee · Corporate Governance and Nominating 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 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.
W. Warren Holmes Stratford, Ontario, Canada	**Director since:** March 23, 2009 **Committee memberships:** · Compensation Committee (Chair) · EHSS Committee · Technical Committee	From November 2009 to July 2010, Mr. Holmes served as our Executive Vice Chairman and from January 2010 to July 2010 served as our Interim Chief Executive Officer. He is now a corporate director. Mr. Holmes is Lead Director of Foraco International SA and a director of Atlanta Gold Inc. and Wallbridge Mining Company Limited.

Board of Directors

Sarah B. Kavanagh Toronto, Ontario, Canada	**Director since**: July 31, 2013 **Committee memberships:** · Audit Committee (Chair) · EHSS Committee	Ms. Kavanagh is a corporate director who has also been serving as a Commissioner at the Ontario Securities Commission since 2011. Between 1999 and 2010, Ms. Kavanagh served in a number of senior investment banking roles at Scotia Capital Inc. She has also held senior financial positions in the corporate sector.

John. L. Knowles Winnipeg, Manitoba, Canada	**Director since:** March 23, 2009 **Committee memberships:** · Audit Committee · Corporate Governance and Nominating Committee	Mr. Knowles is President and CEO of Wildcat Exploration Ltd, a mining exploration company, and is also a corporate director. 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.
Alan J. Lenczner Toronto, Ontario, Canada	**Director since:** March 23, 2009 **Committee memberships:** · Audit Committee · Corporate Governance and Nominating Committee	Mr. Lenczner has been a commercial litigator for over 40 years. He is Founding Partner and now Counsel at Lenczner Slaght Royce Smith Griffin LLP, a litigation-focused law firm. He is also a Commissioner of the Ontario Securities Commission.
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 is currently a corporate director.
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.

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. Our executive officers as at the date of this AIF are listed below.

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. Prior to being appointed to his current role in February 2009, he was Vice President, Finance and Chief Financial Officer. Mr. Bryson held senior finance positions with Skye Resources Inc. from March 2007 to August 2008 and prior to that worked for Terasen Inc., a Vancouver-based energy infrastructure firm, in various finance roles for 16 years.

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.
Alan T.C. Hair Toronto, Ontario, Canada **Position with Hudbay:** Senior Vice President and Chief Operating Officer	Mr. Hair has been with Hudbay and its affiliates since 1996 and has held a number of senior operational and business development positions. Prior to being appointed to his current role in June 2012, he was Senior Vice President, Business Development and Technical Services. From October 2008 to August 2010 he was Senior Vice President, Development. Before joining Hudbay, Mr. Hair 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.
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 over a year in the legal department of the TDL Group Corp.
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.
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. Prior to joining Hudbay, Mr. Meagher held management positions with Vale Inco in exploration, technical services, business analysis and mine operations.

Patrick Merrin Toronto, Ontario, Canada **Position with Hudbay:** Vice President, Business Development and Technical Services	Mr. Merrin rejoined Hudbay in July 2012 as Vice President, Business Development and Technical Services. Over the past five years, he gained experience in a variety of mining and metals environments, including as Chief Operating Officer of Adex Mining from September 2011 to July 2012, owner of PJM Consulting, a consulting firm for the mining industry, from December 2010 to September 2011, and Managing Director of Lucas Milhaupt Europe from July 2007 to July 2010.
Mary-Lynn Oke Winnipeg, Manitoba, Canada **Position with Hudbay:** Vice President, Finance	Ms. Oke has been Vice President, Finance since July 2013 and she is also Chief Financial Officer, Manitoba Business Unit. Prior to this appointment in August 2012, she was Director, Tax & Treasury. Before joining Hudbay in 2007, Ms. Oke worked at Ernst & Young, LLP in various roles for 10 years.

Executive Officers

Hernán Soza Toronto, Ontario, Canada **Position with Hudbay**: Vice President, Exploration	Mr. Soza joined Hudbay in early 2011 as Director, South American Exploration and was appointed to his current role in September 2011. He brings more than forty years of mining and mineral exploration experience across South and Central America, most recently as an independent geologist, providing consulting services to clients in the mining industry.

As of March 25, 2014, our directors and executive officers, as a group, beneficially owned, directly or indirectly, or exercised control or direction over 379,348 common shares, representing less than 1% of the total number of common shares outstanding.

Corporate Cease Trade Orders, Bankruptcies, Penalties and Sanctions

Mr. Garofalo was a director of Colossus Minerals Inc. (“**Colossus**”) from December 2012 until November 2013. Following his resignation from the board, and after having failed to cure its inability to make the December 31, 2013 interest payment on its outstanding convertible notes, in January 2014 Colossus filed a notice of intention to make a proposal under the *Bankruptcy and Insolvency Act* (Canada) (“**BIA**”) and Duff & Phelps Canada Restructuring Inc. was named as the proposal trustee. On February 25, 2014, Colossus announced that the requisite majority of its creditors approved an amended proposal under the BIA and that it intended to seek a court order approving the amended proposal.

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 cease trade order 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, and related to conduct that occurred before Mr. Voorheis became a director.

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. Mr. Voorheis agreed to join the Hollinger board at the request of a shareholder to deal with certain management misconduct. 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 was the subject of several cease trade orders issued between 2004 and 2008, due to its failure to file financial statements on a timely basis, and Mr. Voorheis became subject to certain such orders as a result of his appointment as Chief Executive Officer. 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**”), a subsidiary of Hollinger, from August 2007 to June 2008. Mr. Voorheis agreed to join the Sun Times board at the request of a Hollinger shareholder to deal with certain management misconduct. On March 31, 2009, Sun Times and its domestic subsidiaries filed voluntary petitions under Chapter 11 of the United States Bankruptcy Code.

Mr. Voorheis was appointed as a director of Coventree Inc. (“ **Coventree**”) in April 2008. On December 7, 2009, the OSC commenced proceedings against Coventree and certain of its officers in connection to events which occurred prior to Mr. Voorheis’ involvement with Coventree. The proceedings related to whether Coventree complied with its disclosure obligations in its prospectus relating to the initial public offering of its shares, and its timely disclosure obligations in 2007 prior to the market for certain asset-backed commercial paper freezing up on August 13, 2007 (collectively “**Coventree Proceedings**”). On November 8, 2011, the OSC issued orders in connection with the Coventree Proceedings which included (i) an order that Coventree pay an administrative penalty of $1,000,000; and (ii) an order that until its winding up is completed, trading in any securities by Coventree cease and that any Ontario securities law exemptions not apply to Coventree, provided that such order will not prevent the winding up of Coventree or trades in securities reasonably related to that winding up. Coventree appealed the

OSC order at the Ontario Divisional Court in late 2012 but the Divisional Court dismissed the appeal.

On June 30, 2010, the shareholders of Coventree approved a special resolution authorizing the winding up of Coventree and the distribution of its remaining assets, if any, to shareholders pursuant to the plan of liquidation and distribution. On February 15, 2012, the liquidation plan commenced, a liquidator was appointed for the purposes of winding up Coventree's affairs, Mr. Voorheis resigned as a director, and Mr. Voorheis became an inspector of the company's liquidation on that date.

Conflicts of Interest

To the best of our knowledge, 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 Hudbay 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. In addition, our Code of Business Conduct and Ethics requires our directors and officers 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 our interests.

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 2013 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

As at December 31, 2013, the Audit Committee consisted of Sarah B. Kavanagh (Chair), John L. Knowles and Alan J. Lenczner. Bruce Barraclough, the former Chair of the Audit Committee, passed away in March 2013. Following Mr. Barraclough's passing, on the recommendation of the Corporate Governance and Nominating Committee, our board of directors appointed Alan R. Hibben as the Interim Chair of the Audit Committee. On July 31, 2013, Mr. Hibben stepped down from his role on the Audit Committee and on the recommendation of the Corporate Governance and Nominating Committee, our board of directors appointed Ms. Kavanagh as the Chair of the Audit Committee.

Relevant Education and Experience

Each member of the Audit Committee is independent and financially literate within the meaning of NI 52-110. 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.

Sarah B. Kavanagh has been serving as a Commissioner at the Ontario Securities Commission since 2011. She is also a director and Chair of the Audit Committee at American Stock Transfer and Canadian Stock Transfer and an independent trustee and Chair of the Audit Committee at WPT Industrial Real Estate Investment Trust. Between 1999 and 2010, Ms. Kavanagh served in a number of senior investment banking roles at Scotia Capital Inc. She has also held senior financial positions in the corporate sector. Ms. Kavanagh graduated from Harvard Business School with a Masters in Business Administration and received a Bachelor of Arts degree in Economics from Williams College in Williamstown, Massachusetts.

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. He presently serves as a Commissioner of the Ontario Securities Commission.

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 LLP as external auditor of, and for other services provided to, the Company for the fiscal years ended December 31, 2013 and 2012.

Category of Fees	2013	2012
Audit fees	$ 1,471,503	$ 1,066,374
Audit-related fees	$ 414,155	$ 372,076
Tax fees	—	—
All other fees	$ 230,884	—
Total	**$ 2,041,467**	**$ 1,438,450**

"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 accounting advisory work, audit work related to our pension, benefit and profit sharing plans, audit work related to our NPI Agreement with Callinan (as described below) and work related to acquisitions and offerings. "Tax fees" are fees for services related to tax compliance, tax advice, and tax planning. "All other fees" are fees for services other than those described in the foregoing categories. 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

Legal Proceedings

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. The plaintiffs in the Saskatchewan action are the Peter Ballantyne Cree Nation and its members ("**PBCN**"). 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. The Statement of Claim does not specify the amount of damages being claimed but during the course of mediation sessions, legal counsel for the plaintiffs have indicated that the claim being advanced on behalf of PBCN 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. HBMS believes the action is statute-barred under the *Limitations* Act Manitoba. Given the number of parties and the early stages of the proceedings, the resolution of the claim 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 an amended statement of defence denying liability to Callinan. Callinan is seeking to amend its Statement of Claim to, among other things, claim additional damages for alleged destruction of documents. The likelihood of success and potential liability of this claim are not reasonably determinable; however, HBMS does not believe that any material liability will result from the action.

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 of the claims with respect to the Fenix project are without merit. In March 2013, we argued 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. In July 2013 the Court dismissed our motions and the actions will now proceed to trial.

Except as noted above, we are not aware of any litigation outstanding, threatened or pending against us as of the date hereof that would reasonably be expected to 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

Since January 1, 2011, 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 TMX Equity Transfer Services 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, which are still in effect:

1. the Precious Metals Purchase Agreement dated August 8, 2012 with Silver Wheaton, whereby we agreed to sell a portion of the precious metals production from our 777 mine to Silver Wheaton. For additional details, refer above to the heading "Development of our Business — Three Year History — Precious Metals Stream Transaction";

2. the Amended and Restated Precious Metals Purchase Agreement dated November 4, 2013 with SW Caymans, whereby we agreed to sell 100% of the silver production and 50% of the gold production from our Constancia project to SW Caymans. For additional details, refer above to the heading "Development of our Business — Three Year History — Precious Metals Stream Transaction";

3. the Indenture dated September 13, 2012 with U.S. Bank National Association, as trustee, governing the Notes as supplemented by the First Supplemental Indenture dated June 20, 2013 and Second Supplemental Indenture dated December 9, 2013. For additional details, refer above to the heading "Development of our Business — Three Year History — Issuance of 9.50% Senior Unsecured Notes"; and

4. the Amended and Restated Credit Facility with the lender's party thereto from time to time and The Bank of Nova Scotia, as

administrative agent, dated as of September 12, 2013, as amended, providing for a four year US$100 million revolving credit facility.

QUALIFIED PERSONS

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 Director, Technical Services. Messrs. Meagher and Carter are Qualified Persons for the purposes of NI 43-101. For a description of the key assumptions, parameters and methods used to estimate mineral reserves and resources, as well as data verification procedures and a general discussion of the extent to which the estimates may be affected by any known environmental, permitting, legal title, taxation, sociopolitical, marketing or other relevant factors, please see the technical reports for each of our properties as filed on SEDAR at www.sedar.com.

INTERESTS 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 LLP are the auditors of Hudbay and are independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario and the Public Company Accounting Oversight Board (United States).

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 April 5, 2013. Additional financial information is provided in our financial statements and management's discussion and analysis for the fiscal year ended December 31, 2013.

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 certain mining terms used in this annual information form.

"**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 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.

SCHEDULE B
MATERIAL MINERAL PROJECTS

777 Mine

Project Description and Location

The 777 mine is an underground copper and zinc mine with significant precious metals credits located in Flin Flon, Manitoba. Unless the context indicates otherwise references to the 777 mine include the 777 North expansion.

We own a 100% interest in the properties that comprise the 777 mine through mineral leases, Order in Council (" **OIC"**) leases and mineral claims in Manitoba and Saskatchewan. The properties cover approximately 3,800 hectares, including approximately 500 hectares in Manitoba and approximately 3,300 hectares in Saskatchewan. Annual lease rental payments are $7,186 and $1,600 to the Manitoba and Saskatchewan governments, respectively, and the annual work expenditure requirement for the Saskatchewan properties is $257,025. Individual leases have different expiry dates that range from 2014 to 2034. Our surface rights and permits are sufficient for purposes of our current mining operations.

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. The closure and remediation liability in respect of the property is estimated at $1,222,121 in January 1, 2010 dollars. 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.

Mineral production from the 777 mine property is subject to a 6 2/3% net profit interest and a $0.25 per short ton royalty pursuant to our agreement with Consolidated Callinan Flin Flon Mines Limited ("**Callinan**").

Precious metals production from the 777 mine is subject to our agreement with Silver Wheaton, as described in this AIF. For additional information, see "Three Year History".

Accessibility, Climate, Local Resources, Infrastructure and Physiography

The 777 mine is located in Flin Flon, Manitoba, which has a population of approximately 6,000 people, and is accessible by paved highway. Flin Flon is the site of our principal concentrator and zinc plant and has well developed access to rail and air transportation. Personnel requirements for our 777 mine and processing facilities are largely drawn from the immediate area.

Electrical power is supplied from the Manitoba Hydro and Saskatchewan Power Corporation power grids, which are fed by three hydroelectric generating stations. No issues are foreseen for securing additional electrical power in the future if required.

Water for mining activities is supplied from a reservoir located adjacent to the 777 mine site and is sufficient for operations.

Tailings from milling are sent to the Paste Backfill Plant located at the lower level of the mill building. Mixed paste backfill is pumped to one of two lined boreholes adjacent to the mill, where paste is gravity fed to 1,082 metre level for distribution to mined out stopes. Tailings not used in paste production are pumped to the Flin Flon Tailings Impoundment System. The FFTIS is located in Saskatchewan approximately 500m to the west of our Flin Flon Metallurgical Complex.

The 777 mine site is 311 metres above sea level. The geographical area has cool summers and very cold winters with a mean annual temperature of 0.6° C. Operating costs in the first and fourth

quarters are typically higher due to additional heating and other seasonal costs. 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

In 1993, 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. By this time, Minorco S.A. had merged with Anglo American Corporation of South Africa to form Anglo American plc ("Anglo American"). In December 2004, we acquired HBMS and the 777 mine from Anglo American.

HBMS took a working option on the 777 property in 1967 from Callinan. In 1988, HBMS acquired Callinan's remaining interest in the property and in return granted Callinan the net profit interest and royalty described above.

Geological Setting

The 777 deposit lies in the western portion of the Paleoproterozoic Flin Flon Greenstone Belt. The Greenstone Belt is interpreted to be comprised of a variety of distinct 1.92 to 1.87Ga 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 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 (which includes the Flin Flon formation).

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 is comprised of the Millrock member, which contains the 777 and Callinan mineralization, and the footwall to it with the Blue Lagoon and Club members.

A complex succession of felsic and basalt-dominated heterolithic volcaniclastic rocks host the Flin Flon Main, Callinan and 777 volcanogenic massive sulphide (VMS) deposits within the Greenstone Belt. The north-trending, VMS-hosting, 30 to 700 metre thick volcanic/volcaniclastic succession is recognized for at least 5 kilometres along strike and has an average dip of 60°E. The volcaniclastic rocks have been interpreted to occupy a volcano-tectonic depression within a basaltic footwall succession.

Exploration

Drilling

Diamond drilling is the only drilling type carried out for the purposes of exploration, ore zone definition and sampling of our 777 mine. The modern 777 drilling program began in the early 2000's and, as at September 30, 2013, a total of 2,069 holes and 287,191 metres had been drilled. All holes, except a geotechnical shaft pilot hole and surface North expansion exploration holes, were drilled from underground by a contractor using AW-34, AQTK, BQ and NQ core sizes. Drill hole spacing along the 777 deposit is generally 30 to 50 metres. Core recovery is near 100% for all holes. Drilling was categorized as definition, exploration, or geotechnical. Geotechnical drilling was completed in areas of planned underground infrastructure to ensure competency.

Standard procedure is that the core is initially logged for lithology then descriptively for grain size, foliation, minor units, alteration minerals and intensity, faults, RQD, joints and contacts. Sample intervals

are determined by both lithology and a visual estimate of the sulphide mineralization. As a general rule, sample intervals are approximately one metre, though the length varies depending on lithology or type of mineralization. It is likely that in no cases were samples taken from intervals less than 10 centimetres in length. However, as many of the assays are historic in nature, several were split when they overlapped lithological boundaries in the resource block model and resulted in sample intervals having lengths as low as one centimetre.

Surveying

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 150 metres 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.

In 2007 a total of 75 kilometres of high resolution 2D seismic profiles as well as a 3D survey covering approximately 10 square kilometres was completed. Results were hampered by the significant challenges posed by the complex crystalline geology of the area, proximity to an active town, active mining operations, and the highly variable terrain.

The survey resulted in a greater understanding of the area geology. Also, the discovery of Zone 33 at the 777 Mine was attributed to this survey as it showed a seismic reflector in the footwall, which was later followed up with drilling and downhole pulsing. Previous downhole geophysical surveys had noted this anomaly, but it was previously discounted as a shadow effect from the 777 Mine.

Mineralization

The 777 and Callinan deposits occur within an east-facing sequence of volcanic rocks documented as tholeiitic and basalt-dominated, and dated around 1888 Ma. The rocks immediately hosting the mineralization, however, consist of quartz-phyric (QP) and quartzfeldspar-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 in what is interpreted to be a lower thrust slice and both limbs have the same stratigraphic sequence. On average the lenses strike at 010° 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 when two or more zones overlap.

There are a total of nine distinct sulphide lenses contained within the 777 deposit. Each of the zones is distinguished based on grade and mineralization type as well as their spatial location. The 777 deposit encompasses an area approximately 1,300m downplunge by 550 metres across and varying in depth from approximately 870 to 1,600 metres below surface. Lenses in general are fairly continuous with the exception of scattered diorite intrusions.

The Callinan deposit is subdivided into two rhyolite horizons termed the East-QP and the West-QP. The East-QP is host to the lenses of the North Zone (northern portion), and the East Zone (southeast portion), and is on the same horizon as the 777 mineralization. The West-QP hosts the South Zone (southwest portion) and its associated lenses. Each of these zones is further subdivided into a number of mineralized lenses. The subdivision of Zones into lenses was based on the spatial distribution of the mineralization. The South Zone lenses generally strikes to the north and dips at 50° to the east with a plunge trending at -50° towards 135°. The North and East Zones generally strike at 020° with a 50° dip to the east with a shallow plunge trending at -30° towards 145°.

There are a total of 20 sulphide lenses contained within the three broad zones of the Callinan deposit. The Callinan mineralization is a distal deposit that has a matrix supported breccia with variable amounts of wallrock fragments in a fine to medium grained sulphide matrix. The wallrock fragments are intensely altered with chlorite, talc and sericite with some degree of pyritization and carbonation. These lenses contain variable amounts of pyrite, sphalerite, chalcopyrite and minor pyrrhotite.

Mineralization is generally medium to coarse grained disseminated to solid sulphides consisting of pyrite, chalcopyrite, sphalerite, pyrrhotite, and magnetite. The principle gangue minerals are chlorite and quartz. Alteration minerals include biotite, epidote and actinolite.

Sampling and Analysis

Sampling Methods

The majority of sample intervals from definition and exploration drilling were whole rock sampled with the core placed in a plastic bag with its unique sample identification tag. Typically when exploration drilling in new areas, all samples are either split or cut in half with a diamond saw.

The bagged samples were placed in either a burlap bag or a plastic pail with a submittal sheet that was prepared by the geologist or technician. Samples were delivered to the Flin Flon assay laboratory, located in the Flin Flon Metallurgical Complex, which is owned and operated by us. Samples are checked by laboratory personnel to ensure that they match the submittal sheet.

The samples were analyzed for the following elements: gold, silver, copper, zinc, lead, iron, arsenic and nickel. Base metal and silver assaying was completed by aqua regia digestion and read by a simultaneous ICP unit. The gold analysis was completed on each sample by AAS after fire assay lead collection. Gold values greater than 10g/t were reassayed using a gravimetric finish. All analytical balances are certified annually by a third party. Check weights are used daily to verify calibration of balances. All metal standards used to make the calibration standards for the AAS and ICP are certified and traceable. Each is received with a certificate of analysis. The Flin Flon assay laboratory was recently certified, in December 2011, to the ISO 9001 quality management system to help ensure it meets our needs as well as those of other stakeholders

A total of 112,732 samples from 3,396 drill holes were submitted to the Flin Flon assay laboratory for analysis as of the date of the most recent technical report. The average length for these sample intervals was 1.62 metres.

Bulk density measurements were taken on 2,982 of the mineralized samples selected for assaying as of the date of the most recent technical report. The measurement methodology consisted of first weighing the core sample in air, then, the sample was suspended in a tub filled with water by a chain on the underside of the scale in such a way that it did not touch the sides of the water-filled tub and the weight of the submerged sample was recorded.

Quality Assurance and Quality Control

As part of our Quality Assurance and Quality Control (QAQC) measures, a portion of the pulp duplicates has been sent to Acme Analytical Laboratories Ltd. (“Acme”) in Vancouver, British Columbia

for comparison and verification purposes since early 2006. Our QAQC measures also involve the use of blank materials, reference standards, internal duplicates, and repeats.

During the drilling programs at 777 a total of four different types of blanks were inserted into the sample stream between early 2000 and September 2011. Blanks were inserted at a rate of 1 for every 20 assays until the fall of 2003, when this was reduced to 1 for every 50 assays as a means of cost reduction. Since our assay laboratory runs batches of 50-60 samples at a time this should place at least one blank in every batch.

The use of reference standards has become increasingly systematic and they are now inserted into the sample stream at every 20th assay interval.

Duplicates are used as a check to verify the repeatability of the assay data. Duplicates are run at our laboratory at a frequency of one in twenty samples, and also at Acme as an independent check. Samples were selected by Acme at a minimum frequency of one sample per every five internal duplicates, which equates to at least one sample per every 100 samples.

Repeats, typically referred to as ‘blinds’, are run on a monthly basis on one sample out of every four or five duplicates that were analyzed during that month. The results are considered an internal independent check on our assay laboratory results.

Data Verification

Examination and mapping of the underground drifting visually confirmed the geology and VMS style of mineralization. As well, the examination of drill core for several holes has also confirmed the mineralization and geology and compared well to underground mapping with drill logs and assays.

A visit was conducted to the 777 core logging and storage area, exploration core storage facility, and our assay facility and each was deemed to be secure and in reasonable condition. In addition, the qualified person has had several discussions with current and former geologists as well as other personnel that have worked at the deposit to verify various details of the mining, infrastructure, geology, drilling and sampling.

Full verification of the data was not able to be completed as a small portion of the data from the Callinan portion of the deposit is considered historic in nature.

Security of Samples

For security purposes, all sample preparation, splitting, handling, and storage was in the control of our personnel at all times in accordance with then applicable chain of custody policies which were consistent with industry standards at the time. We implemented a documented full chain of custody procedure in August 2011. 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 shack and is consistent with the current industry standards.

Mineral Resource and Mineral Reserve Estimates

Mineral Resources

Mineral resources were separated into the 777 and Callinan portions of the deposit. This was done for mining and planning purposes as the Callinan lenses represent the upper, and more historic, portion of the mineralization and the 777 zones represent the lower more recently drilled and identified mineralization. The interpreted lenses of the 777 zones and certain Callinan lenses were built by digitizing polylines around the mineralization. Polylines were then linked with tag strings and triangulated in order to create three dimensional wireframe solids. The remainder of the mineralization was interpreted by

digitizing polylines in a 2D plane around mineralized intercepts. The average strike and dip of the zone was estimated and utilized to calculate the horizontal width of the mineralization for both the 2D Gridded Seam Model and the polygonal interpretations.

The mineral resource estimate, effective as of a September 30, 2013 cut-off date for diamond drilling, was completed using MineSight 6.5 software in mine coordinates, and for the Callinan lenses, the current version of MineSight at the time of estimation. The block model was constrained by interpreted 3D wireframes of the mineralization. Gold, silver, copper, zinc, iron, specific gravity and in some cases dilution variables and horizontal width were estimated into blocks using either ordinary kriging or relative co-ordinate kriging for most lenses. Lens intersections were generally selected based on a metal grade of greater than 1% copper or 2.5% zinc, or a combination thereof. Intersections were modelled as low as 0.3m to provide additional information for statistical and mine planning purposes.

A zinc or copper equivalency was not used in the determination of the resource.

Mineral Reserves

Mining, processing and economic parameters were applied to the block model to form the basis of the reserve estimate with an effective date of January 1, 2014. The measured resources were used to estimate the proven mineral reserves and the indicated resources were used to estimate the probable mineral reserves. For mining purposes, there are eight active mining areas in the mine to allow for a blended product with the end goal to send a blended grade to the mill. Mining methods were established for each mining area and a net smelter return (NSR) was calculated to determine the economic viability. NSR revenues were calculated for each mining area comprised of blocks from the block model assuming metallurgical recoveries and long term metals prices. To determine the economic viability and NSR margin of each mining block, onsite operating costs, capital development and offsite costs were estimated and applied against copper and zinc concentrate produced for each mining block. The final step of the reserving process involved developing an annualized life-of-mine production plan and supporting cash flow analysis to determine the mineral reserves.

Reconciliation of Reserves and Resources

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

777 Mine		
Mineral Reserve Reconciliation (Proven & Probable)		**tonnes[1]**
A	2013 Mineral Reserve	11,407,000
B	2013 Production (from Reserves)	1,542,000
C	(A - B)	9,865,000
D	Geology[2] Gain/(Loss)	449,000
E	Mine Planning[3] Gain/(Loss)	449,000
F	Economics[4] Gain/(Loss)	(162,000)
G	(D + E + F)	736,000
H	2014 Mineral Reserve (C + G)	10,600,000

[1]Totals may not add up correctly due to rounding
[2]Geology - diamond drilling, interpretation, estimation (interpolation parameters)
[3]Mine Planning - resultant change of mine plan design, dilution and recovery
[4]Economics - mine operating and capital, commodity price and CDN$/US$ exchange, concentrating, TC/RC, freight

777 Mine		
Mineral Resource Reconciliation (Inferred)		**tonnes[1]**
I	2013 Mineral Resource	782,000
J	2014 Mineral Resource	784,000
K	(J - I)	2,000

[1]Totals may not add up correctly due to rounding

Mining Operations

The 777 mine is a multi-lens orebody with shaft access down to the 1508 metre level. The mine consists of an internal ramp that provides access to each mining level. Mobile tired diesel equipment is utilized. Load haul dump (LHD) units vary from 6.1m^3 to 7.6m^3. Trucks are 40 to 50 ton units feeding an ore pass system or direct to rock-breakers which feed an underground crusher and ore is skipped to surface via the shaft.

Long-hole open stope is the mining method used at the 777 mine. Primary stopes are mined and filled with paste backfill, while secondary stopes are mined and filled with unconsolidated loose waste rock. Long-hole stopes are mined at 15 metre to 17 metre vertical sill to sill intervals. Stope strike lengths are generally 16 metres with widths of 2 to 100 metres, with an average of approximately 20 metres. The ore is undercut at the top and bottom of the block, providing access for drilling and mucking. Drilling is done by top hammer long-hole drills with holes varying in length between 10 metres and 20 metres long and a hole diameter of 3 inches. Mucking is accomplished by remote LHD units and then loaded to haul trucks.

Retreat long-hole open stope and cut and fill are the mining methods planned for the 777 North expansion. Long-hole stopes will be mined using a similar method as at 777 mine.

Ore at 777 mine is loaded by LHDs to underground haul trucks, which dump to a series of ore passes that feed three chutes on 1412 metre level. Haul trucks are loaded from the chutes and haul the ore on the 1412 metre level haulage drift directly to the ore grizzly / rock-breaker at 1412 metres to properly size the muck. The ore is temporarily stored in a 1,725 tonne coarse ore bin that feeds the crusher. From the crusher it is conveyed to a 1,600 tonne fine ore bin, where it is conveyed to a loading pocket at the 1508 metre level and placed into two 15 tonne skips and hoisted to surface. The ore on surface is hauled by 53 to 63 tonne haulage trucks directly to the Flin Flon concentrator or is dumped on a stockpile close to the concentrator.

Ore from 777 North expansion is loaded onto haul trucks by LHDs and transported up the ramp to surface. The ore is dumped on the ground prior to being sent through a surface crusher operated by a contractor. The ore is then loaded and transported for processing at the Flin Flon concentrator or stockpiled nearby.

Our Flin Flon concentrator processes 777 ore into copper and zinc concentrates. 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”.

Current production rates are expected to be approximately 4,000 tonnes per day for the 777 mine and 330 tonnes per day at the 777 North expansion based on 363 days of production per year. This yields an expected mine life through to 2020 for the 777 mine, while 777 North expansion is expected to end production mid-2018. Production from 777 is subject to federal and provincial income taxes, as well as the Manitoba mining tax. The combined federal and provincial tax rates are assumed to be approximately 27% for the life of the mine.

The 777 mine has been in commercial production since 2004 and the original project capital has already been paid back and ongoing capital is defined as sustaining capital.

Exploration and Development

2011 marked the first year that a concentrated effort on exploration drilling was conducted from underground at the 777 mine. Much of the drilling to that date had been focused on converting resources to reserves. In excess of 108,000 metres of underground exploration drilling has been drilled at the 777 mine targeting additional resources in the hanging wall, footwall, along strike and in upgrading inferred resources. Significant knowledge was gained on the stratigraphy and the focus for 2014 is to test the mine horizon north of the deposit with a budget of 24,000 metres of exploration drilling.

Lalor Project

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 kilometres by road east of Flin Flon, Manitoba of which 197 kilometres is paved highway.

We own a 100% interest in the property through nine mineral leases that total approximately 947 hectares with annual rental payments payable to the Manitoba government of $10,040. The mineral leases terminate in April and September of 2023 and March of 2033. 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 $1,212 and are sufficient for purposes of our development plans.

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 recently closed 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 underground development permitted under the Lalor AEP and Lalor mine is deposited into and stored in the Chisel Open Pit mine. Mine discharge water from the Lalor mine is treated in the Chisel WTP along with water from the Chisel Open Pit.

We operate a mine water pump station at the north end of Chisel Lake approximately eight kilometres from Lalor. In addition, we 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 is being transmitted at 25 kV from the Lalor substation located at the Chisel North minesite via 4 km 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. 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 and there is a 198 person temporary construction camp 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 75 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 metres and 826.87 metres (45.13 metres). 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.

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 personnel. 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 type of drilling carried out at Lalor. Definition drilling is ongoing for purposes of mine planning and exploration drilling near the deposit has been deferred until we have underground access, which is expected in late 2014.

As of September 30, 2013, 121 parent and 101 wedge holes, amounting to 198,399 metres of drilling, was completed from surface. A further 330 holes for 29,586 metres of definition drilling was completed from underground.

All diamond drilling completed from surface or underground retrieved 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.

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 semi-conformable 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

During the surface exploration drill program, bagged samples were delivered to our Flin Flon assay laboratory and after preparation the pulp samples are delivered to Acme for analysis. A total of 66,038 samples from 119 parent holes and 98 wedges were submitted for assay and analysis. Sampling methods are substantially the same as those used at our 777 mine, as described above.

The current underground definition drilling samples are bagged and delivered to our Flin Flon assay laboratory for SG analysis, crushing and pulping, and assay analysis. A total of 27,684 samples from 326 definition holes were submitted for assay and analysis.

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 Estimates

The mineral resource estimate, effective as of a September 30, 2013 cut-off date for diamond drilling, for the zinc rich base metal, gold and copper-gold zones was completed using MineSight 6.5 block modeling software in UTM NAD83 coordinates.

The zinc rich base metal mineralized zones were constrained by interpreted 3D wireframes in the block model. 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 mineralized zones were constrained by interpreted 3D wireframes in the block model. 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

Mining, processing and economic parameters were applied to the block model to form the basis of the reserve estimate with an effective date of January 1, 2014. The measured resources were used to estimate the proven mineral reserves and the indicated resources were used to estimate the probable mineral reserves. Mining methods were established for each mining area and an NSR was calculated to determine the economic viability. NSR revenues were calculated for each mining area comprised of blocks from the block model assuming metallurgical recoveries and long term metals prices. To determine the economic viability and NSR margin of each mining block, onsite operating costs, capital development and offsite costs were estimated and applied against copper bulk and zinc concentrate produced for each mining block. The final step of the reserve process involved developing an annualized life of mine production plan and supporting cash flow analysis to determine the Lalor mineral reserves.

Reconciliation of Reserves and Resources

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

Lalor Project Mineral Reserve Reconciliation (Proven & Probable)		tonnes[1]
A	2013 Mineral Reserve	15,071,000
B	2013 Production (from Reserves)	304,000
C	(A - B)	14,767,000
D	Geology[2] Gain/(Loss)	405,000
E	Mine Planning[3] Gain/(Loss)	209,000
F	Economics[4] Gain/(Loss)	(185,000)
G	(D + E + F)	429,000
H	2014 Mineral Reserve (C + G)	15,196,000

[1]Totals may not add up correctly due to rounding
[2]Geology - diamond drilling, interpretation, estimation (interpolation parameters)
[3]Mine Planning - resultant change of mine plan design, dilution and recovery
[4]Economics - mine operating and capital, commodity price and CDN$/US$ exchange, concentrating, TC/RC, freight

Lalor Project Mineral Resource Reconciliation (Inferred)		tonnes[1]
I	2013 Mineral Resource	11,990,000
J	2014 Mineral Resource	10,113,000
K	(J - I)	(1,877,000)

[1]Totals may not add up correctly due to rounding

Mining Operations

Mine Planning

The economic analysis in the most recent technical report for the Lalor project was based on underground mining of 14.4 million tonnes of probable reserves and excludes the inferred resources. It contemplated a mine life of 15 years and an expected payback of project capital, based only on such probable reserves and the capital cost estimate at the time, in 2023.

The revised capital cost estimate for the project is based on our plan to develop the entire Lalor deposit. We are currently working on a revised mine plan to determine whether there are opportunities to optimize our expected ore production rate of 4,500 tonnes per day to better match the potential production shaft and concentrator grinding capacities.

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 surface stockpile. The stockpile will feed a SAG mill and ball mill combination that has design capacity at 5,400

tonnes per day. The recovery process will be normal floatation producing a copper bulk concentrate and a zinc concentrate. The remaining tails will either provide feed to the paste plant or be sent to the Anderson Lake tailings impoundment area. Concentrates

will be shipped to Flin Flon where the zinc concentrates are processed at our zinc plant and copper bulk 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 complete to the designed planned vertical depth of 985 metres, with the steel guide installation currently underway.

First production from the production shaft is still projected to be on schedule for mid-2014. Prior to completion of the new concentrator, production from the production shaft will be processed at the Snow Lake concentrator.

Permitting and Environmental

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 via the main production shaft from the gold and copper-gold zones for metallurgical testing. Current production via the ventilation shaft is permitted pursuant to the licence for the Chisel North mine.

In March 2014, we received the Environment Act Licence (EAL) for the Lalor mine which allows the mine to move into full production and approves usage of the Sewage Treatment Plant. In addition, an EAL is required for the new Lalor concentrator. The application was submitted in May 2013.

Improvements to the Anderson TIA will commence after the Notice of Alteration of its existing licence submitted to the regulatory authorities is approved.

A closure plan and financial assurance is currently in place for the Lalor AEP and will be updated for the Lalor mine as a requirement of the EAL. Closure plans and financial assurance for demolition and remediation will be developed as part of other EALs for the changes to the overall impact that the Lalor project will have on our operations in the Snow Lake area.

Exploration and Development

Underground project development is advancing alongside mine production. In 2013, we mined 400,590 tonnes of ore via the ventilation shaft at Lalor that was trucked to the Snow Lake concentrator for processing.

Underground project developed advanced in 2013, with the completion of the 955 metre level load out facility and shaft bottom access. The Lalor production shaft is complete to the planned vertical depth of 985 metres and the steel guide installation is underway. First production from the production shaft is still projected to be on schedule for mid-2014. Underground construction on the ore and waste handling systems and main dewatering is proceeding on schedule. We have now completed the final engineering for the surface exhaust fan installation which will be built after the main ventilation shaft hoist is dismantled. We have completed the final planning for the office/changehouse and final site layout.

Constancia Project

Property Description and Location

We currently hold a 100% interest in the Constancia project in southern Peru. The Constancia project includes the Constancia and Pampacancha deposits and is located 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.

We acquired the Constancia project in March 2011 through our acquisition of all of the outstanding shares of Norsemont. We own a 100% interest in the 36 mining concessions (covering an area of 22,516 hectares) that comprise the Constancia project, all of which are duly registered in the name of our wholly-owned subsidiary, HudBay Peru S.A.C.; HudBay Peru S.A.C. also has the required

surface rights to develop the Constancia project. 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. All the mining 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 permits required for construction, including the ESIA and principal beneficiation concession, are now in place. The key permit required for operation is the mine permit. The mine permit was fully approved in December 2012 and we expect to receive other required permits in the ordinary course.

The Constancia project is subject to the following taxes, royalties and other agreements concerning mineral production:

Peruvian Tax Regime

The Constancia project is subject to the Peruvian tax regime, which includes the mining tax, mining royalty, 8% labour participation, corporate tax and IGV/VAT. The Special Mining Tax (SMT) and the Mining Royalty (MR) are recently introduced taxes (late-2011) for companies in the mineral extractive industries. Both the SMT and the MR are applicable to mining operating income based on a sliding scale with

progressive marginal rates. The effective tax rate is calculated according to the operating profit margin of the company. Based on Constancia's expected life-of-mine operating profit margin, the effective SMT and MR tax rates are projected to be 2.70% and 2.37% of operating income over the life of the project. The MR is subject to a minimum of 1% of sales during a given month.

Precious Metals Stream Agreement

100% of the Constancia project's silver production and 50% of its gold production is subject to our agreement with Silver Wheaton, as described in this AIF.

Legacy NSR

We will be required to pay a net smelter return royalty (NSR) of 0.5% to a maximum of US$10.0 million to the previous owners of the property.

Accessibility, Climate, Local Resources, Infrastructure and Physiography

The Constancia project 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 closest town is Yauri (population 23,000), which is approximately 80 kilometres by road from the project site. The road to Yauri (in the general vicinity of Xstrata's Tintaya and Antapaccay mines) is expected to be upgraded in time to meet the construction and life-of-mine transportation requirements of the project. Copper concentrate is expected to be transported via Yauri to the Matarani port, which is approximately 460 kilometres by road from the project site.

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. Water resources

are readily available from a number of year-round streams near the project site.

The Constancia project's maximum demand for electricity is estimated to be 96 MW with an average load of 85 to 90 MW in the first 5 years. It is expected that sufficient electricity will be available at the new 220 kV Tintaya substation (planned to be in operation in mid-2013) located about 70 kilometres from the mine site and we have executed a contract for integrated services to bring power from this substation to the Constancia project.

Other project infrastructure includes the tailings management facility, waste rock facility and water management systems.

We have entered into life-of-mine agreements with the neighbouring communities of Chilloroya and Uchuccarco. These agreements provide us the surface rights required for project construction and operations and specify our 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.

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.

History

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.Pursuant to the option agreement, in March, 2008 Norsemont acquired 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") and 23 additional concessions were obtained by Norsemont in 2007 and 2008.

The San Jose prospect (which forms part of the Constancia deposit) was explored by Mitsui during the 1980s. 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 widespread 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 deposit is a porphyry copper-molybdenum system which includes copper-bearing skarn mineralisation. This type of mineralisation is common in the Yauri-Andahuaylas metallogenic belt where several porphyry Cu-Mo-Au prospects have been described but not exploited. Multiple phases of monzonite and monzonite porphyry have intruded a sequence of sandstones, mudstones and micritic limestone of Cretaceous age. Structural deformation has played a significant role in preparing and

localising the hydrothermal alteration and copper-molybdenum-silver-gold mineralisation, including skarn formation.

The Pampacancha deposit is a porphyry related skarn system, with copper-bearing skarn mineralization. This type of mineralisation is common in the Yauri-Andahuaylas metallogenic belt where several skarn deposits have been developed, including Corocohuayco in the Tintaya District and Las Bambas.

Exploration and Drilling

Exploration is ongoing in the Constancia project area and is focused on the following:

Surface mapping and sampling

From 2007 to 2011, 11,444 hectares were mapped in the Constancia project area. Of this, 8,905 hectares were mapped on our mining concessions, which represents 39% of our mining rights in the area. Additionally, 2,595 rock samples and 41 stream sediments samples were collected during this period.

Geophysical data

An in-house interpretation of the geophysical data along with interpretation of available surface mapping and rock and stream sediment geochemistry helped identify several targets within the project area. The most important ones are the anomalies associated with the Pampacancha deposit, the chargeability-magnetic anomalies observed in the Chilloroya South prospect and the chargeability anomalies located in Uchuccarco, at 3.8 kilometres northeast of the Constancia porphyry. In addition, a Titan-24 DC-IP-MT survey was completed in July 2011 to the south of the Constancia deposit. In late 2013, an aeromag and radiometric helicopter geophysical survey was carried out over an area of 80 square kilometres near Constancia.

Exploration targets and drilling

During 2013, no drilling activities were performed at the Constancia orebody deposit, instead drilling was mainly focused in the Pampacancha West , a group of geophysical anomalies located approximately 2 kilometres west of the Pampacancha Main orebody skarn.

Pampacancha West shows several massive magnetite skarn outcrops with copper oxides mineralization in the area and chargeability anomalies in the Titan Lines. Also encouraging results from the drilling campaign (hole PR-10-22 intercepted mineralization near surface, first 42 meters with 0.82% CuEq) will support the need for further exploration to identify mineralization near surface.

Sixteen holes were drilled in these groups of anomalies representing approximately 4,200 metres as at December 31, 2013. In addition, one drill hole was completed in the Limestone replacement area, representing approximately 232 meters with slightly positive results for future evaluation and further review. The geophysical anomaly immediately west of the Constancia pit was not fully tested. The opportunity remains to pierce through the faulted structure utilizing a more suitable drill rig.

Closure and Remediation activities were carried out during 2013 as well; sixty five platforms and approximately six kilometers of access were remediated (equivalent to a 95% of the total remediation work).

Mineralization

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.

Two areas of porphyry-style mineralisation are known within the project area, Constancia and San José. At Constancia, mineralisation is deeper than that observed at San José which occurs at surface. The mineralized zone extends about 1,200 metres in the north-south direction and 800 metres in the east-west direction.

The Pampacancha deposit is located approximately 3 kilometres southeast of the Constancia porphyry. The stratigraphy unit in the area is the massive, gray micritic limestone of Upper Cretaceous Ferrobamba Formation; this unit in contact with the dioritic porphyry generate a magnetite skarn, hosts economic mineralization of Cu-Au-Mo.

The intrusive rocks are Oligocene age unmineralized basement diorite. Diorite porphyry is recognized as the source for skarn mineralisation, which in turn is cut by mineralized monzonite intrusions which provide minor local increases in Cu-Au mineralisation. Skarn Cu-Au mineralisation is best developed at the upper and lower margins of the limestone body. Prograde magnetite-chalcopyrite-pyrite skarn grades are marginally well mineralized garnet and pyroxene skarn which are locally overprinted by epidote-bearing retrograde skarn.

Epithermal mineralisation of the low sulphidation quartz-sulphide Au + Cu style, accounts for common supergene enriched Au anomalies, and along with other features such as hydrothermal alteration and veins typical of near porphyry settings.

Sampling and Analysis and Security of Samples

The sample preparation, analysis, security procedures and data verification processes used in the exploration campaigns on the Constancia project prior to our acquisition were reviewed through the documentation available in previously filed technical reports and we have been determined that the sampling methodology, analyses, security measures and data verification processes were adequate for the compilation of data at Constancia and Pampacancha and such processes continue to be used by us.

Constancia

At Constancia, a total of 1,247 bulk density measurements were taken by ALS Chemex from 145 drill holes using the paraffin wax coat method. Samples for density measurement in each major rock unit were extracted at approximately 50 metre intervals. Sample preparation and assaying used for the resource estimate in Norsemont's 2009 Definitive Feasibility Study was done by ALS Chemex. In July 2008, the primary lab was changed to SGS del Peru ("SGS") in Lima. Samples were prepared and analyzed using standard procedures, including Fire Assay (for gold) and Inductively Coupled Plasma — Atomic Emission Spectroscopy and Atomic Absorption Spectrophotometry (for other elements). All samples with copper values above 0.2% were analyzed by a Sequential Copper Method (although sequential copper data was not available for Rio Tinto's exploration campaign).

All lithological, alteration, geotechnical and mineralization data was logged on paper logs that were later entered in spreadsheets from where they were imported into the database. It was noted that the data entry spreadsheets had a number of built-in logical checks to improve the validity of the database. As was mentioned in Norsemont's 2009 Definitive Feasibility Study, the geological and sample data was verified by a senior geologist before importing into a database.

Assay data was delivered in digital form by the main laboratory. Checks for inconsistent values were made by the senior geologist before data was uploaded.

We checked collar positions visually on plans for correctness in the data entry. Down-hole surveys were checked by examining coarse changes in the variables. Check runs were at regular intervals to check consistency of the drilling data.

Discrepancies were not identified between the log data and assay certificates and the drill hole database of text files used for the mineral resource estimate.

The quality control protocol during Norsemont's Constancia exploration campaigns from 2006 to 2010 included the insertion of the following control samples in the sample batches:

- Twin samples (Core) or field duplicates (RC): one in 20 samples.
- Certified Reference Materials (CRMs): one in 20 samples; four CRMs are inserted in alternate order.
- Blanks: one in 20 samples.

The twin samples, field duplicates, coarse blanks and CRMs were inserted on the drill site prior to submission to the laboratory and Acme acted as secondary laboratory for the 2006 and part of the 2007 campaigns to check samples.

Pampacancha

A total of 56 bulk density measurements were taken from actual core at the Pampacancha deposit. The density measurements were conducted by ALS Chemex and are representative of the different rock and mineralization domains recognized to date.

All samples were sent to SGS for preparation and assaying. The SGS laboratory conforms to ISO/IEC 17025 and ISO 9002 standards and all samples were analyzed through Inductively Coupled Plasma — Atomic Emission Spectrometry after multi-acid digestion and gold was determined by fire assay with Atomic Absorption Spectroscopy.

During the drilling, blanks were inserted into the sample stream as per geologist instruction at approximate intervals of every 30 samples. Standard references were prepared with material obtained from the Pampacancha deposit by us and were analyzed and certified by Acme labs. As part of the Pampacancha drilling, duplicates were obtained by splitting half core samples, obtaining two quarter core sub-samples, one quarter representing the original sample and the other quarter representing the duplicate sample.

We submitted a total of 26,927 samples from 175drill holes to SGS's laboratory for analysis. In addition to these samples, 471 blanks, 336 reference standards and 486 duplicates were submitted.

- Blanks: During the drilling, blanks were inserted into the sample stream as per geologist instruction at approximate intervals of every 30 samples.

- Reference Standards: The reference standards certified by Acme labs were assayed by SGS. Of the 336 copper standards submitted for assaying, 124 of the assays fell outside the lower standard deviation indicating possible sub-estimation of copper content.

- Duplicates: The geologist routinely inserted duplicate core samples to check the homogeneity of the mineralization and sampling precision; duplicates were inserted approximately every 30 samples.

An internal validation of the drill hole database against the original drill logs and assay certificate information was carried out by us. The validation included 100% of the assay values from the

Pampacancha drilling. No significant discrepancies existed within the database and it is believed to be accurate and suitable for mineral resource estimation.

Mineral Resource and Mineral Reserve Estimates

Mineral Resources

Constancia

The Constancia mineral resource estimate was updated by Hudbay Peru. The mineral resource estimate updated a previous estimate done by AMEC and GRD Minproc as part of Norsemont's 2009 Definitive Feasibility Study.

Resource estimation for Constancia was based on integrated geological and assay interpretations of information recorded from diamond core logging and assaying and is comprised of following key steps: Exploratory Data Analysis, Modelling (Composites, variography and Interpolation) and Validations. A total of 161,110 metres (554 holes) had been drilled at the time of the resource estimate.

The Constancia geological model is comprised of six lithology domains and five mineralization type zones. The mineralization type zones are: leached, oxide, supergene, mixed and hypogene material. The mineralization type model is based on logged codes, which have been checked against the sequential leach copper assay values.

Statistical analyses were performed by lithology type and mineralization type zone and were used to develop estimation domains.

In terms of resources categorization, the drill hole spacing analysis results indicate that a drilling spacing of 50 metres by 50 metres could be used to classify material as measured resources and drilling spacing of 80 metres by 80 metres could be used to classify material as Indicated resources.

Pampacancha

The Pampacancha mineral resource estimate was developed by our Geology Team under the direction of Robert Carter, P. Eng. Director, Technical Services. The estimate has been approved by Cashel Meagher, P. Geo., Vice President, South America Business Unit, a qualified person under NI 43-101.

The Pampacancha deposit was first drilled by Norsemont in 2008 and continued to be drilled by us after we acquired Norsemont in 2011. A total of 140 holes (38,239 metres) were used in the resource calculation with 11 of those being derived from reverse circulation drilling and the remaining 129 from HQ diameter diamond drilling. All holes were drilled from surface by Geotec. Core recovery was near 100% for all holes.

The drilling results were used to enable the preparation of a 3D geological interpretation and estimation of mineral resources. The database for the drill hole data utilised was maintained in Access spreadsheets and was validated by us in order to identify possible errors and compatibility to the assay certificates. We determined that the skarn mineralisation hosts the majority of the copper and the resource estimation was completed only for the skarn.

The mineral resource was estimated by ordinary kriging interpolation.

Mineral Reserves

The Constancia mineral reserve estimate as at January 1, 2014 consists of an analysis of the potential to increase the life of mine (LOM) of the Constancia and Pampacancha pits. This analysis is

based on the optimization of economic parameters, such as metal prices, which results in the mineral reserves increase for Constancia and Pampacancha deposits. In addition, the opportunity to expand the main mine facilities storage capacity, such as Tailings Management Facility (TMF) and Waste Rock Facility (WRF), takes part in this mineral reserves increase as well, considered as opportunity in terms of engineering.

This mineral reserve estimate has been determined and reported in accordance with NI 43-101 and the classifications adopted by CIM Council in November 2010. NI 43-101 defines a Mineral Reserve as “the economically mineable part of measured and indicated mineral resources”.

Proven and probable reserves have continued to grow at Constancia and Pampacancha to 620 million tonnes at a copper equivalent grade of 0.43% supporting a 22 year mine life. The mine plan is such that the process plant is expected to operate to the capacity of the grinding circuit throughout LOM. The plant is expected to process 29 Mt /a (84,500 t/d at 94% availability) of ore. Concentrate production rates average 328,000 t/a over LOM. Pampacancha is planned to be mined between 2016 and 2019.

The mine production plan contains 674 Mt of waste and 620 Mt of ore, yielding a waste to ore stripping ratio of 1.1 to 1. An average LOM mining rate of 60 Mt/a, with a maximum of 76 Mt/a, will be required to provide the assumed nominal process feed rate of approximately 29 Mt/a. The ore production schedule for the project shows average grades of 0.32% Cu, 0.009% Mo, 0.06 g/t Au and 3.1 g/t Ag.

The Block Models used for the mineral reserve estimate for Constancia and Pampacancha are based on the original mineral resource estimate described above under “Mineral Resources”. The Selective Mining Unit (SMU) in each of the original resource models was re-blocked from 10x10x15 meters to 20x20x15 meters for Constancia and from 10x10x15 meters to 20x20x15 meters for Pampacancha. The regularized models which were created to simulate the actual mining practice by regularizing the SMU block sizes were considered a diluted model (the resulting dilution was approximately 2% in the Constancia deposit and 7.5% in the Pampacancha deposit). Neither internal nor external dilution was added to the block models during the Mineral Reserve Estimation.

The regularized models which were created to simulate the actual mining practice by regularizing the SMU block sizes were considered a diluted model (the resulting dilution applied is approximately 2% in the Constancia deposit and 7.5% in the Pampacancha deposit) and no internal nor external dilution was added to the block models during the Mineral Reserve Estimation.

The Qualified Person, Cashel Meagher, concluded that smoothing within the block model provided sufficient dilution and accounted for potential mine losses.

Reconciliation of Reserves and Resources

A year over year reconciliation of our estimated mineral reserves and resources at Constancia and Pampacancha is set out below.

Constancia Mineral Reserve Reconciliation (Proven & Probable)		tonnes[1]
A	2013 Mineral Reserve	403,000,000
B	2013 Production (from Reserves)	-
C	(A - B)	403,000,000
D	Economics[2] Gain/(Loss)	67,000,000
E	Mine Planning[3] Gain/(Loss)	107,000,000
F	(D + E)	174,000,000
G	2014 Mineral Reserve (C + F)	577,000,000

[1]Tonnes may not add up correctly due to rounding

[2]Economics - primarily due to commodity price adjustment

[3]Mine Planning - primarily due to tailings facility expansion and conversion of tonnes of resource to reserve

Constancia Mineral Resource Reconciliation (Measured & Indicated)		tonnes[1]
H	2013 Mineral Resource (Measured & Indicated)	463,000,000
I	2014 Mineral Resource (Measured & Indicated)	361,000,000
J	(I - H) Gain/(Loss)	(102,000,000)

[1]Tonnes may not add up correctly due to rounding

Constancia Mineral Resource Reconciliation (Inferred)		tonnes[1]
K	2013 Mineral Resource (Inferred)	219,000,000
L	2014 Mineral Resource (Inferred)	200,000,000
M	(L - K) Gain/(Loss)	(19,000,000)

[1]Tonnes may not add up correctly due to rounding

Pampacancha Mineral Reserve Reconciliation (Proven & Probable)		tonnes[1]
A	2013 Mineral Reserve	47,000,000
B	2013 Production (from Reserves)	-
C	(A - B)	47,000,000
D	Geology[2] Gain/(Loss)	(4,000,000)
E	2014 Mineral Reserve (C + D)	43,000,000

[1]Tonnes may not add up correctly due to rounding

[2]Geology - diamond drilling, interpretation, estimation (interpolation parameters)

Pampacancha Mineral Resource Reconciliation (Measured & Indicated)		tonnes[1]
F	2013 Mineral Resource (Measured & Indicated)	-
G	2014 Mineral Resource (Measured & Indicated)	11,000,000
H	(G - F) Gain/(Loss)	11,000,000

[1]Tonnes may not add up correctly due to rounding

Pampacancha Mineral Resource Reconciliation (Inferred)		tonnes[1]
I	2013 Mineral Resource (Inferred)	4,000,000
J	2014 Mineral Resource (Inferred)	-
K	(J - I) Gain/(Loss)	(4,000,000)

[1]Tonnes may not add up correctly due to rounding

Mining Operations

The primary consideration to accommodate the increased Constancia mineral reserve in the LOM was the confirmation through pre-feasibility investigation to increase the tailings dam height to accommodate this extra tonnage and the waste rock facility configuration. The resulting LOM has increased to 22 years from 16 years. In this process some of the major cost components have been updated to reflect some known actual costs such as energy, fuel, concentrate transport and port charges. The resulting change is an average cost of US$0.72 per pound of copper produced net of by product credits from a previously disclosed US$0.66 per pound of copper in the first full five years of production. Contained copper metal in concentrate is expected to average 116,000 tonnes per year over the first five full years versus 118,000 tonnes as previously disclosed. Over the remaining years, the cost per pound of copper net of by product credits has increased to US$1.14 per pound from US$1.11 per pound; and the contained copper metal in concentrate is expected to average 67,000 tonnes per year versus 77,000 tonnes per year as previously disclosed. The cost per pound of copper net of by product credits does not include the impact of the precious metals streaming transactions.

The Constancia project is a traditional open pit shovel/truck operation with two deposits, Constancia and Pampacancha. The project consists of open pit mining and flotation of sulphide minerals to produce commercial grade concentrates of copper and molybdenum. Silver and a small quantity of payable gold will report to the copper concentrate. The Pampacancha deposit exhibits higher grades of copper and gold and is scheduled to enter into production during 2016.

The Constancia ultimate pit will measure approximately 1.8 kilometres east to west, 1.6 kilometres north to south, and have a maximum depth of approximately 600 metres. The Pampacancha ultimate pit will measure approximately 0.6 kilometres east to west, 1 kilometre north to south, and have a maximum depth of approximately 300 metres. There will be one primary waste rock facility, which is located to the south of the Constancia pit and is intended to be used for both deposits. The processing facility will be located approximately 1 kilometre west of the Constancia pit, while the tailings management facility (TMF) will be located approximately 3.5 kilometres southwest of the Constancia pit.

Feed stockpiled during the pre-stripping period will be processed during the first year of plant production. The priority plant feed will enable the opportunity of maximizing the net value. The low grade material will be fed as needed and will otherwise be sent to the waste rock facility.

The processing plant is designed to process 76,000 tpd of ore (25.33 Mtpa at 91.3% plant availability) from the Constancia and San José ore bodies. In early 2012, Ausenco reviewed the processing plant and ancillary equipment design, resulting in the potential capacity moving from the originally designed throughput of 76,000 tpd at 91.3% availability to 85,000 tpd at 94% availability. This increased capacity is expected to require very little additional capital.

Annual concentrate production rates are expected to ramp up from 357,000 tpa in the first four quarters of production to a peak of 450,000 tpa in Year 3. Production then drops to around 270,000 tpa until Year 9, after which it falls to 240,000 tpa until mine closure in Year 22.

The primary crusher, belt conveyors, thickeners, tanks, pebble crushers, flotation cells, mills and various other types of equipment will be located outdoors without buildings or enclosures. To facilitate the appropriate level of operation and maintenance, molybdenum concentrate bagging plant, copper concentrate filters and concentrate storage will be housed in clad structural steel buildings.

The processing plant has been laid out in accordance with established good engineering practice for traditional grinding and flotation plants. The major objective is to make the best possible use of the natural ground contours to minimise pumping requirements by using gravity flows and also to reduce the height of steel structures.

Development

Detailed engineering and procurement were substantially completed during 2013, with only minor process controls and final contracts outstanding. As of the end of February 2014, the project was over 67% complete on a proportion spent basis; of the revised US$1.7 billion budget, we had incurred approximately US$1.15 billion in costs and had entered into an additional US$250 million in commitments as at that date. The project schedule contemplates initial production in late 2014 and full production in the second quarter of 2015.

Exploration

Currently there are no drilling activities underway with respect to exploration at Constancia. Through the balance of this year our intent is to drill some geophysical anomalies within 1.5 km west of the Constancia pit. Our regional geophysical survey for aeromag and radiometrics has yielded some interesting anomalies which we are reviewing for future target considerations.

HUDBAY MINERALS INC.
(the "**Company**")

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 appointment, independence and performance of the Company's head of the internal audit function,
- 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 among the independent auditor, the internal audit function, 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 or the internal audit function regarding financial reporting) for the purpose of preparing audit reports or performing other audit, review or attest services for the Company. Also, the Audit Committee is directly responsible for the approval of the appointment and retention (and termination) and the oversight of the work of the internal audit function.

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, the performance and independence of the Company's internal audit function 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*.

[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.

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.

- 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.

Internal Audit Function

The Audit Committee shall:

- Approve the appointment and, if appropriate, the termination of the head of the internal audit function.
- Obtain confirmation from the head of the internal audit function that he or she is ultimately accountable, and will report directly, to the Audit Committee.
- Oversee the work of the internal audit function, including the resolution of any disagreements between senior management and the internal audit function.
- Approve the internal audit function annual plan.
- Review quarterly reports from the head of the internal audit function.

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,

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    - 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.
- Acting jointly with the Compensation Committee, discharge the Board's oversight function in respect of the administration of the pension and other retirement plans of the Company and its affiliates.

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.

As in effect March 2013

Consolidated Financial Statements
(In Canadian dollars)

HUDBAY MINERALS INC.

Years ended December 31, 2013 and 2012

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of HudBay Minerals Inc. ("Hudbay" or the "Company") is responsible for establishing and maintaining internal control over financial reporting ("ICFR").

Under the supervision of and with the participation of the Chief Executive Officer and the Chief Financial Officer, Hudbay's management assessed the effectiveness of the Company's ICFR as at December 31, 2013 based upon the Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that Hudbay's ICFR was effective as of December 31, 2013.

The effectiveness of the Company's ICFR as at December 31, 2013 has been audited by Deloitte LLP, Independent Registered Public Accounting Firm, as stated in their report immediately preceding the Company's audited consolidated financial statements for the year ended December 31, 2013.

"David Garofalo"

David Garofalo
President and Chief Executive Officer

"David Bryson"

David Bryson
Senior Vice President and Chief Financial Officer

Toronto, Canada
February 19, 2014

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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, 2013, based on the criteria established in *Internal Control—Integrated Framework (1992)* 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 International Financial Reporting Standards as issued by the International Accounting Standards Board. 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 International Financial Reporting Standards as issued by the International Accounting Standards Board, 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.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the criteria established in *Internal Control — Integrated Framework* (*1992)* 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, 2013 of the Company and our report dated February 19, 2014 expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the Company's adoption of amended International Accounting Standard 19 - *Employee Benefits*

/s/ Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants

February 19, 2014
Toronto, Canada

Deloitte.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders 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, 2013, December 31, 2012 and January 1, 2012, and the consolidated income statements, consolidated statements of comprehensive income (loss), consolidated statements of changes in equity, and consolidated statements of cash flows for the years then ended December 31, 2013 and December 31, 2012 and a summary of significant accounting policies and other explanatory information.

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 HudBay Minerals Inc. and subsidiaries as at December 31, 2013, December 31, 2012 and January 1, 2012, and their financial performance and their cash flows for the years then ended December 31, 2013 and December 31, 2012 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 4 of the consolidated financial statements, which explains that the Company has changed its method of accounting for defined benefit pension plans and other employee benefits, in years ended December 31, 2013 and 2012 due to the adoption of the amended International Accounting Standard 19 - *Employee Benefits.*

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, 2013, based on the criteria established in *Internal Control — Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 19, 2014 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants

February 19, 2014
Toronto, Canada

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

	Note	Dec. 31, 2013	Dec. 31, 2012 Restated (notes 2f, 4)	Jan. 1, 2012 Restated (notes 2f, 4)
Assets				
Current assets				
Cash and cash equivalents	7	**$ 631,427**	$ 1,337,088	$ 899,077
Trade and other receivables	8	**168,298**	52,876	40,309
Inventories	9	**52,201**	58,409	77,150
Prepaid expenses and other current assets	10	**28,917**	23,970	13,964
Other financial assets	11	**807**	2,442	3,112
Taxes receivable		**37,644**	52,952	4,352
Assets held for sale	5	**5,864**	**—**	—
		925,158	1,527,737	1,037,964
Receivables	8	**57,376**	43,149	5,212
Inventories	9	**7,888**	5,852	5,721
Prepaid expenses		**574**	1,232	1,227
Other financial assets	11	**71,182**	73,135	102,193
Intangible assets - computer software	12	**13,573**	12,893	11,872
Property, plant and equipment	13	**2,665,075**	1,732,173	1,207,168
Goodwill	14	**71,373**	66,763	68,246
Deferred tax assets	23b	**31,787**	13,563	12,828
		$ 3,843,986	$ 3,476,497	$ 2,452,431

Liabilities				
Current liabilities				
Trade and other payables	15	**$ 218,898**	$ 206,490	$ 163,187
Taxes payable		**33**	5,098	17,413
Other liabilities	16	**41,139**	44,828	40,014
Other financial liabilities	17	**16,348**	18,363	1,159
Deferred revenue	19	**65,616**	70,911	—
		342,034	345,690	221,773
Other financial liabilities	17	**23,039**	23,128	—
Long-term debt	18	**779,331**	479,540	—
Deferred revenue	19	**464,135**	391,367	—
Provisions	20	**146,062**	159,030	147,304
Pension obligations	21	**25,931**	68,960	32,790
Other employee benefits	22	**142,114**	140,531	121,106
Deferred tax liabilities	23b	**293,633**	214,791	175,080
		2,216,279	1,823,037	698,053
Equity				
Share capital	24b	**1,021,088**	1,020,458	1,020,126
Reserves		**49,557**	(51,936)	(8,384)
Retained earnings		**564,966**	685,249	740,441
Equity attributable to owners of the Company		**1,635,611**	1,653,771	1,752,183
Non-controlling interests	28	**(7,904)**	(311)	2,195
		1,627,707	1,653,460	1,754,378
		$ 3,843,986	$ 3,476,497	$ 2,452,431

Commitments (note 31)

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

	Note	Year ended December 31 2013	2012
Cash generated from (used in) operating activities:			
Loss for the year		**$ (109,276)**	$ (23,463)
Tax expense	23a	**53,272**	71,844
Items not affecting cash:			
Depreciation and amortization	6b	**77,509**	76,604
Share-based payment expense	6c	**4,851**	5,769
Net finance income	6f	**5,427**	8,641
Change in fair value of derivatives		**9,061**	(2,604)
Change in deferred revenue related to stream	19	**(69,088)**	(29,322)
Change in taxes receivable/payable, net		**(16,602)**	44,277
Items reclassified from other comprehensive income	27	**—**	(2,050)
Impairment and mark-to-market losses	6f	**16,403**	45,649
Impairment on exploration and evaluation assets	5	**15,356**	**—**
Foreign exchange and other		**18,435**	10,275
Taxes recovered (paid)		**4,501**	(62,663)
Operating cash flows before stream deposit and change in non-cash working capital		**9,849**	142,957
Precious metals stream deposit	19	**131,475**	491,600
Change in non-cash working capital	33	**2,795**	(90,705)
		144,119	543,852
Cash generated from (used in) investing activities:			
Interest received		**10,920**	5,728
Acquisition of property, plant and equipment		**(901,985)**	(508,467)
Acquisition of intangible assets		**(3,011)**	(2,004)
Acquisition of investments		**(7,155)**	(3,802)
Deposit of restricted cash	11	**(20,897)**	**—**
Peruvian sales tax paid on capital expenditures		**(130,885)**	(37,108)
		(1,053,013)	(545,653)
Cash generated from (used in) financing activities:			
Long-term debt borrowing net of transaction costs	18	**261,427**	471,796
Interest paid		**(58,499)**	**—**
Proceeds from exercise of stock options		**449**	227
Financing costs		**(1,005)**	(8,676)
Dividends paid	24b	**(18,924)**	(34,392)
		183,448	428,955
Effect of movement in exchange rates on cash and cash equivalents		**19,785**	10,857

Net (decrease) increase in cash and cash equivalents	**(705,661)**	438,011
Cash and cash equivalents, beginning of year	**1,337,088**	899,077
Cash and cash equivalents, end of year	**$ 631,427**	$ 1,337,088

For supplemental information, see note 33.

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

	Note	Year ended December 31 2013	2012 Restated (note 4)
Revenue	6a	**$ 516,801**	$ 702,550
Cost of sales			
Mine operating costs		**360,085**	432,866
Depreciation and amortization	6b	**76,714**	75,801
		436,799	508,667
Gross profit		**80,002**	193,883
Selling and administrative expenses		**39,956**	39,573
Exploration and evaluation		**23,286**	43,572
Other operating income	6e	**(913)**	(2,316)
Other operating expenses	6e	**9,197**	11,332
Asset impairment loss	6g	**15,356**	—
Results from operating activities		**(6,880)**	101,722
Finance income	6f	**(3,494)**	(6,217)
Finance expenses	6f	**8,921**	14,858
Other finance losses	6f	**43,697**	44,700
Net finance expense		**49,124**	53,341
(Loss) profit before tax		**(56,004)**	48,381
Tax expense	23a	**53,272**	71,844
Loss for the year		**$ (109,276)**	$ (23,463)
Attributable to:			
Owners of the Company		**$ (101,359)**	$ (20,800)
Non-controlling interests	28	**(7,917)**	(2,663)
Loss for the year		**$ (109,276)**	$ (23,463)
(Loss) earnings per share attributable to owners of the Company:			
Basic and diluted:		**$ (0.59)**	$ (0.12)
Weighted average number of common shares outstanding (note 26):			
Basic		**172,048,434**	171,960,783
Diluted		**172,048,434**	171,960,783

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

	Year ended December 31 2013	2012 Restated (note 4)
Loss for the year	**$ (109,276)**	$ (23,463)
Other comprehensive income (loss) (note 27):		
Items that may be reclassified subsequently to profit or loss		
Recognized directly in equity:		
Net exchange gain (loss) on translation of foreign operations	**87,669**	(10,886)
Effective portion of change in fair value of cash flow hedges	**—**	(442)
Change in fair value of available-for-sale financial investments	**(30,254)**	(29,852)
Tax effect	**—**	145

	57,415	(41,035)
Items that will not be reclassified subsequently to profit or loss		
Recognized directly in equity:		
Remeasurement - actuarial income (loss)	**36,158**	(52,689)
Tax effect	**(7,792)**	10,954
	28,366	(41,735)
Transferred to income statements:		
Change in fair value of cash flow hedges	—	(2,050)
On impairment of available-for-sale financial assets	**16,291**	40,181
Sale of investments	**(67)**	8
Tax effect	—	529
	16,224	38,668
Other comprehensive income (loss), net of tax, for the year	**102,005**	(44,102)
Total comprehensive loss for the year	**$ (7,271)**	$ (67,565)
Attributable to:		
Owners of the Company	**322**	(64,798)
Non-controlling interests	**(7,593)**	(2,767)
Total comprehensive loss for the year	**$ (7,271)**	$ (67,565)

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

	Attributable to owners of the Company									
	Share capital (note 24)	**Other capital reserves**	**Foreign currency translation reserve**	**Available-for-sale reserve**	**Hedging reserve**	**Remeasurement reserve (note 4)**	**Retained earnings**	**Total**	**Non-controlling interests (note 28)**	**Total equity**
Balance, January 1, 2012 (notes 2f, 4)	$ 1,020,126	$25,757	$ 21,361	$ 6,161	$ 1,818	$ (63,481)	$740,441	$1,752,183	$ 2,195	$1,754,378
Loss	—	—	—	—	—	—	(20,800)	(20,800)	(2,663)	(23,463)
Other comprehensive (loss) income (note 27)	—	—	(10,782)	10,337	(1,818)	(41,735)	—	(43,998)	(104)	(44,102)
Total comprehensive (loss) income	—	—	(10,782)	10,337	(1,818)	(41,735)	(20,800)	(64,798)	(2,767)	(67,565)
Contributions by and distributions to owners										
Share-based payment expense (note 6c)	—	552	—	—	—	—	—	552	—	552
Stock options exercised	332	(106)	—	—	—	—	—	226	—	226
Dividends (note 24b)	—	—	—	—	—	—	(34,392)	(34,392)	—	(34,392)
Total contributions by and distributions to owners	332	446	—	—	—	—	(34,392)	(33,614)	—	(33,614)
Change in ownership interests in subsidiaries that do not result in a loss of control	—	—	—	—	—	—	—	—	261	261
Balance, December 31, 2012	$ 1,020,458	$26,203	$ 10,579	$ 16,498	$ —	$ (105,216)	$685,249	$1,653,771	$ (311)	$1,653,460

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

	Attributable to owners of the Company									
	Share capital (note 24)	**Other capital reserves**	**Foreign currency translation reserve**	**Available-for-sale reserve**	**Hedging reserve**	**Remeasurement reserve (note 4)**	**Retained earnings**	**Total**	**Non-controlling interests (note 28)**	**Total equity**
Balance, January 1, 2013	$ 1,020,458	$26,203	$ 10,579	$ 16,498	$ —	$ (105,216)	$685,249	$1,653,771	$ (311)	$1,653,460
Loss	—	—	—	—	—	—	(101,359)	(101,359)	(7,917)	(109,276)
Other comprehensive income (loss) (note 27)	—	—	87,345	(14,030)	—	28,366	—	101,681	324	102,005
Total comprehensive income (loss)	—	—	87,345	(14,030)	—	28,366	(101,359)	322	(7,593)	(7,271)
Contributions by and distributions to owners										

Stock options exercised	630	(188)	—	—	—	—	—	442	—	442
Dividends (note 24b)	—	—	—	—	—	—	(18,924)	(18,924)	—	(18,924)
Total contributions by and distributions to owners	630	(188)	—	—	—	—	(18,924)	(18,482)	—	(18,482)
Balance, December 31, 2013	**$ 1,021,088**	**$ 26,015**	**$ 97,924**	**$ 2,468**	**$ —**	**$ (76,850)**	**$ 564,966**	**$ 1,635,611**	**$ (7,904)**	**$ 1,627,707**

1. Reporting entity

HudBay Minerals Inc. ("HMI" or the "Company") was amalgamated under the *Canada Business Corporations Act* on August 15, 2011. 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 years ended December 31, 2013 and 2012 represent the financial position and the financial performance 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 & Sales Inc. ("HMS"), HudBay Peru Inc., HudBay Peru S.A.C. ("Hudbay Peru") and HudBay (BVI) Inc.

Hudbay is an integrated mining company with shares listed under the symbol "HBM" on the Toronto, New York and Lima 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 a zinc production facility in northern Manitoba and Saskatchewan and a copper mine under construction in Peru. The Group also has investments in a number of exploration companies. 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"). The Board of Directors approved these consolidated financial statements on February 19, 2014.

(b) Functional and presentation currency:

The Group's consolidated financial statements are presented in Canadian dollars, which is the Company's and all material subsidiaries' functional currency, except for Hudbay Peru and HudBay (BVI) Inc., which have a functional currency of US dollars. All values are rounded to the nearest thousand ($000) except where otherwise indicated.

HUDBAY MINERALS INC.
Notes to Consolidated Financial Statements
(in thousands of Canadian dollars, except where otherwise noted)
Years ended December 31, 2013 and 2012

(c) Basis of measurement:

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

- Derivatives, embedded derivatives, other financial instruments at fair value through profit or loss ("FVTPL") 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 liability 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 judgement:

The preparation of the consolidated financial statements in conformity with IFRS requires the Group to make judgements, apart from those involving estimations, in applying accounting policies that affect reported amounts of assets and liabilities and disclosure of

contingent assets and liabilities at the date of the consolidated financial statements, as well as reported amounts of revenue and expenses during the reporting period.

Judgements that affect multiple areas of the financial statements:

- Judgements related to estimating mineral reserves and resources which form the basis of life of mine plans which are utilized in impairment testing, timing of payments related to decommissioning obligations and depreciation of capital assets
- Acquisition method accounting as it concerns classification and accounting for investments in various ventures (notes 3a)
- Determination of functional currency (note 3b)
- Income and mining taxes (notes 3o and 23)
- Commencement of commercial production which impacts the timing of revenue recognition, reclassification of capital works in progress and depreciation commencement; and
- Exercise of judgement in respect of the outcome of uncertain future events as it concerns recognizing contingent liabilities (note 31).

Asset-based judgements (these judgements also affect other areas of the financial statements):

- In-process inventory quantities and inventory cost allocations (note 3f)
- Property, plant and equipment
  - Cost allocations for mine development (note 3j)
  - Mining properties expenditures capitalized (note 3i(ii))
  - Classification of supply costs as related to capital development or inventory acquisition
  - Determining when exploration and evaluation assets should be transferred to capital works in progress within property, plant and equipment (notes 3h)
  - Determination of when an asset or group of assets is in the condition and location to be ready for use as intended by management for the purposes of commencing deprecation
  - Componentization (note 3i)
  - Assessment of impairment, including determination of cash-generating units and assessing for indicators of impairment (notes 3j)
  - Recoverability of exploration and evaluation assets, including determination of cash-generating units and assessing for indications of impairment (notes 3h and 3j)
- Determining whether assets meet criteria for classification as held for sale (note 3k)
- Measurement and classification of Peruvian sales taxes paid on capital expenditures (note 8)

Liability-based judgement (these judgements also affect other areas of the financial statements):

- Determining the accounting classification of the precious metals stream deposit (note 19)

(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 and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, as well as 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:

- Assumptions which are key in the estimation of mineral reserves and resources.
- Acquisition method accounting (note 3a)
- Estimates of fair value of financial instruments (notes 3c, 3n and 30)
- Determination of discount rates (notes 3a, 3(l), 3m, 14, 20, 21 and 22)
- Tax estimates including future taxable profit which impact the ability to realize deferred tax assets on our balance sheet (notes 3o and 23)

Asset-based estimates (these estimates also affect other areas of the financial statements):

- Goodwill and non current asset impairment testing input assumptions (note 3j and note 14))
  - Future production levels and timing
  - Operating and capital costs
  - Future commodity prices
  - Foreign exchange rates
  - Risk adjusted discount rates
- In-process inventory quantities, inventory cost allocations and inventory valuation (note 3f)
- Property, plant and equipment
  - Units-of-production depreciation (note 3i)
  - Plant and equipment estimated useful lives and residual values (note 3i)
  - Finite life intangible assets (note 3g)

Liability-based estimates (these estimates also affect other areas of the financial statements):

- Pensions and other employee benefits including net interest cost (notes 3(l), 21 and 22)
- Decommissioning, restoration and similar liabilities including estimated future costs and timing of spending (notes 3m and 20)
- Contingent liabilities (note 31)
- Capital commitments (note 31)
- Determination of deferred revenue per unit related to the precious metals stream transactions and determination of current portion of deferred revenue (note 19)

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 judgements 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 calculation of deferred revenue per unit related to the stream transaction;
- 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.

(f) Correction of immaterial error:

The Group identified an immaterial error of an understatement of the Property, plant and equipment balance totaling $4,123, and an understatement of deferred tax liability of $1,622 as at December 31, 2012, which resulted from an overstatement of depreciation in 2011. The Group has corrected the error in the opening retained earnings as of January 1, 2012, as well as the comparative Property, plant and equipment and deferred tax balances in the balance sheet and the associated notes to the financial statements.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and 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.

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 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.

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 judgement 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.

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.

HUDBAY MINERALS INC.
Notes to Consolidated Financial Statements
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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. On disposal of a partial investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, 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.

(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 and pre-production revenue.

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.

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 of concentrate inventory is determined on a weighted average cost basis and the cost of production of finished metal inventory is determined using the first in first out basis. The cost of production includes direct costs associated with conversion of production inventory: material, labour, contractor expenses, purchased concentrates, and an 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 judgement 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. 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 expected useful life of the ERP system is 7 years from initial implementation.

(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.

Judgement is required in determining whether the respective costs are eligible for capitalization where applicable, and whether they are likely to be recoverable, 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.

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 judgement 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 hanging wall 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, Balmat and its exploration and evaluation assets.

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.

Goodwill is tested for impairment annually on September 30th 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 an appropriate discount 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:

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 is first 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 or 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. When an asset no longer meets the criteria for classification as an asset held for sale, the Group records the asset at the lower of its recoverable amount and the carrying amount net of depreciation before the asset was classified as held for sale.

(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. Actuarial valuations of the pension plans and other long-term employee benefit plan are carried out at the end of each annual reporting period. Actuarial valuations of the non pension post employment benefit plan are performed triennially.

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. 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.

Defined benefit costs are categorised as follows:

- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements and administration costs),
- Net interest expense or income
- Remeasurement.

The first two components of defined benefit costs shown above are recognized in profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

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 6d for a summary of pension expense recognized in the income statement.

Remeasurement, comprising actuarial gains and losses, the effect of changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

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.

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 current and previous operating and development 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. For closed sites, changes to estimated costs are recognized immediately in the income statement within other operating expenses.

The Group assesses the reasonableness of its estimates and assumptions each year and when conditions change. The estimates are revised accordingly. Judgement is required to determine the scope of future decommissioning and restoration activities, as well as 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.

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. 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 FVTPL 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 except gains and losses on the non-hedge financial derivatives related to customer sales contracts are presented in revenue. The Group's FVTPL category currently contains only derivatives and embedded derivatives. During the years ended December 31, 2013 and December 31, 2012, 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.

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 30.

(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 judgement 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 is 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 it 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.

Judgement 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 profit 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.

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 25.

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 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 may settle RSUs on the vest date with either a cash payment or shares, for RSUs granted under its Long-Term Equity Plan, or cash only for RSUs granted under its Share Unit Plan, in each case based on the closing price of the Company's common shares shortly prior to the vest date. The Company has determined that the appropriate accounting treatment is to classify the RSUs as cash settled transactions. 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 currently 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 and for which discrete financial information is available. The Group's chief executive officer regularly reviews the operating results of each operating segment to make decisions about resources to be allocated to the segment and assess its performance. In determining operating segments, the Group considers location and decision-making authorities. Refer to note 34.

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4. New standards

New standards and interpretations adopted in the year

As required by the IASB, effective January 1, 2013 the Group adopted amended IAS 19 *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).

  This amended version of the standard revises certain aspects of the accounting for pension plans and other employee benefits. The adoption of the amendment eliminates the corridor method of accounting for defined benefit plans and requires the net defined benefit liability (asset) to be recognized on the balance sheet without any deferral of actuarial gains and losses and past service costs as previously allowed. Past service costs are required to be recognized immediately in the consolidated income statement. Interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net-interest' amount under amended IAS 19, which is calculated by applying the discount rate to the net defined benefit liability or asset. Retirement benefit costs consist of service costs, net interest and remeasurements, with remeasurements being recorded in OCI. The Group will be accumulating all the remeasurements in accumulated OCI at the end of each reporting period. Pension plan administration costs are to be expensed as incurred. The definition of short- and long-term benefits has been clarified based on expected settlement date. Additional disclosures are required, including more comprehensive disclosure on the significant actuarial assumptions and related sensitivity analysis. The amendments are required to be applied retrospectively in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. The Group has adjusted its opening equity as at January 1, 2012 to recognize previously unrecognized past service costs and actuarial gains and losses. The post-employment benefits interest expense and employee benefit expense for the comparable period have been adjusted to reflect the accounting changes for defined benefit plans. The adjustments for each financial statement line item affected are presented in the table below.

  Pension expense and remeasurements were determined using the same assumptions and methods used at December 31, 2012 with

the exception that the discount rate has been updated to 4.94% and the mortality table has been updated to the draft RPP 2014 Private Sector Mortality Table with projection scale CPM-A for re measurement purposes.

Adjustment to consolidated balance sheet

	Dec. 31, 2013	Dec. 31, 2012	Jan. 1, 2012
Equity before accounting changes	**$ 1,710,154**	$ 1,761,280	$ 1,815,664
Increase in pension obligation	**(68,461)**	(103,506)	(58,304)
Increase in other employee benefits	**(23,796)**	(32,129)	(20,870)
Decrease in deferred tax liabilities	**17,714**	28,126	15,693
Equity after accounting change	**$ 1,635,611**	$ 1,653,771	$ 1,752,183

Adjustment to consolidated income statement

	Year ended December 31	
	2013	2012
Profit (loss) before accounting change	**$ (113,877)**	$ (21,170)
Decrease (increase) to cost of sales	**7,220**	(3,711)
Decrease (increase) to selling and administrative expenses	**—**	(57)
(Increase) decrease to tax expense	**(2,619)**	1,475
(Increase) decrease to loss	**4,601**	(2,293)
Profit (loss) after accounting change	**$ (109,276)**	$ (23,463)
Adjustment to loss per share as a result of change in net income (Basic and diluted)	**0.03**	(0.01)

Adjustment to consolidated statement of comprehensive income

	Year ended December 31	
	2013	2012
Comprehensive income (loss) before accounting change	**$ (40,238)**	$ (23,537)
(Decrease) increase in OCI for remeasurement of post-employment benefit liabilities	**6,802**	(11,978)
Increase (decrease) in OCI for remeasurement of pension	**29,356**	(40,711)
(Decrease) increase to income tax related to adjustment for remeasurement of pensions	**(7,792)**	10,954
Increase (decrease) in net income	**4,601**	(2,293)
Increase (decrease) to OCI	**32,967**	(44,028)
Comprehensive income (loss) after accounting change	**$ (7,271)**	$ (67,565)

There was no impact to total operating, investing and financing activities on the consolidated statements of cash flow.

As required by the IASB, effective January 1, 2013 the Group also adopted the following standards and amendments to IFRS:

- IFRS 10 *Consolidated Financial Statements* - this standard replaces the guidance in IAS 27 *Consolidated and Separate Financial Statements* 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. The Group's adoption of IFRS 10 had no effect on its consolidated financial statements.

- IFRS 11 *Joint Arrangements* - this standard replaces the guidance in IAS 31 *Interests in Joint Ventures* and classifies joint arrangements as either joint operations or joint ventures based on an entity's rights and obligations. The Group's adoption of IFRS 11 had no effect on its consolidated financial statements.

- IFRS 12 *Disclosure of Interests in Other Entities* - this standard 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

Group's adoption of IFRS 12 required no additional disclosure in its consolidated financial statements.

- Amendments to IFRS 10, IFRS 11 and IFRS 12: *Transition guidance* - this amendment clarifies certain transitional guidance on the application of IFRS 10, IFRS 11 and IFRS 12 for the first time. The Group's adoption of these amendments had no effect on its consolidated financial statements.

- IFRS 13 *Fair Value Measurement* - this standard replaces the fair value measurement guidance contained in individual IFRS with a single source of fair value measurement guidance. The measurement of the fair value of an asset or liability is based on assumptions under current market conditions including assumptions about risk. The Group's prospective adoption of IFRS 13 did not require any adjustment to the valuation techniques currently used to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

- Amendments to IAS 28 *Investments in Associates and Joint Ventures* - these amendments carry 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. The Group's adoption of these amendments had no effect on its consolidated financial statements.

- Amendments to IFRS 7 *Financial Instruments: Disclosures* - this amendment contains new disclosure requirements related to offsetting of financial assets and liabilities. The Group's adoption of these amendments had no effect on its consolidated financial statements.

- Amendments to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income* - these amendments require separate presentation of the items of other comprehensive income ("OCI") that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. The Group's adoption of this amendment resulted in a different presentation within the statement of comprehensive income and the other comprehensive income note (note 27), as the items that will never be reclassified from profit or loss are separated from those that will be.

- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* - this interpretation provides guidance on the accounting for waste removal costs that are incurred in surface mining activity during the production phase of a mine. The Group's adoption of this standard had no effect on its consolidated financial statements as the Group does not have any surface mines in the production phase.

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 an effective date has not yet been confirmed. The Group has not yet determined the effect of adoption of IFRS 9 (2010) on its consolidated financial statements.

IAS 32 *Offsetting Financial Assets and Liabilities*

In October 2009, the IASB issued an amendment to IAS 32 *Offsetting Financial Assets and Liabilities*, which clarifies certain aspects of offsetting and net and gross settlement. The Group intends to adopt the amendments to IAS 32 in its financial statements for the annual period beginning on January 1, 2014. The Group has not yet determined the effect of adoption of the amendment to IAS 32 on its consolidated financial statements.

IFRIC 21 *Levies*

This IFRIC was amended by the IASB in June 2013. IFRIC 21 provides guidance on the accounting for levies within the scope of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* . The main features of IFRIC 21 are: (i) the obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation, and (ii) the liability to pay a levy is recognized progressively if the obligating event occurs over a period of time. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The Group has not yet determined the effect of adoption of IFRIC 21 on its consolidated financial statements.

5. Assets held for sale

The Group's wholly owned subsidiary, Hudbay Michigan Inc. ("Hudbay Michigan"), owns a 51% interest in Back Forty Joint Venture LLC, which owns the Back Forty project in Michigan; the remaining 49% is owned by Aquila Resources Inc. ("Aquila"). Hudbay Michigan's primary focus is the exploration and development of the Back Forty project in Michigan, USA. In July 2012, the Company suspended development activities at the Back Forty project. At December 31, 2013, the Group was in the final stages of a sale of its Back Forty project in Michigan, and concluded it met criteria for classification as an asset held for sale at that time.

As at December 31, 2013, Hudbay's carrying value prior to classification as an asset held for sale exceeded the fair value less costs to sell and therefore an impairment of $11,939 was recorded, in addition to the $3,417 impairment that was recorded in the third quarter of 2013. The Group determined the fair value based on share consideration and other consideration included in the sales agreement. Hudbay Michigan is reported within the Other operating segment.

The sale closed on January 17, 2014 and final share consideration valued at $2,425 was received (18,650,193 common shares of Aquila based on a price of $0.13 per share). Including the shares issued in the transaction, the Company owns and controls 33,017,758 Aquila common shares, representing approximately 18.0% of the issued and outstanding shares. The sale was completed pursuant to a previously announced purchase agreement dated November 7, 2013. As the sale closed after December 31, 2013, the Back Forty project was reported as an asset held for sale in the annual financial statements.

As at December 31, 2013, the major classes of assets of Back Forty were as follows:

Current assets	$	78
Property, plant and equipment — exploration and evaluation assets		5,786
Assets held for sale	$	5,864

6. Revenue and expenses

(a) Revenue

The Group's revenue by significant product types:

	Year ended December 31	
	2013	**2012**
Copper	**$ 210,353**	$ 343,691
Zinc	**219,125**	222,570
Gold	**99,531**	131,770
Silver	**14,368**	20,979
Other	**5,796**	6,364
	549,173	725,374
Less: treatment and refining charges	**19,853**	22,709
Less: pre-production revenue	**12,519**	115
	$ 516,801	$ 702,550

Pre-production revenue in the year ended December 31, 2013 relates to revenue earned from production at the Group's Lalor, 777 North and Reed projects in Manitoba. Revenues related to inventory produced prior to commencement of commercial production are being credited against capital costs rather than recognized as revenue in the income statement.

(b) Depreciation and amortization

Depreciation of property, plant and equipment and amortization of intangible assets are reflected in the income statements as follows:

	Year ended December 31

	2013	2012
Total depreciation and amortization presented in:		
Cost of sales	**$ 76,714**	$ 75,801
Selling and administrative expenses	**795**	803
	$ 77,509	$ 76,604

(c) Share-based payment expense

	Equity-settled	Cash-settled		Total share-based payment expense
	Stock Options	RSUs (note 25)	DSUs (note 25)	
Year ended December 31, 2013				
Share-based payment expense presented in:				
Cost of sales	**$ —**	**$ 1,021**	**$ —**	**$ 1,021**
Selling and administrative expenses	—	**2,531**	**728**	**3,259**
Other operating expenses	—	**544**	**—**	**544**
Exploration and evaluation	—	**27**	**—**	**27**
	$ —	**$ 4,123**	**$ 728**	**$ 4,851**
Year ended ended December 31, 2012				
Share-based payment expense presented in:				
Cost of sales	$ —	$ 1,377	$ —	$ 1,377
Selling and administrative expenses	552	2,308	1,125	3,985
Other operating expenses	—	334	—	334
Exploration and evaluation	—	73	—	73
	$ 552	$ 4,092	$ 1,125	$ 5,769

(d) Employee benefits expense

This table presents employee benefit expense recognized in the Group's income statement, including amounts transferred from inventory upon sale of goods.

	Year ended December 31	
	2013	2012 [1]
Current employee benefits	**$ 130,813**	$ 132,544
Profit-sharing plan expense	**7,771**	16,888
Share-based payments (notes 6c, 25)		
Equity settled stock options	**—**	552
Cash-settled restricted share units	**4,123**	4,092
Cash-settled deferred share units	**728**	1,125
Employee share purchase plan	**1,408**	1,248
Post-employment pension benefits		
Defined benefit plans	**15,897**	28,020
Defined contribution plans	**962**	936
Other post-retirement employee benefits	**11,464**	11,417
Termination benefits	**1,357**	1,286
Restructuring	**281**	1,799
	$ 174,804	$ 199,907

[1] Prior year balances differ primarily as a result of IAS19 adjustments (note 4)

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Manitoba has a profit sharing plan whereby 10% of the Manitoba business unit'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.

The Group has an employee share purchase plan for executives and other eligible employees where participants may contribute between 1% and 10% of their pre-tax base salary to acquire Hudbay shares. The Group makes a matching contribution of 75% of the participant's contribution.

See note 21 for a description of the Group's pension plans and note 22 for the Group's other employee benefit plans.

(e) Other operating income and expenses

	Year ended December 31	
	2013	**2012**
Other operating income		
Other income	**(913)**	(2,316)
Other operating expenses		
Cost of non-producing properties	**$ 6,524**	$ 11,332
Net loss on write down of property, plant and equipment	**2,673**	—
	$ 9,197	$ 11,332

(f) Finance income and expenses

	Year ended December 31	
	2013	**2012**
Finance income		
Interest income	**$ (10,802)**	$ (6,217)
Less: adjustment to interest capitalized (note 13)	**7,308**	—
	(3,494)	(6,217)
Finance expenses		
Interest expense on long-term debt	**58,655**	14,205
Unwinding of accretion on financial liabilities at amortized cost (note 17)	**2,126**	2,323
Unwinding of discounts on provisions (note 20)	**3,304**	3,036
Other finance fees	**5,617**	11,822
	69,702	31,386
Less: interest capitalized (note 13)	**(60,781)**	(16,528)
	8,921	14,858
Other finance (gains) losses		
Net foreign exchange losses	**24,522**	937
Ineffective gains on cash flow hedges	—	(14)
Change in fair value of financial assets and liabilities at FVTPL:		
Prepayment option embedded derivative (note 18)	**2,839**	(1,880)
Classified as held-for-trading	**241**	2,900
(Gain) loss reclassified from equity on disposal of available-for-sale investments (note 27)	**(67)**	8
(Reversal of) loss from impairment of non-trade receivable	**(129)**	2,568
Reclassified from equity on impairment of available-for-sale investments (note 27)	**16,291**	40,181
	43,697	44,700
Net finance expense	**$ 49,124**	$ 53,341

Interest expense related to the other financial liabilities at amortized cost and long term debt is capitalized to the Constancia project (notes 17, 18).

During the years ended December 31, 2013 and December 31, 2012, the Group recognized impairment losses on investments in listed shares and transferred pre-tax losses of $16,291 and $40,181 respectively, from the available-for-sale reserve within equity to the income statement. During the year ended December 31, 2012, the Group recognized an impairment loss of $2,568 related to a non-trade receivable. Other finance fees for the year ended December 31, 2012 related mainly to amounts associated with efforts to arrange financing for development projects.

(g) Impairment

During the year ended December 31, 2013, the Group recognized an impairment loss of $15,356 related to its Back Forty project in Michigan. This was determined based on the difference between carrying value and fair value less cost to sell which was determined based on the fair value of the consideration to be received for the sale of the asset (see note 5). The Group has allocated the impairment loss to the exploration and evaluation assets related to the Back Forty project. These assets are presented within the assets held for sale line item on the balance sheet. On the consolidated income statements, the impairment loss is presented in the asset impairment loss line item. The Group has presented the impairment loss within the Other operating segment.

7. Cash and cash equivalents

	Dec. 31, 2013	Dec. 31, 2012	Jan. 1, 2012
Cash on hand and demand deposits	**$ 424,696**	$ 1,292,414	$ 899,077
Short-term money market instruments with maturities of three months or less at acquisition date	**206,731**	44,674	—
	$ 631,427	$ 1,337,088	$ 899,077

8. Trade and other receivables

	Dec. 31, 2013	Dec. 31, 2012	Jan. 1, 2012
Current			
Trade receivables	**$ 41,144**	$ 42,062	$ 27,405
Embedded derivatives - provisional pricing (note 30c)	**1,307**	(937)	(1,407)
Statutory receivables	**116,185**	10,309	8,325
Other receivables	**9,662**	1,442	6,063
	168,298	52,876	40,386
Less: allowance for bad debts	—	—	77
	168,298	52,876	40,309
Non-current			
Statutory receivables - Peruvian sales tax	**57,376**	43,149	5,212
	$ 225,674	$ 96,025	$ 45,521

For the year ending December 31, 2013, $114,651 of the current statutory receivables and all of the non-current statutory receivable relate to refundable sales taxes in Peru that Hudbay Peru has paid on capital expenditures for its Constancia project. The non-current portion has not been discounted given it is a statutory receivable. Hudbay Peru expects to receive the current portion within a year and the non-current refunds once the project reaches commercial production, as the accumulated sales tax pool is refundable up to 18% of the revenue earned each month. Significant judgements are required on measurement and classification of Peruvian sales taxes paid on capital expenditures (note 2d).

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9. Inventories

	Dec. 31, 2013	Dec. 31, 2012	Jan. 1, 2012
Current			
Work in progress	**$ 7,718**	$ 6,141	$ 4,362
Finished goods	**30,746**	38,750	58,730
Materials and supplies	**13,737**	13,518	14,058
	52,201	58,409	77,150
Non-current			
Materials and supplies	**7,888**	5,852	5,721
	$ 60,089	$ 64,261	$ 82,871

The cost of inventories recognized as an expense and included in cost of sales amounted to $308,065 for the year ended December 31, 2013 (year ended December 31, 2012 - $366,076).

During the year ended December 31, 2013, the Group recognized an expense of $5,011 in cost of sales related to write-downs of the carrying value of zinc inventories to net realizable value (December 31, 2012 - $16,805).

10. Prepaid expenses and other current assets

	Dec. 31, 2013	Dec. 31, 2012	Jan. 1, 2012
Current			
Prepayments to suppliers related to capital projects	**$ 18,962**	$ 12,732	$ 3,764
Prepaid insurance	**5,516**	5,769	5,311
Other	**4,439**	5,469	4,889
	$ 28,917	$ 23,970	$ 13,964

11. Other financial assets

	Dec. 31, 2013	Dec. 31, 2012	Jan. 1, 2012
Current			
Derivative assets	**$ 807**	$ 2,442	$ 3,112
Non-current			
Available-for-sale investments	**48,281**	71,260	98,279
Investments at fair value through profit or loss	**7**	220	2,090
Derivative assets	**—**	—	132
Restricted cash	**22,894**	1,655	1,692
	71,182	73,135	102,193
	$ 71,989	$ 75,577	$ 105,305

Available-for-sale investments

Available for sale investments consist of investments in metals and mining companies, most of which are publicly traded. During the years ended December 31, 2013 and December 31, 2012, the Group recognized impairment losses on investments in listed shares and transferred pre-tax losses of $16,291 and $40,181, respectively, from the available-for-sale reserve within equity to the income statement (notes 6f and 27).

The following table summarizes the change in available-for-sale investments:

	Dec. 31, 2013	Dec. 31, 2012
Balance, beginning of year	**$ 71,260**	$ 98,279
Additions	**7,516**	4,049
Decrease from remeasurement to fair value (note 27)	**(30,254)**	(29,852)
Disposals	**(241)**	(1,216)
Balance, end of year	**$ 48,281**	$ 71,260

Credit facility, letters of credit and restricted cash

On November 3, 2010, Hudbay arranged a revolving credit facility with a syndicate of lenders. In September 2013, the Company entered into various amendments with the lenders. The facility has a maturity date of September 12, 2016, is secured by a pledge of assets of the Company, and is unconditionally guaranteed by Hudbay's non Peruvian material subsidiaries. The available amount under the facility is the lesser of US$100,000 and a borrowing base related to accounts receivable and inventory, which was US$72,820 ($77,451) at December 31, 2013. Upon closing in 2010, restricted cash on deposit to support letters of credit was reclassified to cash and cash equivalents. As at December 31, 2013, the Manitoba business unit had outstanding letters of credit in the amount of $64,084 (December 31, 2012 - $64,524).

As required by Peruvian law, Hudbay Peru is to provide security with respect to its decommissioning and restoration obligations. Hudbay Peru provided the first annual deposit, the value which was $21,124 as at December 31, 2013, in the form of a letter of credit and reclassified cash on deposit with a Peruvian bank to support the letter of credit from cash and cash equivalents to restricted cash.

12. Intangible assets - computer software

	Dec. 31, 2013	Dec. 31, 2012

Cost		
Balance, beginning of year	**$ 15,012**	$ 12,679
Additions	**2,507**	2,333
Balance, end of year	**17,519**	15,012
Accumulated amortization		
Balance, beginning of year	**2,119**	807
Amortization for the year	**1,827**	1,312
Balance, end of year	**3,946**	2,119
Net book value	**$ 13,573**	$ 12,893

13. Property, plant and equipment

Dec. 31, 2013	Exploration and evaluation assets	Capital works in progress	Mining properties	Plant and equipment	Total
Cost					
Cost, beginning of year	$ 35,119	$ 1,318,523	$ 399,230	$ 614,510	$ 2,367,382
Additions	1,654	797,462	111,675	—	910,791
Impairment	(15,356)	—	—	—	(15,356)
Transfer to assets held for sale	(5,786)	—	—	—	(5,786)
Decommissioning and restoration	—	9,219	—	(25,766)	(16,547)
Interest capitalized (note 6f)	—	53,473	—	—	53,473
Depreciation capitalized	—	667	420	—	1,087
Transfers and other movements	—	(85,118)	—	85,118	—
Disposals	—	—	—	(9,866)	(9,866)
Effects of movement in exchange rates	1,209	83,901	—	—	85,110
Balance, end of year	16,840	2,178,127	511,325	663,996	3,370,288
Accumulated depreciation					
Balance, beginning of year	—	—	330,199	305,010	635,209
Depreciation for the year	—	—	32,040	44,502	76,542
Disposals	—	—	—	(6,538)	(6,538)
Balance, end of year	—	—	362,239	342,974	705,213
Net book value	$ 16,840	$ 2,178,127	$ 149,086	$ 321,022	$ 2,665,075

Dec. 31, 2012 (restated, note 2f)	Exploration and evaluation assets	Capital works in progress	Mining properties	Plant and equipment	Total
Cost					
Cost, beginning of year	$ 36,994	$ 786,844	$ 378,335	$ 576,898	$ 1,779,071
Additions	2,304	563,621	18,594	495	585,014
Decommissioning and restoration	—	3,217	—	4,982	8,199
Interest capitalized (note 6f)	—	16,528	—	—	16,528
Depreciation capitalized	—	441	420	—	861
Transfers and other movements	(3,743)	(37,636)	—	41,379	—
Disposals	—	(125)	—	(8,337)	(8,462)
Effects of movement in exchange rates	(166)	(14,055)	—	—	(14,221)
Other	(270)	(312)	1,881	(907)	392
Balance, end of year	35,119	1,318,523	399,230	614,510	2,367,382
Accumulated depreciation					
Balance, beginning of year	—	312	304,112	267,479	571,903
Depreciation for the year	—	—	25,113	44,969	70,082
Disposals	—	—	—	(7,438)	(7,438)
Other	—	(312)	974	—	662
Balance, end of year	—	—	330,199	305,010	635,209
Net book value	$ 35,119	$ 1,318,523	$ 69,031	$ 309,500	$ 1,732,173

Refer to note 3i for a description of depreciation methods used by the Group and note 3i(vi) for depreciation rates of major classes of assets. 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 6b for amounts recognized in the income statement.

The Group has determined that the level of activity that represents commercial production for phase 1 of Lalor, Reed and 777 North is

production of an average of 60% design capacity over a three-month period. On March 31, 2013 and June 30, 2013, phase 1 of the Lalor mine and the 777 North mine met the threshold, respectively. The Group concluded that commercial production related to phase 1 at the Lalor mine and the 777 North mine commenced on April 1, 2013 and July 1, 2013, respectively, at which time the carrying value of the related assets within capital works in progress was reclassified to plant and equipment and mine development and depreciation of the assets commenced.

During the year ended December 31, 2013, the Group recognized an impairment loss of $15,356 related to its Back Forty project in Michigan (note 6g). The Group has allocated the impairment loss to the exploration and evaluation assets related to the Back Forty project.

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 (note 12) 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 judgement to determine the reason for the difference. Based on Hudbay's listed share price of $8.74 at December 31, 2013, the carrying amount of the Group's net assets exceeded its market capitalization by approximately $123,597 (2012 - $35,000). 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, 2013.

14. Goodwill

The Group performs impairment testing for its goodwill on an annual basis, as at September 30, and more frequently if there are indicators of impairment. As at September 30, 2013, the Group assessed the recoverable amount of its South American business cash-generating unit ("CGU") which is the only unit which includes goodwill. Goodwill of $71,373 has been allocated to the South American business unit.

For the impairment test, fair value less costs to sell ("FVLCS") was used to determine the recoverable amount since it is higher than value in use. FVLCS was calculated using discounted after-tax cash flows based on cash flow projections in the Group's most current life of mine ("LOM") plans.

LOM plans are based on optimized mine and processing plans and the assessment of capital expenditure requirements of a mine site. LOM plans incorporate management's best estimates of key assumptions which are discount rates, future commodity prices, production based on current estimates of recoverable reserves and resources, future operating and capital costs and future foreign exchange rates. The cash flows are for periods up to the date that mining is expected to cease, which is 23 years for the South American CGU, including assumed mining of recoverable resources.

Real after-tax discount rates include country and project risks. These rates were based on the weighted average cost of capital specific to the CGU and the currency of the cash flows generated. The weighted average cost of capital reflects the current market assessments of the time value of money, equity market volatility and the risks specific to the CGU for which the cash flows have not already been adjusted. The discount rate used for the impairment test was 9% (September 30, 2012 — 9%). The discount rate was calculated with reference to market information from third-party sources.

Short and long-term realized commodity prices used in the impairment assessment were determined by reference to external market participant sources. The key commodity price for this assessment is the price of copper. The average long-term copper price assumption used in the impairment assessment was US$3.00 per pound (September 30, 2012 — US$3.00 per pound).

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Expected future cash flows used to determine the FVLCS used in the impairment testing are inherently uncertain and could materially change over time. Should management's estimate of the future not reflect actual events, impairments may be identified. Although it is reasonably possible for a change in key assumptions to occur, the possible effects of a change in any single assumption may not fairly reflect the impact on a CGU's fair value as the assumptions are inextricably linked. A material decline in the long-term copper price assumption would cause the Group to review its mine plan and future capital expenditures plans accordingly and therefore may not lead to a carrying amount exceeding its recoverable amount.

Based on the assessment performed by the Group on the CGU, including goodwill, the Group concluded that the recoverable amount of the CGU exceeded its carrying amount as at September 30, 2013. There have been no significant events since the Group conducted the test and therefore the conclusion remains the same as at December 31, 2013. The changes in goodwill reflect the movement in foreign exchange rates during the year.

15. Trade and other payables

	Dec. 31, 2013	Dec. 31, 2012	Jan. 1, 2012
Trade payables	**$ 57,872**	$ 68,190	$ 94,557
Accruals and payables	**149,349**	129,560	62,893
Exploration and evaluation payables	**148**	967	1,258
Embedded derivatives - provisional pricing (note 30c)	**414**	(41)	35
Statutory payables	**11,115**	7,814	4,444
	$ 218,898	$ 206,490	$ 163,187

16. Other liabilities

	Dec. 31, 2013	Dec. 31, 2012 Restated (note 4)	Jan. 1, 2012 Restated (note 4)
Current portion of			
Provisions (note 20)	**$ 6,897**	$ 9,100	$ 4,434
Pension liability (note 21)	**30,677**	32,195	32,067
Other employee benefits (note 22)	**3,565**	3,533	3,513
	$ 41,139	$ 44,828	$ 40,014

17. Other financial liabilities

	Dec. 31, 2013	Dec. 31, 2012	Jan. 1, 2012
Current			
Derivative liabilities	**$ 4,631**	$ 75	$ 1,159
Other financial liabilities at amortized cost	**11,717**	18,288	—
	16,348	18,363	1,159
Non-current			
Other financial liabilities at amortized cost	**23,039**	23,128	—
	23,039	23,128	—
	$ 39,387	$ 41,491	$ 1,159

Other financial liabilities at amortized cost relate to agreements with communities near the Constancia project which allow Hudbay to extract minerals over the useful life of the Constancia project, carry out exploration and evaluation activities in the area and provide Hudbay with community support to operate in the region. During the year ended December 31, 2013, the liability associated with several of the community agreements increased by $21,121 and payments of $26,349 were made.

During the year ended December 31, 2013, the Group capitalized $2,126 to property, plant and equipment related to the unwinding of accretion on these financial liabilities at amortized cost (year ended December 31, 2012 - $2,323) (note 6f).

Changes in estimates related to these liabilities are recorded to the liability with a corresponding change in property, plant and equipment or exploration expense.

18. Long-term debt

Balance, January 1, 2012	$ —
Principal, net of transaction costs	474,684
Fair value of embedded derivative (prepayment option)	(4,768)
Effects of changes in foreign exchange	9,299
Accretion of transaction costs	325
Balance, December 31, 2012	$ 479,540
Addition to Principal, net of transaction costs and bond premium	**256,258**
Addition to embedded derivative (prepayment option)	**(469)**
Change in fair value of embedded derivative (prepayment option)	**2,839**

Effects of changes in foreign exchange	**39,890**
Accretion of transaction costs	**1,273**
Balance, December 31, 2013	**$ 779,331**

	Dec. 31, 2013	Dec. 31, 2012
Consists of:		
Long-term Debt	**$ 782,160**	$ 484,365
Prepayment option embedded derivative at fair value	**(2,829)**	(4,825)
	$ 779,331	$ 479,540

On June 20, 2013 and December 9, 2013, the Company issued US$150,000 and US$100,000 aggregate principal amount of its 9.50% senior unsecured notes due October 1, 2020 (the "Additional Notes"). The Additional Notes are incremental to the US$500,000 aggregate principal amount of 9.50% senior unsecured notes due October 1, 2020, that were issued in September 2012 (the "Initial Notes", and together with the Additional Notes, the "Notes"). The Additional Notes issued in June were priced at 102% of the aggregate principal amount, resulting in gross proceeds of US$153,000 and will yield 9.11% to maturity. The Additional Notes issued in December were priced at 100% of their face value, and yielded gross proceeds of US$100,000. The Initial Notes were priced at 100% of their face value, and yielded gross proceeds of US$500,000. The Notes have been classified as long term debt and accounted for initially at fair value and subsequently at amortized cost using the effective interest rate method. Interest is payable on the Notes semi annually on April 1 and October 1 of each year, beginning on April 1, 2013. As the proceeds have been used to date to fund the development of Constancia, interest costs have been capitalized to project assets.

The Notes are fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis, by Hudbay's existing and future subsidiaries, other than certain excluded subsidiaries which include subsidiaries that own the Constancia project. The Notes also contain certain customary covenants and restrictions for a financing instrument of this type. Although there are no maintenance covenants with respect to the Group's financial performance, there are transaction-based restrictive covenants that limit the Group's ability to incur additional indebtedness in certain circumstances. In addition, the Group's ability to make restricted payments, including dividend payments, in excess of a threshold amount is subject to the compliance with certain covenants which require either the generation of sufficient net earnings or equity issuance or, in the case of semi-annual dividend payments in an amount not exceeding US$20,000, having a ratio of consolidated debt to earnings before income tax and depreciation and amortization of 2.50 to 1.00 or less.

19. Deferred revenue

On November 4, 2013, the Group entered into an amended and restated precious metals stream transaction with Silver Wheaton Corp. ("Silver Wheaton") pursuant to which the Group will receive an additional US$135,000 deposit against delivery of 50% of payable gold from the Constancia project. In addition to the deposit payment for gold, the Group will receive the lesser of the market price and US$400.00 per ounce for gold delivered to Silver Wheaton, subject to 1% annual escalation after three years. The Group is entitled to the US$135,000 deposit once US$1.35 billion has been incurred and paid in capital expenditures at the Constancia project and satisfied certain other customary conditions precedent. Silver Wheaton has the option to make the deposit payment in cash or Silver Wheaton common shares, with the number of shares calculated at the time the payment is made. Gold recovery for purposes of calculating payable gold will be fixed at 55% for gold mined from Constancia and 70% for gold mined from Pampacancha.

On August 8, 2012, the Group entered into a precious metals stream transaction with Silver Wheaton Corp. ("Silver Wheaton") whereby the Group receives aggregate deposit payments totalling US$750,000 against delivery of 100% of payable gold and silver from Hudbay's 777 mine until the later of the end of 2016 and satisfaction of a completion test at the Constancia project, and delivery of 50% of payable gold and 100% of payable silver for the remainder of the 777 mine life. The stream transaction also includes delivery of 100% of payable silver from the Constancia project. In addition to the deposit payments, as gold and silver are delivered to Silver Wheaton, the Group receives cash payments equal to the lesser of (i) the market price and (ii) US$400.00 per ounce (for gold) and US$5.90 per ounce (for silver), subject to 1% annual escalation after three years.

The Group received an upfront payment of US$500,000 ($491,600) in September 2012 and an installment payment of US$125,000 ($131,475) in June 2013, as US$500,000 in capital expenditures was paid for at the Group's Constancia project. The Group will receive the final installment of US$125,000 once a total of US$1,000,000 in capital expenditures has been paid at the Constancia project.

The Group recorded the deposits received as deferred revenue and recognizes amounts in revenue as gold and silver are delivered to Silver Wheaton. The Group determines the amortization of deferred revenue to the income statement on a per unit basis using the estimated total number of gold and silver ounces expected to be delivered to Silver Wheaton over the life of the 777 and Constancia mines. The Group estimates the current portion of deferred revenue based on deliveries anticipated over the next twelve months.

The following table summarizes changes in deferred revenue:

Balance, January 1, 2012	$ —
Upfront deposit received	491,600
Recognition of revenue	(29,322)
Balance, December 31, 2012	462,278
Additional installment received	**131,475**
Recognition of revenue	**(69,088)**
Effects of changes in foreign exchange	**5,086**
Balance, December 31, 2013	**$ 529,751**

	Dec. 31, 2013	Dec. 31, 2012
Reflected in the balance sheets as follows:		
Current	**$ 65,616**	$ 70,911
Non-current	**464,135**	391,367
	$ 529,751	$ 462,278

20. Provisions

Dec. 31, 2013	Decommissioning, restoration and similar liabilities	Deferred share units (Note 25)	Restricted share units (Note 25)	Other	Total
Balance, beginning of year	$ 157,675	$ 3,540	$ 6,741	$ 174	$ 168,130
Additional provisions made	10,601	1,087	5,551	—	17,239
Amounts used	(639)	—	(3,891)	(22)	(4,552)
Unused amounts reversed and change in timing	(546)	—	—	—	(546)
Unwinding of discount (note 6f)	3,304	—	—	—	3,304
Effect of change in discount rate	(29,213)	—	—	—	(29,213)
Effect of foreign exchange	384	—	—	—	384
Effect of change in share price	—	(359)	(1,428)	—	(1,787)
Balance, end of year	$ 141,566	$ 4,268	$ 6,973	$ 152	$ 152,959

Reflected in the balance sheets as follows:

Dec. 31, 2013					
Current (note 16)	**$ 547**	**$ 4,268**	**$ 2,082**	**$ —**	**$ 6,897**
Non-current	**141,019**	**—**	**4,891**	**152**	**146,062**
	$ 141,566	**$ 4,268**	**$ 6,973**	**$ 152**	**$ 152,959**

Dec. 31, 2012	Decommissioning, restoration and similar liabilities	Deferred share units (Note 25)	Restricted share units (Note 25)	Other	Total
Balance, beginning of year	$ 146,082	$ 2,415	$ 2,746	$ 495	$ 151,738
Additional provisions made	4,249	1,086	3,755	1,687	10,777
Amounts used	(1,072)	—	(97)	(2,008)	(3,177)
Unused amounts reversed and change in timing	(427)	—	—	—	(427)
Unwinding of discount (note 6f)	3,036	—	—	—	3,036
Effect of change in discount rate	5,842	—	—	—	5,842
Effect of foreign exchange	(35)	—	—	—	(35)
Effect of change in share price	—	39	(81)	—	(42)
Effect of change in estimated forfeiture rate	—	—	418	—	418
Balance, end of year	$ 157,675	$ 3,540	$ 6,741	$ 174	$ 168,130

Reflected in the balance sheet as follows

Dec. 31, 2012					
Current (note 16)	$ 1,839	$ 3,540	$ 3,547	$ 174	$ 9,100
Non-current	155,836	—	3,194	—	159,030
	$ 157,675	$ 3,540	$ 6,741	$ 174	$ 168,130

Jan. 1, 2012					
Current (note 16)	$ 1,524	$ 2,415	$ —	$ 495	$ 4,434
Non-current	144,558	—	2,746	—	147,304
	$ 146,082	$ 2,415	$ 2,746	$ 495	$ 151,738

Decommissioning, restoration and similar liabilities are remeasured at each reporting date to reflect changes in discount rates, which can significantly affect the liabilities.

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, development-phase properties 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, 2013 additional provisions recognized as a result of increased estimated cash flows related mainly to Hudbay Peru's Constancia and Reed projects, which are in the development stage.

The Group's decommissioning and restoration liabilities relate mainly to its Manitoba operations. Management anticipates that significant decommissioning and restoration activities will take place near the time closure of the mining and processing facilities, anticipated to occur from 2022 for Flin Flon operations and up to 2031 for Snow Lake operations (including the Lalor mine). However, these provisions also reflect estimated post-closure cash flows that extend to 2101 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. Management anticipates decommissioning and restoration activities for the Constancia project will occur from 2031 to 2035.

These estimates have been discounted to their present value at rates ranging from 0.4% to 4.0% per annum (2012 - 0.1% to 2.9%), using pre-tax risk-free interest rates that reflect the estimated maturity of each specific liability.

21. Pension obligations

The Group maintains non contributory and contributory defined benefit pension plans for certain of its employees. The Group adopted amended IAS 19 beginning January 1, 2013, with retrospective application to prior reporting periods. A summary of the changes and its impact on the Group's consolidated financial statements are included in note 4.

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 2013 using data as at December 31, 2012. For these plans, the next actuarial valuation required for funding purposes will be performed during 2014 as at December 31, 2013.

Movements in the present value of the defined benefit obligation in the current and previous years were as follows:

	Year ended December 31	
	2013	**2012 Restated (note 4)**
Opening defined benefit obligation	**$ 393,199**	$ 329,098
Current service cost	**12,377**	10,271
Past service cost	**306**	13,841
Interest cost	**16,569**	17,696
Benefits paid from plan	**(16,252)**	(22,219)
Benefits paid from employer	**(609)**	(556)
Participant contributions	**57**	106
Remeasurement (gains)/loss:		
Actuarial gains and losses arising from changes in demographic assumptions	**8,820**	1,255
Actuarial gains and losses arising from changes in financial assumptions	**(36,007)**	33,714
Actuarial gains and losses arising from experience adjustments	**3,211**	9,993
Closing defined benefit obligation	**$ 381,671**	$ 393,199

Closing defined benefit obligation by member group:

Active members	**325,799**	335,639
Deferred members	**1,503**	1,548
Retired members	**54,369**	56,012
Closing defined benefit obligation	**$ 381,671**	$ 393,199

Movements in the fair value of pension plan assets in the current and previous years were as follows:

	Year ended December 31	
	2013	**2012**
Opening fair value of plan assets	**$ 292,044**	$ 264,241
Interest income	**12,765**	14,258
Remeasurement (gains)/loss:		
Return on plan assets (excluding amounts included in net interest expense)	**5,380**	4,251
Contributions from the employer	**31,171**	31,514
Employer direct benefit payments	**609**	556
Contributions from plan participants	**57**	106
Benefit payment from employer	**(609)**	(556)
Administrative expenses paid from plan assets	**(102)**	(107)
Benefits paid	**(16,252)**	(22,219)
Closing fair value of plan assets	**$ 325,063**	$ 292,044

The amount included in the consolidated statement of financial position arising from the entity's obligation in respect of its defined benefit plans is as follows:

	Dec. 31, 2013	**Dec. 31, 2012**	**Jan. 1, 2012**
Present value of funded defined benefit obligation	**$ 366,281**	$ 377,504	$ 315,736
Fair value of plan assets	**(325,063)**	(292,044)	(264,241)
Present value of unfunded defined benefit obligation	**15,390**	15,695	13,362
Funded status	**56,608**	101,155	64,857
Restriction on asset recognised	**—**	**—**	—
Net liability arising from defined benefit obligation	**$ 56,608**	$ 101,155	$ 64,857

Reflected in the balance sheet as follows:

Pension obligations - current (note 16)	**$ 30,677**	$ 32,195	$ 32,067
Pension obligations - non-current	**25,931**	68,960	32,790
Total pension obligation	**$ 56,608**	$ 101,155	$ 64,857

Pension expense is as follows:

	Dec. 31, 2013	**Dec. 31, 2012**
Service costs:		
Current service cost	**$ 12,377**	$ 10,271
Past service cost and (gain)/loss from settlements	**306**	13,841
Total service cost	**12,683**	24,112
Net interest expense	**3,804**	3,438
Administration cost	**102**	107
Defined benefit pension expense	**$ 16,589**	$ 27,657
Defined contribution pension expense	**$ 872**	$ 764

Remeasurement on the net defined benefit liability:

Return on plan assets (excluding amounts included in net interest expense)	**$ (5,380)**	$ (4,251)
Actuarial gains and losses arising from changes in demographic assumptions	**8,820**	1,255
Actuarial gains and losses arising from changes in financial assumptions	**(36,007)**	33,714
Actuarial gains and losses arising from experience adjustments	**3,211**	9,993
Defined benefit cost related to remeasurement	**$ (29,356)**	$ 40,711
Total pension cost	**$ (11,895)**	$ 69,132

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 6d for a summary of other post retirement employee benefit expense recognized in the income statement.

The current service cost, the net interest expense and administration cost for the year are included in the employee benefits expense. The remeasurement of the net defined benefit liability is included in other comprehensive income.

Past service costs in 2012 related to new collective bargaining agreements during the year ended December 31, 2012. One of the defined benefit pension plans is sponsored and administered by Hudson Bay Mining & Smelting Co., Limited, with the remaining plans sponsored and administered by HudBay Minerals Inc. ("HMI"). As the administrator of the plans, HMI, through the HMI Board of Directors ("the Board") and its delegates, has overall responsibility for the management and administration of the plans, including the investments of the pension plan assets.

The defined benefit pension plans typically expose the Group to actuarial risks such as: investment risk, interest rate risk, longevity risk and salary risk.

Investment risk	The present value of the liabilities for the defined benefit plans is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on plan assets is below this rate, it will create a plan deficit. 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.
Interest risk	A decrease in the bond interest rate will increase the pension plan liabilities; however, this will be partially offset by an increase in the return on the plan's debt investments.
Longevity risk	The present value of the defined benefit plans liabilities is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the pension plans liabilities.
Salary risk	The present value of the defined benefit plans liabilities for some of the pension plans is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plans' liabilities.

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The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2013	2012
Defined benefit cost:		
Discount rate	**4.33%**	5.20%
Expected rate of salary increase[1]	**3.00%**	2.00%
Average longevity at retirement age for current pensioners (years)[2]:		
Males	**19.8**	19.7
Females	**22.1**	22.1
Defined benefit obligation:		
Discount rate	**4.94%**	4.33%
Expected rate of salary increase[1]	**3.00%**	3.00%
Average longevity at retirement age for current pensioners (years)[2]:		
Males	**21.3**	19.8
Females	**23.5**	22.1
Average longevity at retirement age for current employees (future pensioners) (years) [2]		
Males	**22.6**	21.6
Females	**24.4**	23.1

[1] Plus merit and promotional scale based on member's age

[2] RPP 2014 Private Sector Table and RPP 2D mortality improvement scale at 31/12/13 and UP94 table (fully generational) at 31/12/12

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.

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate, expected salary increase and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding other assumptions constant.

- If the discount rate is 50 basis points higher (lower), the defined benefit obligation would decrease by $24,432 (increase by $27,147).
- If the expected salary growth increases (decreases) by 1%, the defined benefit obligations would increase by $4,557 (decrease by $4,220)
- If the life expectancy increases (decreases) by one year for both men and women, the defined benefit obligations would increase by $5,563 (decrease by $7,594)

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the statement of financial position.

The Group's main pension plans are registered federally with the Office of the Superintendent of Financial Institutions and with the Canada Revenue Agency. The registered pension plans are governed in accordance with the Pension Benefits Standards Act and the Income Tax Act. The sponsor contributes the amount needed to maintain adequate funding as dictated by the prevailing regulations.

Expected employer contributions to the pension plans for the fiscal year ending December 31, 2014 is $30,677.

The average duration of the pension obligation at December 31, 2013 is 14.56 years (2012: 15.67 years). This number can be broken down as follows:

- Active members: 17.24 years (2012: 18.27 years)
- Deferred members: 22.90 years (2012: 26.06 years)
- Retired members: 9.10 years (2012: 9.22 years)

Asset-Liability-Matching studies are performed periodically to analyse the investment policies in terms of risk-and-return profiles.

The actual return on plan assets was 3.8% (2012: 6.9%)

The pension plans do not invest directly in either securities or property/real estate of the Group.

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.

The following is a summary of the fair value classification levels for investment:

December 31, 2013	Level 1	Level 2	Level 3	Total
Investments:				
Money market instruments	$ 1,578	$ —	$ —	$ 1,578
Pooled equity funds	134,544	—	—	134,544
Pooled income funds	—	158,199	—	158,199
Alternative investment funds	—	29,891	—	29,891
Balanced funds	—	851	—	851
	$ 136,122	$ 188,941	$ —	$ 325,063

December 31, 2012	Level 1	Level 2	Level 3	Total
Investments:				

Money market instruments	$ 2,092	$ —	$ —	$ 2,092
Pooled equity funds	110,805	—	—	110,805
Pooled income funds	—	150,347	—	150,347
Alternative investment funds	—	27,975	—	27,975
Balanced funds	—	825	—	825
	$ 112,897	$ 179,147	$ —	$ 292,044

22. 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:

Movements in the present value of the defined benefit obligation in the current and previous years were as follows:

	Year ended December 31	
	2013	**2012**
Opening defined benefit obligation	**$ 140,794**	$ 121,425
Current service cost[1]	**4,558**	3,648
Interest cost	**6,066**	6,295
Remeasurement (gains)/loss:		
Actuarial gains and losses arising from changes in demographic assumptions	**7,932**	(36)
Actuarial gains and losses arising from changes in financial assumptions	**(13,872)**	7,661
Actuarial gains and losses arising from experience adjustments	**(862)**	4,353
Benefits paid	**(2,438)**	(2,552)
Closing defined benefit obligation	**$ 142,178**	$ 140,794

[1] Includes remeasurement of other long term employee benefits

Closing defined benefit obligation by member group:		
Active members	**$ 81,091**	82,155
Inactive members	**61,087**	58,639
Closing defined benefit obligation	**$ 142,178**	$ 140,794

Movements in the fair value of pension plan assets in the current and previous years were as follows:

	Year ended December 31	
	2013	**2012**
Employer contributions	**$ 2,438**	$ 2,552
Benefits paid	**(2,438)**	(2,552)
Closing fair value of plan assets	**$ —**	$ —

The amount included in the consolidated statement of financial position arising from the entity's obligation in respect of its defined benefit plans is unfunded.

	Dec. 31, 2013	**Dec. 31, 2012**	**Jan. 1, 2012**
Reconciliation of assets and liabilities recognized in the balance sheet:			
Unfunded benefit obligation	**$ (142,178)**	$ (140,794)	$ (121,425)
Vacation accrual and other - non-current	**(3,501)**	(3,270)	(3,194)
Net liability	**$ (145,679)**	$ (144,064)	$ (124,619)
Reflected in the balance sheet as follows:			
Other employee benefits liability - current (note 16)	**$ (3,565)**	$ (3,533)	$ (3,513)
Other employee benefits liability - non-current	**(142,114)**	(140,531)	(121,106)
	$ (145,679)	$ (144,064)	$ (124,619)

Other employee future benefit expense includes the following:

	Dec. 31, 2013	**Dec. 31, 2012**
Service costs:		
Current service cost[1]	**$ 4,558**	$ 3,648
Net interest expense	**6,066**	6,295

Components recognized in the income statements	**$ 10,624**	$ 9,943
Remeasurement on the net defined benefit liability:		
Actuarial gains and losses arising from changes in demographic assumptions	**$ 7,932**	$ (36)
Actuarial gains and losses arising from changes in financial assumptions	**(13,872)**	7,661
Actuarial gains and losses arising from experience adjustments	**(862)**	4,353
Components recognized in statement of comprehensive income	**$ (6,802)**	$ 11,978
Total other employee future benefit cost	**$ 3,822**	$ 21,921

[1] Includes remeasurement of other long term employee benefits

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 6d for a summary of other post retirement employee benefit expense recognized in the income statement.

	2013	2012
Defined benefit cost:		
Discount rate	**4.46%**	5.40%
Initial weighted average health care trend rate	**7.14%**	7.85%
Ultimate weighted average health care trend rate	**4.00%**	4.50%
Average longevity at retirement age for current pensioners (years):		
Males	**19.8**	19.7
Females	**22.1**	22.1
Defined benefit obligation:		
Discount rate	**5.00%**	4.46%
Initial weighted average health care trend rate	**6.99%**	7.14%
Ultimate weighted average health care trend rate	**4.00%**	4.00%
Average longevity at retirement age for current pensioners (years)[1]:		
Males	**21.3**	19.8
Females	**23.5**	22.1
Average longevity at retirement age for current employees (future pensioners) (years):		
Males	**22.6**	21.6
Females	**24.4**	23.1

[1] RPP 2014 Private Sector Table and RPP 2D mortality improvement scale at 31/12/13 and UP94 table (fully generational) at 31/12/12

The Group reviews the assumptions used to measure other employee benefit costs (including the discount rate) on an annual basis.

The other employee benefit costs typically expose the Group to actuarial risks such as: interest rate risk, health care cost inflation risk and longevity risk.

Interest risk	A decrease in the bond interest rate will increase the plan liabilities.
Health care cost inflation risk	The majority of the plan's benefit obligations are linked to health care cost inflation and higher inflation will lead to higher liabilities.
Longevity risk	The majority of the plan's benefit liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plans liabilities. This is particularly significant for benefits subject to health care cost inflation where increases in inflation result in higher sensitivity to changes in life expectancy.

The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at

the end of the reporting period, while holding other assumptions constant.

- If the discount rate is 50 basis points higher (lower), the defined benefit obligation would decrease by $11,319 (increase by $12,844).
- If the health care cost assumption increases (decreases) by 1%, the defined benefit obligation would increase by $28,035 (decrease by $21,994)
- If the life expectancy increases (decreases) by one year for both men and women, the defined benefit obligations would increase by $4,785 (decrease by $4,770)

The average duration of the non pension post employment obligation at December 31, 2013 is 18.5 years (2012: 18.9 years). This number can be broken down as follows:

- Active members: 23.1 years (2012: 23.9 years)
- Inactive members: 12.7 years (2012: 12.8 years)

23. Income and mining taxes

(a) Tax expense:

	Year ended December 31	
	2013	2012 Restated (note 4)
Tax (benefit) expense applicable to:		
Current:		
Income taxes	**$ 819**	$ 1,539
Mining taxes	**9,717**	33,059
Adjustments in respect of prior years	**1,565**	(16,212)
	12,101	18,386
Deferred:		
Income taxes - origination and reversal of temporary differences	**52,483**	26,857
Canadian mining taxes - origination and reversal of temporary differences	**(2,157)**	4,593
Peruvian mining taxes - origination and reversal of temporary differences	**(4,780)**	4,788
Adjustments in respect of prior years	**(4,375)**	18,695
IAS 19 *Employee Benefits* adjustment, prior year (note 4)	**—**	(1,475)
	41,171	53,458
Tax expense	**$ 53,272**	$ 71,844

(b) Deferred tax assets and liabilities as represented on the balance sheets:

	Dec. 31, 2013	Dec. 31, 2012 Restated (notes 2f, 4)	Jan. 1, 2012 Restated (notes 2f, 4)
Deferred income tax asset - Canada	**$ 31,331**	$ 13,563	$ 12,277
Deferred mining tax asset - Canada	**456**	**—**	551
	31,787	13,563	12,828
Deferred income tax liability - Canada and Peru	**(273,483)**	(187,750)	(155,798)
Deferred mining tax liability - Canada	—	(3,581)	—
Deferred mining tax liability - Peru	**(20,150)**	(23,460)	(19,282)
	(293,633)	(214,791)	(175,080)
Net deferred tax liability balance	**$ (261,846)**	$ (201,228)	$ (162,252)

(c) Changes in deferred tax assets and liabilities:

	Dec. 31, 2013	Dec. 31, 2012 Restated (notes 2f, 4)
Net deferred tax liability balance, beginning of year	**$ (201,228)**	$ (162,252)
Deferred tax expense	**(41,171)**	(53,458)
OCI transactions	**(7,792)**	**—**
Foreign currency translation on Hudbay Peru deferred tax liability	**(11,655)**	3,524
IAS 19 *Employee Benefits* adjustment, prior year	—	10,958
Net deferred tax liability balance, end of year	**$ (261,846)**	$ (201,228)

(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, 2013 and 2012 is as follows:

	Year ended December 31	
	2013	**2012**
Statutory tax rate	**27.43%**	27.28%
Tax expense from continuing operations at statutory rate	**$ (15,362)**	$ 13,198
Effect of:		
Non controlling interest	**2,172**	726
Resource allowance and deductions related to resource taxes	**(2,620)**	(8,899)
Adjusted income taxes	**(15,810)**	5,025
Mining taxes	**(218)**	42,440
	(16,028)	47,465
Temporary income tax differences not recognized	**29,502**	20,764
Permanent differences related to:		
- capital items	**2,575**	4,551
Other income tax permanent differences	**10,292**	2,221
Impact of Peru tax stability agreement	**12,973**	**—**
Impact of Manitoba remeasurement on decommissioning liability due to discount rates	**(6,537)**	1,422
Foreign exchange on non-monetary items	**20,305**	(5,710)
Impact related to tax settlement and tax return amendment	**190**	1,131
Tax expense	**$ 53,272**	$ 71,844

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.

(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, 2013 and 2012 are as follows:

	Balance sheet		Income Statement	
	Dec. 31, 2013	**Dec. 31, 2012**	**2013**	**2012**
Deferred income tax asset (liability) / expense (recovery)				
Property, plant and equipment	**$ (2,724)**	$ (1,903)	**$ 821**	$ 3,936
Pension obligation	**551**	118	**(433)**	(27)
Other employee benefits	**2,166**	1,709	**(457)**	(689)
Non-capital losses	**26,586**	9,044	**(17,542)**	(1,932)
Share issue and debt costs	**3,882**	4,059	**177**	(3,798)
Capital losses	**—**	—	**—**	—
Other	**870**	536	**(334)**	1,224
Deferred income tax asset	**31,331**	13,563	**(17,768)**	(1,286)
Deferred income tax liability (asset) / expense (recovery)				
Property, plant and equipment	**306,169**	227,686	**78,483**	43,486
Pension obligation	**(19,081)**	(27,362)	**490**	2,369

Other employee benefits	**(7,777)**	(9,708)	**1,931**	467
Share issue and debt costs	**(56)**	21	**(77)**	(17)
Other	**(5,772)**	(2,887)	**(13,073)**	9,914
Deferred income tax liability	**273,483**	187,750	**67,754**	56,219
Deferred income tax asset (liability) / expense (recovery)	**$ (242,152)**	$ (174,187)	**$ 49,986**	$ 54,933

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, 2013	Dec. 31, 2012	Jan. 1, 2012
Property, plant and equipment	**$ 145,642**	$ 94,418	$ 50,600
Capital losses	**56,987**	43,192	46,742
Other employee benefits	**90,437**	75,582	63,234
Asset retirement obligations	**152,555**	152,240	143,731
Non-capital losses	**123,129**	82,322	68,389
Other	**38,609**	23,803	11,079
Temporary differences not recognized	**$ 607,359**	$ 471,557	$ 383,775

The deductible temporary differences excluding non-capital losses do not expire under current tax legislation.

The Canadian non-capital losses were incurred between 2005 and 2013 and expire between 2014 and 2032. The Group incurred United States net operating losses between 2004 and 2013 which have a 20 year carry forward period. Peruvian net operating losses were incurred from 2010 to 2013 and expire between 2014 and 2017.

(g) Mining tax effect of temporary differences:

The tax effects of mining tax temporary differences that give rise to significant portions of the deferred mining tax assets and liabilities at December 31, 2013 and December 31, 2012 are as follows:

Canada	Dec. 31, 2013	Dec. 31, 2012	Jan. 1, 2012
Deferred mining tax asset (liabilities):			
Property, plant and equipment	**$ 456**	$ (3,581)	$ 551

Peru	Dec. 31, 2013	Dec. 31, 2012	Jan. 1, 2012
Deferred mining tax asset (liabilities):			
Property, plant and equipment	**$ (20,150)**	$ (23,460)	$ (19,282)

For the year ended December 31, 2013 the Group had unrecognized deferred mining tax assets of $613 related to Peru (December 31, 2012 - nil).

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(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 $390.8 million (2012 - $329.1 million).

The Group has not recognized a deferred tax liability at December 31, 2013 or December 31, 2012 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 foreseeable future.

(i) Taxes receivable/payable:

The timing of payments results in significant variances in period-to-period comparisons of the tax receivable and tax payable balances.

(j) 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 in respect of the Group's business. These reviews 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.

24. 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, 2013		Year ended Dec. 31, 2012	
	Common shares	Amount	Common shares	Amount
Balance, beginning of year	**171,984,487**	**$ 1,020,458**	171,937,665	$ 1,020,126
Exercise of stock options	**93,889**	**630**	46,822	332
Balance, end of year	**172,078,376**	**$ 1,021,088**	171,984,487	$ 1,020,458

During the year, the Company declared a semi-annual dividend of $0.10 per share and $0.01 per share on February 20, 2013 and July 31, 2013, respectively. The Company paid $17,203 and $1,721 on March 27, 2013 and September 27, 2013 to shareholders of record as of March 18, 2013 and September 13, 2013, respectively.

The Company paid $17,195 and $17,197 on March 30, 2012 and September 28, 2012 to shareholders of record as of March 20, 2012 and September 14, 2012, respectively.

The Company declared a semi-annual dividend of $0.01 per share on February 19, 2014. The dividend will be paid on March 31, 2014 to shareholders of record as of March 14, 2014 and is expected to total $1,930, including the additional shares offered in the equity offering (note 35).

25. 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, 2013, the carrying amount and the intrinsic value of the outstanding liability related to the DSU plan was $4,268 (December 31, 2012 - $3,540) (note 20). The following table outlines information related to DSUs granted, expenses recognized and payments made during the year.

	Year ended Dec. 31, 2013	Dec. 31, 2012
Granted during the year:		
Number of units	**135,083**	115,158
Weighted average price ($/unit)	**$ 8.05**	$ 9.43
Expenses recognized during the year[1] (note 6c)	**$ 728**	$ 1,125

[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)

Hudbay may settle RSUs on the vest date with either a cash payment or shares, for RSUs granted under its Long-Term Equity Plan, or cash only for RSUs granted under its Share Unit Plan, in each case based on the closing price of the Company's common shares

shortly prior to the vest date. The Company has determined that the appropriate accounting treatment is to classify the RSUs as cash-settled transactions.

At December 31, 2013, the carrying amount of the outstanding liability related to the RSU plan was $6,973 (December 31, 2012 - $6,741) (note 20). RSUs are settled on the vest date and therefore the intrinsic value at December 31, 2013 and December 31, 2012 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, 2013	**Dec. 31, 2012**
Opening balance, number of units	**1,299,085**	683,860
Number of units granted during the year	**738,006**	635,731
Credits for dividends	**20,074**	24,981
Number of units forfeited during the year	**(26,432)**	(17,847)
Number of units vested	**(429,561)**	(27,640)
Ending balance, number of units	**1,601,172**	1,299,085
Weighted average price ($/unit)	**$ 9.57**	$ 11.54
Expenses recognized during the year[1] (note 6c)	**$ 4,123**	$ 4,092
Payments made during the year	**$ 3,891**	$ 97

[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 director 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 years ended December 31, 2013 and December 31, 2012.

The Group estimates expected life of options and expected volatility based on historical data, which may differ from actual outcomes.

	Year ended Dec. 31, 2013		Year ended Dec. 31, 2012	
	Number of shares subject to option	**Weighted average exercise price**	**Number of shares subject to option**	**Weighted average exercise price**
Balance, beginning of year	**3,684,465**	**$ 14.18**	3,898,705	$ 14.24
Exercised	**(93,889)**	**4.78**	(46,822)	4.84
Forfeited	**(133,336)**	**14.98**	(121,668)	17.02

Expired	**(117,000)**	**11.25**	(45,750)	20.75
Balance, end of year	**3,340,240**	**$ 14.51**	3,684,465	$ 14.18

For stock options exercised during the year, the weighted average share price at the exercise date was $8.73 (2012 - $9.63)

The following table summarizes the options outstanding:

Dec. 31, 2013

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	760,942	1.6	$ 7.10	760,942	$ 7.10
10.21 - 14.02	900,000	0.5	12.17	900,000	12.17
14.03 - 16.55	650,031	4.2	15.86	650,031	15.86
16.56 - 20.78	849,267	3.2	20.80	849,267	20.80
20.79 - 23.74	180,000	3.7	23.01	180,000	23.01
$ 2.59 - 23.74	3,340,240	2.3	$ 14.51	3,340,240	$ 14.51

Dec. 31, 2012

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	894,831	2.6	$ 6.89	894,831	$ 6.89
10.21 - 14.02	1,007,000	1.4	12.01	1,007,000	12.01
14.03 - 16.55	696,699	5.2	15.86	696,699	15.86
16.56 - 20.78	905,935	4.2	20.76	905,935	20.76
20.79 - 23.74	180,000	4.7	23.01	180,000	23.01
$ 2.59 - 23.74	3,684,465	3.3	$ 14.18	3,684,465	$ 14.18

26. Earnings per share data

	Year ended December 31	
	2013	**2012**
Weighted average common shares outstanding	**172,048,434**	171,960,783
Plus net incremental shares from assumed conversions:		
- Stock options	**219,125**	274,747
Diluted weighted average common shares outstanding	**172,267,559**	172,235,530

The determination of the diluted weighted-average number of common shares excludes 2,574,458 shares related to stock options that were anti-dilutive for the year ended December 31, 2013 (year ended December 31, 2012 - 1,922,556 shares).

For periods where Hudbay records a loss, the Group calculates diluted loss per share using the basic weighted average number of shares. If the diluted weighted average number of shares was used, the result would be a reduction in the loss per share, which would be anti-dilutive. Consequently, for the year ended December 31, 2013, the Group calculated diluted loss per share using 172,048,434. For the year ended December 31, 2012, the Group calculated diluted loss per share using 171,960,783 common shares.

27. Other comprehensive income (loss) (“OCI”)

	Year ended Dec. 31, 2013			Year ended Dec. 31, 2012 Restated (note 4)		
	Pre-tax	Tax	Net of tax	Pre-tax	Tax	Net of tax
Items that may be reclassified subsequently to profit or loss						
Foreign currency translation						
Net foreign exchange gain (loss) on translation of foreign operations	**$ 87,669**	**$ —**	**$ 87,669**	$ (10,886)	$ —	$ (10,886)
Available-for-sale						
Change in fair value of available-for-sale investments (note 11)	**(30,254)**	**—**	**(30,254)**	(29,852)	—	(29,852)
Transfer to income statement on impairment of investments (note 6f)	**16,291**	**—**	**16,291**	40,181	—	40,181
Transfer to income statements on sale of investments (note 6f)	**(67)**	**—**	**(67)**	8	—	8
	(14,030)	**—**	**(14,030)**	10,337	—	10,337
Cash flow hedges						
Effective portion of change in fair value of cash flow hedges	**—**	**—**	**—**	(442)	145	(297)
Transfer to income statements as hedged transactions occurred	**—**	**—**	**—**	(2,050)	529	(1,521)
	—	**—**	**—**	(2,492)	674	(1,818)
Items that will not be reclassified subsequently to profit or loss						
Actuarial gain (loss) (note 4)	**36,158**	**(7,792)**	**28,366**	(52,689)	10,954	(41,735)
Total OCI (loss)	**$ 109,797**	**$ (7,792)**	**$ 102,005**	$ (55,730)	$ 11,628	$ (44,102)

Gains and losses transferred from equity into profit or loss during the year are included in the following line items in the income statements:

	2013	2012
Revenue	**$ —**	$ 2,050
Other finance gains (note 6f)	**(16,224)**	(40,189)
Tax expense	**—**	(529)
	$ (16,224)	$ (38,668)

28. Non-controlling interests

Hudbay owns 51% of the Back Forty project, which is located in Michigan, 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 as a subsidiary. Hudbay suspended its exploration and evaluation activities at the Back Forty project effective July 3, 2012.

In accordance with two joint venture agreements with VMS Ventures Inc. (“VMS”), Hudbay owns 70% of the Reed copper project, which is located in Northern Manitoba, and the two claims immediately to the south, as well as four exploration properties. Hudbay has control over the project and exploration properties and accordingly consolidates the Reed copper project in its consolidated financial statements. The Reed copper project entered the development phase effective April 1, 2012.

	Back Forty Project	Reed Copper Project & Exploration	Total
Balance, January 1, 2012	$ 3,093	$ (898)	$ 2,195
Acquisition of non-controlling interest	—	261	261
Share of OCI	(104)	—	(104)
Share of net (loss) profit	(2,224)	(439)	(2,663)
Balance, December 31, 2012	765	(1,076)	(311)
Share of OCI	**324**	**—**	**324**
Share of net loss	**(7,917)**	**—**	**(7,917)**
Balance, December 31, 2013	**$ (6,828)**	**$ (1,076)**	**$ (7,904)**

29. Capital management

The Group's definition of capital includes total equity and long-term debt. The Group's long-term debt balance as at December 31, 2013 was $779,331 (December 31, 2012 - $479,540).

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 in a capital intensive industry. The Group faces several risks, including lengthy development lead times, rising capital costs and project delays caused by factors that are beyond its control such as the availability of resources and obtaining permits. The Group continually assesses the adequacy of its capital structure to ensure its objectives are met. Hudbay monitors its cash and cash equivalents, which were $631,427 as at December 31, 2013 (2012 - $1,337,088). 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. In addition to the requirement to maintain sufficient cash balances to fund continuing operations, the Group must maintain sufficient cash to fund the interest expense on the long-term debt entered into in the years ended December 31, 2012 and 2013 (note 18). As part of the Group's capital management activities, the Group monitors interest coverage ratios and leverage ratios.

30. 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, 2013		Dec. 31, 2012		Jan. 1, 2012	
	Fair Value	Carrying value	Fair Value	Carrying value	Fair Value	Carrying value
Recurring measurements						
Financial assets						
Loans and receivables						
Cash and cash equivalents [1]	**$ 631,427**	**$ 631,427**	$ 1,337,088	$ 1,337,088	$ 899,077	$ 899,077
Restricted cash[1]	**22,894**	**22,894**	1,655	1,655	1,692	1,692
Trade and other receivables[1 2]	**50,806**	**50,806**	43,504	43,504	33,391	33,391
Fair value through profit or loss						
Trade and other receivables - embedded derivatives[3]	**1,307**	**1,307**	(937)	(937)	(1,407)	(1,407)
Non-hedge derivative assets[3]	**807**	**807**	2,442	2,442	36	36
Prepayment option embedded derivative[7]	**2,829**	**2,829**	4,825	4,825	—	—
Investments at FVTPL[4]	**7**	**7**	220	220	2,090	2,090
Designated in cash flow hedges						
Hedging derivative assets[3]	**—**	**—**	—	—	3,076	3,076
Available-for-sale						
Available-for-sale investments[4]	**48,281**	**48,281**	71,260	71,260	98,279	98,279
	758,358	**758,358**	1,460,057	1,460,057	1,036,234	1,036,234
Financial liabilities						
Financial liabilities at amortized cost						
Trade and other payables[1 2]	**207,369**	**207,369**	198,717	198,717	158,708	158,708
Other financial liabilities[5]	**27,835**	**34,756**	39,838	41,416	—	—
Long-term debt[6]	**822,030**	**782,160**	528,541	484,365	—	—
Fair value through profit or loss						
Trade and other payables - embedded derivatives[3]	**414**	**414**	(41)	(41)	35	35
Prepayment option embedded derivative[7]	**—**	**—**	—	—	—	—
Non-hedge derivative liabilities[3]	**4,631**	**4,631**	75	75	1,159	1,159
	1,062,279	**1,029,330**	767,130	724,532	159,902	159,902
Net financial assets	**$ (303,921)**	**$ (270,972)**	$ 692,927	$ 735,525	$ 876,332	$ 876,332

[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 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.
[5] These financial liabilities relate to agreements with communities near the Constancia project in Peru (note 17). Fair values have been determined using a discounted cash flow analysis based on expected cash flows, a level 3 input, and a credit adjusted discount rate.
[6] Fair value of the long-term debt (note 18) has been determined using the quoted market price at the period end, a Level 1 input.
[7] Fair value of the prepayment option embedded derivative related to the long-term debt (note 18) has been determined using a binomial tree/lattice approach based on the Hull-White single factor interest rate term structure 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. 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 in active markets for identical assets or liabilities;
- Level 2: Valuation techniques use significant observable inputs, either directly or indirectly, 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.

December 31, 2013	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value				
Financial assets at FVTPL:				
Embedded derivatives	**$ —**	**$ 1,307**	**$ —**	**$ 1,307**
Non-hedge derivatives	**—**	**807**	**—**	**807**
Prepayment option embedded derivative	**—**	**2,829**	**—**	**2,829**
Investments at FVTPL	**—**	**7**	**—**	**7**
Available-for-sale investments	**46,281**	**—**	**2,000**	**48,281**
	46,281	**4,950**	**2,000**	**53,231**
Financial liabilities measured at fair value				
Financial liabilities at FVTPL:				
Embedded derivatives	**—**	**414**	**—**	**414**
Non-hedge derivatives	**—**	**4,631**	**—**	**4,631**
	$ —	**$ 5,045**	**$ —**	**$ 5,045**

December 31, 2012	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value				
Financial assets at FVTPL:				
Embedded derivatives	$ —	$ (937)	$ —	$ (937)
Non-hedge derivatives	—	2,442	—	2,442
Investments at FVTPL	—	220	—	220
Prepayment option embedded derivative	—	4,825	—	4,825
Available for sale investments	69,260	—	2,000	71,260
	69,260	6,550	2,000	77,810
Financial liabilities measured at fair value				
Financial liabilities at FVTPL:				
Embedded derivatives	**—**	(41)	—	(41)
Non-hedge derivatives	—	75	—	75

$ —	$ 34	$ —	$ 34

The Group's Level 3 investment relates to a minority investment in an unlisted junior mining company. The Group monitors business developments and the financial position of the investee to evaluate whether the fair value of the investment has changed significantly. Factors that could result in a significantly lower fair value measurement include poor exploration results or inadequate liquidity to continue as a going concern, among other factors. Factors that would result in a significantly higher fair value measurement include positive exploration results, among other factors.

The Group's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. During the year ended December 31, 2013, the Group did not make any transfers. During the year ended December 31, 2012, the Group impaired one of its level 3 investments by $2,000. There was no movement in the remaining level 3 investment.

(b) Derivatives and hedging:

Copper and Zinc costless collars

Hudbay entered into copper and zinc hedging transactions intended to mitigate the risk of adverse changes to operating cash flow as the Group approaches the expected completion of the Group's Lalor and Constancia projects in the second half of 2014. Gains and losses resulting from the settlement of these derivatives are recorded directly to revenue, as the forward sales contracts do not qualify for hedge accounting, and the associated cash flows are classified in operating activities.

In copper, the Group has entered into costless collar transactions on approximately 69 million pounds of copper for the period of October 2013 through December 2014, inclusive, at an average floor price of US$3.00/lb and an average cap price of US$3.46/lb. During the year ended December 31, 2013, 14 million pounds of copper collars were settled, leaving 55 million pounds unsettled for 2014. In zinc, the Group has entered into costless collar transactions on approximately 127 million pounds of zinc for the period of October 2013 through December 2014, inclusive, at an average floor price of US$0.80/lb and an average cap price of US$0.97/lb. During the year ended December 31, 2013, 21 million pounds of zinc collars were settled leaving 106 million pounds unsettled for 2014.

The hedging transactions are with counterparties that the Group believes to be creditworthy and do not require the Group to provide collateral. The aggregate fair value of the transactions at December 31, 2013 was a liability position of $4,631 (December 31, 2012 — nil).

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, 2013, the Group held contracts for forward zinc purchases of 3,553 tonnes (December 31, 2012 - 11,340 tonnes) that related to forward customer sales of zinc. Prices ranged from US$1,873 to US$1,966 per tonne (December 31, 2012 - US$1,807 to US$2,094), and settlement dates extended out up to December 2014. The aggregate fair value of the transactions at December 31, 2013 was an asset position of $561 (December 31, 2012 — asset position of $2,442).

Non-hedge derivative gold and silver contracts

From time to time, the Group enters into gold and silver forward sales contracts to hedge the commodity price risk associated with the future settlement of provisionally priced deliveries. Hudbay is generally obligated to deliver gold and silver credits to Silver Wheaton prior to the determination of final settlement prices. These forward sales contracts are entered into at the time Hudbay delivers gold and silver to Silver Wheaton, and are intended to mitigate the risk of subsequent adverse gold and silver price changes. Gains and losses resulting from the settlement of these derivatives are recorded directly to revenue, as the forward sales contracts do not qualify for hedge accounting, and the associated cash flows are classified in operating activities. At December 31, 2013, the Group held gold forward sales contracts of 7,695 ounces. Prices ranged from US$1,209 to US$1,254, and settlement dates extend out up to March 2014. At December 31, 2013, the Group held silver forward sales contracts of 67,780 ounces. Prices ranged from US$19.93 to US$20.84 and settlement dates extend out up to March 2014. The aggregate fair value of the transactions at December 31, 2013 was an asset position of $246 (December 30, 2012 — liability position of $75).

(c) Embedded derivatives

Provisional pricing 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.

Provisional pricing 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, 2013, the Group's net position consisted of contracts awaiting final pricing for sales of 5,381 tonnes of copper (year ended December 31, 2012 - 9,840 tonnes), purchases of 5,322 tonnes of zinc concentrate (year ended December 31, 2012 - 2,099 tonnes), sales of 3,031 ounces of gold (year ended December 31, 2012 - NIL) and sales of 25,936 ounces of silver (year ended December 31, 2012 - NIL).

As at December 31, 2013, the Group's provisionally priced copper, zinc, gold and silver sales subject to final settlement were recorded at average prices of US$3.34/lb (December 31, 2012 - US$3.59/lb), US$0.93 (December 31, 2012 - US$0.93) US$1,202.31/oz (December 31, 2012 - NIL) and US$19.36/oz (December 31, 2012 - NIL), respectively.

Prepayment option embedded derivative

The Notes (note 18) contain prepayment options which represent embedded derivatives that require bifurcation from the host contract. The prepayment options are measured at fair value, with changes in the fair value recognized as unrealized gains in finance income and expense (note 6f).

(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 soles 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.

- Translation of US dollar and Peruvian nuevo soles ("PEN") denominated operating accounts, consisting mainly of certain cash and cash equivalents, trade and other receivables, trade and other payables and derivatives, as well as long-term debt and other financial liabilities. Cash balances may be held in US dollars and nuevo soles in anticipation of capital and other expenditures denominated in either currency. Appreciation of the Canadian dollar relative to the US dollar or nuevo sol will reduce the net asset value of these balances 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 financial instruments amounts stated in Canadian equivalent dollars:

	Dec. 31, 2013		Dec. 31, 2012	
	USD	PEN	USD	PEN
Cash and cash equivalents	**$ 297,246**	**$ 145,916**	$ 1,111,620	$ 2,100
Trade and other receivables	**56,368**	**3,331**	40,033	15
Restricted cash	**21,124**	**—**	—	—
Derivative assets	**2,829**	**—**	4,825	—
Trade and other payables	**(110,098)**	**(17,185)**	(58,546)	(24,371)
Other financial liabilities	**—**	**(34,757)**	—	(41,416)
Long-term debt	**(782,160)**	**—**	(484,365)	—
	$ (514,691)	**$ 97,305**	$ 613,567	$ (63,672)

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, 2013	A change of:	Would have changed 2013 after-tax profit by:	Would have changed 2013 after-tax OCI by:
Foreign currency risk			
USD/CAD exchange rate[1]	$ +0.10	$ (51.3) million	$ (1.2) million
USD/CAD exchange rate[1]	$ -0.10	51.3 million	1.2 million
PEN/CAD exchange rate[2]	$ +0.25	(9.7) million	—
PEN/CAD exchange rate[2]	$ -0.25	9.7 million	—

December 31, 2012	A change of:	Would have changed 2012 after-tax profit by: (millions)	Would have changed 2012 after-tax OCI by: (millions)
Foreign currency risk			
USD/CAD exchange rate[1]	$ +0.10	$ 55.6 million	$ 2.8 million
USD/CAD exchange rate[1]	$ -0.10	(55.6) million	(2.8) million
PEN/CAD exchange rate[2]	$ +0.25	6.4 million	—
PEN/CAD exchange rate[2]	$ -0.25	(6.4) million	—

[1] Effect on profit due to translation of balances denominated in US dollars to CAD dollars; effect on OCI due to translation of foreign-held US dollars to CAD dollars.

[2] Effect on profit due to translation of balances denominated in Peruvian nuevo sol. Given that the functional currency of Hudbay Peru is the US dollar, this analysis assumes that the change is in the PEN/USD exchange rate with a constant USD/CAD exchange rate.

Commodity price risk

Hudbay is exposed to market risk from prices for the commodities the Group produces and sells, such as copper, zinc, 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 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, 2013	Change of:	Would have changed 2013 after-tax profit by:	Would have changed 2013 after-tax OCI by:
Commodity price risk			
Copper prices (US$/lb)[3]	$ +0.30	$ (6.3) million	—

Copper prices (US$/lb) [3]	$	-0.30	3.9 million	—
Zinc prices (US$/lb) [4]	$	+0.10	(4.4) million	—
Zinc prices (US$/lb) [4]	$	-0.10	2.0 million	—

December 31, 2012	Change of:		Would have changed 2012 after-tax profit by:	Would have changed 2012 after-tax OCI by:
Commodity price risk				
Copper prices (US$/lb) [3]	$	+0.30	$ 3.3 million	—
Copper prices (US$/lb) [3]	$	-0.30	(3.3) million	—
Zinc prices (US$/lb) [4]	$	+0.10	1.6 million	—
Zinc prices (US$/lb) [4]	$	-0.10	(1.6) million	—

[3]Effect on profit due to embedded provisional pricing derivatives (note 30c) and copper costless collars (note 30b).

[4]Effect on profit due to embedded provisional pricing derivatives (note 30c), and zinc costless collars and non-hedge zinc derivatives (note 30b).

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, 2013	Change of: %	Would have changed 2013 after-tax profit by:	Would have changed 2013 after-tax OCI by:
Share price risk			
Share prices [5]	+25%	$ 8.6 million	$ 3.5 million
Share prices [5]	-25%	(9.5) million	(2.6) million

December 31, 2012	Change of: %	Would have changed 2012 after-tax profit by:	Would have changed 2012 after-tax OCI by:
Share price risk			
Share prices [5]	+25%	$ 1.4 million	$ 16.4 million
Share prices [5]	-25%	(3.2) million	(14.6) million

[5] Effect on OCI due to mark-to-market and effect on profit due to impairment on available-for-sale investments in listed shares (note 11).

Interest rate risk

The Group is exposed to cash flow interest rate risk on its cash and cash equivalents and fair value interest rate risk on its embedded derivative associated with its Notes. There is no impact on the long-term debt as it is fixed rate debt carried at amortized cost using the effective interest rate method.

The following sensitivity analysis for interest rate risk relates solely to the prepayment option embedded derivative in the long-term debt 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, 2013	Change of:	Would have changed 2013 after-tax profit by:	Would have changed 2013 after-tax OCI by:
Interest rate risk			
Interest rates	+2.00%	$ (2.3) million	—
Interest rates	-2.00%	$ 4.6 million	—

December 31, 2012	Change of:	Would have changed 2012 after-tax profit by:	Would have changed 2012 after-tax OCI by:
Interest rate risk			
Interest rates	+2.00%	$ (3.9) million	—
Interest rates	-2.00%	$ 3.2 million	—

At December 31, 2012 and 2013, the effect of interest rate changes on the Group's cash equivalents would not have resulted in a significant after tax impact on profit.

Refer to notes 3e and 7 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 30a.

Substantially all of the Group's cash and cash equivalents are represented by deposits with major Canadian and Peruvian banks. Deposits and other investments with Schedule 1 Canadian banks represented 74.0% of total cash and cash equivalents as at December 31, 2013 (2012 - 93.7%). The Group's investment policy requires it to comply with a list of approved investments, concentration and maturity limits, as well as credit quality. 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.

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, 2013, approximately 94% of the Group's trade receivables were insured, with a credit insurance deductible of 10% (December 31, 2012 - 81%). The deductible and any additional exposure to credit risk is monitored and approved on an ongoing basis.

Four customers accounted for approximately 78% of total trade receivables as at December 31, 2013 (2012 - four customers accounted for approximately 60%). Credit risk for these customers is assessed as medium to low risk.

As at December 31, 2013, none of the Group's trade receivable was aged more than 30 days (2012 - approximately 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, 2013	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	$ 631,427	$ 631,427	$ 631,427	$ —	$ —	$ —
Non-derivative financial liabilities						
Trade and other payables, including embedded derivatives	(207,783)	(207,783)	(207,783)	—	—	—
Other financial liabilities	(34,756)	(43,136)	(17,611)	(3,108)	(5,900)	(16,517)
Long-term debt, including prepayment option embedded derivative	(779,331)	(1,328,169)	(75,781)	(75,781)	(227,344)	(949,263)
	(1,021,870)	(1,579,088)	(301,175)	(78,889)	(233,244)	(965,780)
Derivative financial liabilities						
Non-hedge zinc derivative contracts (note 17)	(4,631)	(4,631)	(4,631)	—	—	—
	(4,631)	(4,631)	(4,631)	—	—	—

Dec. 31, 2012	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	1,337,088	1,337,088	1,337,088	—	—	—
Non-derivative financial liabilities						
Trade and other payables, including embedded derivatives	(198,676)	(198,676)	(198,676)	—	—	—
Other financial liabilities	(41,416)	(50,704)	(22,050)	(3,654)	(6,049)	(18,951)
Long-term debt, including prepayment option embedded derivative	(479,540)	(877,713)	(49,459)	(47,258)	(141,773)	(639,223)
	(719,632)	(1,127,093)	(270,185)	(50,912)	(147,822)	(658,174)
Derivative financial liabilities						
Non-hedge zinc derivative contracts (note 17)	(75)	(75)	(75)	—	—	—

31. Commitments

(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, 2013 and December 31, 2012 are:

	2013	2012
Within one year	**$ 3,198**	$ 3,199
After one year but not more than five years	**9,121**	10,556
More than five years	**5,693**	8,163
	$ 18,012	$ 21,918

Payments recognized in operating expenses:

	2013	2012
Minimum lease payments	**$ 1,715**	$ 1,731
Sub-lease payments received	**(431)**	(431)
	$ 1,284	$ 1,300

Future minimum sub-lease payments expected to be received on non-cancelable leases are $1,078.

(b) Capital commitments

As at December 31, 2013, the Group had outstanding capital commitments of approximately $51,413 primarily related to its Lalor and Reed projects, of which approximately $31,582 cannot be terminated by the Group; and approximately $493,093 in Peru, primarily related to its Constancia project, of which approximately $116,299 cannot be terminated by the Group.

(c) Contingent liabilities and assets

Contingent liabilities

The Group is involved in various claims, litigation and other matters arising in the ordinary course and conduct of business. While it is not possible to determine the ultimate outcome of such actions at this time, and inherent uncertainties exist in predicting such outcomes, it is the Group's belief that the ultimate resolution of such actions is not reasonably likely to have a material adverse effect on its consolidated financial position or results of operations. As a result, no significant contingent liabilities have been recorded in these consolidated financial statements.

Contingent assets

There were no significant contingent assets at December 31, 2013 or December 31, 2012.

32. Related parties

(a) Group companies

The financial statements include the financial statements of the Company and the following significant subsidiaries:

Name	Jurisdiction	Business	Entity's Parent	Beneficial ownership of ultimate controlling party (HudBay Minerals Inc.) 2013	2012
Hudson Bay Mining and Smelting Co. Limited	Canada	Zinc and copper production	HMI	100%	100%
Hudson Bay Exploration and Development Company Limited	Canada	Exploration	HBMS	100%	100%
HudBay Marketing & Sales Inc.	Canada	Marketing and sales	HBMS	100%	100%
HudBay Peru Inc.	British Columbia	Holding company	HMI	100%	100%
HudBay Peru S.A.C.	Peru	Exploration and development	Peru Inc.	100%	100%
HudBay (BVI) Inc.	British Virgin Islands	Precious metals sales	Peru Inc.	100%	100%

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:

	2013	2012
Short-term employee and termination benefits[1]	**$ 8,632**	$ 8,056
Post-employment benefits	**948**	716
Share-based payments	**4,925**	4,669
	$ 14,505	$ 13,441

[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 subsidized goods or services) for current employees.

33. Supplementary cash flow information

(a) Change in non-cash working capital:

	December 31 2013	2012
Change in:		
Trade and other receivables	**$ 404**	$ (13,940)
Inventories	**5,907**	12,858

Prepaid expenses and other current assets	**(122)**	(615)
Trade and other payables	**(12,028)**	(28,805)
Change in taxes receivable/payable, net	**16,602**	(37,178)
Taxes - investment tax credit	**(7,968)**	(23,025)
	$ 2,795	$ (90,705)

(b) Non-cash transactions:

During the year ended December 31, 2013, the Group entered into the following non-cash investing and financing activities which are not reflected in the statements of cash flows:

- Remeasurements of the Group's decommissioning and restoration liabilities as at December 31, 2013, led to decreases in related property, plant and equipment assets of $16,547 mainly as a result of discount rate changes, unwinding of the discount rate and additional liabilities incurred. For the year ended December 31, 2012, such remeasurements led to increases in property, plant and equipment assets of $8,199.

- Property, plant and equipment included $110,449 of additions which were not yet paid for as at December 31, 2013 (December 31, 2012 - $107,604). These purchases will be reflected in the statements of cash flows in the periods payments are made.

34. 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 segment generates the Group's revenues as it sells copper concentrate (containing copper, gold and silver), zinc metal and other products. The South America segment consists of the Group's Constancia project in Peru, which Hudbay acquired on March 1, 2011, in addition to exploration activities in Chile and Colombia. 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, which is on care and maintenance, and the Michigan segment which includes the Back Forty property and other exploration properties. The Michigan segment suspended exploration and evaluation activities in July 2012 and was sold on January 17, 2014. 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, the Group's President and Chief Executive Officer, 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. Prior year comparatives have been reclassified to reflect updates to the Group's segments and to reflect amendments to IAS 19 *Employee Benefits* (note 4).

	Year ended December 31, 2013				
	Manitoba	**South America**	**Other**	**Corporate activities and unallocated costs**	**Total**
Revenue from external customers	**$ 516,801**	**$ —**	**$ —**	**$ —**	**$ 516,801**
Cost of sales					
- mine operating costs	**360,085**	**—**	**—**	**—**	**360,085**
- depreciation and amortization	**76,714**	**—**	**—**	**—**	**76,714**
Gross profit	**80,002**	**—**	**—**	**—**	**80,002**
Selling and administrative expenses	**1,912**	**—**	**—**	**38,044**	**39,956**
Exploration and evaluation	**10,962**	**11,184**	**932**	**208**	**23,286**
Other operating income	**(426)**	**—**	**—**	**(487)**	**(913)**
Other operating expenses	**1,555**	**5,736**	**1,706**	**200**	**9,197**
Asset impairment loss	**—**	**—**	**15,356**	**—**	**15,356**
Results from operating activities	**$ 65,999**	**$ (16,920)**	**$ (17,994)**	**$ (37,965)**	**$ (6,880)**
Finance income					**(3,494)**
Finance expenses					**8,921**
Other finance losses					**43,697**
Loss before tax					**(56,004)**
Tax expense					**53,272**
Loss for the year					**$ (109,276)**

	December 31, 2013				
	Manitoba	South America	Other	Corporate activities and unallocated costs	Total
Total assets	**$ 1,295,239**	**$ 2,358,049**	**$ 11,210**	**$ 179,488**	**$ 3,843,986**
Total liabilities	**825,035**	**554,617**	**19,755**	**816,872**	**2,216,279**
Property, plant and equipment	**820,030**	**1,837,709**	**2,590**	**4,746**	**2,665,075**
	Year ended December 31, 2013				
Additions to property, plant and equipment[1]	**$ 200,369**	**$ 700,132**	**$ 1,484**	**$ —**	**$ 901,985**
Additions to other non-current assets (intangibles)	**2,691**	**—**	**—**	**320**	**3,011**

[1] Additions to property, plant and equipment represent cash additions only. For non-cash additions, see note 33.

	Year ended December 31, 2012 (restated, note 4)				
	Manitoba	South America	Other	Corporate activities and unallocated costs	Total
Revenue from external customers	$ 702,550	$ —	$ —	$ —	$ 702,550
Cost of sales					
- mine operating costs	432,866	—	—	—	432,866
- depreciation and amortization	75,801	—	—	—	75,801
Gross profit	193,883	—	—	—	193,883
Selling and administrative expenses	1,474	—	—	38,099	39,573
Exploration and evaluation	15,335	19,942	6,935	1,360	43,572
Other operating income	(929)	(31)	(8)	(1,348)	(2,316)
Other operating expenses	2,884	4,682	3,357	409	11,332
Results from operating activities	$ 175,119	$ (24,593)	$ (10,284)	$ (38,520)	$ 101,722
Finance income					(6,217)
Finance expenses					14,858
Other finance losses					44,700
Profit before tax					48,381
Tax expense					71,844
Loss for the year					$ (23,463)
	December 31, 2012 (restated, note 2f, 4)				
Total assets	$ 1,509,241	$ 1,188,064	$ 23,997	$ 755,195	$ 3,476,497
Total liabilities	969,693	318,872	21,057	513,415	1,823,037
Property, plant and equipment	730,949	974,733	21,039	5,452	1,732,173
	Year ended December 31, 2012				
Additions to property, plant and equipment[1]	$ 216,409	$ 290,094	$ 1,664	$ 300	$ 508,467
Additions to other non-current assets (intangibles)	2,004	—	—	—	2,004

[1] Additions to property, plant and equipment represent cash additions only. For non-cash additions, see note 33.

Geographical Segments

The following tables represent revenue information regarding the Group's geographical segments for the years ended December 31, 2013 and December 31, 2012.

	2013	2012
Revenue by destination		
Canada	**342,905**	360,680

United States	**134,704**	115,701
Switzerland	**34,802**	134,204
Germany	**16,888**	42,260
Sweden	**—**	49,820
Other	**21**	**—**
	529,320	702,665
Less: pre-production revenue	**12,519**	115
Total	**516,801**	702,550

During the year ended December 31, 2013, two customers accounted for approximately 28% and 18%, respectively of total revenue during the year. During the year ended December 31, 2012 two customers accounted for approximately 31% and 13% respectively of total revenue during the year. Revenues from these customers have been presented in the Manitoba operating segment.

35. Subsequent Events

Equity offering

On January 9, 2014, the Group announced that it had entered into an agreement with a syndicate of underwriters who agreed to purchase, on a bought deal basis, 18,200,000 of our common shares at a price of $8.25 per share. The underwriters were granted an over allotment option, which they exercised in full, for an additional 2,730,000 common shares. The transaction closed on January 30, 2014, and aggregate gross proceeds from the offering were $172,673.

Equipment Finance Facility

In October 2013, the Group entered into an equipment financing facility with Caterpillar Financial Services Corporation to finance the purchase of up to approximately US$130 million of the mobile fleet at the Group's Constancia project. Loans pursuant to the equipment financing facility will have a term of six years and be secured by the Constancia mobile fleet. Subsequent to year end, the Group has drawn down US$26.5 million under the facility and expects to draw down the remaining available funds later in the first quarter of 2014 as it completes commissioning of the related equipment.

Offer to Acquire Augusta

On February 9, 2014, the Group announced its intention to commence an offer to acquire all of the issued and outstanding common shares of Augusta not already owned by Hudbay (the "Offer").

Under the terms of the Offer, Augusta shareholders will be entitled to receive 0.315 of a Hudbay common share for each Augusta common share held, representing approximately $2.96 per Augusta common share (based on Hudbay's closing share price on the TSX on February 7, 2014). The Offer values Augusta at an enterprise value of approximately $540 million on a fully diluted in-the-money basis.

Exhibit 99.3

HUDBAY MINERALS INC.

Management's Discussion and Analysis of
Results of Operations and Financial Condition

For the Year Ended
December 31, 2013

February 19, 2014

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NOTES TO READER

This Management's Discussion and Analysis ("MD&A") dated February 19, 2014 is intended to supplement and complement HudBay Minerals Inc.'s audited consolidated financial statements and related notes for the year ended December 31, 2013 (the "consolidated financial statements"). The consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

Additional information regarding HudBay Minerals Inc., including the risks related to our business and those that are reasonably likely to affect our financial statements in the future, is contained in our continuous disclosure materials, including our most recent Annual Information Form ("AIF"), audited consolidated financial statements and Management Information Circular, available on SEDAR at www.sedar.com and 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. "Hudbay Peru" refers to HudBay Peru S.A.C., our wholly-owned subsidiary.

Forward-Looking Information

This MD&A contains "forward-looking statements" and "forward-looking information" (collectively, "forward-looking information") within the meaning of applicable Canadian and United States securities legislation. All information contained in this MD&A, other than statements of current and historical fact, is forward-looking information. Often, but not always, forward-looking information can be identified by the use of words such as "plans", "expects", "budget", "guidance", "scheduled", "estimates", "forecasts", "strategy", "target", "intends", "objective", "goal", "understands", "anticipates" and "believes" (and variations of these or similar words) and statements that certain actions, events or results "may", "could", "would", "should", "might" "occur" or "be achieved" or "will be taken" (and variations of these or similar expressions). All of the forward-looking information in this MD&A is qualified by this cautionary note.

Forward looking information includes, but is not limited to, statements with respect to the anticipated timing, mechanics, completion and settlement of the Offer (as defined below) to acquire all of the issued and outstanding shares of Augusta Resource Corporation ("Augusta"), the market for and listing of the common shares we may issue pursuant to the Offer, the value of the our common shares that may be received as consideration under the Offer, our ability to complete the transactions contemplated by the Offer, the permitting, development and financing of

Augusta's Rosemont project, the purpose of the Offer, the completion of any compulsory acquisition or subsequent acquisition transaction in connection with the Offer and any commitment to acquire outstanding shares of Augusta, our objectives, strategies, intentions, expectations and guidance and future financial and operating performance and prospects, our expectation as to the use of proceeds from the recently completed equity offering, production at our 777, Lalor and Reed mines and initial production from the Constancia project, continued processing at our Flin Flon concentrator, Snow Lake concentrator and Flin Flon zinc plant, our ability to complete the development of our Lalor, Constancia and Reed projects and the anticipated scope and cost of any development plans for these projects, anticipated timing of our projects and events that may affect our projects, including the anticipated issue of required licenses, our expectation that we will receive the remaining deposit amounts under our amended precious metals stream transaction with Silver Wheaton Corp. and additional funding under our equipment financing transaction with Caterpillar Financial Services Corporation ("Cat Financial"), expectations with respect to additional credit facilities, the anticipated effect of external factors on revenue, such as commodity prices, anticipated exploration and development expenditures and activities and the possible success of such activities, estimation of mineral reserves and resources, mine life projections, timing and amount of estimated future production, reclamation costs, economic outlook, government regulation of mining operations, and business and acquisition strategies.

Forward-looking information is not, and cannot be, a guarantee of future results or events. Forward-looking information is based on, among other things, opinions, assumptions, estimates and analyses that, while considered reasonable by us at the date the forward-looking information is provided, inherently are subject to significant risks, uncertainties, contingencies and other factors that may cause actual results and events to be materially different from those expressed or implied by the forward-looking information. The material factors or assumptions that we identified and were applied by us in drawing conclusions or making forecasts or projections set out in the forward looking information include, but are not limited to:

- the success of mining, processing, exploration and development activities;
- the accuracy of geological, mining and metallurgical estimates;
- the costs of production;
- the supply and demand for metals we produce;
- no significant and continuing adverse changes in financial markets, including commodity prices and foreign exchange rates;
- the supply and availability of concentrate for our processing facilities;
- the supply and availability of reagents for our concentrators;
- the availability of third party processing facilities for our concentrate;
- the supply and availability of all forms of energy and fuels at reasonable prices;
- the availability of transportation services at reasonable prices;
- no significant unanticipated operational or technical difficulties;
- the execution of our business and growth strategies, including the success of our strategic

investments and initiatives;
- the availability of financing for our exploration and development projects and activities;
- the ability to complete project targets on time and on budget and other events that may affect our ability to develop our projects;
- the timing and receipt of various regulatory and governmental approvals;
- the availability of personnel for our exploration, development and operational projects and ongoing employee relations;
- our ability to secure required land rights to complete our Constancia project;
- maintaining good relations with the communities in which we operate, including the communities surrounding our Constancia project and First Nations communities surrounding our Lalor and Reed projects;
- no significant unanticipated challenges with stakeholders at our various projects;
- no significant unanticipated events or changes relating to regulatory, environmental, health and safety matters;
- no contests over title to our properties, including as a result of rights or claimed rights of aboriginal peoples;
- the timing and possible outcome of pending litigation and no significant unanticipated litigation;
- certain tax matters, including, but not limited to current tax laws and regulations and the refund of certain value added taxes from the Canadian and Peruvian governments;
- no significant and continuing adverse changes in general economic conditions or conditions in the financial markets; and
- the accuracy of Augusta's public disclosure;

The risks, uncertainties, contingencies and other factors that may cause actual results to differ materially from those expressed or implied by the forward-looking information may include, but are not limited to, the impact of the issuance of our common shares as consideration under the Offer on the market price of our common shares, the development of the Rosemont project not occurring as planned, the exercising of dissent and appraisal rights by Augusta shareholders should a compulsory acquisition or subsequent acquisition transaction be undertaken in connection with the Offer, Augusta becoming a majority-owned subsidiary of Hudbay after consummation of the Offer, the inaccuracy of Augusta's public disclosure upon which the Offer is predicated, the triggering of change of control provisions in Augusta's agreements leading to adverse consequences, the failure to obtain the required approvals or clearances from government authorities on a timely basis, risks generally associated with the mining industry, such as economic factors (including future commodity prices, currency fluctuations, energy prices and general cost escalation), uncertainties related to the development and operation of our projects (including the impact on project cost and schedule of construction delays and unforeseen risks and other factors beyond our control), depletion of our reserves, risks related to political or social unrest or change and those in respect of aboriginal and community relations, rights and title claims, operational risks and hazards, including unanticipated environmental, industrial and geological events and developments and the inability to insure against all risks, failure of plant, equipment, processes, transportation and other infrastructure to operate as anticipated, compliance with government and environmental regulations, including permitting requirements and anti-bribery legislation, dependence on key personnel and employee relations, volatile financial markets that may affect our ability to obtain financing on acceptable terms, uncertainties related to the geology, continuity, grade and estimates of mineral reserves and resources and the potential for variations in grade and recovery rates, uncertain costs of reclamation activities, our ability to comply with our pension and other post-retirement obligations, our ability to abide by the covenants in our debt instruments or other material contracts, tax refunds, hedging transactions, as well as the risks discussed under the heading "Risk Factors".

Should one or more risk, uncertainty, contingency or other factor materialize or should any factor or assumption prove incorrect, actual results could vary materially from those expressed or implied in the forward-looking information. Accordingly, you should not place undue reliance on forward-looking information. We do not assume any obligation to update or revise any forward-looking information after the date of this MD&A or to explain any material difference between subsequent actual events and any forward-looking information, except as required by applicable law.

Information Concerning Augusta

Except as otherwise expressly indicated herein, the information concerning Augusta contained in this MD&A has been taken from and is based solely upon Augusta's public disclosure on file with the relevant securities regulatory authorities. Augusta has not reviewed this document and has not confirmed the accuracy and completeness of the information in respect of Augusta contained in this MD&A. Although we have no knowledge that would indicate that any information or statements contained in this MD&A concerning Augusta taken from, or based upon, such public disclosure contain any untrue statement of a material fact or omit to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made, none of our directors or officers have verified, nor do they assume any responsibility for, the accuracy or completeness of such information or statements or for any failure by Augusta to disclose events or facts which may have occurred or which may affect the significance or accuracy of any such information or statements but which are unknown to us. We have no means of verifying the accuracy or completeness of any of the information contained herein that is derived from Augusta''s publicly available documents or records or whether there has been any failure by Augusta to disclose events that may have occurred or may affect the significance or accuracy of any information. Except as otherwise indicated, information concerning Augusta is given based on information in Augusta''s public disclosure available as of the date hereof.

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 materially from the requirements of United States securities laws applicable to U.S. issuers. 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 Securities and Exchange Commission (the "SEC") set forth in Industry Guide 7. Under the SEC's 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. 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 should consider closely the disclosure on the mining industry technical terms in Schedule A "Glossary of Mining Terms" of our Annual Information Form for the fiscal year ended December 31, 2012, 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 28, 2013 (File No. 001-34244).

Cautionary Note in Respect of the Offer

The full details of the Offer are set out in the takeover bid circular and accompanying offer documents (collectively, the "Offer Documents"), which we filed with the Canadian securities regulatory authorities. We also filed with the SEC a registration statement on Form F-10 (the "Registration Statement"), which contains a prospectus relating to the Offer (the "Prospectus"), and a tender offer statement on Schedule TO (the "Schedule TO"). The disclosure related to the Offer in this MD&A is not a substitute for the Offer Documents, the Prospectus, the Registration Statement or the Schedule TO. AUGUSTA SHAREHOLDERS AND OTHER INTERESTED PARTIES ARE URGED TO READ THESE DOCUMENTS, ALL DOCUMENTS INCORPORATED BY REFERENCE, ALL OTHER APPLICABLE DOCUMENTS AND ANY AMENDMENTS OR SUPPLEMENTS TO ANY SUCH DOCUMENTS WHEN THEY BECOME AVAILABLE, BECAUSE EACH WILL CONTAIN IMPORTANT INFORMATION ABOUT HUDBAY, AUGUSTA AND THE OFFER. Materials filed with the Canadian securities regulatory authorities are available electronically without charge at www.sedar.com. Materials filed with the SEC are available electronically without charge at the SEC's website at www.sec.gov. All such materials may also be obtained without charge at Hudbay's website, www.hudbayminerals.com or by directing a written or oral request to the Information Agent for the Offer, Kingsdale Shareholder Services Inc. at 1-866-229-8874 (North American Toll Free Number) or 1-416-867-2272 (outside North America), or by email at contactus@kingsdaleshareholder.com or to the Vice President, Legal and Corporate Secretary of Hudbay at 25 York Street, Suite 800, Toronto, Ontario, telephone (416) 362-8181.

The Offer does not constitute an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction in which such offer or solicitation is unlawful.

Presentation of Non-IFRS Financial Performance Measures

We use operating cash flow per share and cash cost per pound of copper sold as non-IFRS financial performance measures in our MD&A. For a detailed description these non-IFRS financial performance measures, please see the discussion under "Non-IFRS Financial Performance Measures" beginning on page 53 of this MD&A.

Qualified Person

The scientific and technical information in this MD&A related to the Constancia project (including Pampacancha) has been prepared under the supervision of and approved by 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 MD&A has been prepared under the supervision of and approved by Robert Carter, P. Eng., our Director, Technical Services. Messrs. Meagher and Carter are "Qualified Persons" for purposes of National Instrument 43-101 — Standards of Disclosure for Mineral Projects ("NI 43-101"). For a description of the key assumptions, parameters and methods used to estimate mineral reserves and resources, as well as data verification procedures and a general discussion of the extent to which the estimates may be affected by any known environmental, permitting, legal title, taxation, socio-political, marketing or other relevant factors, please see the Technical Reports for each of Hudbay's properties as filed on SEDAR at www.sedar.com.

OUR BUSINESS

We are an integrated mining company producing copper concentrate (containing copper, gold and silver) and zinc metal. With assets in North and South America, 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 junior exploration companies. Our growth strategy is focused on the exploration and development of properties we already control, as well as other mineral assets we may acquire that fit our strategic criteria. Our mission is to create sustainable value through increased commodity exposure on a per share basis for our shareholders. We are governed by the *Canada Business Corporations Act* and our shares are listed under the symbol "HBM" on the Toronto Stock Exchange, New York Stock Exchange and Bolsa de Valores de Lima.

SUMMARY

- Constancia project over 56% complete at December 31, 2013, with capital costs and schedule on target; power line construction and community relocation well advanced.
- Commissioning of Lalor production shaft on schedule for second half of 2014; Reed commercial production on track for the first half of 2014.
- Completed an equity offering of 20.9 million common shares in January 2014 at a price of $8.25 per share for gross proceeds of $172.7 million.
- On February 9, 2014, announced intention to commence an offer to acquire Augusta Resource Corporation; Augusta is the operator of the undeveloped Rosemont copper project in Arizona.
- Loss and loss per share in the fourth quarter of 2013 were $61.5 million and $0.32, respectively, compared to a profit and profit per share of $8.1 million and $0.05 in the fourth quarter of 2012.
- Operating cash flow per share before stream deposit and change in non-cash working capital during the fourth quarter of 2013 was nil compared to $0.03 in the fourth quarter of 2012.
- Semi-annual dividend of $0.01 per share declared.

KEY FINANCIAL AND PRODUCTION RESULTS

Financial Condition ($000s)	**Dec. 31, 2013**	**Dec. 31, 2012**
Cash and cash equivalents	**631,427**	1,337,088
Working capital	**583,124**	1,182,047
Total assets	**3,843,986**	3,476,497
Equity[1]	**1,635,611**	1,653,771

Financial Performance ($000s except per share and cash cost amounts)	**Three Months Ended**		**Year Ended**	
	Dec. 31 2013	**Dec. 31 2012**	**Dec. 31 2013**	**Dec. 31 2012**
Revenue	**136,082**	180,994	**516,801**	702,550
(Loss) profit before tax	**(33,693)**	24,509	**(56,004)**	48,381
Basic and diluted (loss) earnings per share[1]	**(0.32)**	0.05	**(0.59)**	(0.12)
Profit (loss) for the period	**(61,481)**	8,143	**(109,276)**	(23,463)
Operating cash flow before stream deposit and change in non-cash working capital	**762**	6,002	**9,849**	142,957
Operating cash flow per share [2]	**—**	0.03	**0.06**	0.83
Cash cost, after by-product credits (per pound) [2]	**2.16**	1.99	**1.91**	1.11

Production (contained metal in concentrate) [3]					
Copper	*(tonnes)*	**7,334**	8,162	**29,930**	39,587
Zinc	*(tonnes)*	**19,910**	18,370	**86,527**	80,865
Gold	*(troy oz.)*	**18,098**	20,909	**79,183**	86,553
Silver	*(troy oz.)*	**169,216**	198,407	**772,524**	823,970
Metal Sold					
Payable metal in concentrate					
Copper	*(tonnes)*	**7,591**	10,683	**28,703**	43,464
Gold	*(troy oz.)*	**19,940**	27,102	**79,016**	84,835
Silver	*(troy oz.)*	**203,272**	292,409	**729,106**	768,804
Refined zinc	*(tonnes)*	**25,743**	30,387	**103,894**	103,437

[1] Attributable to owners of the Company.
[2] Operating cash flow per share and cash cost, after by-product credits per pound of copper sold are non-IFRS financial performance measures with no standardized definition under IFRS. For further information and a detailed reconciliation, please see page 53 of this MD&A.
[3] Metal reported in concentrate is prior to refining losses or deductions associated with smelter contract terms.

Total revenue for the fourth quarter of 2013 was $136.1 million, $44.9 million lower than the same period in 2012. This decrease was primarily due to lower inventory balances on hand in 2013 resulting in lower copper and zinc sales volumes compared to the fourth quarter of 2012. Also, as reported in our press release of January 8, 2014, copper production was below expectations in the fourth quarter. Grades mined at 777 were affected by the deferral of higher copper grade zones from the 2013 mine plan to future years as a result of temporary limitations in paste backfill availability and requirements for ground support in the higher grade zones. While rehabilitation work will continue into 2014, we remain on track to achieve full year 2014 metals production and cost guidance.

Fourth quarter of 2013 loss was affected by, among other things, the following items:

	Pre-tax gain (loss) ($ millions)	After-tax gain (loss) ($ millions)	Earnings Per Share Impact ($/share)
Impairments and mark-to-market adjustments related to junior mining investments	(8.5)	(8.5)	(0.05)
Impact on deferred taxes on change in discount rate on decommissioning and restoration liabilities	—	1.0	0.01
Peruvian deferred tax arising from fiscal stability agreement and other items	—	(20.1)	(0.12)
Foreign currency translation loss	(8.9)	(11.0)	(0.06)
Adjustment made on zinc inventory write down	(5.0)	(3.1)	(0.02)
Gain as a result of provisional pricing adjustments	0.1	0.1	—
Impairment on sale of Back Forty	(11.9)	(11.9)	(0.04)
Mark-to-market gain on metal price hedging	0.4	0.3	—

STRATEGY

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 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 in these respects relative to other mining companies of similar scale.

We intend to grow Hudbay through exploration and development of properties we already control, such as our Lalor and Reed projects in northern Manitoba and our Constancia project in Peru, as well as through the acquisition of exploration and development properties, as demonstrated by our Offer to acquire the issued and outstanding common shares of Augusta and its Rosemont project in Arizona. We also intend to optimize the value of our producing assets through efficient and safe operations.

In an attempt to ensure that any acquisitions we undertake create sustainable value for stakeholders, we have established a number of criteria for

evaluating mineral property acquisition opportunities, 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 metals prices;
- We typically look for mineral assets that we believe offer significant exploration potential. We believe that the market for mineral assets is sophisticated and fully values 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 typically focus on earlier stage projects unless exceptional opportunities present themselves;
- Before we make an acquisition, we develop a clear understanding of how we can add value to the acquired property through the application of our technical, operational and project execution expertise, the provision of necessary financial capacity and other optimization 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 objectives for 2014 and early 2015 are to:

- Advance the Constancia project toward first production in late 2014 and commercial production in the second quarter of 2015, including completion of the heavy civil earthworks and processing facilities, mine pre-stripping, commissioning of the processing facilities and progressing technical and permitting work on the Pampacancha deposit;
- Advance the Lalor mine toward production from the main production shaft in the second half of 2014, including installation and commissioning of the production shaft equipment, completing refurbishment work at the Snow Lake concentrator and acquiring necessary permits on a timely basis;
- Advance the Reed mine to achieve commercial production in the first half of 2014;
- Continue our exploration program including the development of an underground exploration drift at the Lalor mine and continue to partner with junior mining companies to access promising exploration opportunities; and
- Continue to evaluate acquisition opportunities that meet our criteria described above, and pursue those opportunities that we determine to be in the best interest of the company and our shareholders, such as our offer to acquire Augusta.

RECENT DEVELOPMENTS

Equity Financing

On January 9, 2014, we announced that we had entered into an agreement with a syndicate of underwriters who agreed to purchase, on a bought deal basis, 18,200,000 of our common shares at a price of $8.25 per share. The underwriters were granted an over allotment option, which they exercised in full, for an additional 2,730,000 common shares. The transaction closed on January 30, 2014, and the aggregate gross proceeds from the offering were $172.7 million.

We intend to use the net proceeds of the offering for general corporate purposes, including providing us the flexibility to pursue opportunities to advance our growth strategy.

Offer to Acquire Augusta

On February 9, 2014, we announced our intention to commence an offer to acquire all of the issued and outstanding common shares of Augusta not already owned by us (the “Offer”).

Under the terms of the Offer, Augusta shareholders are entitled to receive 0.315 of a Hudbay common share for each Augusta common share held, representing approximately $2.96 per Augusta common share (based on Hudbay’s closing share price on the TSX on February 7, 2014). The Offer represents a premium of approximately 62% based on the 20-day volume-weighted average share prices of Hudbay and Augusta on the TSX for the period ended February 7, 2014, and a premium of approximately 18% to Augusta’s closing share price on the TSX on February 7, 2014 in addition to Augusta’s 26% share price increase during the two trading days preceding the Offer. The Offer values Augusta at an enterprise value of approximately $540 million on a fully diluted in-the-money basis.

The Offer is open for acceptance until 5:00 p.m. (Toronto time) on March 19, 2014, unless extended or withdrawn.

DEVELOPMENT UPDATE

Constancia

At our 100% owned Constancia copper project in Peru, detailed engineering and procurement were substantially completed during 2013, with

only minor process controls and final contracts outstanding. As at December 31, 2013 the project was over 56% complete. Of the total project capital budget of US$1.7 billion, we have incurred approximately US$1.03 billion in costs to December 31, 2013 and have entered into an additional US$319 million in commitments.

We continue to advance construction activities on the power transmission line from Tintaya to Constancia, with rights of way agreements in place for 100% of the alignment. The power line construction progress was 61% complete as at January 31, 2014. We are currently commissioning mining equipment and training operators and we expect to begin pre-stripping late in the first quarter of 2014. SAG and ball mill shells and heads are 100% assembled, with trunnion installation and pinion and girth gear assembly upcoming, followed by liner installation and electromechanical tasks. Installation and assembly of the float cells is complete with work ongoing in structural steel and electromechanical equipment. We are conducting steel erection at the plant site and productivity is advancing well. Water capture for operations began in December 2013. Dam construction on the east tailings facility is well underway and on schedule. Bog removal in the east tailings facility is near completion and geomembrane liner installation continues with excellent progress.

In accordance with the agreements we have entered into with local communities, we have delivered new homes to 29 of 36 families and have constructed a total of 32 homes. The relocation of these families is in progress. In the initial area required for operations, agreements with the three families yet to move have now been reached, and to date there has been no impact to our schedule. Negotiations to secure surface rights over the Pampacancha deposit are expected to commence in the near future.

We have received approval of all required construction permits. In the third quarter of 2013, we received approval of our Environmental and Social Impact Assessment ("ESIA") Modification 1 and submitted an application for a second amendment to the ESIA in December 2013 in respect of the final project configuration and to permit the incorporation of Pampacancha into the mine plan. We have received the first round of observations from the Ministry on ESIA Modification 2 and are addressing them with no critical items noted. All permitting remains on schedule. We have also obtained approval for the early refund of value added tax on purchases with retroactive effect to December 2012 and have received our first refund of US$21 million from the tax authorities in January 2014. Also in December 2013, we entered into a 15-year tax and fiscal stability agreement with the government of Peru.

The existing project schedule and revised capital cost estimate contemplates that the remaining capital spending will occur in 2014 as set out below:

	(in US$ millions)
Total estimated future capital spending - 2014	678
Total spent in 2012 - 2013	1,030
Total[1]	**1,708**

[1] The total project budget does not reflect pre-production revenue and costs, which will continue to be applied to capitalized costs during the development period.

Lalor

Of the mine construction budget of $441 million, we have invested approximately $381 million at our 100% owned Lalor project in Manitoba to December 31, 2013 and have entered into an additional $32 million in commitments. The underground mine remains on schedule and on budget. We are continuing the underground project development and have completed the excavation of the production shaft to the 985 metre level. We have completed the steel guide installation to the 220 metre level as at January 31, 2014 and are planning to complete the installation in the second quarter of 2014. Underground construction on the ore and waste handling systems and main dewatering is proceeding on schedule. We have now completed the final engineering for the surface exhaust fan installation which will be built after the main ventilation shaft hoist is dismantled. We have completed the final planning for the office/changehouse and final site layout. We expect to receive the Environmental Act licence, which permits mining from the production shaft, in the ordinary course.

We are investing $9 million at our existing Snow Lake concentrator to refurbish equipment and facilities and double production capacity to approximately 2,700 tonnes per day by mid-2014, when the production shaft at Lalor is being commissioned. This investment has enabled the deferral of construction of the new Lalor concentrator until 2015.

Given the nature of the Lalor project, we expect to refer to three phases of the Lalor project when determining commercial production for accounting purposes. The first phase of the project includes the main ventilation shaft and associated surface and underground workings that will contribute to the production of ore between 2012 and 2014. We commenced commercial production for the first phase on April 1, 2013 with Lalor initial production contributing to profit starting at that time.

The second phase of the project is expected to be completed in the second half of 2014 when the main production shaft has been commissioned for ore hoisting, subject to receipt of required regulatory permits. At that time we expect to discontinue the use of the ventilation shaft for hoisting and transition fully to use of the main production shaft. We have determined that the appropriate level of activity that represents commercial production for the second phase of the project is hoisting at 60% of the average of planned ore mined over a one year period for a minimum of a one month period. Once the new production shaft is operational but prior to reaching commercial production from the production shaft, all revenue and costs associated with mine production from Lalor will be capitalized.

The third phase of the project involves the new concentrator. We are processing the Lalor ore at the nearby Snow Lake concentrator until we complete the construction of the new concentrator located at the Lalor site.

The remaining capital spending on the Lalor mine project is expected to occur in 2014 as set out below:

(in $ millions)	**Mine**

Total estimated future capital spending - 2014	60
Total spent in 2010-2013	381
Total[1]	**441**

[1] The total project budget does not reflect pre-production revenue and costs or investment tax credits associated with new mine status for income tax purposes, all of which will continue to be applied to capitalized costs.

Reed

Of our $72 million estimated capital construction budget, we have invested approximately $63 million at our 70% owned Reed project in Manitoba to December 31, 2013 and have entered into an additional $4 million in commitments. As of January 31, 2014, project development has advanced 2,004 metres with an additional 598 metres of pre-production development for a total 2,602 metres of advancement.

During the fourth quarter of 2013 the mine produced 29,997 tonnes of ore at a copper grade of 1.96% and a zinc grade of 2.72%. The majority of the 38,232 tonnes mined in 2013 were from the zinc-rich Zone 30 resulting in the production of a zinc concentrate, which was not anticipated in the pre-feasibility study. In December 2013, mining commenced from the first longhole production stope on the 85 metre level. The project is on budget and on schedule and is expected to reach commercial production by the second quarter of 2014.

The remaining capital spending on the Reed mine is expected to occur in 2014 as set out below:

(in $ millions)	
Total estimated future capital spending - 2014	9
Total spent in 2012-2013	63
Total[1]	**72**

[1] The total project budget does not reflect pre-production revenue and costs or investment tax credits associated with new mine status for income tax purposes, all of which will continue to be applied to capitalized costs.

OPERATIONS REVIEW

The Environment

There were no significant environmental non-compliances during 2013.

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 cast zinc products are registered to the ISO 9001 quality standard.

Health and Safety

For the three months ended December 31, 2013, we recorded a lost time accident frequency (including contractors) of 0.2 per 200,000 hours worked, the same lost time accident frequency for the comparable period in 2012. For the full year 2013, we recorded a lost time accident frequency of 0.4, compared to a lost time accident frequency of 0.3 in 2012.

Mines

		Three Months Ended		Year Ended		Guidance[1]
		Dec. 31 2013	Dec. 31 2012	Dec. 31 2013	Dec. 31 2012	2013
777						
Ore	*tonnes*	**391,946**	403,281	**1,625,532**	1,529,103	1,620,000
Copper	*%*	**1.71**	2.04	**1.85**	2.32	2.18
Zinc	*%*	**3.57**	3.69	**3.81**	4.16	4.41
Gold	*g/tonne*	**1.77**	2.24	**2.02**	2.18	1.94
Silver	*g/tonne*	**20.25**	24.09	**23.01**	25.77	30.89
Trout Lake						
Ore	*tonnes*	**—**	—	**—**	247,868	—
Copper	*%*	**—**	—	**—**	2.03	—
Zinc	*%*	**—**	—	**—**	3.65	—
Gold	*g/tonne*	**—**	—	**—**	2.23	—
Silver	*g/tonne*	**—**	—	**—**	13.64	—
Chisel North Zinc Ore						
Ore	*tonnes*	**—**	—	**—**	135,808	—

Zinc	%	**—**	—	**—**	8.78	—
Chisel North Copper Ore						
Ore	*tonnes*	**—**	—	**—**	50,970	—
Copper	%	**—**	—	**—**	1.61	—
Zinc	%	**—**	—	**—**	2.50	—
Gold	*g/tonne*	**—**	—	**—**	2.44	—
Silver	*g/tonne*	**—**	—	**—**	24.39	—
Lalor						
Ore	*tonnes*	**101,327**	57,926	**400,590**	72,293	418,000
Copper	%	**1.02**	0.54	**0.84**	0.63	0.54
Zinc	%	**8.64**	12.09	**9.44**	11.83	9.89
Gold	*g/tonne*	**1.54**	1.44	**1.21**	1.67	1.23
Silver	*g/tonne*	**23.71**	17.33	**19.39**	19.29	17.70
Reed[2]						
Ore	*tonnes*	**29,997**	—	**38,232**	—	51,000
Copper	%	**1.96**	—	**1.90**	—	3.43
Zinc	%	**2.72**	—	**2.73**	—	1.18
Gold	*g/tonne*	**0.92**	—	**0.92**	—	0.72
Silver	*g/tonne*	**11.17**	—	**11.33**	—	8.80
Total Mines						
Ore	*tonnes*	**523,270**	461,207	**2,064,354**	2,036,042	—
Copper	%	**1.59**	1.85	**1.66**	2.06	—
Zinc	%	**4.50**	4.74	**4.89**	4.64	—
Gold	*g/tonne*	**1.68**	2.14	**1.84**	2.07	—
Silver	*g/tonne*	**20.40**	23.24	**22.09**	24.70	—

[1] Initial guidance as released on January 9, 2013.
[2] Includes 100% of Reed mine production.

		Three Months Ended		Year Ended		Guidance[1]
Unit Operating Costs		**Dec. 31 2013**	**Dec. 31 2012**	**Dec. 31 2013**	**Dec. 31 2012**	**2013**
Mines						
777	*$/tonne*	**43.00**	49.31	**43.06**	42.83	38 - 42
Trout Lake	*$/tonne*	**—**	—	**—**	56.15	—
Chisel North	*$/tonne*	**—**	—	**—**	92.36	—
Lalor	*$/tonne*	**109.87**	—	**110.35**	—	75 - 95
Total Mines	*$/tonne*	**56.73**	49.31	**54.28**	49.22	

[1] Initial guidance as released on January 9, 2013.

777 Mine

Ore production at our 777 mine for the fourth quarter of 2013 decreased 3% compared to the same period in 2012 primarily due to ground conditions, which required rehabilitation of existing stopes and which prevented mining in those stopes in the quarter. Copper grade in the fourth quarter of 2013 was 16% lower than the same period in 2012 as a result of reduced flexibility in our current mining plan. In the fourth quarter of 2013, zinc, gold and silver grades decreased by 3%, 21% and 16%, respectively, compared to the same period in 2012 as a result of the areas being mined. Operating costs per tonne of ore in the fourth quarter of 2013 were 13% lower, compared to the same period in 2012, primarily due to improved maintenance on equipment and increased amount of capital activity.

Full year 2013 ore production increased 6% compared to the same period in 2012 primarily due to improved equipment availability. Copper, zinc, gold and silver grades for 2013 were lower by 20%, 8%, 7% and 11%, respectively, compared to 2012, due to sequencing of stopes. Copper and zinc grades were lower than 2013 guidance due to ground conditions encountered at the 777 mine that led to a change in planned mine sequencing of certain higher grade zones and the limitation of paste backfill in the third quarter which also impacted stope sequencing. These higher grade zones are scheduled to be mined in 2014 and subsequent years.

Operating costs in 2013 remained relatively consistent compared to the same period in 2012, but were higher than guidance mainly due to contractor costs and higher than expected rehabilitation costs. Additional contractor work was required at 777 in the first two quarters of 2013 due to issues with equipment availability in the fall of 2012 that reduced operating development rates.

Trout Lake Mine and Chisel North Mine

We closed our Trout Lake mine on June 29, 2012 after more than 30 years of operation, and production at our Chisel North mine ended on September 30, 2012.

Lalor Mine

Commercial production commenced for the first phase of Lalor on April 1, 2013. Costs during the first quarter were capitalized to the Lalor project, however, as we commenced commercial production at the beginning of the second quarter, all costs incurred after that time are included in cost of sales on the consolidated income statements. Production for the year was slightly lower than expectations as a result of the breakdown of the temporary hoisting apparatus in the third quarter of 2013. Although ore was trucked to surface during repairs to the hoist, production was at a reduced rate for a five week period.

During 2013, at our Lalor mine, operating costs were above guidance due to higher than expected contractor costs.

Reed Mine

The Reed Mine commenced production in September 2013 and is expected to reach commercial production by the second quarter of 2014. Production volumes and grades were below guidance due to mining ore lenses at higher levels within the mine than previously planned. The ore lenses at these elevations contained lower volume and grade than is expected at lower lenses.

Processing Facilities

		Three Months Ended		Year Ended		Guidance	
		Dec. 31 2013	Dec. 31 2012	Dec. 31 2013	Dec. 31 2012	2013[1]	2014
Flin Flon Concentrator[2]							
Ore	*tonnes*	**436,623**	414,489	**1,658,035**	1,872,211	1,719,000	—
Copper	%	**1.72**	2.06	**1.86**	2.27	—	—
Zinc	%	**3.54**	3.74	**3.79**	4.06	—	—
Gold	g/tonne	**1.73**	2.23	**1.99**	2.20	—	—
Silver	g/tonne	**19.98**	24.45	**22.77**	24.16	—	—
Copper concentrate	*tonnes*	**28,530**	31,819	**118,125**	162,701	—	—
Concentrate grade	*% Cu*	**23.59**	24.88	**23.66**	24.18	—	—
Zinc concentrate	*tonnes*	**24,006**	25,453	**100,082**	123,326	—	—
Concentrate grade	*% Zn*	**50.93**	51.73	**51.79**	51.66	—	—
Copper recovery	*%*	**89.7**	92.7	**90.9**	92.7	92	—
Zinc recovery	*%*	**79.2**	84.9	**82.6**	83.8	85	—
Gold recovery	*%*	**60.5**	65.9	**63.1**	64.4	69	—
Silver recovery	*%*	**48.3**	55.9	**53.8**	55.6	—	—
Contained metal in concentrate produced							
Copper	*tonnes*	**6,731**	7,917	**27,950**	39,342	—	33,000-41,000
Zinc	*tonnes*	**12,226**	13,168	**51,827**	63,709	—	50,000-60,000
Precious metals	*ounces*	**16,659**	22,709	**77,182**	99,630	—	73,000-88,000
Snow Lake Concentrator							
Ore	*tonnes*	**108,738**	59,787	**422,287**	199,636	369,000	—
Copper	%	**0.68**	0.60	**0.60**	0.33	—	—
Zinc	%	**7.57**	9.23	**8.66**	8.91	—	—
Gold	g/tonne	**1.57**	1.33	**1.51**	0.84	—	—
Silver	g/tonne	**16.75**	15.31	**15.86**	29.38	—	—
Copper concentrate	*tonnes*	**2,841**	1,316	**9,784**	1,316	—	—
Concentrate grade	*% Cu*	**21.18**	18.54	**20.22**	18.55	—	—
Zinc concentrate	*tonnes*	**14,864**	10,179	**67,347**	33,275	—	—
Concentrate grade	*% Zn*	**51.69**	51.12	**51.53**	51.56	—	—
Copper recovery	*%*	**81.6**	68.5	**77.7**	37.3	82	—
Zinc recovery	*%*	**93.3**	94.3	**94.9**	96.4	95	—
Gold recovery	*%*	**61.8**	46.5	**59.6**	22.1	65	—
Silver recovery	*%*	**57.5**	55.1	**56.5**	8.6	—	—
Contained metal in concentrate produced							
Copper	*tonnes*	**603**	245	**1,980**	245	—	3,000-4,000
Zinc	*tonnes*	**7,684**	5,202	**34,700**	17,156	—	37,000-45,000
Precious metals	*ounces*	**3,889**	1,449	**14,074**	1,470	—	26,000-32,000

[1] Initial guidance as released on January 9, 2013.

[2] Includes 100% of Reed mine production.

Unit Operating Costs		Three Months Ended Dec. 31 2013	Three Months Ended Dec. 31 2012	Year Ended Dec. 31 2013	Year Ended Dec. 31 2012	Guidance 2013[1]	Guidance 2014
Concentrators							
Flin Flon	*$/tonne*	**13.75**	14.32	**14.78**	13.39	12 - 16	
Snow Lake	*$/tonne*	**34.78**	42.97	**34.82**	38.11	25 - 30	
Combined mine/mill unit operating costs							
Flin Flon (777/Reed)	$/tonne	**55.16**	62.29	**58.00**	58.33		54-66
Snow Lake (Lalor)	$/tonne	**137.16**	—	**137.68**	137.36		102-124

[1] Initial guidance as released on January 9, 2013.

		Three Months Ended Dec. 31 2013	Three Months Ended Dec. 31 2012	Year Ended Dec. 31 2013	Year Ended Dec. 31 2012	Guidance 2013[1]	Guidance 2014[2]
Manitoba contained metal in concentrate produced [3] [4]							
Copper	*tonnes*	**7,334**	8,162	**29,930**	39,587	33,000 - 38,000	36,000-45,000
Zinc	*tonnes*	**19,910**	18,370	**86,527**	80,865	85,000 - 100,000	87,000-105,000
Gold	*troy oz.*	**18,098**	20,909	**79,183**	86,553	—	—
Silver	*troy oz.*	**169,216**	198,407	**772,524**	823,970	—	—
Precious metals[5]	*troy oz.*	**20,548**	24,158	**91,256**	101,100	85,000 - 105,000	99,000-120,000

[1] Initial guidance as released on January 9, 2013.
[2] Guidance relates to Manitoba only.
[3] Includes 100% of Reed mine production.
[4] Metal reported in concentrate is prior to refining losses or deductions associated with smelter terms. Production volumes include anticipated pre-commercial production amounts from Lalor, Reed and Constancia.
[5] Precious metals include gold and silver production. For precious metals production, silver is converted to gold using the average gold and silver realized sales prices during the period. For precious metals guidance, silver is converted to gold at a ratio of 50:1.

Flin Flon Concentrator

For the fourth quarter of 2013, ore processed was 5% higher compared to the same period in 2012, primarily as a result of ore production from Reed. In the fourth quarter of 2013, copper and zinc concentrates produced were 10% and 6% lower, respectively, compared to the fourth quarter of 2012 as a result of mine sequencing producing lower head grades. Recoveries of copper, zinc, gold and silver in the fourth quarter of 2013 were 3%, 7%, 8% and 14% lower compared to the same period in 2012 as a result of lower mine head grades experienced during the fourth quarter of 2013. Operating cost per tonne of ore processed in the fourth quarter of 2013 was 4% lower than the same period in 2012 as a result of increased ore throughput.

Ore processed in 2013 was 11% lower than 2012 due to the Trout Lake and Chisel North mine closures and the ramping up of the Reed and 777 North projects. Ore processed was lower than 2013 guidance mainly because Lalor ore that had been planned to be processed at the Flin Flon concentrator was instead processed at the Snow Lake concentrator. When combined, the ore treated in both concentrators met our 2013 guidance.

Copper and zinc concentrate production in 2013 was 27% and 19% lower, respectively, than in 2012 as a result of the mine closures and mine sequencing producing lower head grades. Recoveries of copper, zinc, gold and silver in 2013 remained relatively consistent compared to 2012. Operating cost per tonne of ore processed for in 2013 was 10% higher than the same period in 2012, due primarily to reduced ore throughput.

The Flin Flon concentrator met unit cost guidance despite lower than expected tonnes of ore processed. Zinc metal contained in concentrate was consistent with 2013 guidance, while contained copper metal in concentrate fell short of guidance as a result of head grades realized from the operating mines in 2013. Zinc, copper, and gold recoveries were also below guidance, primarily as a result of head grades mined in 2013.

Snow Lake Concentrator

During the fourth quarter of 2013, ore processed was 82% higher than in the fourth quarter of 2012 as a result of increased ore from Lalor. Copper and zinc concentrate produced increased by 116% and 46%, respectively, as a result of increased throughput. Unit operating costs per tonne of ore processed for the fourth quarter of 2013 were 19% lower than the fourth quarter of 2012, as a result of increased throughput in the plant.

Ore processed in 2013 was 112% higher than the same period in 2012 as a result of increased ore from Lalor, compared to ore feed from Chisel North. Copper and zinc concentrate produced increased 643% and 102%, respectively, compared to the same period in 2012 as a result of increased throughput. Unit operating costs per tonne of ore processed in 2013 were 9% lower than in 2012 as a result of increased throughput in the plant.

Unit operating costs were higher than 2013 guidance as a result of higher utilization of reagents and grinding media than expected, as well as the use of contractors to meet staffing requirements due to the challenges of attracting experienced personnel to the Snow Lake area.

Metallurgical Facilities

		Three Months Ended		Year Ended		Guidance	
Zinc Production		**Dec. 31 2013**	**Dec. 31 2012**	**Dec. 31 2013**	**Dec. 31 2012**	**2013[1]**	**2014**
Zinc Concentrate Treated							
Domestic	*tonnes*	**41,245**	42,033	**179,553**	144,586	199,000	—
Purchased	*tonnes*	**6,558**	16,700	**13,110**	56,172	2,600	—
Total	*tonnes*	**47,803**	58,733	**192,663**	200,758	201,600	195,000-225,000
Refined Metal Produced							
Domestic	*tonnes*	**20,548**	19,214	**89,838**	69,476	—	—
Purchased	*tonnes*	**3,443**	10,725	**6,467**	31,221	—	—
Total	*tonnes*	**23,991**	29,939	**96,305**	100,697	101,000	100,000-110,000

[1] Initial guidance as released on January 9, 2013.

		Three Months Ended		Year Ended		Guidance	
Unit Operating Costs		**Dec. 31 2013**	**Dec. 31 2012**	**Dec. 31 2013**	**Dec. 31 2012**	**2013[1]**	**2014**
	$/lb.						
Zinc Plant	*Zn*	**0.39**	0.33	**0.35**	0.36	0.33-0.39	0.30-0.37

[1] Initial guidance as released on January 9, 2013.

Zinc Plant

Production of cast zinc in the fourth quarter of 2013 decreased by 20% compared to the same period in 2012 due to limited availability of domestic and purchased zinc concentrate. Operating costs per pound of zinc metal produced were unusually high, and 18% higher during the fourth quarter of 2013 compared to the fourth quarter of 2012, as a result of lower throughput.

2013 production of cast zinc was 4% lower than the same period in 2012 as a result of concentrate availability in 2013. Operating costs per pound of zinc metal produced in 2013 were consistent with the same period in 2012 and 2013 guidance, notwithstanding reduced plant throughput.

Metal Sold

		Three Months Ended		Year Ended	
		Dec. 31 2013	**Dec. 31 2012**	**Dec. 31 2013**	**Dec. 31 2012**
Payable metal in concentrate					
Copper	*tonnes*	**7,591**	10,683	**28,703**	43,464
Gold	*troy oz.*	**19,940**	27,102	**79,016**	84,835
Silver	*troy oz.*	**203,272**	292,409	**729,106**	768,804
Refined zinc	*tonnes*	**25,743**	30,387	**103,894**	103,437

OUTLOOK

The outlook and financial targets described herein relate only to fiscal 2014. This outlook includes forward-looking information about our operations and financial expectations based on our expectations and outlook as of February 19, 2014. 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 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 2014. For information on our sensitivity to metals prices and foreign exchange rates, refer below to the “Commodity Markets” and “Sensitivity Analysis” sections of this MD&A.

Material Assumptions

Our 2014 operational and financial performance will continue to 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 metals prices and foreign exchange rates are included below in the “Commodity Markets” and “Sensitivity Analysis” sections of this MD&A.

2014 Mine and Mill Production (Contained Metal in Concentrate)

		Year Ended December 31, 2013	2014 Guidance[1][2]
Copper	(tonnes)	29,930	41,000-55,000
Zinc	(tonnes)	86,527	87,000-105,000
Precious Metals[3]	(troy oz.)	91,258	101,000-123,000

[1] Includes 100% of Reed mine production.
[2] Metal reported in concentrate is prior to refining losses or deductions associated with smelter terms. Production volumes include anticipated pre-commercial production amounts from Lalor, Reed and Constancia.
[3] Precious metals production includes gold and silver production. Silver converted to gold at a ratio of 50:1 for 2014 guidance. For 2013 production, silver converted to gold at 64:1 based on 2013 realized sales prices.

We expect contained copper metal in concentrate in 2014 to increase from 2013 levels as we reach commercial production from the Reed mine and achieve initial production at Constancia. The 2014 guidance includes 5,000 to 10,000 tonnes of copper and 2,000 to 3,000 ounces of precious metals from our Constancia project. Contained zinc metal in concentrate in 2014 is expected to increase over 2013 levels due to the completion of the main ventilation shaft at Lalor and upgrade of the Snow Lake concentrator in the second half of 2014. We expect precious metals production to increase from 2013 due to higher production from Lalor and initial production from Constancia.

COMMODITY MARKETS

In addition to our production, financial performance is directly affected by a number of factors including metals prices, foreign exchange rates, and input costs, including energy prices. Average prices for copper and precious metals were lower in 2013 than in 2012, while average zinc prices and the Canadian/U.S. dollar exchange rate were similar in both years.

We have developed the following market analysis from various information sources including commodity analysts and industry experts.

Copper

In 2013, the London Metal Exchange (“LME”) copper price averaged US$3.32 per pound (“/lb”), with prices ranging between US$3.01/lb and US$3.74/lb. Copper concentrate and refined metal markets moved from a deficit in recent years to a moderate surplus in 2013, as mine supply growth from projects initiated several years ago was offset by lower scrap copper availability due to weaker prices.

A more positive global economic outlook is expected to support demand growth alongside continued growth in mine supply, resulting in another year of a moderate surplus. While limited scrap availability may constrain refined metal supply, treatment and refining charges for copper concentrate may remain elevated due to mine supply growth. Due to the curtailment of capital spending in the mining industry generally in 2013, mine supply growth is expected to peak by 2016, with copper market deficits expected to follow in the absence of new mine construction.

Zinc

In 2013, the LME zinc price averaged US$0.87/lb, with prices ranging from US$0.81/lb to US$0.99/lb. Restrained refined metal production at Chinese smelters resulted in another year of refined market deficits and a moderate concentrate surplus, resulting in higher concentrate treatment charges and a continued draw down of refined metal inventories, albeit from relatively high inventory levels.

A continued lack of industry investment in new zinc mine production capacity together with anticipated closures of major mines has the potential to result in a draw down of zinc metal inventories to relatively low levels and a significant deficit in the global zinc metal market within the next two years.

Precious Metals

Gold and silver prices averaged US$1,411 per ounce and $23.85 per ounce, respectively, during 2013 reflecting a sharp drop in prices during the second quarter of 2013. Concerns about the planned tapering of monetary stimulus by central banks combined with an absence of inflationary pressures weighed on sentiment for precious metals. The outlook for gold and silver is likely to remain dependent on market sentiment and the trajectory of interest rates and inflation.

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 gains or losses depending on whether we hold a net cash or net debt balance in US dollars.

The Canadian dollar traded in a relatively narrow range between $0.98 and $1.07 per US dollar through 2013, with an average rate of $1.03 per US dollar. Over the course of 2013, the Canadian dollar gradually weakened relative to the US dollar as weak economic growth in the Canadian economy contrasted with a more robust recovery in the US. The Canadian dollar continued to weaken in early 2014 for similar reasons.

As we develop our Constancia project in Peru, the exchange rate between the US dollar and the Peruvian nuevo soles ("PEN") will become increasingly important with capital and operating costs denominated in PEN. In 2013, the PEN weakened significantly during the second quarter as part of a general depreciation of emerging market currencies versus the US dollar. The currency began 2013 near a high of 2.54 per US dollar, weakening to a low of 2.81 per US dollar at the end of 2013, with an average rate of 2.70 per US dollar during 2013.

SENSITIVITY ANALYSIS

Profit Sensitivity

The following table displays the estimated impact of changes in metals prices and exchange rates on our 2014 net profit, assuming that our operational performance is consistent with our guidance for 2014. The effects of a given change in an assumption are isolated.

		Change of 10%, as represented by:[1]	Would change 2014 profit by (C$ million)	Would change 2014 profit per share by[2] (C$/share)
Metal Prices				
Higher copper price	*lb.*	+US$0.32	13	0.07
Lower copper price	*lb.*	-US$0.32	(11)	(0.06)
Higher zinc price	*lb.*	+US$0.09	10	0.05
Lower zinc price	*lb.*	-US$0.09	(13)	(0.07)
Higher gold/silver prices	*troy oz.*	+US$135.00/US$2.30	1	0.01
Lower gold/silver prices	*troy oz.*	-US$135.00/US$2.30	(1)	(0.01)
Exchange Rates[3]				
Stronger US dollar[4]	*C$/US$*	+C$0.10[6]	27	0.14
Weaker US dollar[5]	*C$/US$*	-C$0.10[6]	(31)	(0.16)

[1] Based on metals prices of US$3.23/lb copper, US$0.90/lb zinc, US$1,350.00/oz gold, US$23.00/oz silver, and C$1.03/US$.
[2] Based on estimated future weighted average number of common shares outstanding of 191.4 million.
[3] Reflects change in profit associated with operational performance only, does not include change in profit arising from translation of balance sheet accounts.
[4] Representing a movement from C$1.03/US$ to C$1.13/US$.
[5] Representing a movement from C$1.03/US$ to C$0.93/US$.

FINANCIAL REVIEW

Financial Results

In the fourth quarter of 2013, we recorded a loss of $61.5 million compared to a profit of $8.1 million for the same period in 2012, an increased loss of $69.6 million. The increased loss was primarily a result of lower revenue, higher foreign exchange loss and a higher impairment expense and tax expense, partially offset by lower mine operating costs due to lower sales volumes.

For the full year 2013, we recorded a loss of $109.3 million compared to a loss of $23.5 million in 2012, an increased loss of $85.8 million. The increased loss was primarily a result of lower revenues, partially offset by lower mine operating costs and lower tax expense. For additional details on revenue and cost of sales variances see below.

(in $ millions)	Three Months Ended Dec. 31 2013	Year Ended Dec. 31 2013
Increase (decrease) in components of profit or loss:		
Revenues	**(44.9)**	**(185.8)**
Cost of sales		
Mine operating costs	**17.7**	**72.8**
Depreciation and amortization	**(1.2)**	**(0.9)**
Selling and administrative expenses	**1.7**	**(0.4)**
Exploration and evaluation	**6.3**	**20.3**
Other operating income	**(1.0)**	**(1.3)**

Other operating expenses	**(0.3)**	**2.1**
Asset impairment loss	**(11.9)**	**(15.4)**
Finance income	**(0.6)**	**(2.7)**
Finance expenses	**0.3**	**5.9**
Other finance losses	**(24.3)**	**1.0**
Tax	**(11.4)**	**18.6**
Decrease in profit for the period	**(69.6)**	**(85.8)**

Revenue decreased in the fourth quarter of 2013

Total revenue for the fourth quarter of 2013 was $136.1 million, $44.9 million lower than the same period in 2012. This decrease was primarily due to lower inventory balances on hand in 2013 resulting in lower copper and zinc sales volumes compared to the fourth quarter of 2012.

For the full year 2013, revenue was $516.8 million, $185.8 million lower in 2012, primarily due to lower sales volumes and lower metals prices. The following table provides further details of this variance:

(in $ millions)	Three Months Ended Dec. 31 2013	Year Ended Dec. 31 2013
Metals prices[1]		
Lower copper prices	**(2.1)**	**(34.8)**
Lower zinc prices	**(0.2)**	**(2.6)**
Lower gold prices	**(3.7)**	**(29.9)**
Lower silver prices	**(1.4)**	**(6.8)**
Sales volumes		
Lower copper sales volumes	**(23.9)**	**(105.8)**
(Lower) higher zinc sales volumes	**(10.2)**	**0.3**
Lower gold sales volumes	**(9.1)**	**(6.0)**
Lower silver sales volumes	**(1.6)**	**(0.5)**
Other		
Favourable movement in foreign exchange rates	**11.0**	**21.3**
Derivative mark-to-market	**0.1**	**(9.8)**
Pre-production revenue	**(2.6)**	**(12.4)**
Other volume and pricing differences	**(1.5)**	**(1.6)**
Effect of lower treatment and refining charges	**0.3**	**2.8**
Decrease in revenue in 2013 compared to 2012	**(44.9)**	**(185.8)**

[1] See discussion below for further information regarding metals prices.

Our revenue by significant product type is summarized below:

	Three Months Ended		Year Ended	
(in $ millions)	Dec. 31 2013	Dec. 31 2012	Dec. 31 2013	Dec. 31 2012
Copper	**59.0**	80.1	**210.4**	343.7
Zinc	**55.0**	62.7	**219.1**	222.6
Gold	**25.3**	36.1	**99.5**	131.8
Silver	**3.8**	6.3	**14.4**	21.0
Other	**1.0**	1.5	**5.8**	6.3
Gross revenue	**144.1**	186.7	**549.2**	725.4
Treatment and refining charges	**(5.3)**	(5.6)	**(19.9)**	(22.7)
Pre-production revenue	**(2.7)**	(0.1)	**(12.5)**	(0.1)
Revenue	**136.1**	181.0	**516.8**	702.6

Realized sales prices

This measure is intended to enable management and investors to understand the average realized price of metals sold to third parties in each reporting period. The average realized price per unit sold does not have any standardized meaning prescribed by IFRS, is unlikely to be comparable to similar measures presented by other issuers, and should not be considered in isolation or a substitute for measures of performance prepared in accordance with IFRS.

Our realized prices for the fourth quarters of 2013 and 2012 are summarized below:

			Realized prices[1] for three months ended			Realized prices[1] for year ended	
		LME Q4 2013[2]	Dec. 31 2013	Dec. 31 2012	LME YTD 2013[2]	Dec. 31 2013	Dec. 31 2012
Prices in US$							
Copper[3]	*US$/lb.*	**3.24**	**3.34**	3.42	**3.32**	**3.27**	3.59
Zinc[3]	*US$/lb.*	**0.87**	**0.95**	0.95	**0.87**	**0.95**	0.96
Gold[3 4]	*US$/troy oz.*		**1,209**	1,341		**1,222**	1,548
Silver[3 4]	*US$/troy oz.*		**17.51**	21.96		**19.10**	27.33
Prices in C$							
Copper[3]	*C$/lb.*	**3.41**	**3.49**	3.40	**3.42**	**3.36**	3.59
Zinc[3]	*C$/lb.*	**0.91**	**0.99**	0.94	**0.89**	**0.98**	0.99
Gold[3 4]	*C$/troy oz.*		**1,262**	1,331		**1,257**	1,553
Silver[3 4]	*C$/troy oz.*		**18.27**	21.66		**19.65**	27.32
Exchange rate[5]	*US$1 to C$*		**1.04**	0.99		**1.03**	1.00

[1] Realized prices exclude refining and treatment charges and are on the sale of finished metal or metal in concentrate.
[2] London Metal Exchange average for copper and zinc prices.
[3] Copper, zinc, gold and silver revenues include unrealized gains and losses related to non-hedge derivative contracts including costless collars that are not included in the above realized prices. For the three months ended December 31, 2013, the unrealized components of those derivatives resulted in a gain of US$0.04/lb; loss of US$0.002/lb., gains of US$6.2/oz., and US$0.47/oz., respectively. For the three months ended December 31, 2012, only zinc revenues include unrealized gains and losses related to forward zinc purchase contracts that are not included in the above realized prices. The unrealized components of these derivatives resulted in a gain of US$0.009/lb. for zinc.
[4] Since August 1, 2012, sales of gold and silver from our 777 mine have been subject to our precious metals stream agreement with Silver Wheaton, pursuant to which we recognize deferred revenue for precious metals deliveries and also receive cash payments of US$400/oz for gold deliveries and US$5.90/oz for silver deliveries. Previously, we sold gold and silver from our 777 mine as contained metal within our copper concentrate. Realized gold and silver prices for 2013 include deferred revenue of US$927.55/oz and US$15.29/oz, respectively.
[5] Average exchange rate for the period.

The following table provides a reconciliation of average realized price per unit sold, by metal, to revenues as shown in the consolidated financial statements.

	Three months ended December 31, 2013					
	Copper	Zinc	Gold	Silver	Other	Total
Revenue per financial statements ($)	59.0	55.0	25.3	3.8	1.0	144.1
Derivative mark-to-market and other ($)	(0.6)	1.2	(0.1)	(0.1)	—	0.4
Revenue excluding unrealized derivative mark-to-market ($)	58.4	56.2	25.2	3.7	1.0	144.5
Payable Metal in Concentrate Sold[1]	7,591	25,743	19,940	203,272	—	—
Realized Price[2 4]	7,694.86	2,183.54	1,262	18.27	—	—
Realized Price[3 4]	3.49	0.99	—	—	—	—

	Year ended December 31, 2013					
	Copper	Zinc	Gold	Silver	Other	Total
Revenue per financial statements ($)	210.4	219.1	99.5	14.4	5.8	549.2
Derivative mark-to-market and other ($)	2.3	4.2	(0.2)	—	—	6.3
Revenue excluding unrealized derivative mark-to-market ($)	212.7	223.3	99.3	14.4	5.8	555.5
Payable Metal in Concentrate Sold[1]	28,703	103,894	79,016	729,106	—	—
Realized Price[2 4]	7,408.20	2,149.80	1,257	19.65	—	—
Realized Price[3 4]	3.36	0.98	—	—	—	—

[1] Copper and zinc shown in metric tonnes and gold and silver are shown in ounces.
[2] Realized price for copper and zinc in C$/metric tonne and realized price for gold and silver in C$/troy oz.
[3] Realized price for copper and zinc in C$/lb.
[4] Average realized price per unit sold may not calculate based on amounts presented in this table due to rounding.

	Three months ended December 31, 2012					
	Copper	Zinc	Gold	Silver	Other	Total
Revenue per financial statements ($)	80.1	62.7	36.1	6.3	1.5	186.7
Derivative mark-to-market ($)	—	0.6	—	—	—	0.6
Revenue excluding unrealized derivative mark-to-market ($)	80.1	63.3	36.1	6.3	1.5	187.3
Payable Metal in Concentrate Sold[1]	10,683	30,387	27,102	292,409	—	—
Realized Price[2 4]	7,493.20	2,081.20	1,331	21.66	—	—
Realized Price[3 4]	3.40	0.94	—	—	—	—

	Year ended December 31, 2012					
Revenue per financial statements ($)	343.7	222.6	131.8	21.0	6.3	725.4
Derivative mark-to-market ($)	—	3.2	—	—	—	3.2
Revenue excluding unrealized derivative mark-to-market ($)	343.7	225.8	131.8	21.0	6.3	728.6
Payable Metal in Concentrate Sold[1]	43,464	103,437	84,835	768,804	—	—
Realized Price[2 4]	7,907.50	2,182.57	1,553	27.32	—	—
Realized Price[3 4]	3.59	0.99	—	—	—	—

[1] Copper and zinc shown in metric tonnes and gold and silver are shown in ounces.
[2] Realized price for copper and zinc in C$/metric tonne and realized price for gold and silver in C$/troy oz.
[3] Realized price for copper and zinc in C$/lb.
[4] Average realized price per unit sold may not calculate based on amounts presented in this table due to rounding.

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 metals sales can vary from quarter to quarter due to production levels, shipping volumes, and transfer of risk and title with customers.

Outlook (Refer to the Forward-Looking Information section on page 2 of this MD&A)

We expect that revenues will continue to be affected mainly by the volume of contained metal production, purchased zinc concentrates and the market prices of copper and zinc, together with fluctuation of the US dollar exchange rate compared to the Canadian dollar. Due mainly to depreciation of the Canadian dollar relative to the US dollar, copper and zinc prices denominated in Canadian dollars have been higher to date in 2014 than average prices in 2013. Revenues and cash proceeds realized from gold and silver sales from our 777 mine (which represents most of our current gold and silver production) are unaffected by the decline in gold and silver prices in 2013 due to the streaming agreement with Silver Wheaton.

Increased domestic zinc production in 2014 and improved availability of purchased zinc concentrate is expected to lead to higher overall zinc metal production and zinc revenues in 2014, assuming no change to metal prices. The ramp up of production at the new Reed mine and commissioning of the main production shaft at the Lalor mine are also expected to contribute to higher revenues, once the facilities are considered to have achieved commercial production.

Cost of sales decreased in the fourth quarter of 2013

	Three Months Ended		Year Ended	
($000s)	Dec. 31 2013	Dec. 31 2012	Dec. 31 2013	Dec. 31 2012
Detailed cost of sales				
Mines				
777	**16,852**	19,884	**68,592**	65,489
Trout Lake	**—**	—	**—**	13,918
Chisel North	**—**	—	**—**	17,251
Lalor	**11,132**	—	**35,174**	—
Concentrators				
Flin Flon	**6,005**	5,933	**24,505**	25,075
Snow Lake	**3,782**	2,570	**14,704**	7,609
Metallurgical plants				
Zinc plant	**20,644**	21,475	**75,259**	79,383
Other				
Services and site administration	**17,261**	19,935	**65,216**	81,325
Purchased concentrate (before inventory changes)	**10,490**	8,037	**14,865**	51,597
Manitoba employee profit sharing	**1,165**	3,225	**7,767**	16,888
Net profits interest	**2,073**	4,018	**10,448**	17,867
Distribution	**8,579**	10,429	**30,548**	40,662
Changes in domestic inventory	**(3,372)**	23,512	**7,814**	17,869
Depreciation and amortization	**21,888**	20,656	**76,714**	75,801
Adjustments related to zinc inventory write-downs	**5,011**	(1,955)	**5,011**	(5,420)
Other	**251**	572	**182**	3,353
Cost of sales	**121,761**	138,291	**436,799**	508,667

Total cost of sales for the fourth quarter of 2013 was $121.8 million, reflecting a decrease of $16.5 million from the fourth quarter of 2012. This was primarily due to lower change in domestic inventory balance in the fourth quarter of 2013 compared to the fourth quarter of 2012. The change in domestic inventory increased cost of sales significantly in the fourth quarter of 2012 as a result of inventory draw downs. This was partially offset by $11.1 million in costs related to the Lalor mine which were incurred prior to Lalor achieving commercial production and a $5.0 million write down of our zinc inventory in the quarter which was required as a result of high production costs in December.

Cost of sales for the 2013 year was $436.8 million, reflecting a decrease of $71.9 million from 2012. This was due to a decrease in costs of $31.2 million at our Trout Lake and Chisel North mines in 2013 as a result of the mine closures. In addition, purchased concentrate costs for the 2013 year were $36.7 million lower than in 2012 as a significantly reduced amount of purchased zinc concentrate was processed in 2013; service and site administration expenses were $16.1 million lower in the current year than 2012 as the 2012 expenses included a charge of $3.7 million related to our adoption of a new accounting standard for employee benefits and $10.8 million of past service costs associated with the new collective agreements retroactive to January 1, 2012; and 2013 distribution costs were $10.2 million lower than in 2012 as a result of decreased copper concentrate sales volumes. These expense reductions were partially offset by $35.2 million in costs related to the Lalor mine which was not in commercial production in 2012 and increased costs of $7.1 million at our Snow Lake concentrator associated with increased throughput.

For details on unit operating costs refer to the respective tables in the Operations Review section beginning on page 14 of this MD&A.

For the fourth quarter of 2013, other significant variances in expenses, compared to the same period in 2012, included the following:

- **Selling and administrative expenses** decreased by $1.7 million, primarily due to reduced discretionary spending on overhead costs.
- **Exploration and evaluation expenses** decreased by $6.3 million as grassroots exploration spending was reduced to focus on brownfield opportunities.
- **Asset impairment loss** increased to $11.9 million as a result of an impairment related to our Back Forty asset in Michigan. This resulted from a write down to fair market value less cost to sell as a result of our classification of the asset as an asset held for sale.
- **Other finance losses** increased by $24.3 million from a gain of $6.9 million in the fourth quarter of 2012 to a loss of $17.4 million in the fourth quarter of 2013, primarily as a result of:
    - Foreign exchange losses of $8.9 million compared to a foreign exchange gain of $9.1 million in the fourth quarter of 2012, a net change of $18.0 million, primarily as a result of a weakening Canadian dollar against the US dollar in the fourth quarter of 2013 unfavourably impacting the net monetary liability position on the balance sheet (which is mainly US dollar denominated long term debt); and
    - Impairment losses and mark-to-market adjustments of $8.5 million compared to losses of $2.3 million in the fourth quarter of 2012, due to poor market conditions for investments in junior mining companies.

For 2013, other significant variances in expenses from operations, compared to the same period in 2012, included the following:

- **Exploration and evaluation expenses** decreased by $20.3 million to $23.3 million primarily as a result of lower grassroots exploration spending resulting from a change in focus towards brownfield opportunities. In addition, lower costs were incurred at our Back Forty project in Michigan following our decision to suspend development activities at the project and pursue strategic alternatives.
- **Other operating expenses** decreased by $2.1 million to $9.2 million primarily as a result of lower decommissioning and restoration expenses and mine costs at our non producing mines, partially offset by higher general operating costs in our South America business unit and the write-down of mining equipment to fair value at operating sites.
- **Asset impairment loss** increased to $15.4 million as a result of an impairment related to our Back Forty asset in Michigan. This resulted from a write down to fair market value less cost to sell as a result of our classification of the asset as an asset held for sale.
- **Finance income** decreased by $2.7 million to $3.5 million, due to lower cash balances earning interest income which excludes interest earned on temporarily invested debt proceeds, which we have capitalized.
- **Finance expenses** decreased by $5.9 million primarily as a result of lower financing fees. Finance fees in 2012 were associated with efforts to arrange financing for the Constancia project, and finance fees expensed in 2013 resulted from a write off of prepaid financing fees related to our previous credit facility.
- **Other finance losses** decreased by $1.0 million to $43.7 million in 2013 primarily as a result of impairment losses and mark-to-market adjustments of $19.2 million which were $24.6 million lower than in 2012. This was mostly offset by an increase in foreign exchange losses of $23.6 million compared to 2012 as a result of a weakening Canadian dollar against the US dollar in 2013 that unfavourably impacted the net monetary liability position on the balance sheet (which is mainly US dollar denominated long term debt).

The following is a summary of the impact of foreign currency translation on total equity:

	Three Months Ended		Year Ended	
(in $ millions)	Dec. 31 2013	Dec. 31 2012	Dec. 31 2013	Dec. 31 2012

Loss on Soles denominated transactions, primarily cash translated to USD	(1.9)	(0.2)	(26.7)	(1.7)
Loss on translation of USD denominated long-term debt and interest expense accrued, net of transaction costs and embedded derivative	(16.6)	(5.7)	(35.8)	(9.3)
Gain of translation of USD cash balances	8.7	13.5	34.6	9.6
Gain on working capital and other small entities	0.9	1.5	3.4	0.5
Total pre-tax (loss) gain	**(8.9)**	**9.1**	**(24.5)**	**(0.9)**
Total tax (expense) recovery related to translation	(2.1)	(0.6)	(5.2)	0.2
Total (loss) gain to the income statements	**(11.0)**	**8.5**	**(29.7)**	(0.7)
Cumulative translation adjustment gain (loss) in other comprehensive income related to translation of foreign operations, primarily Peru	47.8	9.5	87.7	(10.9)
Total increase (decrease) to equity	**36.8**	**18.0**	**58.0**	**(11.6)**

Outlook (Refer to the "Forward-Looking Information" section on page 2 of this MD&A)

Cost of sales is expected to increase in 2014 compared to 2013 as we commence commercial production from the Reed mine and grow production from Lalor, notwithstanding expectations for relatively stable unit cost results from our existing operations.

Tax Expense

For the three months and year ended December 31, 2013 tax expense increased by $11.4 million and decreased by $18.6 million, respectively, compared to the same periods in 2012.

	Three Months Ended		Year Ended	
($000s)	**Dec. 31 2013**	**Dec. 31 2012**	**Dec. 31 2013**	**Dec. 31 2012**
Non-cash - income tax expense [1]	**23,980**	3,492	**49,988**	44,077
Non-cash - mining tax (recovery) expense [1]	**(466)**	294	**(8,817)**	9,381
Total non-cash tax expense	**23,514**	3,786	**41,171**	53,458
Estimated current tax expense (recovery) - income tax	**727**	1,368	**3,502**	(14,673)
Estimated current tax expense - mining tax	**3,547**	11,212	**8,599**	33,059
Total estimated current tax expense	**4,274**	12,580	**12,101**	18,386
Tax expense	**27,788**	16,366	**53,272**	71,844

[1] Non-cash tax expenses represent our draw-down/increase of non-cash deferred income and mining tax assets/liabilities.

Income Tax Expense

Our effective income tax rate on profit before tax for 2013 was approximately negative 95.5% (2012 - 60.8%). Applying the statutory income tax rate of 27.4% to our loss before taxes of $56.0 million would have resulted in a tax recovery of approximately $15.3 million; however we recorded an income tax expense of $53.5 million (2012 - $29.4 million). The significant items causing our effective income tax rate to be different than the 27.4% statutory income tax rate include:

- Certain of our foreign operations incurred losses of $24.9 million (2012 - $22.0 million), the tax benefit of which has not been recognized since we determined that it is not probable that we will realize the benefit of these losses. This results in an increase in deferred tax expense of approximately $6.8 million for the year;
- An increase to deferred tax expense of $20.3 million (2012 — decrease of $5.7 million) due to the fact that we recognize Peruvian non-monetary assets in our financial statements at historical cost, whereas the tax base of the assets change as exchange rates fluctuate, which gives rise to a temporary difference;
- Impairment loss of $16.3 million (2012 - $40.2 million) that was recorded to recognize impairments on available-for-sale investments in junior mining companies due to poor market conditions. These losses cause deductible temporary differences which can result in a deferred tax asset being recognized to the extent any Canadian accrued gains exist based on the projected applicable capital gains tax rate at 50% of the statutory income tax rate. We have not recorded a related deferred tax asset for these deductible temporary differences as there are no Canadian accrued gains on account of capital, resulting in an increase in deferred tax expense of approximately $4.5 million for the year;
- Certain foreign exchange losses of $52.1 million (2012 — losses of $6.1 million) that are not deductible for local income tax purposes and therefore result in an increase in deferred tax expense for the year of approximately $14.3 million;
- Decreases to our decommissioning and restoration liabilities in Manitoba resulting from a significant increase in discount rates required us to record a corresponding non-cash decrease to property, plant and equipment. We recognized a deferred tax recovery of $6.5 million in 2013 (2012 - expense of $1.4 million) related to the decrease in property, plant and equipment; however, we did not recognize a deferred tax expense related to the decrease in the decommissioning and restoration liabilities since it was not considered probable that the expense would be realized;
- The tax benefit of certain Peruvian expenses were not recorded in the year since it was not considered probable that the benefit of these expenses would be realized resulting in an increase in deferred tax expense of approximately $16.5 million for the year (2012 - expense of $7.2 million); and
- In Q4 2013, we finalized a 15-year mining tax stability agreement with the Peruvian government. The agreement provides tax stability for a 15-year period for the taxes existing on the date of the agreement along with accelerated tax depreciation, a 2% increase in the applicable income tax rate, and the ability to elect to file tax returns with US dollar financial statements. The increase in the applicable income tax rate

from 30% to 32% resulted in an increase in deferred tax expense of approximately $13 million for the year as the higher rate was applied to our Peruvian temporary differences.

Mining Tax Expense

Applying the Manitoba statutory income tax rate of 15.0% to our loss before taxes for the 2013 year of $56.0 million would have resulted in a tax recovery of approximately $8.4 million and we recorded a mining tax recovery of $0.2 million (2012 - $42.4 million expense). For 2013, our effective rate for mining taxes was approximately 0.4% (2012 - 87.7%). Effective mining tax rates can vary significantly based on the composition of our earnings and the expected amount of taxable profits from mining. Corporate costs and other costs not related to mining operations are not deductible in computing mining profits. A brief description on how mining taxes are calculated in our various business units is discussed below.

Manitoba

The Province of Manitoba imposes mining tax on 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 deferred mining tax assets. We estimate that the tax rate that will be applicable when the majority of temporary differences reverse will be approximately 15.0%.

Peru

The Peruvian government imposes two parallel mining tax regimes, the Special Mining Tax and Modified Royalty, on companies' operating mining income on a sliding scale, with progressive rates ranging from 2.0% to 8.4% and 1.0% to 12.0%, respectively. Based on financial forecasts, we have recorded a deferred tax liability at the tax rate we expect to apply when temporary differences reverse and have reassessed the effective rates that apply from the last reporting period.

LIQUIDITY AND CAPITAL RESOURCES

Precious Metals Stream Transaction with Silver Wheaton

On September 28, 2012, we closed a precious metals stream transaction with Silver Wheaton related to gold and silver production from our 777 mine and silver production from our Constancia project and received an upfront deposit payment of US$500 million. In addition to the deposit payments, we will receive ongoing payments of the lesser of US$400 per ounce of gold and US$5.90 per ounce of silver (both subject to an inflationary adjustment) or the prevailing market price of gold and silver delivered. During the second quarter of 2013, we received an additional US$125 million deposit payment as we had paid for US$500 million in capital expenditures at our Constancia project. The final US$125 million deposit payment is payable once we have paid for a total of US$1 billion in capital expenditures at our Constancia project. On November 4, 2013, we entered into an amended and restated precious metals stream agreement with Silver Wheaton pursuant to which we will receive an additional US$135 million deposit against delivery of 50% of payable gold from the Constancia project. In addition to the deposit payment for gold, we will receive the lesser of the market price and US$400 per ounce for gold delivered to Silver Wheaton, subject to 1% annual escalation after three years. We are entitled to the US$135 million deposit once we have incurred and paid US$1.35 billion in capital expenditures at the Constancia project and satisfied certain other customary conditions precedent. Silver Wheaton has the option to make the deposit payment in cash or Silver Wheaton common shares, with the number of shares calculated at the time the payment is made. Gold recovery for purposes of calculating payable gold will be fixed at 55% for gold mined from Constancia and 70% for gold mined from Pampacancha.

For further information on the precious metals stream transaction, refer to note 19 of our December 31, 2013 annual consolidated financial statements.

9.50% Senior Unsecured Notes

On June 20, 2013 and December 9, 2013, we issued US$150 million and US$100 million aggregate principal amount of our 9.50% senior unsecured notes due October 1, 2020 (the "Additional Notes"). The Additional Notes are incremental to the US$500 million aggregate principal amount of 9.50% senior unsecured notes due October 1, 2020, that we issued in September 2012 (the "Initial Notes", and together with the Additional Notes, the "Notes"). The Additional Notes issued in June were priced at 102% of the aggregate principal amount, resulting in gross proceeds of US$153 million and will yield 9.11% to maturity. The Additional Notes issued in December were priced at 100% of their face value, and yielded gross proceeds of US$100 million. The Initial Notes were priced at 100% of their face value, and yielded gross proceeds of US$500 million. The Notes have been classified as long term debt and accounted for initially at fair value and subsequently at amortized cost using the effective interest rate method. Interest is payable on the Notes semi annually on April 1 and October 1 of each year, beginning on April 1, 2013. As the proceeds have been used to date to fund the development of Constancia, interest costs have been capitalized to project assets. The Notes are fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis, by substantially all of our existing and future subsidiaries other than our subsidiaries associated with the Constancia project.

The Notes contain certain customary covenants and restrictions for a financing instrument of this type. Although there are no maintenance covenants with respect to our financial performance, there are transaction-based restrictive covenants that limit our ability to incur additional

indebtedness in certain circumstances. These restrictions could limit our ability to obtain future debt financing, grow in accordance with our strategy or secure the needed working capital to withstand future downturns in the economy or metals prices. In addition, our ability to make restricted payments, including dividend payments, is subject to compliance with certain covenants.

For further information on the terms of the Notes, refer to note 18 of our 2013 annual consolidated financial statements.

Senior Secured Revolving Credit Facility

In connection with completing the issuance of the Additional Notes, in June 2013, we amended and restated our revolving credit facility. The amended and restated credit facility matures on September 12, 2016 and has a maximum availability equal to the lesser of US$100 million and a borrowing base related to the accounts receivable and inventory of our Manitoba business unit, which was US$73 million at December 31, 2013. The amendments also included the removal of debt to EBITDA and EBITDA to interest maintenance covenants, such that the only remaining financial maintenance covenant is the requirement to maintain a tangible net worth. The amended and restated credit facility contains other customary covenants for a facility of this type.

As at December 31, 2013, we were in compliance with our covenants under the credit facility. Also as at December 31, 2013, we had $64.1 million in outstanding letters of credit collateralized by cash and cash equivalents that would have been classified as restricted cash in the absence of the credit facility.

Equipment Finance Facility

In October 2013 we entered into an equipment financing facility with Cat Financial to finance the purchase of up to approximately US$130 million of mobile fleet at our Constancia project. Loans pursuant to the equipment financing facility will have a term of six years and be secured by the Constancia mobile fleet. We have drawn down US$26.5 million under the facility and expect to draw down the remaining available funds later in the first quarter of 2014 as we complete commissioning of the related equipment.

Common Equity Financing

On January 9, 2014, we announced that we had entered into an agreement with a syndicate of underwriters who agreed to purchase, on a bought deal basis, 18,200,000 of our common shares at a price of $8.25 per share. The underwriters were granted an over allotment option, which they exercised in full, for 2,730,000 common shares. The transaction closed on January 30, 2014, and aggregate gross proceeds from the offering was $172.7 million.

Standby Credit Facilities

The Bank of Montreal has committed to provide standby credit facilities providing US$200 million in total available funds, comprised of a replacement for our current US$100 million revolving credit facility if required and an incremental US$100 million credit facility available to refinance any indebtedness of Augusta which may become repayable as a result of completion of the Offer.

The facilities are fully committed and subject only to customary conditions related to completion of the Offer and documentation. Both will be secured on similar terms as our existing revolving credit facility.

The Offer is not subject to a financing condition and these facilities will only be drawn at our discretion.

Offtake Financing

We are also pursuing a US$150 million standby debt facility for the Constancia project linked to concentrate offtake.

Financial Condition

Financial Condition as at December 31, 2013 compared to December 31, 2012

Cash and cash equivalents decreased by $705.7 million from December 31, 2012 to $631.4 million as at December 31, 2013. This decrease was primarily driven by $905.0 million in capital expenditures principally at our Lalor and Constancia projects, and interest and dividend payments of $58.5 million and $18.9 million, respectively. These expenditures were partially offset by proceeds of $261.4 million from the issuance of Additional Notes and the receipt of a US$125 million second deposit under the precious metals stream transaction with Silver Wheaton. We hold the majority of our cash and cash equivalents in low-risk, liquid investments with major Canadian and Peruvian financial institutions.

Working capital decreased by $598.9 million to $583.1 million from December 31, 2012 to December 31, 2013. In addition to the lower cash and cash equivalents position:

- Receivables increased by $115.4 million, primarily due to an increase in the current portion of the statutory receivables related to the Peruvian sales tax;
- Trade and other payables increased by $12.4 million due to higher accruals and payables, partially offset by accrual of interest expense related to the Notes.

Cash Flows

The following table summarizes our cash flows for the three months and year ended December 31, 2013 and December 31, 2012.

	Three Months Ended		Year Ended	
($000s)	**Dec. 31 2013**	**Dec. 31 2012**	**Dec. 31 2013**	**Dec. 31 2012**
(Loss) profit for the period	**(61,481)**	8,143	**(109,276)**	(23,463)
Tax expense	**27,788**	16,366	**53,272**	71,844
Items not affecting cash	**32,797**	(18,333)	**61,352**	157,239
Taxes paid	**1,658**	(174)	**4,501**	(62,663)
Operating cash flows before stream deposit and change in non-cash working capital	**762**	6,002	**9,849**	142,957
Precious metals stream deposit	**—**	—	**131,475**	491,600
Change in non-cash working capital	**2,283**	16,999	**2,795**	(90,705)
Cash generated by operating activities	**3,045**	23,001	**144,119**	543,852
Cash used in investing activities	**(279,062)**	(196,889)	**(1,053,013)**	(545,653)
Cash generated in financing activities	**105,077**	(1,785)	**183,448**	428,955
Effect of movement in exchange rates on cash and cash equivalents	**9,880**	13,780	**19,785**	10,857
Decrease in cash and cash equivalents	**(161,060)**	(161,893)	**(705,661)**	438,011

Cash Flow from Operating Activities

Operating cash flow before stream deposit and change in non-cash working capital was $0.8 million for the fourth quarter of 2013, a $5.2 million decrease compared with the same period in 2012, primarily due to lower inventory balances on hand in 2013 resulting in lower copper and zinc sales volumes compared to the fourth quarter of 2012.

2013 operating cash flows before stream deposit and change in non-cash working capital were $9.8 million, reflecting a decrease of $133.1 million compared 2012, primarily as a result of lower copper sales volumes, lower realized prices and reduced gold and silver cash receipts at the 777 mine during the period, as a result of the precious metals stream transaction.

Cash Flow from Investing and Financing Activities

During the fourth quarter of 2013 our investing and financing activities used cash of $174.0 million, driven primarily by capital expenditures of $238.5 million and Peruvian sales tax payments of $43.1 million, partially offset by proceeds of $105.5 million from the Additional Notes issued in December 2013.

In 2013 we used $869.6 million in investing and financing activities primarily driven by capital expenditures of $905.0 million, interest payments of $58.5 million, dividend payments of $18.9 million and refundable Peruvian sales tax payments of $130.9 million. In addition, we reclassified $20.9 million from cash and cash equivalents to restricted cash as Hudbay Peru was required to provide a letter of credit as a first annual deposit of security with respect to its decommissioning and restoration obligations. This was partially offset by proceeds of $261.4 million from the Additional Notes issued during the year.

Capital Expenditures

The following summarizes cash additions to capital assets for the periods indicated:

	Three Months Ended		Year Ended	
(in $ millions)	**Dec. 31 2013**	**Dec. 31 2012**	**Dec. 31 2013**	**Dec. 31 2012**
777 Mine	**11.1**	5.1	**38.6**	25.9
Trout Lake Mine	**—**	—	**—**	1.2
Lalor Mine	**7.9**	0.1	**21.8**	0.1
Flin Flon and Snow Lake Concentrators	**1.1**	0.6	**1.7**	3.8
Flin Flon and Snow Lake Other	**2.6**	5.6	**10.0**	15.8
Zinc Plant	**1.6**	1.1	**3.6**	8.9
Other	**(0.3)**	0.2	**0.7**	1.0
Sustaining capital expenditures	**24.0**	12.7	**76.4**	56.7
Lalor Project	**12.5**	24.6	**85.5**	118.3
Capitalized Peru	**234.7**	174.5	**715.1**	395.8
777 North Expansion	**—**	1.6	**1.3**	6.9
Back Forty Project	**—**	—	**—**	1.2
Reed	**5.8**	7.6	**38.2**	23.5
Growth capital expenditures	**253.0**	208.3	**840.1**	545.7
Capital accruals for the period	**(38.5)**	(40.3)	**(11.5)**	(91.9)
Total	**238.5**	180.7	**905.0**	510.5

Our capital expenditures for the three months ended December 31, 2013 were $238.5 million, an increase of $57.8 million compared to the same period in 2012. The increase was primarily due to increased expenditures at our Constancia project, partially offset by lower capitalized costs at

our Lalor project due to timing of spending. During the three months ended December 31, 2013, we recorded $2.9 million in investment tax credits which were primarily offset against Lalor and Reed capitalized project expenditures.

Our capital expenditures for the year ended December 31, 2013 were $394.5 million higher than in 2012, primarily due to increased capitalized expenditures at our Constancia and Reed projects, in addition to expenditures related to the Lalor mine. The higher expenditures were partially offset by decreased capitalized expenditures at our Lalor project. During the year ended December 31, 2013, we recorded $7.3 million in investment tax credits which were primarily netted against Lalor and Reed capitalized project expenditures.

Contractual Obligations and Commitments

The following table summarizes certain of our contractual obligations as at December 31, 2013 for the periods specified:

Payment Schedule	Total	Less than 1 Year	1 - 3 Years	4-5 Years	After 5 Years
			($000s)		
Long-term debt obligations	1,328,170	75,781	151,563	151,563	949,263
Capital lease obligations	195	195	—	—	—
Operating lease obligations	18,012	3,198	4,995	4,126	5,693
Purchase obligations - capital commitments	544,506	485,254	59,252	—	—
Purchase obligation - other commitments[1]	976,939	4,330	413,077	204,194	355,338
Pension and other employee future benefits obligations	198,930	34,242	34,158	9,952	120,578
Decommissioning and restoration obligations[2]	142,619	552	2,679	4,519	134,869
Total	3,209,371	603,552	665,724	374,354	1,565,741

[1] Primarily made up of a long term agreement with a Peruvian mining contractor to provide mining services for the first three years of Constancia operation, obligations for power purchases and port services for our Constancia project.
[2] Before inflation

In addition to the contractual obligations included in the above payment schedule, we also have the following commitments:

- A profit-sharing plan with most Manitoba employees;
- Silver Wheaton precious metals stream agreements;
- A royalty agreement and net profit interest agreement related to the 777 mine; and
- Collective Bargaining Agreements in place with the unionized Flin Flon/Snow Lake workforce.

Liquidity

During 2014, we anticipate making $904 million in capital expenditures on the Constancia, Lalor and Reed projects, together with $110.4 million in accrued but unpaid expenditures on these projects. We have total pro-forma available and committed liquidity of approximately $1.4 billion, including $631 million in cash and cash equivalents at December 31, 2013, US$260 million in amounts due from Silver Wheaton, $173 million in gross proceeds from our January 2014 equity financing, together with amounts available under the Cat Financial equipment finance facility, other credit facilities and cash tax refunds expected to be received during the first half of 2014.

We are also pursuing a US$150 million standby debt facility for the Constancia project linked to concentrate offtake. To the extent that metals prices decline materially from current levels or we have other unanticipated demands on liquidity, we may need to raise additional financing or pursue other corporate initiatives.

Outstanding Share Data

As of February 18, 2014, there were 193,008,376 common shares of Hudbay issued and outstanding. In addition, options for a maximum aggregate of 3,340,240 common shares were outstanding.

FINANCIAL 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 Metals Price Strategic Risk Management

Our strategic objective is to provide our investors with exposure to base metals prices, unless a reason exists to implement a hedging arrangement. We may hedge base metals 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 long-term strategic metals price hedging. We may also hedge base metals 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.

During August and September 2013 we entered into copper and zinc hedging transactions intended to manage the risk of adverse changes to operating cash flow as we approach the expected completion of our Lalor and Constancia projects in the second half of 2014. In copper, we have entered into costless collar transactions on approximately 69 million pounds of copper for the period of October 2013 through December 2014, inclusive, at an average floor price of US$3.00/lb and an average cap price of US$3.46/lb. During the year ended December 31, 2013, 14 million pounds of copper collars were settled, leaving 55 million pounds unsettled for 2014. In zinc, we have entered into costless collar transactions on approximately 127 million pounds of zinc for the period of October 2013 through December 2014, inclusive, at an average floor price of US$0.80/lb and an average cap price of US$0.97/lb. During the year ended December 31, 2013, 21 million pounds of zinc collars were settled leaving 106 million pounds unsettled for 2014. The collar transactions are cash-settled financial derivatives with the floor price being at our option and the cap price at the counterparty's option, whereby if the average price in a given month is less than the floor price, we will receive the difference between the average price and the floor price multiplied by the notional volume for the month. Conversely, if the average price in a given month is higher than the cap price, we will pay the difference between the average price and the cap price multiplied by the notional volume for the month.

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.

From time to time, we enter into gold and silver forward sales contracts to hedge the commodity price risk associated with the future settlement of provisionally priced deliveries. We are generally obligated to deliver gold and silver to Silver Wheaton prior to the determination of final settlement prices. These forward sales contracts are entered into at the time we deliver gold and silver to Silver Wheaton, and are intended to mitigate the risk of subsequent adverse gold and silver price changes. Gains and losses resulting from the settlement of these derivatives are recorded directly to revenue, as the forward sales contracts do not achieve hedge accounting, and the associated cash flows are classified in operating activities. Similarly, we also enter into copper forward transactions from time to time to hedge the risk of provisionally priced copper sales. Our swap agreements are with counterparties we believe to be creditworthy and do not require us to provide collateral.

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/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.

To the extent that we make commitments to capital expenditures denominated in foreign currencies, we may enter into foreign exchange forwards or acquire foreign currency outright, which may result in foreign exchange gains or losses in our income statement. At December 31, 2013, approximately $297.2 million of our cash and cash equivalents was held in US dollars, and approximately $145.9 million of our cash and cash equivalents was held in PEN.

TREND ANALYSIS AND QUARTERLY REVIEW

The following table sets forth selected consolidated financial information for each of our eight most recently completed quarters.

	2013				2012[2]			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	($000s)							
Revenue	136,082	130,179	130,659	119,881	180,994	144,658	189,858	187,038
(Loss) profit before tax	(33,693)	9,650	(39,883)	7,923	24,509	6,253	650	16,969
(Loss) profit	(61,481)	2,985	(52,686)	1,907	8,143	(5,354)	(29,606)	3,355
(Loss) earnings per share:								
Basic	(0.32)	0.03	(0.31)	0.01	0.05	(0.03)	(0.17)	0.03
Diluted	(0.32)	0.03	(0.31)	0.01	0.05	(0.03)	(0.17)	0.03
Operating cash flow per share[1]	—	0.07	(0.06)	0.07	0.03	0.12	0.38	0.25

[1] Operating cash flow per share is before stream deposit and change in non cash working capital, and is a non IFRS financial performance measure with no standardized definition under IFRS. For further information and a detailed reconciliation, please see page 53 of this MD&A.

[2] The 2012 amounts reflect the adjustments required by the revised IAS 19, *Employee Benefits*. See note 4 in the consolidated financial statements.

Our revenue in 2013 has decreased from 2012 as a result of volume and price reductions. The loss in the second quarter of 2013 included $23.8 million in foreign currency translation losses and $16.3 million in deferred tax expense on translation of Peruvian tax basis. The loss in the fourth quarter of 2013 included $8.9 million in foreign currency translation losses, an $11.9 million impairment charge on the Back Forty project, and $20.1 million in deferred tax expense associated with Peruvian items.

Operating cash flow per share was lower in all quarters in 2013 and the fourth quarter of 2012 compared to previous quarters, due primarily to reduced revenues from generally lower metal sales prices, as well as lower gold and silver cash receipts as a result of the stream transaction. In addition, the operating cash flow was lower in the second half 2012 and 2013 as a result of lower sales volumes due to the closure of two mines in 2012. The operating cash flow per share in the second quarter of 2012 benefited from a current tax recovery of $18.2 million to reflect the reduction of prior year taxes owing as a result of accelerated depreciation of prior year tax pools related to the "New Mine" status ruling at our Lalor mine.

The following table sets forth selected consolidated financial information for each of the three most recently completed years:

	2013	2012[1]	2011
		($000s)	
Revenue	**516,801**	702,550	890,817
Profit before tax	**(56,004)**	48,381	209,025
(Loss) profit from continuing operations	**(109,276)**	(23,463)	75,196
Loss from discontinued operations	**—**	—	(238,784)
(Loss)	**(109,276)**	(23,463)	(163,588)
Earnings per share[2]:			
Continuing operations - basic and diluted	**(0.59)**	(0.12)	0.48
Discontinued operations - basic and diluted	**—**	—	(1.40)
(Loss) earnings per share	**(0.59)**	(0.12)	(0.92)
Total assets	**3,843,986**	3,476,497	2,455,004
Operating cash flow before stream deposit and change in non-cash working capital	**9,849**	142,957	252,154
Total long-term financial liabilities[3]	**802,370**	502,668	—
Dividends declared per share	**0.11**[4]	0.20	0.20

[1] The balances for the year ended December 31, 2012 reflect the adjustments related to the adoption of amended *IAS 19, Employee Benefits*. See note 4 in the consolidated financial statements.
[2] Attributable to owners of the Company
[3] Total long-term financial liabilities include non-current portions of long-term debt and other financial liabilities.
[4] Dividend declared during March and September of 2013.

Revenues were higher in 2011 primarily as a result of higher market prices for copper, zinc, gold, and silver. In addition, 2011 revenues benefited from increased sales volumes as excess copper concentrate inventories accumulated during 2010 were sold. Our revenue in 2012 and 2013 has decreased as a result of volume and price reductions.

Profit from continuing operations decreased from 2011 mainly as a result of the decreased revenue. In 2013 and 2012 we recorded a loss as a result of decreased gross margins and impairments on our available-for-sale investments in junior mining companies which arose primarily as a result of poor equity market conditions. In 2013, an impairment in our investment in the Back Forty exploration project along with an impairment of zinc inventories, unrealized foreign exchange losses on foreign denominated balances and deferred tax expense associated with Peruvian items contributed to losses for the year.

Losses from discontinued operations includes activities related to the Fenix project, which was 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 2011 to 2013 primarily due to investments in and financing raised for our development stage projects, Constancia, Lalor and Reed.

ACCOUNTING CHANGES

New standards adopted in 2013

For information on our adoption of new accounting standards, refer to note 4 of our December 31, 2013 annual consolidated financial statements.

New standards and interpretations not yet adopted

For information on new standards and interpretations not yet adopted, refer to note 4 of our December 31, 2013 annual consolidated financial statements.

CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the consolidated financial statements in conformity with IFRS requires us to make judgements, 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. Certain accounting estimates and judgements have been identified as being "critical" to the presentation of our financial condition and results of operations because they require us to make subjective and/or complex judgments about matters that are inherently uncertain; or there is a reasonable likelihood that materially different amounts could be reported under different conditions or using different assumptions and estimates.

Areas where we apply critical judgements include:

- Judgements that affect multiple areas of the financial statements:
    - Judgements related to estimating mineral reserves and resources which form the basis of life of mine plans which are utilized in impairment testing, timing of payments related to decommissioning obligations and depreciation of capital assets;
    - Acquisition method accounting as it concerns classification and accounting for investments in various ventures;
    - Determination of functional currency;
    - Income and mining taxes;
    - Commencement of commercial production which impacts the timing of revenue recognition, reclassification of capital works in progress and depreciation commencement; and
    - Exercise of judgement in respect of the outcome of uncertain future events as it concerns recognizing contingent liabilities.
- Judgements that relate mainly to assets (these judgements also affect other areas of the financial statements):
    - In process inventory quantities and inventory cost allocations;
    - Property, plant and equipment:
        - Cost allocations for mine development;
        - Mining properties expenditures capitalized;
        - Classification of supply costs as related to capital development or inventory acquisition;
        - Determining when exploration and evaluation assets should be transferred to capital works in progress within property, plant and equipment;
        - Determination of when an asset or group of assets is in the condition and location to be

ready for use as intended by management for the purposes of commencing deprecation;
        - Componentization;
        - Assessment of impairment, including determination of cash-generating units and assessing for indicators of impairment;
        - Recoverability of exploration and evaluation assets, including determination of cash-generating units and assessing for indications of impairment;
        - Determining whether assets meet criteria for classification as held for sale; and
        - Measurement and classification of Peruvian sales taxes paid on capital expenditures.
- Judgements that relate mainly to liabilities (these judgements also affect other areas of the financial statements):
    - Determining the accounting classification of the precious metals stream deposit.

Areas where we apply critical estimates include:

- Estimates that affect multiple areas of the financial statements:
    - Assumptions which are key in the estimation of mineral reserves and resources. We estimate our ore reserves and mineral resources based on information compiled by qualified persons as defined in accordance with NI 43-101;
    - Estimating mineral reserves and resources;
    - Acquisition method accounting;
    - Estimates of fair value of financial instruments; and
    - Tax estimates including future taxable profit which impact the ability to realize deferred tax assets on our balance sheet.
- Estimates that relate mainly to assets (these estimates also affect other areas of the financial statements):
    - Goodwill and non-current asset impairment testing input assumptions:
        - Future production levels and timing;
        - Operating and capital costs;
        - Future commodity prices;
        - Foreign exchange rates; and
        - Risk-adjusted discount rates
    - In process inventory quantities, inventory cost allocations and inventory valuation; and
    - Property, plant and equipment:
        - Units of production depreciation;
        - Plant and equipment estimated useful lives and residual values; and

- Finite life intangible assets.

· Estimates that relate mainly to liabilities (these estimates also affect other areas of the financial statements):

- Pensions and other employee benefits;
- Decommissioning, restoration and similar liabilities including estimated future costs and timing of spending;
- Contingent liabilities;
- Capital commitments; and
- Determination of deferred revenue per unit related to the precious metals stream transactions and determination of current portion of deferred revenue.

· 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 judgements. Changes in our assumptions, including economic assumptions such as metals prices and market conditions, could have a material effect on our financial position and results of operation.

Changes in our mineral 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 judgement in areas including future cash flows, metals 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 judgement 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.

The Notes contain an option to repay the entire amount prior to October 1, 2020 based on a prescribed prepayment penalty schedule. This prepayment option has been treated as an embedded derivative on the consolidated balance sheet in accordance with IFRS. The prepayment option is measured at fair value at each reporting date with any change recorded as other finance gains/losses, in the consolidated income statement. The fair value of the prepayment option was determined using a trinomial tree/lattice approach based on the Hull-White single factor interest rate term structure model.

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 adjust 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 inventory cost allocations

We determine the cost of production of concentrate inventory on a weighted average cost basis and the cost of production of finished metal inventory using the first in first out basis. The cost of production includes direct costs associated with conversion of production inventory: material, labour, contractor expenses, purchased concentrates, and an 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, costs are not allocated to routine operating levels of stockpiled ore. Estimates and judgement 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 applications of judgement.

We exercise judgement 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 judgement 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 mineral 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 because IFRS restricts value in use calculations from considering future development. Judgement is required to determine fair value less costs to sell. For mineral assets, fair value 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.

Given volatility in interest rates, foreign exchange rates and metal prices, it is reasonably possible that changes could occur in these key assumptions that may cause a decline in the recoverable amount of our mineral properties which may result in an impairment charge in future periods, reducing our earnings.

Pensions and other employee benefits

Our post retirement obligations relate mainly to ongoing health care benefit plans. We estimate obligations 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. Judgement 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 our business. 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 judgement 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 FACTORS

Set out below are certain of the risk factors applicable to our business and operations. Reference should be made to our Annual Information

Form and Form 40-F for further risk factors applicable to our business and operations.

Development of Key Projects

Significant amounts of capital will be required to bring each of our Lalor and Constancia projects to full production. Our capital and operating costs for such projects may be affected by a variety of factors, including project scope changes, local currency appreciation and general cost escalation common to mining projects globally. While we believe that we will have sufficient liquidity to satisfy spending requirements to complete our key capital projects and meet our debt service obligations (including obligations under our 9.50% senior unsecured notes and the equipment financing facility with Cat Financial), to the extent that capital costs are higher than currently forecast, metals prices decline materially from current levels or we have other unanticipated demands on our liquidity, we may need to raise additional financing to complete our capital projects or seek other sources of liquidity or pursue other corporate initiatives. Given current economic circumstances and other factors, there can be no certainty that sufficient financing or other transactions will be available on acceptable terms. If such financing or transactions are not available, we may not be able to fund the development of one or both of our Constancia and Lalor projects.

Tax Refunds

We expect to receive substantial cash refunds in the next twelve months of previously paid income and value added taxes from the Canadian and Peruvian governments, respectively. Although we believe we are following the appropriate processes to obtain the refunds and commenced receiving refunds from the Peruvian government in January 2014, there is no assurance that those refunds will be received on a timely basis.

Substantial Indebtedness

We have a significant amount of indebtedness. As at December 31, 2013 our total debt was approximately US$750 million (consisting of our Notes). In addition, we have drawn down US$26.5 million under our equipment financing facility with Cat Financial and expect to draw down the remaining available funds under the facility later in the first quarter of 2014 as we complete commissioning of the related equipment. The equipment financing facility will be used to finance the purchase of up to approximately US$130 million of mobile equipment for the Constancia project. We may also incur indebtedness under our credit facilities and would have additional indebtedness in the event the Offer to acquire the issued and outstanding common shares of Augusta is successful.

Subject to the limits contained in the indenture governing our Notes and any limits under our other debt instruments existing from time to time, we may be able to incur substantial additional debt (including an offtake related financing in Peru) to finance working capital, capital expenditures, investments or acquisitions or for other purposes. If we do so, the risks related to our high level of indebtedness could intensify. Specifically, our substantial level of indebtedness could have important consequences, including:

- limiting our ability to obtain additional financing to fund future working capital, capital expenditures, acquisitions or other general corporate requirements;
- requiring a substantial portion of our cash flows to be dedicated to debt service payments instead of other purposes, thereby reducing the amount of cash flows available for working capital, capital expenditures, acquisitions and other general corporate purposes;
- increasing our vulnerability to general adverse economic and industry conditions;
- exposing us to the risk of increased interest rates as certain of our debt facilities are at variable rates of interest;
- limiting our flexibility in planning for and reacting to changes in the industry in which we compete;

- placing us at a disadvantage compared to other, less leveraged competitors; and
- increasing our cost of borrowing.

Aboriginal Rights and Title

Claimed rights of aboriginal peoples, including the Mathias Colomb Cree Nation (the “MCCN”), may affect our ability to explore or develop our mineral properties or conduct operations. For example, in January and March of 2013, members of the MCCN staged two separate blockades that impeded access to our Lalor site for part of a business day. After the two blockades, we successfully applied to the Manitoba Court of Queen’s Bench for an interlocutory injunction to prevent any further blockades at our Manitoba operations. The Court’s decision in respect of the injunction at the Lalor project was recently upheld by the Manitoba Court of Appeal. While the court of Appeal’s decision removed the injunction’s application to our Reed project, it left open the possibility of extending the injunction to the Reed project should similar blockades occur in the future. There can be no assurance that other disruptions will not be initiated, which initiatives may affect our ability to explore and develop our properties and conduct our operations.

Community Relations

Our relationships and reputation, generally and particularly with the communities in which we operate and other stakeholders, are critical to the future success of our existing operations and the construction and development of our projects, including our Constancia project in Peru and our ability to explore and develop additional properties. There is an increasing level of public concern relating to the perceived effect of mining activities on the environment and on communities impacted by those activities. Publicity adverse to us, our operations, or extractive industries generally, including as a result of anti-mining protests in Peru, could have an adverse effect on us and may impact our reputation and relationships with the communities in which we operate, including the communities surrounding the Constancia project, and other stakeholders. For example, while we have entered into life of mine agreements with two local communities directly affected by the Constancia project, there can be no assurance that disputes will not arise with such communities or other communities in the area or that we will be able to secure the agreements required to ensure we have the necessary surface rights to successfully complete the project and construct the power transmission line for the Constancia project. There is the risk that relations with local communities may be strained by real or perceived detrimental effects associated with our activities or those of other mining companies and that those strains may impact our ability to enforce these agreements or obtain necessary permits and approvals to develop and operate the Constancia project. 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.

Fluctuations in the Value of Equity Investments

We are exposed to market risk from the share prices of our equity investments in listed junior exploration companies. These investments are made to foster strategic relationships, in connection with joint venture agreements and for investment purposes. The share prices of these equity investments may be significantly affected by short-term changes in capital markets, commodity prices or in their financial condition or results of their operations, and as a result, will affect the value of our investments.

Risks Related to the Offer

Development of the Rosemont Project

The Offer to acquire Augusta has been made with the expectation that its successful completion will result in increased copper and precious metals production and enhanced growth opportunities for Hudbay. These anticipated benefits will primarily depend on whether and when the Rosemont project receives the permits required to commence construction and operate the mine. While we believe the permits will be granted, there may be a delay in their issuance and once the permits are issued they may be challenged which could cause further delays. In addition, most operational, strategic and staffing decisions with respect to the Rosemont project have not yet been made. These decisions and the ability to successfully bring the Rosemont project into production will present challenges to management, including possible unanticipated costs and liabilities, the possibility that we will not be able to retain key employees, officers and contractors of Augusta, the ability to complete construction and related infrastructure in a timely

manner, changes in the legal and regulatory environment, currency fluctuations, industrial disputes and community relations, unavailability of parts, machinery or operators and other personnel, delays in the delivery of major process plant equipment, unforeseen natural events, and political, social 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, and it is possible that cost overruns could occur during the construction of the Rosemont project.

The Issuance of Hudbay Shares as Consideration under the Offer

If all of the Augusta common shares are tendered to the Offer, 41,921,758 additional Hudbay common shares will be available for trading in the public market (assuming the exercise of only Augusta's in-the-money convertible securities). The overall increase in the number of our common shares may lead to sales of such shares or the perception that such sales may occur, either of which may adversely affect the market for, and the market price of, our common shares. The perceived risk of substantial sales of our common shares, as well as any actual sales of such our common shares in the public market, could adversely affect the market price of our common shares.

Dissent and Appraisal Rights

In order for Hudbay to acquire all of the issued and outstanding Augusta common shares, it will likely be necessary, following consummation of the Offer, to effect a second step transaction. A second step transaction may result in Augusta shareholders having the right to dissent and demand payment of the fair value of their Augusta common shares. If the statutory procedures governing dissent rights are available and are complied with, this right could lead to judicial determination of the fair value required to be paid to such dissenting Augusta shareholders for their Augusta common shares that is different from the consideration to be paid pursuant to the Offer. There is no assurance that a second step transaction can be completed without Augusta shareholders exercising dissent rights in respect of a substantial number of Augusta common shares, which could result in the requirement to make a substantial cash payment that could have an adverse effect on our financial position and liquidity.

Augusta's Public Disclosure

All information regarding Augusta contained in the Offer and accompanying circular ("Circular"), including Augusta financial information and all pro forma financial information reflecting the pro forma effects of a combination of Augusta and Hudbay that are derived in part from Augusta's financial information, has been derived from Augusta's public disclosure. Although we have no reason to doubt the accuracy or completeness of Augusta's public disclosure, any inaccuracy or material omission in Augusta's public disclosure, including the information about or relating to Augusta and its business, prospects, condition (financial or otherwise) and assets contained in the Offer and Circular, could result in unanticipated liabilities or expenses, increase the cost of integrating the two companies or adversely affect the operational plans or prospects of the two companies and its results of operations and financial condition.

Change of Control Provisions

Augusta may be a party to agreements (including in respect of its debt obligations) that contain change of control provisions that may be triggered following completion of the Offer, since we would hold Augusta common shares representing a majority of the voting rights of Augusta. The operation of these change of control provisions, if triggered, could result in unanticipated expenses and/or cash payments following consummation of the Offer or adversely affect Augusta's results of operations and financial condition. Unless these change of control provisions are waived by the other party to any such agreements, the operation of any of these provisions could adversely affect the results of operations and financial condition of the combined company.

NON-IFRS FINANCIAL PERFORMANCE MEASURES

Operating cash flow per share and cash costs per pound of copper sold are included in this MD&A because we believe that, in the case of operating cash flow per share, it helps investors to evaluate changes in cash flow while taking into account changes in shares outstanding, and in the case of cash costs, they help investors assess the performance of our operations. These measures do not have a meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers. These measures should not be considered in isolation or as a substitute for measures prepared in accordance with IFRS and 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 per share

The following table presents our calculation of operating cash flow per share for the three months and year ended December 31, 2013 and December 31, 2012.

	Three Months Ended		Year Ended	
($000s except share and per share amounts)	**Dec. 31 2013**	**Dec. 31 2012**	**Dec. 31 2013**	**Dec. 31 2012**
Operating cash flow before stream deposit and change in non-cash working capital	**762**	6,002	**9,849**	142,957
Weighted average shares outstanding	**172,078,376**	171,975,800	**172,048,434**	171,960,783
Operating cash flow per share	**$ —**	$ 0.03	**$ 0.06**	$ 0.83

Cash cost per pound of copper sold

Cash cost per pound of copper sold ("cash cost") is a non IFRS measure that management uses as a key performance indicator to assess the performance of our operations. Our calculation designates copper as our primary metal of production as it is currently, and is expected to be, the largest component of revenues. The calculation is presented in two manners:

- **Cash cost per pound of copper sold, before by-product credits -** This measure is gross of by-product revenues and is a function of the efforts and costs incurred to mine and process all ore mined. However, the measure divides this aggregate cost over only pounds of copper sold, our primary metal of production. This measure is generally less volatile from period to period, as it is not affected by changes in the price received for by-product metals. It is, however, significantly affected by the relative mix of metal sales, and an increase in production of a by-product metal will tend to result in an increase in cash costs under this measure, regardless of the profitability of the increased by-product metal production.

- **Cash cost per pound of copper sold, net of by-product credits** - In order to calculate the cost to produce and sell copper, the net of by-product credits measure subtracts the revenues realized from the sale of the metals other than copper. The by-product revenues from zinc, gold and silver are significant and are integral to the economics of our Company. The economics that support our decision to produce and sell copper would be different if our Company did not receive revenues from the other significant metals being extracted and processed. This measure provides management and investors with an indication of the minimum copper price consistent with positive operating cash flows and operating margins, assuming by-product metal prices are consistent with those prevailing during the reporting period. It also serves as an important operating statistic that management and investors utilize to measure our operating performance versus that of our competitors. However, it is important to understand that if by-product metal prices decline alongside copper prices, the cash cost net of by-product credits would increase, requiring a higher copper price than that reported to maintain positive cash flows and operating margins.

The following table presents our calculation of gross cash cost per pound of copper sold and cash cost per pound of copper sold, net of by-product credits for the three months and year ended December 31, 2013 and 2012.

	Three Months Ended		Year Ended	
(000's)	**Dec. 31 2013**	**Dec. 31 2012**	**Dec. 31 2013**	**Dec. 31 2012**
By product credits:				
Zinc	**(54,956)**	(62,688)	**(219,125)**	(222,570)
Gold	**(25,297)**	(36,070)	**(99,531)**	(131,770)
Silver	**(3,813)**	(6,311)	**(14,368)**	(20,979)
Other	**(1,086)**	(1,517)	**(5,796)**	(6,364)
Total by product credits	**(85,152)**	(106,586)	**(338,820)**	(381,683)
Less: deferred revenue	**16,998**	29,322	**69,088**	29,322
Less: pre-production credits	**2,731**	115	**12,519**	115
Total by product credits, net of pre-production credits	**(65,423)**	(77,149)	**(257,213)**	(352,246)
By product credits, per net copper pound sold:				
Zinc	**(3.45)**	(2.66)	**(3.58)**	(2.32)
Gold	**(1.59)**	(1.53)	**(1.63)**	(1.38)

Silver	**(0.24)**	(0.27)	**(0.23)**	(0.22)
Other	**(0.06)**	(0.06)	**(0.09)**	(0.06)
Total by product credits	**(5.34)**	(4.52)	**(5.53)**	(3.98)
Less: deferred revenue	**1.06**	1.24	**1.13**	0.30
Less: pre-production credits	**0.17**	—	**0.20**	—
Total by product credits, net of pre-production credits	**(4.11)**	(3.28)	**(4.20)**	(3.68)
Cash cost, before by-product credits	**99,857**	124,059	**373,906**	458,934
By-product credits, net of pre-production credits	**(65,423)**	(77,149)	**(257,213)**	(352,246)
Cash cost, after by-product credits	**34,434**	46,910	**116,693**	106,688
Pounds of copper sold	**16,735**	23,553	**63,280**	95,821
Less: pre-production pounds of copper sold	**799**	—	**2,052**	—
Net pounds of copper sold	**15,936**	23,553	**61,228**	95,821
Cash cost, before by-product credits (per pound)	**6.27**	5.27	**6.11**	4.79
By-product credits (per pound)	**(4.11)**	(3.28)	**(4.20)**	(3.68)
Cash cost, after by-product credits (per pound)	**2.16**	1.99	**1.91**	1.11
Reconciliation to IFRS:				
Cash cost, after by-product credits	**34,434**	46,910	**116,693**	106,688
By-product credits	**85,152**	106,586	**338,820**	381,683
Change in deferred revenues	**(16,998)**	(29,322)	**(69,088)**	(29,322)
Pre-production revenue	**(2,731)**	(115)	**(12,519)**	(115)
Treatment and refining charges	**(5,332)**	(5,529)	**(19,853)**	(22,709)
Share based payment	**337**	505	**1,021**	1,377
Adjustments related to zinc inventory write-downs (reversals)	**5,011**	(1,955)	**5,011**	(5,420)
Demolition and rehabilitation	**—**	555	**—**	684
Cost of sales - operating costs (excluding depreciation)	**99,873**	**117,635**	**360,085**	**432,866**

Cash cost after by-product credits in the fourth quarter of 2013 was $2.16/lb, compared to $1.99/lb for the same period in 2012 due to higher per unit operating costs as Lalor ramps up to capacity by the second half of 2014, and lower realized copper grades at 777, as a result of the deferral of certain high grade copper zones from the 2013 mining plan.

Cash cost after by-product credits for year ended December 2013 was $1.91/lb, compared to $1.11/lb in 2012 due to the same factors that affected fourth quarter cash costs and also due to lower production volumes over the full year as a result of the planned closures of the Trout Lake and Chisel North mines in the second half of 2012.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure controls and procedures

Management is responsible for establishing and maintaining adequate disclosure controls and procedures. As of December 31, 2013, 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.

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 Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on management's evaluation, our CEO and CFO concluded that our ICFR was effective as of December 31, 2013.

Our annual management report on internal control over financial reporting will be included in our Annual Report on Form 40-F to be filed with the Canadian provincial regulatory authorities and the SEC.

The Company's internal control over financial reporting as at December 31, 2013 has been audited by Deloitte LLP, Independent Registered Public Accounting Firm who also audited the Company's Consolidated Financial Statements for the year ended December 31, 2013. Deloitte LLP expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Deloitte LLP, our Independent Registered Chartered Accountants, have audited our consolidated financial statements for the year ended December 31, 2013 for purposes of providing reasonable assurances regarding the reliability of financial reporting and the preparation of financial statements.

Changes in ICFR

We did not make any changes to ICFR during the year ended December 31, 2013 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, 2013, the Registrant's Balmat Mine No. 4 and Mill received a total of five citations and orders from the MSHA alleging certain violations specified by the Dodd-Frank Act resulting in proposed MSHA assessments totaling US$1,277 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, 2013, 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, 2013, 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	Balmat Mine No. 4 & Mill	1	—	—	—	—	US$ 1,277	—	—

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 Head of the Legal group. Any HB Personnel who become aware of a conflict or potential conflict should bring it to the attention of their supervisor,

department head or Head of the Legal group 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. In no circumstance will it be acceptable for HB Personnel to accept a cash gift, regardless of the amount.

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 Head of the Legal group.

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 head of the Legal group for investigation. Any employee theft or fraud will result in immediate termination of the responsible employee. In such circumstances, management reserves the right to seek criminal prosecution or pursue civil charges where appropriate based on the nature of the offending behavior.

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 Harassment-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 provided that the hiring of a family member must be approved by the head of the applicable business unit or the Chief Operating Officer. The employment of a family member or any other personal relationship between HB Personnel must not create a situation where there is preferential treatment or that might improperly influence sound, objective business decisions in compliance with applicable Company policies and internal controls. For purposes of this paragraph, “family member” means an individual’s spouse, parent, child, sibling, mother- or father-in-law, brother- or sister-in-law and anyone who shares the individual’s home.

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.

[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).

COMPLIANCE PROCEDURES

HB Personnel must endeavour to ensure prompt and consistent action against violations of this Code. If you are in a situation that you believe may violate or lead to a violation of this Code, follow the guidelines described below:

- Make sure you have all the facts. In order to reach the right solutions, we must be as fully informed as possible.
- 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 Head of the Legal group.
- 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

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: March 31, 2014

/s/ David Garofalo
David Garofalo
Chief Executive Officer
(Principal Executive Officer)

Exhibit 99.7

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: March 31, 2014

/s/ David S. Bryson
David S. Bryson
Chief Financial Officer
(Principal Financial Officer)

Exhibit 99.8

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, 2013, 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.

March 31, 2014

/s/ David Garofalo
David Garofalo
Chief Executive Officer
(Principal Executive 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, 2013, 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.

March 31, 2014

/s/ David S. Bryson
David S. Bryson
Chief Financial Officer
(Principal Financial Officer)

Exhibit 99.10

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 March 31, 2014 and (ii) Registration Statement No. 333-170295 on Form S-8 and Registration Statements No. 333-185723, 333-190801 and 333-193876 on Form F-10 (the "Registration Statements"). 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 Statements.

Yours very truly,

/s/ Cashel Meagher
Cashel Meagher, P.Geo.

Dated: March 31, 2014

Exhibit 99.11

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 March 31, 2014 and (ii) Registration Statement No. 333-170295 on Form S-8 and Registration Statements No. 333-185723, 333-190801 and 333-193876 on Form F-10 (the "Registration Statements"). 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 Statements.

Yours very truly,

/s/ Robert Carter
Robert Carter, P. Eng.

Dated: March 31, 2014

Exhibit 99.12

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-170295 on Form S-8 and in Registration Statements No. 333-185723, 333-190801 and 333-193876 on Form F-10 and to the use of our reports dated February 19, 2014 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, 2013.

/s/ Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants

Toronto, Canada
March 31, 2014