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, 2014 **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**
Common Share Purchase Warrants	**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, 2014, 233,615,857 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, 2014 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, 2014 and 2013, 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, 2014 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.

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, 2014, 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 46 and 47 of Exhibit 99.3, Management's Discussion & Analysis for the Year Ended December 31, 2014, is incorporated by reference herein. Other than as noted therein, 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, 2014 that materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Management's report dated February 19, 2015 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's internal control over financial reporting as at December 31, 2014 has been audited by Deloitte LLP ("Deloitte"), Independent Registered Public Accounting Firm who also audited the Registrant's Consolidated Financial Statements for the years ended December 31, 2014 and 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, 2014 and 2013, 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, 2014.

AUDIT COMMITTEE IDENTIFICATION AND FINANCIAL EXPERT

As at December 31, 2014, the Registrant’s audit committee consisted of Sarah B. Kavanagh Alan J. Lenczner, John. L. Knowles and Michael T. Waites. The Registrant’s board of directors has determined that each of Ms. Kavanagh and Messrs. Lenczner, Knowles and Waites is an “audit committee financial expert” within the meaning of the Commission’s rules. Each of Ms. Kavanagh and Messrs. Lenczner, Knowles and Waites 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, Knowles and Waites 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, Knowles and Waites 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 and General Counsel 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, 2014.

During the fiscal year ended December 31, 2014, the Registrant conducted a review of its Code of Ethics to consider whether any amendments were advisable or required. No material amendments were made to the Registrant’s Code of Ethics following that review and during the fiscal year ended December 31, 2014. 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.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information provided under the heading “Audit Committee Disclosure” on page 40 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, 2014 were pre-approved by the audit committee in accordance with the Registrant’s pre-approval policy as described under the heading “Policy Regarding Non-Audit Services Rendered by Auditors” on page 41 of the AIF.

Audit Fees

The aggregate fees billed by Deloitte, the Registrant’s independent auditor, for the fiscal years ended December 31, 2013 and December 31, 2014, 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 $1,407,003 and $1,511,365, respectively.

Audit-Related Fees

The aggregate fees billed by Deloitte for the fiscal years ended December 31, 2013 and December 31, 2014, 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 $414,155 and $364,810, respectively.

Tax Fees

There were no tax fees billed by Deloitte for the fiscal years ended December 31, 2013 and December 31, 2014.

All Other Fees

The aggregate of all other fees billed by Deloitte for the fiscal year ended December 31, 2013 was $230,884. There were no other fees billed by Deloitte for the fiscal year ended December 31, 2014.

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 33 of Exhibit 99.3, Management’s Discussion & Analysis for the Year Ended December 31, 2014, 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 States 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, General Counsel and Corporate Secretary
Date: March 31, 2015

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, 2014

99.2 Audited Annual Financial Statements for the Years Ended December 31, 2014 and 2013

99.3 Management's Discussion & Analysis for the Year Ended December 31, 2014

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

Certifications

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

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

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

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

Consents

99.9 Consent of Cashel Meagher, P.Geo., dated March 31, 2015

99.10 Consent of Robert Carter, P.Eng., dated March 31, 2015

99.11 Consent of Deloitte LLP, March 31, 2015

Exhibit 99.1



HUDBAY MINERALS INC.

ANNUAL INFORMATION FORM

FOR THE

YEAR ENDED DECEMBER 31, 2014

March 30, 2015

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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, the production, cost and capital and exploration expenditure guidance, the permitting, development and financing of the Rosemont project, production at our Constancia, 777, Lalor and Reed mines, processing at our Constancia concentrator, Flin Flon concentrator, Snow Lake concentrator and Flin Flon zinc plant, anticipated timing of our projects and events that may affect our projects, including the anticipated issue of required licenses and permits, 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 successful ramp up of production at Constancia
- 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 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 additional financing, if needed, under our credit facilities;
- 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 and Rosemont projects and First Nations communities surrounding our Lalor and Reed mines;
- 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; and
- no significant and continuing adverse changes in general economic conditions or conditions in the financial markets.

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, 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 risks associated with the commissioning and ramp up of the Constancia project and risks associated with the permitting of the Rosemont project), depletion of our reserves, dependence on key personnel and employee and union relations, 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, volatile financial markets that may affect our ability to obtain financing on acceptable terms, the permitting and development of the Rosemont project not occurring as planned, any material inaccuracy in Augusta Resource Corporation’s (“**Augusta**”) historical public disclosure and representations in the support agreement upon which our offer to acquire Augusta was predicated, the failure to obtain required approvals or clearances from government authorities on a timely basis, 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.

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.

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 2014 and the closing exchange rate at December 31, 2014, as reported by the Bank of Canada, were one Canadian dollar per 0.9054 and 0.8620 United States dollars, respectively. On March 27, 2015 the Bank of Canada noon rate of exchange was 0.7949.

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

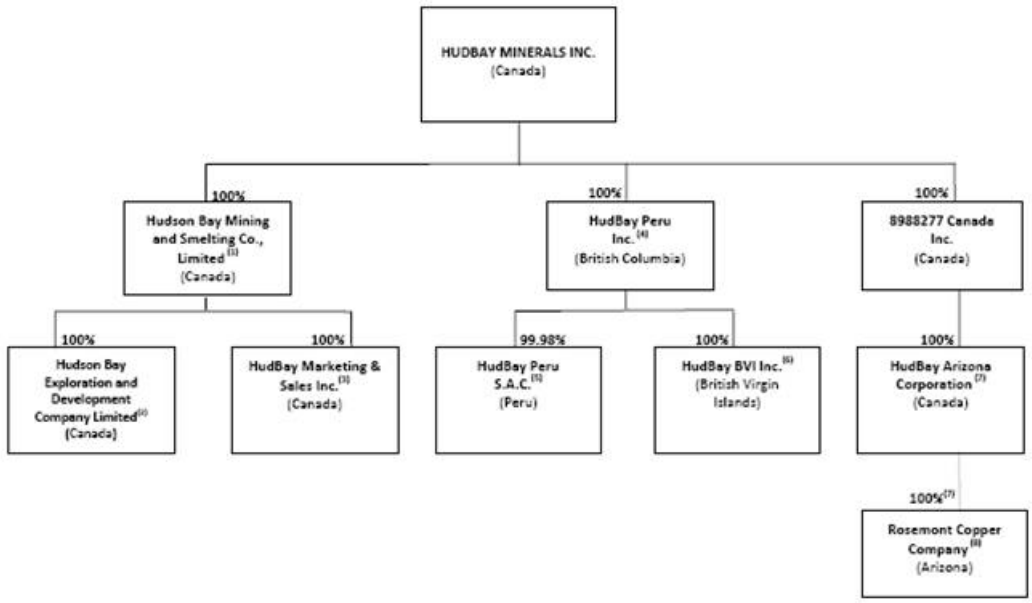
We were formed by the amalgamation of Pan American Resources Inc. and Marvas Developments Ltd. on January 16, 1996, pursuant to the *Business Corporations Act* (Ontario) and changed our name to Pan American Resources Inc. On March 12, 2002, we acquired ONTZINC Corporation, a private Ontario corporation, 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". Our warrants are listed under the symbol "HBM.WT" on the TSX and "HBM/WS" on the NYSE.

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.
(7) HudBay Arizona Corporation, through its subsidiaries, indirectly owns 100% of Rosemont Copper Company.
(8) Rosemont Copper Company currently owns a 92.05% interest in the Rosemont project.

DEVELOPMENT OF OUR BUSINESS

Strategy

Our vision 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 extract ore profitably 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 through exploration and development of properties we already control, such as our Rosemont project in Arizona and our Constancia project in Peru, as well as through the acquisition of exploration and development properties. We also intend to optimize the value of our producing assets through efficient and safe operations.

In an attempt to ensure that any acquisition we undertake creates 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 potential for exploration, development and optimization. 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 potential of prospective properties, and more rarely producing properties, providing us with an opportunity to create value through exploration, development and optimization of acquired properties;
- We believe that large, transformational mergers and 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 us 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.

Three Year History

Second Amended and Restated Credit Facility

On March 13, 2015, we amended and restated our corporate revolving credit facility to increase the size of the facility to US$300 million and remove the borrowing base. The credit facility matures on March 13, 2018, is secured by the assets of our Manitoba Business Unit and contains customary covenants for a facility of this type (including debt to EBITDA maintenance covenants and the requirement to maintain a tangible net worth). As at December 31, 2014, we were in compliance with our covenants under the credit facility and as of the date of this AIF, we had $64.1 million in letters of credit advanced under the credit facility and had drawn an additional US$26 million in borrowings under the credit facility.

Acquisition of the Rosemont Project

We acquired all of the issued and outstanding common shares (the " **Augusta Shares**") of Augusta (now HudBay Arizona Corporation, "**Hudbay Arizona**") pursuant to take-over bid, which ultimately was supported by Augusta and its largest shareholders, and expired July 29, 2014, and a subsequent acquisition transaction, which closed on September 23, 2014, for consideration per Augusta Share of 0.315 of a Hudbay common share and 0.17 of a warrant to acquire a Hudbay common share (the "**Augusta Acquisition**"). Through our acquisition of Augusta, we acquired our 92.05% ownership interest in the Rosemont project, a copper development project located in Pima County, Arizona, approximately 50 kilometres southeast of Tucson. Our ownership in the Rosemont project is subject to an Earn-In Agreement and a Joint Venture Agreement with United Copper & Moly LLC (" **UCM**"). Pursuant to the Earn-In Agreement, UCM has earned a 7.95% interest in the project and may earn up to a 20% interest (the "**Earn-In Right**"). The Earn-In Right is conditional on UCM contributing an additional US$106 million to the joint venture (the "**Earn-**

In Investment"), which amount UCM is not obliged to contribute until all material permits in respect of the Rosemont project have been granted. After such permits have been obtained and a decision is made to commence construction at Rosemont, UCM is required to advance the Earn-In Investment pro rata with the US$230 million upfront deposit payment under the precious metals stream agreement with Silver Wheaton in respect of the Rosemont project.

Following completion of the subsequent acquisition transaction, the Augusta Shares were delisted from the Toronto Stock Exchange, NYSE MKT LLC and Frankfurt Stock Exchange and Augusta ceased to be a reporting issuer in all jurisdictions. Augusta's name was changed to "HudBay Arizona Corporation" on December 17, 2014.

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. The net proceeds of the equity financing were used 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**"). On June 20, 2013, December 9, 2013 and August 6, 2014, we issued US$150 million, US$100 million and US$170 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 US$920 million aggregate principal amount of 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 and the Rosemont project. For additional information, see "Description of Capital Structure — Senior Unsecured Notes".

Precious Metals Stream Transaction

On August 8, 2012, we entered into a US$750 million precious metals stream transaction with Silver Wheaton in respect of our 777 mine (the "**777 Stream Agreement**") and our Constancia mine (the " **Constancia Stream Agreement**" and, together with the 777 Stream Agreement, the "**Stream Agreements**").

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 mine.

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 provided that we would receive an additional

US$135 million deposit against delivery of 50% of the payable gold from the Constancia project. Gold recovery for purposes of calculating payable gold is fixed at 55% for gold mined from Constancia and 70% for gold mined from Pampacancha. We received the US$135 million gold deposit from Silver Wheaton (Caymans) Ltd. ("**SW Caymans**") on September 26, 2014. The deposit was paid in the form of common shares of Silver Wheaton, at Silver Wheaton's election, which we subsequently disposed of for net proceeds of approximately US$134 million. This payment represented the final instalment of the US$885 million of deposits under the Stream Agreements.

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. Physical construction was essentially completed and copper concentrate production commenced during the fourth quarter of 2014. Commissioning and ramp-up activities continued during the first quarter of 2015 and are ongoing, with the mine expected to reach commercial production during the second quarter of 2015 and to achieve full capacity in the second half of 2015.

We acquired the Constancia project through our acquisition of all of the outstanding shares of Norsemont Mining Inc. (" **Norsemont**") in 2011. 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 was $72 million. Production at Reed commenced in the third quarter of 2013 and the mine commenced commercial production on April 1, 2014. 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.

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 copper projects in Cusco (Peru) and Arizona (United States). 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 vision is to create sustainable value through increased commodity exposure on a per share basis for our shareholders.

We have four material mineral projects:

1. our 100% owned 777 mine, an underground copper and zinc mine in Flin Flon, Manitoba, which has been producing since 2004;

2. our 100% owned Lalor mine, an underground zinc, copper and gold mine near Snow Lake, Manitoba, which achieved commercial production from the main production shaft in the third quarter of 2014;

3. our 100% owned Constancia mine, an open pit copper mine in Peru, which commenced initial production in the fourth quarter of 2014 and is expected to achieve commercial production during the second quarter of 2015; and

4. our 92.05% owned Rosemont project, a copper development project in Pima County, Arizona; our ownership in the Rosemont project is subject to an Earn-In Agreement with UCM, pursuant to which UCM has earned a 7.95% interest in the project and may earn up to a 20% interest.

We also own a 70% interest in the Reed mine near Snow Lake, Manitoba, which commenced production in the third quarter of 2013 and commenced commercial production in April 2014, 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. We also own and operate a processing facility at Constancia, which produces copper concentrate

and is being commissioned to produce molybdenum concentrate.

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



Material Mineral Projects

777

Our 100% owned 777 mine is an underground copper, zinc, gold and silver mine located within the Flin Flon Greenstone Belt, immediately adjacent to our principal concentrator and zinc pressure leach plant in Flin Flon, Manitoba. Development of the 777 mine commenced in 1999 and commercial production began in 2004. The anticipated mine life is until 2020.

Ore produced at the 777 mine is transported to our Flin Flon concentrator for processing into copper and zinc 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. 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, 2014, 2013 and 2012.

		December 31		
	Units	2014	2013	2012
Ore mined	tonnes	1,452,933	1,625,532	1,529,103
Copper grade in ore	%	1.91	1.85	2.32
Zinc grade in ore	%	3.05	3.81	4.16
Gold grade in ore	grams/tonne	1.72	2.02	2.18
Silver grade in ore	grams/tonne	21.48	23.01	25.77

Mineral Reserves and Resources

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

777 Mineral Reserves — January 1, 2015 [(1)(2)]

	Tonnes	Cu (%)	Zn (%)	Au (g/t)	Ag (g/t)
777 Mine					
Proven	3,729,000	2.10	4.65	1.86	27.39
Probable	3,943,000	1.50	4.23	1.80	24.09
Total Mineral Reserve	**7,672,000**	**1.79**	**4.43**	**1.83**	**25.69**

Notes:
(1) The zinc price used for mineral reserve estimation was US$1.07 per pound (includes premium), the copper price was US$3.15 per pound, the gold price was US$1,260.00 per ounce and the silver price was US$21.00 per ounce using an exchange of 1.10 C$/US$.
(2) 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.

777 Indicated Mineral Resources — September 30, 2014 [(1)(2)(3)]

	Tonnes	Cu (%)	Zn (%)	Au (g/t)	Ag (g/t)
777 Mine	**733,000**	**0.99**	**3.52**	**1.81**	**26.13**

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$1.07 per pound (includes premium), the copper price was US$3.15 per pound, the gold price was US$1,260.00 per ounce and the silver price was US$21.00 per ounce using an exchange of 1.10 C$/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, 2014 [(1)(2)(3)]

	Tonnes	Cu (%)	Zn (%)	Au (g/t)	Ag (g/t)
777 Mine	**717,000**	**1.03**	**4.79**	**1.79**	**32.93**

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$1.07 per pound (includes premium), the copper price was US$3.15 per pound, the gold price was US$1,260.00 per ounce and the silver price was US$21.00 per ounce using an exchange of 1.10 C$/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

Our 100% owned Lalor mine is a zinc, copper and gold mine 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 the first quarter of 2014, we received the *Environment Act* licence for Lalor, which allowed the mine to move into full production via the main shaft. Lalor commenced initial ore production from the ventilation shaft in August 2012 and achieved commercial production from the main shaft in the third quarter of 2014.

In the third quarter of 2014, we completed a refurbishment of the equipment and facilities at the Snow Lake concentrator, which now has the capacity to treat 2,700 tonnes per day. Lalor ore is currently being transported for processing at the Snow Lake concentrator and we are evaluating options for the treatment of Lalor ore over the longer term.

An underground exploration program at Lalor is underway; drilling is intended to enable the upgrade of inferred resources into a higher resource category, to test the down plunge potential of the gold and copper-gold zones and to determine the optimal location to advance the exploration ramp. Drilling of the copper-gold zone began in the fourth quarter of 2014 and as of the date of this AIF 11 holes have been drilled.

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 mine, refer to Schedule B of this AIF.

Production

The following table sets forth actual production from the Lalor mine for the years ended December 31, 2014, 2013 and 2012.[(1)]

		December 31		
	Units	2014	2013	2012
Ore mined	tonnes	551,883	400,590	72,293
Copper grade in ore	%	0.88	0.84	0.63
Zinc grade in ore	%	8.52	9.44	11.83
Gold grade in ore	grams/tonne	2.29	1.21	1.67

Silver grade in ore	grams/tonne	23.83	19.39	19.29

Notes:
(1) Lalor ore production in 2014 includes partial production from the ventilation shaft, which began production in August 2012. Lalor ore production in each of 2012 and 2013 was from the ventilation shaft.

Mineral Reserves and Resources

Lalor Mineral Reserves — January 1, 2015 [1][2]

	Tonnes	Cu (%)	Zn (%)	Au (g/t)	Ag (g/t)
Lalor – Base Metal					
Proven	3,404,000	0.52	8.00	1.27	17.93
Probable	8,452,000	0.71	6.72	2.12	26.62
Lalor – Gold Zone					
Proven	131,000	0.14	0.50	3.56	14.17
Probable	2,328,000	0.35	0.35	5.46	29.11
Total Mineral Reserve	**14,315,000**	**0.60**	**5.93**	**2.48**	**24.85**

Notes:
(1) The zinc price used for mineral reserve estimation was US$1.07 per pound (includes premium), the copper price was US$3.15 per pound, the gold price was US$1,260.00 per ounce and the silver price was US$21.00 per ounce using an exchange of 1.10 C$/US$.
(2) For additional details relating to the estimates of mineral reserves at our Lalor mine, 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, 2014 [1][2][3]

	Tonnes	Cu (%)	Zn (%)	Au (g/t)	Ag (g/t)
Lalor – Base Metal[4]					
Inferred	5,332,000	1.56	5.21	2.75	25.32
Lalor – Gold Zone					
Inferred	3,890,000	0.38	0.24	5.50	31.40
Total Inferred Mineral Resource	**9,222,000**	**1.06**	**3.11**	**3.91**	**27.88**

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$1.07 per pound (includes premium), the copper price was US$3.15 per pound, the gold price was US$1,260.00 per ounce and the silver price was US$21.00 per ounce using an exchange of 1.10 C$/US$.
(3) For additional details relating to the estimates of mineral reserves at our Lalor mine, 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

Constancia is our 100% owned copper mine 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 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. Physical construction was essentially completed and copper concentrate production commenced during the fourth quarter of 2014. Commissioning and ramp-up activities continued during the first quarter of 2015 and are ongoing, with the mine expected to reach commercial production during the second quarter of 2015 and achieve full capacity in the second half of 2015.

Pursuant to the Constancia Stream Agreement, we received US$430 million in upfront deposit payments against delivery of 100% of the payable silver and 50% of the payable gold at Constancia. Gold

recovery for purposes of calculating payable gold is 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. [(1)(2)]

	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) There was no material reduction in the Constancia reserves due to depletion in 2014 and changes in our long-term metal prices and exchange rate assumptions would not have a material impact on our estimates of the 2014 mineral reserves at Constancia. As such, we did not conduct an updated estimate in 2015.

(2) 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)(3)]

	Tonnes	Cu (%)	Mo (g/t)	Au (g/t)	Ag (g/t)
Constancia[(4)]					
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[(5)]					
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) There was no material reduction in the Constancia resources due to depletion in 2014 and changes in our long-term metal prices and exchange rate assumptions would not have a material impact on our estimates of the 2013 mineral resources at Constancia. As such, we did not conduct an updated estimate in 2014.

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

(3) 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.

(4) 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.

(5) 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.

Rosemont

Rosemont is a copper development project, located in Pima County, Arizona, approximately 50 kilometres southeast of Tucson, which we acquired through our acquisition of Augusta in 2014. Our ownership in the Rosemont project is subject to an Earn-In Agreement with UCM, pursuant to which UCM has earned a 7.95% interest in the project and may earn up to a 20% interest.

Permitting efforts at Rosemont remain ongoing. The remaining required key permits are the final Record of Decision from the U.S. Forest Service and the Clean Water Act Section 404 Permit from the U.S. Army Corps of Engineers. The Rosemont permit applications contemplate an open pit copper mine and associated processing facility which would produce copper and molybdenum concentrates.

Mineral Reserves and Resources

We are treating Augusta's previously disclosed estimates of the mineral reserves and resources at the Rosemont project as "historical

estimates" under NI 43-101 and not as current mineral reserves or resources, as a qualified person has not done sufficient work for us to classify Rosemont's mineral reserves or resources as current mineral reserves or resources. We are currently reviewing Augusta's estimates of the mineral reserves and resources at Rosemont as well as the assumptions underlying its 2012 feasibility study for the project. As part of this review, we completed a 43 hole confirmatory drill program in December 2014 and are advancing the engineering in a number of areas, including through a metallurgical test program. Once our review is complete and the engineering is sufficiently advanced, we expect to complete a feasibility study for the Rosemont project, including a current estimate of the mineral reserves and resources. Based on the work we have done to date, we do not expect any significant changes from the tonnes and grade in Augusta's historical estimates.

The following table sets forth Augusta's historical estimate of the mineral reserves at the Rosemont project as at July 24, 2012. (1)(2)(3)

Rosemont – Historical Reserves	Tonnes	Cu (%)	Mo (%)	Ag (g/t)
Proven	279,481,000	0.46	0.015	4.11
Probable	325,798,000	0.42	0.014	4.11
Total Historical Mineral Reserves	**605,279,000**	**0.44**	**0.015**	**4.11**

Notes:

(1) The historical estimates of mineral reserves and resources at Rosemont are based on the August 28, 2012 updated feasibility study entitled *Rosemont Copper Project NI 43-101 Technical Report Updated Feasibility Study* prepared by Augusta prior to Hudbay's acquisition and are not current mineral reserves or resources, as a qualified person has not done sufficient work for Hudbay to classify Rosemont's mineral reserves or resources as current mineral reserves or resources.

(2) The above historical estimate of the mineral reserves are subject to certain key assumptions, which are described in greater detail in Schedule B of this AIF.

(3) Based on 100% ownership of the Rosemont project; Hudbay currently owns a 92.05% interest in the project and its ownership interest is subject to an Earn-In Agreement with UCM, pursuant to which UCM has earned a 7.95% interest in the project and may earn up to a 20% interest.

The following table sets forth Augusta's historical estimate of the inferred mineral resources at the Rosemont project as at July 17, 2012.(1)(2)(3)

Rosemont – Historical Inferred Resource	Tonnes	Cu (%)	Mo (%)	Ag (g/t)
Inferred	**116,562,000**	**0.40**	**0.013**	**3.57**

Notes:

(1) The historical estimates of mineral reserves and resources at Rosemont are based on the August 28, 2012 updated feasibility study entitled *Rosemont Copper Project NI 43-101 Technical Report Updated Feasibility Study* prepared by Augusta prior to Hudbay's acquisition and are not current mineral reserves or resources, as a qualified person has not done sufficient work for Hudbay to classify Rosemont's mineral reserves or resources as current mineral reserves or resources.

(2) The above historical estimate of the mineral resources is subject to certain key assumptions, which are described in greater detail in Schedule B of this AIF.

(3) Based on 100% ownership of the Rosemont project; Hudbay currently owns a 92.05% interest in the project and its ownership interest is subject to an Earn-In Agreement with UCM, pursuant to which UCM has earned a 7.95% interest in the project and may earn up to a 20% interest.

Other Assets

Reed

Our 70% owned Reed mine near Flin Flon, Manitoba commenced production in September 2013 and commenced commercial production on April 1, 2014. Reed ore is currently being transported for processing at the Flin Flon concentrator.

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

Reed - Mineral Reserves — January 1, 2015 (1)(2)

	Tonnes	Cu (%)	Zn (%)	Au (g/t)	Ag (g/t)
Reed Mine					
Proven	488,000	3.33	0.67	0.38	5.82
Probable	1,076,000	4.01	0.29	0.37	4.50
Total Mineral Reserve	**1,564,000**	**3.80**	**0.41**	**0.38**	**4.91**

Notes:

(1) The zinc price used for the mineral reserve estimations was US$1.07 per pound (includes premium), the copper price used for the mineral reserves estimation was US$3.15 per pound, the gold price was US$1,260.00 per ounce and the silver price was US$21.00 per ounce using an exchange rate of 1.10 C$/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, 2014 [1]

Tonnes	Cu (%)	Zn (%)	Au (g/t)	Ag (g/t)
205,000	4.80	0.53	0.41	5.14

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

Our current exploration priority is underground drilling at 777 and Lalor. The 777 exploration program is aimed at extending the mine life beyond 2020, while underground drilling at Lalor is intended to enable the upgrade of inferred resources into a higher resource category, to test the down plunge potential of the gold and copper-gold zones and to determine the optimal location to advance the exploration ramp.

We hold a land position of approximately 281,000 hectares in Manitoba and Saskatchewan, primarily in the prolific Flin Flon Greenstone Belt. Given that much of this property is within 100 kilometres of our two ore concentrators in the region, and that we have available capacity at our processing facilities from time to time, we are better positioned for the economic exploitation of mineral deposits than a mining company which is without such facilities and may not be able to develop them profitably due to higher costs of transportation and processing. This, along with our 22,000 hectare land package in Peru, aligns well with our current focus on brownfield opportunities. In addition, we will continue to look at greenfield opportunities in North and South America as they present themselves.

Processing Facilities

Concentrators

Our primary ore concentrator in Manitoba is located in Flin Flon. The concentrator, which is directly adjacent to our metallurgical zinc plant, produces zinc and copper concentrates primarily 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 Reed mine is 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. In 2014, we refurbished equipment and facilities at the concentrator, which now has the capacity to treat 2,700 tonnes per day. 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. 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.

Our processing plant at Constancia is designed to process a nominal throughput of 81,900 tpd of ore and average annual throughput of 29 million tonnes per year from the Constancia open pit and Pampacancha satellite deposit. The principal products of the concentrator are copper concentrate and molybdenum concentrate. The primary crusher, belt conveyors, thickeners, tanks, flotation cells, mills and various other types of equipment are designed and constructed to be open to the environment. The concentrate filtration and storage building is enclosed. The tailings is pumped to the tailings management facility for storage and water is returned via parallel piping to the process plant for reuse.

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 six primary zinc producers in North America. We produced 105,113 tonnes of cast zinc in 2014. 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, a 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 25% of zinc metal produced at our zinc plant in 2014, and is expected to account for 10% of zinc production in 2015. Domestic zinc concentrate production and purchased zinc concentrate are expected to support capacity utilization of approximately 97.5% in 2015. With Lalor in full production, domestic zinc concentrate production is expected to utilize fully the available capacity of the zinc plant.

Strategic Investments

As at December 31, 2014, we held minority equity positions in 14 junior exploration companies, representing investments with a fair market value of approximately $19 million, as part of our strategy to populate a pipeline of projects with the potential for development. Our early

stage opportunity pipeline consists of minority interests in junior exploration companies with projects in Canada, the United States, Chile, Peru and Colombia. 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, 2014 were $207 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 2014, we produced 161,300 tonnes of copper concentrate and 105,113 tonnes of cast zinc. In 2014 copper concentrate sales represented approximately 55% (2013 59%) and zinc metal sales represented approximately 44% (2013 40%) of our total gross consolidated revenue (which includes the unrealized gains and losses on derivatives associated with sales of copper and zinc), respectively.

In 2014, we sold approximately 65% of our copper concentrate production to third party purchasers in North America and Europe on benchmark terms, and in 2015 we expect to sell approximately 80% to third parties on benchmark terms. We sell the remainder of our copper concentrate production pursuant to shorter-term contracts as opportunities arise.

Following the commissioning of the molybdenum circuit at the Constancia processing plant, we will also be producing molybdenum concentrate for sale.

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 by rail and truck to third party customers in North America. Following the sale of our Zochem Inc. subsidiary in November 2011, we have been selling approximately 40% of our zinc production to Zochem Inc. at market terms.

Commodity Markets

Over the course of 2014, prices for our key metals traded within a relatively narrow range when compared to the previous four years. However, average prices for copper and precious metals were lower in 2014 than in 2013, while average zinc prices were higher. For additional information refer to our market analysis of copper, zinc, gold and silver prices during this period on pages 16 and 17 of our management’s discussion and analysis for the year ended December 31, 2014, 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 with specialized skill and knowledge about the mining and mineral processing industries in the geographic areas in which we operate. 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 continue to 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, 2014, we had 51 employees at our Toronto head office, 1,400 employees in Flin Flon and Snow Lake, Manitoba, 310 employees in Peru, 36 employees in Arizona and a small number elsewhere in North and South America where we do not currently conduct operations.

Of our 1,400 employees in Flin Flon and Snow Lake, approximately 1,091 were unionized as at December 31, 2014. 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. The collective bargaining agreements under which we are currently operating at HBMS expired on December 31, 2014. We are currently negotiating subsequent collective bargaining agreements, which 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 153 projects, which are expected, and in many cases have begun, to deliver financial as well as health and safety benefits. We currently have approximately 48 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, the Voluntary Principles on Security and Human Rights, and our commitment to follow the Toward Sustainable Mining ("**TSM**") program of the Mining Association of Canada at all our operating locations.

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 or are, in the case of Constancia, on-track to have certified systems within two years of the start of operations. In addition, the production and supply of our cast zinc products are registered to the ISO 9001 quality standard.

We believe that ongoing improvement 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 2014, our lost time accident frequency per 200,000 hours worked was 0.1. This is substantially lower than our frequency of 0.4 in 2013, largely due to the excellent safety performance at our Constancia construction project in Peru. While we are proud of our exceptional performance in 2014, we are conscious of the challenge we will face in maintaining this performance level in 2015 and we are taking steps to maintain a high level of safety performance at all our locations.

We have established an environmental management program directed at environmental protection and compliance. The program consists of a corporate environmental policy, and at each site 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. Based on our Materiality Review using the GRI G4 framework and our commitment to TSM we are increasing our emphasis on biodiversity management. Appropriate water stewardship also plays an important role in the development and operation of our projects, particularly the Rosemont project. We did not have any material environmental non-compliances in 2014.

In 2014 we implemented a company wide information system for recording, managing and tracking environmental, health, safety and community incidents.

Human Rights Policy

Our Human Rights Policy adopted in May 2011 articulates our commitments to human rights and addresses topics such as business and labour practices, community participation and security measures. In 2014, we launched Corporate Standards for Stakeholder Engagement and Community Response Mechanism, which provides our business units with corporate direction on minimum standards with respect to supporting community relations and meeting the commitments we set out in our Human Rights Policy.

The Voluntary Principles on Security and Human Rights provide important guidance for our security and community relations practices in locations with higher potential for social conflict and, in Peru, we regularly audit security policies and practices and conduct gap analyses against Voluntary Principles.

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. Our 2013 Corporate Social Responsibility Report has been prepared largely in accordance with the Core option of the G4 guidelines and is available on our website at http://hudbayminerals.com/files/cr2013/en/index.html and our 2014 report is expected to be released in the second quarter of 2015.

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.

In addition, since our core operations are located in Canada and Peru, many of our costs are incurred in Canadian dollars and Peruvian nuevo soles ("**PEN**"). 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 or PEN appreciate in value against the United States dollar, our results of operations and financial condition could be materially adversely affected. Although we may use hedging strategies to limit

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 bring Constancia to full production and to successfully develop the Rosemont project 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 generate sufficient free cash flows or secure adequate financing to fund such projects; obtaining and maintaining various permits and approvals from governmental authorities (including obtaining the remaining key permits for the Rosemont project); successful resolution of administrative and legal challenges against permits that have been issued to us; construction, commissioning and ramp-up risks; securing required surface and other land rights at Constancia; developing and maintaining good relationships with communities, local government and other stakeholders and interested parties; and political and social risk.

Significant amounts of capital will be required to bring our key 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 at Constancia and to complete our other planned key capital projects, cover our operating costs and meet our debt service obligations (including obligations under our Notes and credit facilities), to the extent that capital and operating costs or our working capital requirements 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 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, our ability to fund our key capital projects would be materially impaired.

Additionally, the development of the Rosemont project may not occur as planned. We acquired Augusta with the expectation that the Rosemont project's successful completion will result in increased copper and precious metals production and enhanced growth opportunities for the combined company. 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 can be no assurance that this will be the case and that any administrative and legal challenges to Rosemont's permits will be successfully resolved. Moreover, there may be a delay in their issuance and further delay caused by administrative and legal challenges. 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. In particular, the feasibility study in respect of the Rosemont project was prepared by Augusta's former management, prior to our acquisition. We are currently reviewing the cost, production and other assumptions underlying the previous feasibility study for the Rosemont project and are advancing the basic engineering. Once our review is complete and the engineering is sufficiently advanced, we expect to complete a feasibility study, including an estimation of the mineral resources and reserves at Rosemont. Any changes that we make to assumptions, or any such assumptions otherwise proving incorrect, could negatively impact project economics for Rosemont. The Rosemont project is also subject to a joint venture agreement under the Earn-In Agreement with UCM, which requires UCM's consent for a number of important project decisions (including program and budget approval, and replacement of the operator). Any failure to agree with UCM on one of these decisions or any other disagreement or dispute with UCM could hinder our ability to successfully develop the project.

The capital expenditures and timeline needed to develop a new mine, such as Rosemont, 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 project infrastructure, and shortages of capital, may also delay or prevent 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, 2014, our total debt was approximately $1.1 billion, consisting primarily of the Notes. We have subsequently incurred US$129.5 million of indebtedness under our credit facilities.

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 under our credit facilities) 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.

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. We are at the highest risk of this occurring in Peru.

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 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 attempts to restrict access by workers and members of the local community, 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 to Mineral Properties

Claimed rights of aboriginal peoples, including the Mathias Colomb Cree Nation (" **MCCN**"), may affect our ability to operate our Lalor and Reed mines and other mineral properties. For example, in January and March of 2013, members of the MCCN staged two separate blockades that each 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. 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.

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.

A portion of the present Rosemont property is located on unpatented mine and millsite claims located on US federal public lands. The right to use such claims is granted under the United States General Mining Law of 1872. Unpatented mining claims are unique property interests in the United States, and are generally considered to be subject to greater title risk than other real property interests because the validity of unpatented mining claims is often uncertain. While we believe there are no material defects in title of the Rosemont project lands, any such defects could materially impact our ability to develop and operate the project.

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. 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 time and costs involved will not exceed our estimates or that we will be able to maintain such permits as a result of, among other things, conditions imposed or legal challenges. 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. As discussed above, in particular, the development of our Rosemont project is contingent on receiving key permits, among other things.

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. The success of our operations in Snow Lake, Manitoba and 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. The collective agreements that we have with our employees at our Flin Flon and Snow Lake operations expired in December 2014 and there can be no assurance that we will be able to successfully negotiate new collective agreements or that one or more unions will not strike before we are able to do so. We have received notice from one such union that its members have approved strike action. 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.

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 to foreign persons. While we have implemented safeguards that are intended 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.

Community Relations

Our relationships and reputation, particularly with the communities in which we operate in Manitoba, Peru and Arizona, are critical to the future success of our existing operations and the construction and/or development of future projects. There is an increasing level of public concern relating to the perceived effect of mining activities on the environment and on communities impacted by those activities. Publicity adverse to us, our operations, or extractive industries generally, including as a result of anti-mining protests or publications, 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 our key projects and other stakeholders. For example, while we have entered into life-of-mine agreements with two local communities directly affected by the Constancia project, two families still need to agree to be relocated pursuant to one of these agreements. In addition, there can be no assurance that disputes will not arise with these communities or 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, including the surface

rights over the Pampacancha deposit. 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 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.

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.

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.

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.

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.

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 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 requires the cooperation of local government and other third parties to transport the produced concentrates approximately 450 kilometres by road to the Port of Matarani. 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.

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.

Tax Refunds

We expect to receive substantial tax refunds in the next twelve months of previously paid value added taxes from the Peruvian government. Although we believe we are following the appropriate process to obtain the refunds and have received payments with respect to prior refund applications, 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.

Information Technology Systems

Our operations depend, in part, on information technology (" **IT**") systems. Our IT systems are subject to disruption, failure or damage from a number of threats, including, but not limited to, security breaches, computer viruses, cable cuts, natural disasters, terrorism, power loss, vandalism and theft. Although to date we have not experienced any material losses relating to IT system disruptions, failure or damage, cyber attacks or other information security breaches, there can be no assurance that we will not incur such losses in the future. Any of these and other events could result in IT system failures, operational delays, production downtimes, security breaches, destruction or corruption of data or other improper use of our IT systems and networks, any of which could have an adverse effect on our reputation, results of operations and financial performance. Our exposure to these risks cannot be fully mitigated because of, among other things, the evolving nature of these threats; as such threats continue to evolve, we may be required to expend additional resources to continue to change or improve protective measures and to investigate and remediate any security vulnerabilities.

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 rateably 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.

DESCRIPTION OF CAPITAL STRUCTURE

Common Shares

We are authorized to issue an unlimited number of common shares, of which there were 233,659,523 common shares issued and outstanding as of March 27, 2015.

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.

Options and Warrants

As of December 31, 2014, we have outstanding obligations to issue up to 26,288,141 common shares, as follows:

- Hudbay warrants to acquire an aggregate of 21,830,490 common shares of Hudbay were outstanding, which are governed by our Warrant Indenture dated as of July 15, 2014 with Equity Financial Trust Company. The Hudbay warrants entitle the holders to acquire a common share of Hudbay at a price of $15.00 per share on, but not prior to, July 20, 2018.

Hudbay may, at its option, upon written notice to the Hudbay warrant holders, settle the exercise of warrants for the in-the-money value, in cash, shares or a combination thereof;

- A total of 4,674,951 warrants issued by Augusta (the " **Augusta Warrants**") prior to the Augusta Acquisition remain outstanding; 1,374,951 of the Augusta Warrants have an exercise price of US$3.85 and an expiry date of July 22, 2015, while 3,300,000 Augusta Warrants have an exercise price of US$2.12 and an expiry date of December 12, 2016. Pursuant to the terms of the Augusta Warrants, such warrants are now exercisable for, in lieu of 4,674,951 shares of Augusta, the consideration of 0.315 of a Hudbay common share and 0.17 of a warrant to acquire a Hudbay common share; the Augusta Warrants are exercisable to acquire an aggregate of 1,472,610 common shares of Hudbay and 794,742 warrants of Hudbay; and

- options to acquire an aggregate of 2,190,299 common shares outstanding, with a weighted average exercise price of $15.96.

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. On June 20, 2013, December 9, 2013 and August 6, 2014, we issued US$150 million, US$100 million and US$170 million aggregate principal amount, respectively, of Additional Notes. The US$920 million aggregate principal amount of 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 and the Rosemont 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. In addition, our ability to make restricted payments in excess of an aggregate of US$30 million, 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 March 13, 2015 and July 31, 2014, respectively.

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

As at March 13, 2015, following the increase in our revolving credit facility, S&P has lowered its issue-level rating on the Notes to 'B-' from 'B', revised its recovery rating on the Notes to '3' from '2' and maintained its 'B-' long-term corporate credit rating and positive outlook on us. 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.

On June 27, 2014, Moody's raised our speculative grade liquidity rating to SGL-3 from SGL-4 and changed our ratings outlook to positive from negative. As at July 31, 2014, Moody's has maintained its 'B3' corporate family rating, its 'B3' probability of default rating, its SGL-3 speculative grade liquidity rating and its positive ratings outlook on us; it has assigned the Notes a 'B3' rating.

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-3' rating possesses adequate liquidity and is expected to rely on external sources of committed financing and, based on its evaluation of near-term covenant compliance, in Moody's opinion there is only a modest cushion and the issuer may require covenant relief in order to maintain orderly access to funding lines.

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 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. Since that time, our semi-annual dividend has continued to be paid at $0.01 per share. On February 19, 2015, our board of directors approved the payment of a dividend of $0.01 per common share payable on March 31, 2015 to shareholders of record on March 13, 2015. 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 - 2014	High ($)	Low ($)	Volume (common shares)	High (US$)	Low (US$)	Volume (common shares)
January	10.03	8.25	17,710,448	9.14	7.59	777,426
February	9.45	8.33	13,987,045	8.58	7.51	550,711
March	9.51	8.12	12,631,967	8.66	7.25	1,702,212
April	9.74	8.40	8,385,758	8.82	7.67	496,181
May	10.85	8.86	12,373,361	9.95	8.14	422,783
June	10.37	9.46	10,940,333	9.75	8.74	456,511
July	11.80	9.81	25,724,763	10.98	9.21	1,010,208
August	11.85	10.85	13,207,338	10.86	9.98	1,057,537
September	11.33	9.48	13,677,142	10.45	8.51	1,310,478
October	9.63	8.05	14,359,891	8.57	7.13	1,738,519
November	9.68	7.93	11,622,774	8.61	6.95	1,010,868
December	10.23	8.22	19,499,082	8.82	7.22	1,592,816

On March 27, 2015, the closing prices of our common shares on the TSX and NYSE were $10.41 and US$8.26 per common share, respectively.

Our warrants are listed on the TSX and the NYSE under the symbols "HBM.WT" and "HBM/WS", respectively. The volume of trading and the high and low trading price of our warrants on the TSX and NYSE during the periods indicated are set forth in the following table.

	Trading of Warrants on TSX			Trading of Warrants on NYSE		
Period - 2014	High ($)	Low ($)	Volume	High (US$)	Low (US$)	Volume

January	—	—	—	—	—	—
February	—	—	—	—	—	—
March	—	—	—	—	—	—
April	—	—	—	—	—	—
May	—	—	—	—	—	—
June	—	—	—	—	—	—
July	2.40	2.10	1,344,947	—	—	—
August	2.39	1.55	986,611	—	—	—
September	1.88	1.01	789,719	—	—	—
October	1.18	0.62	441,990	0.73	0.55	19,876
November	1.10	0.61	906,924	1.03	0.53	39,481
December	1.06	0.66	577,360	1.03	0.42	84,548

On March 27, 2015, the closing prices of our warrants on the TSX and NYSE were $1.15 and US$0.95 per warrant, respectively.

Prior Sales

On August 6, 2014, we issued US$170 million aggregate principal amount of Additional Notes, priced at 107% of the aggregate principal amount, resulting in gross proceeds of US$181.9 million and will yield 8.03% to maturity.

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:** — Environmental, Health, Safety and Sustainability ("**EHSS**") Committee — Technical Committee	Mr. Gonzales has more than 30 years of experience in the mining industry. He joined Compañia de Minas Buenaventura S.A.A. in November 2014 as Vice President of Operations. Mr. Gonzales 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.

Board of Directors

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 most recent role as Managing Director, which he retired from in December, 2014. He was also Chief Executive Officer, RBC Capital Partners from 2000 to 2007. Upon his retirement in 2014, Mr. Hibben accepted an engagement to work with the Premier's Advisory Council on Government Assets, to advise on the Province of Ontario's Hydro One asset. Mr. Hibben is also a corporate director.
W. Warren Holmes Stratford, Ontario, Canada	**Director since:** March 23, 2009 **Committee memberships:** — Compensation Committee (Chair) — Corporate Governance and Nominating Committee (Interim Chair) — EHSS Committee — Technical Committee	Mr. Holmes is Hudbay's Interim Chairman and was Hudbay's Executive Vice Chairman from November 2009 to July 2010 and its Interim Chief Executive Officer from January 2010 to July 2010. He has over 40 years of mining industry experience. During that time, Mr. Holmes held senior positions with Noranda Inc. and Falconbridge Ltd. He is now a corporate director.
Sarah B. Kavanagh Toronto, Ontario, Canada	**Director since**: July 31, 2013 **Committee memberships:** — Audit Committee (Chair) — Compensation 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 — EHSS 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 — Compensation 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) — Corporate Governance and Nominating 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	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.

Board of Directors

Michael T. Waites Vancouver, British Columbia, Canada	**Director since:** May 8, 2014 **Committee memberships:** — Audit Committee	Mr. Waites is the former President and Chief Executive Officer of Finning International Inc. He retired from Finning in June 2013 after serving as President and Chief Executive Officer for five years. Prior to that, Mr. Waites was Executive Vice President and Chief Financial Officer of Finning. He has also held senior positions with Canadian Pacific Railway and Chevron Canada Resources. Mr. Waites is now a corporate director.

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.
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 and General Counsel	Prior to being appointed to his current role in July 2014, Mr. Donnelly was Vice President, Legal and Corporate Secretary for over three years. Prior to joining Hudbay in 2008, Mr. Donnelly practiced corporate and securities law at Osler, Hoskin & Harcourt LLP for several years.

Jon Douglas Toronto, Ontario, Canada **Position with Hudbay:** Vice President, Treasurer	Mr. Douglas joined Hudbay in January 2015. Prior to joining Hudbay, he was Chief Financial Officer of Barrick Gold Corporation's global copper business unit. Prior to that he was Senior Vice President and Chief Financial Officer of Northgate Minerals Corporation for over ten years.

Executive Officers

Elizabeth Gitajn Toronto, Ontario, Canada **Position with Hudbay**: Vice President, Risk Management	Ms. Gitajn joined Hudbay in March 2015, prior to which she was the Corporate Controller for IAMGOLD Corporation since June 2012. From October 2007 to June 2012, she held various management positions within Barrick Gold Corporation in the finance areas of risk management, financial reporting and planning. Ms. Gitajn also spent 14 years in public accounting in the United States, nine of which were with Arthur Andersen LLP.
Brad W. Lantz Toronto, Ontario, Canada **Position with Hudbay:** Vice President, Business Development and Technical Services	Prior to being appointed to his current role in July 2014, Mr. Lantz was Vice President, Manitoba Business Unit. 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.
Eugene Lei Toronto, Ontario, Canada **Position with Hudbay:** Vice President, Corporate Development	Mr. Lei joined Hudbay in September 2012, after 11 years as an investment banker. Prior to joining Hudbay, Mr. Lei was Managing Director, Mining at Macquarie Capital Markets Canada, working as an advisor on global and domestic mergers and acquisitions and equity capital markets offerings. Prior to being appointed to his current role in July 2014, Mr. Lei was Director, Corporate Development.
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 Tucson, Arizona, United States **Position with Hudbay:** Vice President, Business Development and Technical Services	Mr. Merrin was appointed to his current role in July 2014. He was previously Vice President, Business Development and Technical Services. Prior to rejoining Hudbay in 2012, 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.
Robert Winton Flin Flon, Manitoba, Canada **Position with Hudbay:** Vice President, Manitoba Business Unit	Mr. Winton joined Hudbay in 1997 and has held advancing roles at the mill, zinc plant and former copper smelter, leading surface operations and maintenance departments before his promotion to leader of the Manitoba Business Unit in July 2014.

As of March 27, 2015, our directors and executive officers, as a group, beneficially owned, directly or indirectly, or exercised control or direction over 402,880 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 to November 2013. On January 14, 2014, Colossus announced that it had filed a notice of intention to make a proposal under the *Bankruptcy and Insolvency Act* (Canada), which was intended to enable Colossus to pursue a restructuring process. Colossus' proposal and plan of reorganization ("**Plan**") was approved by creditors on February 25, 2014 and, following the approval of the Ontario Superior Court of Justice (Commercial List) in March 2014, was implemented by Colossus in April 2014. The Plan effectively converted all of Colossus' outstanding debt, and its obligations under a precious metals stream agreement, into equity of the company.

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.

Mr. Holmes was a director of Ferrinov Inc. ("**Ferrinov**"), a private technology company, from December 2008 to July 2012. In July 2012, Ferrinov filed for bankruptcy and was declared bankrupt under the *Bankruptcy and Insolvency Act*.

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 2014 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, 2014, the Audit Committee consisted of Sarah B. Kavanagh (Chair), John L. Knowles, Alan J. Lenczner and Michael T. Waites.

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 and is also the Chair of its Audit Committee. She is also a director and Chair of the Audit Committee at American Stock Transfer and Canadian Stock Transfer and an independent trustee and member 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.

Michael T. Waites is the former President and Chief Executive Officer of Finning International Inc. He retired from Finning in June 2013 after serving as President and Chief Executive Officer for five years. Prior to that, Mr. Waites was Executive Vice President and Chief Financial Officer of Finning. Mr. Waites is currently a director and member of the Audit Committees of Talisman Energy Inc. and Western Forest Products Inc. He holds a Bachelor of Arts (Honours) in Economics from the University of Calgary, a Master of Business Administration from Saint Mary's College of California, and a Masters of Arts, Graduate Studies in Economics from the University of Calgary. He has also completed the Executive Program at The University of Michigan Business School.

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 billed by Deloitte LLP as external auditor of, and for other services provided to, the Company for the fiscal years ended December 31, 2014 and 2013.

Category of Fees	2014	2013
Audit fees	$ 1,511,365	$ 1,407,003
Audit-related fees	$ 364,810	$ 414,155
All other fees	—	$ 230,884
Total	**$ 1,876,175**	**$ 2,052,042**

"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 the recently terminated Net Profits Interest and Royalty Agreement with Callinan Royalties Corporation and work related to acquisitions and offerings. "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 and Saskatchewan are seeking contribution and/or indemnity against CRP and HBMS in an amount equal to any damages they may be required to pay to PBCN. In October 2014, the Saskatchewan action of PBCN was summarily dismissed for being out of time. The effect was to dismiss the third party claims against HBMS and CRP. The decision is under appeal, with an appeal expected to be argued in June 2015.

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. In November 2014, we entered into a definitive settlement agreement with Callinan to resolve the litigation. As part of the settlement, the NPI Agreement was terminated and Callinan's 62/3% net profits interest over the 777 mine was converted to a 4% net smelter returns ("**NSR"**) royalty; Callinan's 27.56 cents per tonne production royalty at the 777 mine was maintained and it also received a 3% NSR on certain surrounding mineral claims.

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. In October 2014 the plaintiffs brought a motion seeking to strike portions of our statements of defence and were largely unsuccessful.

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, 2012, 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, as amended by Amending Agreement No. 1 dated as of November 12, 2014 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, as amended by amending agreements dated June 2 and September 10, 2014 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 Amended and Restated Precious Metals Purchase Agreement originally dated as of February 10, 2010, and amended and restated on February 15, 2011 between HudBay Arizona (Barbados) SRL (previously Augusta Resource (Barbados) SRL), HudBay Arizona Corporation (previously Augusta Resource Corporation), SW Caymans and Silver Wheaton;

4. the Joint Venture Agreement dated September 16, 2010 between Rosemont Copper Company and UCM, which governs the joint venture in respect of the Rosemont project;

5. the Earn-In Agreement made as of September 16, 2010 between Rosemont Copper Company and UCM, pursuant to which UCM may earn up to a 20% interest in the Rosemont project;

6. 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, the Second Supplemental Indenture dated December 9, 2013 and the Third Supplemental Indenture dated August 6, 2014. For additional details, refer above to the heading “Development of our Business — Three Year History — Issuance of 9.50% Senior Unsecured Notes”;

7. the Warrant Indenture dated as of July 15, 2014 with Equity Financial Trust Company, which provides for the issue of common share purchase warrants in connection with the Augusta Acquisition; and

8. the Second 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 March 13, 2015, providing for a three year US$300 million revolving credit facility.

QUALIFIED PERSONS

The scientific and technical information contained in this AIF related to the Constancia project has been 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 AIF has been approved by Robert Carter, P.Eng., our Director, Technical Services. Messrs. Meagher and Carter are qualified persons pursuant to 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 our material properties as filed by us on SEDAR at www.sedar.com.

As discussed in this AIF, we are treating Augusta’s previously disclosed estimates of the mineral reserves and resources at the Rosemont project as “historical estimates” under NI 43-101 and are currently reviewing the assumptions underlying Augusta’s 2012 feasibility study for the project.

The key assumptions, parameters and methods used by Augusta to prepare the historical estimate were the following:

- The Rosemont mineral reserves are effective as of July 24, 2012 and reported on a Net Smelter Return (NSR) cut-off of US$4.90 per ton. NSR values are based on the following long term metal prices: copper price of US$2.50 per pound; silver price of US$20.00 per ounce; and molybdenum price of US$15.00 per pound.

- Proposed pit operations are based on 50 foot high benches using large-scale mining equipment, including: 12.25 inch diameter rotary blasthole drills, 60 cubic yard class electric shovels, 25 and 36 cubic yard front-end loaders, 46 cubic yard hydraulic shovel and 260 ton off-highway haul trucks.
- Total material mined from the open pit is 1.9 billion tons, which includes 1.24 billion tons of waste material, resulting in a stripping ratio of 1.9:1.0 (tons waste per ton of ore). Contained metal in the sulphide proven and probable mineral reserves is estimated at 5.88 billion pounds of copper, 80 million ounces of silver, and 194 million pounds of molybdenum. Oxide resources are considered as waste material and are not part of the mineral reserves.
- Mine life is 21 years, with sulphide ore delivered to a processing plant at an initial rate of 75,000 tons per day. An expansion to the processing plant in Year 5 gradually increases daily mill throughput to 88,000 tons per day by Year 7. Increases in plant operating availability boosts the daily throughput rate to 90,000 tons per day by Year 12. During the 21 month pre-production period a total of 99 million tons of waste is stripped and 6 million tons of ore is moved to the ore stockpile. Peak mining rate of 343,000 tons mined per day is achieved in Year 3, followed by reduced rates of 285,000 tons mined per day in Years 5 to 10, and further reduced to 232,000 tons mined per day in Years 11 to 15 as the stripping ratio decreases.
- The mineral reserve and mineral resource estimate includes drill and assay information up to March 2012 for a total of 266 drill holes, representing 342,700 feet of drilling.

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 2, 2014. Additional financial information is provided in our financial statements and management's discussion and analysis for the fiscal year ended December 31, 2014.

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 $7,550 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 2015 to 2031. 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 $1,736,612 as of December 31, 2014. In addition, closure plans have been submitted and are backed with financial assurance for the associated Flin Flon Metallurgical Plant ("**FFMC**"), which includes the Flin Flon Tailings Impoundment System ("**FFTIS**") utilized by the 777 mine.

Mineral production from the 777 mine property is subject to a 4% net smelter returns royalty and a 27.56 cents per tonne production royalty pursuant to a Royalty Agreement (the "**Royalty Agreement**") dated as of January 1, 2015 between HBMS and Callinan Royalties Corporation ("**Callinan**"). The Royalty Agreement replaces the previous Net Profits Interest and Royalty Agreement, which was terminated in conjunction with the execution of the Royalty Agreement.

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 FFTIS. 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.

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 a production royalty and a net profit interest, which net profit interest has since been converted to a net smelter return royalty, as 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, 2014, a total of 2,296 holes and 323,401 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, 2014 cut-off date for diamond drilling, was completed using MineSight 8.5 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 3% zinc equivalent over 3 metres. 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, 2015. 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	2014 Mineral Reserve	10,601,000
B	2014 Production (from Reserves)	1,451,000
C	(A - B)	9,150,000
D	Geology[2] Gain/(Loss)	34,000
E	Mine Planning[3] Gain/(Loss)	(370,000)
F	Economics[4] Gain/(Loss)	(1,144,000)
G	(D + E + F)	(1,480,000)
H	2015 Mineral Reserve (C + G)	7,672,000

(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 (Indicated)**		**tonnes**
I	2014 Mineral Resource	—
J	2015 Mineral Resource	733,000
K	(J - I)	733,000

777 Mine **Mineral Resource Reconciliation (Inferred)**		**tonnes**
I	2014 Mineral Resource	784,000
J	2015 Mineral Resource	717,000
K	(J - I)	(67,000)

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. Mine sequencing involves primary, secondary, chevron and longitudinal retreat stopes that are either paste or unconsolidated loose waste rock backfilled. 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.

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 directly to the main ore pass system on 1412 metre level. 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 to the first quarter of 2020 for the 777 mine, while 777 North expansion is expected to end production in the fourth quarter of 2019. Production from 777 is subject to federal and provincial income taxes, as well as the Manitoba mining tax. The combined federal and provincial income 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 128,000 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. In 2015, we plan to explore the recently optioned War Baby claim, which lies adjacent to the 777 deposit, and to test footwall mineralization down plunge of the historic Callinan mine.

Lalor Mine

Project Description and Location

Lalor is a zinc, gold and copper mine 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. Lalor commenced initial ore production from the ventilation shaft in August 2012 and commenced commercial production from the main shaft in the second half of 2014.

We own a 100% interest in the property through nine mineral leases that total approximately 946 hectares with annual rental payments payable to the Manitoba government of $10,234. 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 $1,213 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.

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 mine is impounded in the Anderson Tailings Impoundment Area (“ **TIA**”). Waste rock from the Lalor mine is treated in the Chisel Water Treatment Plant 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.

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 recommenced in late 2014 from the exploration ramp on 1025 metre level to test the copper-gold zone mineralization.

As of September 30, 2014, 121 parent and 101 wedge holes, amounting to 198,399 metres of drilling, was completed from surface. A further 470 holes for 56,105 metres of definition drilling, and 224 holes for 5,921 metres of stope definition drilling was completed from underground.

All diamond drilling completed from surface or underground retrieved whole core sizes of BQ and NQ with core recovery near 100%.

Mineralization

Lalor is interpreted as a gold enriched 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 isoclinaly folded and 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 330° to 360° azimuth and dips between 15° and 30° to the northeast. 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 discernible 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.

Seven distinct stacked zinc rich mineralized zones, six 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 54,935 samples from 694 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 mine 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, 2014 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 2.0 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, 2015. 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 mine is set out below.

Lalor Mine
Mineral Reserve Reconciliation (Proven & Probable)

		tonnes[1]
A	2014 Mineral Reserve	15,196,000
B	2014 Production (from Reserves)	549,000
C	(A - B)	14,647,000
D	Geology[2] Gain/(Loss)	(731,000)
E	Mine Planning[3] Gain/(Loss)	104,000
F	Economics[4] Gain/(Loss)	295,000
G	(D + E + F)	(332,000)
H	2015 Mineral Reserve (C + G)	14,315,000

(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 Mine
Mineral Resource Reconciliation ((Inferred)

		tonnes[1]
I	2014 Mineral Resource	10,113,000
J	2015 Mineral Resource	9,222,000
K	(J - I)	(891,000)

(1)Totals may not add up correctly due to rounding

Mining Operations

Mine Planning

Lalor mine is a multi-lens, flat lying orebody with ramp access from surface and shaft access to the 995 metre level. Internal ramps located in the footwall of the orebody provide access between mining levels. Stopes are accessed by cross cuts from the major mining levels.

Power is provided to the mine via power cables located in the production shaft, with voltage reduced to 550V by portable 1 MVA electrical substations located near mining areas. Secondary power is provided by a power cable located in the Chisel North area ventilation raise. Mine ventilation is currently 850,000cfm with fresh air intakes at the production shaft, Chisel North downcast raise and the Lalor ramp downcast raise. Ventilation air is exhausted from the mine via a 5.0m diameter exhaust shaft equipped with two exhaust fans. Mine ventilation air is heated by direct fired propane heaters located at each of the intakes. Lalor mine's fresh water source is Chisel Lake. Water is pumped from Chisel Lake to Lalor via heat traced pipeline. Fresh water pipe lines are located in the production shaft, with secondary water from natural ground water in the Lalor ramp. There is a dual mine dewatering system, with settling cones and pumps located near the Lalor production shaft at 955 metre level pumping water up the production shaft with a secondary dewatering system located in the Lalor ramp, pumping water to settling cones and pumps located at 495 metre level at Chisel North mine to a pipeline located in the Chisel North ventilation raise.

Mining is done using mobile rubber tired diesel equipment. Load haul dump (" **LHD**") units vary from 5.8m^3 to 7.6m^3. Trucks are 50 to 60 ton units that haul both ore and waste direct to rock breakers located near the production shaft at 910 metre level. Rock is sized to 16" minus and

conveyed to the shaft

for hoisting to surface by two skips in balance. Hoisted ore is hauled by truck to the Chisel North mine site for crushing to 6” and stockpiling. Crushed ore is loaded by front end loader to tractor trailers and hauled to the Hudbay concentrator at Stall Lake. Waste rock is stored in an outside bunker. It is loaded by front end loader to rock trucks and hauled to the Chisel open pit for permanent disposal.

Lateral development in ore and waste is done by two boom jumbo drills. Blasted rock is mucked by LHD units to haul trucks. Development ore is hauled to the shaft and development waste is hauled either to open stopes for disposal as backfill or to the shaft. Ground control in development headings is typically 2.2m long #7 resin rebar installed on a 1.2m x 1.2m pattern, with welded wire mesh installed to the mining face along the back and walls to within 1.8m of the sill.

Two main mining methods are utilized at Lalor mine; post pillar cut and fill mining and long hole open stope mining. Secondary methods include single pass mechanized cut and fill mining and longhole longitudinal retreat mining. Mined out stopes are filled with waste backfill. All stope mining is done using emulsion explosives.

Post pillar cut and fill mining is typically done in 5m high lifts. Drifts and cross cuts are 7m wide by 5m high, with 7m x 7m post pillars left between cross cuts. Ore is mucked conventionally by LHD and loaded directly to haul trucks for haulage to the production shaft.

Long hole stopes are mined at 15m vertical sill to sill intervals. Stope strike lengths are generally 15 to 19m, mined hangingwall to footwall. Ore is undercut at the top and bottom of the block, providing access for drilling and mucking. Mucking is done by remote controlled LHD units and then loaded to haul trucks for haulage to the production shaft.

Current production rates are approximately 2,850 tonnes per day based on 362 days per year. Mine ore is hauled to Chisel North mine site for crushing to 6”. Crushed ore is hauled to and treated at the Snow Lake concentrator.

Ore is received at the concentrator in two coarse ore bins. Ore is conveyed to a three stage crushing plant and crushed to 19mm. Crushed ore is conveyed to two sequential rod and ball mill combinations operating parallel with each other. The mills feed a sequential flotation process where a bulk rougher copper concentrate is floated first. The copper rougher concentrate is reground, followed by three stages of cleaning producing a concentrate grading approximately 20% copper. The copper concentrate is thickened and filtered to remove most of the water, and is conveyed to concentrate storage. Copper concentrate is loaded to semi tractor trailer trucks for transport to Flin Flon for transport to third party smelters.

The tails from the copper circuit feed the zinc flotation circuit which produces a zinc rougher concentrate. This is followed by three stages of zinc cleaning which produces a concentrate grading approximately 51% zinc. Zinc concentrate is thickened and filtered and is conveyed to concentrate storage. Zinc concentrate is loaded to semi tractor trailer trucks for transport to Flin Flon where it is processed into refined zinc.

Final tails from the Snow Lake concentrator are pumped to the Anderson TIA for permanent disposal.

We are currently working on alternative mine plans to determine whether there are opportunities to optimize our expected ore production rate to better match the production shaft capacity.

Permitting and Environmental

In March 2014, we received the *Environment Act* Licence (“**EAL**”) for the Lalor mine which allowed the mine to move into full production and skip tonnes up the main production shaft after construction and commissioning was completed in the third quarter of 2014. A separate EAL is required, and an application was submitted to the Manitoba government in May 2013, for a new Lalor concentrator.

As required, future improvements and capacity expansion to the Anderson TIA will commence after the Notice of Alteration of its existing licence submitted to the regulatory authorities is approved

A requirement of the EAL is to provide an updated closure plan, which was submitted and is currently under review by the regulatory authorities.

Exploration and Development

In 2014, we mined 551,883 tonnes of ore via the ventilation and production shafts at Lalor and ore was trucked to the Snow Lake concentrator for processing. First production from the production shaft was completed in the second half of 2014 and we achieved commercial production at Lalor at the end of the third quarter of 2014.

An exploration ramp was driven from the shaft station at 955 metre level to the northeast at a grade of -15% for approximately 440m. Underground exploration drilling commenced from the bottom of the exploration ramp at 1025 metre level in late 2014 for the purposes of upgrading inferred resources within the copper-gold zone, determining optimal location to further advance the exploration ramp, developing additional drill platforms and testing the down plunge potential of the gold and copper-gold zones.

Constancia Project

Property Description and Location

We own 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.

The Constancia project commenced initial production in the fourth quarter of 2014 and is expected to achieve commercial production in the second quarter of 2015.

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**") were introduced in 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 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. Electricity is supplied via a 220 kV Tintaya substation 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 and contemplate a bi-annual review of certain of the social development terms. While we have entered into the life-of-mine agreements, we need to acquire additional surface rights in order to successfully complete the project, including surface rights over the Pampacancha deposit, and there can be no assurance that we will be able to secure the agreements required to do so.

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 2014, 20,789 hectares were mapped in the Constancia project area. Of this, 8,905 hectares were mapped on our mining concessions, which represents 80% of our mining rights in the area. Additionally, 3,313 rock samples and 165 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

A total of 7 holes and 1798 meters were drilled in 2014. 3 holes were drilled in the geophysical anomaly immediately west of the Constancia pit and 4 holes were drilled 4 Km to the west of the Constancia pit, targeting magnetic anomalies in the Urazana area. Short mineralized intervals and low grade copper were intersected. No drilling was performed on the Constancia or Pampacancha deposits in 2014.

Ongoing remediation of construction activities took place throughout 2014 with a total of 21 hectares complete with re-vegetation.

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, 2015 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 2017 and 2020.

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

As we did not conduct updated estimates of our reserves and resources at Constancia and Pampacancha in 2015, a year over year reconciliation of our estimated mineral reserves and resources was not required.

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 85,000 tpd of ore (29 Mtpa at 94% plant availability) from the Constancia and San José ore bodies.

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 are 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

The Constancia project commenced initial production in the fourth quarter of 2014 and is expected to achieve commercial production in the second quarter of 2015.

Rosemont Project

The following summary of the Rosemont project is based on or extracted directly from the NI 43-101 Technical Report titled “Rosemont Copper Project, Updated Feasibility Study, Pima County, Arizona, USA” dated August 28, 2012 (the “**2012 Feasibility Study**”) and has been updated with current material information to the extent available. The 2012 Feasibility Study was prepared by M3 Engineering & Technology Corporation for Augusta Resource Corporation (“**Augusta**”) prior to Hudbay’s acquisition of Augusta.

Project Description and Location

Rosemont is a copper development project that lies on the eastern flanks of the Santa Rita Mountain range approximately 50 kilometres southeast of Tucson, in Pima County, Arizona. The property consists of a comprehensive land package that includes patented and unpatented mining claims, fee land and grazing leases that cover most of the old Mining District. The lands are under a combination of private ownership by Hudbay and Federal ownership. The lands occur within Townships 18 and 19 South, Ranges 15 and 16 East, Gila & Salt River Meridian. The Rosemont project geographical coordinates are approximately 31º 50’N and 110º 45’W.

The core of the Rosemont project mineral resource is contained within the 132 patented mining claims that in total encompass an area of approximately 2,000 acres (809 hectares). Surrounding the patented claims is a contiguous package of 1,064 unpatented mining claims with an aggregate area of more than 16,000 acres (6,475 hectares). Unpatented claims Agave 7, 8 and 9 and a small fraction named the Recorder Fraction were staked in 2014. Associated with the property are 33 parcels of fee (private) land consisting of approximately 1,800 acres (728 hectares). The area covered by the patented claims, unpatented claims and fee lands totals approximately 19,800 acres (8,012 hectares). Rosemont has also acquired 29 parcels of fee (private) land and one parcel of leased land that are more distal from the project area that are planned for: (1) various infrastructure purposes including, well fields, pump stations, utilities and ranch operation; and (2) environmental mitigation and conservation purposes. These distal private lands constitute an additional approximately 2,100 acres (850 hectares).

The patented mining claims and fee land parcels are both considered to be private lands that provide the owner with both surface and mineral rights. The patented mining claim block, located in the core of the mineral resource, is monumented in the field by surveyed brass caps on short pipes cemented into the ground. The fee lands are located by legal description recorded at the Pima County Recorder’s Office. The patented claims and fee lands are subject to annual property taxes amounting to a total of

approximately US$8,700. As long as the property taxes are paid annually on these claims, there is no expiration date.

The US Forest Service and Bureau of Land Management have had the mineral rights related to the Rosemont project reserved on the unpatented claims that surround the patented claims. Wooden posts and stone cairns mark the unpatented claim corners, end lines and discovery monuments, all of which have been surveyed. The unpatented claims have no expiration and are maintained through the payment of annual maintenance fees of US$155.00 per claim, for a total of about US$165,000, payable to the Bureau of Land Management.

There is a 3% Net Smelter Return (“ **NSR**”) royalty on all 132 patented claims, 603 of the unpatented claims, and one parcel of fee owned

associated land, totalling approximately 180 acres.

A precious metals stream agreement with Silver Wheaton Corp. for 100% of payable gold and silver from the Rosemont project was entered into by Augusta on February 10, 2010. The agreement provides for an upfront deposit payment of US$230 million once all of the key permits for the Rosemont project are obtained and certain other conditions precedent have been satisfied; once the property is put into production, the agreement provides for payments equal to the lesser of the market price and US$450 per ounce for gold and US$3.90 per ounce for silver, respectively, subject to 1% annual escalation after three years.

A majority of the copper concentrate production from Rosemont is subject to off-take agreements that were entered into by Augusta prior to Hudbay's acquisition. This includes 30% to LG International (member of UCM), 20% to RK Mine Finance (up to a maximum of 1.5 million dry metric tonnes over the life of the agreement), and 20% to Aurubis AG. These off-take agreements are all at market related sales terms.

Accessibility, Climate, Local Resources, Infrastructure and Physiography

The Rosemont project is easily accessible to the communities of Tucson and Benson to the north and Sierra Vista, Sonoita, Patagonia and Nogales to the south by way of State Route 83. Existing graded dirt roads provide good access into and around the Project and connect the property with State Route 83. The city of Tucson, Arizona, provides the nearest major railroad and air transport services to support the Project.

The southern Arizona climate is typical of a semi-arid continental desert with hot summers and temperate winters. The Project area is at the north end of the Santa Rita Mountain Range at elevations between 4,550 feet and 5,300 feet above mean sea level ("**AMSL**"). The higher elevation in the project area results in a milder climate than at the lower elevations across the region.

The average annual precipitation in the project area is estimated between 40 to 46 centimetres based on historical data from eight meteorological stations within a 50 kilometre radius of the project area. More than half of the annual precipitation occurs during the monsoon season from July through September. The monsoon season is characterized by afternoon thunderstorms that are typically of short duration, but with high-intensity rainfall that has minor affects on a mining operation, which is considered to be 365 days per year. The lowest precipitation months are April through June.

The Rosemont project site is located immediately adjacent and west of Arizona State Route 83 (South Sonoita Highway), approximately 18 kilometres south of Interstate 10 (I-10). This system of state and interstate highways allows convenient access to the site for all major truck deliveries. The majority of the labour and supplies for construction and operations can come from the surrounding areas in Pima, Cochise and Santa Cruz Counties

The Union Pacific mainline east-west railroad route passes through Tucson, Arizona and generally follows Interstate Highway I-10. The Port of Tucson has rail access from the Union Pacific mainline consisting of a two mile siding complimented by an additional 914 metre siding. The Tucson International Airport ("**TIA**") is located approximately 50 kilometres from the project site and in close

proximity to interstate highways I-10 and I-19. The power supply to the Rosemont project falls within the Tucson Electric Power Company ("**TEP**") and TRICO Electric Cooperative Inc. (" **TRICO**") service territories. The most viable source of water supply for the project is from groundwater from various aquifers in the region.

The Rosemont project is located within the northern portion of the Santa Rita Mountains that form the western edge of the Mexican Highland section of the Basin and Range Physiographic Province of the southwest United States. Vegetation in the project area reflects the climate with the lower slopes of the Santa Rita Mountains dominated by mesquite and grasses while the higher elevations, receiving greater rainfall, support an open cover of oak, pine, juniper and cypress trees.

History

By the late 1950s, the Banner Mining Company (" **Banner**") had acquired most of the claims in the area and had drilled the discovery hole into the Rosemont deposit. In 1963 Anaconda Co. acquired options to lease the Banner holdings and over the next ten years they carried out an extensive drilling program on both sides of the mountain. The exploration program demonstrated that a large scale porphyry/skarn existed at Rosemont.

In 1973 Anaconda Mining Co. and Amax Inc. formed a 50/50 partnership to form the Anamax Mining Co. (the " **Anamax**"). In 1977, following years of drilling and evaluation, the Anamax Joint Venture commissioned the mining consulting firm of Pincock, Allen & Holt, Inc. to estimate a resource for the Rosemont Deposit. Their historical resource estimate of about 445 million tons of sulfide mineralization averaged 0.54% copper using a cut-off grade of 0.20% copper. In addition to the sulfide material, 69 million tons of oxide mineralization averaging 0.45% copper was estimated. Hudbay considers the estimate done by Anaconda to be historical in nature since no work has been done by a Hudbay Qualified Person to verify the estimate, and the estimate should not be relied upon by investors.

ASARCO purchased the patented and unpatented mining claims in the Helvetia-Rosemont mining district in August 1988 and renewed exploration of the Peach-Elgin and initiated engineering studies on Rosemont. In 1995, ASARCO succeeded in acquiring patents on 21 mining claims in the Rosemont area just prior to the moratorium placed on patented mining claims in 1996. In 1999, Grupo Mexico acquired the Helvetia-Rosemont property through a merger with ASARCO. In 2004 Grupo Mexico sold the Rosemont property to a Tucson developer.

In April 2005 Augusta purchased the property from Triangle Ventures LLC. Over the next several years, Augusta continued to evaluate the mineral potential at Rosemont and refine the economics of developing this resource. In September 2010, Augusta entered into an earn-in agreement with United Copper & Moly LLC ("**UCM"**), pursuant to which UCM has earned a 7.95% interest in the project and may earn up to a 20% interest. A joint venture agreement between Augusta's subsidiary, Rosemont Copper Company, and UCM governs the parties' respective rights and obligations with respect to the project.

Hudbay acquired Augusta and its ownership interest in the Rosemont project in July 2014. Hudbay's ownership in the Rosemont project remains subject to the earn-in and joint venture agreements with UCM.

Geological Setting

The Rosemont deposit consists of copper-molybdenum-silver mineralization primarily hosted in skarn that formed in the Paleozoic rocks as a result of the intrusion of quartz latite to quartz monzonite porphyry intusions. Genetically, it is a style of porphyry copper deposit, although intrusive rocks are volumetrically minor within the historical resource area. The skarns are formed as the result of thermal and metasomatic alteration of Paleozoic carbonate and to a lesser extent Mesozoic clastic rocks. Bornite-chalcopyrite-molybdenite mineralization occurs as veinlets and disseminations in the skarn. Near surface weathering has resulted in the oxidation of the sulphides in the overlying Mesozoic units.

Exploration

Drilling

Exploration of the Rosemont deposit by previous owners to Augusta consisted of 179 drill holes for a total of 210,200 feet. Since 2005, Augusta drilled an additional 87 holes for a total of 132,500 feet. The results of all of these drilling programs were used to estimate the historical mineral resources presented in this AIF.

The older drilling was conducted by major companies using industry standard procedures of the time and was validated by Augusta. The more recent drilling by Augusta was conducted using standard industry protocols, including Quality Assurance and Quality Control ("**QAQC**") procedures.

Additional exploration conducted in 2011 included deep-penetrating induced polarization geophysical surveys (Titan 24). The results identified a number of anomalous responses that may be indicative of potential mineralization. During late 2011/early 2012 the western end of one of the anomalies was partially drill tested, intercepting variable mineralization near the top of the anomaly.

Shortly after acquiring the Rosemont project, Hudbay initiated a 43 core hole drill program in September 2014 and completed 28,319 metres of diamond drilling by December 2014. The drill program was conducted entirely within the Rosemont historical resource area, on patented claims and was designed to gain a better understanding of the geological setting and mineralization, provide infill drilling density along with metallurgical, geochemical and geophysical data.

Mineralization

Drilling to date at Rosemont has defined a significant historical mineral resource approximately 1,100 meters in diameter that extends to a depth of at least 600 meters below the surface. Post-mineral features partially delimit the defined resource, dividing the deposit into major structural blocks with contrasting intensities and types of mineralization. The north-trending, steeply dipping Backbone Fault juxtaposes marginally mineralized Precambrian granodiorite and Lower Paleozoic quartzite and limestone to the west against a block of younger, well-mineralized Paleozoic limestone units to the east.

Most of the copper sulfide resource is contained in the eastern block of the Backbone Fault. Structurally overlying the sulfide resource is a block of Mesozoic sedimentary and volcanic rocks that contains lower grade copper mineralization (predominantly as oxides). These two blocks are separated by the shallowly dipping Low Angle Fault ("**LAF**"). Other post-mineral features include a deep, gravel-filled Tertiary paleochannel on the south side of the deposit and a significant thickness of Cretaceous and Tertiary volcaniclastic material to the northeast of the deposit.

Sulfide mineralization on the east side of the Backbone Fault and below the LAF is hosted in an east-dipping package of Paleozoic-age sedimentary rocks that includes the Escabrosa Limestone, Horquilla Limestone, Earp Formation, Colina Limestone, and Epitaph Formation. The Horquilla Limestone is the most significant, accounting for almost half of the sulfide resource. Significant mineralization also occurs in the Earp Formation and Colina Limestone, as well as in the Epitaph Formation.

Relatively minor mineralization occurs in the other Paleozoic units. To the south, the mineralization in this block appears to weaken and eventually die out. To the north, mineralization appears to narrow but continues under cover amid complex faulting. Mineralization is locally open to the east of the defined resource, beyond the limit of drilling and beneath an increasingly thick block of Mesozoic sediments.

Beneath the LAF there is a discontinuous but locally significant shear zone which displaces mineralization to varying degrees, in places moving mineralized rocks on top of unmineralized rocks, and in other places moving unmineralized rocks on top of mineralized rocks. This zone of tectonized breccias

material is locally up to several hundred feet in thickness and has a gradational contact with underlying rocks.

The Mesozoic rocks of the structural block above the LAF consist predominantly of arkosic siltstones, sandstones, and conglomerate. Within the Arkose are subordinate andesite flows or sills that range from a few tens of feet to several hundred feet thick. Also structurally wedged into the upper plate block at the base of the Arkose are the Glance Conglomerate, a limestone-cobble conglomerate, and some occurrences of relatively fresh Paleozoic formations.

Sampling and Analysis

Sampling Methods

The Rosemont database is based on core samples recovered from diamond drill holes. The drill core from mineralized intervals was generally sampled continuously down the hole, at a nominal five-foot sample length. In taking a sample, the core is generally halved (split) along the long axis, taking care to evenly distribute veinlets and other small-scale mineralized features where present, into both halves of the core.

Quality Assurance and Quality Control

The QAQC protocols in place during the Anaconda, Anamax and ASARCO exploration programs are not documented in records available, although all the available evidence shows that they took great care in sample handling and storage, and that the laboratories analyzing the geochemical samples used industry standard.

Augusta verified the accuracy and precision of its geochemical analyses by inserting standards of known metal content in the sample stream at periodic intervals and by reanalyzing approximately 5% of all samples to check the repeatability of results. Standards were submitted with a frequency of one per 20 samples. The inserted standards were chosen to be similar in grade to the drill holes samples that they accompanied whenever possible. Blank samples were submitted with a frequency of one per 40 samples. Approximately 5% of all samples were reanalyzed in what was called their check assay program.

As part of the protocol, whenever standards or blanks returned from the laboratory with values significantly different from what was expected, the standard or blank pulp was resubmitted to the laboratory along with two samples that occurred on either side of the questionable standard or blank in the sample stream. In addition to standards and repeat analyses, further QAQC was provided by the results from other standards inserted into the sample stream by the assay laboratory, Skyline Assayers and Laboratories, Tucson, Arizona (Skyline). The results from those standards are reported on assay certificates obtained from the laboratory.

Data Verification

Augusta took a number of steps to verify the results of earlier exploration results by other companies. These previous efforts were conducted by recognized major companies and it is believed their work was conducted to industry standards at that time. Augusta's own work was conducted with appropriate sample handling and QAQC measures to ensure that resulting data were reliable.

Security of Samples

Sample handling during the historic Banner, Anaconda, Anamax, and ASARCO programs was conducted by employees of those companies, for which some of the protocol records are limited. Augusta notes that these were major mining companies conducting work for their internal use. It is assumed that professional care was taken in the handling of samples by these company employees and no evidence to the contrary has been found.

For the Augusta drilling programs, the drilling contractors kept the core in a secure area next to the drill rig before delivering it to the Rosemont Ranch (2005, 2006) or Hidden Valley (2008-2012) sampling facility, approximately three miles from the drilling area. At the Rosemont Ranch facility in 2005 and 2006 and subsequently at Hidden Valley in 2008, samples were logged, marked, cut and placed in sample bags by geologists and helpers contracted by Augusta. At both locations, for programs through 2008, the samples were kept in locked storage units on site until they could be transported to the analytical laboratory in Tucson. The logging and sampling areas were kept under closed-circuit video surveillance to provide a record of the personnel that had accessed the logging and sampling areas. Additional security was afforded by ranch personnel that oversaw the premises at night. For the 2011 to 2012 drilling, the locked storage units and video surveillance were superseded by 24 hour-per-day private security guards. No core handling or core security issues were experienced during the drilling or sampling programs.

Locked sample boxes were picked up by Skyline employees, who officially took custody of the samples at the two sampling facilities, set up on the Rosemont Property. After completion of the laboratory work, the pulp samples and coarse rejects were returned to site for long-term storage and possible future use.

Mineral Resource and Mineral Reserve Estimates

As stated in this AIF, Hudbay is treating Augusta's previously disclosed estimates of the mineral reserves and resources at the Rosemont project as "historical estimates" under NI 43-101 and not as current mineral reserves or resources, as a qualified person has not done sufficient work for Hudbay to classify Rosemont's mineral reserves or resources as current mineral reserves or resources. Hudbay is currently reviewing Augusta's estimates of the mineral reserves and resources at Rosemont as well as the assumptions underlying the 2012 Feasibility Study. Once Hudbay's review is complete and the engineering is sufficiently advanced, Hudbay expects to complete a feasibility study for the Rosemont project, including a current estimate of the mineral reserves and resources and the key cost and other assumptions underlying such estimate.

Mineral Resources

The historical mineral resource estimation work was performed by Susan Bird, M.Sc., P. Eng. a Senior Associate at Moose Mountain Technical Services ("**MMTS**"). The resource is estimated using a 3-dimensional geologic model of all known lithologies and zones to create a block model encompassing the project area. The historical mineral resource estimates are effective as of July 17, 2012.

Drill hole data including copper, molybdenum and silver grades is incorporated into the modeling by creating 50 foot bench composites, corresponding to the planned bench height and elevations. Statistical and geostatistical analyses were used to determine domain boundaries, capping values used to restrict the outlier range of influence during interpolation, rotational and kriging parameters required for interpolation and

appropriate sets of composites to use during interpolation that will preserve the tonnage-grade distribution of the data while allowing internal smoothing to account for dilution.

A Lerchs-Grossman ("**LG**") pit shell having a 45-degree slope angle has been applied to the three dimensional block model to ensure reasonable prospects of economic extraction for the reported mineral resources. Metal prices used for the resource pit are US$3.50 per pound copper, US$15.00 per pound molybdenum and US$20.00 per ounce silver. The mining costs used in the resource pit optimization for ore are US$0.777 per ton and for waste is US$0.882 per ton, with processing plus general and administration costs of US$4.90 per ton for sulfide/mixed material and processing costs of US$3.03 per ton for oxide material. These costs are in line with those developed for use in the historical mineral reserves.

For the reporting of the in-situ resource, MMTS used a copper equivalent (CuEq) value within the LG pit shell based on metallurgic recoveries, metal prices, and resulting net smelter prices. The CuEq formulas for each metallurgical zone are shown:

Sulfide: CuEq% = Cu% + (Mo% * 0.63 * 13.095)/(0.86 * 2.078) + (AgOPT * 0.80 * 17.111)/(0.86 * 2.078 * 20)

Mixed: CuEq% = Cu% + (Mo% * 0.30 * 13.095)/(0.86 * 2.078) + (AgOPT * 0.38 * 17.111)/(0.40 * 2.078) (0.40 * 2.078 * 20)

Oxide: CuEq% = Cu%

Base case cut-off grades of 0.10% CuEq for oxide, 0.30% CuEq for mixed and 0.15% CuEq for sulfide were used to report the historical mineral resources.

Mineral Reserves

The historical mineral reserve estimates, effective as of July 24, 2012, were prepared by Mr. Robert Fong, P.Eng. Principal Mining Engineer for MMTS and reported on a Net Smelter Return (NSR) cut-off of US$4.90 per ton. NSR values are based on long-term metal prices of US$2.50 per pound copper, US$15.00 per pound molybdenum and US$20.00 per ounce silver.

LG pit optimization analyses were conducted using the mineral resources classified as measured or indicated to determine the ultimate pit limits and best extraction sequence for open pit mine design. An economic subroutine was developed to compute a NSR value for each block in the resource block model. The computer algorithm incorporates block grades, expected smelting/refining contracts (i.e. payables and deductions), metallurgical recoveries and projected market prices for each metal (copper, molybdenum and silver) to yield a net revenue value expressed in terms of US dollars per ton. The subroutine also applies to mining, ore processing and general and administration costs to calculate a net dollar value per block, which includes adjustments for surface topography. Concurrently, an equivalent copper grade is computed and stored in the block model.

The historical mineral reserve and historical mineral resource estimate includes drill and assay information up to March, 2012 for a total of 266 drill holes, representing 342,700 feet of drilling.

Mine Plan

The proposed pit operations are based on 50 foot high benches using large-scale mining equipment, including: 12.25 inch diameter rotary blasthole drills, 60 cubic yard class electric shovels, 25 and 35 cubic yard front-end loaders, 46 cubic yard hydraulic shovel and 260 ton off-highway haul trucks. Total material mined from the open pit is approximately 1.9 billion tons, which includes approximately 1.24 billion tons of waste material, resulting in a stripping ratio of 1.9:1.0 (tons of waste per ton of ore). Oxide resources are considered as waste material and are not part of the historical mineral reserves.

Mine life is 21 years, with sulphide ore delivered to a processing plant at an initial rate of 75,000 tons per day. An expansion to the processing plant in Year 5 gradually increases daily mill throughput to 88,000 tons per day by Year 7. Increases in plant operating availability boosts the daily throughput rate to 90,000 tons per day by Year 12. During the 21 month pre-production period a total of 99 million tons of waste is stripped and 6 million tons of ore is moved to the ore stockpile. Peak mining rate of 343,000 tons mined per day is achieved in Year 3, followed by reduced rates of 285,000 tons mined per day in Years 5 to 10, and further reduced to 232,000 tons mined per day in Years 11 to 15 as the stripping ratio decreases.

Mineral Processing and Metallurgical Testing

Early metallurgical work was done on mineralization from 1974 to 1975 on grinding and flotation tests. However, it was not until 2006, when Augusta initiated testwork, that a better understanding of the metallurgy of the deposit and the design criteria for the design of a process facility were established. Additional testwork was conducted in 2012 on drill core.

The mineralized samples were tested to determine grinding and flotation criteria. The testwork indicates a process of crushing and grinding the material to 80% passing 105 micron size distribution followed by bulk flotation to recover copper and molybdenite minerals.

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*.

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(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,

  - 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.

Exhibit 99.2

Consolidated Financial Statements
(In Canadian dollars)

HUDBAY MINERALS INC.

Years ended December 31, 2014 and 2013

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, 2014 based upon the Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management excluded from its assessment the internal controls, policies and procedures of HudBay Arizona Corporation (formerly named Augusta Resource Corporation) ("Hudbay Arizona"), which Hudbay acquired control of on July 16, 2014. Hudbay Arizona's total assets, net assets, total revenues and net profit/loss on a combined basis constitute approximately 18%, 25%, 0% and 3%, respectively, of the consolidated financial statement amounts as of and for the year ended December 31, 2014. Based on its evaluation, management concluded that Hudbay's ICFR was effective as of December 31, 2014.

The effectiveness of the Company's ICFR as at December 31, 2014 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, 2014.

"*David Garofalo"*

David Garofalo
President and Chief Executive Officer

"David Bryson"

David Bryson
Senior Vice President and Chief Financial Officer

Toronto, Canada
February 19, 2015

Deloitte.

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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, 2014, based on the criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management's Report on Internal Control over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Augusta Resource Corporation ("Augusta"), which was acquired during 2014, and whose total assets, net assets, total revenues and net income on a combined basis constitute approximately 18%, 25%, 0% and 3%, respectively, of the consolidated financial statement amounts as of and for the year ended December 31, 2014. Accordingly, our audit did not include the internal control over financial reporting at Augusta. 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, 2014, based on the criteria established in Internal Control — Integrated Framework (2013) 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, 2014 of the Company and our report dated February 19, 2015 expressed an unmodified opinion on those financial statements.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants

February 19, 2015
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, 2014 and December 31, 2013, 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, 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, 2014 and December 31, 2013, and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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, 2014, based on the criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 19, 2015 expressed an unqualified opinion on the Company's internal control over financial reporting.



Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants

February 19, 2015
Toronto, Canada

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

	Note	Dec. 31, 2014	Dec. 31, 2013
Assets			
Current assets			
Cash and cash equivalents	8	**$ 207,273**	$ 631,427
Trade and other receivables	9	**211,243**	168,298
Inventories	10	**87,709**	52,201
Prepaid expenses	11	**15,305**	28,917
Other financial assets	12	**1,345**	807
Taxes receivable	24i	**11,941**	37,644
Assets held for sale	6	**—**	5,864
		534,816	925,158
Receivables	9	**24,824**	57,376
Inventories	10	**7,857**	7,888
Prepaid expenses	11	**246**	574
Other financial assets	12	**72,897**	71,182
Intangible assets - computer software	13	**12,063**	13,573
Property, plant and equipment	14	**4,715,811**	2,665,075
Goodwill	15	**210,655**	71,373
Deferred tax assets	24b	**48,339**	31,787
		$ 5,627,508	$ 3,843,986
Liabilities			
Current liabilities			
Trade and other payables	16	**$ 280,683**	$ 218,898
Taxes payable		**342**	33
Other liabilities	17	**47,248**	41,139
Other financial liabilities	18	**7,001**	16,348
Current portion of long term debt	19	**17,139**	—
Deferred revenue	20	**81,279**	65,616

		433,692	342,034
Other financial liabilities	18	**51,543**	23,039
Long term debt	19	**1,127,957**	779,331
Deferred revenue	20	**717,015**	464,135
Provisions	21	**183,700**	146,062
Pension obligations	22	**49,384**	25,931
Other employee benefits	23	**175,548**	142,114
Deferred tax liabilities	24b	**441,949**	293,633
		3,180,788	2,216,279
Equity			
Share capital	25b	**1,624,419**	1,021,088
Reserves		**189,630**	49,557
Retained earnings		**632,671**	564,966
Equity attributable to owners of the Company		**2,446,720**	1,635,611
Non-controlling interests	29	**—**	(7,904)
		2,446,720	1,627,707
		$ 5,627,508	$ 3,843,986

Capital commitments (note 32)

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

	Note	Year ended December 31, 2014	2013
Cash generated from (used in) operating activities:			
Profit (loss) for the year		**$ 71,866**	$ (109,276)
Tax (recovery) expense	24a	**(60,325)**	53,272
Items not affecting cash:			
Depreciation and amortization	7b	**93,213**	77,509
Share-based payment expense	7c	**8,038**	4,851
Net finance income	7f	**6,192**	5,427
Change in fair value of derivatives		**(2,165)**	9,061
Change in deferred revenue related to stream	20	**(49,478)**	(69,088)
Change in taxes receivable/payable, net		**(35,365)**	(16,602)
Mark-to-market gain on warrants	7f	**(25,725)**	—
Gain on deemed disposition of Augusta shares	5	**(50,268)**	—
Asset impairment / loss on disposition of subsidiary	7g	**6,512**	15,356
Impairment and mark-to-market losses	7f	**1,385**	16,403
Foreign exchange and other		**17,166**	18,435
Taxes recovered		**34,328**	4,501
Operating cash flows before stream deposit and change in non-cash working capital		**15,374**	9,849
Precious metals stream deposit	20	**289,218**	131,475
Change in non-cash working capital	34a	**(13,822)**	2,795
		290,770	144,119
Cash generated from (used in) investing activities:			
Net interest received		**(682)**	10,920
Acquisition of property, plant and equipment		**(981,290)**	(901,985)
Acquisition of intangible assets		**(1,413)**	(3,011)
Acquisition of investments		**(3,191)**	(7,155)
Addition to cash from Acquisition of Augusta	5	**3,261**	—
Addition to restricted cash	12	**(22,963)**	(20,897)
Peruvian sales tax received (paid) on capital expenditures		**42,287**	(130,885)
		(963,991)	(1,053,013)
Cash generated from (used in) financing activities:			
Long-term debt borrowing, net of transaction costs	19	**295,202**	261,427
Principal repayments		**(142,263)**	—
Interest paid		**(91,641)**	(58,499)
Proceeds from exercise of stock options		**1,278**	449
Financing costs		**(6,131)**	(1,005)
Proceeds from issuance of equity		**164,819**	—
Dividends paid	25b	**(4,251)**	(18,924)
		217,013	183,448

Effect of movement in exchange rates on cash and cash equivalents	**32,054**	19,785
Net decrease in cash and cash equivalents	**(424,154)**	(705,661)
Cash and cash equivalents, beginning of year	**631,427**	1,337,088
Cash and cash equivalents, end of year	**$ 207,273**	$ 631,427

For supplemental information, see note 34.

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

	Note	Year ended December 31, 2014	2013
Revenue	7a	**$ 559,956**	$ 516,801
Cost of sales			
Mine operating costs		**404,541**	360,085
Depreciation and amortization	7b	**92,444**	76,714
		496,985	436,799
Gross profit		**62,971**	80,002
Selling and administrative expenses		**46,275**	39,956
Exploration and evaluation expenses		**11,153**	23,286
Other operating income and expenses	7e	**11,254**	8,284
Asset impairment loss	7g	**—**	15,356
Loss on disposal of subsidiary	7h	**6,512**	—
Augusta related costs		**23,923**	—
Results from operating activities		**(36,146)**	(6,880)
Finance income	7f	**(3,902)**	(3,494)
Finance expenses	7f	**10,094**	8,921
Other finance (gain) loss	7f	**(53,879)**	43,697
Net finance (income) expense		**(47,687)**	49,124
Profit (loss) before tax		**11,541**	(56,004)
Tax (recovery) expense	24a	**(60,325)**	53,272
Profit (loss) for the year		**$ 71,866**	$ (109,276)
Attributable to:			
Owners of the Company		**$ 71,956**	$ (101,359)
Non-controlling interests	29	**(90)**	(7,917)
Profit (loss) for the year		**$ 71,866**	$ (109,276)
Earnings (loss) per share - basic and diluted		**$ 0.34**	$ (0.59)
Weighted average number of common shares outstanding:	27		
Basic		**209,023,666**	172,048,434
Diluted		**209,683,580**	172,048,434

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

	Year ended December 31, 2014	2013
Profit (loss) for the year	**$ 71,866**	$ (109,276)

Other comprehensive income (loss) (note 28):		
Items that may be reclassified subsequently to profit or loss		
Recognized directly in equity:		
Net exchange gain on translation of foreign operations	**185,248**	87,669
Change in fair value of available-for-sale financial investments	**49,193**	(30,254)
	234,441	57,415
Items that will not be reclassified subsequently to profit or loss:		
Recognized directly in equity:		
Remeasurement - actuarial (loss) gain	**(53,708)**	36,158
Tax effect	**7,585**	(7,792)
	(46,123)	28,366
Transferred to income statements:		
Change in fair value of available-for-sale financial assets	**(48,594)**	16,291
Sale of investments	**(33)**	(67)
Tax effect	**2**	—
	(48,625)	16,224
Other comprehensive income, net of tax, for the year	**139,693**	102,005
Total comprehensive income (loss) for the year	$ **211,559**	$ (7,271)
Attributable to:		
Owners of the Company	$ **211,649**	$ 322
Non-controlling interests	**(90)**	(7,593)
Total comprehensive income (loss) for the year	$ **211,559**	$ (7,271)

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

	Attributable to owners of the Company									
	Share capital (note 25)	Other capital reserves	Foreign currency translation reserve	Available-for-sale reserve	Hedging reserve	Remeasurement reserve	Retained earnings	Total	Non-controlling interests (note 29)	Total equity
Balance, January 1, 2013	$ 1,020,458	$ 26,203	$ 10,579	$ 16,498	$ —	$ (105,216)	$ 685,250	$ 1,653,772	$ (311)	$ 1,653,461
Loss	—	—	—	—	—	—	(101,359)	(101,359)	(7,917)	(109,276)
Other comprehensive income (loss) (note 28)	—	—	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 25b)	—	—	—	—	—	—	(18,925)	(18,925)	—	(18,925)
Total contributions by and distributions to owners	630	(188)	—	—	—	—	(18,925)	(18,483)	—	(18,483)
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**

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

	Attributable to owners of the Company									
	Share capital (note 25)	Other capital reserves	Foreign currency translation reserve	Available-for-sale reserve	Hedging reserve	Remeasurement reserve	Retained earnings	Total	Non-controlling interests (note 29)	Total equity
Balance, January 1, 2014	$ 1,021,088	$ 26,015	$ 97,924	$ 2,468	$ —	$ (76,850)	$ 564,966	$ 1,635,611	(7,904)	$ 1,627,707
Profit (loss)	—	—		—	—	—	71,956	71,956	(90)	71,866
Other comprehensive income (loss) (note 28)	—	—	185,248	568	—	(46,123)	—	139,693	—	139,693

Total comprehensive income (loss)	—	—	185,248	568	—	(46,123)	71,956	211,649	(90)	211,559
Contributions by and distributions to owners:										
Stock options exercised	1,869	(590)	—	—	—	—	—	1,279	—	1,279
Equity issuance (note 25b)	607,298	—	—	—	—	—	—	607,298	—	607,298
Share issue costs, net of tax (note 25b)	(5,836)	—	—	—	—	—	—	(5,836)	—	(5,836)
Dividends (note 25b)	—	—	—	—	—	—	(4,251)	(4,251)	—	(4,251)
Total contributions by and distributions to owners	603,331	(590)	—	—	—	—	(4,251)	598,490	—	598,490
Non-controlling interests upon acquisition of Augusta (notes 5, 29)	—	—	—	—	—	—	—	—	45,500	45,500
Acquisition of non-controlling interests in Augusta (notes 5, 29)	—	—	—	—	—	—	—	—	(44,077)	(44,077)
Reclassification of non-controlling interests in Augusta (notes 5, 29)	—	1,423	—	—	—	—	—	1,423	(1,423)	—
Reclassification adjustment	—	—	—	—	—	—	—	—	1,073	1,073
Sale of subsidiary	—	—	(453)	—	—	—	—	(453)	6,921	6,468
Balance, December 31, 2014	**$ 1,624,419**	**$ 26,848**	**$ 282,719**	**$ 3,036**	**$ —**	**$ (122,973)**	**$632,671**	**$ 2,446,720**	**$ —**	**$ 2,446,720**

HUDBAY MINERALS INC.
Notes to Consolidated Financial Statements
(in thousands of Canadian dollars, except where otherwise noted)
Years ended December 31, 2014 and 2013

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, 2014 and 2013 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 as at December 31, 2014, 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"), HudBay (BVI) Inc., Hudbay Arizona Corporation ("Augusta" or "Hudbay Arizona") and Rosemont Copper Company ("Rosemont").

Hudbay is an integrated mining company with shares listed under the symbol "HBM" on the Toronto, Lima and New York stock exchanges. Hudbay also has warrants listed under the symbol "HBM.WT" on the Toronto stock exchange and "HBM/WS" on the New York stock exchange. 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 copper projects in Cusco (Peru) and Arizona (United States). The Group also has investments in a number of exploration companies. Hudbay's vision 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") effective for the year ended December 31, 2014.

The Board of Directors approved these consolidated financial statements on February 19, 2015.

(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, HudBay (BVI) Inc. and the Hudbay Arizona entities, which have a functional currency of US dollars. All values are rounded to the nearest thousand ($000) except where otherwise indicated.

(c) Basis of measurement:

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

- 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 judgements and estimates:

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.

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.

The following are significant judgements and estimates impacting the consolidated financial statements:

- Acquisition accounting (notes 3a and 5) - during the acquisition of Augusta, judgement was required to determine if the acquisition represented a business combination or an asset purchase. More specifically, management concluded that the acquiree represented a business as it consisted of inputs and processes applied to those inputs which have the ability to create outputs. These inputs included proven and probable reserves and a skilled employee base. Processes in existence within the business included Rosemont project feasibility studies which documented a plan to carryout development and production of economic ore. In contrast, if judgement determined that the acquisition represented the purchase of an asset, there would be no goodwill generated on the transaction and acquisition costs would have been capitalized to the asset purchased rather than expensed.

- Valuation of an acquired business (note 5) - as the Group concluded that the acquisition of Augusta was a business combination, a valuation was required to determine the allocation of the purchase price. The fair values of the net assets acquired were calculated using significant estimates and judgements. In particular, the fair values of the net assets, including mineral properties, other property, plant and equipment have been determined using an independent valuation involving discounted cash flow calculations and other finance models. Such calculations and models were required to estimate, amongst other items, the amount and timing of extraction of mineralization, commodity prices, operating and capital input costs, discount rates and currency rates. The data utilized to estimate these key items included available reserve and resource reports, feasibility studies, macroeconomic studies and judgements regarding the timing of approval for project permitting. If estimates or judgements differed, this would result in a materially different allocation of net assets to the consolidated balance sheets and would result in a change in the amount of goodwill recognized.

- Valuation and classification of the Peru sales tax receivable (note 9) - there is significant judgement involved when determining recoverability and timing of receipt of funds with governments of emerging markets. Based on a history of receipts from the government and positive audit compliance, management determined that recoverability of the amounts recorded was reasonable. In addition, based on the estimate of sales during 2015 as the Constancia operation ramps up, management concluded that

substantially all of the receivable will be collected in 2015 and, as such, has classified most of the receivable amount as a current asset. A change in government policies or fiscal stability may lead to a change in the recorded amount and may result in a re-classification of a greater portion of the receivable from current to non-current.

- Impairment of non-financial assets (notes 3h, 3j and 15) - there are significant estimates involved in the determination of the recoverable amount of cash generating units ("CGU"). The Group has allocated goodwill to the Peru CGU and the Arizona CGU. Recoverable amounts are calculated using discounted after-tax cash flows based on cash flow projections and assumptions 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, future operating and capital costs and future foreign exchange rates. Expected future cash flows used to determine the recoverable amount during impairment testing are inherently uncertain and could materially change over time. Should managements' estimate of the future not reflect actual events, impairments may be identified. This may have a material effect on the Group's consolidated financial statements. 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.

- Tax provisions (notes 30 and 24) - management makes estimates in determining the measurement and recognition of deferred tax assets and liabilities recorded on the consolidated balance sheets. The measurement of deferred tax assets and deferred tax liabilities is based on tax rates that are expected to apply in the period that the asset is realized or liability is settled based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax assets, including those arising from unutilized tax losses, require management to assess the likelihood of taxable income in future periods in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecasted 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. At the end of each reporting period, management reassesses the period that assets are realized or liabilities are settled and the likelihood of taxable income in future periods in order to support and adjust the deferred tax assets and deferred tax liabilities recognized on the consolidated balance sheets.

- Timing of commercial production (note 3i) - during the year ended December 31, 2014, the Group determined that the Reed and Lalor projects met the criteria required to be considered commercial production mines. Judgement was applied to ascertain the point in time when the group of mine assets associated with each project were capable of being used in the manner intended by management. Production plans and actual capacity were utilized in determining the appropriate timing. A change in judgement regarding timing of commercial production would have material impacts on the amount of revenues and depreciation recorded in the consolidated income statements and the valuation of property, plant and equipment in the consolidated balance sheets.

- Functional currency (note 3b) - judgement was required in determining that the Canadian dollar is the appropriate functional currency of certain entities of Hudbay. This was determined by assessing the currency which influences sales prices for concentrate and metals sales, labour and input costs, as well as the currency in which Hudbay finances its operations. The Canadian dollar functional currency judgement results in foreign exchange gains and losses being recorded on the consolidated income statements pertaining to the revaluation of non-Canadian monetary assets and liabilities, most notably, the US denominated senior unsecured long-term debt and US denominated trade receivables, cash, working capital and intercompany balances. If judgement was altered and a different functional currency was selected for certain entities of Hudbay, this would result in material differences in the amounts recorded in the consolidated income statements pertaining to foreign exchange gains or losses.

- Units-of-production depreciation (note 3i) - a significant estimate is required to determine the total production basis for units-of-production depreciation. The most currently available reserve and resource report is utilized in determining this basis which will have material impacts on the amount of depreciation recorded through inventories and the consolidated income statements.

- Assaying utilized to determine revenues and recoverability of inventories (notes 3c and 3f) - assaying of contained metal is a key estimate in determining the amount of revenues recorded in the consolidated income statements. The estimate is finalized after final surveying is completed, which may extend to six months in certain transactions. Since assays are utilized to determine the value of recorded revenues, material differences in given assays may result in a material misstatement of revenues on the consolidated income statements. Assay survey results are also a factor utilized to determine if inventories on hand have a net realizable value that exceeds cost. Material differences in assay results may lead to misstatements of inventory balances in the consolidated balance sheets.

- Decommissioning and restoration obligations (notes 3m and 21) - significant judgement and estimates are utilized in the determination of the decommissioning and restoration provisions in the consolidated balance sheets. Judgement is involved in determining the timing and extent of cash outflows required to satisfy constructive obligations based on the timing of site closure in the LOM plans, expected unit costs to determine cash obligations to remediate disturbances and regulatory and constructive requirements to determine the extent of the remediation required. The timing of cash outflows is a key input in determining discount rates associated with discounting the provision. Changes in these estimates may result in a change in classification of the provision between non-current and current as well as material differences in the total provision recorded in the consolidated balance sheets.

- Accounting for stream transactions (note 20) - significant judgement is required in determining the appropriate accounting for the Silver Wheaton Corp. ("Silver Wheaton") stream transactions that have been entered into. Management has determined that based

on the agreements reached that Silver Wheaton assumes significant business risk associated with the timing and amount of ounces of gold and silver being delivered. As such, the deposits received from Silver Wheaton have been recorded as deferred revenue liabilities in the consolidated balance sheets. If judgement was altered and it was determined that Hudbay assumed the significant business risks associated with delivering the gold and silver ounces, then the deposits would be classified as financial liabilities and would be recorded in the consolidated balance sheets at fair value.

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 consolidated income statements. 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 consolidated income statements as incurred, unless they relate to issue of debt or equity securities.

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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 consolidated income statements. Amounts previously recognized in other comprehensive income related to interests in the acquiree prior to the acquisition date are reclassified to the consolidated income statements, 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.

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 statements.

(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 noon 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 consolidated income statements, 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 noon 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 consolidated income statements 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 consolidated income statements and in trade and other receivables on the consolidated balance sheets.

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 have maturities of three months or less at the date of acquisition. Interest earned is included in finance income on the consolidated income statements and in investing activities on the consolidated statements 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 consolidated balance sheets. Changes in restricted cash balances are classified as investing activities on the consolidated statements of cash flows.

(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 consolidated income statements 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 consolidated income statements.

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 consolidated income statements.

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 consolidated income statements.

(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 hangingwall drifts in stopes, drawpoints, drill drifts, sublevels, slots, drill raises, stope manway access raises and definition diamond drilling.

(iii) Plant and equipment:

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

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

(iv) Commercial production:

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

(v) Capitalized borrowing costs:

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

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

All other borrowing costs are recognized in the consolidated income statements 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 intangible assets - 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, Arizona, Balmat and 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 and whenever there is an indication that the asset may be impaired. In 2014 and in prior years, the Group's accounting policy was to perform its annual goodwill impairment test on September 30, of each year. Effective January 1, 2015, the Group voluntarily changed its accounting policy to perform its annual goodwill impairment test on the first day of its fourth quarter, or October 1, of each year. The change to the annual goodwill and indefinite life intangible assets impairment testing date is preferable under the circumstances as the new impairment testing date is better aligned with the timing of the Group's annual planning, and budgeting processes and the timing remains consistent with the Group's annual financial reporting process. The resulting change in accounting policy related to the annual testing date will not avoid an impairment charge of the Group's goodwill. The Group will prospectively apply the change in the annual goodwill impairment testing date.

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 of disposal and value in use:

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

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

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

If the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the carrying amount is reduced to the recoverable amount, and an impairment loss is recognized in the consolidated income statements 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 consolidated income statements. An impairment loss recognized in relation to goodwill is not reversed for subsequent increases in the recoverable amount.

(k) 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 of disposal. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets or investment property. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognized in the consolidated income statements; 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 consolidated balance sheets. 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 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.

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 consolidated balance sheets. 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 categorized as follows:

- Service costs (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, and
- 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.

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 consolidated balance sheets 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 consolidated income statements 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 consolidated balance sheets 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 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 consolidated income statements 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 consolidated income statements. 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 consolidated income statements. 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 consolidated income statements 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, 2014 and December 31, 2013, 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 consolidated income statements 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 consolidated income statements 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 consolidated income statements and is included in other finance gains and losses. Amounts previously recognized in other comprehensive income are reclassified to the consolidated income statements in the same periods as the hedged cash flows affect profit or loss and are presented on the same line of the consolidated income statements 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 consolidated income statements. If the forecast transaction is no longer expected to occur, any gain or loss accumulated in equity is reclassified immediately from equity to the consolidated income statements.

(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 generally used for assets held or liabilities to be issued; asking prices are generally 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 31.

(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 combines 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 consolidated income statements 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 consolidated income statements 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 consolidated income statements. 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 consolidated income statements.

Impairment losses recognized in the consolidated income statements 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 consolidated income statements in other finance gains and losses.

The Group presents impairment losses and reversals of impairment losses recognized in the consolidated income statements 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 consolidated balance sheets. 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 consolidated income statements. 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 consolidated income statements 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 consolidated balance sheets and further described in note 26.

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 consolidated income statements. 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 consolidated balance sheets, and changes in the fair value of the liabilities are recorded in the consolidated income statements. The current portion of the liability reflects those grants that have vested or that are expected to vest within twelve months.

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

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

forfeitures.

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

(r) Earnings per share:

The Company presents basic and diluted earnings (loss) per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares, which currently consist of stock options granted to employees and warrants.

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 consolidated income statements 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 consolidated income statements 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 35.

(u) Statements of cash flows:

The Group presents interest paid and dividends paid as financing activities and interest received as an investing activity in the consolidated statements of cash flow. The Group presents the consolidated statements of cash flows using the indirect method.

4. New standards

New standards and interpretations adopted in the year

As required by the IASB, effective January 1, 2014 the Group adopted the following amendments to IFRS:

- Amendments to 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 grow settlement. The Group's adoption of this amendment had no effect on its consolidated financial statements.

- Amendments to IAS 36, *Impairment of Assets* - in May 2013, the IASB issued an amendment to IAS 36, *Impairment of assets*, which require the disclosure of the recoverable amount of impaired assets when an impairment loss has been recognized or reversed during the period and additional disclosures about the measurement of the recoverable amount of impaired assets when the recoverable amount is based on fair value less costs of disposal, including the discount rate when a present value technique is used to measure the recoverable amount. The adoption of this standard did not have a significant impact on the Company's consolidated financial statements.

- IFRIC 21, *Levies* - 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 level 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. The Group's adoption of this standard had no effect on its consolidated financial statements.

New standards and interpretations not yet adopted

- IFRS 9, *Financial Instruments* ("IFRS 9 (2009)") — this standard 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. The IASB has tentatively decided to require an entity to apply IFRS 9 for annual periods beginning on or after January 1, 2018. The Group has not yet determined the effect of adoption of IFRS 9 on its consolidated financial statements.

- IFRS 15, *Revenue from Contracts with Customers* - in May 2014, the IASB issued this standard which is effective for periods beginning on or after January 1, 2017 and is to be applied retrospectively. IFRS 15 clarifies the principles for recognizing revenue from contracts with customers. IFRS 15 will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (i.e. service revenue and contract modifications) and improve guidance for multiple-element arrangements. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning January 1, 2017, and may consider earlier adoption. The Group has not yet determined the effect of adoption of IFRS 15 on its consolidated financial statements.

- Amendments to IAS 16, *Property, Plant and Equipment* ("IAS 16") and IAS 38, *Intangible Assets ("IAS 38")* - on May 12, 2014, the IASB issued amendments to clarify that the use of revenue-based methods to calculate the depreciation of a tangible asset is not appropriate because revenue generated by an activity that includes the use of a tangible asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption for an intangible asset, however, can be rebutted in certain limited circumstances. The standard is to be applied prospectively for fiscal years beginning on or after January 1, 2016 with early adoption permitted. The Group is currently evaluating the impact of applying the amendments, however does not anticipate that there will be any impact on its current method of calculating depreciation or amortization.

5. Acquisition of Augusta Resource Corporation

On July 16, 2014, the Group obtained control of Hudbay Arizona (formerly named Augusta Resource Corporation), a Canadian company whose primary asset is the Rosemont copper project near Tucson, Arizona.

Hudbay obtained control of Augusta by acquiring Augusta common shares to increase the Group's equity interest in Augusta from approximately 16% to 92%. On July 29, 2014 and September 23, 2014, Hudbay acquired the remaining outstanding common shares and now wholly owns Augusta. Acquiring control of Augusta allows the Group an opportunity to develop the Rosemont project and significantly increase Hudbay's future copper production.

For the year ended December 31, 2014, Augusta has contributed to net income in the amount of $1,967 to the Group's results. Augusta does not currently earn revenue as it is in the development stage. If the acquisition had occurred on January 1, 2014, management estimates that there would be no revenue and profit for the period in Hudbay Arizona would have been $14,381. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on January 1, 2014.

Consideration transferred:

The following summarizes the acquisition date fair value of the major classes of consideration transferred:

Equity instruments (36,613,464 common shares)	$	393,947
Warrant instruments (19,759,641 warrants)		42,087
Fair value of shares previously owned by the Group (23,058,585 common shares)		84,391
Consideration transferred - July 16, 2014	$	520,425

The fair value of the common shares issued was based on Hudbay's listed share price of $10.76 at the July 16, 2014 acquisition date. The fair value of the warrants issued was based on a Black- Scholes option pricing calculation of $2.13. The fair value of the shares previously owned by the Group was based on Augusta's listed share price of $3.66 at the July 16, 2014 acquisition date.

The Group took up the remaining 3,837,190 shares at a fair value of $40,679 based on Hudbay's listed share prices of $11.62 and $9.68 on July 29, 2014 and September 23, 2014, respectively. The Group issued 2,070,849 warrant instruments with a fair value of $3,398 based on Hudbay' listed warrant prices of $2.25 and $1.09 on July 29, 2014 and September 23, 2014, respectively.

Immediately prior to the acquisition, Augusta settled its outstanding in the money stock options, restricted units and convertible notes through the issuance of Augusta shares and settled its out of the money options in cash under the terms of the acquisition.

During the year ended December 31, 2014, the Group incurred acquisition related costs of $16,689 mainly relating to external legal and advisory fees and due diligence costs, which were expensed on the consolidated income statements as part of Augusta related costs. In addition, the Group incurred share issue costs of $170 and presented these as a deduction from share capital.

Identifiable assets acquired and liabilities assumed:

The Group has completed the purchase price allocation, resulting in recognized amounts of identifiable assets acquired and liabilities assumed as follows:

Cash and cash equivalents	$	3,261
Receivables and other current assets		1,486
Long-term receivable and other assets		9,896
Mineral properties		680,636
Other property, plant and equipment		83,626
Trade and other payables		(35,949)
Warrant liability		(6,278)
Current portion of long-term debt		(125,918)
Deferred tax liabilities		(167,898)
Total net identifiable assets acquired	**$**	**442,862**

The fair values of the mineral properties have been calculated using significant judgements. In particular, the fair values of mineral properties, and other property and plant and equipment have been determined based on an independent valuation.

The fair value of the acquired receivables was valued at $10,011. Based on the valuation performed at the acquisition date, management expected all contractual cash flows to be collectible. The long-term receivable relates to the amounts collectible from the joint venture partner.

The Group recognized goodwill as a result of the acquisition as follows:

Total consideration transferred	$	436,034
Fair value of previous interest in acquiree		84,391
Non-controlling interest of measured based on proportionate share		45,500
Less: value of net identifiable asset acquired		(442,862)
Goodwill upon acquisition on July 16, 2014	**$**	**123,063**

The goodwill balance arose from the requirement to record deferred income tax liabilities measured at the tax effect of the difference between the fair values of the assets acquired and liabilities assumed and their tax bases. None of the goodwill recognized is expected to be deductible for income tax purposes. As a result of foreign exchange translation, the goodwill balance increased to $132,806 as at December 31, 2014.

The Group recognized a gain of $50,268 in other finance gains (losses) as a result of remeasuring its existing 16% interest in Augusta to fair value. Of this amount, $34,931 represented impairment losses recognised in previous periods and $15,337 represented a transfer of gains recognized in previous periods from the available-for-sale reserve within equity into the consolidated income statements (note 7f).

6. Assets held for sale

On January 17, 2014 the Group closed the sale of its wholly owned subsidiary, Hudbay Michigan Inc. ("Hudbay Michigan"), which owned 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").

The final share consideration valued at $2,425 was received during the first quarter of 2014 (18,650,193 common shares of Aquila based on a price of $0.13 per share), together with other non-cash consideration. 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, which are included in the available-for-sale investments. 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 as at December 31, 2013.

On January 27, 2015 Aquila announced that it has entered into a transaction with the Group to terminate the Group's existing net smelter return royalty on the Back Forty project for consideration of US$1,000 in cash and US$225 in Aquila common shares. The proposed transaction is expected to close in the first quarter of 2015.

7 Revenue and expenses

(a) Revenue

The Group's revenue by significant product types:

	Year ended December 31,	
	2014	**2013**
Copper	**$ 234,206**	$ 210,353
Zinc	**267,102**	219,125
Gold	**87,484**	99,531
Silver	**14,209**	14,368
Other	**4,979**	5,796
	607,980	549,173
Treatment and refining charges	**(29,255)**	(19,853)
Pre-production revenue	**(18,769)**	(12,519)
	$ 559,956	$ 516,801

Pre-production revenue in 2014 relates to revenue earned from production at the Reed and Lalor mines. Pre-production revenue in 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 credited against capital costs rather than recognized as revenue in the consolidated income statements.

Included in revenue for the year ended December 31, 2014 are gains related to unrealized non-hedge derivative contracts of $4,310 (year ended December 31, 2013 - loss of $6,266).

(b) Depreciation and amortization

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

	Year ended December 31,	
	2014	**2013**
Cost of sales	**$ 92,444**	$ 76,714
Selling and administrative expenses	**769**	795
	$ 93,213	$ 77,509

(c) Share-based payment expense

Share-based payment expenses are reflected in the consolidated income statements as follows:

	Cash-settled		Total share-based payment expense
	RSUs	DSUs	
Year ended December 31, 2014			
Cost of sales	**$ 989**	**$ —**	**$ 989**
Selling and administrative expenses	**4,573**	**1,842**	**6,415**
Other operating expenses	**665**	**—**	**665**
Exploration and evaluation	**(31)**	**—**	**(31)**
	$ 6,196	**$ 1,842**	**$ 8,038**
Year ended December 31, 2013			
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

(d) Employee benefits expense

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

	Year ended December 31,	
	2014	2013
Current employee benefits	**$ 138,983**	$ 130,813
Profit-sharing plan expense	**5,985**	7,771
Share-based payments (notes 7c, 26)		
Cash-settled restricted share units	**6,196**	4,123
Cash-settled deferred share units	**1,842**	728
Employee share purchase plan	**1,682**	1,408
Post-employment pension benefits		
Defined benefit plans	**12,319**	15,897
Defined contribution plans	**953**	962
Other post-retirement employee benefits	**11,430**	11,464
Termination benefits	**1,761**	1,357
Restructuring	**—**	281
	$ 181,151	$ 174,804

Manitoba has a profit sharing plan whereby 10% of Manitoba's after tax profit (excluding provisions or recoveries for deferred income tax and deferred mining tax) for any given fiscal year will be distributed to all eligible employees in the Flin Flon/Snow Lake operations, with the exception of executive officers and key management personnel.

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 22 for a description of the Group's pension plans and note 23 for the Group's other employee benefit plans.

(e) Other operating income and expenses

	Year ended December 31,	
	2014	2013
Net loss on sale of property, plant and equipment	**$ 102**	$ 2,673
Joint venture operator fee income	**(1,416)**	—
Cost of non-producing properties	**13,132**	6,524
Other income	**(564)**	(913)
	$ 11,254	$ 8,284

Other operating income includes higher charges related to lower discount rates on decommissioning and restoration liabilities for non-

producing mines.

(f) Finance income and expenses

	Year ended December 31, 2014	2013
Finance income		
Interest income	**$ (4,510)**	$ (10,802)
Less: adjustment to interest capitalized	**923**	7,308
Other finance income	**(315)**	—
	(3,902)	(3,494)
Finance expense		
Interest expense on long-term debt	**90,248**	58,655
Unwinding of accretion on financial liabilities at amortized cost	**1,535**	2,126
Unwinding of discounts on provisions	**3,785**	3,304
Other finance expense	**6,309**	5,617
	101,877	69,702
Interest capitalized	**(91,783)**	(60,781)
	10,094	8,921
Other finance (gains) losses		
Net foreign exchange loss	**18,320**	24,522
Change in fair value of financial assets and liabilities at fair value through profit loss:		
Hudbay and Augusta warrants	**(25,725)**	—
Prepayment option embedded derivative (note 19a)	**2,145**	2,839
Investments classified as held-for-trading	**8**	241
Net gain reclassified from equity on disposal of available- for-sale investments and acquisition of Augusta (note 28)	**(50,004)**	(67)
Net gain from impairment of non-trade receivable	**—**	(129)
Reclassified from equity on impairment of available-for-sale investments (note 28)	**1,377**	16,291
	(53,879)	43,697
Net finance (income) expense	**$ (47,687)**	$ 49,124

Interest expense is capitalized to the Constancia and Rosemont projects related to the other financial liabilities at amortized cost and long-term debt (notes 18, 19).

During the year ended December 31, 2014, the Group recognized impairment losses on investments in listed shares and transferred pre-tax losses of $1,377 (2013 - $16,291) from the available-for-sale reserve within equity to the consolidated income statements.

(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 costs of disposal which was determined based on the fair value of the consideration to be received for the sale of the asset (see note 6). The Group allocated the impaired 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 consolidated balance sheets as at December 31, 2014. On the consolidated income statements, the impairment loss is presented in the asset impairment loss line item. The Group presented the impairment loss within the corporate and other activities in note 35.

(h) Loss on disposal of subsidiary

During the year ended December 31, 2014, the Group recognized a loss of $6,512 on the disposition of its Back Forty project in Michigan (note 6). This mainly resulted from the derecognition of the non-controlling interest and cumulative translation adjustments recorded in the entity (note 29). The Group has presented the loss within corporate and other activities in note 35.

8. Cash and cash equivalents

	Dec. 31, 2014	Dec. 31, 2013
Cash on hand and demand deposits	**$ 206,388**	$ 424,696
Short-term money market instruments with maturities of three months or less at acquisition date	**885**	206,731
	$ 207,273	$ 631,427

9. Trade and other receivables

	Dec. 31, 2014	Dec. 31, 2013
Current		
Trade receivables	**$ 43,087**	$ 41,144
Embedded derivatives - copper provisional pricing (note 31c)	**(1,807)**	1,307
Statutory receivables	**144,836**	116,185
Receivable from joint venture partner	**12,607**	—
Other receivables	**12,520**	9,662
	211,243	168,298
Non-current		
Statutory receivables - Peruvian sales tax	**553**	57,376
Receivable from joint venture partner	**23,487**	—
Other receivables	**784**	—
	24,824	57,376
	$ 236,067	$ 225,674

As commercial production commenced at the Reed mine on April 1, 2014, the Group has a receivable for 30% of the applicable development costs as well as other amounts due from our joint venture partner, VMS Ventures Inc. ("VMS Ventures") pursuant to the Reed Lake Project Joint Venture Agreement. The receivable will be repaid by offsetting amounts owed to VMS Ventures for the purchase of their proportionate share of the Reed mine ore. The receivable has been discounted and has been classified based on the expected timing of ore purchases. As at December 31, 2014, the receivable from VMS Ventures was $20,206.

The remaining balance in the receivable from joint venture partner is related to the Group's joint venture partner for the Rosemont project in Arizona. On September 16, 2010, Rosemont and United Copper & Moly LLC ("UCM" or "Partner"), a company formed by Korea Resources Corporation and LG International Corp. to hold their interest in the Rosemont joint venture, executed an Earn-In Agreement (the "EI Agreement") whereby UCM can acquire up to a 20% interest in the Rosemont joint venture by funding $176,000 of Rosemont expenditures. Under the terms of the EI Agreement, UCM will contribute cash into the Rosemont project as follows: Tranche 1 - a maximum $70,000 for permitting, engineering, deposits on long-lead equipment purchases and on-going support activities (collectively "Pre-Construction Costs"); and once the material permits are issued and construction has commenced; Tranche 2 - $106,000 for construction costs can be released. Once UCM has earned its 20% interest in the Rosemont joint venture, Rosemont expenditures will be shared pro-rata 80/20. In the third quarter of 2011, UCM completed its Tranche 1 cash investment of $70,000 and earned a 7.95% interest in the Rosemont joint venture. Rosemont is currently funding the pre-construction costs until such time as the final material permits have been obtained at which time UCM's portion of these costs will become payable. The receivable has been classified as non-current.

As at December 31, 2014, $142,548 (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).

10. Inventories

	Dec. 31, 2014	Dec. 31, 2013
Current		
Work in progress	**$ 2,494**	$ 7,718
Finished goods	**62,218**	30,746
Materials and supplies	**22,997**	13,737
	87,709	52,201
Non-current		
Materials and supplies	**7,857**	7,888
	$ 95,566	$ 60,089

The cost of inventories recognized as an expense and included in cost of sales amounted to $357,215 for the year ended December 31, 2014 (year ended December 31, 2013 - $308,065).

During the year ended December 31, 2014, the Group recognized an expense of $5,685 in cost of sales related to write-downs of the carrying value of zinc inventories to net realizable value (year ended December 31, 2013 - $5,011). For zinc inventories sold during the period, the related amount transferred from inventory to cost of sales was $10,696 less than it would have been had write-downs not been previously recognized. As a result, for the year ended December 31, 2014, the net impact on cost of sales, related to zinc inventory write-downs, was a decrease of $5,011.

11. Prepaid expenses

	Dec. 31, 2014	Dec. 31, 2013
Current		
Prepayments to suppliers related to capital projects	**$ 8,672**	$ 18,962
Prepaid insurance and other	**6,633**	9,955
	15,305	28,917
Non-current		
Other	**246**	574
	$ 15,551	$ 29,491

12. Other financial assets

	Dec. 31, 2014	Dec. 31, 2013
Current		
Derivative assets	**$ 1,345**	$ 807
Non-current		
Available-for-sale investments	**18,694**	48,281
Investments at fair value through profit or loss	**—**	7
Deferred financing fees	**5,110**	—
Restricted cash	**49,093**	22,894
	72,897	71,182
	$ 74,242	$ 71,989

Available-for-sale investments

Available for sale investments consist of investments in Canadian metals and mining companies, most of which are publicly traded. During the year ended December 31, 2014 and year ended December 31, 2013, the Group recognized impairment losses on investments in listed shares and transferred pre-tax losses of $1,377 and $16,291, respectively, from the available-for-sale reserve within equity to the consolidated income statements (notes 7f and 28).

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

	Dec. 31, 2014	Dec. 31, 2013
Balance, beginning of year	**$ 48,281**	$ 71,260
Additions	**6,381**	7,516
Increase (decrease) from remeasurement to fair value (note 28)	**49,193**	(30,254)
Reclassification upon acquisition of control of Hudbay Arizona	**(84,391)**	—
Disposals	**(770)**	(241)
Balance, end of year	**$ 18,694**	$ 48,281

Credit facility, letters of credit and restricted cash

In June 2014, the Group entered into a US$150 million standby credit facility with two lenders to provide financing for expenditures on the Constancia project, if required. The facility has a term of four years, with any drawdowns bearing interest at LIBOR + 3.50%. Repayments of any advances made under this facility will commence on December 31, 2015 and will require full repayment by September 30, 2018. Prepayments of the facility can be made any time without penalty. The facility is unconditionally guaranteed by the Company and is secured by a pledge of assets of its Peruvian subsidiary. The facility contains customary financial covenants applicable to the Company's Peruvian subsidiary that are to be complied with commencing December 31, 2015. No amounts have been drawn down as at December 31, 2014. An initial drawdown of US$81.5 million occurred on February 3, 2015.

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 material subsidiaries other than those related to the Constancia and Rosemont projects. 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$86,405 ($100,238) as at December 31, 2014. As at December 31, 2014, the Manitoba business unit had letters of credit advanced under the facility in the amount of $64,084 (December 31, 2013 - $64,084) which are treated as drawings under the facility.

As required by Peruvian law, Hudbay Peru provides security with respect to its decommissioning and restoration obligations. Hudbay Peru has provided a letter of credit in the amount of $47,163 as at December 31, 2014, and classified cash on deposit with a Peruvian bank to support the letter of credit as restricted cash (December 31, 2013 - $21,124).

13. Intangible assets - computer software

	Dec. 31, 2014	Dec. 31, 2013
Cost		
Balance, beginning of year	**$ 17,519**	$ 15,012
Additions	**1,260**	2,507
Disposals	**(213)**	—
Balance, end of year	**18,566**	17,519
Accumulated amortization		
Balance, beginning of year	**3,946**	2,119
Amortization for the year	**2,557**	1,827
Balance, end of year	**6,503**	3,946
Net book value	**$ 12,063**	$ 13,573

14. Property, plant and equipment

Dec. 31, 2014	Exploration and evaluation assets	Capital works in progress	Mining properties	Plant and equipment	Total
Cost					
Balance, beginning of year	**$ 16,840**	**$ 2,178,127**	**$ 511,325**	**$ 663,996**	**$ 3,370,288**
Additions	**1,500**	**837,726**	**69,988**	**101,083**	**1,010,297**
Acquisition of Augusta (note 5)	**—**	**764,262**	—	**—**	**764,262**
Decommissioning and restoration	**—**	**15,279**	**—**	**21,146**	**36,425**
Interest capitalized	**—**	**92,363**	**—**	**—**	**92,363**
Depreciation capitalized	**—**	**—**	**2,327**	**—**	**2,327**
Transfers and other movements	**—**	**(370,755)**	**207,015**	**163,740**	**—**
Disposals	**—**	**—**	**—**	**(444)**	**(444)**
Effects of movement in exchange rates	**—**	**275,865**	**—**	**6,642**	**282,507**
Other	**(261)**	**(18,784)**	**—**	**—**	**(19,045)**
Balance, end of year	**18,079**	**3,774,083**	**790,655**	**956,163**	**5,538,980**
Accumulated depreciation					
Balance, beginning of year	**—**	**—**	**362,239**	**342,974**	**705,213**
Depreciation for the year	**—**	**—**	**49,006**	**68,424**	**117,430**
Disposals	**—**	**—**	**—**	**(278)**	**(278)**
Effects of movement in exchange rates	**—**	**—**	**—**	**804**	**804**
Balance, end of year	**—**	**—**	**411,245**	**411,924**	**823,169**
Net book value	**$ 18,079**	**$ 3,774,083**	**$ 379,410**	**$ 544,239**	**$ 4,715,811**

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Dec. 31, 2013	Exploration and evaluation assets	Capital works in progress	Mining properties	Plant and equipment	Total
Cost					
Balance, 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	—	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

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 consolidated income statements as sales occur. Refer to note 7b for amounts recognized in the consolidated income statements.

The Group has determined that the level of activity that represents commercial production for Reed, 777 North and phase 1 of Lalor is production of an average of 60% of design capacity over a three-month period. The Group has determined that the appropriate level of activity that represents commercial production for phase 2 of Lalor is hoisting at 60% of the average of planned ore mined over a one year period for a minimum of a one month period. On March 31, 2013, June 30, 2013, March 31, 2014 and September 30, 2014 phase 1 of the Lalor mine, the 777 North mine, the Reed mine and phase 2 of the Lalor mine met the threshold, respectively. The Group concluded that commercial production related to phase 1 at the Lalor mine, the 777 North mine, the Reed mine and phase 2 of the Lalor mine commenced on April 1, 2013, July 1, 2013, April 1, 2014, and October 1, 2014 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.

The Group has included the mineral properties and fixed assets acquired in the Augusta business combination in the capital works in progress line (note 5).

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The balance disclosed within the Other category relates to the non-cash disposition of certain Reed mine assets to reflect the Group's proportionate share and additions to the Group's decommissioning and restoration assets (note 34b).

15. Goodwill

Goodwill is comprised on the following:

Goodwill - Peru, January 1, 2014	**$ 71,373**
Addition of Arizona goodwill, July 16, 2014 (note 5)	**123,063**
Effects of changes in foreign exchange on Peru goodwill	**6,476**
Effects of changes in foreign exchange on Arizona goodwill (note 5)	**9,743**
Balance, December 31, 2014	**$ 210,655**

The Group performed its annual impairment testing for its Peru goodwill this year, as at September 30, and testing is performed more

frequently if there are indicators of impairment. As at September 30, 2014, Hudbay evaluated its long-lived assets and goodwill for impairment for the Peru CGU, which is the only unit that includes goodwill with the exception of Augusta which was acquired during the third quarter (note 5).

As is required under IFRS, since a portion of the goodwill balance is associated with the business combination to acquire the Arizona business unit during the current annual period, the Arizona business unit is required to be tested for impairment before the end of the current annual period. As such, and consistent with the Group's policy for impairment testing, the Arizona business unit was tested for impairment on October 1, 2014. The testing concluded that the recoverable amount of the Arizona business unit exceeded its carrying value. The fair value measurement in its entirety is categorized as Level 3 based on the degree to which fair value inputs are observable and have a significant effect on the recorded fair value.

For the impairment test, fair value less costs of disposal ("FVLCD") was used to determine the recoverable amount since it is higher than value in use. FVLCD was calculated using discounted after-tax cash flows based on cash flow projections and assumptions in the Group's most current 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, 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 22 years for the Peru CGU, and 21 years for the Arizona CGU.

Discount rate was based on the business unit's weighted average cost of capital, of which the two main components are the cost of equity and the after-tax cost of debt. Cost of equity was calculated based on the capital asset pricing model, incorporating the risk-free rate of return based on the US Government's marketable bond yields as at the valuation date, the Company's beta coefficient adjustment to the market equity risk premium based on the volatility of the Company's return in relation to that of a comparable market portfolio, plus a country risk premium, size premium and company-specific risk factor. Cost of debt was determined by applying an appropriate market indication of the Company's borrowing capabilities and the corporate income tax rate applicable to the segment's jurisdiction. A discount rate of 8.25% (September 30, 2013 — 8.93%) and 10.50% for the Arizona CGU was used to calculate the estimated after-tax discounted future net cash flows, commensurate with its individual estimated level of risk.

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. Where applicable to each of the Group's CGU's, the cash flow calculations were based on estimates of future production levels applying long-term copper prices of US$3.00 per pound (September 30, 2013 — $3.00 per pound), molybdenum long-term prices of US$11.50 per pound (September 30, 2013 — $13.50 per pound), long-term foreign exchange rates of PEN2.90:US$1.00 (September 30, 2013 — PEN2.65:US$1.00) and capital, operating and reclamation costs based on updated LOM plans.

Expected future cash flows used to determine the FVLCD 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. This may have a material effect on the Company's consolidated financial statements. 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.

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, 2014. There have been no significant events since the Group conducted the test and therefore the conclusion remains the same as at December 31, 2014. The changes in goodwill reflect the movement in foreign exchange rates during the year.

16. Trade and other payables

	Dec. 31, 2014	Dec. 31, 2013
Trade payables	**$ 78,305**	$ 57,872
Accrued liabilities	**194,526**	149,349
Exploration and evaluation payables	**314**	148
Embedded derivatives - provisional pricing	**(150)**	414
Statutory payables	**7,688**	11,115
	$ 280,683	$ 218,898

17. Other liabilities

	Dec. 31, 2014	Dec. 31, 2013
Current portion of		
Provisions (note 21)	**$ 18,241**	$ 6,897
Pension liability (note 22)	**24,093**	30,677
Other employee benefits (note 23)	**3,829**	3,565

Unearned revenue	**1,085**	—
	$ 47,248	$ 41,139

18. Other financial liabilities

	Dec. 31, 2014	Dec. 31, 2013
Current		
Derivative liabilities	**$ 860**	$ 4,631
Other financial liabilities at amortized cost	**6,141**	11,717
	7,001	16,348
Non-current		
Derivative liabilities	**26,300**	—
Other financial liabilities at amortized cost	**25,243**	23,039
	51,543	23,039
	$ 58,544	$ 39,387

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, 2014, the liability associated with several of the community agreements increased by $4,699 (2013 — $21,121) and payments of $10,466 (2013 — $26,349) were made. Changes in estimates related to these liabilities are recorded to the liability with a corresponding change in property, plant and equipment or exploration expense.

The derivative liabilities include derivative and hedging transactions as well as warrants issued as consideration for the acquisition of Augusta (note 5) and warrants assumed on the acquisition of Augusta (note 5). Derivative liabilities are carried at their fair value with changes in fair value recorded to the consolidated income statements in other finance (gain) loss. The fair value of derivative and hedging transactions are determined based on internal valuation models and the fair value of warrants issued are determined based on the quoted market prices for the listed warrants. During the year ended December 31, 2014, the Group recognized a gain of $22,783 related to the decrease in the fair value of the warrants liability for those issued in the acquisition of Augusta (note 7f). The fair value of these warrants at December 31, 2014 is $22,702. A total of 21,830,490 warrants were issued which entitle the holder to acquire a common share of the Company at a price of $15.00 per share on, but not prior to, July 20, 2018. The Company, may, at its option, upon written notice to the warrant holders, settle the exercise of warrants for the in-the-money value, in cash, shares or a combination thereof.

In addition, during the year ended 2014, the Group recognized a gain of $2,942 related to the decrease in the fair value of the liability for the transferable share purchase warrants of Augusta (the “Augusta Warrants”) which were assumed in connection with the acquisition of Augusta (note 7f). Following the acquisition, each Augusta Warrant represents the right to acquire 0.315 of a Hudbay common share and 0.17 of a Hudbay warrant. The fair value of the Augusta Warrants at December 31, 2014 is $3,598. There are 1,374,951 Augusta Warrants outstanding with an exercise price of US$3.85, expiring July 22, 2015 and 3,300,000 Augusta Warrants outstanding with an exercise price of US$2.12, expiring December 12, 2016.

19. Long-term debt

Long-term debt is comprised of the following:

	Dec. 31, 2014	Dec. 31, 2013
Senior unsecured notes (note a)	**$ 1,062,472**	$ 779,331
Equipment finance facility (note b)	**82,624**	—
	1,145,096	779,331
Less: current portion (note b)	**(17,139)**	—
	$ 1,127,957	$ 779,331

(a) Senior unsecured notes

Balance, January 1, 2013	$ 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
Addition to Principal, net of transaction costs and bond premium		**197,824**
Change in fair value of embedded derivative (prepayment option)		**2,145**
Effects of changes in foreign exchange		**81,978**
Accretion of transaction costs		**1,194**
Balance, December 31, 2014	**$**	**1,062,472**

On August 6, 2014, the Group issued US$170,000 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$750,000 aggregate principal amount of 9.50% senior unsecured notes issued between September 2012 and December 2013 (the "Initial Notes", and together with the Additional Notes, the "Notes"). The Additional Notes were priced at 107% of the aggregate principal amount, resulting in gross proceeds of US$181,900 ($197,844) and will yield 8.03% to maturity. 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 and Rosemont, 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 and the Rosemont project.

(b) Equipment finance facility

Balance, December 31, 2013	$	—
Addition to Principal, net of transaction costs		**90,671**
Payments made		**(13,654)**
Effects of changes in foreign exchange		**4,679**
Accretion of transaction costs		**928**
Balance, December 31, 2014	**$**	**82,624**

The equipment finance facility is reflected in the consolidated balance sheets as follows:

Current	$	**17,139**
Non-current		**65,485**
Balance, December 31, 2014	**$**	**82,624**

In October 2013, the Group entered into an equipment financing facility with Caterpillar Financial Services Corporation to finance the purchase of components of the mobile fleet at the Group's Constancia project. Loans pursuant to the equipment financing facility have a term of six years, amortized on a quarterly basis and are secured by the Constancia mobile fleet. The loan has been classified as long-term debt and accounted for initially at fair value and subsequently at amortized cost using the effective interest rate method. All payments due within twelve months of the period end date are classified as a current liability. The payments are based on a floating annual interest rate of 3-months LIBOR plus 4.25%.

(c) Augusta loan

During August 2014, the Group repaid US$117,870 ($128,608) of loans made by RK Mine Finance Trust I to Augusta.

20. Deferred revenue

On August 8, 2012, the Group entered into a precious metals stream transaction with Silver Wheaton whereby the Group has received aggregate deposit payments of US$750,000 against delivery of 100% of payable gold and silver from the 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. On November 4, 2013, the Group entered into an amended and restated precious metals stream agreement with Silver Wheaton pursuant to which the Group agreed to receive an additional US$135,000 deposit against delivery of 50% of payable gold from the Constancia project, with the deposit payable in cash or Silver Wheaton shares, at Silver Wheaton's election. In addition to the deposit payments, as gold and silver is delivered to Silver Wheaton, the Group receives 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.

The Group received a cash deposit payment of US$125,000 ($139,287) in March 2014 as a result of US$1,000,000 in capital expenditures having been paid at the Constancia project. In addition, the Group received Silver Wheaton shares in satisfaction of the gold deposit during September 2014 and sold the shares for gross proceeds of US$134,978 ($149,931). The Group has now received all the up-front deposit payments related to the precious metal stream transaction with Silver Wheaton in respect of 777 and Constancia.

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 consolidated income statements 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.

In February 2010, Hudbay Arizona entered into a precious metals stream transaction with Silver Wheaton whereby the Group will receive deposit payments of US$230 million against delivery of 100% of the payable silver and gold from the Rosemont project. The deposit will be payable upon the satisfaction of certain conditions precedent, including the receipt of permits for the Rosemont project and the commencement of construction. In addition to the deposit payments, as gold and silver is delivered to Silver Wheaton, the Group receives cash payments equal to the lesser of (i) the market price and (ii) US$450 per ounce (for gold) and US$3.90 per ounce (for silver), subject to 1% annual escalation after three years. To date, no such deposit has been received under the terms of this contract.

The following table summarizes changes in deferred revenue:

Balance, January 1, 2013	$ 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
Additional installments received	**289,218**
Recognition of revenue	**(49,478)**
Effects of changes in foreign exchange	**28,803**
Balance, December 31, 2014	**$ 798,294**

Deferred revenue is reflected in the consolidated balance sheets as follows:

	Dec. 31, 2014	Dec. 31, 2013
Current	**$ 81,279**	$ 65,616
Non-current	**717,015**	464,135
	$ 798,294	$ 529,751

21. Provisions

Dec. 31, 2014	Decommissioning, restoration and similar liabilities	Deferred share units (note 26)	Restricted share units (note 26)	Other	Total
Balance, beginning of year	**$ 141,566**	**$ 4,268**	**$ 6,973**	**$ 152**	**$ 152,959**
Additional provisions made	**5,775**	**1,083**	**5,512**	**—**	**12,370**
Amounts used	**(525)**	**(212)**	**(2,638)**	**(152)**	**(3,527)**
Unused amounts reversed	**(1,360)**	**—**	**—**	**—**	**(1,360)**
Unwinding of discount (note 7f)	**3,785**	**—**	**—**	**—**	**3,785**
Effect of change in discount rate	**34,443**	**—**	**—**	**—**	**34,443**
Effect of foreign exchange	**1,711**	**—**	**117**	**—**	**1,828**
Effect of change in share price	**—**	**759**	**684**	**—**	**1,443**
Balance, end of year	**$ 185,395**	**$ 5,898**	**$ 10,648**	**$ —**	**$ 201,941**

Provisions are reflected in the consolidated balance sheets as follows:

Dec. 31, 2014					
Current (note 17)	**$ 7,122**	**$ 5,898**	**$ 5,221**	**$ —**	**$ 18,241**
Non-current	**178,273**	**—**	**5,427**	**—**	**183,700**
	$ 185,395	**$ 5,898**	**$ 10,648**	**$ —**	**$ 201,941**

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Dec. 31, 2013	Decommissioning, restoration and similar liabilities	Deferred share units (note 26)	Restricted share units (note 26)	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	(546)	—	—	—	(546)
Unwinding of discount (note 7f)	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

Provisions reflected in the consolidated balance sheets as follows:

Dec. 31, 2013					
Current (note 17)	$ 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

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, 2014 additional provisions recognized as a result of increased estimated cash flows related mainly to Hudbay Peru's Constancia project, which is 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 2032 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 2036 to 2040. The addition of $5,775 is net of an inflation change adjustment of $12,010.

These estimates have been discounted to their present value at rates ranging from 0.3% to 2.7% per annum (2013 - 0.4% to 4.0%), using pre-tax risk-free interest rates that reflect the estimated maturity of each specific liability.

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22. Pension obligations

The Group maintains non-contributory and contributory defined benefit pension plans for certain of its employees.

The Group uses a December 31 measurement date for all of its plans. For the Group's significant plans, the most recent actuarial valuations filed for funding purposes were performed during 2014 using data as at December 31, 2013. For these plans, the next actuarial valuation required for funding purposes will be performed during 2015 as at December 31, 2014.

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

	Year ended December 31,	
	2014	2013
Opening defined benefit obligation	**$ 381,671**	$ 393,199
Current service cost	**11,315**	12,377
Past service cost	**—**	306
Interest cost	**17,850**	16,569
Benefits paid from plan	**(21,640)**	(16,252)
Benefits paid from employer	**(1,053)**	(609)
Participant contributions	**124**	57
Remeasurement actuarial (gains)/losses:		
Arising from changes in demographic assumptions	**5,881**	8,820
Arising from changes in financial assumptions	**54,799**	(36,007)
Arising from experience adjustments	**(3,749)**	3,211
Closing defined benefit obligation	**$ 445,198**	$ 381,671

The defined benefit obligation closing balance, by member group, is as follows:

	Year ended December 31,	
	2014	2013
Active members	**$ 303,421**	$ 325,799
Deferred members	**4,394**	1,503
Retired members	**137,383**	54,369
Closing defined benefit obligation	**$ 445,198**	$ 381,671

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

	Year ended December 31,	
	2014	2013
Opening fair value of plan assets:	**$ 325,063**	$ 292,044
Interest Income	**15,892**	12,765
Remeasurements (gains)/losses:		
Return on plan assets (excluding amounts included in net interest expense	**28,592**	5,380
Contributions from the employer	**23,795**	31,171
Employer direct benefit payments	**1,053**	609
Contributions from plan participants	**124**	57
Benefit payment from employer	**(1,053)**	(609)
Administrative expenses paid from plan assets	**(105)**	(102)
Benefits paid	**(21,640)**	(16,252)
Closing fair value of plan assets	**$ 371,721**	$ 325,063

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

	Dec. 31, 2014	Dec. 31, 2013
Present value of funded defined benefit obligation	**$ 427,213**	$ 366,281
Fair value of plan assets	**(371,721)**	(325,063)
Present value of unfunded defined benefit obligation	**17,985**	15,390
Funded status	**73,477**	56,608
Net liability arising from defined benefit obligation	**$ 73,477**	$ 56,608

Reflected in the consolidated balance sheets as follows:

	Dec. 31, 2014	Dec. 31, 2013
Pension obligation - current (note 17)	**$ 24,093**	$ 30,677
Pension obligation - non-current	**49,384**	25,931
Total pension obligation	**$ 73,477**	$ 56,608

Pension expense is as follows:

	Dec. 31, 2014	Dec. 31, 2013
Service costs:		
Current service cost	**$ 11,315**	$ 12,377
Past service cost and loss from settlements	**—**	306
Total service cost	**11,315**	12,683
Net interest expense	**1,958**	3,804
Administration cost	**105**	102
Defined benefit pension expense	**$ 13,378**	$ 16,589
Defined contribution pension expense	**$ 883**	$ 872

Remeasurement on the net defined benefit liability:

	Dec. 31, 2014	Dec. 31, 2013
Return on plan assets (excluding amounts included in net interest expense	**$ (28,592)**	$ (5,380)
Actuarial losses arising from changes in demographic assumptions	**5,881**	8,820
Actuarial (gains)/losses arising from changes in financial assumptions	**54,799**	(36,007)
Actuarial (gains)/losses arising from experience adjustments	**(3,749)**	3,211
Defined benefit cost related to remeasurement	**$ 28,339**	$ (29,356)
Total pension cost	**$ 42,600**	$ (11,895)

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 consolidated income statements within cost of sales upon sale of the inventory. Refer to note 7d for a summary of pension expense recognized in the consolidated income statements.

The current service cost, the interest cost 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 2013 related to amendments during the year ended December 31, 2013 that provided an unrecorded pension benefit at retirement to certain members of one of the defined benefit pension plans.

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 condition 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.

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

	2014	2013
Defined benefit cost:		
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	**21.30**	19.8

Females	**23.50**	22.1

	2014	2013
Defined benefit obligation:		
Discount rate	**3.97%**	4.94%
Expected rate of salary increase[1]	**3.00%**	3.00%
Average longevity at retirement age for current pensioners (years)[2]:		
Males	21.5	21.3
Females	24.0	23.5
Average longevity at retirement age for current employees (future pensioners) (years)[2]:		
Males	22.9	22.6
Females	25.2	24.4

[1] Plus merit and promotional scale based on member's age
[2] CPM2014 Priv with CPM-B projection scale at December 31, 2014 and RPP 2014 Private Sector Table with projection scale CPM-A at December 31, 2013

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 analysis below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting periods, while holding other assumptions constant.

- If the discount rate is 50 basis points higher (lower), the defined benefit obligation would decrease by $30,792 (increase by $34,615).
- If the expected salary growth increase (decrease) by 1%, the defined benefit obligation would increase by $5,605 (decrease $5,090).
- If the life expectancy increase (decreases) by one year for both men and women, the defined benefit obligation would increase by $8,926 (decrease by $8,758)

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 consolidated balance sheets.

The Group's main pension plans are registered federally with the Office of the Superintendent of Financial Institution 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 contribution to the pension plans for the fiscal year ending December 31, 2015 is $24,093.

The average duration of the pension obligation at December 31, 2014 is 15.1 years (2013 — 14.6 years). This number can be broken down as follows:

- Active members: 17.5 years (2013: 17.2 years)
- Deferred members: 22.8 years (2013: 22.9 years)
- Retired members: 9.7 years (2013: 9.1 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 in 2014 was 13.6% (2013: 3.8%)

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, 2014	Level 1	Level 2	Level 3	Total
Investments:				
Money market instruments	**$ 2,465**	**$ —**	**$ —**	**$ 2,465**
Pooled equity funds	**165,402**	**—**	**—**	**165,402**
Pooled fixed income funds	**—**	**192,600**	**—**	**192,600**
Alternative investment funds	**—**	**10,563**	**—**	**10,563**
Balanced funds	**—**	**691**	**—**	**691**
	$ 167,867	**$ 203,854**	**$ —**	**$ 371,721**

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 fixed income funds	—	158,199	—	158,199
Alternative investment funds	—	29,891	—	29,891
Balanced funds	—	851	—	851
	$ 136,122	$ 188,941	$ —	$ 325,063

23. 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. These obligations relate mainly to commitments for post-retirement health benefits. 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,	
	2014	2013
Opening defined benefit obligation	**$ 142,178**	$ 140,794
Current service cost[1]	**3,844**	4,558
Interest cost	**6,854**	6,066
Remeasurement actuarial (gains)/losses:		
Arising from changes in demographic assumptions	**769**	7,932
Arising from changes in financial assumptions	**25,707**	(13,872)
Arising from experience adjustments	**(1,107)**	(862)
Benefits paid	**(2,428)**	(2,438)
Closing defined benefit obligation	**$ 175,817**	$ 142,178

[1] Includes remeasurement of other long term employee benefits

The defined benefit obligation closing balance, by group member, is as follows:

	2014	2013
Active members	**$ 103,290**	$ 81,091
Inactive members	**72,527**	61,087
Closing defined benefit obligation	**$ 175,817**	$ 142,178

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

	Dec. 31, 2014	Dec. 31, 2013
Employer contributions	**$ 2,428**	$ 2,438
Benefits paid	**(2,428)**	(2,438)
Closing fair value of plan assets	**$ —**	$ —

The non-pension employee benefit plan obligations are unfunded.

Reconciliation of assets and liabilities recognized in the consolidated balance sheets:

	2014	2013
Unfunded benefit obligation	**$ 175,817**	$ 142,178
Vacation accrual and other - non-current	**3,560**	3,501
Net liability	**$ 179,377**	$ 145,679

Reflected in the consolidated balance sheets as follows:

	2014	2013
Other employee benefits liability - current (note 17)	**$ 3,829**	$ 3,565
Other employee benefits liability - non-current	**175,548**	142,114
Net liability	**$ 179,377**	$ 145,679

Other employee future benefit expense includes the following:

	Dec. 31, 2014	Dec. 31, 2013
Current service cost[1]	**$ 3,844**	$ 4,558
Net interest cost	**6,854**	6,066
Components recognized in income statements	**$ 10,698**	$ 10,624

	Dec. 31, 2014	Dec. 31, 2013
Remeasurement on the net defined benefit liability:		
Actuarial losses arising from changes in demographic assumptions	**$ 769**	$ 7,932
Actuarial (gains)/losses arising from changes in financial assumptions	**25,707**	(13,872)
Actuarial (gains)/losses arising from changes experience adjustments	**(1,107)**	(862)
Components recognized in statements of comprehensive income	**$ 25,369**	$ (6,802)
Total other employee future benefit cost	**$ 36,067**	$ 3,822

[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 consolidated income statements within cost of sales upon sale of the inventory. Refer to note 7d for a summary of other post-retirement employee benefit expense recognized in the consolidated income statements.

	2014	2013
Defined benefit cost:		
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

	2014	2013

Defined benefit obligation:		
Discount rate	**4.09%**	5.00%
Initial weighted average health care trend rate	**6.83%**	6.99%
Ultimate weighted average health care trend rate	**4.00%**	4.00%
Average longevity at retirement age for current pensioners (years):		
Males	**21.5**	21.3
Females	**24.0**	23.5
Average longevity at retirement age for current employees (future pensioners) (years):		
Males	**22.9**	22.6
Females	**25.2**	24.4

[1] CPM2014 Priv with CPM-B projection scale at December 31, 2014 and RPP 2014 Private Sector Table with projection scale CPM-A at December 31, 2013.

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 plans' 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 $17,968 (increase by $13,813).
- If the health care cost assumption increases (decreases) by 1%, the defined benefit obligation would increase by $39,045 (decrease by $30,180).
- If the life expectancy increases (decreases) by one year for both men and women, the defined benefit obligations would increase by $6,379 (decrease by $6,345).

The average duration of the non pension post employment obligation at December 31, 2014 is 18.5 year (2013: 18.5 years). This number can be broken down as follows:

- Active members: 22.8 years (2013: 23.1 years)
- Inactive members: 12.8 years (2013:12.7 years)

24. Income and mining taxes

(a) Tax expense:

The tax expense is applicable as follows:

	Year ended December 31,	
	2014	**2013**
Current:		
Income taxes	**$ 5,357**	$ 819
Mining taxes	**1,928**	9,717
Adjustments in respect of prior years	**(6,248)**	1,565
	1,037	12,101
Deferred:		
Income taxes - origination and reversal of temporary differences	**(68,542)**	52,483
Canadian mining taxes - origination and reversal of temporary differences	**12**	(2,157)
Adjustments in respect of prior years	**3,585**	(4,375)
Peruvian mining tax - origination and reversal of temporary difference	**3,583**	(4,780)
	(61,362)	41,171

	$ (60,325)	$ 53,272

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

	Dec. 31, 2014	Dec. 31, 2013
Deferred income tax asset	**$ 48,339**	$ 31,331
Deferred mining tax asset - Canada	**—**	456
	48,339	31,787
Deferred income tax liability	**(415,479)**	(273,483)
Deferred mining tax liability - Canada	**(640)**	—
Deferred mining tax liability - Peru	**(25,830)**	(20,150)
	(441,949)	(293,633)
Net deferred tax liability balance	**$ (393,610)**	$ (261,846)

(c) Changes in deferred tax assets and liabilities:

	Year ended Dec. 31, 2014	Year ended Dec. 31, 2013
Net deferred tax liability balance, beginning of year	**$ (261,846)**	$ (201,228)
Deferred tax expense	**61,362**	(41,171)
OCI transactions (note 28)	**7,585**	(7,792)
Acquisition of Augusta	**(167,898)**	—
Items charged directly to equity	**2,018**	—
Foreign currency translation on the deferred tax liability	**(34,831)**	(11,655)
Net deferred tax liability balance, end of year	**$ (393,610)**	$ (261,846)

(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, 2014 and 2013 is as follows:

	Year ended December 31,	
	2014	2013
Statutory tax rate	**27.00%**	27.43%
Tax expense from continuing operations at statutory rate	**$ 3,116**	$ (15,362)
Effect of:		
Non controlling interest	**24**	2,172
Resource allowance and deductions related to resource taxes	**(520)**	(2,620)
Adjusted income taxes	**2,620**	(15,810)
Mining taxes	**5,520**	(218)
	8,140	(16,028)
Temporary income tax differences not recognized	**2,032**	29,502
Permanent differences related to:		
Capital items	**(6,371)**	2,575
Other income tax permanent differences	**4,211**	10,292
Prior period temporary differences recognized	**(52,226)**	—

Impact of Peru tax stability agreement	—	12,973
Impact of newly enacted tax rates in Peru	**(14,866)**	—
Impact related to differences in tax rates in foreign operations	**(5,027)**	—
Impact of Manitoba remeasurement on decommissioning liability due to discount rates	**4,769**	(6,537)
Impact related to tax settlement and tax return amendment	**(987)**	190
Foreign exchange on non-monetary items	—	20,305
Tax expense	**$ (60,325)**	$ 53,272

(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 and deferred tax liabilities at December 31, 2014 and 2013 are as follows:

	Balance sheet		Income Statement	
	Dec. 31, 2014	Dec. 31, 2013	2014	2013
Deferred income tax asset (liability)/ expense (recovery)				
Property, plant and equipment	**$ 607**	$ (2,724)	**$ (3,331)**	$ 821
Pension obligation	**888**	551	**(337)**	(433)
Other employee benefits	**3,381**	2,166	**(1,215)**	(457)
Non-capital losses	**39,684**	26,586	**(11,386)**	(17,542)
Share issue and debt costs	**2,177**	3,882	**1,705**	177
Other	**1,602**	870	**(732)**	(334)
Deferred income tax asset	**48,339**	31,331	**(15,296)**	(17,768)
Deferred income tax liability (asset)/ expense (recovery)				
Property, plant and equipment	**590,952**	306,169	**72,901**	78,483
Pension obligation	**(19,067)**	(19,081)	**7,599**	490
Other employee benefits	**(23,625)**	(7,777)	**(15,848)**	1,931
Asset retirement obligations	**(18,438)**	—	**(18,438)**	—
Share issue and debt costs	**(2)**	(56)	**2,072**	(77)
Non-capital losses	**(109,028)**	—	**(66,955)**	—
Other	**(5,313)**	(5,772)	**(32,075)**	(13,073)
Deferred income tax liability	**415,479**	273,483	**(50,744)**	67,754
Deferred income tax asset (liability)/expense (recovery)	**$ (367,140)**	$ (242,152)	**$ (66,040)**	$ 49,986

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, 2014	Dec. 31, 2013
Property, plant and equipment	**$ 140,929**	$ 145,642
Capital losses	**153,356**	56,987
Other employee benefits	**44,555**	90,437
Asset retirement obligations	**59,603**	152,555
Non-capital losses	**179,329**	123,129
Other	**7,478**	38,609
Temporary differences not recognized	**$ 585,250**	$ 607,359

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 2014 and expire between 2015 and 2034. The Group incurred United

States net operating losses between 2005 and 2014 which have a twenty year carry forward period. Peruvian net operating losses were incurred from 2011 to 2014 which have a four year carry forward period.

(g) Mining tax effect of temporary differences:

The tax effects of temporary differences that give rise to significant portions of the deferred mining tax assets and liabilities at December 31, 2014 and December 31, 2013 are as follows:

Deferred mining tax (liabilities) assets:

Canada	Dec. 31, 2014	Dec. 31, 2013
Property, plant and equipment	**$ (640)**	$ 456

Deferred mining tax liabilities:

Peru	Dec. 31, 2014	Dec. 31, 2013
Property, plant and equipment	**$ (25,830)**	$ (20,150)

For the year ended December 31, 2014, the Group had unrecognized deferred mining tax assets of approximately $4,883 (December 31, 2013 - $613)

(h) Unrecognized taxable temporary differences associated with investments:

No temporary differences associated with investments in subsidiaries, associates and joint ventures, for which a deferred tax liability has not been recognized, have been identified that are required to be disclosed under IAS12.

(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. Taxes receivable, net of taxes payable, decreased by $26,012, as a result of a $32,653 refund from the Canada Revenue Agency as a result of re-filing prior year tax returns to reflect the “New Mine” status of the Lalor project that was reflected in the tax receivable balance in the second quarter of 2012, offset by taxes paid in the year along with adjustments related to income tax credits.

(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.

25. 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, 2014		Year ended Dec. 31, 2013	
	Common Shares	Amount	Common Shares	Amount
Balance, beginning of year	**172,078,376**	**$ 1,021,088**	171,984,487	$ 1,020,458
Exercise of stock options	**181,035**	**1,869**	93,889	630
Share issue costs, net of tax	**—**	**(5,836)**	**—**	—
Share issuance	**20,930,000**	**172,672**	—	—
Shares cancelled	**(24,208)**	—	—	—
Issued - acquisition of Augusta (note 5)	**40,450,654**	**434,626**	—	—
Balance, end of year	**233,615,857**	**$ 1,624,419**	172,078,376	$ 1,021,088

On January 9, 2014, the Group entered into an agreement with a syndicate of underwriters who agreed to purchase, on a bought deal basis, 18,200,000 of the Group's 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 $172,672.

On July 30, 2014, the Company declared semi-annual dividends of $0.01 per share. The dividend of $2,323 was paid on September 30, 2014 to shareholders of record as of September 12, 2014. The Company paid $1,928 on March 31, 2014 to shareholders of record as of March 14, 2014.

In 2013, 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 declared a semi-annual dividend of $0.01 per share on February 19, 2015. The dividend will be paid on March 31, 2015 to shareholders of record as of March 13, 2015 and is expected to total $ 2,336.

26. 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, 2014, the carrying amount and the intrinsic value of the outstanding liability related to the DSU plan was $5,898 (December 31, 2013 - $4,268) (note 21). The following table outlines information related to DSUs granted, expenses recognized and payments made during the year.

	Year ended	
	Dec. 31, 2014	**Dec. 31, 2013**
Granted during the year:		
Number of units	**117,169**	135,083
Weighted average price ($/unit)	**$ 9.25**	$ 8.05
Expenses recognized during the year[1] (note 7c)	**$ 1,842**	$ 728

[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 consolidated income statements.

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, 2014, the carrying amount of the outstanding liability related to the RSU plan was $10,648 (December 31, 2013 - $6,973) (note 21). No RSUs were vested at December 31, 2014 and December 31, 2013. RSUs are settled on the vest date and therefore the intrinsic value at December 31, 2014 and December 31, 2013 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, 2014	**Dec. 31, 2013**
Number of units, beginning of year	**1,601,172**	1,299,085
Number of united granted during the year	**679,927**	738,006
Credits for dividends	**3,855**	20,074

Number of units forfeited during the year		**(64,481)**		(26,432)
Number of units vested		**(314,978)**		(429,561)
Number of units, end of year		**1,905,495**		1,601,172
Weighted average price ($/unit)	**$**	**9.94**	$	9.57
Expenses recognized during the year[1] (note 7c)	**$**	**6,196**	$	4,123
Payments made during the year (note 21)	**$**	**2,638**	$	3,891

[1] This net expense reflects recognition of RSU expense over the service period, as well as mark-to-market adjustments, and is presented mainly within cost of sales and selling and administrative expenses.

(b) Equity-settled share-based payment - stock options:

The Group's stock option plan was approved in June 2005 and amended in May 2008 (the "Plan").

Under the amended Plan, the Group may grant to employees, officers, directors or consultants of the Group or its affiliates options to purchase up to a maximum of 13 million common shares of the Group. The maximum number of common shares issuable to insiders pursuant to the Plan is limited to 10% of the then issued and outstanding common shares of the Group. The maximum number of common shares issuable to each non employee directors under the Plan shall not exceed the lesser of $100,000 in value per year and 1% in number of the then issued and outstanding common shares of the Group per year. Options granted under the amended Plan have a maximum term of five years and become exercisable as follows: the first 33 1/3% are exercisable after one year, the next 33 1/3% are exercisable after two years, and the last 33 1/3% are exercisable after three years. Except in specified circumstances, options are not assignable and terminate upon, or within a specified time following, the optionee ceasing to be employed by or associated with the Group. The Plan further provides that the price at which common shares may be issued under the Plan cannot be less than the market price of the common shares on the last trading date before the relevant options are approved by the Board.

Prior to the May 2008 amendment, the Plan approved in June 2005 allowed the Group to grant options up to 10% (to a maximum of 8 million issued outstanding options) of the issued and outstanding common shares of the Group to employees, officers, and directors of the Group for a maximum term of ten years. Of the common shares covered by the stock option plan, the first 33 1/3% were exercisable immediately, the next 33 1/3% were exercisable after one year, and the last 33 1/3% were exercisable after two years.

No options were granted during the years ended December 31, 2014 and December 31, 2013.

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

	Year ended Dec. 31, 2014		Year ended Dec. 31, 2013	
	Number of shares subject to option	**Weighted average exercise price**	**Number of shares subject to option**	**Weighted average exercise price**
Balance, beginning of year	**3,340,240**	**$ 14.51**	3,684,465	$ 14.18
Exercised	**(181,035)**	**7.06**	(93,889)	4.78
Forfeited	**(42,238)**	**18.69**	(133,336)	14.98
Expired	**(926,668)**	**20.75**	(117,000)	11.25
Balance, end of year	**2,190,299**	**$ 15.96**	3,340,240	$ 14.51

For stock options exercised during the year, the weighted average share price at the exercise date was $10.93 (2013 — $8.73)

The following table summarizes the options outstanding:

Dec. 31, 2014

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 - 12.78	579,907	0.9	$ 7.11	579,907	$ 7.11
12.79 - 18.33	616,695	3.2	15.86	616,695	15.86
18.34 - 21.28	823,697	2.2	20.80	823,697	20.80
21.29 - 22.97	70,000	2.8	22.14	70,000	22.14
22.98 - 23.74	100,000	2.6	23.74	100,000	23.74
$ 2.59 - 23.74	2,190,299	2.2	$ 15.96	2,190,299	$ 15.96

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 - 21.28	849,267	3.2	20.80	849,267	20.80
21.29 - 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

27. Earnings (loss) per share data

	Year ended December 31, 2014	2013
Weighted average common shares outstanding	**209,023,666**	172,048,434
Plus net incremental shares from assumed conversions:		
Warrants	**478,455**	—
Stock options	**181,459**	219,125
Diluted weighted average common shares outstanding	**209,683,580**	172,267,559

The determination of the diluted weighted-average number of common shares excludes 1,788,868 shares related to stock options that were anti-dilutive for the year ended December 31, 2014 (year ended December 31, 2013 - 2,574,458 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, which would be anti-dilutive. Consequently, for the year ended December 31, 2014, the Group calculated diluted income per share using 209,683,580 common shares. For the year ended December 31, 2013, the Group calculated diluted loss per share using 172,048,434 common shares.

28. Other comprehensive income (loss)

	Year ended Dec. 31, 2014			Year ended Dec. 31, 2013		
	Pre-tax	Tax	Net of tax	Pre-tax	Tax	Net of tax
Foreign currency translation						
Net exchange gain on translation of foreign operations	**$ 185,248**	**$ —**	**$ 185,248**	$ 87,669	$ —	$ 87,669
Available-for-sale						
Change in fair value of available- for-sale investments (note 12)	**49,193**	**—**	**49,193**	(30,254)	—	(30,254)
Transfer to income statement on impairment of investments (note 7f)	**1,377**	**—**	**1,377**	16,291	—	16,291
Transfer to income statements on acquisition of Augusta and sale of investments (note 7f)	**(50,004)**	**2**	**(50,002)**	(67)	—	(67)
	566	**2**	**568**	(14,030)	—	(14,030)
Items that will not be reclassified subsequently to profit or loss						
Actuarial (loss) gain	**(53,708)**	**7,585**	**(46,123)**	36,158	(7,792)	28,366
Total OCI gain	**$ 132,106**	**$ 7,587**	**$ 139,693**	$ 109,797	$ (7,792)	$ 102,005

29. Non-controlling interests

Hudbay sold its 51% interest in the Back Forty project on January 17, 2014 (note 6). As part of the disposition, the Group derecognized the

non-controlling interest.

In accordance with a joint venture agreement with VMS, Hudbay owns 70% of the Reed copper mine and the two claims immediately to the south, as well as four exploration properties. During the second quarter of 2014, the Reed mine commenced commercial production and the Group entered into an offtake agreement with VMS. As a result, the Group re-assessed the joint venture accounting under IFRS. It was concluded that the previous method of consolidation was not reflective of the substance of the joint venture agreement and as such the balance of the non-controlling interest pertaining to the Reed mine was reclassified. Previously incurred acquisition costs and operating losses that were non-attributable to Hudbay owners are now recorded in property, plant and equipment and loans receivable from the joint venture partner, respectively. The appropriate method of accounting is to recognize Hudbay's assets and liabilities in the joint operation including its share of any assets or liabilities held or incurred jointly.

Upon acquisition of approximately 92% of Augusta on July 16, 2014, the Group recorded non-controlling interests of $45,500. The Group acquired the remaining interest in Augusta on July 29, 2014 and September 23, 2014. As a result of the remaining interest in Augusta being acquired at varying share values, a credit balance of $1,423 remained in non-controlling interests which was reclassified to Other Capital Reserves in the condensed consolidated financial statements of changes in equity to reflect the increase in ownership of a controlled subsidiary at December 31, 2014.

The Group's 92.05% interest in the Rosemont joint venture is accounted for by recognizing Hudbay's proportionate share of the assets and liabilities associated with the joint venture.

	Augusta	Back Forty Project	Reed Mine & Exploration	Total
Balance, January 1, 2013	$ —	$ 762	$ (1,073)	$ (311)
Share of OCI	—	324	—	324
Share of net loss	—	(7,917)	—	(7,917)
Balance, December 31, 2013	—	(6,831)	(1,073)	(7,904)
Upon acquisition of non-controlling interest	**45,500**	**—**	**—**	**45,500**
Acquisition of non-controlling interest	**(44,077)**	**—**	**—**	**(44,077)**
Share of net loss	**—**	**(90)**	**—**	**(90)**
Reclassification of non-controlling interest in Augusta (note 5)	**(1,423)**	**—**	**—**	**(1,423)**
Reclassification adjustment	**—**	**—**	**1,073**	**1,073**
Disposition of subsidiary	**—**	**6,921**	**—**	**6,921**
Balance, December 31, 2014	**$ —**	**$ —**	**$ —**	**$ —**

30. 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, 2014 was $1,127,957 (December 31, 2013 — $779,331).

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 is cash and cash equivalents, which were $207,273 as at December 31, 2014 (2013 - $631,427). The Group invests its cash and cash equivalents primarily in Canadian bankers' acceptances, deposits at major Canadian banks, or treasury bills issues 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, 2014 and 2013 (note 19). As part of the Group's capital management activities, the Group monitors interest coverage ratios and leverage ratios.

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(in thousands of Canadian dollars, except where otherwise noted)
Years ended December 31, 2014 and 2013

31. 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, 2014		Dec. 31, 2013	
	Fair Value	Carrying value	Fair Value	Carrying value
Recurring measurements				
Financial assets				
Loans and receivables				
Cash and cash equivalents [1]	**$ 207,273**	**$ 207,273**	$ 631,427	$ 631,427
Restricted cash[1]	**49,093**	**49,093**	22,894	22,894
Trade and other receivables [1, 2]	**92,485**	**92,485**	50,806	50,806
Fair value through profit or loss				
Trade and other receivables - embedded derivatives[3]	**150**	**150**	1,307	1,307
Non-hedge derivative assets[3]	**1,345**	**1,345**	807	807
Prepayment option - embedded derivative[7]	**1,217**	**1,217**	2,829	2,829
Investments at FVTPL[4]	**—**	**—**	7	7
Available-for-sale				
Available-for-sale investments[4]	**18,694**	**18,694**	48,281	48,281
	370,257	**370,257**	758,358	758,358
Financial liabilities				
Financial liabilities at amortized cost				
Trade and other payables [1, 2]	**273,145**	**273,145**	207,369	207,369
Other financial liabilities[5]	**19,950**	**31,384**	27,835	34,756
Senior unsecured notes[6]	**1,009,658**	**1,063,689**	822,030	782,160
Equipment finance facility[8]	**82,624**	**82,624**	—	—
Fair value through profit or loss				
Trade and other payables - embedded derivatives[3]	**1,807**	**1,807**	414	414
Non-hedge derivative liabilities[3]	**27,160**	**27,160**	4,631	4,631
	1,414,344	**1,479,809**	1,062,279	1,029,330
Net financial liability	**$ (1,044,087)**	**$ (1,109,552)**	$ (303,921)	$ (270,972)

[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. For the warrant liabilities, fair value is determined based on quoted market closing price or the Black-Scholes model.
[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 18). Fair values have been determined using a discounted cash flow analysis based on expected cash flows and a credit adjusted discount rate.
[6] Fair value of the senior unsecured notes (note 19) has been determined using the quoted market price at the period end.
[7] Fair value of the prepayment option embedded derivative related to the long-term debt (note 19) has been determined using a binomial tree/lattice approach based on the Hull-White single factor interest rate term structure model.
[8] The carrying value of the equipment finance facility approximates the fair value as the facility is based on floating interest rates.

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, 2014	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Financial assets at FVTPL:				
Embedded derivatives	**$ —**	**$ 150**	**$ —**	**$ 150**
Non-hedge derivatives	**—**	**1,345**	**—**	**1,345**
Prepayment option embedded derivative	**—**	**1,217**	**—**	**1,217**
Available-for-sale investments	**16,694**	**—**	**2,000**	**18,694**
	$ 16,694	**$ 2,712**	**$ 2,000**	**$ 21,406**
Financial liabilities measured at fair value				
Financial liabilities at FVTPL:				
Embedded derivatives	**$ —**	**$ 1,807**	**$ —**	**$ 1,807**
Non-hedge derivatives	**22,702**	**4,458**	**—**	**27,160**
	$ 22,702	**$ 6,265**	**$ —**	**$ 28,967**

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

The Group's Level 3 investment relates to a minority investment in an unlisted junior mining company. As no observable inputs exist, the Group measures the Level 3 investment at the cost of the investment. 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, 2014, the Group did not make any transfers.

(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. As at December 31, 2014, 69 million pounds of copper collars were settled, leaving no unsettled copper costless collars at December 31, 2014 (December 31, 2013 — 55 million pounds of copper collars were unsettled). 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. As at December 31, 2014, 127 million pounds of zinc collars were settled leaving no unsettled zinc costless collars at December 31, 2014 (December 31, 2013 — 106 million pounds of zinc collars were unsettled).

In addition, the Group has entered into copper fixed for floating swaps on approximately 13 million pounds of copper, settling across January 2015 through March 2015 inclusive at an average fixed receivable price of US$2.79/lb associated with provisional pricing risk in concentrate sales agreements.

The hedging transactions were with counterparties that the Group believed to be creditworthy and did not require the Group to provide collateral. Both copper and zinc costless collars were settled at December 31, 2014 as such the aggregate fair value of the transactions are nil at the end of 2014 (December 31, 2013 — a liability position of $4,631). The copper fixed for floating swaps were all unsettled at

December 31, 2014, the aggregate fair value of the transactions at December 31, 2014 was an asset position of $1,263 (December 31, 2013 — 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. Gain and losses on these contracts are recorded in revenues, and cash flows are classified in operating activities.

At December 31, 2014, the Group held contracts for forward zinc purchased of 10,747 tonnes (December 31, 2013 — 3,553 tonnes) that related to forward customer sales of zinc. Prices ranges from US$2,085 to US$2,403 per tonne (December 31, 2013 — US$1,873 to US$1,966) and settlement dates extended to December 2015. The aggregate fair value of the transactions at December 31, 2014 was a net liability position of $778 (December 31, 2013 — a net asset position of $561).

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 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 theses 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. At December 31, 2014 the Group held no gold forward sales contracts. At December 31, 2013 the Group held gold forward sales contracts of 7,695 ounces and prices ranged from US$1,209 to US$1,254. At December 31, 2014, the Group held no silver forward sales contracts. At December 31, 2013 the Group held 67,780 ounces and prices ranged from US$19.93 to US$20.84. The aggregate fair value of the transactions at December 31, 2014 was $nil (December 31, 2013 — an asset position of $246).

Non-hedge derivative - warrants

Warrants issued by Hudbay as consideration for the purchase of the acquisition of Augusta are derivative liabilities that are carried at their fair value, with changes in fair value recorded to the consolidated income statements in other finance (gain)/loss. The fair value of warrants issued is determined based on the quoted market prices for the listed warrants. The fair value of the Hudbay warrants at December 31, 2014 was a liability of $22,702 (December 31, 2013 - $nil).

Augusta Warrants assumed by Hudbay in the acquisition of Augusta are derivative liabilities that are carried at their fair value, with changes in fair value recorded to the consolidated income statements in other finance (gain)/loss. The fair value of the Augusta Warrants is determined based on the Black-Scholes model. The fair value of the Augusta warrants at December 31, 2014 was a liability of $3,598 (December 31, 2013 — $nil).

(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 quotation 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 quotation 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, 2014, the Group's net position consisted of contracts awaiting final pricing for sales of 8,576 tonnes of copper (December 31, 2013 — 5,381 tonnes) and no purchases of zinc (December 31, 2013 — 5,322 tonnes). In addition, at December 31, 2014, the Group's net position consisted of contracts awaiting final pricing for sales of 2,651 ounces of gold and 26,968 ounces of silver (December 31, 2013 — 3,031 ounces of gold and 25,936 ounces of silver).

As at December 31, 2014, the Group's provisionally priced copper, gold and silver sales subject to final settlement were recorded at average prices of US$2.83/lb (December 31, 2013 — US$3.34/lb), US$1,184/oz (December 31, 2013 — US$1,202/oz) and US$15.59/oz (December 31, 2013 — US$19.36/oz), respectively.

The aggregate fair value of the embedded derivatives within the copper concentrate sales contracts at December 31, 2014, was a liability position of $1,807 (December 31, 2013 — $1,307, an asset position). The aggregate fair value of the embedded derivatives within the zinc concentrate purchase and other contracts at December 31, 2014, was an asset position of $150 (December 31, 2013 — $414, a liability position).

Prepayment option embedded derivative

The Notes (note 19) 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 being recognized as unrealized gains or losses in finance income and expense (note 7f). The fair value of the embedded derivative at December 31, 2014 was an asset of $1,217 (December 31, 2013 - an asset of $2,829).

(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 speculation 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. As a result, appreciation of the Canadian dollar relative to the US dollar will reduce the Group's profit.

- Translation of US dollar and Peruvian Nuevo sales 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 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, 2014		Dec. 31, 2013	
	USD	**PEN**	**USD**	**PEN**
Cash and cash equivalents	**$ 137,555**	**$ 4,008**	$ 297,246	$ 145,916
Trade and other receivables	**46,743**	**19**	56,368	3,331
Restricted cash	**47,163**	**—**	21,124	—
Derivative assets	**1,217**	**—**	2,829	—
Trade and other payables	**(162,546)**	**(11,327)**	(110,098)	(17,185)
Other financial liabilities	**—**	**(31,384)**	—	(34,757)
Long-term debt (includes current portion)	**(1,146,313)**	**—**	(782,160)	—

$ (1,076,181)	**$ (38,684)**	$ (514,691)	$ 97,305

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, 2014	Change of:	Would have changed 2014 after-tax profit by:	Would have changed 2014 after-tax OCI by:
USD/CAD exchange rate[1]	**+ $0.10**	**$ (83.3) million**	**$ (6.6) million**
USD/CAD exchange rate[1]	**- $0.10**	**83.3 million**	**6.6 million**
PEN/CAD exchange rate[2]	**+ $0.25**	**2.4 million**	**— million**
PEN/CAD exchange rate[2]	**- $0.25**	**(2.4) million**	**— million**

December 31, 2013	Change of:	Would have changed 2013 after-tax profit by:	Would have changed 2013 after-tax OCI by:
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	— million
PEN/CAD exchange rate[2]	- $ 0.25	9.7 million	— million

[1] Effect on profit due to translation of balances denominated in US dollars; effect on OCI due to foreign currency cash flow hedging derivatives.

[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 Groups' results of operations.

December 31, 2014	Change of:	Would have changed 2014 after-tax profit by:	Would have changed 2014 after-tax OCI by:
Copper prices (US$/lb)[3]	**+$0.30**	**$ 0.3 million**	$ — **million**
Copper prices (US$/lb)[3]	**- $0.30**	**(0.3) million**	**— million**
Zinc prices (US$/lb)[4]	**+$0.10**	**1.7 million**	**— million**
Zinc prices (US$/lb)[4]	**- $0.10**	**(1.7) million**	**— million**

December 31, 2013	Change of:	Would have changed 2013 after-tax profit by:	Would have changed 2013 after-tax OCI by:
Copper prices (US$/lb)[3]	+ $0.30	$ (6.3) million	$ — million
Copper prices (US$/lb)[3]	- $0.30	3.9 million	— million
Zinc prices (US$/lb)[4]	+ $0.10	(4.4) million	— million
Zinc prices (US$/lb)[4]	- $0.10	2.0 million	— million

[3] Effect on profit due to embedded provisional pricing derivatives (note 30c) and copper fixed for floating swaps (note30b).

[4] Effect on profit due to embedded provisional pricing derivatives (note 30c) 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 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, 2014	Change of:	Would have changed 2014 after-tax profit by:	Would have changed 2014 after-tax OCI by:
Share prices[5]	+ 25%	$ — million	$ 4.6 million
Share prices[5]	- 25%	(2.7) million	(2.0) million

December 31, 2013	Change of:	Would have changed 2013 after-tax profit by:	Would have changed 2013 after-tax OCI by:
Share prices[5]	+ 25%	$ 8.6 million	$ 3.5 million
Share prices[5]	- 25%	(9.5) million	(2.6) 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 12).

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 suing 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, 2014	Change of:	Would have changed 2014 after-tax profit by:	Would have changed 2014 after-tax OCI by:
Interest rates	+ 2.00%	$ (1.1) million	$ — million
Interest rates	- 2.00%	5.2 million	— million

December 31, 2013	Change of:	Would have changed 2013 after-tax profit by:	Would have changed 2013 after-tax OCI by:
Interest rates	+ 2.00%	$ (2.3) million	$ — million
Interest rates	- 2.00%	4.6 million	— million

At December 31, 2014 and 2013, the effect of interest rate changes on the Group's cash equivalents would not have resulted in a significant tax impact on profit.

Refer to note 8 for information about the Group's cash and cash equivalents.

(ii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its obligations. The Group's maximum exposure to credit risk at the reporting date is represented by the carrying amount, net of any impairment losses recognized, of financial assets and non financial derivative assets recorded on the consolidated balance sheets. Refer to note 31a.

A large portion of the Group's cash and cash equivalents are represented by deposits with major Schedule 1 Canadian banks. Deposits and other investments with Schedule 1 Canadian banks represented 88.1% of total cash and cash equivalents as at December 31, 2014 (2013 – 74.0%). The Group's investment policy requires it to comply with a list of approved investment, concentration and maturity limits, as well as credit quality. The Group has not invested in asset backed commercial paper. Credit concentrations in the group's short term investments are monitored on an ongoing basis.

Transactions involving derivatives are with counterparties the Group believes to be creditworthy.

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, 2014, approximately 92% (2013 - 94%) of the Group's trade receivables were insured, with a credit insurance deductible of 10%. The deductible and any additional exposure to credit risk is monitored and approved on an ongoing basis.

Four customers accounted for approximately 64% of total trade receivables as at December 31, 2014 (2013 – four customers accounted for approximately 78%). Credit risk for these customers is assessed as medium to low risk.

As at December 31, 2014, approximately 2% of the Group's trade receivables was aged more than 30 days (2013 – 0%).

(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, 2014	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	$ 207,273	$ 207,273	$ 207,273	$ —	$ —	$ —
Non-derivative financial liabilities						
Trade and other payables, including embedded derivative	(272,995)	(272,995)	(272,995)	—	—	—
Other financial liabilities	(31,384)	(49,911)	(7,307)	(2,006)	(8,024)	(32,574)
Long-term debt, including prepayment option embedded derivative	(1,127,957)	(1,738,998)	(93,184)	(118,532)	(358,598)	(1,168,684)
	$ (1,432,336)	$ (2,061,904)	$ (373,486)	$ (120,538)	$ (366,622)	$ (1,201,258)
Derivative financial liabilities						
Non-hedge derivative contracts (note 18)	$ (27,160)	$ (27,160)	$ (860)	$ (3,598)	$ —	(22,702)

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 18)	$ (4,631)	$ (4,631)	$ (4,631)	$ —	$ —	$ —

32. Commitments and contingencies

(a) Operating lease commitments

The Group has entered into various lease commitments for facilities and equipment. The leases expire in periods ranging from one to eight 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 are:

	2014	2013
Within one year	**$ 4,981**	$ 3,198
After one year but not more than five years	**12,428**	9,121
More than five years	**3,598**	5,693
	$ 21,007	$ 18,012

Payments recognized in operating expenses:

	2014	2013
Minimum lease payments	**$ 4,116**	$ 1,715
Sub-lease payments received	**(431)**	(431)
	$ 3,685	$ 1,284

Future minimum sub-lease payments expected to be received on non-cancelable leases are $647.

(b) Capital commitments

As at December 31, 2014, the Group had outstanding capital commitments in Canada of approximately $4,254 primarily related to Lalor, of which approximately $767 cannot be terminated by the Group, approximately $204,874 in Peru, related to pre-commercial production capital and ongoing sustaining capital, of which approximately $11,740 cannot be terminated by the Group and approximately $70,702 in Arizona, primarily related to its Rosemont project, of which $68,499 cannot be terminated by the Group.

(c) Contingent liabilities

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, 2014 or December 31, 2013.

33. 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.) 2014	2013
Hudson Bay Mining and Smelting Co. Limited	Canada	Zinc and copper production	HMI	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/ development	Peru Inc.	100%	100%
HudBay (BVI) Inc.	British Virgin Islands	Precious metals sales	Peru Inc.	100%	100%
HudBay Arizona Corporation	Canada	Holding company	8988277 Canada Inc.	100%	—

Rosemont Copper Company	Arizona	Exploration/ development	HudBay Arizona (US) Holding Corporation	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:

	2014	2013
Short-term employee benefits[1]	**$ 9,305**	$ 8,632
Post-employment benefits	**928**	948
Share-based payments	**5,136**	4,925
	$ 15,369	$ 14,505

[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.

34. Supplementary cash flow information

(a) Change in non-cash working capital:

	Year ended December 31,	
	2014	2013
Change in:		
Trade and other receivables	**$ 154**	$ 404
Inventories	**(17,950)**	5,907
Prepaid expenses and other current assets	**1,255**	(122)
Trade and other payables	**(25,236)**	(12,028)
Change in taxes payable/receivable, net	**35,365**	16,602
Other	**(2,957)**	—
Taxes - ITC	**(4,453)**	(7,968)
	$ (13,822)	$ 2,795

(b) Non-cash transactions:

During the year ended December 31, 2014, the Group entered into the following non-cash investing and financing activities which are not reflected in the consolidated statements of cash flows:

- Remeasurements of the Group's decommissioning and restoration liabilities as at December 31, 2014, led to net increases in related property, plant and equipment assets of $36,425 mainly as a result of discount rate changes. For the year ended December 31, 2013, such remeasurements led to decreases in property, plant and equipment assets of $16,547.

- Property, plant and equipment included $151,911 of additions which were not yet paid for as at December 31, 2014 (December 31, 2013 - $110,449). These purchases will be reflected in the consolidated statements of cash flows in the periods payments are made. In addition, property, plant and equipment included the removal of $19,045 to reflect the Group's proportionate share of Reed mine assets.

- See notes 5 and 6 for non-cash transactions related to the acquisition of Augusta and the disposal of Hudbay Michigan,

respectively.

35. 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 Peru segment, formally a part of the South America segment, consists of the Group's Constancia project in Peru, which Hudbay acquired on March 1, 2011. The Group's Arizona segment consists of the Group's Rosemont project in Arizona, which Hudbay acquired on July 16, 2014. Corporate and other activities include the Group's exploration activities in Chile and Colombia as well as the Balmat segment which consists of a zinc mine and concentrator, which is on care and maintenance. The prior year comparatives have been restated to move the South American exploration entities to corporate and other activities as they were previously included in the previously named South American business unit. The exploration entities and Balmat are not individually significant, as they do not meet the minimum quantitative thresholds. Corporate activities are not considered a segment and are included as a reconciliation to total consolidated results. In 2013, the corporate and other activities segment includes the Michigan segment which was sold on January 17, 2014. 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.

Year ended December 31, 2014

	Manitoba	Peru	Arizona	Corporate and other activities	Total
Revenue from external customers	**$ 559,955**	**$ —**	**$ —**	**$ —**	**$ 559,956**
Cost of sales					
Mine operating costs	**404,540**	**—**	**—**	**—**	**404,541**
Depreciation and amortization	**92,444**	**—**	**—**	**—**	**92,444**
Gross profit	**62,971**	**—**	**—**	**—**	**62,971**
Selling and administrative expenses	**1,915**	**—**	**—**	**44,360**	**46,275**
Exploration and evaluation	**6,221**	**1,958**	**—**	**2,974**	**11,153**
Other operating income and expenses	**325**	**7,662**	**—**	**3,267**	**11,254**
Loss on disposal of subsidiary	**—**	**—**	**—**	**6,512**	**6,512**
Augusta related costs	**—**	**—**	**7,234**	**16,689**	**23,923**
Results from operating activities	**$ 54,510**	**$ (9,620)**	**$ (7,234)**	**$ (73,802)**	**$ (36,146)**
Finance income					**(3,902)**
Finance expenses					**10,094**
Other finance gains					**(53,879)**
Profit before tax					**11,541**
Tax expense					**(60,325)**
Profit for the year					**$ 71,866**

Year ended December 31, 2013

	Manitoba	Peru	Corporate and other activities	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	4,526	7,798	23,286
Other operating income and expenses	1,129	5,421	1,734	8,284

Asset impairment loss	—	—	15,356	15,356
Results from operating activities	$ 65,999	$ (9,947)	$ (62,932)	$ (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, 2014

	Manitoba	Peru	Arizona	Corporate and other activities	Total
Total assets	**$ 1,163,827**	**$ 3,333,455**	**$ 994,376**	**$ 135,850**	**$ 5,627,508**
Total liabilities	**820,318**	**1,022,273**	**190,474**	**1,147,723**	**3,180,788**
Property, plant and equipment	**884,971**	**2,970,697**	**843,211**	**16,932**	**4,715,811**
Year ended December 31, 2014					
Additions to property, plant and equipment	**$ 165,188**	**$ 1,156,707**	**$ 18,448**	**$ 3,584**	**$ 1,343,927**
Additions to other non-current assets (intangibles)	**1,337**	**—**	**—**	**76**	**1,413**

December 31, 2013

	Manitoba	Peru	Corporate and other activities	Total
Total assets	$ 1,295,239	$ 2,357,756	$ 190,991	$ 3,843,986
Total liabilities	825,035	554,518	836,726	2,216,279
Property, plant and equipment	820,030	1,837,728	7,317	2,665,075
Year ended December 31, 2013				
Additions to property, plant and equipment	$ 158,296	$ 863,202	$ 2,550	$ 1,024,048
Additions to other non-current assets (intangibles)	2,691	—	320	3,011

Geographical Segments

The following tables represent revenue information regarding the Group's geographical segments for the years ended December 31 are:

	2014	2013
Revenue by customer location		
Canada	**$ 398,341**	$ 342,905
United States	**113,689**	134,704
Switzerland	**48,391**	34,802
Germany	**18,304**	16,888
Other	—	21
	578,725	529,320
Less: pre-production revenue	**18,769**	12,519
Total	**$ 559,956**	$ 516,801

During the year ended December 31, 2014 three customers accounted for approximately 27%, 19% and 12% respectively of total revenue during the year. During the year ended December 31, 2013 two customers accounted for approximately 28% and 18% respectively of total revenue during the year. Revenues from these customers have been presented in the Manitoba operating segment.

Exhibit 99.3

HUDBAY MINERALS INC.

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

For the year ended
December 31, 2014

February 19, 2015

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NOTES TO READER

This Management's Discussion and Analysis ("MD&A") dated February 19, 2015 is intended to supplement HudBay Minerals Inc.'s audited consolidated financial statements and related notes for the year ended December 31, 2014 (the "consolidated financial statements"). The consolidated financial statements have been prepared in accordance 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 as at December 31, 2014. "Hudbay Peru" refers to HudBay Peru S.A.C., our wholly-owned subsidiary which owns a 100% interest in the Constancia project, and "Augusta" and "Hudbay Arizona" refer to Hudbay Arizona Corporation (formerly named Augusta Resource Corporation), our wholly-owned subsidiary which indirectly owns a 92.05% interest in the Rosemont project.

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, the production, cost and capital and exploration expenditure guidance, the permitting, development and financing of the Rosemont project, production at our Constancia, 777, Lalor and Reed mines, processing at our Constancia concentrator, Flin Flon concentrator, Snow Lake concentrator and Flin Flon zinc plant, anticipated timing of our projects and events that may affect our projects, including the anticipated issue of required licenses and permits, 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 successful ramp up of production at Constancia;
- 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 reagents for our concentrators;
- the supply and availability of concentrate for our processing facilities;
- the supply and 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 additional financing, if needed, under our standby credit facility for Constancia and our corporate credit facility;
- our ability to complete the closing of our revised $250 million corporate credit facility;
- 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 and Rosemont projects and First Nations communities surrounding our Lalor and Reed mines;
- 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;

HUDBAY

- 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; and
- no significant and continuing adverse changes in general economic conditions or conditions in the financial markets.

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, 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 risks associated with the commissioning and ramp up of the Constancia project), depletion of our reserves, dependence on key personnel and employee and union relations, 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, volatile financial markets that may affect our ability to obtain financing on acceptable terms, the development of the Rosemont project not occurring as planned, any material inaccuracy in Augusta's historical public disclosure and representations in the support agreement upon which our offer to acquire Augusta was predicated, the failure to obtain required approvals or clearances from government authorities on a timely basis, uncertainties related to the geology, continuity, grade and estimates of mineral reserves and resources, including the historical estimates of mineral reserves and resources at the Rosemont project, 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" in our MD&A for the three and six months ended June 30, 2014 and the company's most recent Annual Information Form.

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.

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 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.

Presentation of Non-IFRS Financial Performance Measures

We use realized prices as a non-IFRS financial performance measure in our MD&A. For a detailed description, please see the discussion under "Financial Review" beginning on page 19 of our MD&A. In addition, 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 of each of the non-IFRS financial performance measures used in this MD&A, please see the discussion under "Non-IFRS Financial Performance Measures" beginning on page 43 of our MD&A.

Qualified Person

The technical and scientific information in this MD&A related to the Constancia project has been approved by Cashel Meagher, P. Geo, our Vice President, South America Business Unit. The technical and scientific information related to all other sites and projects contained in this MD&A has been approved by Robert Carter, P. Eng, our Director, Technical Services. Messrs. Meagher and Carter are qualified persons pursuant to 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 of scientific and technical information may be affected by any known environmental, permitting, legal title, taxation, sociopolitical, marketing or other relevant factors, please see the Technical Reports for our material properties as filed by us 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 copper projects in Cusco (Peru) and Arizona (United States). 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 vision 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. We also have warrants listed under the symbol "HBM.WT" on the Toronto Stock Exchange and "HBM/WS" on the New York Stock Exchange.

STRATEGY

Our vision 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 Rosemont project in Arizona and our Constancia project in Peru, as well as through the acquisition of exploration and development properties. 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 potential for exploration, development and optimization. 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 potential of prospective properties, and more rarely producing properties, providing us with an opportunity to create value through exploration, development and optimization of 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 2015 are to:

- Complete commissioning of all facilities at the Constancia project and ramp up toward commercial production in the second quarter of 2015, and progress technical and permitting work on the Pampacancha deposit;
- Optimize production and cost performance at our Manitoba operations;
- Advance permitting and technical work at the Rosemont project;
- Continue our exploration program including drilling from 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 stakeholders.

HUDBAY

SUMMARY OF RESULTS

Summary of Fourth Quarter Results

In the fourth quarter of 2014 operating cash flow before change in non-cash working capital decreased to negative $3.5 million from $0.8 million in the fourth quarter of 2013. Operating cash flow in the fourth quarter of 2014 was impacted by lower year-over-year revenues from lower copper sales volumes, with approximately 40% of copper produced during the quarter in-transit and unsold, and an 18% decrease in realized copper prices. Cash flow from operations was also negatively affected by the previously disclosed unscheduled two-week shutdown of the 777 shaft, which caused the Manitoba business to miss its 2014 production guidance targets for zinc and precious metals and achieve the lower end of its guidance range for copper production.

Profit and earnings per share in the fourth quarter of 2014 were $49.6 million and $0.21, respectively, compared to a loss and loss per share of $61.5 million and $0.32 in the fourth quarter of 2013, respectively. The higher profit is mostly the result of a non-cash tax recovery arising from the recognition of previously unrecognized temporary differences in both Peru and Manitoba. Profit and earnings per share for the fourth quarter of 2014 were affected by, among other things, the following items:

	Pre-tax gain (loss) ($ millions)	After-tax gain (loss) ($ millions)	Per Share ($/share)
Augusta related costs	(4.2)	(3.1)	(0.01)
Loss on mark-to-market of embedded derivative related to long-term debt and warrants	(2.0)	(2.0)	(0.01)

Loss as a result of provisional pricing adjustments	(3.4)	(2.2)	(0.01)
Foreign currency losses	(8.3)	(8.5)	(0.04)
Deferred tax adjustments - Manitoba	—	35.2	0.15
Deferred tax adjustments - Peru	—	38.0	0.16

Summary of Full Year Results

Full year 2014 operating cash flow before stream deposit and change in non-cash working capital increased to $15.4 million from $9.8 million in the full year of 2013. The increase was the result of higher realized zinc, gold and silver prices coupled with higher copper sales volumes in 2014 compared to 2013. Higher copper sales volumes were mostly the result of the Reed and Lalor mines reaching commercial production during 2014.

Profit and earnings per share during the full year of 2014 were $71.9 million and $0.34, respectively, compared to a loss and loss per share of $109.3 million and $0.59 in the full year of 2013, respectively. As previously indicated, the higher profit is mostly the result of a non-cash tax recovery arising from the recognition of previously unrecognized temporary differences in both Peru and Manitoba and the impact of higher zinc prices and higher copper sales volume.

HUDBAY

KEY FINANCIAL AND PRODUCTION RESULTS

Financial Condition ($000s)	**Dec. 31, 2014**	**Dec. 31, 2013**
Cash and cash equivalents	**207,273**	631,427
Working capital	**101,124**	583,124
Total assets	**5,627,508**	3,843,986
Equity[1]	**2,446,720**	1,635,611

Financial Performance (in $ thousands except per share and cash cost amounts)		**Three months ended**		**Year ended**	
		Dec. 31, 2014	**Dec. 31, 2013**	**Dec. 31, 2014**	**Dec. 31, 2013**
Revenue		**128,416**	136,082	**559,956**	516,801
(Loss) profit before tax		**(28,750)**	(33,693)	**11,541**	(56,004)
Basic and diluted earnings (loss) per share[1]		**0.21**	(0.32)	**0.34**	(0.59)
Profit (loss) for the year		**49,583**	(61,481)	**71,866**	(109,276)
Operating cash flows before stream deposit and change in non-cash working capital		**(3,496)**	762	**15,374**	9,849
Operating cash flow per share[2]		**(0.01)**	—	**0.07**	0.06
Cash cost per pound of copper sold, net of by-product credits[2]		**1.60**	2.16	**1.98**	1.91
Production					
Contained metal in concentrate[3]					
Copper	*(tonnes)*	**10,113**	7,334	**37,644**	29,930
Zinc	*(tonnes)*	**19,113**	19,910	**82,542**	86,527
Gold	*(troy oz.)*	**19,468**	18,098	**73,377**	79,183
Silver	*(troy oz.)*	**169,750**	169,216	**745,910**	772,524
Metal Sold					
Payable metal in concentrate					
Copper	*(tonnes)*	**6,182**	7,591	**31,734**	28,703
Gold	*(troy oz.)*	**13,293**	19,940	**63,950**	79,016
Silver	*(troy oz.)*	**131,117**	203,272	**634,402**	729,106
Refined zinc	*(tonnes)*	**28,691**	25,743	**102,981**	103,894

[1] Attributable to owners of the Company.
[2] Operating cash flow per share and cash cost per pound of copper sold, net of by-product credits are non-IFRS financial performance measures with no standardized definition under IFRS. For further information and a detailed reconciliation, please see page 43 of this MD&A.
[3] Metal reported in concentrate is prior to refining losses or deductions associated with smelter contract terms.

HUDBAY

RECENT DEVELOPMENTS

Revolving Credit Facility

We have received commitments from a syndicate of Canadian banks, including our current lenders, to increase the size of our corporate revolving credit facility from US$100 million to US$250 million. The credit facility is intended to provide us with additional liquidity as the Constancia project ramps up to commercial production.

The upsized credit facility will be on substantially similar terms to our existing revolving credit facility and will be repayable in 2018. We expect to complete definitive documentation for the credit facility amendments by the end of the first quarter of 2015.

Callinan Settlement

In November 2014, we entered into a definitive settlement agreement with Callinan Royalties Corporation ("Callinan") to resolve historical litigation related to the Net Profits Interest and Royalty Agreement in respect of the 777 mine (the "NPI Agreement"). As part of the settlement, the NPI Agreement was terminated and Callinan's 62/3% net profits interest over the 777 mine was converted to a 4% net smelter returns ("NSR") royalty; Callinan's 27.56 cents per tonne production royalty at the 777 mine was maintained and it also received a 3% NSR on certain surrounding mineral claims. In addition, we entered into an option agreement with Callinan to allow us to earn up to a 100% interest in Callinan's War Baby claim (which lies adjacent to the 777 deposit) by incurring certain exploration expenditures and making certain payments over a period of four years.

Dividend Declaration

We declared a semi-annual dividend of $0.01 per share on February 19, 2015. The dividend will be paid on March 31, 2015 to shareholders of record as of March 13, 2015.

HUDBAY

DEVELOPMENT UPDATE

Constancia

At our 100% owned Constancia project in Peru, physical construction was essentially completed and copper concentrate production began as expected during the fourth quarter of 2014. Commercial production remains on track for the second quarter of 2015 and the mine is expected to achieve full capacity in the second half of the year. Safety remains a primary focus at the operation with the project achieving approximately 21 million hours worked and only one lost time injury in 2014.

Commissioning is ongoing and copper concentrate produced to date has met specifications. Trucking to the port commenced in early January and the first sale of concentrate is expected later in the first quarter of 2015.

Initial mining of softer supergene ore from the main Constancia pit is expected to result in the concentrator processing ore at average grades 30% above reserve grade in the first five years of the projected 22 year mine life. There are currently approximately 800,000 tonnes of ore on the run-of-mine pad and an additional 1.8 million tonnes of broken ore in the Constancia pit, representing approximately one month of expected throughput in the plant at design capacity. Mining and civil earthworks productivity has been at or above expectations.

Rosemont

Rosemont is a copper project located in Pima County, Arizona, approximately 50 kilometres southeast of Tucson. Our ownership in the Rosemont project is subject to an earn-in agreement with United Copper & Moly LLC (''UCM''), pursuant to which UCM has earned a 7.95% interest in the project and may earn up to a 20% interest.

The 43 hole confirmatory drill program was completed on time in December with a total of approximately 93,000 feet drilled. A metallurgical test program has commenced with initial results expected in the second quarter of 2015 and final results expected in the third quarter of 2015. Permitting efforts remain ongoing. On February 3, 2015, the Arizona Department of Environmental Quality issued the Clean Water Act Section 401 Water Quality Certification. The remaining required key permits are the final Record of Decision from the U.S. Forest Service and the Clean Water Act Section 404 Permit from the U.S. Army Corps of Engineers.

OPERATIONS REVIEW

Mines

		Three months ended		Year ended	
		Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
777					
Ore	*tonnes*	**297,435**	391,946	**1,452,933**	1,625,532
Copper	*%*	**1.95**	1.71	**1.91**	1.85
Zinc	*%*	**1.61**	3.57	**3.05**	3.81
Gold	*g/tonne*	**1.71**	1.77	**1.72**	2.02
Silver	*g/tonne*	**16.17**	20.25	**21.48**	23.01
Lalor					
Ore	*tonnes*	**172,058**	101,327	**551,883**	400,590
Copper	*%*	**1.19**	1.02	**0.88**	0.84
Zinc	*%*	**8.52**	8.64	**8.52**	9.44
Gold	*g/tonne*	**3.05**	1.54	**2.29**	1.21
Silver	*g/tonne*	**31.69**	23.71	**23.83**	19.39
Reed [1]					
Ore	*tonnes*	**119,344**	29,997	**415,736**	38,232
Copper	*%*	**3.30**	1.96	**2.50**	1.90
Zinc	*%*	**0.50**	2.72	**1.58**	2.73
Gold	*g/tonne*	**0.48**	0.92	**0.74**	0.92
Silver	*g/tonne*	**5.39**	11.17	**9.04**	11.33
Total Mines					
Ore	*tonnes*	**588,837**	523,270	**2,420,552**	2,064,354
Copper	*%*	**2.00**	1.59	**1.78**	1.66
Zinc	*%*	**3.40**	4.50	**4.04**	4.89
Gold	*g/tonne*	**1.85**	1.68	**1.68**	1.84
Silver	*g/tonne*	**18.52**	20.40	**19.88**	22.09

[1] Includes 100% of Reed mine production.

		Three months ended		Year ended	
Unit Operating Costs		Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
Mines					
777	*$/tonne*	**61.15**	43.00	**47.34**	43.06
Lalor	*$/tonne*	**75.35**	109.87	**87.30**	110.35
Reed	*$/tonne*	**74.76**	—	**62.81**	—
Total Mines	*$/tonne*	**67.62**	56.73	**57.66**	54.28

HUDBAY

777 Mine

Ore production at our 777 mine for the fourth quarter of 2014 decreased 24% compared to the same period in 2013 as a result of an unscheduled two-week shutdown of the 777 shaft in October, as well as fourth quarter 2013 ore production being above expected rates. Copper grade was higher in the fourth quarter of 2014 compared to fourth quarter of 2013 by 14%, as the majority of our mining was in the north lenses which is a higher copper grade. Zinc, gold and silver grades in the fourth quarter of 2014 were lower compared with the grades in the fourth quarter of 2013 by 55%, 3% and 20%, respectively, due to stope sequencing as well as a zinc concentrate inventory adjustment. Operating costs per tonne of ore in the fourth quarter of 2014 were 42% higher, compared to the same period in 2013, primarily due to higher cement costs, additional costs to rehabilitate stopes, and lower production volumes.

Ore production in 2014 was 11% lower than in 2013 due in part to the unscheduled two-week shutdown of the 777 shaft in October. Zinc, gold and silver grades year-to-date were lower by 20%, 15% and 7%, respectively, compared to 2013 as a result of the areas being mined. Annual operating costs in 2014 were 10% higher, compared to 2013 as a result of lower production volumes.

Lalor Mine

Ore production at our Lalor mine for the fourth quarter of 2014 increased 70% compared to the same period in 2013 due to increased access to additional mining areas and the commissioning of the production shaft during the third quarter of 2014. Copper, gold and silver grades in the fourth quarter of 2014 were higher compared to grades in the fourth quarter of 2013 by 17%, 98% and 34%, respectively, due to the sequencing of the mine plan and transitioning from development mining to longhole mining. Operating costs per tonne of ore in the fourth quarter of 2014 were 31% lower, compared to the same period in 2013, as a result of higher production volumes.

Ore production in 2014 was 38% higher than in 2013 due to increased access to additional mining areas and the commissioning of the production shaft. Copper, gold and silver grades year-to-date were higher by 5%, 89% and 23%, respectively, and zinc grades were lower by 10% compared to 2013, due to the sequencing of the mine plan and transitioning from development mining to longhole mining. Year-to-date operating costs in 2014 were 21% lower, compared to the same period in 2013, primarily due to increased production volumes.

Reed Mine

The Reed Mine commenced production in September 2013 and reached commercial production on April 1, 2014. Ore production in the fourth quarter and the 2014 year reflect Reed achieving full production capacity when compared to 2013. Grade variances for all metals in the quarter and the 2014 year compared to 2013 are as a result of the mine operating plan at Reed. Mine production began in 2013 from 30 lens with higher zinc and lower copper grades and was exhausted in the first half of 2014. Production in the second half of 2014 was from 20 lens which had significantly higher copper grades and lower zinc grades as compared to 30 lens. Unit costs at Reed in 2014 were in line with our expectations.

Processing Facilities

		Three months ended		Year ended		Guidance
		Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Annual 2014
Flin Flon Concentrator						
Ore	*tonnes*	**426,370**	436,623	**1,863,413**	1,658,035	—
Copper	*%*	**2.26**	1.72	**2.03**	1.86	—
Zinc	*%*	**1.26**	3.54	**2.71**	3.79	—
Gold	*g/tonne*	**1.31**	1.73	**1.49**	1.99	—
Silver	*g/tonne*	**12.64**	19.98	**18.64**	22.77	—
Copper concentrate	*tonnes*	**37,222**	28,530	**144,721**	118,125	—
Concentrate grade	*% Cu*	**23.57**	23.59	**23.71**	23.66	—
Zinc concentrate	*tonnes*	**7,388**	24,006	**79,296**	100,082	—
Concentrate grade	*% Zn*	**49.49**	50.93	**51.29**	51.79	—
Copper recovery	*%*	**91.2**	89.7	**90.7**	90.9	—
Zinc recovery	*%*	**68.0**	79.2	**80.4**	82.6	—
Gold recovery	*%*	**60.2**	60.5	**58.8**	63.1	—
Silver recovery	*%*	**48.0**	48.3	**48.3**	53.8	—
Contained metal in concentrate produced						
Copper	*tonnes*	**8,774**	6,731	**34,314**	27,950	33,000-41,000
Zinc	*tonnes*	**3,656**	12,226	**40,669**	51,827	50,000-60,000
Precious metals	*ounces*	**12,166**	16,659	**61,486**	77,182	73,000-88,000
Snow Lake Concentrator						
Ore	*tonnes*	**190,085**	108,738	**526,015**	422,287	—
Copper	*%*	**1.15**	0.68	**0.89**	0.60	—
Zinc	*%*	**8.48**	7.57	**8.49**	8.66	—
Gold	*g/tonne*	**2.91**	1.57	**2.31**	1.51	—
Silver	*g/tonne*	**29.70**	16.75	**24.00**	15.86	—
Copper concentrate	*tonnes*	**7,147**	2,841	**16,518**	9,784	—
Concentrate grade	*% Cu*	**18.72**	21.18	**20.15**	20.22	—
Zinc concentrate	*tonnes*	**31,151**	14,864	**81,947**	67,347	—
Concentrate grade	*% Zn*	**49.62**	51.69	**51.10**	51.53	—
Copper recovery	*%*	**61.4**	81.6	**71.4**	77.7	—

Zinc recovery	%	**95.9**	93.3	**93.7**	94.9	—
Gold recovery	%	**48.6**	61.8	**53.3**	59.6	—
Silver recovery	%	**47.7**	57.5	**50.8**	56.5	—
Contained metal in concentrate produced						
Copper	*tonnes*	**1,339**	603	**3,330**	1,980	3,000-4,000
Zinc	*tonnes*	**15,457**	7,684	**41,873**	34,700	37,000-45,000
Precious metals	*ounces*	**10,049**	3,889	**24,217**	14,074	26,000-32,000

HUDBAY

Unit Operating Costs		Three months ended Dec. 31, 2014	Three months ended Dec. 31, 2013	Year ended Dec. 31, 2014	Year ended Dec. 31, 2013	Guidance Annual 2014	Guidance Annual 2015
Concentrators							
Flin Flon	*$/tonne*	**15.97**	13.75	**14.04**	14.78		
Snow Lake	*$/tonne*	**30.78**	34.78	**33.33**	34.82		
Combined mine/mill unit operating costs							
Flin Flon (777/Reed)	*$/tonne*	**78.50**	55.16	**63.70**	58.00	54 - 66	—
Snow Lake (Lalor)	*$/tonne*	**123.30**	137.16	**125.80**	137.68	102 - 124	—
Manitoba	*$/tonne*	—	—	—	—		73 - 88

Manitoba contained metal in concentrate produced [1,2]		Three months ended Dec. 31, 2014	Three months ended Dec. 31, 2013	Year ended Dec. 31, 2014	Year ended Dec. 31, 2013	Guidance Annual 2014	Guidance Annual 2015
Copper	*tonnes*	**10,113**	7,334	**37,644**	29,930	36,000 - 45,000	40,000 - 50,000
Zinc	*tonnes*	**19,113**	19,910	**82,542**	86,527	87,000 - 105,000	95,000 - 120,000
Gold	*troy oz.*	**19,468**	18,098	**73,377**	79,183	—	—
Silver	*troy oz.*	**169,750**	169,216	**745,910**	772,524	—	—
Precious metals[3]	*troy oz.*	**22,215**	20,548	**85,703**	91,256	99,000 - 120,000	85,000 - 105,000

[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 pre-commercial production amounts from Lalor and Reed where applicable.
[3] Precious metals include gold and silver production. For precious metals guidance, silver is converted to gold at a ratio of 60:1 for 2015 guidance and 50:1 for 2014 guidance.

Flin Flon Concentrator

For the fourth quarter of 2014, ore processed was 2% lower compared to the same period in 2013 as a result of the unscheduled two-week shutdown of the 777 shaft in October offset by higher mine production from Reed. In the fourth quarter of 2014, copper concentrate produced was 30% higher compared to the fourth quarter of 2013 as a result of Reed production and higher copper grades at our 777 mine. In the fourth quarter of 2014, zinc concentrate produced was 69% lower compared to the fourth quarter of 2013 as a result of lower zinc grades at 777 and a zinc concentrate inventory adjustment. Recoveries of copper, gold and silver in the fourth quarter of 2014 remained fairly consistent compared to the same period in 2013. Recoveries of zinc in the fourth quarter of 2014 were 14% lower compared to the same period in 2013 as a result of lower mine head grades experienced during the quarter. Operating cost per tonne of ore processed in the fourth quarter of 2014 was 16% higher compared to the same period in 2013 due to maintenance activities undertaken as a result of the unscheduled shaft shutdown at 777.

Ore processed in 2014 was 12% higher than 2013 due to commercial production and ramp up success at Reed, offset in part by reduced 777 production. Copper concentrate production was 23% higher than in 2013 as a result of Reed production. Zinc concentrate was 21% lower than 2013 as a result of reduced zinc head grades from both 777 and Reed. Recoveries of copper and zinc in 2014 remained fairly consistent compared to 2013. Recoveries of gold and silver in 2014 were 7% and 10% lower, respectively, than 2013 as a result of the lower precious metal grades from 777. Operating costs per tonne of ore processed for the full 2014 year were 5% lower than in 2013 due to increased production.

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Copper production in 2014 at the Flin Flon concentrator was within guidance, while zinc and precious metal production was lower than expected

primarily as a result of lower grades at the 777 mine due to the sequencing of stopes, along with the impact of an unscheduled two-week shutdown of the 777 shaft in October 2014. Combined unit costs for Flin Flon operations were within guidance range.

Snow Lake Concentrator

During the fourth quarter of 2014, ore processed was 75% higher than in the fourth quarter of 2013 as a result of increased availability of ore from Lalor production. In the fourth quarter of 2014, copper and zinc concentrate production were higher compared to the same period in 2013 by 152% and 110%, respectively due to higher copper head grades from Lalor and increased throughput. Recoveries of copper, gold and silver in the fourth quarter of 2014 were 25%, 21% and 17% lower, respectively, compared to the same period in 2013 as a result of the metallurgy of the Lalor ore body and as optimization work continued on the expanded concentrator. Unit operating costs per tonne of ore processed for the fourth quarter of 2014 were 12% lower than the fourth quarter of 2013 as a result of increased production.

Ore processed in 2014 was 25% higher than in 2013, as a result of increased availability of ore from Lalor as the production shaft was brought into operation in the third quarter of 2014. Copper and zinc concentrate produced were 69% and 22% higher, respectively, compared to 2013, as a result of increased production from Lalor and improved copper grades as compared to 2013. Recoveries of copper, gold and silver in 2014 were 8%, 11% and 10% lower, respectively, than in 2013, as a result commissioning activities at the expanded concentrator. Unit operating costs per tonne of ore processed in 2014 were 4% lower than in 2013 as a result of higher production in 2014 which was partially offset by increased costs of supplies of the expanded concentrator.

Copper production and zinc production in 2014 at the Snow Lake concentrator was within guidance, while precious metal production was lower than expected primarily as a result of lower than expected recoveries as optimization work continues on the expanded concentrator. The Snow Lake operations unit costs were slightly higher than 2014 guidance mainly due to lower than expected ore production.

Zinc Plant

		Three months ended		Year ended		Guidance Annual	
Zinc Production		**Dec. 31, 2014**	**Dec. 31, 2013**	**Dec. 31, 2014**	**Dec. 31, 2013**	**2014**	**2015**
Zinc Concentrate Treated							
Domestic	*tonnes*	**54,490**	41,245	**160,570**	179,553		
Purchased	*tonnes*	**3,884**	6,558	**51,273**	13,110		
Total	*tonnes*	**58,374**	47,803	**211,843**	192,663	195,000-225,000	190,000-235,000
Refined Metal Produced							
Domestic	*tonnes*	**26,116**	20,548	**79,133**	89,838		
Purchased	*tonnes*	**2,055**	3,443	**25,980**	6,467		
Total	*tonnes*	**28,171**	23,991	**105,113**	96,305	100,000-110,000	95,000-120,000

		Three months ended		Year ended		Guidance Annual	
Unit Operating Costs		**Dec. 31, 2014**	**Dec. 31, 2013**	**Dec. 31, 2014**	**Dec. 31, 2013**	**2014**	**2015**
Zinc Plant	*$/lb*	**0.35**	0.39	**0.35**	0.35	0.30 - 0.37	0.31 - 0.38

Production of cast zinc in the fourth quarter of 2014 was higher by 17% compared to the same period in 2013 due to improved concentrate availability. Operating costs per pound of zinc metal produced were 11% lower during the fourth quarter of 2014 compared to the fourth quarter of 2013 as a result of increased production. Production of cast zinc in 2014 was 9% higher than in 2013 as a result of concentrate availability, both domestic and purchased. Operating cost per pound of zinc metal produced in 2014 was relatively consistent period over period as a result of high energy costs for heating experienced in the first quarter of 2014 offset by higher levels of production.

Zinc plant production and unit costs were within guidance ranges.

Metal Sold

		Three months ended		Year ended	
		Dec. 31, 2014	**Dec. 31, 2013**	**Dec. 31, 2014**	**Dec. 31, 2013**
Payable metal in concentrate					
Copper	*tonnes*	**6,182**	7,591	**31,734**	28,703
Gold	*troy oz.*	**13,293**	19,940	**63,950**	79,016
Silver	*troy oz.*	**131,117**	203,272	**634,402**	729,106
Refined zinc	*tonnes*	**28,691**	25,743	**102,981**	103,894

OUTLOOK

The outlook and financial targets only relate to fiscal 2015. This outlook includes forward-looking information about our operations and financial expectations based on our expectations and outlook as of February 19, 2015. 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 1 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 2015. 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 2015 operational and financial performance will be influenced by a number of factors. At the macro-level, the general performance of the North American and global economies will influence the demand for our products. The realized prices we achieve in the commodity markets significantly affect our performance. Our general expectations regarding metals prices and foreign exchange rates are included below in the "Commodity Markets" and "Sensitivity Analysis" sections of this MD&A.

In addition, our financial and production performance expectations are dependent on the ramp up of production at the Constancia project over the course of 2015.

2015 Mine and Mill Production (Contained Metal in Concentrate)

		Year ended December 31, 2014[4]	2015 Guidance[1, 2]
Copper	*tonnes*	**37,644**	140,000 - 175,000
Zinc	*tonnes*	**82,542**	95,000 - 120,000
Precious Metals [3]	*troy oz.*	**85,703**	135,000 - 170,000

[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 pre-commercial production amounts from Lalor and Reed, and anticipated pre-commercial amounts from Constancia.
[3] Precious metals production includes gold and silver production. Silver converted to gold at a ratio of 60:1 for 2015 guidance.
[4] Production volumes do not include nominal amounts produced by Constancia in 2014.

We expect contained copper metal in concentrate production in 2015 to increase from 2014 levels as we reach commercial production at the Constancia project. The 2015 guidance includes 100,000 to 125,000 tonnes of copper and 50,000 to 65,000 ounces of precious metals from our Constancia project. Contained zinc metal in concentrate in 2015 is expected to increase over 2014 levels due to the first full year of production at Lalor from the production shaft. We expect precious metals production to increase from 2014 due to 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 2014 than in 2013, while average zinc prices were higher and the Canadian dollar was weaker relative to the US dollar in 2014 compared to 2013.

We have developed the following market analysis from various information sources including analyst and industry experts.

Copper

In 2014, the London Metal Exchange ("LME") copper price averaged US$3.11 per pound ("/lb"), with prices ranging between US$2.86/lb and US$3.37/lb. Copper concentrate and refined metal markets experienced a moderate surplus in 2013, as mine supply growth from projects initiated several years ago supported growth in refined metal production.

In January 2015, copper prices dropped sharply to as low as US$2.45/lb following a steep decline in global oil prices. As there is not an evident relationship between the economic fundamentals of crude oil prices and copper prices in the short term, general negative investor sentiment towards commodities appears to have been a significant factor. Market expectations have been for a small surplus in 2015, but the decline in copper is likely to reduce marginal, higher-cost copper supply, which could turn the market to a deficit. Further, low oil prices are likely to be supportive to global economic growth, so we believe that the copper price outlook for the balance of 2015 is biased towards higher prices based on fundamentals.

Beyond 2015, lower copper prices are expected to reinforce a lack of investment in new copper production since 2013, and assuming continued global and Chinese economic growth, a peaking of mine supply growth in 2016 is expected to be followed by copper market deficits thereafter.

Zinc

In 2014, the LME zinc price averaged US$0.98/lb, with prices ranging from US$0.88/lb to US$1.10/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, reflected in firmer zinc metal prices.

A continued lack of industry investment in new zinc mine production capacity together with anticipated closures of major mines is likely to result in a continuation of the draw down of zinc metal inventories that began in 2013 resulting in a significant deficit in the global zinc metal market and limited availability of physical metal within the next two years.

Precious Metals

Gold and silver prices averaged US$1,266 per ounce and US$19.07 per ounce, respectively, during 2014 reflecting a continuation of weak precious metal prices following the 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 Manitoba and corporate 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 weaker Canadian dollar may result in foreign exchange losses due to the translation of US dollar denominated cash indebtedness.

The Canadian dollar traded in a range between $0.86 and $0.94 per US dollar through 2014, weakening more significantly during the fourth quarter as commodity prices, particularly crude oil, fell sharply.

As we ramp up production at our Constancia project in Peru, the exchange rate between the US dollar and the Peruvian nuevo sol (“PEN”) will become increasingly important with substantial component of operating costs denominated in PEN. In 2014, the PEN weakened during the second half of the year in line with generalized appreciation in the US dollar and a weakening of commodity prices that are an important component of Peruvian exports, trading in a range between 2.99 and 2.76 per US dollar.

Sensitivity Analysis

The following table displays the estimated impact of changes in metals prices and exchange rates on our 2015 net profit, assuming that our operational performance is consistent with our guidance for 2015. The effects of a given change in an assumption are isolated.

	2015 Base	Change of 10% represented by:	Impact on Profit	Impact on EPS[1]
Metal Prices				
Copper price	*US$2.75/lb*	+/- US$0.28/lb	+/- C$58M	+/- 0.25
Zinc price	*US$1.00/lb*	+/- US$0.10/lb	+/- C$17M	+/- 0.07
Gold price [2]	*US$1,300/oz*	+/- US$130/oz	+/- C$4M	+/- 0.02
Exchange Rates [3]				
C$/US$	1.20	+/- 0.12	+/- C$7M	+/- 0.03
PEN/US$	3.00	+/- 0.30	+/- C$1M	+/- 0.00

[1] Based on estimated future weighted average number of common shares outstanding of 233.8 million.
[2] Gold price sensitivity also includes the impact of a +/-10% change in the silver price (2015 assumption: US$21/oz).
[3] Change in profit from operational performance only, does not include change in profit arising from translation of balance sheet accounts.

Financial Results

In the fourth quarter of 2014, our profit was $49.6 million compared to a loss of $61.5 million for the fourth quarter of 2013. For the full year 2014, we recorded a profit of $71.9 million compared to a loss of $109.3 million in 2013.

The following table provides further details of this variance:

(in $ millions)	Three months ended Dec. 31, 2014	Year ended Dec. 31, 2014
Increase (decrease) in components of profit or loss:		
Revenues	**(7.7)**	**43.2**
Cost of sales		
Mine operating costs	**2.9**	**(44.5)**
Depreciation and amortization	**(1.9)**	**(15.7)**
Selling and administrative expenses	**(3.3)**	**(6.3)**
Exploration and evaluation	**0.4**	**12.1**
Other operating income and expenses	**0.4**	**(3.0)**
Loss on disposal of subsidiary	**—**	**(6.5)**
Asset impairment loss	**11.9**	**15.4**
Augusta related costs	**(4.2)**	**(23.9)**
Finance income	**(0.4)**	**0.4**
Finance expenses	**(0.1)**	**(1.2)**
Other finance (gains) losses	**7.0**	**97.6**
Tax	**106.1**	**113.6**
Increase in profit for the period	**111.1**	**181.2**

Revenue

Total revenue for the fourth quarter of 2014 was $128.4 million; $7.7 million lower than the same period in 2013. This decrease was primarily due to lower copper prices and lower copper, gold and silver sales volumes compared to the fourth quarter of 2013, which is a result of the unscheduled two week shutdown of the 777 shaft and approximately 40% of copper produced in the quarter in-transit and unsold.

For the full year 2014 revenue was $560 million, $43.2 million higher than in 2013, mainly as a result of higher zinc prices and higher copper sales volumes. The following table provides further details of this variance:

(in $ millions)	Three months ended Dec. 31, 2014	Year ended Dec. 31, 2014
Metals prices[1]		
Lower copper prices	**(8.6)**	**(19.6)**
Higher zinc prices	**9.7**	**26.9**
Higher gold prices	**0.8**	**6.1**
Higher silver prices	**0.4**	**1.7**
Sales volumes		
(Lower) higher copper sales volumes	**(10.9)**	**22.5**
Higher (lower) zinc sales volumes	**6.5**	**(2.0)**
Lower gold sales volumes	**(8.2)**	**(18.5)**
Lower silver sales volumes	**(1.3)**	**(1.8)**
Other		
Favourable movement in foreign exchange rates	**10.1**	**33.9**
Derivative mark-to-market increase	**1.0**	**10.6**
Pre-production revenue increase	**(6.8)**	**(6.3)**
Other volume and pricing differences	**0.4**	**(0.9)**
Effect of higher treatment and refining charges	**(0.8)**	**(9.4)**
(Decrease) increase in revenue in 2014 compared to 2013	**(7.7)**	**43.2**

[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, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
Copper	**43.0**	59.0	**234.2**	210.4
Zinc	**78.7**	55.0	**267.1**	219.1
Gold	**18.0**	25.3	**87.5**	99.5
Silver	**2.8**	3.8	**14.2**	14.4
Other	**1.5**	1.0	**5.0**	5.8
Gross revenue[1]	**144.0**	144.1	**608.0**	549.2
Treatment and refining charges	**(6.1)**	(5.3)	**(29.2)**	(19.9)
Pre-production revenue	**(9.5)**	(2.7)	**(18.8)**	(12.5)
Revenue	**128.4**	136.1	**560.0**	516.8

[1] 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 realized prices.

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 quarter and full year of 2014 and 2013 are summarized below:

			Realized prices[1] for Three months ended			Realized prices[1] for the Year ended	
		LME QTD 2014[2]	Dec. 31, 2014	Dec. 31, 2013	LME YTD 2014[2]	Dec. 31, 2014	Dec. 31, 2013
Prices in US$							
Copper[3]	*US$/lb.*	**3.00**	**2.75**	3.34	**3.11**	**3.00**	3.27
Zinc[3]	*US$/lb.*	**1.01**	**1.10**	0.95	**0.98**	**1.06**	0.95
Gold[3,4]	*US$/troy oz.*		**1,270**	1,209		**1,317**	1,222
Silver[3,4]	*US$/troy oz.*		**20.55**	17.51		**21.76**	19.10
Prices in C$							
Copper[3]	*C$/lb.*	**3.42**	**3.14**	3.49	**3.44**	**3.30**	3.36
Zinc[3]	*C$/lb.*	**1.15**	**1.24**	0.99	**1.08**	**1.17**	0.98
Gold[3,4]	*C$/troy oz.*		**1,350**	1,262		**1,371**	1,257
Silver[3,4]	*C$/troy oz.*		**21.64**	18.27		**22.46**	19.65
Exchange rate[5]	*US$1 to C$*		**1.12**	1.04		**1.09**	1.03

[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, 2014, the unrealized components of those derivatives resulted in a gain of US$0.01/lb; gain of US$0.01/lb; gain of US$0.25/oz., and US$0.02/oz., respectively.
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; gain of US$6.2/oz., and US$0.47/oz., respectively.

[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 in 2014 include deferred revenue of US$965.19/oz and US$17.89/oz, respectively. Realized gold and silver prices in 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, 2014

(in $ millions)	Copper	Zinc	Gold	Silver	Other	Total
Revenue per financial statements	**43.0**	**78.7**	**18.0**	**2.8**	**1.5**	**144.0**
Derivative mark-to-mark and other	**(0.2)**	**(0.4)**	**—**	**—**	**—**	**(0.6)**
Revenue excluding unrealized derivative mark-to-mark	**42.8**	**78.3**	**18.0**	**2.8**	**1.5**	**143.4**
Payable metal in concentrate sold [1]	**6,182**	**28,691**	**13,293**	**131,117**	**—**	**—**
Realized Price [2,4]	**6,920**	**2,732**	**1,350**	**22**	**—**	**—**
Realized Price [3,4]	**3.14**	**1.24**	**—**	**—**	**—**	**—**

Year ended December 31, 2014

(in $ millions)	Copper	Zinc	Gold	Silver	Other	Total
Revenue per financial statements	**234.2**	**267.1**	**87.5**	**14.2**	**5.0**	**608.0**
Derivative mark-to-mark and other	**(3.6)**	**(0.9)**	**0.2**	**—**	**—**	**(4.3)**
Revenue excluding unrealized derivative mark-to-mark	**230.6**	**266.2**	**87.7**	**14.2**	**5.0**	**603.7**
Payable metal in concentrate sold [1]	**31,734**	**102,981**	**63,950**	**634,402**	**—**	**—**
Realized Price [2,4]	**7,268**	**2,584**	**1,371**	**22**	**—**	**—**
Realized Price [3,4]	**3.30**	**1.17**	**—**	**—**	**—**	**—**

Three months ended December 31, 2013

(in $ millions)	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-mark and other	(0.6)	1.2	(0.1)	(0.1)	—	0.4
Revenue excluding unrealized derivative mark-to-mark	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]	7,695	2,184	1,262	18	—	—
Realized Price [3,4]	3.49	0.99	—	—	—	—

Year ended December 31, 2013

(in $ millions)	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-mark and other	2.3	4.2	(0.2)	—	—	6.3
Revenue excluding unrealized derivative mark-to-mark	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	2,150	1,257	20	—	—
Realized Price [3,4]	3.36	0.98	—	—	—	—

[1] Copper and zinc shown in metric tonnes and gold and silver 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 to customers.

***Outlook** (Refer to the Forward-Looking Information section on page 1 of this MD&A)*

We expect that revenues will continue to be affected mainly by the volume of contained metal production and the market prices of copper and zinc, together with fluctuation of the US dollar exchange rate compared to the Canadian dollar. Notwithstanding depreciation of the Canadian dollar relative to the US dollar, copper prices denominated in Canadian dollars have been lower to date in 2015 than average prices in 2014 as a result of a sharp drop in prices in January 2015 — see “Commodity Markets” on page 16, while zinc prices in Canadian dollars have been relatively stable.

The most significant factor affecting our revenue outlook, notwithstanding weaker copper prices, is the ramp up of production at the Constancia project, which is expected to increase revenues materially once the facilities are considered to have achieved commercial production.

Once the Constancia project reaches commercial production, operating costs that have been capitalized will be expensed, resulting in higher cost of sales (with a corresponding increase in revenues). As a substantial amount of operating costs will then be incurred in Peru, the PEN and US dollar exchange rates relative to the Canadian dollar will also have a significant impact on operating costs reported in Canadian dollars. In addition, a full year of operations following declarations of commercial production at Lalor and Reed is expected to contribute to higher cost of sales in 2015 compared to 2014 at our Manitoba business unit.

Cost of sales

Our detailed cost of sales is summarized as follows:

(in $ thousands)	Three months ended Dec. 31, 2014	Three months ended Dec. 31, 2013	Year ended Dec. 31, 2014	Year ended Dec. 31, 2013
Mines				
777	**18,190**	16,852	**68,786**	68,592
Lalor	**12,964**	11,132	**40,464**	35,174
Reed	**6,245**	—	**15,148**	—
Concentrators				
Flin Flon	**6,808**	6,005	**26,161**	24,505
Snow Lake	**5,851**	3,782	**17,530**	14,704
Metallurgical plants	**21,577**	20,644	**81,691**	75,259
Zinc plant				
Other				
Services and site administration	**17,440**	17,261	**61,821**	65,216
Purchased zinc concentrate and metal (before inventory changes)	**52**	10,490	**46,880**	20,821
Manitoba employee profit sharing	**536**	1,165	**5,985**	7,767
Net profits interest	**995**	2,073	**9,414**	10,448
Distribution	**9,440**	8,579	**35,027**	30,548
Changes in domestic inventory	**(7,456)**	(3,372)	**(13,002)**	1,858
Reed joint venture ore purchased	**4,789**	—	**14,035**	—
Depreciation and amortization	**23,812**	21,888	**92,444**	76,714
Adjustments related to zinc inventory write-downs	**—**	5,011	**(5,011)**	5,011
Other	**(496)**	251	**(388)**	182
Cost of sales	**120,747**	121,761	**496,985**	436,799

Total cost of sales for the fourth quarter of 2014 was $120.7 million, reflecting a decrease of $1.0 million from the fourth quarter of 2013, as higher Lalor and Reed costs following commercial production were mostly offset by lower costs of purchased zinc concentrate. In addition, changes in domestic inventory as a result of increased inventory balances resulted in a decrease of $4.1 million, and cost of sales for the fourth quarter of 2013 was impacted by a write-down of zinc inventory of $5.0 million.

Cost of sales for 2014 was $497.0 million, an increase of $60.2 million from 2013. This was mainly due to purchased concentrate and metal costs which were $26.1 million higher than the same period in 2013 as additional purchased concentrate was available on attractive terms. In addition, the 2014 Lalor and Reed mine costs were $5.3 million and $15.1 million higher than 2013 and depreciation and amortization costs were $15.7 million higher due to phase 1 of the Lalor mine achieving commercial production on April 1, 2013 and Reed mine achieving commercial production on April 1, 2014. The zinc plant costs for 2014 were $6.4 million higher than the same period in 2013 as a result of higher production levels and increased propane costs earlier in the year. Reed joint venture ore purchased was higher by $14.0 million as a result of Reed mine achieving commercial production. The increases were partially offset by lower changes in domestic inventory by $14.9 million as a result of increased inventory balances and adjustments related to the zinc inventory write-down of $10.0 million due to higher zinc inventory costs and lower zinc prices in 2013.

For details on unit operating costs refer to the respective tables in the Operations Review section beginning on page 10 of this MD&A.

For the fourth quarter of 2014, other significant variances in expenses, compared to the same period in 2013, include the following:

- **Selling and administrative expenses** increased by $3.3 million compared to the same period in 2013. The increase was primarily due to increased expenses for share units resulting from a higher share price and a greater number of outstanding units compared to the same period in 2013 as well as higher corporate costs.

- **Asset impairment loss** in 2013 was 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 in 2013.

- **Augusta related costs** of $4.2 million are related to costs associated with our newly acquired Arizona business unit.

- **Other finance gains** increased by $7.0 million, compared to the same period in 2013, primarily as a result of:

    - lower mark-to-market losses and impairment losses of $0.1 million recognized on available-for-sale investments in junior mining companies, compared to impairment losses of $8.5 million in the fourth quarter of 2013;
    - mark-to-market gains in the revaluation of warrants issued and assumed in connection with the acquisition of Augusta of $3.7 million;
    - foreign exchange losses were lower by $0.6 million compared to the fourth quarter of 2013;
    - partially offset by losses on the fair value adjustment on the embedded derivative related to the unsecured notes resulted of $5.7 million compared to nil in the fourth quarter of 2013.

For year-to-date 2014, other significant variances in expenses, compared to the same period 2013 include the following:

- **Selling and administrative expenses** increased by $6.3 million, totalling $46.3 million year-to-date 2014. The increase was partially due to increased expenses for share units resulting from a higher share price and a greater number of outstanding units compared to the same period in 2013, as well as higher corporate costs.

- **Exploration and evaluation expenses** decreased by $12.1 million to $11.2 million year-to-date in 2014 due to a change in focus from grassroots exploration spending to brownfield exploration opportunities. In addition, no costs were incurred at the Back Forty project in Michigan as our interest was sold on January 17, 2014.

- **Other operating income and expenses** increased by $3.0 million primarily related to lower discount rates on decommissioning and restoration liabilities for non-producing mines.

- **Loss on disposition of subsidiaries** is the result of the sale of our wholly owned subsidiary, Hudbay Michigan Inc., on January 17, 2014.

- **Augusta related costs** of $16.7 million associated with our acquisition of Augusta, and an additional $7.2 million incurred to integrate the newly acquired Arizona business unit.

- **Other finance gains** increased by $97.6 million mainly as a result of:

    - gains from the revaluation of previously owned shares in Augusta of $50.3 million upon the acquisition of control of Augusta;

    - mark-to-market gains on revaluation of warrants issued and assumed in connection with the acquisition of Augusta of $25.7 million;
    - mark-to-market losses and impairment losses of $1.6 million recognized on available-for-sale investments in junior mining companies, compared to impairment losses of $16.3 million in the same period of 2013;
    - lower losses on the fair value adjustment on the embedded derivative related to the unsecured notes resulted in losses of $2.1 million compared with a loss of $2.8 million; and
    - foreign exchange losses of $18.3 million compared to foreign exchange losses of $24.5 million in the same period of 2013. The losses are a function of the weakening Canadian dollar against the US dollar in both periods which creates a loss when translating net liability US denominated monetary items.

	Three months ended		Year ended	
(in $ millions)	**Dec. 31, 2014**	**Dec. 31, 2013**	**Dec. 31, 2014**	**Dec. 31, 2013**
Loss on PEN denominated transactions, primarily cash translated to USD	**(4.0)**	(1.9)	**(8.3)**	(26.7)
Loss on revaluation of USD denominated long-term debt, interest expense accrued and intercompany balances, net of transaction costs and embedded derivative	**(8.1)**	(16.6)	**(28.9)**	(35.8)
Gain on revaluation of USD cash balances	**3.2**	8.7	**13.6**	34.6
Gain on working capital and other small entities	**0.6**	0.9	**5.3**	3.4
Total pre-tax loss	**(8.3)**	(8.9)	**(18.3)**	(24.5)
Total tax expense related to translation	**(0.2)**	(2.1)	**(4.4)**	(5.2)
Total loss to the income statements	**(8.5)**	(11.0)	**(22.7)**	(29.7)
Cumulative translation adjustment gain in other comprehensive income related to translation of foreign operations, primarily Peru and Arizona	**77.9**	47.8	**185.2**	87.7

Total increase to equity	**69.4**	36.8	**162.5**	58.0

Tax Expense

For the three months and year ended December 31, 2014 tax expense decreased by $106.1 million and $113.6 million, respectively, compared to the same period in 2013. The following table provides further details:

	Three months ended		Year ended	
(in $ thousands)	**Dec. 31, 2014**	**Dec. 31, 2013**	**Dec. 31, 2014**	**Dec. 31, 2013**
Non cash - income tax expense [1]	**(74,825)**	23,980	**(66,040)**	49,988
Non cash - mining tax expense [1]	**(3,596)**	(466)	**4,678**	(8,817)
Total non cash tax expense	**(78,421)**	23,514	**(61,362)**	41,171
Estimated current taxes payable - income tax	**(447)**	727	**196**	3,502
Estimated current taxes payable - mining tax	**535**	3,547	**841**	8,599
Total estimated current taxes payable	**88**	4,274	**1,037**	12,101
Tax (recovery) expense	**(78,333)**	27,788	**(60,325)**	53,272

[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 the profit before tax for 2014 full year was approximately negative 570.5% (2013 - negative 95.5%). Applying the estimated Manitoba statutory income tax rate of 27.0% to our profit before taxes of $11.5 million would have resulted in a tax expense of approximately $3.1 million; however we recorded an income tax recovery of $65.8 million (2013 full year expense - $53.5 million). The significant items causing our effective income tax rate to be different than the 27.0% estimated Manitoba statutory income tax rate include:

- Certain deductible temporary differences with respect to Manitoba were recognized in the year related to decommissioning and restoration and other employee benefit liabilities as we have determined that it is probable that we will realize the recovery, resulting in a decrease in deferred tax expense of approximately $31 million;
- Certain taxable temporary differences were determined probable to reverse outside of the 15 year tax stability agreement in Peru and will be subject to the lower, newly enacted tax rates in Peru, resulting in a decrease in deferred tax expense of $14.9 million;
- Certain deductible temporary differences with respect to Peru were recognized in the year as it was determined probable that we would realize the benefit related to loss carryforward balances and an increase in tax basis related to the translation of historical balances into US dollars for tax filing purposes, resulting in a decrease in deferred tax expense of $22.6 million;
- Certain foreign exchange losses of $34.2 million (2013 full year - $52.1 million) are not deductible for local income tax purposes and therefore result in an increase in deferred tax expense for the year of approximately $9.2 million;
- The loss of $6.5 million recognized on the disposition of the Back Forty project in Michigan caused 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 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. The non-deductible portion of the loss plus the tax benefit of the deferred tax asset not recognized resulted in an increase in deferred tax expense of approximately $1.8 million for the year;
- The gain recognized on available-for-sale investments related to Augusta shares previously owned by Hudbay and certain other fair value adjustments of approximately $75.7 million creates an unrecognized taxable temporary difference resulting in a decrease in deferred tax expense of approximately $20.4 million;
- Certain of our foreign operations incurred losses of $7.2 million (2013 full year - $24.9 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, resulting in an increase in deferred tax expense of approximately $1.9 million;
- Augusta transaction costs of $16.7 million which are not deductible for income tax purposes, resulting in an increase in deferred tax expense for the year of approximately $4.5 million; and
- Increases to our decommissioning and restoration liabilities resulting from a significant decrease in discount rates required us to record a corresponding non-cash increase to property, plant, and equipment. We recognized a deferred tax expense of $4.7 million (2013 full year — recovery $6.5 million) related to the increase in property, plant and equipment; however, we did not recognize a deferred tax recovery related to the increase in the decommissioning and restoration liabilities because we determined it is not probable that we will realize the benefit of the recovery.

Mining Tax Expense

Applying the Manitoba statutory income tax rate of 10.0% to our profit before taxes for the year-to-date period of $11.5 million would have resulted in a tax expense of approximately $1.2 million and we recorded a mining tax expense of $5.5 million (2013 year-to-date — tax recovery of $0.2 million). For the 2014 year-to-date period, our effective rate for mining taxes was approximately 47.8% (2013 year-to-date - 0.4%). Effective mining tax rates can vary significantly based on the composition of our earnings and the expected amount of mining taxable profits. Corporate costs and 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 estimate that the tax rate that will be applicable when temporary differences reverse will be approximately 10.0%.

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 as at December 31, 2014 at the tax rate we expect to apply when temporary differences reverse.

LIQUIDITY AND CAPITAL RESOURCES

9.50% Senior Unsecured Notes

On August 6, 2014, we issued US$170 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$750 million aggregate principal amount of 9.50% senior unsecured notes that we issued between September 2012 and December 2013 (the "Initial Notes", and together with the Additional Notes, the "Notes"). The Additional Notes were priced at 107% of the aggregate principal amount, resulting in gross proceeds of US$181.9 million and will yield 8.03% to maturity. 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 of the Additional Notes were used primarily to fund the repayment of indebtedness of Augusta, interest costs on the Additional Notes have been capitalized to Rosemont 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 and Rosemont projects.

For further information on the Notes refer to note 19 of our consolidated financial statements for the year ended December 31, 2014.

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. We received two additional US$125 million deposit payments during the second quarter of 2013 and the first quarter of 2014, respectively. On November 4, 2013, we entered into an amended and restated precious metals stream agreement with Silver Wheaton pursuant to which we agreed to receive an additional US$135 million deposit against delivery of 50% of payable gold from the Constancia project, with the deposit payable in cash or Silver Wheaton shares, at Silver Wheaton's election. We received Silver Wheaton shares in satisfaction of the gold deposit during the third quarter of 2014 and sold the shares for net proceeds of US$134 million.

For further information on the precious metals stream transaction, refer to note 20 of our consolidated financial statements for the year ended December 31, 2014.

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 overallotment 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 $172.7 million.

Senior Secured Revolving Credit Facility

Our corporate senior secured revolving 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$86.4 million at December 31, 2014. As at December 31, 2014, we were in compliance with our covenants under the facility.

A group of lenders, including all of the current lenders under our revolving credit facility, have provided commitments to an amended facility that would increase the availability under the facility to US$250 million and eliminate the borrowing base limitation on availability. Closing of the amendments is expected during the first quarter of 2015.

Also as at December 31, 2014, $64.1 million (or US$55.3 million at December 31, 2014 exchange rates) of letters of credit had been advanced under the credit facility to support our reclamation obligations in Manitoba.

Equipment Finance Facility

In October 2013, we entered into an equipment financing facility with Caterpillar Financial Services Corporation to finance the purchase of components of the mobile fleet at our Constancia project. Loans pursuant to the equipment financing facility have a term of six years, amortize on a quarterly basis and are secured by the financed equipment. As at December 31, 2014, we have approximately US$71.2 million outstanding under the facility.

Constancia Standby Credit Facility

In June 2014, we entered into a US$150 million standby credit facility to provide financing for expenditures on the Constancia project, if required. Any drawdowns under the facility are repayable in quarterly instalments beginning December 31, 2015 and ending September 30, 2018. The facility is secured by the assets of our Peru business unit. An initial drawdown of US$81.5 million occurred on February 3, 2015.

Augusta Indebtedness

In August 2014 we repaid approximately US$117.9 million of loans made by RK Mine Finance Trust I to Augusta with the proceeds of our Additional Notes offering.

Financial Condition

Financial Condition as at December 31, 2014 compared to December 31, 2013

Cash and cash equivalents decreased by $424.2 million from December 31, 2013 to $207.3 million as at December 31, 2014. This decrease was a result of $982.7 million of investments primarily at our Constancia project, interest payments of $91.6 million and principal payments of $142.3 million related to the loan made to Augusta and our equipment financing facility. These amounts were partly offset by net proceeds related to the January equity offering of $164.8 million, the receipt of two deposits under the precious metals stream transaction with Silver Wheaton of US$260 million, net proceeds from our Additional Notes and our equipment financing facility of $295.2 million, and $42.3 million of value added-tax refunds from the Peruvian government. 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 $482.0 million to $101.1 million from December 31, 2013 to December 31, 2014. In addition to the decreased cash and cash equivalents position:

- Receivables increased by $42.9 million, primarily due to an increase in the current portion of the statutory receivable related to the Peruvian sales tax due to the timing of expected receipts;
- Inventories increased by $35.5 million as a result of timing of concentrate shipments;
- Taxes receivable, net of taxes payable, decreased by $26.0 million, mainly as a result of a $32.7 million refund from the Canada Revenue Agency due to the re-filing of prior year tax returns to reflect the “New Mine” status of the Lalor project which was offset by taxes paid in the year along with adjustments related to income tax credits;
- Trade and other payables increased by $61.8 million primarily as a result of our development activities at Constancia and interest on long-term debt;
- Current portion of long-term debt increased by $17.1 million in relation to the equipment financing facility; and
- Current portion of deferred revenue increased by $15.7 million in relation to anticipated precious metals production from Constancia.

Cash Flows

The following table summarizes our cash flows for the three months and year ended December 31, 2014 and December 31, 2013.

	Three months ended		Year ended	
(in $ thousands)	**Dec. 31, 2014**	**Dec. 31, 2013**	**Dec. 31, 2014**	**Dec. 31, 2013**

Profit (loss) for the period	**49,583**	(61,481)	**71,866**	(109,276)
Tax (recovery) expense	**(78,333)**	27,788	**(60,325)**	53,272
Items not affecting cash	**16,106**	32,797	**(30,495)**	61,352
Taxes refunded	**9,148**	1,658	**34,328**	4,501
Operating cash flows before change in non-cash working capital	**(3,496)**	762	**15,374**	9,849
Precious metal stream deposit	**—**	—	**289,218**	131,475
Change in non-cash working capital	**21,461**	2,283	**(13,822)**	2,795
Cash used in operating activities	**17,965**	3,045	**290,770**	144,119
Cash used in investing activities	**(232,434)**	(279,062)	**(963,991)**	(1,053,013)
Cash used in financing activities	**(6,160)**	105,077	**217,013**	183,448
Effect of movement in exchange rates on cash and cash equivalents	**10,207**	9,880	**32,054**	19,785
Decrease in cash and cash equivalents	**(210,422)**	(161,060)	**(424,154)**	(705,661)

Cash Flow from Operating Activities

Operating cash flow before change in non-cash working capital was negative $3.5 million for the fourth quarter of 2014, a $4.3 million decrease compared with the same period in 2013, primarily as a result of lower copper sales volume and lower realized copper prices.

Year-to-date operating cash flow before change in non-cash working capital in 2014 was $15.4 million, reflecting an increase of $5.5 million compared to 2013, mainly as a result of higher zinc prices and the realized effect of favourable movements in exchange rates.

Cash Flow from Investing and Financing Activities

During the fourth quarter of 2014 our investing and financing activities used cash of $ 238.6 million, driven primarily by capital expenditures of $230.7 million.

Year-to-date, we used $747.0 million in investing and financing activities primarily driven by capital expenditures of $982.7 million and interest payments of $91.6 million. In addition, we reclassified $23.0 million from cash and cash equivalents to restricted cash as Hudbay Peru was required to provide a letter of credit as an annual deposit of security with respect to its decommissioning and restoration obligations. These activities were partly offset by net proceeds of $164.8 million related to the issuance of equity, Peruvian sales tax receipts net of payments of $42.3 million and net borrowings of $152.9 million related to equipment financing, the issuance of senior unsecured notes and the repayment of third party debt in Augusta.

Capital Expenditures

The following summarizes cash additions to capital assets for the periods indicated:

	Three months ended		Year ended	
(in $ millions)	**Dec. 31, 2014**	**Dec. 31, 2013**	**Dec. 31, 2014**	**Dec. 31, 2013**
777 Mine	**8.0**	11.1	**35.1**	38.6
Reed	**2.1**	—	**8.1**	—
Lalor Mine	**12.3**	7.9	**29.2**	21.8
Flin Flon and Snow Lake Concentrators	**0.8**	1.1	**11.2**	1.7
Flin Flon and Snow Lake Other	**1.0**	2.6	**10.0**	10.0
Zinc Plant	**3.2**	1.6	**6.0**	3.6
Other	**1.5**	(0.3)	**1.6**	0.7
Sustaining capital expenditures	**28.9**	24.0	**101.2**	76.4
Lalor Project	**4.9**	12.5	**60.2**	85.5
Capitalized Peru	**147.4**	234.7	**808.2**	715.1
Rosemont Project	**17.7**	—	**26.7**	—
777 North Expansion	**—**	—	**—**	1.3
Reed Project	**—**	5.8	**2.4**	38.2
Growth capital expenditures	**170.0**	253.0	**897.5**	840.1
Capital accruals for the period	**31.8**	(38.5)	**(16.0)**	(11.5)
Total	**230.7**	238.5	**982.7**	905.0

Our capital expenditures for the three months ended December 31, 2014 were $230.7 million, a decrease of $7.8 million compared to the same period in 2013. The decrease is primarily due to decreased expenditures at our Constancia project due to timing, partially offset by Rosemont project costs and higher sustaining capital to support our two new operating mines.

Our capital expenditures for the year ended December 31, 2014 increased by $77.7 million compared to the same period in 2013, primarily due to increased capitalized expenditures at our Constancia and Rosemont projects and increased sustaining capital at our Snow Lake Concentrator, partially offset by lower costs at our Reed and Lalor projects which completed the development phase during the year.

Contractual Obligations and Commitments

The following table summarizes, as at December 31, 2014, certain of our contractual obligations for the periods specified:

Payment Schedule (in $ thousands)	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long-term debt obligations	1,675,648	101,393	202,785	202,785	1,168,685
Operating lease obligations	21,007	4,981	6,727	5,701	3,598
Purchase obligation - capital commitments	279,830	139,522	140,308	—	—
Purchase obligation - other commitments[1]	1,100,568	185,109	403,699	511,760	—
Pension and other employee future benefits obligations	249,294	27,922	58,310	11,092	151,970
Decommissioning and restoration obligations[2]	196,673	6,786	22,083	4,109	163,695
Other	4,298	4,298	—	—	—
Total	**3,527,318**	**470,011**	**833,912**	**735,447**	**1,487,948**

1 Primarily made up of a long term agreement with a Peruvian mining contractor to provide mining services for the first 3 years of Constancia operation, obligation for power purchase, concentrate, fleet and port services.
2 Before inflation

In addition to the contractual obligations included in the above payment schedule, we also have the following commitments which impact our financial position:

- A profit-sharing plan with most Manitoba employees;
- Silver Wheaton precious metals stream agreements;
- A net smelter returns royalty agreement related to the 777 mine; and
- Collective Bargaining Agreements with unionized Flin Flon/Snow Lake workforce which expired on December 31, 2014 and are the subject of negotiations with the Manitoba unions.

Liquidity

At December 31, 2014, we had total pro-forma available and committed liquidity of approximately $607 million, including $207.3 million in cash and cash equivalents and availability under our credit facilities, incorporating the increased amount committed by the lenders under our corporate revolving credit facility. We expect that this will be sufficient to meet our liquidity needs for 2015.

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, 2015, there were 233,617,857 common shares of Hudbay issued and outstanding. In addition, Hudbay warrants to acquire an aggregate of 21,830,490 common shares of Hudbay were outstanding and Augusta warrants to acquire an aggregate of 1,472,610 common shares of Hudbay and 794,742 warrants of Hudbay were outstanding; there were also options for an aggregate of 2,188,299 common shares 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 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 approached the completion of our Lalor and Constancia projects in the second half of 2014. In copper, we 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. As at December 31, 2014, 69 million pounds of copper collars were settled leaving no unsettled copper costless collars at the end of the year. In zinc, we 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. As at December 31, 2014, 127 million pounds of zinc collars were settled leaving no unsettled zinc costless collars at the end of the year.

In addition, at December 31, 2014 we had copper price fixed for floating swaps in place on approximately 13 million pounds of copper at an average fixed receivable price of US$2.79/lb associated with provisional pricing risk in concentrate sales agreements. These swaps settle in January and March, 2015.

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.

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, 2014, approximately $137.6 million of our cash and cash equivalents was held in US dollars, and approximately $4.0 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.

	2014				2013			
(in $ thousands)	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Revenue	128,416	185,431	139,329	106,779	136,082	130,179	130,659	119,881
Profit (loss) before tax	(28,750)	57,586	6,843	(24,139)	(33,693)	9,650	(39,883)	7,924
Profit (loss)	49,583	49,248	252	(27,219)	(61,481)	2,985	(52,686)	1,907
Earnings (loss) per share:								
Basic	0.21	0.22	—	(0.15)	(0.32)	0.03	(0.31)	0.01
Diluted	0.21	0.22	—	(0.15)	(0.32)	0.03	(0.31)	0.01
Operating cash flow per share[1]	(0.01)	0.05	0.06	(0.02)	—	0.07	(0.06)	0.07

[1] Operating cash flow per share is before stream deposit and change in non-cash working capital. It is a non IFRS financial performance measure with no standardized definition under IFRS. For further information and a detailed reconciliation, refer to page 43 of this MD&A.

With both the Reed and Lalor mines achieving commercial production levels of output in 2014, copper production volumes have increased compared to 2013. In addition, in 2014, zinc realized prices have increased leading to higher revenues. The fourth quarter of 2014 benefited from higher zinc metal production volumes and higher zinc realized prices causing zinc revenues to increase. The quarter also benefited from favourable movements in foreign exchange rates and favourable mark-to-market adjustments on certain financial instruments. However, this was offset by lower copper sales volumes due to the timing of shipments and lower realized copper prices causing a net decrease in revenues and pre-tax profit for the fourth quarter 2014. Profit, after tax, was higher in the fourth quarter of 2014 as a result of deferred tax recoveries of $78.3

million resulting from the recognition of previously unrecognized deductible temporary differences in both Peru and Manitoba.

The third quarter of 2014 benefited from increases in copper output and also from the one-time gain on disposition of previously owned shares in Augusta of $50.3 million. In addition, the first quarterly mark-to-market adjustment related to the Hudbay warrant consideration paid to Augusta shareholders and the Augusta warrants that we assumed in connection with the acquisition resulted in a gain of $22.0 million. However, these gains were offset by $12.0 million of costs in connection with the acquisition of Augusta during the third quarter of 2014. The volatile currency markets continued in the third quarter of 2014 resulting in a loss on foreign exchange of $10.5 million. This loss is the result of a weaker Canadian dollar against the US dollar which unfavourably impacts translation of our unsecured notes.

The second quarter of 2014 benefited from the aforementioned increase in copper output and also from foreign exchange gains of $9.1 million as a result of a stronger Canadian dollar against the US dollar which favourably impacts translation of our unsecured notes. The loss in the first quarter of 2014 was related to a loss on disposal of Hudbay Michigan of $6.5 million and foreign exchange losses of $8.6 million incurred from the weakening of the Canadian dollar against the US dollar.

The loss in the fourth quarter of 2013 included foreign currency translation losses, an impairment charge on the Back Forty project and deferred tax expense associated with Peruvian items. The profits in the first and third quarters of 2013 were mainly a result of finance gains related to foreign exchange gains as well as a lower tax expense as a result of lower gross margin. The loss in the second quarter of 2013 was mainly the result of foreign exchange loss and deferred tax expense on the translation of Peruvian tax basis.

Operating cash flow per share was higher in the second, third and fourth quarters of 2014, compared to the first quarter of 2014, as a result of higher revenues derived mostly from higher zinc, gold and silver realized prices and sustained production volumes. In general, over the past eight quarters, revenues have varied as a result of volatile commodity prices and the timing of shipments.

The following table sets forth selected consolidated financial information for each of the three most recently completed years:

(in $ thousands)	2014	2013	2012
Revenue	**559,956**	516,801	702,550
Profit (loss) before tax	**11,541**	(56,004)	48,381
Profit (loss)	**71,866**	(109,276)	(23,463)
Earnings (loss) per share [4]	**0.34**	(0.59)	(0.12)
Total assets	**5,627,508**	3,843,986	3,476,497
Operating cash flows before stream deposit and change in non-cash working capital [1]	**15,374**	9,849	142,957
Total long-term financial liabilities [2]	**1,179,500**	802,370	502,668
Dividends declared per share [3]	**0.02**	0.11	0.20

1 Operating cash flow before stream deposit and change in non-cash working capital is a non-IFRS financial performance measure with no standardized definition under IFRS. For further information and a detailed reconciliation, please see page 43 of this MD&A.

2 Total long-term financial liabilities include non-current portions of net long-term debt, other financial liabilities and obligations under capital leases.

3 Dividend declared during March and September of each year.

4 Attributable to owners of the Company.

In 2014, revenues were higher than 2013 as a result of higher zinc, gold and silver realized prices along with higher copper sales volumes which offset lower copper realized prices and lower zinc, gold and silver sales volumes. In 2013, revenue was lower than 2012 as a result of lower sales volumes and lower metal prices. Volumes were lower as a result of grades at 777 being affected by the deferral of higher copper grade zones from the 2013 mine plan to future years.

Profit was higher in 2014 compared to 2013 mainly due to a tax recovery of $60.3 million resulting from the recognition of previously unrecognized deductible temporary differences in both Peru and Manitoba. In addition, in connection with the acquisition of Augusta in the third quarter of 2014, a $50.3 million gain was recorded on disposition of previously owned shares in Augusta. Higher aforementioned sales revenues and lower foreign exchange losses also resulted in favourable variances compared to 2013. In addition, in 2013, we recorded a $15.4 million impairment loss related to the reclassification of the Back Forty asset to an asset held for sale. Profits were lower in 2013 compared to 2012 mostly as a result of lower sales revenues in 2013 from the aforementioned deferral of mining of higher grade zones at 777.

Operating cash flow before stream deposit and change in non-cash working capital was higher in 2014 compared to 2013 as a result of the aforementioned revenue growth and lower grassroots exploration spending from a change in focus towards brownfield opportunities. The same metric was lower in 2013 compared with 2012 due to the aforementioned decline in revenues mostly from lower copper production.

Total assets increased significantly from 2012 to 2014 primarily due to investments in Constancia, Lalor and Reed, as well as the acquisition of Augusta. Total long-term liabilities have risen since 2012 to finance the growth in development projects. Dividends per share in 2014 were $0.02 compared with $0.11 in 2013, and $0.20 in 2012 as retained earnings have been re-invested in financing the growth in development projects.



ACCOUNTING CHANGES

New standards adopted in 2014

For information on our adoption of new accounting standards, refer to note 4 of our audited consolidated financial statements for the years ended December 31, 2014 and 2013.

New standards and interpretations not yet adopted

For information on new standards and interpretations not yet adopted, refer to note 4 of our audited consolidated financial statements for the years ended December 31, 2014 and 2013.

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 statements:
  - 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, then 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, then 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.

NON-IFRS FINANCIAL PERFORMANCE MEASURES

Operating cash flow per share and cash cost 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 and management to evaluate changes in cash flow while taking into account changes in shares outstanding, and in the case of cash cost per pound of copper sold, it helps 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, 2014 and December 31, 2013:

(in $ thousands, except shares and per share amounts)	Three months ended		Year ended	
	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
Operating cash flows before stream deposit and change in non-cash working capital	**(3,496)**	762	**15,374**	9,849
Weighted average shares outstanding - basic	**233,631,382**	172,078,376	**209,023,666**	172,048,434
Operating cash flows per share [1]	**$ (0.01)**	$ —	**$ 0.07**	$ 0.06

[1] Operating cash flow per share is before stream deposit and change in non-cash working capital. It is a non IFRS financial performance measure with no standardized meaning under IFRS.

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 has been, 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 full year ended December 31, 2014 and 2013:

	Three months ended		Year ended	
(In $ thousands, except dollar per pound amounts)	**Dec. 31, 2014**	**Dec. 31, 2013**	**Dec. 31, 2014**	**Dec. 31, 2013**
By-product credits:				
Zinc	**78,719**	54,956	**267,102**	219,125
Gold	**17,951**	25,297	**87,484**	99,531
Silver	**2,841**	3,813	**14,209**	14,368
Other	**1,538**	1,086	**4,979**	5,796
Total by-product credits	**101,049**	85,152	**373,774**	338,820
Less: deferred revenue	**(9,748)**	(16,998)	**(49,478)**	(69,088)
Less: pre-production credits	**(9,539)**	(2,731)	**(18,769)**	(12,519)
Total by-product credits, net of pre-production credits	**81,762**	65,423	**305,527**	257,213
By-product credits, per net copper pound sold:				
Zinc	**6.08**	3.45	**4.01**	3.58
Gold	**1.39**	1.59	**1.31**	1.63
Silver	**0.22**	0.24	**0.21**	0.23
Other	**0.11**	0.06	**0.07**	0.09
Total by-product credits	**7.80**	5.34	**5.60**	5.53
Less: deferred revenue	**(0.75)**	(1.06)	**(0.74)**	(1.13)
Less: pre-production credits	**(0.74)**	(0.17)	**(0.28)**	(0.20)
Total by-product credits, net of pre-production credits	**6.31**	4.11	**4.58**	4.20
Cash cost, before by-product credits	**102,550**	99,857	**437,818**	373,906
By-product credits, net of pre-production credits	**(81,762)**	(65,423)	**(305,527)**	(257,213)
Cash cost, net of by-product credits	**20,788**	34,434	**132,291**	116,693
Pounds of copper sold	**13,629**	16,735	**69,962**	63,280
Less: pre-production pounds of copper sold	**676**	799	**3,303**	2,052
Net pounds of copper sold	**12,953**	15,936	**66,659**	61,228
Cash cost per pound of copper sold, before by-product credits	**7.91**	6.27	**6.56**	6.11
By-product credits (per pound)	**(6.31)**	(4.11)	**(4.58)**	(4.20)
Cash cost per pound of copper sold, net of by-product credits	**1.60**	2.16	**1.98**	1.91
Reconciliation to IFRS:				
Cash cost, net of by-product credits	**20,788**	34,434	**132,291**	116,693
By-product credits	**101,049**	85,152	**373,774**	338,820
Change in deferred revenues	**(9,748)**	(16,998)	**(49,478)**	(69,088)
Pre-production revenue	**(9,539)**	(2,731)	**(18,769)**	(12,519)
Treatment and refining charges	**(6,092)**	(5,332)	**(29,255)**	(19,853)
Share based payment	**477**	337	**989**	1,021

Adjustments related to zinc inventory write-downs (reversals)	—	5,011	**(5,011)**	5,011
Cost of sales - mine operating costs (excluding depreciation)	**96,935**	99,873	**404,541**	360,085



Cash cost after by-product credits in the fourth quarter of 2014 was $1.60/lb, compared to $2.16/lb for the same period in 2013. Cash cost before by-product credits in the fourth quarter of 2014 was $1.64/lb higher compared to the same period in 2013 primarily due to a higher ratio of zinc to copper sales in the current quarter, resulting in higher volume related zinc costs per pound of copper sold. The increase in by-product credits of $2.20/lb compared to the same period in 2013 was also due primarily to the higher ratio of zinc to copper sales. Consequently, these two offsetting factors resulted in a net decrease to cash cost after by-product credits in the fourth quarter of 2014 compared to the same period in 2013.

Year-to-date cash cost after by-product credits was $1.98/lb, compared to $1.91/lb in 2013. The increase in cash cost before by-product credits of $0.45/lb was primarily due to higher treatment and refining charges and increased purchased zinc concentrate usage in 2014 compared to 2013. By-product credits for the year ended December 31, 2014 were $0.38/lb higher than the same period in 2013 primarily as a result of higher realized zinc prices in 2014 compared to 2013. Consequently, these two offsetting factors resulted in a net increase to the full year cash costs after by-product credits compared to the same period in 2013.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Disclosure controls and procedures ("DC&P")

Management is responsible for establishing and maintaining adequate DC&P. As of December 31, 2014, we have evaluated the effectiveness of the design and operation of our DC&P 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 DC&P 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 (2013) 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, 2014, with exception of the internal controls relating to the acquisition of Hudbay Arizona.

Management excluded from its assessment the internal controls, policies and procedures of Hudbay Arizona, which Hudbay acquired control of on July 16, 2014. Hudbay Arizona's total assets, net assets, total revenues and net profit/loss on a combined basis constitute approximately 18%, 25%, 0% and 3%, respectively, of the consolidated financial statement amounts as of and for the year ended December 31, 2014 (fourth quarter of 2014 — total revenues and net profit/loss of 0% and 3%, respectively).

This limitation of scope is in accordance with section 3.3(1)(b) of NI 52-109, which allows for an issuer to limit the design of DC&P or ICFR to exclude a business that the issuer acquired not more than 365 days before the end of the financial period to which the CEO's and CFO's certification of annual filings relates.

The following table presents summary financial information related to Hudbay Arizona that has been included in Hudbay's consolidated financial statements for the three months and year ended December 31, 2014:



	Three months ended Dec. 31, 2014	Year ended Dec. 31, 2014
Net profit	$ 1,432	$ 1,967

	As at Dec. 31, 2014
Current assets	$ 2,777

Non-current assets	$	991,599
Current liabilities	$	5,430
Non-current liabilities (including intercompany)	$	374,938

The Company's internal control over financial reporting as at December 31, 2014 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, 2014. Deloitte LLP expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Changes in ICFR

During the first quarter of 2014, we implemented a new enterprise resource planning ("ERP") information system at Hudbay Peru, which included the replacement of its key financial systems. The implementation of the new ERP system followed our project plans, which included a number of typical project controls, such as the testing of data conversion and system reports, user training and user acceptance testing, in order to support ICFR during and after the implementation.

With the exception of the internal controls of Hudbay Arizona, we did not make any other changes to ICFR during the year ended December 31, 2014 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, 2014, the Registrant's Balmat Mine No. 4 and Mill received a total of twenty citations and orders from the MSHA alleging certain violations specified by the Dodd-Frank Act resulting in proposed MSHA assessments totaling US$3,352 in the aggregate; the Registrant's Rosemont Copper Project did not receive any citations or orders from the MSHA alleging certain violations specified by the Dodd-Frank Act during the fiscal year ended December 31, 2014.

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, 2014, 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, 2014, 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
3001185	Balmat Mine No. 4 & Mill	1	—	—	—	—	US$ 3,352	—	—
0203256	Rosemont Copper Company	—	—	—	—	—	—	—	—

Exhibit 99.5

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, 2015

/s/ David Garofalo
David Garofalo
Chief Executive Officer
(Principal Executive Officer)

Exhibit 99.6

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, 2015

/s/ David S. Bryson
David S. Bryson
Chief Financial Officer
(Principal Financial Officer)

Exhibit 99.7

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, 2014, 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, 2015

/s/ David Garofalo
David Garofalo
Chief Executive Officer
(Principal Executive 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, 2014, 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, 2015

/s/ David S. Bryson
David S. Bryson
Chief Financial Officer
(Principal Financial Officer)

Exhibit 99.9

CONSENT OF EXPERT

In connection with the Annual Report on Form 40-F of HudBay Minerals Inc. ("HudBay") for the year ended December 31, 2014, and any amendments thereto (the "Form 40-F"), I, Cashel Meagher, P.Geo., hereby consent to the use of my name in connection with the references to and summaries of scientific and technical information relating to HudBay's mineral properties (collectively, the "Incorporated Information") and to the inclusion of the Incorporated Information in the Annual Information Form and Management's Discussion and Analysis of Results of Operations and Financial Condition for the year ended December 31, 2014, each filed as an exhibit to the Form 40-F and incorporated by reference therein.

I do also hereby consent to the use of my name and the incorporation by reference of the Incorporated Information in Registration Statement Nos. 333-170295 and 333-197080 on Form S-8 and Registration Statement Nos. 333-185723, 333-190801,333-193876, 333-195184 and 333-197185 on Form F-10 (including, in each case, any amendments thereto).

Yours very truly,

/s/ Cashel Meagher
Cashel Meagher, P.Geo.

Dated: March 31, 2015

Exhibit 99.10

CONSENT OF EXPERT

In connection with the Annual Report on Form 40-F of HudBay Minerals Inc. ("HudBay") for the year ended December 31, 2014, and any amendments thereto (the "Form 40-F"), I, Robert Carter, P.Eng., hereby consent to the use of my name in connection with the references to and summaries of scientific and technical information relating to HudBay's mineral properties (collectively, the "Incorporated Information") and to the inclusion of the Incorporated Information in the Annual Information Form and Management's Discussion and Analysis of Results of Operations and Financial Condition for the year ended December 31, 2014, each filed as an exhibit to the Form 40-F and incorporated by reference therein.

I do also hereby consent to the use of my name and the incorporation by reference of the Incorporated Information in Registration Statement Nos. 333-170295 and 333-197080 on Form S-8 and Registration Statement Nos. 333-185723, 333-190801,333-193876, 333-195184 and 333-197185 on Form F-10 (including, in each case, any amendments thereto).

Yours very truly,

/s/ Robert Carter
Robert Carter, P.Eng.

Dated: March 31, 2015

Exhibit 99.11

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements Nos. 333-170295 and 333-197080 on Form S-8 and in Registration Statements Nos. 333-185723, 333-190801, 333-193876, 333-195184 and 333-197185 on Form F-10 and to the use of our reports dated February 19, 2015 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, 2014.

/s/ Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants

Toronto, Canada
March 31, 2015