UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 40-F

[Check one]

¨ **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, 2010 **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))

Dundee Place, Suite 2501
1 Adelaide Street East
Toronto, Ontario
M5C 2V9, Canada
416 362-8181
(Address and telephone number of Registrant's principal executive offices)

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

copy to:

Mark Mandel
White & Case LLP
1155 Avenue of the Americas
New York, New York 10036
(212) 819-8200

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

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

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

N/A
(Title of Class)

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

N/A
(Title of Class)

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

x Annual Information Form x Audited Annual Financial Statements

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the

annual report: As at December 31, 2010, 149,431,339 common shares outstanding.

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

Yes ¨ No x

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13(d) or 15(d) of the Exchange Act during the proceeding 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 ¨

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 ¨ No ¨

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, 2010 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, 2010, 2009 and 2008, including the report of the auditors with respect thereto, are incorporated herein by reference as Exhibit 99.2. The Audited Annual Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). For a reconciliation of important differences between Canadian GAAP and United States generally accepted accounting principles, see Note 25 to the Registrant's Audited Annual Financial Statements. The Canadian Institute of Chartered Accountants' Accounting Standards Board previously announced that Canadian publicly accountable enterprises are required to adopt International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board, effective January 1, 2011. In accordance with the requirements, the Registrant has adopted IFRS as of January 1, 2011 and will begin reporting its results on an IFRS basis with its interim consolidated financial statements for the quarter ended March 31, 2011.

The Registrant's management's discussion and analysis ("MD&A") for the year ended December 31, 2010 is incorporated herein by reference as Exhibit 99.3.

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, 2010, 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 Company 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

This Annual Report does not include a report of management's assessment regarding internal control over financial reporting or an attestation report of the Registrant's registered public accounting firm due to a transition period established by rules of the Commission for newly public companies.

During the fiscal year ended December 31, 2010, no changes were made to the Registrant's "internal control over financial reporting" (as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that have materially affected, or are reasonably likely to materially affect, the Company's

internal control over financial reporting. During 2011, the Registrant intends to implement a new Enterprise Resource Planning ("ERP") information system. The ERP implementation includes replacing Registrant's key financial systems, which could materially affect the Registrant's internal control over financial reporting. As part of the ERP implementation project the Registrant intends to implement processes to ensure that the Registrant's internal control over financial reporting remains effective both during and after implementation of the new ERP system.

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, 2010.

AUDIT COMMITTEE IDENTIFICATION AND FINANCIAL EXPERT

The audit committee consists of J. Bruce Barraclough, Alan Lenczner and John. L. Knowles. The Registrant's board of directors has determined that each of Messrs. Barraclough, Lenczner and Knowles is an "audit committee financial expert" within the meaning of the Commission's rules. Each of Messrs. Barraclough, Lenczner and Knowles is also "independent" under the criteria of Rule 10A-3 of the Exchange Act as required by the New York Stock Exchange (the "NYSE"). Alan R. Hibben was a member of the audit committee from March 23, 2009 until March 28, 2011. Mr. Hibben resigned from the Audit Committee shortly after assuming a position as Managing Director of RBC Capital Markets ("RBC") who has acted for the Registrant as a financial advisor. Following Mr. Hibben's return to RBC he ceased to be "independent" under the criteria of Rule 10A-3 of the Exchange Act and was replaced by Mr. Lenczner, which is permitted by a transition period under Rule 10A-3(b)(1)(iv)(A) of the Exchange Act and the rules of the NYSE. The Commission has indicated that the designation of Messrs. Barraclough, Lenczner and Knowles as audit committee financial experts does not make any of them an "expert" for any purpose, impose any duties, obligations or liability on Messrs. Barraclough, Lenczner and Knowles that are greater than those imposed on members of the audit committee and board of directors who do not carry this designation. The Audit Committee's charter sets out its responsibilities and duties, qualifications for membership, procedures for committee appointment and reporting to our board of directors. A copy of the current charter is attached to the AIF as Schedule B and is available on the Registrant's website at http://www.hudbayminerals.com/corporate/governance.php.

CODE OF ETHICS

The Registrant has adopted a Code of Business Conduct and 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 Registrant's Code of Business Conduct and Ethics is available on the Registrant's Internet website at http://www.hudbayminerals.com/corporate/governance.php. No substantive amendments were made to the Registrant's Code of Business Conduct and Ethics during the fiscal year ended December 31, 2010 and no waivers of the Registrant's Code of Business Conduct and Ethics were granted to any principal officer of the Registrant or any person performing similar functions during the fiscal year ended December 31, 2010.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information provided under the heading "Audit Committee Disclosure" (page 56) contained in 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, 2010 were preapproved by the audit committee in accordance with the Registrant's preapproval policy as described under the heading "Policy Regarding Non-Audit Services Rendered by Auditors" on page 57 contained in the AIF.

Audit Fees

The aggregate fees billed by Deloitte & Touche LLP ("Deloitte"), the Registrant's independent auditor, for the fiscal years ended December 31, 2009 and December 31, 2010, 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 $1,156,964 and $1,151,039, respectively.

Audit-Related Fees

The aggregate fees billed by Deloitte for the fiscal years ended December 31, 2009 and December 31, 2010, respectively, for audit-related fees, which are fees for assurance and services related to the Deloitte's role, including attest services not required by statute or regulation and financial information presentation assistance with finalization of accounting matters and certification and acquisition activities, for such fiscal years were $412,017 and $300,132, respectively.

Tax Fees

The aggregate fees billed by Deloitte for the fiscal years ended December 31, 2009 and December 31, 2010, respectively, for certain tax advisory fees provided to management for such fiscal years were $30,225 and $16,700, respectively.

All Other Fees

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

OFF-BALANCE SHEET ARRANGEMENTS

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

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The information provided under the heading "Contractual Obligations and Commitments" (page 31) contained in the MD&A is incorporated by reference herein. For additional information on the Registrant's commitments, see Note 18 to the Registrant's Audited Annual Financial Statements.

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 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 listing 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 NYSE corporate governance standards.

The Registrant is subject to the listing standards of the Toronto Stock Exchange ("TSX") and the corporate governance rules of Canadian securities regulators. 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 Registrant has prepared a summary of the significant ways in which its corporate governance practices differ from those required to be followed by U.S. domestic companies under the NYSE's corporate governance standards, and that summary, entitled "Differences in HudBay's Corporate Governance Practices Compared to NYSE Corporate Governance Standards", is available on the Registrant's website at http://www.hudbayminerals.com/corporate/governance.php.

The Registrant's board of directors consists of the following individuals: J. Bruce Barraclough, David Garofalo, Alan R. Hibben, W. Warren Holmes, John. L. Knowles, Alan Lenczner, Q.C., G. Wesley Voorheis and Kenneth G. Stowe. The Registrant's board of directors has determined that all directors other than Mr. Garofalo are "independent" under the rules of the Canadian Securities Administrators.

The Registrant schedules executive sessions at all of its regularly scheduled board meetings in which the Registrant's "non-management directors" (as that term is defined in the rules of the NYSE) meet without management participation. Mr. Voorheis, the Registrant's Chairman, serves as the presiding director (the "Presiding Director") at such sessions.

The Registrant's Charter of the Corporate Governance and Nominating Committee, Governance Guidelines, Charter of the Board of Directors and other corporate governance documents are available on the Registrant's website at http://www.hudbayminerals.com/corporate/governance.php. Shareholders may send communications to Registrant's Presiding Director or non-management directors by mailing (by regular mail or other means of delivery) to the corporate head office at Dundee Place, Suite 2501, 1 Adelaide Street East, Toronto, Ontario M5C 2V9, Canada a sealed envelope marked "Private and Strictly Confidential-Attention: Chairman of the Board of Directors of HudBay Minerals Inc." Any such envelope will be delivered unopened to the Presiding Director for appropriate action. The status of all outstanding concerns addressed to the Presiding Director will be reported to the board of directors as appropriate.

MINE SAFETY DISCLOSURE

Pursuant to Section 1503(a) of the recently enacted 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, 2010, the Registrant's Balmat Mine No. 4 and Mill received a total of two citations and orders from the Mine Safety and Health Administration ("MHSA") alleging certain violations specified by the Dodd-Frank Act. The MHSA alleged violations of Section 104(a) of the Federal Mine Safety and Health Act of 1977 (the "Mine Act") and assessed the Registrant a total of US$3,551 for these alleged violations. Citations under Section 104(a) of the Mine Act are issued for situations in which an MHSA inspector determines that an operator has violated the Mine Act or any mandatory health or safety standard, rule, order or regulation promulgated pursuant to the Mine Act. The Registrant has no other mines subject to the Mine Act.

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/ H. MAURA LENDON

Name: **H. Maura Lendon**

Title: **Senior Vice President, Corporate Services and Chief Legal Officer**

Date: March 31 , 2011

EXHIBIT INDEX

Exhibit Description and Date of Document

Annual Information; Management's Discussion and Analysis

99.1 Annual Information Form for the year ended December 31, 2010

99.2 Audited Annual Financial Statements for the years ended December 31, 2010, 2009 and 2008

99.3 Management's Discussion & Analysis for the year ended December 31, 2010

Certifications

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

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

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

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

Consents

99.8 Consent of Cashel Meagher, P.Geo., dated March 31, 2011

99.9 Consent of Robert Carter, P.Eng., dated March 31, 2011

99.10 Consent of Sean Spraggett, P.Eng., dated March 31, 2011

99.11 Consent of Deloitte & Touche LLP, dated March 31, 2011

Exhibit 99.1



HUDBAY MINERALS INC.

ANNUAL INFORMATION FORM

FOR THE

YEAR ENDED DECEMBER 31, 2010

March 29, 2011

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FORWARD-LOOKING INFORMATION

This annual information form (" **AIF**") contains "forward-looking information", within the meaning of applicable Canadian and U.S. securities legislation. Forward-looking information includes, but is not limited to, information with respect to HudBay Minerals Inc.'s ("**HudBay**") plans respecting the Constancia and Lalor projects and its other key mineral properties and the ability to secure and maintain required permits for such properties, exploration expenditures and activities and the possible success of such exploration activities, the estimation of mineral reserves and resources, the realization of mineral estimates, the timing and amount of estimated future production, costs of production, capital expenditures, costs and timing of the development of new deposits, mineral pricing, mine life projections, the availability of third party concentrate, business and acquisition strategies and the timing and possible outcome of pending litigation. Often, but not always, forward-looking information can be identified by the use of forward-looking words like "plans", "expects", or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "understands", "anticipates", or "does not anticipate", or "believes" or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might", or "will be taken", "occur", or "be achieved". Forward-looking information is based on the opinions and estimates of management as of the date such information is provided and is subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of HudBay to be materially different from those expressed or implied by such forward-looking information, including risks associated with the mining industry such as economic factors (including future commodity prices, currency fluctuations and energy prices), failure of plant, equipment, processes and transportation services to operate as anticipated, dependence on key personnel and employee relations, environmental risks, government regulation, actual results of current exploration activities, possible variations in ore grade or recovery rates, permitting timelines, capital expenditures, reclamation activities, land titles, and social and political developments and other risks of the mining industry as well as those risk factors discussed or referred to in this AIF under the heading "Risk Factors". Although HudBay has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information. HudBay does not undertake to update any forward-looking information, except as required by applicable securities laws, or to comment on analyses, expectations or statements made by third parties in respect of HudBay, its financial or operating results or its securities.

NOTE TO UNITED STATES INVESTORS

Information concerning our mineral properties has been prepared in accordance with the requirements of Canadian securities laws, which differ in material respects from the requirements of the Securities and Exchange Commission (the "**SEC**") Industry Guide 7. Under 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 Industry Guide 7 definition of "Reserve". In accordance with National Instrument 43-101 - Standards of Disclosure for Mineral Projects ("**NI 43-101**") of the Canadian Securities Administrators, the terms "mineral reserve", "proven mineral reserve", "probable mineral reserve", "mineral resource", "measured mineral resource", "indicated mineral resource" and "inferred mineral resource" are defined in the Canadian Institute of Mining, Metallurgy and Petroleum (the "CIM") Definition Standards for Mineral Resources and Mineral Reserves adopted by the CIM Council on December 11, 2005. While the terms "mineral resource", "measured mineral resource", "indicated mineral resource" and "inferred mineral resource" are recognized and required by NI 43-101, the SEC does not recognize them. You are cautioned that, except for that portion of mineral resources classified as mineral reserves, mineral resources do not have demonstrated economic value. Inferred mineral resources have a high degree of uncertainty as to their existence and as to whether they can be economically or legally mined. Under Canadian securities laws, estimates of inferred mineral resources may not form the basis of an economic analysis. It cannot be assumed that all or any part of an inferred mineral resource will ever be upgraded to a higher category. Therefore, you are cautioned not to assume that all or any part of an inferred mineral resource exists, that it can be economically or legally mined, or that it will ever be upgraded to a higher category. Likewise, you are cautioned not to assume that all or any part of measured or indicated mineral resources will ever be upgraded into mineral reserves. For more information on the technical terms as they are used under NI 43-101, please see Schedule A "Glossary of Mining Terms".

CURRENCY PRESENTATION AND EXCHANGE RATE DATA

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$”.

The closing, high, low and average exchange rates for the United States dollar in terms of the Canadian dollar for each of the three years ended December 31, 2010, 2009 and 2008, as reported by the Bank of Canada, are as follows:

	2010	2009	2008
Closing	$0.99	$1.05	$1.22
High	$1.07	$1.30	$1.30
Low	$0.99	$1.03	$0.97
Average[1]	$1.03	$1.14	$1.07

Note:

(1) Calculated as an average of the daily noon rates for each period.

On March 28, 2011 the Bank of Canada noon rate of exchange was US$1.00 = Cdn$0.98.

CONVERSION TABLE

To Convert	To	Multiply by
Tonnes	Tons	1.102311
Tonnes	Pounds	2204.62
Grams	Troy ounces	0.032151
Grams/tonne	Troy ounces/ton	0.029167
Hectares	Acres	2.47105
Kilometers	Miles	0.62137
Meters	Feet	3.28084

DOCUMENTS INCORPORATED BY REFERENCE

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this AIF to the extent that a statement contained herein, or in any other subsequently filed document that also is incorporated or is deemed to be incorporated by reference herein, modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement will not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this AIF after it has been modified or superseded.

Reference is made to the Glossary of Mining Terms attached as Schedule A to this AIF.

Unless the context suggests otherwise, references to “we”, “us”, “our” and similar terms, as well as references to “HudBay”, refer to HudBay Minerals Inc.

CORPORATE STRUCTURE

Incorporation and Registered Office

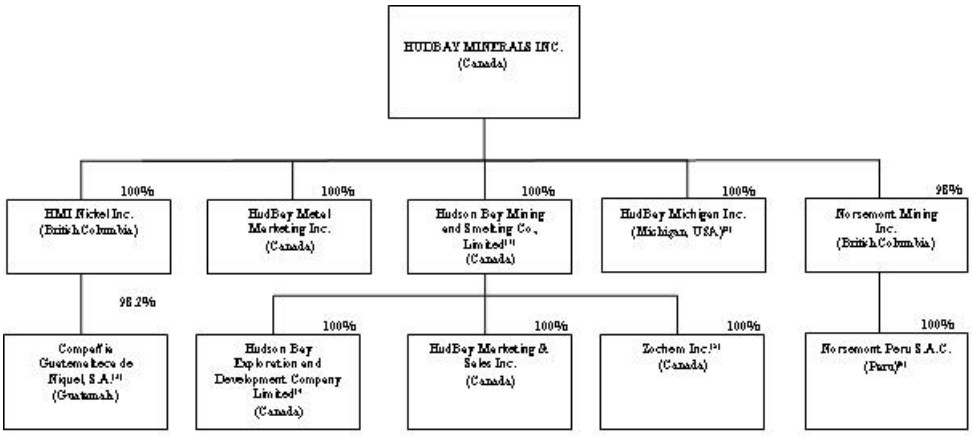
We were formed by the amalgamation of Pan American Resources Inc. and Marvas Developments Ltd. on January 16, 1996, pursuant to the *Business Corporations Act* (Ontario) and changed our name to Pan American Resources Inc. On March 12, 2002, we acquired ONTZINC Corporation, a private Ontario corporation, 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 one basis. On October 25, 2005, we were continued under the *Canada Business Corporations Act* ("**CBCA**").

Our registered office is located at 2200-201 Portage Avenue, Winnipeg, Manitoba R3B 3L3 and our principal executive office is located at 1 Adelaide Street East, Suite 2501, Toronto, Ontario M5C 2V9.

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

Intercorporate Relationships

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



Notes:

(1) HBMS owns our 777, Trout Lake and Chisel North mines and our Lalor project.
(2) HudBay Michigan Inc. owns a 51% interest in the Back Forty project, a joint venture with Aquila Resources Inc.
(3) Compañia Guatemala de Niquel S.A. (" **CGN**") owns our Fenix nickel project.
(4) Hudson Bay Exploration and Development Company Limited (**"HBED"**) holds our key exploration properties and acts as agent for HBMS.
(5) Our Zochem zinc oxide business was transferred from HBMS to Zochem Inc. effective January 1, 2010.
(6) Norsemont Peru S.A.C. owns the Constancia copper project.

GENERAL DEVELOPMENT OF OUR BUSINESS

Summary

We are a diversified Canadian mining company with assets in North, Central and South America. Through our subsidiaries, we own copper/zinc/gold mines, ore concentrators and zinc production facilities in northern Manitoba and Saskatchewan, a zinc oxide production facility in Ontario, a nickel project in Guatemala and a copper project in Peru. HudBay produces copper concentrate (containing copper, gold and silver), zinc metal and zinc oxide.

Three Year History

Acquisition of Norsemont Mining Inc.

We entered into a support agreement (the "**Support Agreement**") with Norsemont Mining Inc. (" **Norsemont**") on January 9, 2011. Norsemont is a publicly-listed company whose common shares trade on the TSX and the Lima Stock Exchange under the symbol "NOM". It owns 100% of the Constancia copper project in southern Peru. The Constancia project has proven and probable mineral reserves containing 372 million tonnes grading 0.39% copper, 105 g/t molybdenum, 0.05 g/t gold and 3.6 g/t silver. Based on the optimization study released on February 21, 2011, the Constancia project is expected to produce an average of 85,000 tonnes of copper, 1,400 tonnes of molybdenum and 69 tonnes of silver each year over a 15.3 year mine life.

As contemplated by the Support Agreement, we mailed an offer and take-over bid circular (the " **Norsemont Circular**") on January 24, 2011 to the holders of Norsemont's common shares. As set forth in the Norsemont Circular, Norsemont shareholders were entitled to elect to receive as consideration for each deposited Norsemont common share, either: (a) 0.2617 of a HudBay common share and $0.001 in cash, or (b) cash in an amount that is greater than $0.001, not to exceed $4.50, and, if less than $4.50 in cash was elected, the number of HudBay common shares equal to the excess of $4.50 over such elected cash amount, divided by $17.19, subject, in each case, to pro-ration and rounding as set out in the Offer and take-over bid circular.

On March 1, 2011 we announced that we were successful in our bid to acquire Norsemont and that we had taken up a total of 104,635,351 Norsemont common shares which were deposited at the original expiry time of the Offer. We subsequently extended our offer until 5:00 p.m. (Toronto time) on March 15, 2011, and our offer expired on that date. Pursuant to the Offer, we issued 22,084,459 common shares and paid an aggregate of $127,680,990 in cash to former Norsemont shareholders. We now own approximately 98% of the issued and outstanding Norsemont common shares (on a fully-diluted basis). We intend to acquire the remaining Norsemont shares by way of a compulsory acquisition transaction under section 300 of the *Business Corporations Act* (British Columbia).

New Credit Facility

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

New York Stock Exchange Listing

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

Back Forty Joint Venture

On September 1, 2010 we exercised our option to earn a 51% interest in Aquila Resources Inc.'s (" **Aquila**") Back Forty project in Michigan's Upper Peninsula. We earned our joint venture interest pursuant to an option agreement entered into with Aquila on August 6, 2009 by incurring a minimum of US$10 million of

exploration expenditures on the project. We can increase our joint venture interest to 65% by completing a feasibility study and making the required permitting applications.

On October 15, 2010 we announced an updated NI 43-101 mineral resource estimate for the Back Forty project. The updated resource includes 18.1 million tonnes of measured and indicated mineral resources and 3.2 million tonnes of inferred mineral resources. See “Description of Our Business – Joint Ventures - Back Forty Joint Venture”.

Investment in Augusta Resource Corporation

On August 27, 2010 we acquired 10,905,590 units of Augusta Resource Corporation (“ **Augusta**”) at a subscription price of $2.75 per unit and an aggregate acquisition cost of approximately $30 million. Each unit consists of one Augusta common share and one half of a common share purchase warrant which was exercisable for one common share at an exercise price of $3.90 until February 27, 2012. On March 18, 2011, we exercised all of our Augusta warrants after receiving notice from Augusta that, in accordance with Augusta’s rights under the warrants, the expiry time of the warrants had been accelerated to March 21, 2011. Following our exercise of the warrants, we now own approximately 14.3% of Augusta’s issued and outstanding common shares. Augusta’s primary asset is the Rosemont copper project in Arizona. The investment in Augusta was consistent with our strategy of investing in junior companies with promising near-development mining projects.

Lalor Production Decision

On August 4, 2010, our board of directors made a full commitment to the development of our 100% owned Lalor project near Snow Lake, Manitoba by authorizing the expenditures necessary to put the project into full production. Full production from the 985 meter production shaft is anticipated in late 2014. The project’s estimated capital cost of $560 million, which includes $59 million spent as at December 31, 2010, is expected to fund full project development. We intend to fully fund the project from our currently available liquidity and future cash flows.

Our board of directors had previously approved an $85 million expenditure to fund the development of an access ramp from our Chisel North mine to the deposit, which is expected to enable early production of zinc ore in early 2012 and provide access to the Lalor gold zone for additional underground exploration. Development of the ramp commenced in December 2009 and as of February 28, 2011 the ramp had advanced 1,750 meters. We are currently preparing a trade-off study to determine whether to refurbish our Snow Lake concentrator or construct a new concentrator at the Lalor mine site and we expect to be in a position to make a decision on whether to proceed with a new concentrator in mid-2011. For detail on the estimated mineral resources at Lalor and conceptual estimates of the tonnes and grade of the gold zone and copper-gold zone, see “Description of Our Business – Development Projects – Lalor Project”.

777 North Expansion

On August 4, 2010 we announced plans to expand our 777 mine. The 777 North expansion involves driving a ramp from surface to the 440 meter level to access mineral resources of 550,000 tonnes grading 1.5 g/t gold, 22.5 g/t silver, 1.0% copper and 3.6% zinc. These zones are connected to the underground workings of our 777 mine. Total capital costs for the expansion are estimated at $20 million. Production is expected to begin in 2012 at a rate of 330 tonnes per day, producing approximately 5,500 tonnes of copper metal and 20,000 tonnes of zinc metal over the six year life of the project.

Upon completion, the 777 North expansion will provide an additional egress from the mine and supply additional ore feed to the Flin Flon concentrator and zinc plant. It will also help to sustain employment in Flin Flon as the Trout Lake mine reaches the end of mine life and facilitate the development of an underground exploration platform to evaluate additional exploration opportunities near the 777 mine.

CEO Appointment

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

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

Reed Lake Joint Venture

On July 5, 2010 we entered into a joint venture agreement and four option agreements with VMS Ventures Inc. (" **VMS Ventures**") respecting our copper-rich Reed Lake property and a series of adjacent mineral properties held by VMS Ventures in the Flin Flon Greenstone Belt.

Pursuant to the joint venture agreement, we have a 70% interest and VMS Ventures has a 30% interest in a joint venture respecting the Reed Lake property and the two claims immediately to the south. See "Description of Our Business – Joint Ventures – Reed Lake Joint Venture".

Closure of Copper Smelter and Refinery

On June 11, 2010 we completed the closure of our copper smelter in Flin Flon, which had been in operation for over 80 years. Our White Pine copper refinery closed soon thereafter once the final anodes produced at the smelter were processed.

Re-Start of Chisel North Mine and Snow Lake Concentrator

On October 30, 2009 we announced the re-start of operations at our Chisel North mine and Snow Lake concentrator, which were placed on care and maintenance in the first quarter of 2009 due to depressed metals prices. In connection with the re-start of Chisel North, we entered into a hedge of approximately 50% of our anticipated zinc production from Chisel North at an average price of approximately US$1.01 per pound of zinc. This forward sale is intended to ensure that Chisel North remains economic at lower zinc prices while providing unfettered upside for the remaining 50% of production. Full production from the Chisel North mine was achieved in the second quarter of 2010 and, along with early zinc production from the ramp to the Lalor deposit, Chisel North is expected to provide a source of zinc feed to our Flin Flon zinc plant pending full production at Lalor.

Board and Executive Transition

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

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

Arrangement Agreement with Lundin Mining Corporation and Share Subscription

On November 21, 2008 we entered into an arrangement agreement (the " **Arrangement Agreement**") with Lundin Mining Corporation ("**Lundin**") pursuant to which we would have acquired all of the issued and outstanding common shares of Lundin. Also on November 21, 2008 we entered into a subscription agreement with Lundin whereby we agreed to acquire 96,997,492 common shares of Lundin at a price of $1.40 per share (the "**Share**

Subscription"), with aggregate gross proceeds to Lundin of $135.8 million. The Share Subscription was completed on December 11, 2008, and on its completion we held 19.9% of the issued and outstanding Lundin common shares.

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

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

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

Acquisition of Skye Resources Inc.

On August 26, 2008, we acquired all of the issued and outstanding common shares of Skye Resources Inc. (" **Skye**") on the basis of 0.61 of a HudBay common share plus $0.001 in cash for each Skye common share. In total, we issued approximately 31 million common shares at the completion of the transaction. We also exchanged Skye's outstanding stock options and warrants for similar securities of HudBay at a corresponding exchange ratio. Skye, now our wholly-owned subsidiary, has since been renamed HMI Nickel Inc.

Skye's primary asset is the Fenix project, a substantial nickel laterite deposit in eastern Guatemala. See "Description of Our Business – Development Properties – Fenix Project".

Suspension of Balmat Operations

On August 22, 2008 we announced the suspension of operations at our Balmat zinc mine and concentrator until economic conditions warrant re-evaluation.

DESCRIPTION OF OUR BUSINESS

Principal Assets

We have the following principal assets:

1. Operating Mines: three underground mines, including our 777 mine in Flin Flon, Manitoba, the Trout Lake mine near Flin Flon, and the Chisel North mine near Snow Lake, Manitoba;
2. Processing Facilities: ore concentrators in Flin Flon and Snow Lake and a zinc pressure leach and electro-winning plant in Flin Flon;
3. Development Projects: the Lalor project, a zinc, gold and copper deposit near our facilities in Snow Lake, Manitoba that is currently under construction, with full production expected by late 2014, the Constancia copper project in Peru, which we recently acquired through our acquisition of Norsemont, and the Fenix project, a substantial nickel laterite project in eastern Guatemala;
4. Joint Ventures: a joint venture with Aquila, pursuant to which we hold a 51% interest in the Back Forty project, an advanced stage exploration project evaluating a zinc and gold-rich VMS deposit in Michigan's Upper Peninsula, and a joint venture with VMS Ventures, pursuant to which we hold a 70% interest in the copper-rich Reed Lake deposit, near Snow Lake; and
5. Exploration Properties: a land position of approximately 400,000 hectares in Manitoba and Saskatchewan, and other land holdings in Guatemala, Yukon, Chile and New York, all of which offer us the opportunity to develop and grow our business through our exploration program.

In addition to our principal assets, we have: a zinc oxide plant in Brampton, Ontario with an annual production capacity of approximately 45,000 tonnes of zinc oxide, which purchases approximately 25% of our annual zinc metal production, and the Balmat mine and concentrator in Balmat, New York, which were placed on care and maintenance in August 2008. We closed our copper smelter in Flin Flon and White Pine copper refinery in Michigan in 2010.

Our cash and cash equivalents as of December 31, 2010 were $901.6 million, and are held in low risk liquid investments and deposit accounts pursuant to our investment policy.

Our Strategy

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

The following map shows where our key assets and properties are located.



1. Operating Mines

777 Mine, Trout Lake Mine and Chisel North Mine

The technical and scientific information included in the following description of the northern Manitoba mines, including the estimated measured and indicated mineral resource and the estimated inferred mineral resource and the estimated mineral reserve for our producing properties have been prepared under the supervision of Robert Carter, P.Eng., who is employed by HBMS as Superintendent, Mines Technical Services and who is a Qualified Person under NI 43-101.

Location

Other than the Chisel North mine, our northern Manitoba mines are within six kilometers of Flin Flon. The Chisel North mine is approximately 215 kilometers east of Flin Flon, near Snow Lake. Flin Flon has a population of approximately 6,000 people, with an additional 3,000 people living in the surrounding community, and has well developed access to road, rail and air transportation.

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

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

Geology

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

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

Exploration

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

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

Diamond drilling for the purpose of exploration within all operating mines during 2010 totalled 25,500 meters to test for extensions to orebodies. A further 31,000 meters of diamond drilling was conducted in our operating mines to define parts of the orebodies to provide adequate definition for the purpose of ore extraction. This diamond drilling was separate from exploration diamond drilling that was done for the testing and discovery of new mineral deposits on the surface of our exploration lands.

Drilling/Sampling and Analysis

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

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

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

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

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

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

History

Through HBMS, we have operated in the Flin Flon Greenstone Belt for more than 80 years. During this period, we have mined approximately 145 million tonnes of ore.

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

In connection with the closure plan, it was decided to continue exploration efforts until 1998, the latest time an ore body could be developed for production prior to the planned closure. In 1993, based on the drilling program, the 777 deposit was first indicated by an underground exploration hole that intersected the mineralization at a depth of 1,000 meters. In 1995, a drilling program delineated the ore body and by 1997, this ore body was defined. In 1999, development of the 777 mine was commenced as part of the “777 Project” and commercial production from the mine commenced in January 2004. It was determined that the 777 ore body had the potential to extend operations to 2014 if a number of critical factors were first addressed. As a result, our northern Manitoba and Saskatchewan operations lowered their overall unit operating cost, improved safety performance and created a performance-oriented culture.

777 Mine

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

The 777 mine property is located on Saskatchewan Mineral Leases and Manitoba Order in Council (" **OIC"**) leases totalling approximately 4,400 hectares, including approximately 1,100 hectares in Manitoba and approximately 3,300 hectares in Saskatchewan. HBMS owns a 100% interest in these mineral leases. Annual lease rentals payable to the Manitoba government are $16,730 and $1,600 to the Saskatchewan government. There is an annual work expenditure requirement for the Saskatchewan property of $257,025. Individual leases have different expiry dates that range from 2011 to 2031. All mineral production from the 777 mine property is subject to a 6 2/3% net proceeds of production and $0.25 per ton royalty agreement payable to Consolidated Callinan Flin Flon Mines Limited. Surface rights are held under several leases and permits that also host the concentrator and metallurgical plants.

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

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

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

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

The anticipated mine life is until 2020.

The following table sets forth the production of the 777 mine for the years ended December 31, 2010, 2009 and 2008.

777 Mine Historical Statistics

		December 31		
	Units	2010	2009	2008
Ore mined	000s tonnes	1,488.01	1,540.35	1,470.29
Zinc grade in ore	%	4.01	4.35	4.36
Copper grade in ore	%	2.89	2.49	2.61
Gold grade in ore	grams/tonne	2.09	2.12	2.13
Silver grade in ore	grams/tonne	25.89	26.39	24.82

777 North Expansion

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

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

Development of the portal, which is located adjacent to the HBMS metallurgical plant area, began in August and the first underground blast occurred on October 12, 2010. The ramp had advanced a total of 265 meters as of December 31, 2010.

Production is expected to begin in 2012 at a rate of 330 tonnes per day.

Trout Lake Mine

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

The Trout Lake mine is located on Manitoba mineral leases that total approximately 2,240 hectares and expire April 1, 2013. Annual mineral lease payments total approximately $19,000. HBMS owns a 100% interest in these leases. There are no royalties payable other than those potentially payable to the Province. Surface rights are held under miscellaneous leases and general permits with total annual rental payments of $5,150.

The Trout Lake mine was discovered by Granges Exploration in the 1970s, as a result of testing by drilling an electromagnetic geophysical target located in an area beneath Trout Lake believed to be underlain by felsic volcanic rocks similar to those that host the Flin Flon ore bodies. Commercial production commenced at the Trout Lake mine in 1982.

The Trout Lake ore body sub-crops beneath Trout Lake and contains more than 30 lenses in several zones. The lenses dip approximately 60 degrees and the average lens width is eight meters. The ore body is a proximal volcanic massive sulphide deposit. Chalcopyrite and sphalerite are the main base metal sulphides and occur with pyrite in massive sulphide layers.

The main shaft has been sunk to a depth of 1,091 meters. The mine development includes a number of inclined ramps and steeply inclined ventilation shafts and ore passes. The shaft is a circular two-compartment 4.9 meter diameter vertical shaft operating to a depth of 1,091 meters. The ramp extends to approximately 1,460 meters below surface at an inclination of 15% from the horizontal. A 762 meter long inclined conveyor delivers the ore from the underground crusher to the ore bin adjacent to the shaft.

Mining is by longhole open stoping using trackless equipment. Crushed ore is trucked from the mine site to the Flin Flon concentrator for processing.

The anticipated mine life is until the fourth quarter of 2011.

The following table sets forth the production of the Trout Lake mine for the years ended December 31, 2010, 2009 and 2008.

Trout Lake Mine Historical Statistics

		December 31		
	Units	2010	2009	2008
Ore mined	000s tonnes	540.64	679.33	776.21
Zinc grade in ore	%	2.67	3.10	3.70
Copper grade in ore	%	2.35	1.96	1.93
Gold grade in ore	grams/tonne	1.30	1.30	1.38
Silver grade in ore	grams/tonne	12.03	15.72	19.21

Chisel North Mine

The Chisel North mine is an underground zinc mine located 15 kilometers west of the Snow Lake concentrator and about six kilometers south of the town of Snow Lake, Manitoba, which is approximately 215 kilometers from Flin Flon. The mine and concentrator were placed on care and maintenance in January 2009 due to depressed base metal prices related to the global economic downturn. The mine returned to full production in the second quarter of 2010.

The Chisel North mine is located on Manitoba OIC leases that total approximately 4,193 hectares with annual rental payments payable to the Manitoba government of $53,343. HBMS holds a 100% interest in these leases. Most of these mineral leases terminate in 2023. There are no royalties payable other than those potentially payable to the Province. Surface rights are held under miscellaneous leases, surface leases and general permits with total annual rentals of $15,271.

In 1986, an exploration program was initiated to systematically explore the Chisel basin. Additional drilling was carried out between 1993 and 1997 to suitably define the ore body for a feasibility study. A total of 77,632 meters in 130 holes and wedges were drilled by 1998. Commercial production commenced at the Chisel North mine in June, 2000.

The deposit consists of metamorphosed massive sulphides overlain by barren basalt volcanic flows. Sphalerite and minor amounts of chalcopyrite are the main base metal sulphides and occur with pyrite in massive sulphide layers conformable to stratigraphy. The Chisel North mine mineral reserves only consisted of zinc ore until this year when copper and gold mineralization, located downplunge to the north and northwest of Lens 1, were estimated separate to the zinc mining areas. The mineral reserves are between 400 meter and 650 meter depths in four stacked zinc rich sulphide lenses.

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

HBMS commissioned a 2,000 US gpm water treatment plant in the spring of 2008 at Chisel Lake, approximately four kilometers from Chisel North mine. The treatment plant operates at 1,000 US gpm (peak 1,600 US gpm) to treat Chisel North mine discharge water and water from the Chisel Lake open pit. Treated water is discharged to the environment south of the Chisel Lake open pit.

Manitoba Hydro services the Chisel Lake mine with a 110 kV overhead transmission line. Voltage is stepped down to 6,000 V using an HBMS-owned substation at the termination of the Manitoba Hydro line. Power from the main substation is stepped up to 21 kV using a modern substation and is fed to the Chisel North minesite via a four kilometer long overhead transmission line.

The following chart sets forth the production of the Chisel North mine for the years ended December 31, 2010, 2009 and 2008. A small amount of copper ore was mined in 2010 and 2009 and is not included in the table below. Production for 2010 is based on mining from March to the end of the year and production for 2009 was from January and February prior to the mine being placed on care and maintenance.

The anticipated mine life is until the second quarter of 2012.

Chisel North Mine Zinc Historical Statistics

		December 31		
	Units	2010	2009	2008
Ore mined	000s tonnes	213.64	48.69	325.16
Zinc grade in ore	%	7.30	9.18	7.42

Mineral Reserves and Inferred Mineable Resources

In-Mine Mineral Reserves – January 1, 2011 [(1)(2)(3)]

	Tonnes	Au (g/t)	Ag (g/t)	Cu (%)	Zn (%)
777 Mine					
Proven	4,516,000	2.27	29.38	2.87	4.44
Probable	8,307,000	1.79	27.31	1.78	4.24
777 North					
Proven	81,000	1.61	26.52	0.68	4.89
Probable	449,000	1.44	21.48	1.09	3.31
Trout Lake Mine					
Proven	409,000	2.06	9.66	2.10	3.53
Probable	36,000	1.17	1.01	2.18	1.43
Chisel North Mine - Zinc					
Proven	164,000	—	—	—	8.77
Probable	56,000	—	—	—	10.60
Chisel North Mine - Copper					
Proven	—	—	—	—	—
Probable	92,000	2.41	31.56	1.72	3.67
Total Proven	**5,170,000**				
Total Probable	**8,940,000**				
Total Mineral Reserve	**14,110,000**				

Notes:

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

(2) The zinc price used for mineral reserve estimation was US$1.00 per pound, the copper price was US$2.50 per pound, the gold price was US$900 per ounce and the silver price was US$15 per ounce using an exchange of 1.10 C$/US$.

(3) The estimate as at January 1, 2011 was prepared in accordance with NI 43-101 and the Canadian Institute on Mining, Metallurgy and Petroleum CIM Standards on Mineral Resources and Reserves: Definitions and Guidelines.

In-Mine Inferred Mineral Resources – January 1, 2011 [(1)]

	Tonnes	Au (g/t)	Ag (g/t)	Cu (%)	Zn (%)
777 Mine	1,326,000	1.91	34.40	1.25	5.21
777 North Mine	67,000	1.49	20.32	1.02	3.47
Trout Lake Mine	—	—	—	—	—
Chisel North Mine – Zinc	28,000	—	—	—	6.44
Chisel North Mine – Copper	—	—	—	—	—
Total Resources	**1,421,000**				

Notes:

(1) This table shows our estimated inferred mineral resources at our material mining properties in Manitoba. Estimated inferred mineral resources within our mines were estimated by a similar 12-step process, used to estimate measured and indicated resources. The inferred mineral resources contained in our mines have had dilution and recovery applied and were economically tested using the same full cost analysis and long term metal prices as those used for the estimation of the mineral reserves.

2. Processing Facilities

Concentrators

Our primary ore concentrator is located in Flin Flon, Manitoba. The concentrator, which is directly adjacent to our metallurgical zinc plant, produces zinc and copper concentrates from ore mined at our 777 and Trout Lake mines. Its capacity is approximately 2.18 million tonnes of ore per year and in 2010, 2.25 million tonnes of ore were milled. The concentrator can handle ore from each mine separately, and blending is done at the grinding stage. The Flin Flon concentrator facility includes a paste backfill plant and associated infrastructure such as maintenance shops and laboratories. In 2010 we completed a copper concentrate filtration plant and other facilities to allow for the shipping of the copper concentrate we produce. Tailings from the concentrator are pumped to the Flin Flon tailings impoundment immediately adjacent to the concentrator.

Our concentrator in Snow Lake, Manitoba was re-started in the first half of 2010 after being placed on care and maintenance in January 2009. The concentrator processes zinc ore from the Chisel North mine and produces zinc concentrate, which is shipped by truck for processing at the zinc plant in Flin Flon. The concentrator, which has crushing, grinding, flotation, thickening, filtering and drying capabilities, has a capacity of approximately 1.2 million tonnes of ore per year and could be refurbished to allow ore produced from Lalor to be milled at the concentrator. Tailings generated by the Snow Lake concentrator are deposited in our Anderson Lake tailings facility, which we believe mitigates environmental concerns, as the tailings are deposited in a subaqueous manner, minimizing the potential for generation of acid rock drainage.

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

Zinc Plant

Our zinc plant located in Flin Flon, Manitoba produces special high-grade zinc metal in three cast shapes from zinc concentrate. Our plant is one of three primary zinc producers in North America. We produced 110,283 tonnes of cast zinc in 2010. The capacity of the zinc plant is approximately 115,000 tonnes of cast zinc per year, and an additional approximate 15% expansion is possible at comparatively low capital investment. Included in the zinc plant are an oxygen plant, a concentrate handling, storage and regrinding facility, a zinc pressure leach plant, a solution purification plant, a modern electro-winning cell house, a casting plant and a zinc storage area with the ability to load trucks or rail cars. The zinc plant has a dedicated leach residue disposal facility. The bulk of the waste material is gypsum, iron and elemental sulphur. Wastewater is treated and recycled through the zinc plant.

Both domestic concentrate produced from our mines and concentrate purchased from third parties are processed at the zinc plant. Purchased concentrate accounted for 26% of zinc metal produced at our zinc plant in 2010. The zinc plant currently has excess capacity beyond our domestic concentrate production and we intend to utilize this capacity by purchasing concentrate and advancing our development projects, including Lalor, to production.

Zochem

Zochem is our zinc oxide production facility, and is located in Brampton, Ontario. Zochem has the capacity to off-take approximately 37,000 tonnes (or approximately 25% of our production) of our zinc metal per year, having the potential to buffer our production schedules and inventories against the impact of zinc market cyclicality. Zochem is the third largest producer of zinc oxide in North America, accounting for approximately 20% of the North American market.

The Zochem facility has a total capacity of approximately 45,000 tonnes per year of zinc oxide. In 2010, Zochem produced approximately 41,000 tonnes of zinc oxide.

Copper Smelter

Due in part to the anticipated costs of compliance with pending emissions reduction targets and increasingly competitive market conditions for copper smelting operations, we closed our copper smelter in Flin Flon in June, 2010.

White Pine Copper Refinery

White Pine, which is located in the western Upper Peninsula of Michigan, processed our copper anode from the copper smelter into refined copper cathode with the recovery of precious metals in a saleable slimes product. In connection with the closure of our copper smelter, we closed the White Pine refinery in the third quarter of 2010.

3. Development Properties

Lalor Project

The technical and scientific information included in the following description of the Lalor project, including the estimated mineral reserves and mineral resources, and the estimated tonnes and grade of the gold zone and copper-gold zone, have been prepared under the supervision of Robert Carter, P.Eng., who is employed by HBMS as Superintendant, Mines Technical Services and who is a Qualified Person under NI 43-101. On November 20, 2009, we filed a NI 43-101 compliant technical report entitled “Technical Report, Lalor Deposit, Snow Lake, Manitoba, Canada”, dated October 8, 2009, which is available at www.sedar.com.

Project Description and Location

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

We own a 100% interest in the property through five claims and eight mineral leases that total approximately 916 hectares with annual rental payments payable to the Manitoba government of $1,742. Application has been submitted to convert the claims to a mineral lease which has an initial term of 21 years. The mineral leases terminate in April and September 2023. There is no royalties payable other than those potentially payable to the province. Surface rights are held under miscellaneous leases, surface leases and general permits with total annual rentals of $145.

An underground production ramp from HudBay’s Chisel North mine to the Lalor deposit began in December 2009. The ramp is expected to provide early production of zinc rich ore and access to the gold zones for additional underground exploration. A ventilation raise bore driven from surface provides fresh air for the ramp development. As of February 20, 2011 a total of 1,709 meters of ramp was excavated from a planned length of approximately 2,750 meters. On August 4, 2010, HudBay’s board of directors made a full commitment to the development of the Lalor project by authorizing the expenditures necessary to put the project into full production.

We undertook fast-track prefeasibility work on early 2010 and completed an updated prefeasibility study in February 2011.

Accessibility, Climate, Local Resources, and Infrastructure

The project infrastructure includes a four kilometer main access road that was constructed in 2010 from provincial road 395 and provides access from the Chisel North mine site and Lalor site. This road will also serve as the route for the electrical power lines, the fresh water supply line, and the mine discharge water line between Lalor and the Chisel North sites. Access to the site is off of paved provincial highway 392 which runs to Snow Lake and provides access to 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 areas is approximately 300 meters above sea level, consisting of ridged to hummocky sloping rocks with depressional lowlands, and has gentle relief that rarely exceeds 10 meters. 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.

The Chisel North concentrator and Anderson Lake tailings facilities are 18 kilometers from Lalor. See “Processing Facilities – Concentrators”.

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

Power for the site construction is currently being transmitted at 25 kV using a modern substation at the Chisel North Mine site via a four kilometer long overhead transmission line.

Process water required for the office, shop, hoist house and underground operation is estimated to be 45 to 50 m^3/hr. The process water will be drawn through existing pump stations located at Chisel Lake and Ghost Lake which are currently supplying process water to Chisel North mine. Each pump station has a capacity of supplying 68 m^3/hr.

Work on the project components of ventilation and shaft sinking and site construction is currently being done by specialized contractors with contracts in place. As of the end of 2010, 11 permanent employees were on staff and 88 construction contractors were on site. A 196 person temporary Lalor project construction camp was mobilized and installed in the Town of Snow Lake in the fall of 2010 to accommodate the project construction crew.

Personnel requirements for the mine will largely be drawn from the immediate area where there is a history of operating mines and commencement of operations at Lalor is expected to coincide with the shutdown of our Chisel North mine. We believe there are sufficient skilled operating, maintenance and technical personnel available to bring Lalor to its planned full production. Lalor mine in full operation will require approximately 300 employees and 72 employees for the Snow Lake concentrator.

History

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. This basin is also the host of the Lalor deposit.

A Crone Geophysics survey in 2003 indicated a highly conductive shallow-dipping anomaly at a vertical depth of 800 meters. In early 2007, drill hole DUB168 was drilled almost vertically to test the anomaly and intersected a band of conductive mineralization between 781.74 m and 826.87 m (45.13 m). Assay results include 0.30% Cu and 7.62% Zn over the 45.13 meters, including 0.19% Cu and 17.26% Zn over 16.45 meters. Drilling at Lalor has been continuous since the discovery of mineralization on the property.

Regional Geology

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 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.

Local and Property Geology

The Snow Lake arc assemblage that hosts the producing and past-producing mines in the Snow Lake area is a 20 kilometers wide by 6 kilometers 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.

Mineralization

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

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

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

The Lalor VMS deposit is flat lying, with zinc mineralization beginning at approximately 570 meters from surface and extending to a depth of approximately 1,160 meters. The mineralization trends about 310° to 320° azimuth and dips between 20° and 30° to the north. It has a lateral extent of about 920 meters in the north-south direction and 710 meters in the east-west direction.

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

Notable gold and silver rich zones have also been intersected outside the current zinc rich base metal mineral resources on the property. The precious metal mineralization begins at approximately 720 meters from surface and extends to a depth of approximately 1,390 meters. The mineralization trends about 310° to 330° azimuth and dips between 20° to 25° to the north. The precious metal zones have lateral extents of 1,060 meters in the north-south direction and 460 meters in the east-west direction.

Gold and silver enriched zones occur near the margins of the sulphide lenses and in local silicified footwall alteration. These silicified areas often correlate with disseminated to stringer chalcopyrite and galena, whether together or independent of each other. This association has been confirmed in thin section.

Six distinct stacked zinc rich mineralized zones and five stacked gold lenses or zones of low sulphide either in contact with or entirely separate to the zinc rich base metal resources 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 potential gold zones remain open down plunge to the north.

Exploration and Drilling

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

Time-domain borehole EM 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.

Recent exploration drilling at Lalor has focused on exploration of the recently discovered copper-gold zone, in-fill drilling at the potential gold zone and testing targets peripheral to the Lalor deposit.

As of December 31, 2010, 121 parent and 96 wedge holes, amounting to 248,265 meters of drilling, has been conducted on the property.

All diamond drilling was completed from surface retrieving whole core sizes of BQ and NQ. Wedge offsets and associated directional drilling were completed on parent holes, resulting in time and cost savings over drilling a new hole from surface. Wedging and directional drilling were used at Lalor for acquiring metallurgical sample and delineation purposes. For delineation purposes, wedge offsets are oriented towards specific targets selected by the geologists along a path calculated by the directional drilling technicians. In metallurgical sampling wedge offsets are unoriented and the wedge is set just above the zone that is to be sampled such that the core sample collected is generally within 10 to 20 meters of the parent hole intersection.

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

Sampling, Analysis and Security of Samples

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

Security measures taken to ensure the validity and integrity of the samples collected are handled in a professional manner and consistent with industry standards for base metal deposits.

Mineral Resource and Conceptual Estimates

The mineral resource and conceptual estimates are effective as of a May 1, 2010 cut-off date for diamond drilling, which includes a total of 95 parent and 76 wedge offsets drilled from surface on the Lalor property. The zinc rich base metal estimate was completed using MineSight 5.00-03 block modeling software in UTM NAD83 coordinates (MineSight). The block model was constrained by interpreted 3D wireframes of the zinc rich base metal mineralized zones. Gold, silver, copper, zinc, lead, and iron grades and specific gravity were estimated into blocks using Ordinary Kriging (OK) interpolation. Zone intersections were selected based on a minimum 4% Zinc

Equivalency formula (ZNEQ) over a two meter 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 estimate was completed using MineSight in UTM NAD83 coordinates. The block model was constrained by interpreted 3D wireframes of the gold mineralized zones. A 1.0 g/t gold cut-off over a two meter 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 either Inverse Distance Squared Weighted or 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 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 that contribute to the interpolation at the 4% ZNEQ cut-off. The gold resources and conceptual estimates are classified on the basis of the model blocks to the nearest composite, continuity and variability of the gold mineralization at the 1.0 g/t cut-off. Potential gold and copper-gold estimates are conceptual in nature and to date there has been insufficient exploration to define a mineral resource compliant with NI 43-101. It is uncertain if further exploration will result in the target deposit being delineated as a mineral resource.

Summary of Zinc Rich Mineral Resource – May 1, 2010

Category	Tonnes (Millions)	Au (g/t)	Ag (g/t)	Cu (%)	Zn (%)
Indicated	13.3	1.6	24.9	0.66	8.87
Inferred	4.8	1.3	26.2	0.58	9.25

Summary of Gold Mineral Resource – May 1, 2010

Category	Tonnes (Millions)	Au (g/t)	Ag (g/t)	Cu (%)	Zn (%)
Inferred	5.4	4.7	30.6	0.47	0.46

Notes:

(1) CIM definitions were followed for the mineral resources.
(2) Zinc rich base metal mineral resources are estimated at ZNEQ cut-off of 4% (ZNEQ% equals Zn% + Cu% x 2.352 + Au g/t x 0.867 + Ag g/t x 0.014) and a minimum two meter true width.
(3) Gold zone mineral resources are estimated at a 1.0 g/t gold cut-off and a minimum two meter true width.
(4) Long term $US metal prices of $700/oz gold, $12.00/oz silver, $2.00/lb copper and $0.85/lb zinc were used for the estimation of ZNEQ.
(5) Metal recovery assumptions of 65% gold, 60% silver, 90% copper and 90% zinc were used for the estimation of ZNEQ.
(6) Specific gravity measurements were taken on a large portion of the samples. Where actual measurements were not available stoichiometric values were calculated.

Summary of Potential Gold Conceptual Estimate – May 1, 2010

Tonnes (Millions)	Au (g/t)	Ag (g/t)	Cu (%)	Zn (%)
5.1 – 6.1	4.3 – 5.1	23 – 27	0.2 – 0.4	0.2 – 0.4

Summary of Potential Copper-Gold Conceptual Estimate – May 1, 2010

Tonnes (Millions)	Au (g/t)	Ag (g/t)	Cu (%)	Zn (%)
1.8 – 2.2	5.8 – 7.0	18 – 22	3.2 – 4.0	0.2 – 0.3

Mineral Reserves

The mineral reserves at Lalor are estimated from the indicated zinc-rich mineral resources as shown above and are inclusive of those mineral resources modified to produce the mineral reserves shown below. Mineral reserves are based on an updated prefeasibility study completed by HudBay in February 2011 that provides the basis for an economic project. The updated prefeasibility study includes: re-calculated mineral resource model incorporating the 2009/2010 winter diamond drilling program, detailed calculation of dilutions and recoveries per mining area, completion of trade off studies for mine backfill, mine ore haulage and milling options, paste backfill requirement, detailed capital and operating cost estimates for refurbishing the Snow Lake concentrator. The mineral reserve also accounts for relevant economic, marketing, legal, environment and socio-economic factors.

Lalor Probable Mineral Reserves – January 1, 2011 (1)

Tonnes (Millions)	Au (g/t)	Ag (g/t)	Cu (%)	Zn (%)
10.5	1.6	21.0	0.64	8.31

Notes:

(1) The zinc price used for mineral reserve estimation was US$1.00 per pound, the copper price was US$2.50 per pound, the gold price was US$900 per ounce and the silver price was US$15 per ounce using an exchange of 1.10 C$/US$.

Metallurgical Testing

Lalor mineralization is typical of the polymetallic base metal ores in the Chisel Basin, containing gold, silver, copper, zinc and lead. The previous fast track prefeasibility study was completed using preliminary metallurgical information. During 2010, grind optimization, reagents selection, locked cycle testwork and locked cycle variability testwork were completed to support the metallurgical process selection, recoveries and concentrate grades. The mineralization is mostly coarse grained and exhibits a high degree of liberation at a relatively coarse grind. The high degree of mineralization has led to good concentrates grades and copper and zinc recoveries for the Lalor deposit.

Mining

Current mine planning is based on underground mining of the probable reserves from the two principal base metal zones: the zinc rich Zone 10 and the zinc rich with elevated copper and gold Zone 20. The planned production rate is 3,500 tonnes per day. The total expected mine life is 11 years, which includes a three year ramp up to full production.

Lalor reserves will be accessed from footwall access drifts off the main ramp. Mining is by post pillar cut and fill with a combination of paste and unconsolidated waste backfill. The underground ore handling system will be done by truck to an ore pass with rock breaker and grizzly dump, hoisted to surface via a 6.7 meter diameter shaft and trucked hauled to the Snow Lake mill for crushing and concentrating. The Lalor shaft is based on the 777 shaft design and is designed to a planned vertical depth of 995 meters.

The refurbished Snow Lake concentrator is planned to have two circuits, producing copper and zinc concentrates. Concentrates will be shipped to Flin Flon where the zinc concentrates are processed at our zinc plant and copper concentrates will be loaded onto rail cars and sent to third party smelters.

Based on current planning, the Snow Lake concentrator will include a tailings plant producing a dewatered filter cake for the paste backfill system.

Permitting and Environmental

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

We received an Advanced Exploration Permit approval in April 2010 from the Manitoba government which allows us to upgrade the existing exploration road, construct an exploration shaft and related facilities, develop an underground exploration platform, and extract up to a 10,000 tonne sample from the gold and copper-gold zones for metallurgical testing.

In 2010, additional permits were granted to HBMS to enable road construction and other site construction. Before the Lalor project can move into full mine production an Environmental Act Licence must be received. Mine site planning, engineering components and baseline environmental field studies are now complete to a stage which will enable us to proceed with an Environment Act licence application.

Recent Activities and Development Plans

Since the advanced exploration permit approval, construction at the Lalor site has started and is accelerating in support of the project activities. The access road to the site is complete, the main surface exhaust raise site has been cleared and construction on the 6.1 meter ventilation raise has been started. All power poles for the site have been installed and the line wiring is ongoing. Water lines for process water and discharge water are being placed and civil work on the pump stations is underway.

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

Procurement and tendering is ongoing. The main production hoist and man hoist have been ordered with the man hoist expected to be delivered in the first quarter of 2011.

We are continuing with the metallurgical testing of the Lalor ores, focusing on gold optimization. This includes variable testing on the primary grind, with and without a regrind circuit, as well as optimization of the reagent used and projected consumption.

Tradeoff studies that we have undertaken indicate that the Lalor orebody is likely sufficient to support the construction of a new concentrator. We are continuing to evaluate options for the capacity and flowsheet of a new concentrator, and expect to be in a position to make a decision on whether to proceed with a new concentrator in mid-2011. The construction of a new concentrator is expected to result in a greater increase in our overall capital expenditure investment in Lalor than refurbishing the existing Snow Lake concentrator.

Constancia Project

The technical and scientific information contained in the following description of the Constancia project has been prepared under the supervision of Sean Spraggett, General Manager of Norsemont Peru S.A.C., and a Qualified Person under NI 43-101. Norsemont has filed a NI 43-101 technical report entitled “Norsemont Mining, Constancia Project, Technical Report, dated February 21, 2011, which is available at www.sedar.com.

Property Description and Location

Norsemont holds a 100% interest in the Constancia project in Peru. The Constancia property is located in the south-eastern Andes of Peru, in the Chamaca and Livitaca Districts, Province of Chumbivilcas, Department of Cusco. The property is approximately 600 kilmeters southeast of Lima at elevations of 4000 to 4500 meters above sea level. Geographic coordinates at the centre of the property are longitude 71° 47’ west and latitude 14° 27’ south.

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

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

Along with the initial concessions obtained by Norsemont, 23 additional concessions were obtained in 2007 and 2008. All of the concessions have been titled and have also been recorded with the Public Registry. The Constancia concessions are currently in good standing. The annual payments for concession fees, US$3.00 per hectare, are due on June 30 each year.

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

Norsemont received its approval for its Environmental Impact Assessment, the primary environmental permit for Constancia, on November 24, 2010. Numerous minor permits are also required before construction of the project commences; we expect these permits will be granted commencing in 2011.

Accessibility, Climate, Local Resources, Infrastructure and Physiography

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

The climate of the region is typical of the Peruvian altiplano in which the seasons are divided into the wet season between October and March with slightly higher temperatures and a dry season during April to September with colder temperatures. Temperatures can dip below -10° Celsius and rise to 20° Celsius. The sun can be very strong with high ultraviolet readings being common during the mid-day period. There is a climate monitoring station installed at the project site.

Elevations on the property range from 4,000 to 4,700 meters above sea level with moderate relief and grass-covered altiplano terrain. Slopes are typically covered with grasses at lower elevations. At higher elevations, talus cover is common with very little vegetation. The grasslands are used as pasture for animals and at lower elevations for some limited subsistence agriculture.

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

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

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

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

A portion of the surface rights for the Constancia project belong to the communities of Chilloroya and Uchucarcco. The communities have granted annual leases to Norsemont which allowed for surface access and we ultimately intend to negotiate for the purchase of the required properties. In addition to making cash rental payments to the communities, Norsemont provides educational assistance, medical and veterinary services as well as an irrigation system in each of the communities, amongst other projects. The cost associated with these activities is approximate US$20,000 monthly.

History

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

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

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

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

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

Geological Setting

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

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

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

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

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

1) Hypogene fracture-controlled and disseminated chalcopyrite mineralization in the monzonite (volumetrically small);

2) Hypogene chalcopyrite (rare bornite) mineralization in the skarns (significant);

3) Supergene digenite-covellite-chalcocite (rare native copper) in the monzonite (significant);

4) Mixed secondary sulphides/chalcopyrite in the monzonite (significant); and

5) Oxide copper mineralization (volumetrically small).

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

Mineralization

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

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

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

1) remnants within the leached capping in monzonite;

2) directly beneath the leached capping in monzonite (very high grades);

3) directly beneath skarn mineralization along the south side of the South Fracture system in the Constancia zone; and

4) within and beneath brecciated skarn/monzonite in the San Jose zone.

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

Exploration and Drilling

Exploration by Norsemont has been ongoing since 2005 and has included:

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

Throughout 2007 to 2010, 11,444 hectares were mapped in the Constancia project at several scales, including 1:1000, 1:2000 and 1:5000. Of this, 8,905 hectares were mapped on Norsemont mining concessions,

which represents 39% of the total Norsemont mining rights in the area. Additionally, 2595 rock samples and 41 stream sediments samples were collected during this period.

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

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

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

Mapping and surface sampling in the Chilloroya South prospect showed strong evidence of porphyry-related copper-gold-molybdenum mineralization that occurs at the southern sector in an area of about 2.5 x 2 kilometers. Five targets were identified in Chiloroya South from surface mapping, sampling and geophysical interpretation, which were drill-tested during June to August 2010.

Norsemont also drilled the Ucchucarco target, 3.2 kilometers northwest of the Constancia porphyry, near the Katanga mine, and the Yanaccaca target, 500 meters north of the San Jose pit. The drilling at both of these targets failed to result in the discovery of economic mineralization.

As of 22 September 2010, a total of 150,686 meters in 514 holes have been drilled at the Constancia project (including 7,484 meters drilled by Rio Tinto prior to 2005). Meterage is distributed in six drilling programs, namely: infill, condemnation, metallurgical, geotechnical, hydrogeological and exploration, the latter referred to drilling in Pampacancha, Chiloroya South, Yanaccacca and Ucchucarco areas, where 79 holes were drilled totaling 23,602 meters . Diamond drilling (core recovery) constitutes 87% of the total meterage, whereas reverse circulation (chips recovery) only 13%. Contractors engaged by Norsemont to conduct drilling include GEOTEC, AK Drilling and Perforaciones del Peru.

The mineral resource estimate reported herein (dated to September 2009) is based upon 307 diamond drill holes totaling 106,414 meters in 293 holes drilled by Norsemont and 14 holes drilled by Rio Tinto.

Sampling, Analysis and Security of Samples

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

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

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

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

Norsemont implements security measures to ensure the validity and integrity of the samples collected, including storing unshipped samples in a secure location at the Uchucarrco camp, with 24 hour armed guards present. Once shipped, chain of custody is maintained and recorded and the assaying lab is never informed about the identity of the control samples.

Mineral Resource and Mineral Reserve Estimates

		Grade							
Category	Mt	Cu (%)	Mo (%)	Ag (g/t)	Au (g/t)	Cu (mlb)	Mo (mlb)	Ag (koz)	Au (koz)
Reserves									
Proven	195	0.42	0.012	3.49	0.04	1,800	61	21,857	277
Probable	177	0.37	0.009	3.66	0.05	1,428	44	20,832	271
Total	372	0.39	0.0105	3.57	0.05	3,229	105	42,689	548
Resources (@0.2% CoG)									
Measured	214	0.39	0.011	3.33	0.04	1,857	63	22,830	289
Indicated	265	0.29	0.008	3.04	0.04	1,674	55	25,870	332
M+I	479	0.33	0.0091	3.16	0.04	3,531	117	48,700	621
Inferred	21	0.26	0.007	3.69	0.04	120	4	2,485	30

The resource stated above is inclusive of reserve.

Based on this estimate, the reserves contain approximately 3.23 billion pounds of copper, 105.0 million pounds of molybdenum, 42.7 million ounces of silver and 548,000 ounces of gold at a 0.2% copper cutoff.

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

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

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

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

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

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

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

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

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

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

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

The Constancia Project has preliminary metallurgical testing results with positive results. Additional metallurgical testing may be required to characterize the mineralization and assist in planning the development of the property.

Mining Operations

Norsemont’s optimized feasibility study, completed in February 2011, contemplates an open pit mining operation producing up to 70,000 tonnes of ore per day over a 15.3 year mine life, using a standard milling and froth flotation plant. Norsemont has not yet entered into negotiations with potential purchasers of the copper and molybdenum concentrates contemplated to be produced at Constancia.

Norsemont’s feasibility study estimates capital development costs at $920 million and deferred and sustaining capital costs of $241 million. The project is expected to pay back the initial capital after three years of production.

Exploration and Development

Diamond drill exploration for the remainder of 2011 is expected to focus on the Pampacancha and Chilloroya prospects. A preliminary resource estimate is being compiled for the Pampacancha area and a preliminary economic assessment will be conducted with completion targeted for the third quarter of 2011. A regional exploration program is expected to begin late in the second quarter of 2011 with the aim of identifying further drill targets with geophysical surveys, geochemical sampling and geological mapping of the largely unexplored 22,500 hectare mineral concessions.

A series of geotechnical and condemnation drill holes are intended to be initiated in the second quarter of 2011 with the aim of moving towards detailed engineering of required infrastructure in preparation for construction. A detailed engineering review is also underway and long-lead items and critical path project requirements are being addressed with the intention of being in a position to make a construction decision by the end of 2011.

Fenix Project

The technical and scientific information included in the following description of the Fenix project, including the estimated mineral reserves and mineral resources, has been prepared under the supervision of Cashel Meagher, P.Geo., our Vice President, Exploration. Mr. Meagher is a Qualified Person under NI 43-101. On March 31, 2010, we filed a NI 43-101 compliant technical report entitled “Technical Report on an update to the Fenix Project, Izabal, Guatemala, which is available at www.sedar.com.

The Fenix project is a development stage ferro-nickel project in eastern Guatemala, which we own through a 98.2% ownership interest in CGN.

The Fenix project is capable of being developed into a multi-decade mine with annual production of approximately 50 million pounds of nickel. However, the project is subject to significant social and political risks. In addition to the risks described under “Risk Factors – Political and Social Risk”, the Fenix project must deal with: the presence of illegal occupants on CGN’s property; the possibility of further violence by individuals who are opposed to CGN’s development of the project; ongoing challenges against CGN’s mineral title, regulatory permits and other property rights; the potential reputational and other impact of recent lawsuits brought against us, which we believe to be without merit; and the possibility of policy changes or other adverse action by the Guatemalan government such as a refusal to grant us ancillary permits necessary to operate the project as intended. While we are committed to cooperating with interested stakeholders, each of these factors increases the business risk involved and may ultimately impact the value we are able to realize from the project. As a result, we intend to mitigate our business risk by seeking financing alternatives for the project, which could involve limited recourse project financing or a joint venture or other strategic transaction where we dispose of all or a part of our interest in the project.

Project Description and Location

The Fenix Project consists of two areas located near the northwest and southeast shores of Lake Izabal in the Department of Izabal in eastern Guatemala. The project is approximately 170 kilometers northeast of Guatemala City, and 90 kilometers from the Caribbean coast. The larger of the two areas, which is covered by Extracción Minera Fénix, an exploitation licence (formerly part of a slightly larger exploration licence area called ‘Niquegua Norte’), is 6 kilometers west of the town of El Estor and contains the project’s principal nickel laterite deposits.

In April 2006, the Ministry of Energy & Mines of Guatemala issued an exploitation licence called the “Extracción Minera Fénix, Exploitation Licence” (the “**Fenix Exploitation Licence**”) to CGN, a subsidiary of Skye Resources Inc. (“ **Skye**”) which converted substantially all of the Niquegua Norte exploration licence into a 25-year exploitation licence renewable for a further 25 years, covering an area of 248 square kilometers. The exploitation license allows mining of nickel, cobalt, iron, chromium and magnesium.

A royalty of 1% of gross revenues is payable, with 0.5% to the Guatemalan federal government and 0.5% to the local government.

CGN is a Guatemalan company, the shares of which are 98.2% owned by HMI Nickel Inc., a subsidiary of HudBay, and 1.8% by the Guatemalan Government. Skye was acquired by HudBay in 2008 and has since been renamed HMI Nickel Inc. Skye acquired CGN (previously known as "Exmibal") from Inco in 2004 and as part of the sales agreement, Inco (now Vale) is to be paid a net smelter return royalty based on 70% of ferro-nickel production. The NSR calculated on 70% of net revenues is 2% before payback when the LME nickel price is below $4.00, 6% after payback when the LME nickel price is above $4.00, or 8% after payback when the LME nickel price is above $6.00. Inco also will be paid a royalty based on a proportion of production and a sales agency fee of 2.75% of the net invoice value for ferro-nickel products sold.

To maintain the Fénix Exploitation Licence and Niquegua Montúfar II exploration licence, CGN must pay annual surface taxes and carry out a work program on the licence areas. The surface rights to the site of the process plant, to most of Fenix project areas 210-217 inclusive, including the pit and the plant site, and to Manto 4 Area 251, all of which are located within the Fenix Exploitation Licence area, are owned by CGN or its affiliates. Surface rights and houses in a disused company housing site on the west side of El Estor are also owned by CGN or its affiliates.

All major permits are in-place for the construction and operation of the project as proposed in the 2006 feasibility study prepared for Skye (the "**2006 Feasibility Study**"). During the significant deterioration in metal prices in late 2008, HudBay slowed construction and focused on upgrading essential infrastructure including roads, developing its power strategy, and advancing community health and educational initiatives.

Accessibility, Climate, Local Resources, Infrastructure and Physiography

The project area is accessible by road from Puerto Barrios on the Gulf of Honduras. It is paved from Puerto Barrios to El Estor (140 kilometers) and gravel surfaced on the remaining route from El Estor to the mine site (3 kilometers). An airfield maintained by CGN, which is suitable for small aircraft, is located at Las Dantas about one kilometer east of the process plant. During the exploration and production stages of the Exmibal project, access to the El Estor area was supported by ferry across Lake Izabal from Mariscos. The Fenix project site is also accessible by boat from the Gulf of Honduras via the Rio Dulce river and Lake Izabal. The Montúfar II Exploration Licence area is accessible by paved Highway CA-9 from Puerto Barrios and is crossed by the paved access road to Mariscos from Highway CA-9.

The climate of the region is a typical wet tropical environment with approximately 2.5 meters of annual rain falling regionally mostly between the months of May and October. A weather station established at the CGN plant site recorded a total rainfall 1.27 meters for 2009. The proposed project will operate year round with minor operational interruptions during periods of major rainfall.

For the current plant site and mining project, including mining areas 212, 213, 215, 216, and 217, all the necessary surface rights are retained.

The Guatemalan electrical grid is currently not mature enough to sustain the required energy for the proposed peak capacity of a 134 megawatt ferro-nickel plant and a nominal capacity requirement of 123 megawatts. The selected power plant configuration is capable of producing 140 megawatts and consists of two 50% capacity circulating fluid bed (CFB) boilers and steam turbine generators and refurbishment of the existing 62 megawatt heavy fuel oil boiler (HFO). The HFO boiler will provide full boiler backup should one of the CFB's be out of service for maintenance. Water is available on site from the lake and wells and all necessary treatment and monitoring of discharge water will occur and comply with necessary legislation.

The mine site and plant site personnel will be sourced from the local community with more technical requirements being sourced from the region. Guatemala is not known for large mining projects, however, there does exist capacity in construction which is amenable to the skills required for laterite mining. A system of integration and training for these personnel is being formulated to facilitate with the integration.

The most important deposits are largely confined to northeast or southeast trending terraces and spurs on the south flanks of these hills at elevations between 330 and 800 meters. The total relief is 1,000 meters. The highest topographic points, the site lying in area 215 north of the Lake and area 223 to the south, are each sites of telephone communication towers with dirt access roads reaching them from the south. A surficial cover layer containing a

significant amount of non-ultramafic derived material has sufficient phosphorus to support normal vegetation. As a result, undeveloped areas of laterite outside of areas 212 and 213 are largely covered by forest. Exceptions are the 218, 219 and 251 areas in Fenix and the Cristina area at Montúfar which have been partially cleared for subsistence farming. Semi-open pine forests in the Montúfar licence and in a limited southwest part of area 217 are restricted to the mid to lower south slopes and are probably, at least in part, the result of lower rainfall on the leeward slope rather than sterile laterite soil.

History Year	Nickel Laterite Exploration and Evaluation
1955	Nickel was first recognized in samples from the farm of J. M. Montúfar south of Lake Izabal.
1957-60	Preliminary exploration of the Lake Izabal Montúfar area was carried out by Hanna Mining Company.
1960	Formation of Exmibal (originally 80% Inco 20% Hanna and subsequently shareholders have changed). Exmibal's name was changed to 'CGN' in January 2005.
1961-70	Exmibal carried out reconnaissance exploration through to advanced project development on numerous prospects. The prospects were sampled with manual and power drills, and test pits.
1965	Exmibal was granted a 40-year mining concession and exploration entered a "development" stage.
1973	In agreement with the Guatemalan government, Exmibal started to build and operate a mine and smelter on the Fenix property.
1977-80	Exmibal mined about 1.08 million dry metric tonnes of saprolite from Area 212 (La Gloria) and produced approximately 32.9 million pounds of nickel as nickel matte. The plant was shut down in 1980 as part of a worldwide cut-back in production by Inco in response to low nickel prices and high petroleum prices during a global recession. Since shut down, the plant has been kept on care and maintenance.
1980-2005	No further exploration or mining activity took place prior to April, 2005.
1993	Inco, Sumitomo Metal Mining Co. Ltd. and Tokyo Nickel Company Ltd. completed a feasibility study on restarting operations. Inco estimated a resource using their Laterite Estimation System (LES) 2.2 proprietary 2-D software. This estimation showed 14,297,000 dmt of "mineable" resource at a grade of 1.91% nickel in their "20-year reserve".
1998	Inco completed a further in house re-evaluation using their LES.
2004	On 15 December, 2004, Skye conditionally acquired Inco's 70% share of Exmibal. AMEC examined the Inco saprolite resource estimates for their 20-year reserve in the La Gloria area of the Fenix Exploitation Licence and reclassified them in terms consistent with the requirements of NI 43-101. Golightly Geoscience re-classified the remaining saprolite and limonite resource estimates in terms consistent with the requirements of NI 43-101.
2006	A 25 year exploitation license (renewable for an additional 25 years) was granted.
2005-2007	CGN drilled 62,981 meters in 2,479 diamond drill holes to produce a mining reserve consistent with NI 43-101 and published a feasibility study.
2008	A further 2,174 meters were drilled until exploration activities were delayed in February in the early stages of the global financial crisis. In August, 2008, HudBay completed its acquisition of Skye Resources.

History Year	Nickel Laterite Exploration and Evaluation
2010	On March 31, 2010 a Technical Report was prepared by Golder and filed by HudBay relegating the historic reserve to a new calculated resource number. The principal aim of the report was to re-assess the resource in areas 215, 216 and 217 with the diamond drilling available. Under HudBay ownership CGN completed a diamond drill project in May of 2010 of 244 holes and 7,648 meters in areas 212 and 213. This drilling provided for the recalculation of the resource in these two areas. A feasibility study was completed at the end of 2010 incorporating new design parameters and strategies for mine sequencing, power and logistics with Hatch and Golder being the principal technical consultants.

Geological Setting and Mineralization

The nickel deposits are lateritic weathering profiles that have formed on peridotites thrust into place during the early Tertiary. The most important deposits are located in the area subject to the Fenix Exploitation License largely on northeast or southeast trending terraces and spurs on the south flanks of the Sierra de Santa Cruz at elevations between 370 and 800 meters. Total topographic relief in the area is 1,000 meters. Additional important deposits are found on lower terraces and spurs on Sierra de las Minas in the Montufar licence at elevations of 300 - 450 meters elevation.

The nickel deposits of the Lake Izabal region are typical examples of nickel laterite deposits formed in seasonally wet tropical climate on partially serpentinized peridotites. The nickel in such deposits derives ultimately from the igneous olivine (0.3% Ni in olivine) and the serpentine that replaces it.

The deposits comprise a saprolite zone of partially decomposed peridotite corestones overlain by a zone of in situ limonite. With progressive weathering, nickel is leached out of the limonite zone and transition zone and enriched in altered bedrock serpentine in the underlying saprolite. Typically nickel is present in solid-solution in serpentine, in goethite and in manganese-cobalt-oxides. The nickel grade of the saprolite depends upon the topographic setting and the amount of rock that was decomposed to form the laterite profile and on the grade of nickel in the parent rock. The latter depends upon the olivine content of the parent rock. This makes a significant variation of the nickel grade of the saprolite zone. Al2O3 in the laterite derives largely from pyroxene, which has very low nickel (approximately 0.01%).

Exploration and Drilling

The major exploration efforts on the Exmibal property were conducted by Inco prior to Skye's involvement. Inco's exploration activities consisted mainly of geological mapping, drilling and pitting on various prospects. The predominant type of drilling utilised was power auger drilling which is known to have difficulty cutting through the core stones in the saprolite layer, and they also have a tendency to only partially recover samples with some cuttings of a preceding sample contaminating the sample by falling down the hole. The other methodology for testing the sequence was by the digging of 1 to 1.5 meter square pits and most of the pits were backfilled after sampling. The historic pre-2005 database contains 3,530 drill holes at a total length of 58,058 meters for the Fenix project on the north side of Lake Izabal.

From 2005 to 2008, CGN, under the direction of Skye, conducted an in-filling and twin diamond drilling campaign in areas 212, 213 215, 216, 217, 251 and 221 with the aim of confirming the continuity of the saprolite. A total of 2,620 drill holes for a total length of 65,034 meters were drilled with the aim to delineate at a 50 meter spacing. This drilling combined with the previous Exmibal auger drilling provided the geochemical sample database from which the resource calculation used in the 2006 Feasibility Study was based.

In 2010 CGN conducted a diamond drill campaign under the direction of HudBay with the aim to confirm the continuity and better delineate the depth of saprolite by utilising diamond drilling. The resulting drill spacing

was 35-40 meters in areas 212 and 213 with a total of 244 holes and 7,648 meters of drilling. This drilling was used to update the resource for the feasibility study that was updated in 2011.

There exists a notable bias in diamond drilling versus auger drilling results. The thesis is that the auger drilling does not penetrate the profile in the presence of core stones and some sample bias exists with cross contamination of sampling. The resulting observation is that the auger drilling can tend to underestimate saprolite profile thickness and grade. The coverage of diamond drilling is currently not enough to replace all the auger drilling therefore some of the auger drilling is utilised and thought to be a conservative approach in the absence of diamond drilling.

Density was measured during the diamond drill campaigns conducted from 2005. The methodology employed utilised the water displacement method and was subsequently calculated on a dry basis after moisture content was measured. For the purpose of resource calculation a combination of source data was utilised to determine dry bulk in situ density including historical sample pit information, mine reconciliation data and diamond drill core. From this source data a regression formula was calculated utilising iron content. This methodology best estimates the in situ dry bulk density for the purposes of resource calculation.

CGN will be carrying out an exploration program during 2011 to delineate and evaluate nickel laterite deposits in close proximity to the proposed Fenix project for potential mine schedule optimisation.

Sampling, Analysis and Security of Samples

There is no detailed written record of the routine sampling, sample preparation or analyses methodology for the pre-2005 Exmibal exploration sampling programs. A review of known methodology employed by Inco during this time outlines a process that conforms to industry standard quality control and assurance programs for assaying and sample preparation. However the auger bias as discussed above introduces what is considered a conservative risk to the auger assay results.

Post-2005 exploration conducted by CGN for the diamond drill campaigns were conducted under a formal quality assurance and quality control program. The program adheres to industry standards for sample collection, processing and analyzing. Individual sample batches were monitored via the insertion of blanks, standards and duplicate samples. Routine assays were conducted by lithium metaborate fusion and XRF with external checks performed by peroxide fusion ICP-AE. All sample preparation and assaying were performed by third party certified laboratories. There is no evidence or known occurrence of samples that were subject to tampering.

In order to report the mineral resource estimate, the potential for economic extraction of the mineralization was defined as follows:

- Only the saprolite (including transition) portion of the mineralization with a suitable chemistry was included in the updated mineral resource (internal limonite dilution has already been incorporated in the geological model). Suitability of the chemistry was tested on large areas based on the assumption that small individual blocks with extreme chemistry could be successfully blended by operating different parts of the deposits simultaneously and by an expansion of the existing stacking-reclaiming facility.
- After compiling grade-tonnage curves, a cut-off grade of 1.6% Ni in areas 212, 213z1, 213z2, 217z1 and 251 and 1.5% Ni in areas 215, 215inf, 216, 217z2 and 217z3 was deemed to constitute the optimum compromise between resource utilization and minimum acceptable economic return on investment.
- A minimum of two consecutive vertical blocks above cut-off (2 meters) was applied as an additional constraint in order to remove thin and isolated layers. A maximum of 2 meters of vertical internal waste within the “ore layer” was also applied based on the assumption than any larger waste inclusion could be selectively mined out and disposed without entering the plant feed stream.

- On the measured and indicated mineral resource estimates, a Lerch- Grossman algorithm was applied in order to eliminate the blocks which would necessitate an unrealistic amount of incremental stripping or mine development to be successfully extracted. The constraints applied through the Lerch-Grossman and minimum ore thickness criteria result in a very small portion of the blocks above cut-off to be excluded from the mineral resource estimate. In the opinion of Golder, approximately 97% of the mineralization grading above cut-off presents potential for economic extraction.

Mineral Resource Estimates for Areas 212, 213, 215, 216, 217 and 251 of December 31, 2010

Classification	Area	% Ni cut-off	000' Dry Tonnes	% Ni
	212	1.6	5,425	2.09
Measured	213z1	1.6	751	2.16
	217z1 East	1.6	2,218	2.09
	Total		8,394	2.10
	213z2	1.6	1.68	1.94
	215	1.5	3,346	1.85
	216	1.5	5,895	1.75
Indicated	217z1 West	1.6	537	1.82
	217z2	1.5	9,441	1.86
	251	1.6	9,067	1.97
	Total		28,454	1.87
Measured + Indicated	Total		36,848	1.92
	217z3	1.5	3,900	1.8
Inferred	217z3	1.5	3,900	1.8
	Total		9,700	1.8

The 2010 “Other Areas Estimate” are excluded from the revised estimate presented in the above table but are presented separately in the following table. The restatement of the mineral resource estimates for these other areas is necessary in order to avoid duplication since some of these zones, i.e. 216 area and part of 217 area have been covered by recent core drilling and are now included in the areas considered for the update of the Feasibility Study.

Historical Mineral Resource Estimates for the Other Areas

Classification	000' Tonnes	% Ni
Measured	8,713	1.79
Indicated	26,074	1.82
Measured+Indicated	34,787	1.81
Inferred	26,118	1.75

Prior mineral resource estimates include estimates for the Limonite portion of the profile which was deemed by Skye Resources to be amenable to a pressure acid leaching type of mineral processing. HudBay has conducted further investigations without being able to confirm the economic potential of this processing alternative. As a result, no limonite mineral resource estimates are being reported as of March 31 2010.

Mineral Reserve Estimate

The 2010 feasibility study utilising the above resource was commissioned by HudBay and was completed near the end of 2010. The reserve has been appropriately modified to account for dilution, contamination, ore losses, metallurgical process recovery, and economic evaluation by means of resource optimisation and the scheduling of phased pits in order to meet processing requirements and blending constraints. The reserve also accounts for relevant economic, marketing, legal, environment, socio-economic and government factors.

The resulting reserve statement supported by the 2010 feasibility study is reported as follows:

Mineral Reserve	Tonnes (millions)	% Ni	Contained Ni (Tonnes)
Proven	7.8	2.03	159,000
Probable	28.4	1.81	513,000
Proven and Probable	36.2	1.86	672,000

As described above, mining dilution, grade cut-offs and minimum thicknesses were pre calculated into the resource estimate. A mining recovery of 95% was incorporated with the average of 4% external dilution principally included from ballast. The reserve methodology utilised the resultant pit shells from Whittle optimisation and considered only nickel being the sole generator of revenue. A price of US$7.25 per pound of nickel was used and process and mining cost criteria was provided for by Hatch and Golder respectively. The resulting strip ratio for the life of mine is 1.73:1 waste to ore tonnes.

Mining Operations

Mining is proposed to be conducted by a fleet of 5.5 m3 excavators, bulldozers and 36 tonne (40 ton) rigid rear-dump haul trucks. This fleet provides the selectivity necessary to separate the saprolite ore from the limonite overlying the saprolite. This fleet also is mobile enough to be flexible in the mining locations and bench configurations that minimise waste dilution of the saprolite ore. Ore will be transported to the plant, or stockpile in the case of Area 251, for plant feed. The inpit waste dumps and the ore stockpiles will be maintained and re-claimed by tracked dozers, wheel loaders and compactors.

The Fenix project will utilise a rotary kiln electric furnace pyrometalurgical flowsheet (RKEF) to produce a ferro-nickel product and is comprised of the following processes which, over the life of the project, have a nickel recovery of about 90%:

- Partial drying, which removes a substantial portion of the free moisture content of the ore.
- Calcining-reduction, which removes the remaining free moisture and crystalline water, heats the ore and reduces a substantial portion of the nickel oxides and a controlled amount of the iron oxides.
- Electric furnace smelting, in which the required reduction of oxides is completed and molten ferro-nickel is separated from the unwanted gangue materials which are discarded as a ferromagnesium silicate slag.
- Refining, which removes undesirable minor elements from the ferro-nickel to meet product specifications.

The plant and mine are designed to produce an average of approximately 22,400 tonnes of nickel as ferro-nickel per year over a mine life of 27 years. The ferro-nickel product will contain about 35% nickel and can be directly sold to stainless steel producers.

4. Joint Ventures

Part of our strategy is to leverage our exploration expertise through strategic partnerships with junior resource companies. In 2009 and 2010, we entered into agreements with Aquila, VMS Ventures and Halo Resources Ltd. (“**Halo**”) which allow us to earn majority interests in promising exploration properties.

Back Forty Joint Venture

Pursuant to a subscription, option and joint venture agreement with Aquila, we have obtained a 51% joint venture interest in the Back Forty project, an advanced stage exploration project evaluating a zinc and gold rich VMS deposit in Michigan’s Upper Peninsula. We can increase our joint venture interest to 65% by completing a feasibility study and making mine permitting applications. Our interest can be further increased to 75% if the Back

Forty project is put into production and Aquila elects to have us fund their share of development costs, which would be repaid out of project cash flows.

On October 15, 2010 we announced an updated NI 43-101 mineral resource estimate for the Back Forty project. The updated resource includes 17.9 million tonnes of measured and indicated mineral resources with nearly one million ounces of contained gold and 3.4 million tonnes of inferred mineral resources.

October 15, 2010 Resource Table*

Classification	Tonnes (millions)	Au (g/t)	Ag (g/t)	Cu (%)	Zn (%)
Open Pit					
Measured	14.1	1.59	16.97	0.15	2.54
Indicated	2.1	1.53	32.80	0.41	1.17
Measured and Indicated	16.2	1.58	19.00	0.18	2.36
Inferred	1.4	1.4	32.89	0.62	1.00
Underground					
Measured	0.8	1.67	25.83	0.24	3.45
Indicated	0.9	1.28	24.72	0.34	3.13
Measured and Indicated	1.7	1.46	25.23	0.29	3.13
Inferred	2.0	1.22	18.34	0.32	2.64
Combined Open Pit and Underground					
Measured and Indicated	17.9	1.57	19.60	0.19	2.44
Inferred	3.4	1.31	25.17	0.46	1.87

* Mineral resources are not mineral reserves and do not have demonstrated economic viability. All figures have been rounded to reflect the relative accuracy of the estimates. The cut-off grades are based on metal price assumptions of US$0.85 per pound zinc, US$2.05 per pound copper, US$0.59 per pound lead, US$866 per troy ounce gold and US$13.95 per troy ounce silver. Metallurgical recoveries were determined and used for each of the metallurgical domains determined for the deposit.

† Cut off grades were determined for each of the metallurgical domains based on NSR values. Average cut-off grade for the open pit resource contained within an optimized pit shell was US$20.

‡ Cut off grades were determined for each of the metallurgical domains based on NSR values. Average cut-off grade for the underground resources outside of the optimized pit shell was US$62.

The Back Forty deposit remains open at depth and along strike to the southwest. We are continuing to explore possible extensions to the underground resource and to test geophysical anomalies near the deposit. In 2011 we plan to work towards a permit application and conduct exploration outside of the known resource area.

Reed Lake Joint Venture

On July 5, 2010 we entered into a joint venture agreement with VMS Ventures respecting the Reed Lake deposit, a copper-rich exploration property near Snow Lake, Manitoba. We have a 70% interest in the Reed Lake joint venture and VMS has a 30% interest. We have agreed to provide full financing for VMS Ventures' proportionate share of the costs to develop the property, which will be repayable solely from VMS Ventures' share of cash flow generated by the project.

In late 2010 and early 2011, we completed in-fill drilling in contemplation of preparing a NI 43-101 compliant mineral resource estimate, which is expected by March 31, 2011. We are continuing to conduct step-out drilling down plunge to test the extension of the mineralization beyond the known deposit, and we expect to make a production decision on Reed Lake shortly after completion of our evaluation of the project.

We are also a party to four option agreements with VMS Ventures which allows us to earn a 70% interest in four properties adjacent to the Reed Lake property by meeting certain work expenditure obligations and making cash payments to VMS Ventures. We intend to commence exploration on these properties in the first half of 2011.

Halo Option Agreement

Our option agreement with Halo allows us to earn up to a 67.5% joint venture interest in Halo's Cold and Lost properties in the Sherridon VMS District in Manitoba, located approximately 115 kilometers by road from our facilities in Flin Flon. We can acquire a 51% interest by making aggregate cash payments to Halo of $800,000 and completing work expenditures of $1.35 million, in each case by December 2011. We can increase our interest to 60% by funding and completing a feasibility study within the next four years and paying $2 million in cash to Halo, and we may further increase our interest to 67.5% by paying Halo an additional $2.5 million prior to commencement of commercial production. We are currently completing an updated NI 43-101 mineral resource estimate for the Lost property.

5. Exploration Properties

Our exploration properties are the key to our strategy of pursuing organic growth. Over the past 80 years, we and our predecessors have brought into production 26 ore bodies on our lands. Our exploration efforts were most recently recognized when we won the Prospectors' and Developers' Association of Canada's Bill Dennis Award in 2009 for our discovery of the Lalor deposit. For 2011, our board of directors has approved total exploration expenditures of $59 million.

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

The Constancia project includes a significant amount of land that has not yet been the subject of significant exploration. Our board of directors has approved an exploration budget of $9 million for 2011, which we intend to use for exploration on the Pampacancha and Chiloroya targets as well as to evaluate other exploration opportunities on the project property.

We also have a considerable land position in the Lake Izabal region of eastern Guatemala, which contains our Fenix laterite nickel project. The exploitation licence known as "Extraccion Minera Fenix" covers 24,800 hectares. The exploration license known as Niquegua Montufar II is located on the south side of Lake Izabal and covers 3,230 hectares of prospective nickel laterite terrain.

We also hold exploration properties in the Yukon, including our Tom and Jason properties, Chile and New York State. Our Tom and Jason properties in the Yukon include an indicated mineral resource of 6.4 million tonnes of 6.33% zinc, 5.05% lead, and 56.55 g/t silver and an inferred resource of 24.6 million tonnes of 6.71% zinc, 3.48% lead and 33.85 g/t silver. In 2011 we plan to conduct exploration on these properties with the intention of upgrading and expanding the current mineral resource. We also intend to initiate a grassroots exploration program in Chile.

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

Products and Marketing

Our principal products are copper and zinc. In 2010, we produced 100,047 tonnes of cast zinc, 19,818 tonnes of copper metal, 210,893 tonnes of copper concentrate (after the closure of our copper smelter), 35,649 ounces of gold, 372,372 ounces of silver and 40,991 tonnes of zinc oxide. In 2010 combined copper metal and copper concentrate sales represented 49% of our total revenue. In 2009, our copper metal sales represented 49% of our revenue. In 2010 and 2009 zinc metal sales represented 23% and 24% of our revenue, respectively.

Since the closure of our copper smelter in mid-2010, our intent is to sell approximately 60% of our copper concentrate production to a third party purchaser on benchmark terms. We sell the remainder of our copper concentrate pursuant to shorter-term contracts as opportunities arise. Sales of our copper concentrate (including gold and silver contained in concentrate) were adversely affected in the second half of 2010 and early 2011 by the inability of our rail service provider to supply sufficient railcars to transport our concentrate production.

We ship cast zinc metal produced at our Flin Flon zinc plant to third party customers in North America by rail and truck. We also sell approximately 25% of our zinc production to our Zochem Inc. subsidiary for manufacturing zinc oxide.

We do not have any contracts upon which our business is substantially dependent, as excess copper concentrate, zinc and precious metals we produce are widely traded commodities with a variety of potential purchasers.

Employees

HBMS

HBMS had approximately 1,315 employees as at December 31, 2010, of whom approximately 1,013 were unionized. In 1998, HudBay entered into a labour stability agreement in respect of its existing Flin Flon/Snow Lake collective bargaining agreements, whereby we agreed with the unions that any collective agreement expiring prior to July 1, 2012 would be settled by way of binding arbitration in the event that the parties could not otherwise agree to a negotiated contract settlement. This agreement is intended to ensure that there will be no strike or lockout through December 2014.

HBMS maintains a profit sharing plan pursuant to which 10% of its after-tax earnings (excluding provisions or recoveries for future income and mining tax) for any given year are distributed among eligible employees in the Flin Flon/Snow Lake operations.

Other Operations

Our Zochem division in Brampton, Ontario employed 42 people, as at December 31, 2010, 21 of whom were unionized. Zochem and the Communications, Energy and Paperworkers union are parties to a three-year collective agreement which expires in June 2012.

In addition, as at December 31, 2010, we had approximately 33 employees at our Toronto head office, 72 employees at the Fenix project in Guatemala and a small number of employees at our Balmat facilities and the White Pine copper refinery. Norsemont currently has approximately 28 employees.

Corporate Social Responsibility

Our sustainability reporting is prepared pursuant to the Global Reporting Initiative G3 guidelines, which is the world's most widely used sustainability framework. We also subscribe to the Mining Association of Canada's Toward Sustainable Mining initiative, which was designed to help mining companies evaluate the quality, comprehensiveness and robustness of their management systems under key performance elements, including tailings management, energy use and emissions, external outreach and crisis management planning. Our Corporate Social Responsibility Report for 2009, which is available on our website at www.hudbayminerals.com, describes our commitment to our stakeholders in several key areas including:

- making safety the number one priority of all employees;
- minimizing environmental harm and rehabilitating land affected by operations; and
- being a positive partner in the communities where we work.

In January 2011, we hired a new Vice President, David Clarry, whose primary responsibility is overseeing our corporate social responsibility initiatives.

Health and Safety and Environmental Performance

Among our core values are protecting the health and welfare of our employees and contractors and reducing the impact of our operations on the environment. All of our producing operations are certified to Occupational Health and Safety Assessment Series 18001 and Environmental Management System Standard ISO 14001.

We believe that ongoing improvements in the safety of our workforce assists in maintaining healthy labour relations and that our ability to minimize lost-time injuries and environmental regulatory violations is a significant factor in maintaining and realizing opportunities to improve overall operational efficiency. In addition to our management systems in place, in 2009 we implemented the Positive Attitude Safety System ("**PASS**") at most of our HBMS operations and we are continuing to roll it out at other HBMS operations. The PASS system involves having meetings before every shift where employees are invited to discuss their previous and upcoming shifts to identify positive safety matters that occurred and make suggestions on how to maintain and increase safety during their shifts. In 2010, our lost time accident frequency per 200,000 hours worked was 1.2. This was an increase over our record LTA frequency of 0.5 in 2009 and we remain committed to continuously improving the safety of our workplace.

We are subject to extensive regulation by federal, state, provincial and local authorities over a variety of environmental matters, including: air and water quality; protection and enhancement of the environment; use, storage and disposal of hazardous materials; and reclamation and restoration of mining properties. We have established an environmental management program directed at environmental protection and compliance. The program consists of an environmental policy, codes of practice, regular audits, the integration of environmental procedures with operating procedures, employee training and emergency prevention and response procedures. We have a dedicated team which is charged with managing our environmental activities and our compliance with all applicable environmental standards and regulations. We did not have any material environmental non-compliances in 2010.

Our operations, concentrators, metallurgical facilities and mine sites in the Flin Flon and Snow Lake locations reflect the impact of historic and current operations. We will have asset retirement obligations involving decommissioning and restoration and we believe that our current financial statement provisions for closure and environmental reclamation obligations are appropriate and adequate. Our closure and reclamation plans are supported by letters of credit provided to the governments of Manitoba and Saskatchewan in an aggregate amount of $42.6 million.

In 2007, we received a report from government agencies which contained preliminary data indicating that concentrations of some elements in surface soils around Flin Flon required further study. The Flin Flon Soils Study was launched in 2007 to better understand the nature of soil conditions in the region and to determine if exposure presents long-term health risks. Metals evaluated comprised copper, selenium, cadmium, methyl mercury, inorganic mercury, arsenic and lead. The work was done by an independent testing laboratory.

The initial Flin Flon Soils Study report was released on June 17, 2010. The study concluded that the likelihood of health effects among area residents from exposure to the metals evaluated are negligible to low. The full report was posted online at www.flinflonsoilsstudy.com.

Community Engagement

Over the past 80 years, we have employed over 47,000 people and contributed significant sums to economic development and taxes to Manitoba and the other local communities where we operate, including El Estor, Guatemala. While the communities near our operations benefit from employment and the resulting economic

activity, they depend heavily on our fortunes. In turn, we act as a good corporate citizen through our active involvement in community improvement initiatives, assisting with the adverse impact of layoffs, and working with communities and government to improve impacted lands.

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 should be taken into account in any investment decision include, but are not limited to, those set out below. Any one or more of these risks could have a material adverse effect on the value of our securities and should be taken into account in assessing our activities.

Ability to Develop Key Projects

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

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

Political and Social Risk

Our Constancia Project in Peru and our Fenix project in Guatemala are subject to the risks described above under “Ability to Develop Key Projects”. In addition to those risks, the governments of Peru or Guatemala could adopt laws or otherwise take steps that would detrimentally affect us and our projects in those jurisdictions. Such laws or steps could involve the expropriation of property, implementation of exchange controls and price controls, increases in production royalties and income and mining taxes, refusal to grant or renew required permits or licenses or requiring unfavourable amendments to or revoking current permits and licenses, and enacting environmental or other laws that would make contemplated operations uneconomic or impractical.

In situations where we have acquired mineral rights, we may not be able to secure required surface rights. While Norsemont has secured significant surface rights over the Constancia property, a portion of the surface rights belong to two communities. Norsemont currently is a party to leases which grants it access rights to those properties. While we expect to enter into negotiations with these communities for the potential purchase of required properties, either or both communities may decline to grant access to or to sell us required properties. In addition, in situations where we possess surface rights, our land may be illegally occupied, as is the case with certain portions of our Fenix property. Further, parties to existing agreements granting us surface rights may not abide by the terms of such agreements and enforcing our rights to surface access could be difficult and time consuming. 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.

Our Constancia and Fenix projects are located in developing countries. Guatemala in particular has a history of political and social unrest. Renewed political or social unrest or a political crisis in Guatemala, or similar problems in Peru, could adversely affect our ability to develop and operate our properties in these jurisdictions. Social problems in these jurisdictions and uncertain land tenure for many indigenous people could have adverse effects on our Constancia and Fenix projects. Such adverse effects could result from the local populations and other interested parties encroaching on our land, challenging the boundaries of such land or our rights to operate on such land, impeding project activities through roadblocks or other public manifestations or attacking project assets or personnel. National elections are scheduled for 2011 in both Peru and Guatemala, which could result in policy changes before or after the elections.

Market price and demand volatility

Our earnings and financial condition depend upon the market prices of metals, which can fluctuate widely. Metal prices ultimately depend on demand in the end markets for which metals are used. The principal end markets for zinc and copper are the steel and automotive industries and the electrical and electronics industries, respectively. These industries, as well as certain other industries that use zinc or copper, are cyclical in nature. Demand is affected by numerous factors beyond our control, including the overall state of the economy, general level of industrial production, interest rates, the rate of inflation, foreign exchange rates and investment demand for commodities, any of which can cause significant fluctuations in zinc and copper prices. Such external economic factors are in turn influenced by changes in international investment patterns, monetary systems and political developments. The price of zinc, copper and other metals and concentrates has fluctuated widely in recent years and recent declines in both price and demand have had the effect of reducing our profitability and caused us to suspend certain of our operations. In addition, future price and demand declines may 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.

Furthermore, significantly decreased commodity prices may require us to revise our mineral reserve calculations and life-of-mine plans, which could result in material write downs of our investment in mining properties and increased amortization, reclamation and closure charges. In addition to adversely affecting our mineral reserve estimates and financial condition, declining commodity prices can affect operations by requiring a reassessment of the feasibility of a particular project. Such a reassessment may be the result of a management decision or may be required under financing arrangements related to a particular project. Even if the project is ultimately determined to be economically viable, the need to conduct such a reassessment may cause substantial delays or may interrupt operations until the reassessment can be completed.

We occasionally engage in hedging activities, such as forward sales contracts and commodity put and call option contracts, to minimize the effect of declines in metal prices on our operating results, and may continue to engage in such activities in the future. While these hedging activities may protect us, to some extent, against low metal prices, they may also limit the price we can receive on hedged products. As a result, we may be prevented from realizing possible revenues in the event that the market price of a metal exceeds the price stated in a forward sale or call option contract, which could adversely affect our results of operations.

Foreign exchange

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

Mining operations and insurance

Mining operations, including the exploration and development 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 exploration, development and production of zinc and copper metal including: adverse environmental conditions; industrial 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 inclement or hazardous weather conditions. These risks could result in damage to, or destruction of, mines and other producing facilities, 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. Milling operations are subject to hazards such as equipment failure or failure of retaining dams around tailings disposal areas that may result in environmental pollution and consequential liabilities.

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. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to us or to other companies in the mining industry on acceptable terms. We might also become subject to liability for pollution or other hazards that may not be insured against or that we may elect not to insure against because of premium costs or other reasons. Losses from these events may cause us to incur significant costs that could have a material adverse effect upon our financial performance and results of operations.

Sustaining and increasing production levels

Subject to any future expansion or other development, production from existing operations at our mines will typically decline over the life of mine. As a result, our ability to maintain our current production or increase our annual production of base 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. Substantial spending may be made on properties that are abandoned due to poor drilling results or an inability to define mineral reserves.

Zinc plant capacity

Production of zinc concentrate from our mines has not been sufficient to operate our zinc plant at full capacity, which has had an impact on our profitability. We may attempt to fill the excess capacity at the zinc plant by purchasing concentrate from third parties; however, this is typically less profitable than processing domestic concentrate. The availability of concentrate is influenced by a number of factors, many of which are beyond our control. We may also seek to fill the excess capacity at the zinc plant by bringing new mines into production or expanding current mines, which also involves many risks and uncertainties, including those described above under “Sustaining and increasing production levels”.

Production, costs and life-of-mine estimates

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.

Energy prices and availability

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 may increase significantly from current levels. An increase in energy prices could materially adversely affect our results of operations and financial condition. If we proceed with development of the Constancia or Fenix projects, we will require a significant amount of cost-efficient energy and any inability to secure such energy may negatively impact our ability to develop the project.

Disruption of transportation

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. Recently we have been unable to secure sufficient rail cars to ship our copper concentrate production and excess inventory. In addition, the Constancia and Fenix projects will require transportation improvements and access, which will require the cooperation of the applicable government. We may have similar dependencies at future mining and processing operations. Inability to secure reliable and cost-effective transportation, or disruption of these transportation 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 affect our profitability.

Availability of desirable assets

One of our strategies is to grow our business by acquiring attractive, quality mining assets. We expect to selectively seek strategic acquisitions in the future. However, there can be no assurance that suitable acquisition opportunities will be identified. Our ability to consummate and to integrate effectively any future acquisitions on terms that are favourable may be limited by the number of attractive acquisition targets, internal demands on our resources, competition from other mining companies and, to the extent necessary, our ability to obtain financing on satisfactory terms, if at all.

Impact of 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 through the acquisition of new 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. Many competitors not only explore for and mine base metals, but conduct refining and marketing operations on a global basis. Such competition may result in us being unable to acquire or develop desired properties, to recruit or retain qualified employees or to acquire the capital necessary to fund our operations and develop our properties. We also compete with manufacturers of substitute materials or products for which zinc is typically used. Existing or future competition in the mining industry could materially adversely affect our prospects for mineral exploration and success in the future.

Human resources

The success of our operations depends in part on our geologists, engineers, metallurgists and other personnel with specialized skill and knowledge about the mining industry. While we believe that we can attract any such personnel who are required, we compete with other mining companies to attract and retain key executives and skilled and experienced employees. The mining industry is labour intensive and our success and ability to pursue our strategic objectives depends to a significant extent on our ability to attract, hire, train and retain qualified executives and employees, including our ability to attract employees with needed skills in the geographic areas in which we operate.

We are also dependent on a number of key management and operating personnel, and our ability to manage activities, and hence our success, will depend in large part on the efforts of these individuals and our ability to retain them.

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

closures may adversely affect our future access to skilled labour, as employees who are laid off may seek employment elsewhere.

Suspension of operations

From time to time, we may have to temporarily suspend certain of our operations if they are no longer considered commercially viable. There are a number of factors that may cause our operations to be no longer commercially viable, many of which are beyond our control. These factors include decreases in the price of and demand for zinc or copper or the market rates for treatment and refining charges, adverse changes in interest rates or currency exchange rates, increases in concentrate transportation costs, and increases in labour costs. During such temporary suspensions, we will have to continue to make expenditures to maintain the plant and equipment. We may also incur significant labour costs and be required to engage in environmental remediation, which would require us to incur additional costs. Given the costs involved in a temporary suspension of our operations, we may instead choose to continue to operate those operations at a loss. This could have a material adverse effect on our results of operations and financial condition.

Estimates of mineral reserves, mineral resources, and projected cash flows

There are numerous uncertainties inherent in estimating mineral reserves and mineral resources and the future cash flows that might be derived from their production. Accordingly, the figures for mineral reserves and mineral resources and future cash flows contained in our public disclosure are estimates only. Estimates of mineral reserves and mineral resources, and future cash flows to be derived from the production of such mineral reserves and mineral resources, necessarily depend upon a number of variable factors and assumptions, including, among others, ability to achieve anticipated tonnages and grade and the resulting cash flow therefrom, 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, including classifications thereof based on probability of recovery, and any estimates of future cash flows expected from the production of those mineral reserves and mineral resources, prepared by different engineers or by the same engineers at different times may vary substantially. If our actual mineral reserves and mineral resources or cash flows are less than our estimates, our results of operations and financial condition may be materially impaired.

Inferred mineral resources

Inferred mineral resources that are not mineral reserves do not have demonstrated economic viability. Due to the uncertainty which may attach to inferred mineral resources, there is no assurance that inferred mineral resources will be upgraded to proven and probable mineral reserves as a result of continued exploration.

Government regulation

Our mining, processing, development and mineral exploration activities are subject to various laws governing prospecting, development, production, taxes, labour standards and occupational health, mine safety, toxic substances, protection of the environment and other matters. Although we believe that our activities are currently carried out in accordance with applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner that could limit or curtail production or development of our properties. Amendments to current laws and regulations governing our operations and activities in Manitoba, Peru, Guatemala and other places where we operate, or more stringent implementation thereof could have a material adverse effect on our business, financial condition and results of operations, including increases in exploration expenses, remedial and reclamation obligations, capital expenditures and production costs, reduction in levels of production at producing properties, or abandonment or delays in development of new mining properties.

Environmental compliance obligations

All of our operations are subject to environmental regulations. Environmental legislation is evolving in a manner that will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There can be no assurance that existing or future environmental regulation will not materially adversely affect our business, financial condition and results of operations. There is contamination on properties that we own or owned or for which we have or have had care, management or control and, in some cases on neighbouring properties, that may result in a requirement to remediate, which could involve material costs. In addition, environmental hazards may exist on the properties on which we hold interests that are unknown to us at present and that have been caused by previous or existing owners or operators of the properties. We may also acquire properties with environmental risks.

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

Requirement to obtain government permits to conduct mining operations

Government approvals and permits are currently required in connection with all of our operations, and further approvals and permits will be required in the future, including for our key development projects. We must obtain and maintain a variety of licences and permits including air quality control, water, electrical and municipal licences. The duration and success of our efforts to obtain permits are contingent upon many variables outside of our control. Obtaining governmental permits may increase costs and cause delays depending on the nature of the activity to be permitted and the interpretation of applicable requirements implemented by the permitting authority. There can be no assurance that all necessary permits will be obtained and, if obtained, that the costs involved will not exceed our estimates or that we will be able to maintain such permits. To the extent such approvals are required and not obtained or maintained, our operations may be curtailed or we may be prohibited from proceeding with planned exploration, development, or operation of mineral properties.

Rights of Indigenous Peoples

Governments in many jurisdictions must consult with indigenous peoples with respect to grants of mineral rights and the issuance or amendment of project authorizations. Consultation and other rights or claimed rights of indigenous people may require accommodations, including undertakings regarding employment and other matters, or may require negotiation and other actions. Any such claims or other indigenous title claims or other claims of property or cultural rights could delay or impair our ability to acquire, develop or operate mineral properties in these jurisdictions.

Climate change initiatives

Through its proposed *Clean Air Act*, the Government of Canada has indicated its intent to regulate greenhouse gas emissions. In addition, the Government of Manitoba has committed to take action in response to climate change through a Manitoba-California memorandum of understanding signed on December 14, 2006. While the impact of these measures, and similar measures in jurisdictions in which we operate, cannot be quantified at this time, the likely effect will be to increase costs for fossil fuels, electricity and transportation, restrict industrial emission levels, impose added costs for emissions in excess of permitted levels and increase costs for monitoring and reporting. Compliance with these initiatives could have a material adverse effect on our results of operations and competitive position.

Reclamation and mine closure costs

In view of the uncertainties concerning future removal and site restoration costs on our properties, including those held by our subsidiaries, 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. Any future changes to our reclamation and mine closure costs (either in our estimates or in the actual costs) could have a material and adverse effect on our future operating results.

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. The amount and nature of the financial assurances are dependent upon a number of factors, including our financial condition and reclamation cost estimates. Changes to these amounts, 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. There can be no guarantee that we will be able to maintain or add to our current level of financial assurance. We may not have sufficient capital resources to further supplement our existing security, 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 that may, among other things, affect our ability to satisfy our obligations under our indebtedness or other contractual commitments. Given the significance of these cash costs, we may not be able to fund them with cash from our operating activities or other available capital resources. We cannot provide assurance that we will be able to obtain financing on satisfactory terms to fund these costs. If we are unable to fund the removal and site restoration costs, regulatory authorities may realize on the financial assurance provided with respect to those obligations.

Exploration activities

The exploration for and development of mineral deposits involves significant risks. Few properties that are explored are ultimately developed into producing mines. Whether a mineral deposit will be commercially viable depends on a number of factors, including: the particular attributes of the deposit, such as size, grade and proximity to infrastructure; metal prices, which are highly cyclical; and government regulation, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. Even if we identify and acquire an economically viable ore body, several years may elapse from the initial stages of development. We may incur major expenses to locate and establish mineral reserves, to develop metallurgical processes and to construct mining and processing facilities. As a result, we cannot provide assurance that our exploration or development efforts will result in any new commercial mining operations or yield new mineral reserves to replace or expand current mineral reserves.

Title to mineral properties

The acquisition of title to mineral properties is a very detailed and time-consuming process. Title to mineral concessions may be disputed. Although we believe we have taken reasonable measures to ensure proper title to our properties, there is no guarantee 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, including 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. As a result, we may be constrained in our ability to operate our properties or unable to enforce our rights with respect to our properties. An impairment to or defect in our title to our properties could have a material adverse effect on our business, financial condition or results of operations. In addition, such claims, whether or not valid, will involve additional cost and expense to defend or settle. Such costs and expenses could adversely affect our profitability.

Global financial conditions

Global financial conditions have been subject to increased volatility and turmoil in recent years. This may affect our ability to obtain equity or debt financing in the future and, if obtained, on terms favourable to us. If increased levels of volatility and market turmoil return to the levels existing in 2008 and early 2009, our operations and the trading price of our common shares could be adversely affected.

Credit risk

We mitigate credit risk relating to customers of our copper, zinc, zinc oxide 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 accounts receivable. 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.

Joint ventures

We are a party to joint ventures and we may enter into one or more additional joint ventures in the future. Any failure of any joint venture partner to meet its obligations could have a material adverse effect on such joint ventures. In addition, we may be unable to exert influence over strategic decisions made in respect to properties subject of such joint ventures.

Information systems

Information software and hardware can become obsolete over time or could fail to operate as intended for a variety of reasons. Any such failure could cause a physical stop to some of our operations or could cause a disruption in the flow of vital information, either of which could adversely affect our operations.

In addition, we have initiated a project to replace many of our information systems with a new enterprise resource management system. The new system may fail to operate as intended and it may be delayed or subject to cost overruns. During and following implementation of the new system, we will be dependant on a single vendor for support and upgrades of a critical business system.

Equipment and infrastructure

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, which could negatively affect our profit.

Market price of our common shares

Our share price may significantly be affected by short-term changes in commodity prices or in our financial condition or results of operations as reflected in our quarterly earnings reports. Other factors unrelated to our performance that may have an effect on the price of our common shares include the following: the extent of analytical coverage available to investors concerning our business may be limited if investment banks with research capabilities do not continue to follow our securities; a lessening in trading volume and general market interest in our securities may affect an investor's ability to trade significant numbers of our common shares; the size of our public float may limit the ability of some institutions to invest in our securities. 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. Securities litigation could result in substantial costs and damages and divert management's attention and resources. Sales of a large number of our common shares in the public markets, or the potential for such sales, could decrease the trading price of our common shares and could impair our ability to raise capital through future sales of our common shares.

Potential for conflicts of interest

Certain directors and officers of HudBay may also serve as directors or officers of other companies involved in natural resource exploration and development and consequently there exists the possibility for such directors and officers to be in a position of conflict. We expect that any decision made by any of such directors and officers involving us will be made in accordance with their duties and obligations to deal fairly and in good faith

with a view to the best interests of HudBay and our shareholders, but there can be no assurance in this regard. In addition, each of the directors is required to declare and refrain from voting on any matters in which such director may have a conflict of interest.

"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 (a " **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 HudBay). 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 HudBay will or will not be considered a PFIC for any taxable year.

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

DESCRIPTION OF CAPITAL STRUCTURE

Common Shares

We are authorized to issue an unlimited number of common shares, of which there were 171,522,298 common shares issued and outstanding as of March 28, 2011.

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 the board of directors at its discretion from funds legally available therefor and upon our liquidation, dissolution or winding up are entitled to receive on a pro-rata basis our net assets after payment of debts and other liabilities, in each case subject to the rights, privileges, restrictions and conditions attaching to any other series or class of shares ranking senior in priority to or on a pro-rata basis with the holders of common shares with respect to dividends or liquidation. The common

shares do not carry any pre-emptive, subscription, redemption or conversion rights, nor do they contain any sinking or purchase fund provisions.

Preference Shares

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

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

Normal Course Issuer Bid

In September 2009, we announced a normal course issuer bid to purchase, through the facilities of the TSX, up to 13,665,000 common shares, representing approximately 10% of our public float at the time, over the following twelve month period. We acquired 5,646,700 common shares under the bid at an aggregate cost of approximately $68.3 million. We did not renew the normal course issuer bid following its expiry on September 30, 2010.

DIVIDENDS

We paid an inaugural dividend of $0.10 per common share on September 30, 2010 to shareholders of record on September 15, 2010. On March 9, 2011, our board of directors approved the payment of a dividend of $0.10 per common share payable on March 31, 2011 to holders of record on March 21, 2011. While we presently intend to maintain a semi-annual dividend, the timing, payment and amount of any future dividends will be determined by our board of directors from time to time based upon, among other things, our cash flow, results of operations and financial condition, our need for funds to finance ongoing operations and such other business considerations as the board of directors considers relevant.

MARKET FOR SECURITIES

Price Range and Trading Volume

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

	Trading of Common Shares on TSX		
Period	**High** ($)	**Low** ($)	**Volume** (millions of common shares)
2010			
January	14.86	12.09	21.40

Period	Trading of Common Shares on TSX		
	High ($)	Low ($)	Volume (millions of common shares)
February	13.78	11.97	23.30
March	14.05	12.71	26.84
April	14.25	12.92	23.37
May	12.79	10.31	39.39
June	12.76	10.69	43.79
July	13.18	10.88	16.53
August	15.15	12.47	31.61
September	15.75	14.30	38.15
October	16.65	14.54	15.23
November	18.02	16.03	30.73
December	18.89	17.09	11.22

On March 28, 2011, the closing price of our common shares on the TSX was $15.66 per share.

Period[1]	Trading of Common Shares on NYSE		
	High (U.S.$)	Low (U.S.$)	Volume (#)
2010			
October	16.07	15.40	85,416
November	17.67	15.79	274,912
December	18.69	16.80	155,253

Note:

(1) The listing of our common shares on the NYSE commenced on October 25, 2010.

On March 28, 2011, the closing price of our common shares on the NYSE was $16.15 per share.

DIRECTORS AND OFFICERS

Board of Directors

J. Bruce Barraclough
Mississauga, Ontario, Canada

Director since: March 23, 2009

Committee memberships:
- Audit Committee (Chair)
- Compensation Committee
- EHS Committee

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

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

David Garofalo
Richmond Hill, Ontario, Canada

Director since: August 4, 2010

Committee memberships:
- EHS Committee

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

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

Alan R. Hibben
Toronto, Ontario, Canada

Director since: March 23, 2009

Committee memberships:
- Compensation Committee (Chair)

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

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

W. Warren Holmes
Stratford, Ontario, Canada

Director since: March 23, 2009

Committee memberships:
- EHS Committee (Chair)
- Technical Committee (Chair)
- Corporate Governance and Nominating Committee

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

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

John. L. Knowles
Winnipeg, Manitoba, Canada

Director since: March 23, 2009

Committee memberships:
- Audit Committee
- Technical Committee

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

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

Alan Lenczner, Q.C.
Toronto, Ontario, Canada

Director since: March 23, 2009

Committee memberships:
- Corporate Governance and Nominating Committee
- EHS Committee
- Audit Committee

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

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

Kenneth G. Stowe
Oakville, Ontario, Canada

Director since: June 24, 2010

Committee memberships:
- Compensation Committee
- Technical Committee

Mr. Stowe has been President of Northgate Minerals Corporation since 1999 and was appointed Chief Executive Officer and director in 2001. He spent the first 21 years of his career with Noranda Inc. in various operational, research and development, and corporate roles. He has also held senior positions at Diamond Fields Resources Inc. and Westmin Resources Limited.

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

G. Wesley Voorheis
Toronto, Ontario, Canada

Director since: March 23, 2009

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

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

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

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

Executive Officers

David Garofalo Richmond Hill, Ontario, Canada **Position with HudBay:** President and Chief Executive Officer	For biographical information for Mr. Garofalo, see above under “Board of Directors”.
David S. Bryson Toronto, Ontario, Canada **Position with HudBay:** Senior Vice President and Chief Financial Officer	Mr. Bryson has been with HudBay since August 2008. He held senior finance positions with Skye Resources Inc. from March 2007 to August 2008 and was Treasurer of Terasen Inc. from January 2004 to February 2006. Mr. Bryson holds a Bachelor of Commerce (Finance) from the University of British Columbia and is a Chartered Financial Analyst.
Ken Gillis Toronto, Ontario, Canada **Position with HudBay**: Senior Vice President, Corporate Development	Mr. Gillis joined HudBay in August 2010, prior to which he served as Executive Director of Macquarie Canada’s North American Mining Investment Banking practice. Mr. Gillis has a 20 year history of corporate development and related activities in mining, both with mining companies and financial and investment firms. Mr. Gillis has a degree in Geological Science (BSc) from Saint Francis Xavier University and a Masters of Applied Science in Mineral Exploration and Masters of Business Administration from McGill University.
Tom A. Goodman Denare Beach, Saskatchewan, Canada **Position with HudBay:** Senior Vice President and Chief Operating Officer	Mr. Goodman has worked for HBMS for over 30 years in a wide variety of operational, technical, and management positions. Mr. Goodman is a graduate in Chemical and Metallurgical Technology from the British Columbia Institute of Technology. He is a member of the Canadian Institute of Mining, Metallurgy and Petroleum and the Minerals, Metals & Materials Society.
Alan T.C. Hair Toronto, Ontario, Canada **Position with HudBay:** Senior Vice President, Business Development and Technical Services	Mr. Hair has been with HudBay and its affiliates for over 15 years and has held a number of senior operational and business development roles. Mr. Hair graduated from the University of Leeds, England in 1983 with a Bachelor of Science Honours degree in Mineral Engineering. Prior to joining HudBay, he worked in European base metals and African platinum group operations.
H. Maura Lendon Toronto, Ontario, Canada **Position with HudBay:** Senior Vice President, Corporate Services and Chief Legal Officer	Ms. Lendon joined HudBay in April 2008. From 2004 to April 2008, she was Chief Counsel, Canada and Chief Privacy Officer (Canada) of AT&T. Ms. Lendon holds a Master of Laws from Osgoode Hall Law School, a Master of Business Administration from the Richard Ivey School of Business and a Bachelor of Laws from University of Western Ontario. She has been a member of the Ontario Bar since 1990.
David Clarry Toronto, Ontario, Canada **Position with HudBay:** Vice President, Corporate Social Responsibility	Mr. Clarry joined HudBay in February 2011. From June 2009 to January 2011 he worked through his own firm, Innotain Inc., providing consulting services to the mining and energy industries. Prior to that he spent 18 years with Hatch Ltd., an international engineering and consulting firm, ultimately as Director – Climate Change Initiatives. He holds Bachelor of Science and Master of Science degrees in engineering from Queen’s University, a Master of Business Administration degree (MBA) from INSEAD, and is a registered Professional Engineer in the Province of Ontario.

Brad W. Lantz Flin Flon, Manitoba, Canada **Position with HudBay:** Vice President, Mining	Mr. Lantz has been Vice President, Mining since July 2007. From 2003 to July 2007, he was Mine Manager of the 777 mine. He has also held positions of progressively greater responsibility, at our Ruttan, Trout Lake and Callinan mines. Mr. Lantz graduated from the University of Waterloo in 1982 with a B.Sc. in Earth Sciences.
Cashel Meagher King City, Ontario, Canada **Position with HudBay:** Vice President, Exploration	Mr. Meagher has been Vice President, Exploration since March 2010. From March 2009 to March 2010 he was Director, Technical Services and Exploration and from November 2008 to March 2009 he was Manager, Technical Services and Exploration. From November 2000 to November 2009 he held various positions at Vale Inco Sudbury operations including Chief Mine Geologist. Prior to this he spent several years working for gold mining companies in operations and exploration in Timmins Ontario. Mr. Meagher is a Professional Geoscientist registered with the Association of Professional Geoscientists of Ontario. He holds a Joint Advanced Major in Geology and Chemistry from Saint Francis Xavier University.
Sharon Sanzo Toronto, Ontario, Canada **Position with HudBay:** Vice President, Human Resources	Ms. Sanzo joined HudBay in January 2011, prior to which she served as Vice President, Human Resources at SAS Human Capital Consulting from 2007 to 2010 and as Director, Human Resources at Barrick Gold Corporation from 2006 to 2007. She has also held HR leadership positions at Unilever, Kraft and GlaxoSmithKline. Ms. Sanzo has a Bachelor of Arts degree in Employee Relations from University of Toronto and is an Adler-Trained Professional Coach.
John Vincic Toronto, Ontario, Canada **Position with HudBay:** Vice President, Investor Relations and Corporate Communications	Mr. Vincic joined HudBay in August 2009. Between February 2004 and August 2009 he was an executive vice president at Barnes McInerney Inc., an investor relations and communications firm based in Toronto. He has also held corporate communications positions with Royal Bank of Canada and Sun Life Financial Inc. Mr. Vincic holds a Bachelor of Arts degree from the University of Waterloo.

As of the date of this AIF, our directors and executive officers, as a group, beneficially owned, directly or indirectly, or exercised control or direction over 164,173 common shares, representing less than 1% of the total number of common shares outstanding.

Corporate Cease Trade Orders, Bankruptcies, Penalties and Sanctions

Mr. Barraclough was a director of Coalcorp Mining Inc. (“ **Coalcorp**”) from January 2009 to June 2010. On February 18, 2009, the OSC issued a temporary management cease trade order (“**MCTO**”) related to Coalcorp securities against the chief executive officer and chief financial officer of Coalcorp for so long as the interim financial statements, certifications and related management’s discussion and analysis for the quarter ended December 31, 2009 were not filed. Coalcorp subsequently filed the outstanding materials. However, on October 19, 2009, the OSC issued a temporary MCTO against Coalcorp’s chief executive officer pending the filing of Coalcorp’s 2009 audited annual financial statements, management’s discussion and analysis and annual information form. The MCTO and a subsequently issued general cease trade order against Coalcorp were revoked on November 15, 2010 following the filing of Coalcorp’s outstanding continuous disclosure documents.

Mr. Holmes was a director of Campbell Resources Inc. (“ **Campbell**”) from 2006 to 2008. Mr. Holmes joined Campbell as a director while it was already under the protection of the Companies’ Creditors Arrangement Act (Canada) (the “**CCAA**”). Mr. Holmes resigned from the board of directors of Campbell in November 2008. On

January 28, 2009, Campbell once again obtained creditor protection under the CCAA. On December 10, 2009, a receiver was appointed over Campbell's assets with power to solicit offers for the sale of the assets.

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

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

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

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

Conflict of Interest

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

Our directors and officers are aware of the existence of laws governing accountability of directors and officers for corporate opportunity and requiring disclosures by directors of conflicts of interest and we will rely upon such laws in respect of any directors' and officers' conflicts of interest or in respect of any breaches of duty by any of our directors or officers. All such conflicts are required to be disclosed by such directors or officers in accordance with the *Canada Business Corporations Act*, and such individuals are expected to govern themselves in respect thereof to the best of their ability in accordance with the obligations imposed upon them by law.

AUDIT COMMITTEE DISCLOSURE

The Audit Committee is responsible for monitoring our systems and procedures for financial reporting and internal control, reviewing certain public disclosure documents and monitoring the performance and independence of our external auditors. The committee is also responsible for reviewing our annual audited financial statements, unaudited quarterly financial statements and management's discussion and analysis of financial results of operations for both annual and interim financial statements and review of related operations prior to their approval by the full board of directors. There was no instance in 2010 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 B.

Composition

The Audit Committee consists of Messrs. Barraclough, Lenczner and Knowles. Each member of the Audit Committee is independent and financially literate within the meaning of Multilateral Instrument 52-110 - Audit Committees. Mr. Hibben was a member of the Audit Committee from March 23, 2009 to March 28, 2011. He resigned from the Audit Committee after assuming a position as Managing Director of RBC Capital Markets ("RBC"). RBC has acted for us as a financial advisor. Following his return to RBC, the Board determined that Mr. Hibben no longer qualified as an independent member of the Audit Committee, as required by National Instrument 52-110 - *Audit Committees*. The Board also considered Mr. Hibben's independence under the categorical standards for determining independence contained in the Board's Governance Guidelines. The Board concluded that Mr. Hibben's position with RBC would not reasonably be expected to interfere with the exercise of his independent judgement and concluded that he continued to qualify as an independent member of the Board.

Relevant Education and Experience

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

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

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

John L. Knowles has over 25 years of experience in senior roles with Canadian and international resource companies. He previously served as Executive Vice President and Chief Financial Officer of Aur Resources Inc. and from 1995 to 2005 he was Vice President and Chief Financial Officer of HudBay and its predecessor company. He is a Chartered Accountant and holds a Bachelor of Commerce degree from Queen's University.

Policy Regarding Non-Audit Services Rendered by Auditors

We have adopted a policy requiring Audit Committee pre-approval of non-audit services. Specifically, the policy requires that proposals seeking approval by the Audit Committee for routine and recurring non-audit services describe the terms and conditions and fees for the services and should 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 12 months. The Chair of the Audit Committee has been delegated authority to pre-approve on behalf of the Audit Committee the provision of specific non-audit services by the independent auditor where (a) it would be impractical for the services to be provided by another firm; or (b) the estimated fees associated with such services are not expected to exceed $50,000. Any approvals granted under this delegated authority are to be presented to the Audit Committee at its next scheduled meeting.

Remuneration of Auditor

The following table presents, by category, the fees accrued by Deloitte & Touche LLP as external auditor of, and for other services provided to, the Company for the fiscal years ended December 31, 2010 and 2009.

	2010	2009
Category of Fees		
Audit fees	$1,151,039	$1,156,964
Audit-related fees	300,132	412,017
Tax fees	16,700	30,225
All other fees	49,350	—

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

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

HBMS has been named as a co-defendant in two actions before the Saskatchewan Court of Queen's Bench alleging various wrongful actions committed in connection with the use and operation of the Whitesand Dam and the Island Falls Hydroelectric station (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 SaskPower in 1981. The plaintiffs in both actions claim that the lands on which the hydroelectric facilities were built are subject to aboriginal rights. No steps have been taken by the plaintiffs to proceed with their claims since 1995. Based on the current knowledge of management, the ultimate resolution of the claims will not be material to the consolidated financial position of HudBay.

SaskPower has been named as a defendant in two other actions, one filed in Manitoba's Court of Queen's Bench in 1992 and one filed in Saskatchewan's Court of Queen's Bench in 2004. Both actions claim damages alleged as a result of the operation and use of the Hydro Projects. HBMS has been named as a third party in the Saskatchewan action, but has not been named as a party in the Manitoba action. SaskPower has also added Churchill River Power Company Limited ("**CRP**"), formerly a wholly-owned subsidiary of HBMS, which was dissolved, as a third party in the Saskatchewan action. SaskPower has revived CRP for the purpose of taking action for alleged breaches by CRP of its obligation under a certain Purchase and Sale Agreement made in 1981. HBMS has filed a Statement of Defence to the Third Party Claim and served same on counsel for the other parties. On September 27, 2010, HBMS and its counsel attended a mandatory mediation required pursuant to the Saskatchewan Court Rules. By agreement of the parties of this action, the mediation was continued on December 7, 2010. The mediation was adjourned to permit the parties to exchange relevant documents so that a further mediation session can proceed in 2011. At this stage, the resolution of this claim is not reasonably determinable.

In March 2007, a statement of claim was issued in Manitoba's Court of Queen's Bench by Callinan Mines Limited (" **Callinan**") against HBMS 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 Mines Limited dated January 1, 1988. HBMS has filed a statement of defence denying liability to Callinan. Callinan has appointed an auditor to conduct an independent audit of the books and records of HBMS and the audited NPI financial statements. Meetings have been held with senior representatives of HBMS to attempt to agree on an audit plan to conduct the independent audit in accordance with the NPI Agreement. At this stage, the likelihood of success and the materiality of this claim are not reasonably determinable.

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

Regulatory Actions

The Company has not: (a) received any penalties or sanctions imposed against it by a court relating to securities legislation or by a securities regulatory authority during the financial year; (b) received any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision; and (c) entered any settlement agreements with a court relating to securities legislation or with a securities regulatory authority during the financial year.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as disclosed in this AIF, since January 1, 2008, 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 HudBay.

TRANSFER AGENT AND REGISTRAR

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

MATERIAL CONTRACTS

Except for those contracts entered into in the ordinary course of our business, the following are the material contracts we entered into during 2010 or, prior to that, since January 1, 2002 that are still in effect:

1. the Support Agreement with Norsemont Mining Inc. (" **Norsemont**") dated January 9, 2011 whereby we agreed to make an offer to acquire all of Norsemont's issued and outstanding common shares; and
2. Credit facility dated as of November 3, 2010 with a syndicate of lenders providing for a four year US$300 million revolving credit facility.

QUALIFIED PERSON

Unless stated elsewhere in this AIF, the scientific and technical information contained herein was prepared by or under the supervision of Cashel Meagher, P.Geo., a Qualified Person for the purposes of NI 43-101.

INTEREST OF EXPERTS

Robert Carter, B.Sc., P.Eng., Cashel Meagher, P.Geo. and Sean Spragett, 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 securities and have no other direct or indirect interest in our company or any of its associates or affiliates.

ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of our securities and securities authorized for issuance under equity compensation plans, as applicable, is contained in our management information circular dated May 14, 2010. Additional financial information is provided in our financial statements and management's discussion and analysis for the fiscal year ended December 31, 2010.

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

SCHEDULE A
GLOSSARY OF MINING TERMS

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

"AQ", "BQ", "NQ"	Letter names specifying the dimensions of bits, core barrels, and drill rods in the Q-group wireline diamond drilling system having a core diameters of 27mm, 36.5 mm, and 47.6 mm, respectively and hole diameters of 48mm, 60mm, and 75.7 mm, respectively.
"basalt"	A general term for dark-coloured mafic igneous rocks, commonly extrusive but locally intrusive (e.g., as dikes), composed chiefly of calcic plagioclase and clinopyroxene; the fine-grained equivalent of gabbro. Nepheline, olivine, orthopyroxene, or quartz may be present. Adj. basaltic.
"CIM"	Canadian Institute of Mining, Metallurgy and Petroleum.
"concentrator"	A plant where ore is separated into values (concentrates) and rejects (tails). An appliance in such a plant, e.g., flotation cell, jig, electromagnet, shaking table. Also called mill.
"double-drum hoist"	A hoist with two drums that can be driven separately or together by a clutch.
"felsic"	A mnemonic adj. derived from (fe) for feldspar, (l) for lenad or feldspathoid, and (s) for silica, and applied to light-coloured rocks containing an abundance of one or all of these constituents. Also applied to the minerals themselves, the chief felsic minerals being quartz, feldspar, feldspathoid, and muscovite.
"grade"	The amount of valuable metal in each tonne of ore, expressed as grams per tonne for precious metals. Cut-off grade is the minimum metal grade at which a tonne of rock can be processed on an economic basis.
"mafic"	Pertaining to or composed dominantly of the ferromagnesian rock-forming silicates; said of some igneous rocks and their constituent minerals.
"metallurgy"	The science of extracting base metals from ores by mechanical and chemical processes and preparing them for use.
"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.
"mineralization"	The process or processes by which a mineral or minerals are introduced into a rock, resulting in a valuable or potentially valuable deposit. It is a general term incorporating various types; for example, fissure filling, impregnation and replacement.
"NI 43-101"	National Instrument 43-101 of the Canadian Securities Administrators — Standards of Disclosure for Mineral Projects.
"ore"	A natural aggregate of one or more minerals which, at a specified time and place, may be mined and sold at a profit, or from which some part may be profitably separated.
"recovery"	A term used in process metallurgy to indicate the proportion of valuable material obtained in the process. It is generally stated as a percentage of valuable metal in the processed material that is recovered compared to the total valuable metal present.
"tailings"	The gangue and other refuse material resulting from the washing, concentration, or treatment of ground ore.

SCHEDULE B
AUDIT COMMITTEE CHARTER

PURPOSE

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

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

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

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

The Audit Committee is not responsible for:

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

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

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

"Good faith reliance" means that the Audit Committee member has considered the relevant issues, questioned the information provided and assumptions used, and assessed whether the analysis provided by senior management or the expert is reasonable. Generally, good faith reliance does not require that the member question the honesty, competence and integrity of senior management or the expert unless there is a reason to doubt their honesty, competency and integrity.

The fundamental responsibility for the Company's financial statements and disclosure rests with senior management. It is not the duty of the Audit Committee to conduct investigations, to itself resolve disagreements (if any) between senior management and the independent auditor or to assure compliance with applicable legal and regulatory requirements.

In discharging its obligations under this Charter, the Audit Committee shall act in accordance with its fiduciary duties.

REPORTS

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

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

COMPOSITION

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

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

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

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

RESPONSIBILITIES

Independent Auditor

[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.

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.

The Audit Process, Financial Statements and Related Disclosure

The Audit Committee shall:

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

- all alternative treatments of financial information within GAAP that have been discussed with senior management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor,
- the use of "*pro forma*" or "adjusted" non-GAAP information,
- the effect of new regulatory and accounting pronouncements,
- the effect of any material off-balance sheet structures, transactions, arrangements and obligations (contingent or otherwise) on the Company's financial statements,
- any disclosures concerning any weaknesses or any deficiencies in the design or operation of internal controls or disclosure controls made to the Audit Committee in connection with certification of forms by the Chief Executive Officer and/or the Chief Financial Officer for filing with applicable securities regulators, and
- the adequacy of the Company's internal accounting controls and management information systems and its financial, auditing and accounting organizations and personnel (including any fraud involving an individual with a significant role in internal controls or management information systems) and any special steps adopted in light of any material control deficiencies.

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

Risks

The Audit Committee shall:

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

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

Compliance

The Audit Committee shall:

- Obtain reports from senior management that the Company's subsidiary/foreign affiliated entities are in conformity with applicable legal requirements and the Company's Code of Business Conduct and Ethics including disclosures of insider and affiliated party transactions and environmental protection laws and regulations.
- Review with senior management and the independent auditor any correspondence with regulators or governmental agencies and any employee complaints or published reports, which raise material issues regarding the Company's financial statements or accounting policies.
- Review senior management's written representations to the independent auditor.
- Advise the Board of Directors with respect to the Company's policies and procedures regarding compliance with applicable laws and regulations and with the Company's Code of Business Conduct and Ethics.
- Review with the Company's General Counsel legal matters that may have a material impact on the financial statements, the Company's compliance policies and any material reports or inquiries received from regulators or governmental agencies.
- Establish procedures for,
    - the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, and
    - the confidential, anonymous submission by employees of the Company with concerns regarding any accounting or auditing matters.

Delegation

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

MEETINGS

The Audit Committee shall meet at least quarterly and more frequently as circumstances require. All members of the Audit Committee should strive to be at all meetings. The Audit Committee shall meet separately, periodically, with senior management and the independent auditor and may request any member of the Company's senior management or the Company's outside counsel or independent auditor to attend meetings of the Audit Committee or with any members of, or advisors to, the Audit Committee. The Audit Committee also may meet with the investment bankers, financial analysts and rating agencies that provide services to, or follow, the Company. The Audit Committee will also meet *in camera* at each of its regularly scheduled meetings.

Quorum for the transaction of business at any meeting of the Audit Committee shall be a majority of the number of members of the Audit Committee or such greater number as the Audit Committee shall by resolution determine. The powers of the Audit Committee may be exercised at a meeting at which a quorum of the Audit Committee is present in person or by telephone or other electronic means or by a resolution signed by all members entitled to vote on that resolution at a meeting of the Audit Committee. Each member (including the Chair) is entitled to one (but only one) vote in Audit Committee proceedings.

Meetings of the Audit Committee shall be held from time to time and at such place as a member of the Audit Committee may request upon 48 hours prior notice. The notice period may be waived by a quorum of the Audit Committee.

Except as otherwise provided in this Charter, the Audit Committee may form and delegate authority to individual members and subcommittees of the Audit Committee where the Audit Committee determines it is appropriate to do so.

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.

ANNUAL EVALUATION

Annually, or more frequently at the request of the Senior Vice President and General Counsel as a result of legislative or regulator changes, the Audit Committee shall, in a manner it determines to be appropriate:

- Conduct a review and evaluation of the performance of the Audit Committee and its members, including the compliance of the Audit Committee with this Charter.
- Review and assess the adequacy of its Charter and the position description for its Chair and recommend to the Board of Directors any improvements to this Charter or the position description that the Audit Committee determines to be appropriate, except for minor technical amendments to this Charter, authority for which is delegated to the Senior Vice President and General Counsel, who will report any such amendments to the Board of Directors at its next regular meeting.

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Appendix A

- Review the experience and qualifications of the senior members of the independent auditor's team.
- Discuss with the independent auditor its internal quality-control procedures.
- Confirm with the independent auditor that it is in compliance with applicable legal, regulatory and professional standards relating to auditor independence.

- Confirm with the independent auditor that it is a participating audit firm of the Canadian Public Accountability Board in compliance with all restrictions or sanctions imposed on it (if any).
- Review and approve clear policies for the hiring by the Company of partners, employees and former partners and employees of the present and former independent auditor.
- Review periodic reports from the independent auditor regarding its independence and consider whether there are any non-audit services or relationships that may affect the objectivity and independence of the independent auditor and, if so, recommend that the Board of Directors take appropriate action to satisfy itself of the independence of the independent auditor.
- Obtain and review such report(s) from the independent auditor as may be required by applicable legal and regulatory requirements.

Exhibit 99.2

Consolidated Financial Statements
(In Canadian dollars)

HUDBAY MINERALS INC.

Years ended December 31, 2010, 2009 and 2008

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

Tel: 416-601-6150
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www.deloitte.ca

Report of Independent Registered Chartered Accountants

To the 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, 2010 and December 31, 2009, and the consolidated statements of earnings, retained earnings, comprehensive income and cash flows for each of the years in the three-year period ended December 31, 2010, and the notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, 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, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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, 2010 and December 31, 2009 and the results of their operations and cash flows for each of the years in the three-year period ended December 31, 2010 in accordance with Canadian generally accepted accounting principles.

Independent Registered Chartered Accountants
Licensed Public Accountants

March 9, 2011
Toronto, Canada

HUDBAY MINERALS INC.
Consolidated Balance Sheets
(in thousands of Canadian dollars)
As at December 31

	2010	2009
Assets		
Current assets		
Cash and cash equivalents (note 4)	**$ 901,693**	$ 886,814
Accounts receivable	**78,168**	40,187
Income taxes receivable	**99**	15,313
Inventories (note 5)	**121,694**	131,128
Prepaid expenses and other current assets	**9,992**	7,990
Future income and mining tax assets (note 13b)	**15,431**	23,152
Current portion of fair value of derivatives (note 18c)	**3,813**	1,106
	1,130,890	1,105,690
Property, plant and equipment (note 7)	**906,906**	818,634
Available-for-sale investments	**104,990**	27,249
Other assets (note 8)	**30,300**	81,113
	$2,173,086	$2,032,686
Liabilities and Equity		
Current liabilities		
Accounts payable and accrued liabilities	**$ 139,480**	$ 119,738
Taxes payable	**33,088**	—
Current portion of other liabilities (note 9)	**55,800**	40,228
	228,368	159,966
Pension obligations (note 10)	**2,604**	516
Other employee future benefits and stock-based compensation (note 11)	**90,439**	81,287
Asset retirement obligations (note 12)	**58,915**	49,133
Future income tax liabilities (note 13b)	**42,146**	34,927
Fair value of derivatives (note 18c)	**1,633**	7,068
	424,105	332,897
Equity		
Share capital (note 14b)	**629,861**	644,127
Contributed surplus (note 14f)	**24,205**	26,717
Retained earnings (note 2b)	**1,043,516**	1,021,195
Accumulated other comprehensive income (note 15)	**41,697**	6,445
	1,739,279	1,698,484
Non-controlling interests (note 16)	**9,702**	1,305
	1,748,981	1,699,789
	$2,173,086	$2,032,686

Commitments, Contingencies and Subsequent Event (note 19, 20 and 24)

On behalf of the Board:

"J. Bruce Barraclough" Director "Alan R. Hibben" Director

HUDBAY MINERALS INC.
Consolidated Statements of Earnings
(in thousands of Canadian dollars, except share and per share amounts)
Years ended December 31 2010, 2009 and 2008

	2010	2009	2008
Revenue (note 22)	**$ 778,818**	$ 720,722	$ 981,894
Expenses			
Operating	**451,106**	506,275	686,664
Depreciation and amortization	**103,399**	100,731	88,295
General and administrative	**28,132**	44,176	30,578
Stock-based compensation (note 14e)	**6,511**	4,692	11,952
Accretion of asset retirement obligations (note 12)	**4,352**	4,488	3,847
Foreign exchange loss (gain)	**8,477**	17,752	(42,348)
	601,977	678,114	778,988
Earnings before the following:	**176,841**	42,608	202,906
Exploration	**(29,822)**	(7,609)	(25,583)
Interest and other income (note 23)	**8,323**	107,386	26,217
Gain (loss) on derivative instruments	**2,763**	(917)	(589)
Asset impairment losses (note 6)	**—**	—	(30,433)
Share of income of equity investee	**—**	—	(3,915)
Earnings before tax	**158,105**	141,468	168,603
Tax expense (note 13a)	**88,067**	28,988	96,123
Net earnings	**$ 70,038**	$ 112,480	$ 72,480
Net earnings attributable to:			
Shareholders of the Company	**$ 72,985**	$ 112,440	$ 72,947
Non-controlling interests	**(2,947)**	40	(467)
Net earnings	**$ 70,038**	$ 112,480	$ 72,480
Earnings per share:			
Basic	**$ 0.48**	$ 0.73	$ 0.53
Diluted	**$ 0.48**	$ 0.73	$ 0.53
Weighted average number of common shares outstanding (note 14g):			
Basic	**150,636,835**	153,460,823	135,902,627
Diluted	**151,336,399**	154,067,282	136,713,080

HUDBAY MINERALS INC.
Consolidated Statements of Cash Flows
(in thousands of Canadian dollars)
Years ended December 31 2010, 2009 and 2008

	2010	2009	2008
Cash provided by (used in):			
Operating activities			
Net earnings	**$ 70,038**	$ 112,480	$ 72,480
Reclamation payments	**(2,764)**	(1,685)	(1,133)
Items not affecting cash:			
Depreciation and amortization	**103,399**	100,731	88,295
Stock-based compensation (note 14e)	**6,336**	4,692	11,952
Accretion on asset retirement obligations (note 12)	**4,352**	4,488	3,847
Foreign exchange loss	**2,826**	9,868	(19,298)
Change in fair value of derivatives	**(1,421)**	74	(2,553)
Asset impairment losses (note 6)	**—**	—	30,433
Future tax expense (note 13a)	**21,881**	2,218	49,365
Net gains reclassified from OCI (note 15)	**(5,429)**	(107,956)	(843)
Share of income of equity investee	**—**	—	3,915
Other	**632**	(398)	(2,205)
Change in non-cash working capital (note 21a)	**55,740**	(18,318)	12,451
	255,590	106,194	246,706
Investing activities			
Additions to property, plant and equipment	**(167,642)**	(99,948)	(144,717)
Additions to computer software	**(4,691)**	(1,966)	—
Purchase of short-term investments	**—**	—	(602,824)
Sale of short-term investments	**—**	478,941	123,883
Proceeds from sale of investments	**8,051**	235,704	—
Purchase of other non-current investments	**(52,619)**	(3,945)	(240,414)
Release of cash held in trust	**—**	3,885	—
Release of (additions to) restricted cash	**54,626**	(48,462)	—
Cash acquired with acquisition of HMI Nickel	**—**	—	130,747
	(162,275)	564,209	(733,325)
Financing activities			
Repayment of loans payable and senior secured notes	**—**	(3,764)	(7,500)
Repayment of obligations under capital leases	**—**	(511)	(4,470)
Repurchase of common shares (note 14b)	**(63,294)**	(5,000)	(53,291)
Prepaid financing costs	**(2,668)**	—	—
Dividends paid (note 14b)	**(14,901)**	—	—
Proceeds on exercise of stock options	**5,253**	9,393	622
	(75,610)	118	(64,639)
Effect of exchange rate changes on cash and cash equivalents	**(2,826)**	(9,434)	19,411
Change in cash and cash equivalents	**14,879**	661,087	(531,847)
Cash and cash equivalents, beginning of year	**886,814**	225,727	757,574
Cash and cash equivalents, end of year (note 4)	**$ 901,693**	$ 886,814	$ 225,727

For supplemental information, see note 21.

HUDBAY MINERALS INC.
Consolidated Statements of Retained Earnings
(in thousands of Canadian dollars)
Years ended December 31 2010, 2009 and 2008

	2010	2009	2008
Retained earnings as reported, beginning of year	**$1,025,060**	$ 912,289	$868,857
Accounting adjustments for error (note 2b)	**(3,865)**	(3,534)	(3,128)
Balance, beginning of year, after adjustments	**1,021,195**	908,755	865,729
Net earnings attributable to shareholders	**72,985**	112,440	72,947
Share repurchases (note 14b)	**(35,763)**	—	(29,921)
Dividends paid (note 14b)	**(14,901)**	—	—
Retained earnings, end of year	**$1,043,516**	$1,021,195	$908,755

Consolidated Statements of Comprehensive Income
(in thousands of Canadian dollars)
Years ended December 31 2010, 2009 and 2008

	2010	2009	2008
Net earnings for the year	**$ 70,038**	$112,480	$ 72,480
Other comprehensive income (loss), net of tax (note 15):			
Cash flow hedges	**5,271**	(6,212)	13,029
Amounts reclassified to earnings on realization of cash flow hedges	**(2,252)**	(5,715)	(657)
Net gains (losses) on available-for-sale investments	**33,700**	116,699	(28,680)
Amounts reclassified to earnings on impairment of available-for-sale investments	**—**	—	3,189
Amounts reclassified to earnings on disposal of available-for-sale investments	**(1,467)**	(79,970)	—
Currency translation adjustments	**—**	(23)	186
Other comprehensive income (loss)	**35,252**	24,779	(12,933)
Comprehensive income	**$105,290**	$137,259	$ 59,547
Comprehensive income (loss) attributable to:			
Shareholders of the Company	**$108,237**	$137,219	$ 60,014
Non-controlling interests	**(2,947)**	40	(467)
Comprehensive income	**$105,290**	$137,259	$ 59,547

1. Nature of business

HudBay Minerals Inc. (the "Company" or "HudBay") is a Canadian diversified mining company governed by the *Canada Business Corporations Act* with assets in North and Central America. Through its subsidiaries, HudBay owns copper/zinc/gold mines, ore concentrators and zinc production facilities in northern Manitoba and Saskatchewan, a zinc oxide production facility in Ontario and a nickel project in Guatemala. HudBay produces copper concentrate (containing copper, gold and silver), zinc metal and zinc oxide. HudBay's shares are listed on the Toronto and New York stock exchanges under the symbol "HBM".

2. Significant accounting policies

(a) Basis of presentation:

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and are presented in Canadian dollars (unless otherwise specified).

These consolidated financial statements include the financial statements of the Company, all of its subsidiaries, and the proportionate share of the assets and liabilities of any joint ventures in which the Company shares joint control and any variable interest entities in which the Company is the primary beneficiary. The Company's significant subsidiaries include Hudson Bay Mining and Smelting Co., Limited ("HBMS"), Hudson Bay Exploration and Development Company Limited, White Pine Copper Refinery Inc., HudBay Marketing & Sales Inc., HMI Nickel Inc. ("HMI Nickel"), St. Lawrence Zinc Company LLC ("St. Lawrence"), Zochem Inc., HudBay Michigan Inc. and HudBay Metal Marketing Inc. Compañía Guatemalteca de Níquel, S.A. ("CGN") is a 98.2%-owned subsidiary of HMI Nickel.

(b) Accounting adjustments:

In 2010, the Company adjusted the following errors pertaining to prior periods: an under-accrual of $4,479 of certain royalty obligations that arose prior to 2008 and related under-accruals of $581 and $474 in 2008 and 2009, respectively. A tax recovery related to the royalty obligation of $1,351, $175 and $143 was recorded for the 2007, 2008 and 2009 years, respectively. These errors were corrected by decreasing opening retained earnings in the Company's fiscal 2008 financial statements, and increasing operating expenses and reducing tax expense in the 2008 and 2009 financial statements. These errors were not material to the periods to which they relate, either individually or in the aggregate.

(c) Use of estimates:

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas where management's judgment is applied include ore reserve determinations used in amortization of certain property, plant and equipment, in-process inventory quantities and provision for inventory obsolescence, cost allocations for inventory, plant and equipment estimated economic lives and salvage values, assessment of impairment, ultimate realization of capitalized exploration costs, cost allocations for mine development, fair value of certain assets and liabilities, purchase price allocations, contingent liabilities, future income and mining tax assets and valuation reserves, interpretation of tax legislation, allocation of revenue and costs to non-Manitoba sourced ore for the purpose of computing Manitoba mining taxes payable, asset retirement obligations, stock-based compensation, pension obligations and other employee future benefits. Actual results could differ from those estimates by material amounts. These estimates are reviewed at least annually, and changes in estimates are reported in earnings in the period in which they became known.

(d) Translation of foreign currencies:

The Company's reporting currency is the Canadian dollar.

Monetary assets and liabilities are translated at year-end exchange rates, and non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at monthly average exchange rates approximating those in effect at the transaction dates. Gains and losses on translation of monetary assets and monetary liabilities are reflected in earnings. Foreign currency gains and losses on available-for-sale financial assets and hedging items in effective cash flow or net investment hedges of foreign exchange risk are recorded in other comprehensive income ("OCI").

The assets and liabilities of self-sustaining foreign operations are translated at year-end exchange rates, and revenue and expenses are translated at monthly average exchange rates. Differences arising from these foreign currency translations are recorded in accumulated other comprehensive income ("AOCI") until they are realized by a reduction in the investment.

The monetary assets and liabilities of integrated foreign operations are translated at year-end exchange rates, whereas non-monetary items are translated at historical rates. Revenues and expenses are translated at monthly exchange rates, with the exception of accretion, depreciation and amortization, which are translated at historical rates. Differences arising from these foreign currency translations are recorded in foreign exchange loss (gain).

(e) Revenue recognition:

Sales are recognized and revenue is recorded at market prices when title and the rights and obligations of ownership pass to the customer, collection is reasonably assured and the price is reasonably determinable.

Under the terms of contracts with independent companies, the Company's concentrate and certain other sales 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. Revenues are recognized when title passes to the customers, using forward prices to estimate the fair value of the total consideration receivable. At each reporting date, the fair value of the final sales price adjustment is re-estimated, and changes in fair value, metal weights and assays are recognized as adjustments to revenue.

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

(f) Cash and cash equivalents:

Cash and cash equivalents are classified as fair value through earnings and include cash and highly liquid investments with an original maturity of three months or less at the date of acquisition. Interest earned is included in interest and other income on the statements of earnings and in operating activities on the statements of cash flows.

(g) Inventories:

Inventories consist substantially 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. Cost includes material, labour and amortization of all property, plant and equipment involved with the mining and production process. Costs are allocated based on estimations of net realizable value of the metal content of the inventories. In-process inventories represent materials that are currently in the process of being converted to a saleable product. Conversion processes vary depending on the nature of the concentrate or metal. In-process inventory is measured based on assays of the material fed to the processing plants and the projected recoveries of the respective plants, and is valued at the lower of cost and net realizable value. Cost of finished metal and concentrate inventory represents the average cost of the in-process inventory incurred prior to the external refining processes. Supplies are valued at the lower of cost and net realizable value. Cost is determined on an average basis.

(h) Property, plant and equipment:

(i) Mineral properties:

(a) Mineral property and exploration expenditures, including expenditures incurred to earn an interest in a joint venture, are expensed as incurred except for certain expenditures determined by the Company on specified properties identified through pre-feasibility or other assessments as having mineral reserves and/or resources with the potential of being developed into a mine.

(b) Mineral exploration properties capitalized as part of acquisitions are carried at initial fair value and are subject to an impairment review and evaluation, if indicators for potential impairment exist.

(ii) Mine development expenditures:

Development costs for properties deemed capable of economical commercial production are capitalized and amortized using the unit-of-production method after commencement of commercial production. Unit-of-production amortization is based on the related proven and probable tonnes of ore reserves and associated future development costs. The cost of underground development to provide access to a reserve at an operating mine is capitalized where that portion of the development is necessary to access more than one workplace or stope. Capital development includes shafts, ramps, track haulage drifts, ancillary drifts, sumps, refuge stations, ventilation raises, permanent manways, and ore and waste pass raises.

Ongoing repairs, maintenance and development expenditures are charged to operations as incurred. 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) Commercial production:

The decision on when commercial production is reached is based on a range of criteria that is considered relevant to the specific situation, including: a pre-determined percentage of design capacity for the mine and mill; achievement of continuous production, ramp-ups, or other output; and expected net margin during the pre-production period. In a phased mining approach, consideration is given to milestones achieved 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 at the beginning of the month in which the criteria are met.

No amortization is provided in respect of mine development expenditures until commencement of economical commercial production. Any production revenue earned prior to commercial production, net of related costs, is offset against the development costs.

(iv) Plant and equipment:

Expenditures for plant and equipment additions, major replacements and improvements are capitalized at cost, net of applied investment tax credits. Plant and equipment, including assets under capital lease, are depreciated on either a unit-of-production or a straight-line basis. The unit-of-production method is based on proven and probable tonnes of ore reserves. The assets using the straight-line method are depreciated over the estimated useful economic lives of the assets, which extend up to approximately 10 years. The Company also considers salvage values in its determination of depreciation.

(v) Capitalized interest:

Interest on borrowings related to the financing of major capital projects under construction is capitalized during the construction phase as part of the cost of the project.

(vi) Impairment of long-lived assets:

The Company reviews and evaluates the carrying value of its operating mines and exploration and development properties for impairment when events or circumstances indicate that the carrying amounts of related assets or groups of assets may not be recoverable. If the total estimated future cash flows on an undiscounted basis are less than the carrying amount of the asset, an impairment loss is measured and assets are written down to fair value, which is normally the discounted value of future cash flows. Future cash flows are estimated based on estimated future recoverable mine production, expected sales prices (considering current and historical commodity prices, price trends and related factors), production levels, cash costs of production, and capital and reclamation costs, 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. Long-lived assets are grouped for purposes of estimating future cash flows at the lowest level of assets and liabilities for which identifiable cash flows are largely independent of the cash flows of other assets. Assumptions underlying future cash flow estimates are subject to risks and uncertainties. It is possible that changes in estimates could occur which may affect the expected recoverability of the Company's investments in mineral properties.

(i) Pension and other employee future benefits:

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

The Company accrues its obligations under the defined benefit plans as the employees render the services necessary to earn the pension and other retirement benefits. The actuarial determination of the accrued benefit obligations for pensions and other retirement 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). The measurement date of the plan assets and accrued benefit obligation coincides with the Company's fiscal year. The most recent actuarial valuation for funding purposes for the two largest pension plans was performed in 2010 using data as of December 31, 2009.

Actuarial gains (losses) on plan assets arise from the difference between the actual return on plan assets for a period and the expected return on plan assets for that period. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation. The average remaining service period of the active employees covered by the pension plans is 9.9 years. Any actuarial gains or losses over 10 per cent of the greater of the obligation and the fair value of assets are amortized over the expected service life of the plan population. The average remaining service period of the active employees covered by the other retirement benefits plan is 12.6 years.

The Company also has defined contribution plans providing pension benefits for certain of its salaried employees. The cost of the defined contribution plans is recognized based on the contributions required to be made during each period.

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

(j) Financial instruments:

Financial assets, financial liabilities, and non-financial derivative contracts are initially recognized at fair value on the balance sheet when the Company becomes a party to their contractual provisions. Measurement in subsequent periods depends on the financial instrument's classification. The Company uses trade date accounting for regular-way purchases or sales of financial assets. Transaction costs are added to the initial carrying value of financial instruments other than those classified as fair value through earnings.

(i) Non-derivative financial instruments – classification:

Financial assets held-to-maturity, loans and receivables, and other financial liabilities are accounted for at amortized cost using the effective interest method of amortization. Gains and losses are recorded in earnings when the assets are derecognized or impaired, and through the amortization process.

Available-for-sale financial assets are measured at fair value with gains and losses recorded in OCI, except for impairment losses, until the assets are derecognized, at which time the cumulative gain or loss previously recognized in AOCI is recognized in earnings. However, available-for-sale investments in equity securities that are not traded in an active market are measured at cost. The Company has designated investments in common shares as available-for-sale.

Financial assets and liabilities classified as held-for-trading are measured at fair value with changes in fair value recognized in earnings, and are included in the category "fair value through earnings." This category includes financial instruments acquired or incurred principally for the purpose of selling or repurchasing in the near term; however, other financial instruments may also be designated irrevocably as fair value through earnings on initial recognition.

(ii) Derivatives:

Derivative instruments, including those derivatives that are embedded in financial or non-financial contracts and are not closely related to the host contracts, are measured at fair value on the balance sheet. All derivatives are classified as fair value through earnings unless they are accounted for as hedging items. The Company elected to identify embedded derivatives only in contracts entered into or amended on or after January 1, 2003 in accordance with the provisions of Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3855.

(iii) Hedge accounting:

The Company 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 foreign currency exposure of a net investment in a self-sustaining foreign operation. The purpose of hedge accounting is to ensure that gains, losses, revenues and expenses from effective hedging relationships are recorded in earnings in the same period.

At the inception of a hedge, the Company 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 Company tests effectiveness each period. Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge, or the derivative is terminated or sold, or upon the sale or early termination of the hedged item.

During the year ended December 31, 2010, the Company had only cash flow hedging relationships. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative is recognized in OCI, while the ineffective portion is recognized in earnings. When a hedged anticipated transaction subsequently occurs, the Company's policy is to remove the associated gains and losses that were recognized in OCI and include them in the initial carrying amount of the asset acquired or liability incurred. When hedge accounting is discontinued, amounts previously recognized in AOCI are reclassified to earnings during the periods when the variability in the cash flows of the hedged item affects earnings. However, when a hedged item ceases to exist or when it is probable that an anticipated transaction will not occur, gains and losses previously recognized in AOCI are reclassified immediately to earnings. For contracts accounted for as a hedge of an identifiable current or anticipated position, the Company classifies the cash flows of the contract in the same manner as the cash flows of the position being hedged.

(iv) Fair values of financial instruments:

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values are based on quoted market prices, where available. If market quotes are not available, fair value is based on internal valuation models that use market-based or independent information as inputs. These models could produce a fair value that may not be reflective of future fair value. The Company applies a hierarchy to classify valuation methods used to measure financial instruments carried at fair value. Level 1 represents quoted (unadjusted) prices in active markets for identical assets and liabilities. Level 2 valuation techniques use significant observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). Level 3 valuation techniques use significant inputs that are not based on observable market data.

(v) Impairment:

Each balance sheet date, the Company reviews its financial assets, other than those classified as fair value through earnings, for objective evidence of impairment. In assessing available-for-sale investments, the Company considers the length and extent of a decline in fair value below its cost, the financial condition and environment of the issuer, and the Company's ability and intention to hold the investment until its anticipated recovery. When objective evidence of impairment exists and a decline in value is other than temporary, the Company removes cumulative losses from AOCI and recognizes impairment losses in the statements of earnings.

(k) Stock-based compensation plans:

The Company's stock-based compensation plans are described in note 14c and d. The Company offers a deferred share unit ("DSU") plan for non-employee members of the Board of Directors and a restricted share unit ("RSU") plan for employees. Share units under these plans are notional shares; the value of one share unit represents the value of one HudBay common share. The Company also offers a stock option plan and an employee share purchase plan ("ESPP") for employees.

Cash-settled transactions, consisting of DSUs and RSUs, are recognized as an obligation at the grant date. Each reporting date, up to and including the settlement date, the Company measures the liabilities at fair value based on the closing price of HudBay's common shares, adjusted to reflect estimated forfeitures and to reflect the portion of the service period that had been performed by the financial statement reporting date. DSU and RSU liabilities are presented on the balance sheet in other employee future benefits and stock-based compensation, and changes in the fair value of the liabilities are recognized in the income statement and presented within stock-based compensation expense.

The Company accounts for stock options using the fair value based method. Under this method, compensation cost attributable to options granted is measured at fair value at the grant date and expensed over the vesting period, with a corresponding increase to contributed surplus. Any consideration received on exercise of stock options or purchase of stock is credited to share capital.

HudBay accounts for its portion of contributions to the ESPP by recording compensation expense as incurred on a payroll cycle basis.

(l) Income and mining taxes:

The Company accounts for income and mining taxes under the asset and liability method. Under this method of tax allocation, future income and mining tax assets and liabilities are determined based on loss carryforwards and differences between the financial statement carrying values and their respective tax bases (temporary differences). Future tax assets and liabilities are measured using the substantively enacted tax rates expected to apply when the asset is realized or the liability settled. A valuation allowance is recorded as a reduction against any future tax asset to the extent that the benefit of the future tax asset is not more likely than not to be realized. The effect on future tax assets and liabilities from a change in tax rates is included in income in the year in which the change is enacted or substantively enacted.

(m) Earnings per share:

Basic earnings per share is computed by dividing net earnings for the year by the weighted average number of common shares outstanding for the year. Diluted earnings per share is similar to basic earnings per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued using the treasury stock method. In applying this method, the Company determines the number of common shares that would be issued upon exercise of in-the-money options and warrants and assumes that the proceeds received upon exercise would be used to purchase additional common shares at the average market price during the year.

(n) Asset retirement obligations:

The Company's accounting for asset retirement obligations applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal operation of a long-lived asset.

The fair value of a liability for an asset retirement obligation is recorded in the period in which it is identified and a reasonable estimate of fair value can be made. When the liability is initially recorded, the cost is capitalized by increasing the carrying amount of the related long-lived asset. Costs that relate to existing conditions caused by past operations and that do not contribute to current or future revenue generation are expensed. Upon settlement of the liability, a gain or loss is recorded. The Company records asset retirement obligations primarily associated with decommissioning and restoration costs. The Company assesses the reasonableness of its asset retirement obligation estimates when conditions change and revises those estimates accordingly. Changes in the respective asset and liability balances are expensed in future periods.

The long-term asset retirement obligation is based on environmental plans, in compliance with the current environmental and regulatory requirements. Accretion expense is charged to the statements of earnings based on application of an interest component to the existing liability.

(o) Exploration costs:

The Company accounts for exploration expenditures by expensing such costs until management's evaluation indicates, through pre-feasibility or other assessments, that the property has mineral reserves and/or resources with the potential of being developed into a mine.

(p) Non-controlling interests:

Effective January 1, 2010, the Company adopted CICA Handbook Section 1602, Non-controlling interests. Accordingly, the Company has presented, on a retrospective basis, non-controlling interests as a component of total equity and the net earnings on the consolidated statements of earnings and comprehensive income has been adjusted to include the net earnings (loss) and OCI attributable to non-controlling interests.

3. Adoption of new accounting standards

(a) Adopted in 2010:

Effective January 1, 2010, the Company early adopted the following CICA recommendations:

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

In January 2009, the CICA issued Handbook Section 1582, *Business Combinations*, replacing Section 1581 of the same name. Section 1582 establishes standards for the accounting for business combinations that are equivalent to the business combination accounting standards under International Financial Reporting Standards ("IFRS"). Prospective application of Section 1582 is required for the Company's business combinations with acquisition dates on or after the adoption date. Section 1582 requires business acquisitions to be measured at the acquisition-date fair value, generally requires acquisition-related costs to be expensed, requires gains from bargain purchases to be recorded in earnings (loss), and expands the definition of a business to include certain development-stage entities. It also requires the acquirer to measure any non-controlling interest either at fair value or at the non-controlling interest's proportionate share of the acquirer's identifiable net assets. Adoption of Section 1582 did not have an effect on the Company's consolidated financial statements.

The CICA concurrently issued Section 1601, *Consolidated Financial Statements,* and Section 1602, *Non-controlling Interests,* which together replace the previous Section 1600, Consolidated Financial Statements. Sections 1601 and 1602 establish standards equivalent to those under IFRS for the preparation of consolidated financial statements and the accounting for non-controlling interests in consolidated financial statements, including accounting for non-controlling interests upon a change in ownership interest or loss of control of a subsidiary. Section 1602 requires attribution of comprehensive income to owners of the parent entity and to non-controlling interests, even if it results in the non-controlling interests having a deficit balance. The Company applied these sections prospectively, except for presentation and disclosure requirements, which were applied retrospectively. As a result of adopting these sections, the Company has presented non-controlling interests as a separate component of equity on the balance sheet.

(b) Adopted in 2009:

As required by the CICA, effective January 1, 2009, the Company adopted four new accounting standards addressing disclosure requirements:

Goodwill and Intangible Assets

On January 1, 2009, the Company adopted CICA Handbook Section 3064, Goodwill and Intangible Assets, which replaced Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. The new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. The Company's adoption of this standard had no effect on the consolidated financial statements.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

Effective January 1, 2009, the Company adopted Emerging Issues Committee ("EIC") abstract 173 ("EIC-173"), Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. The abstract clarifies that an entity should take into account its own credit risk and counterparty credit risk in determining the fair value of financial assets and financial liabilities, including derivative instruments.

Mining Exploration Costs

Effective January 1, 2009, the Company adopted EIC-174, Mining Exploration Costs, which clarifies guidance related to capitalization of exploration costs and impairment of capitalized costs. The Company's adoption of this abstract had no effect on the consolidated financial statements.

Financial Instruments Disclosures

The Company has adopted the amendments to CICA Handbook Section 3862, Financial Instruments - Disclosures. The amendments set out new standards for disclosures about the fair value measurements of financial instruments and the nature and extent of liquidity risk. The amendments require an entity to classify fair value measurements using a fair value hierarchy in levels ranging from 1 to 3 that reflect the significance of the inputs used in making these measurements. These amendments are consistent with recent amendments to financial instrument disclosure standards under IFRS.

(c) Future accounting changes:

International Financial Reporting Standards

The Canadian Accounting Standards Board ("AcSB") has confirmed that Canadian publicly accountable entities will be required to prepare their financial statements in accordance with IFRS for fiscal years beginning on or after January 1, 2011. As a result, the Company will adopt IFRS on January 1, 2011, and its first interim IFRS-compliant financial statements will be for the quarter ending March 31, 2011, with comparative information for 2010 also presented on an IFRS basis. The Company is currently assessing the impact the adoption of IFRS will have on its consolidated financial statements.

4. Cash and cash equivalents

	2010	2009
Cash and cash equivalents:		
Cash on hand and demand deposits	**$149,543**	$ 76,297
Short-term money market instruments with original maturities of three months or less	**752,150**	810,517
	$901,693	$886,814

5. Inventories

	2010	2009
Work-in-process	**$ 18,775**	$ 51,250
Finished goods	**81,277**	59,595
Materials and supplies	**21,642**	20,283
	$121,694	$131,128

The cost of inventories included in operating expenses during the year ended December 31, 2010 was $381,871 (2009 - $430,837, 2008 - $627,997).

6. Balmat asset impairment losses

During 2008, the Company recorded an asset impairment loss of $30,433 on its Balmat zinc mine. In its second year of commercial production, the performance of the Balmat mine continued to fall short of the Company's expectations, which had been revised as part of the previous asset impairment taken in the fourth quarter of 2007. Due to this operating shortfall and 2008's zinc prices, the Balmat mine operations were suspended on August 22, 2008.

Based on the anticipated expenses and deferral of operating cash flow associated with a period of care and maintenance, the Company completed a review of the discounted value of future cash flows and determined that the carrying value of Balmat's assets was not likely to be recoverable. Therefore, the carrying value of the Balmat property, plant and equipment was written off. The carrying value of Balmat's materials and supplies inventory was also written down to its net realizable value. The Company is currently continuing exploration on the Balmat property.

7. Property, plant and equipment

2010	Cost	Accumulated depreciation and amortization	Net book value
Buildings and equipment	**$ 534,834**	**$ 213,801**	**$321,033**
Mine development	**369,731**	**270,118**	**99,613**
Mineral properties	**486,260**	**—**	**486,260**
	$1,390,825	**$ 483,919**	**$906,906**

2009	Cost	Accumulated depreciation and amortization	Net book value
Buildings and equipment	$ 470,350	$ 161,622	$308,728
Mine development	326,011	219,427	106,584
Mineral properties	403,322	—	403,322
	$1,199,683	$ 381,049	$818,634

The carrying value of property, plant and equipment under construction or development that is not being amortized is $504,494 (2009 - $419,272).

8. Other assets

	2010	2009
Restricted cash	**$ 4,405**	$59,031
Long-term portion of prepaid financing fees	**1,884**	—
Computer software	**7,083**	1,966
Long-term portion of future tax asset (note 13b)	**8,636**	19,720
Long-term portion of fair value of derivatives (note 18c)	**604**	258
Investments, at fair value through earnings	**7,688**	138
	$30,300	$81,113

On November 3, 2010, the Company arranged a new US$300 million revolving credit facility with a syndicate of lenders. The facility has an initial term of four years and is secured by a pledge of assets of the parent company and is unconditionally guaranteed by the Company's material subsidiaries. Upon closing, restricted cash on deposit to support letters of credit was reclassified to cash and cash equivalents.

9. Current portion of other liabilities

	2010	2009
Current portion of:		
Pension obligation (note 10)	**$16,283**	$28,447
Asset retirement obligation (note 12)	**6,510**	5,327
Other employee future benefits (note 11)	**3,157**	2,876
Fair value of derivatives (note 18c)	**5,445**	3,503
Future tax liabilities (note 13b)	**—**	75
Deferred revenue	**24,405**	—
	$55,800	$40,228

Deferred revenue relates to the receipt of payment on the sale of copper concentrate, the terms of which did not meet the Company's criteria for revenue recognition as at December 31, 2010.

10. Pension obligation

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

The Company uses a December 31 measurement date for all of its plans. For the Company's significant plans, the most recent actuarial valuations filed for funding purposes were performed during 2010 using data as at December 31, 2009. For these plans, the next actuarial valuation required for funding purposes will be performed as at December 31, 2010.

The defined benefit pension plans were amended in 2009 to grant benefit improvements for past service. The Company is amortizing these past service costs over three years.

Information about the Company's pension plans is as follows:

	2010	2009
Obligations and funded status:		
Change in pension obligation:		
Obligation, beginning of year	**$264,350**	$213,849
Service cost	**6,603**	6,021
Interest cost	**17,075**	16,782
Employee contributions	**157**	143
Actuarial loss	**35,570**	33,658
Plan amendments	**—**	7,854
Special termination benefits	**510**	3,050
Benefits paid	**(24,345)**	(17,007)
Obligation, end of year	**299,920**	264,350
Change in pension plan assets:		
Fair value of plan assets, beginning of year	**234,527**	195,791
Actual return on plan assets	**27,920**	26,648
Employer contributions	**21,484**	28,952
Employee contributions	**157**	143
Benefits paid	**(24,345)**	(17,007)
Fair value of plan assets, end of year	**259,743**	234,527
Unfunded status of plans, end of year	**(40,177)**	(29,823)
Unamortized past service costs	**2,617**	5,236
Unamortized net actuarial loss (gain)	**18,673**	(4,376)
Net liability recognized, end of year	**(18,887)**	(28,963)
Less current portion (note 9)	**(16,283)**	(28,447)
	$ (2,604)	$ (516)

Early retirement windows were opened in 2009 to certain members who will be eligible to retire with an unreduced pension and supplemental benefit. Special termination benefits offered to employees on voluntary termination of employment are recognized as a liability and an expense when employees accept the offer and the amount of the special termination benefits can be reasonably estimated. Special termination benefits in the amount of $510 have been recognized for elections made in 2010 (2009 - $3,050, 2008 - $0).

Pension expense includes the following components:

	2010	2009	2008
Costs arising in the year:			
Service cost	**$ 6,603**	$ 6,021	$ 8,310
Interest cost	**17,075**	16,782	14,505
Actual asset return	**(27,920)**	(26,648)	27,034
Actuarial loss (gain)	**35,570**	33,658	(59,107)
Special termination benefits	**510**	3,050	—
	31,838	32,863	(9,258)
Difference in costs arising and recognized in the year:			
Actual loss (gain) on plan assets	**12,507**	11,332	(42,693)
Actuarial (gain) loss	**(35,554)**	(34,713)	58,765
Plan amendments	**2,619**	2,618	4,107
Defined benefit pension expense	**11,410**	12,100	10,921
Defined contribution pension expense	**637**	666	1,247
	$ 12,047	$ 12,766	$ 12,168

Additional information:

The weighted average assumptions used in the determination of the accrued benefit expense and obligations were as follows:

	2010	2009	2008
To determine the net benefit expense for the year:			
Discount rate - defined benefit	**6.50%**	7.50%	5.50%
Interest rate - defined contribution	**3.92%**	3.74%	4.17%
Expected return on plan assets	**6.50%**	7.50%	7.00%
Rate of compensation increase*	**2.25%**	1.75%	2.35%
To determine the accrued benefit obligations at the end of the year:			
Discount rate - defined benefit	**5.50%**	6.50%	7.50%
Interest rate - defined contribution	**3.92%**	3.74%	4.17%
Rate of compensation increase*	**2.50%**	2.25%	1.75%

* plus a merit and promotion scale

The Company's pension cost is significantly affected by the discount rate used to measure obligations, the level of plan assets available to fund those obligations and the expected long-term rate of return on plan assets.

The Company reviews the assumptions used to measure pension costs (including the discount rate) on an annual basis. Economic and market conditions at the measurement date impact these assumptions from year to year.

In determining the discount rate, the Company considers the duration of the pension plan liabilities.

In determining the expected future rate of return on pension assets, the Company considers the types of investment classes in which the plan assets are invested and the expected compound returns on those investment classes.

The pension plan asset allocations, by asset category, are as follows:

	2010		2009	
	Weighted average	Target	Weighted average	Target
Equity securities	**50%**	**50%**	47%	50%
Debt securities	**50%**	**50%**	53%	50%
	100%	**100%**	100%	100%

The Company's primary quantitative investment objectives are maximization of the long-term real rate of return, subject to an acceptable degree of investment risk, and preservation of principal. Risk tolerance is established through consideration of several factors, including past performance, current market conditions and the funded status of the plan.

With the exception of fixed income investments, the plan assets are actively managed by investment managers, with the goal of attaining returns that potentially outperform passively managed investments. Within appropriate limits, the actual composition of the invested funds may vary from the prescribed investment mix.

11. Other employee future benefits

The Company sponsors several post-employment benefit plans and uses a December 31 measurement date. Information about the Company's post-retirement and other post-employment benefits is as follows:

	2010	2009
Obligations and funded status:		
Change in other employee future benefits obligation:		
Obligation, beginning of year	**$ 86,961**	$ 77,550
Service cost	**2,610**	3,163
Interest cost	**5,753**	5,326
Actuarial loss	**15,269**	3,234
Benefits paid	**(2,548)**	(2,312)
Obligation, end of year	**108,045**	86,961
Change in plan assets:		
Fair value of plan assets, beginning of year	**—**	—
Employer contributions	**2,548**	2,312
Benefits paid	**(2,548)**	(2,312)
Fair value of plan assets, end of year	**—**	—
Unfunded status of plans, end of year	**(108,045)**	(86,961)
Unamortized net actuarial loss	**19,257**	3,988
Net liability recognized, end of year	**(88,788)**	(82,973)
Less current portion (note 9)	**3,157**	2,876
Other employee future benefits	**(85,631)**	(80,097)
Liability for deferred share units (note 14d)	**(3,167)**	(1,190)
Liability for restricted share units (note 14d)	**(1,641)**	—
Other employee future benefits and stock-based compensation	**$ (90,439)**	$(81,287)

Other employee future benefits expense includes the following components:

	2010	2009	2008
Costs arising in the year:			
Service cost	**$ 2,610**	$ 3,163	$ 2,282
Interest cost	**5,753**	5,326	4,352
Actuarial loss (gain)	**15,269**	3,234	(6,696)
	23,632	11,723	(62)
Difference in costs arising and recognized in the year:			
Actuarial (gain) loss	**(15,269)**	(3,234)	6,696
Other employee future benefits expense	**$ 8,363**	$ 8,489	$ 6,634

Additional information:

The weighted average assumptions used in the determination of other employee future benefits expense and obligations were as follows:

	2010	2009	2008
To determine the net benefit expense for the year:			
Discount rate	**6.75%**	7.50%	5.50%
Initial weighted average health care trend rate	**8.16%**	8.30%	7.80%
Ultimate weighted average health care trend rate	**4.50%**	4.60%	4.60%
Year ultimate rate reached	**2029**	2029	2015
To determine the benefit obligations at the end of the year:			
Discount rate	**5.75%**	6.75%	7.50%
Initial weighted average health care trend rate	**8.01%**	8.16%	8.30%
Ultimate weighted average health care trend rate	**4.50%**	4.50%	4.60%
Weighted average health care trend rate	**2029**	2029	2029

The weighted average health care cost trend rate used in measuring other employee future benefits was assumed to begin at 8.16% in 2010, gradually declining to 4.5% by 2029 and remaining at those levels thereafter.

If the health care cost trend rate was increased by one percentage point, the accumulated post-retirement benefit obligation and the aggregate service and interest cost would have increased as follows:

	2010	2009
Accumulated post-retirement benefit obligation	**$21,208**	$15,250
Aggregate of service and interest cost	**1,627**	1,796

If the health care cost trend rate was decreased by one percentage point, the accumulated post-retirement benefit obligation and the aggregate service and interest cost would have decreased as follows:

	2010	2009
Accumulated post-retirement benefit obligation	**$16,767**	$12,196
Aggregate of service and interest cost	**1,277**	1,388

The Company's post-retirement and other post-employment benefit cost is materially affected by the discount rate and health care cost trend rates used to measure obligations.

The Company reviews the assumptions used to measure post-retirement and other post-employment benefit costs (including the discount rate) on an annual basis.

Any unamortized actuarial gains or losses over 10 per cent of the obligation are amortized over the expected service life of the plan population.

12. Asset retirement obligations

The Company's asset retirement obligations relate to the reclamation and closure of currently operating mines and metallurgical plants and closed properties.

	2010	2009
Balance, beginning of year	**$54,460**	$46,632
Obligations recognized during the year	**3,820**	6,804
Revisions in estimated cash flows	**5,557**	(1,779)
Obligations settled during the year	**(2,764)**	(1,685)
Accretion expense	**4,352**	4,488
Balance, end of year	**65,425**	54,460
Less current portion (note 9)	**6,510**	5,327
	$58,915	$49,133

Total undiscounted future cash flows required to settle the decommissioning and restoration asset retirement obligations are estimated to be $138,836 (2009 - $109,726) before adjusting for inflation, market, and credit risk. Credit adjusted risk-free rates ranging from 1.8% to 6.3% (2009 - 2.4% to 10.0%) have been used to determine the additional obligations recognized during the year. The Company's asset retirement obligations were revised in 2010 to reflect changes in amounts and timing of estimated cash flows. Management anticipates that the asset retirement obligations relating to the Flin Flon operations will be substantially settled at or near the closure of the mining and processing facilities, anticipated to occur from 2011 to 2024.

The Company's exploration and exploitation licences require that it reclaim any land covered by those licences which it disturbs during exploration and exploitation activities for the Fenix Project. Although the timing and the amount of the actual expenditures can be uncertain, and given that the Company chose to delay construction of the Fenix project due to low nickel prices at the time, the Company has estimated the present value of the future reclamation obligation arising from its activities relating to the Fenix Project as at December 31, 2010 to be $3,478 (2009 - $8,052).

In view of the uncertainties concerning environmental remediation, the ultimate cost of asset retirement obligations could differ materially from the estimated amounts provided. The estimate of the total liability for asset retirement obligation costs is subject to change based on amendments to laws and regulations and as new information concerning the Company's operations becomes available. Future changes, if any, to the estimated total liability as a result of amended requirements, laws, regulations and operating assumptions 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 Company operates. The Company 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.

13. Income and mining taxes

(a) Tax expense:

		2010	2009	2008
Current	- income taxes	**$39,759**	$24,102	$24,517
	- mining taxes	**26,427**	2,668	22,241
		66,186	26,770	46,758
Future	- income taxes	**14,029**	(887)	42,819
	- mining taxes	**7,852**	3,105	6,546
		21,881	2,218	49,365
Tax expense		**$88,067**	$28,988	$96,123

(b) Future tax assets and liabilities as represented on the balance sheet:

	2010	2009
Future tax assets		
Current portion	**$ 15,431**	$23,152
Long-term portion (note 8)	**8,636**	19,720
	24,067	42,872
Future tax liabilities		
Current portion (note 9)	**—**	75
Long-term portion	**42,146**	34,927
	42,146	35,002
	$(18,079)	$ 7,870

Future tax assets and liabilities are composed of:

	2010	2009
Future income tax asset (note 13e)	**$ 15,543**	$ 26,497
Future income tax liability (note 13e)	**(42,146)**	(35,002)
Future mining tax asset (note 13f)	**8,524**	16,375
	$(18,079)	$ 7,870

(c) Changes in future tax assets and liabilities:

	2010	2009
Balance, beginning of year	**$ 7,870**	$12,359
Future tax expense (note 13a)	**(21,881)**	(2,218)
OCI (loss) transactions	**(4,068)**	(2,366)
Other	**—**	95
Balance, end of year	**$(18,079)**	$ 7,870

(d) Reconciliation to statutory tax rate:

As a result of Canadian mining operations, the Company 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 deductions for financing expenses, such as interest and royalties. In addition, income unrelated to carrying on mining operations is not subject to mining tax.

Income tax expense differs from the amount that would be computed by applying the statutory income tax rates to income before income taxes. A reconciliation of income taxes calculated at the statutory rates to the actual tax provision is as follows:

	2010	2009	2008
Statutory tax rate	**30.15%**	31.29%	32.54%
Tax expense at statutory rate	**$47,669**	$ 44,265	$54,863
Effect of:			
Non-controlling interests	**888**	(12)	152
Resource and depletion allowance, net of resource tax recovery	**(8,322)**	(1,449)	(9,571)
Adjusted income taxes	**40,235**	42,804	45,444
Mining taxes	**34,279**	5,773	28,787
	74,514	48,577	74,231
Temporary income tax differences not recognized	**17,528**	7,274	17,387
Tax benefit not recognized	**—**	—	10,739
Permanent differences related to:			
- capital items	**(436)**	(13,448)	(5,475)
- stock-based compensation	**772**	1,548	3,985
Other income tax permanent differences	**734**	(422)	1,414
Recognition of prior years' income tax temporary differences	**—**	(14,224)	(2,760)
Impact related to reduction of tax rates	**457**	(317)	(3,398)
Benefit related to tax settlement and tax return amendments	**(5,502)**	—	—
Tax expense	**$88,067**	$ 28,988	$96,123
Tax expense applicable to:			
Current taxes	**$66,186**	$ 26,770	$46,758
Future taxes	**21,881**	2,218	49,365
Tax expense	**$88,067**	$ 28,988	$96,123

(e) Future income tax assets and liabilities:

The tax effects of temporary differences and loss carryforwards that give rise to significant portions of the future tax assets or future tax liabilities at December 31, 2010, 2009 and 2008 are as follows:

	2010	2009	2008
Future income tax assets (liabilities):			
Property, plant and equipment	**$ 18,301**	$ 17,838	$ 22,713
Pension obligation	**4,946**	8,515	9,137
Other employee future benefits	**3,220**	3,841	1,355
Asset retirement obligations	**4,308**	2,737	1,547
Non-capital losses (note 13g)	**41,730**	35,399	28,630
Share issue and debt costs	**2,595**	3,424	4,444
Capital losses	**152**	172	—
Other	**(1,876)**	5,059	3,360
	73,376	76,985	71,186
Less valuation allowance	**(57,833)**	(50,488)	(56,253)
Net future income tax asset (note 13b)	**15,543**	26,497	14,933
Less current portion	**(11,741)**	(18,307)	(13,163)
	$ 3,802	$ 8,190	$ 1,770
Future income tax liabilities (assets):			
Property, plant and equipment	**$ 46,755**	$ 43,192	$ 39,075
Pension obligation	**(366)**	(152)	(4,941)
Other employee future benefits	**(22,415)**	(19,785)	(19,776)
Asset retirement obligations	**(9,787)**	(9,723)	(9,382)
Share issue and debt costs	**128**	(1,294)	(2,553)
Other	**(288)**	(134)	(318)
	14,027	12,104	2,105
Add: valuation allowance	**28,119**	22,898	19,950
Net future income tax liability (note 13b)	**42,146**	35,002	22,055
Less current portion	**—**	75	42
	$ 42,146	$ 34,927	$ 22,013

The income tax valuation allowance represents management's best estimate of the allowance necessary to reflect the future income tax assets at an amount that the Company considers is more likely than not to be realized. The Company's valuation allowance provides for long-term obligations that are deductible expenses for tax purposes related to asset retirement obligations and other assets that are more unlikely than not to be realized.

(f) Mining tax effect of temporary differences:

The tax effects of temporary differences that give rise to significant portions of the future mining tax assets at December 31, 2010, 2009 and 2008 are as follows:

	2010	2009	2008
Future mining tax assets:			
Property, plant and equipment	**$ 8,524**	$16,375	$27,121
Less valuation allowance	**—**	—	(7,640)
Net future mining tax asset (note 13b)	**8,524**	16,375	19,481
Less current portion	**(3,690)**	(4,844)	(8,054)
	$ 4,834	$11,531	$11,427

The Company has not recorded a valuation allowance against future mining tax assets in 2010 and 2009 as the Company considers it more likely than not that the asset will be realized.

(g) Non-capital losses:

At December 31, 2010, the Company had cumulative non-capital losses of $74.7 million in Canada and net operating losses of US$66.0 million in the US. The benefit related to approximately $30 million of the Canadian non-capital losses has been recognized on the balance sheet. The benefit of the US net operating losses has not been recognized.

The Canadian non-capital losses were incurred between 2004 and 2010 and expire between 2012 and 2030. The utilization of approximately $42.3 million of non-capital losses is restricted as a result of a change in control. The US net operating losses were incurred between 2004 and 2010 and have a 20 year carry-forward period.

(h) Other disclosure:

The tax rules and regulations applicable to mining companies are highly complex and subject to interpretation. The Company may be subject in the future to a review of its historic income and other tax filings, and in connection with such reviews, disputes can arise with the taxing authorities over the interpretation or application of certain tax rules and regulations to the Company's business. These audits may alter the timing or amount of taxable income or deductions. The amount ultimately reassessed upon resolution of issues raised may differ from the amount accrued.

14. Share capital

(a) Preference shares:

Authorized: Unlimited preference shares

Issued: none

(b) Common shares:

Authorized: Unlimited common shares

Issued:

	Common Shares	Amount
Balance, December 31, 2007	127,032,612	$311,143
Exercise of options	111,827	976
Shares repurchased	(5,420,000)	(21,175)
Shares issued for acquisition	31,295,685	341,436
Balance, December 31, 2008	153,020,124	632,380
Exercise of options	1,434,131	14,241
Shares repurchased	(599,600)	(2,494)
Balance, December 31, 2009	153,854,655	644,127
Exercise of options	623,784	6,881
Shares repurchased	(5,047,100)	(21,147)
Balance, December 31, 2010	149,431,339	$629,861

On September 29, 2009, the Company announced a share repurchase program, through the facilities of the Toronto Stock Exchange, for cancellation of up to 13,655,000 common shares (approximately 10% of the Company's public float) by way of a normal course issuer bid. Purchases of common shares were made from time to time at market prices and in accordance with the rules of the Toronto Stock Exchange. This repurchase program was authorized to be in effect until September 30, 2010.

During 2010, the Company repurchased for cancellation 5,047,100 common shares (2009 - 599,600, 2008 - 5,420,000) at a net cost of $60,309 (2009 - $7,985; 2008 - $53,291). The Company recorded a reduction in share capital of $21,147 (2009 - $2,494). The excess net cost over the average book value of the shares was recorded as a reduction to contributed surplus of $3,399 (2009 - $5,491, 2008 - $2,195) and a reduction to retained earnings of $35,763 (2009 - $0, 2008 - $29,921).

The Company paid dividends of $0.10 per share on September 30, 2010 to shareholders of record as of September 15, 2010.

(c) Stock option plan:

During the year ended December 31, 2010, the Company granted additional options to an employee, consistent with the Company's stock option plan approved in June 2005 and amended in May 2008 (the "Plan").

Under the amended Plan, the Company may grant to employees, officers, directors or consultants of the Company or its affiliates options to purchase up to a maximum of 13 million common shares of the Company. 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 Company. The maximum number of common shares issuable to each non-employee director under the Plan shall not exceed the lesser of $100,000 in value per year and 1% in number of the then issued and outstanding common shares of the Company 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 Company. 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 Company to grant options up to 10% (to a maximum of 8 million issued outstanding options) of the issued and outstanding common shares of the Company to employees, officers, and directors of the Company 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.

	2010		2009	
	Number of shares subject to option	**Weighted average exercise price**	Number of shares subject to option	Weighted average exercise price
Balance, beginning of year	**4,637,113**	**$ 14.25**	7,159,944	$ 13.07
Granted	**900,000**	**12.17**	350,000	7.96
Exercised	**(623,784)**	**8.42**	(1,434,131)	6.55
Forfeited	**(145,557)**	**10.42**	(1,438,700)	14.54
Expired	**(398,988)**	**17.31**	—	—
Balance, end of year	**4,368,784**	**$ 14.50**	4,637,113	$ 14.25

The weighted average fair value of options granted during 2010 was $4.53 (2009 - $3.82) per option at the grant date. The fair value of the options has been estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rate of 1.8% (2009 - 2.9%); dividend yield of 0% (2009 - 0%); volatility factor of 67% (2009 - 51%); and expected life of 3 years (2009 - 3 years). The terms of the options granted during 2010 were amended resulting in the first 33 1/3% being exercisable immediately at the date of grant, the next 33 1/3% exercisable after one year and the last 33 1/3% exercisable after two years.

The grant of stock options in 2010 took place prior to the Company's dividend declaration in September 2010.

The following table summarizes the options outstanding at December 31, 2010:

	Options outstanding			Options exercisable	
Range of exercise prices	Number of options outstanding	Weighted-average remaining contractual life (years)	Weighted-average exercise price	Number of options exercisable	Weighted-average exercise price
$2.59 - 10.20	1,017,942	4.6	$ 6.85	857,940	$ 6.65
10.21 - 14.02	1,008,000	3.4	12.01	354,667	11.94
14.03 - 16.00	756,703	7.2	15.86	756,703	15.86
16.01 - 20.78	355,200	3.7	17.53	351,867	17.53
20.79 - 23.74	1,230,939	6.3	21.16	1,230,939	21.16
$2.59 - 23.74	4,368,784	5.2	$ 14.50	3,552,116	$ 15.24

(d) Other stock-based compensation plans:

DSU plan

DSUs vest on the grant date and are redeemable with a cash payment 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. During the year ended December 31, 2010, the Company granted 100,831 DSUs at a weighted average issue price of $12.92 (2009 - 87,724 granted at $9.90). As at December 31, 2010, 176,229 DSUs at a weighted average price of $17.97 were outstanding, 1,111 of which related to additional units issued to DSU holders to reflect dividends paid on September 30, 2010.

At December 31, 2010, the Company's DSU liability was $ 3,167 (2009 - $1,190). During the year ended December 31, 2010, the Company recognized stock-based compensation expense related to the DSU plan of $2,177 (2009 - $1,190).

RSU plan

RSUs, which are granted under the Company's long-term equity plan, vest on the third anniversary of the grant date, subject to the Board's discretion to set other terms. For RSUs granted prior to July 2010, the Company has the option on the vest date to settle RSUs either in common shares of the Company or with a cash payment based on the closing price of the Company's common shares for the last trading date before the vest date. Under the long-term equity plan, a maximum of one million common shares of the Company may be issued from treasury. Effective July 2010, RSUs are issued under the Company's Share Unit Plan, which has similiar terms but requires settlement in cash. Management expects all RSUs will be settled in cash. Except in specified circumstances, RSUs terminate when an employee ceases to be employed by the Company.

During the year ended December 31, 2010, the Company granted 433,927 RSUs at a weighted average price of $12.95 at the grant date (2009 - 0 RSUs), including additional units issued to holders to reflect dividends paid on September 30, 2010. No RSUs were granted or outstanding in 2009.

At December 31, 2010, the Company's RSU liability was $1,641 (2009: $0). During the year ended December 31, 2010, the Company recognized stock-based compensation expense related to the RSU plan of $1,641 (2009 - $0).

ESPP

Effective August 2010, certain employees of the Company have the opportunity to contribute up to a maximum of 10% of their annual base salary to purchase common shares of the Company in the open market at current fair market value. The Company contributes 75 cents for each dollar contributed by employees. Shares acquired for the ESPP by the Company are restricted for one year.

During the year ended December 31, 2010, the Company recognized compensation expense of $175 (2009 - $0; 2008 - $0) related to the employer portion of ESPP contributions.

(e) Stock-based compensation expense:

	2010	2009	2008
Stock option expense	**$2,518**	$3,502	$11,952
DSU expense (note 13d)	**2,177**	1,190	—
RSU expense (note 13d)	**1,641**	—	—
	6,336	4,692	11,952
ESPP expense	**175**	—	—
	$6,511	$4,692	$11,952

(f) Contributed surplus:

	2010	2009
Balance, beginning of year	**$26,717**	$32,345
Stock-based compensation expense	**2,518**	4,692
Transfer to common shares on exercise of stock options	**(1,631)**	(4,849)
Share repurchases (note 14b)	**(3,399)**	(5,491)
Warrants forfeited	**—**	20
Balance, end of year	**$24,205**	$26,717

(g) Earnings per share data:

	2010	2009	2008
Net earnings attributable to common shareholders	**$ 72,985**	$ 112,440	$ 72,947
Basic weighted average common shares outstanding	150,636,835	153,460,823	135,902,627
Add: net incremental shares from assumed conversions of			
- Stock options	**699,564**	606,459	809,957
- Warrants	**—**	—	496
Diluted weighted average common shares outstanding	**151,336,399**	154,067,282	136,713,080

15. Accumulated other comprehensive income (loss) ("OCI")

	2010	2009	2008
Accumulated OCI (loss), beginning of year:			
Cash flow hedge (losses) gains (net of tax of $2,169, $2,954, $3,145)	**$ (4,782)**	$ 7,145	$ (5,227)
Gains (losses) on investments (net of tax of $2,379, $0, $7)	**11,227**	(25,502)	(11)
Currency translation adjustments (net of tax of $0, $13, $92)	**—**	23	(163)
Accumulated OCI (loss), beginning of year	**6,445**	(18,334)	(5,401)
OCI (loss) for the year:			
Effective portion of changes in fair value of cash flow hedges	**7,524**	(9,038)	19,314
Less: income tax (expense) benefit	**(2,253)**	2,826	(6,285)
Effective portion of changes in fair value reclassified to earnings:	**(3,266)**	(8,012)	(843)
Less: income tax expense	**1,014**	2,297	186
Changes in fair value of investments	**38,464**	139,016	(28,680)
Less: income tax expense	**(4,764)**	(22,317)	—
Changes in fair value of investments reclassified to earnings	**(2,163)**	(99,908)	—
Less: income tax expense	**696**	19,938	—
Changes in fair value of investments reclassified to earnings as impairment	**—**	—	3,196
Less: income tax expense	**—**	—	(7)
Currency translation adjustments			291
Less: income tax expense			(105)
Currency translation adjustments reclassified to earnings	**—**	(36)	—
Less: income tax expense	**—**	13	—
OCI (loss), net of tax for the year	**35,252**	24,779	(12,933)
Accumulated OCI (loss), end of year:			
Cash flow hedge (losses) gains (net of tax of $930, $2,169, $2,954)	**(1,763)**	(4,782)	7,145
Gains (losses) on investments (net of tax of $6,447, $2,379, $0)	**43,460**	11,227	(25,502)
Currency translation adjustments (net of tax of $0, $0, $13)	**—**	—	23
Accumulated OCI (loss), end of year	**41,697**	6,445	(18,334)
Retained earnings	**1,043,516**	1,021,195	908,755
	$1,085,213	$1,027,640	$890,421

16. Non-controlling interests

On August 31, 2010, pursuant to the terms of a Subscription, Option and Joint Venture Agreement with Aquila Resources Inc. ("Aquila"), the Company earned a 51% ownership interest in Aquila's Back Forty Project.

On July 5, 2010, pursuant to the terms of a joint venture agreement with VMS Ventures Inc. ("VMS"), the Company acquired a 70% ownership interest in the Reed Lake property and the two claims immediately to the south.

The Company accounted for its acquisition of control over the Back Forty and Reed Lake projects as asset acquisitions and has consolidated the projects in its consolidated financial statements.

	CGN	Aquila	VMS	2010
Balance, January 1, 2008	$ —	$ —	$ —	$ —
Share of assets acquired	1,732	—	—	1,732
Share of net loss	(467)	—	—	(467)
Balance, December 31, 2008	1,265	—	—	1,265
Share of net earnings	40	—	—	40
Balance, December 31, 2009	1,305	—	—	1,305
Share of assets acquired	—	10,222	1,122	11,344
Share of net loss	(224)	(1,865)	(858)	(2,947)
Balance, December 31, 2010	$1,081	$ 8,357	$ 264	$ 9,702

17. Capital disclosures

The Company's objectives when managing capital are to maintain a strong capital base in order to:

- Advance the Company's corporate strategies to create long-term value for its stakeholders; and
- Sustain the Company's operations and growth throughout metals and materials cycles.

	2010	2009
Shareholder's equity	**$1,739,279**	$1,698,484
Cash and cash equivalents	**901,693**	886,814

HudBay monitors its capital and capital structure on an ongoing basis to ensure they are sufficient to achieve the Company's short-term and long-term strategic objectives. The Company does not currently have significant debt outstanding. The Company's credit facility requires that sufficient cash, cash equivalents and undrawn credit facility be available to fund three years of capital expenditures on the Lalor project. Interest coverage ratios, debt to book capitalization ratios and debt to cash flow ratios are metrics that would also be evaluated during periods when financial leverage was employed as an element of the Company's capital structure.

18. Financial instruments

(a) Fair value and carrying value of financial instruments:

The following presents the fair value and carrying value of the Company's financial instruments and non-financial derivatives:

	Classification	December 31, 2010	December 31, 2009
Financial assets			
Cash and cash equivalents [1]	FV through earnings	**$ 901,693**	$ 886,814
Accounts receivable			
Trade and other receivables [1]	Loans & receivables	**72,327**	39,978
Embedded derivatives [2]	FV through earnings	**5,841**	209
Derivative assets			
Hedging derivatives [2]	Hedging derivatives	**1,676**	390
Non-hedge derivative assets [2]	FV through earnings	**2,741**	974
Available-for-sale investments [3]	Available-for-sale	**104,990**	27,249
Investments at fair value through earnings [3]	FV through earnings	**7,688**	138
Restricted cash [1]	FV through earnings	**4,405**	59,031
		$ 1,101,361	$ 1,014,783
Financial liabilities			
Accounts payable			
Trade payables & accrued liabilities [1]	Other financial liabilities	**$ 138,539**	$ 119,181
Embedded derivatives [2]	FV through earnings	**941**	557
Derivative liabilities			
Hedging derivatives [2]	Hedging derivatives	**4,384**	9,823
Non-hedge derivative liabilities [2]	FV through earnings	**2,694**	748
		$ 146,558	$ 130,309
Net financial assets		**$ 954,803**	$ 884,474

[1] Carrying values of cash and cash equivalents and restricted cash are classified as held-for-trading and measured at fair value. The carrying values of accounts receivable, accounts payable and accrued liabilities approximate their fair values due to their short-term nature and thus have not been classified within the fair value hierarchy.

[2] Derivatives and embedded provisional pricing derivatives are carried at their fair value and determined based on internal valuation models that reflect observable forward commodity prices and exchange rates, currency exchange rates and discount factors based on market US dollar interest rates.

[3] Available-for-sale investments consist mainly of listed common shares carried at their fair values, which are determined using quoted market bid prices in active markets. Investments at fair value through earnings consist of warrants to purchase listed shares, which are carried at their fair value as determined using a Black-Scholes model. In December 2010, the Company invested $2,000 in common shares of a private company. As the shares are not actively traded, the Company carries them at cost. Due to the short time period since the initial purchase, management determined that their cost approximated fair value as at December 31, 2010.

The table below provides an analysis by valuation method of financial instruments that are measured at fair value subsequent to initial recognition. Refer to note 2j(iv) for an explanation of the fair value hierarchy.

December 31, 2010	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Financial assets at fair value through earnings Cash and cash equivalents	**$ 901,693**	**$ —**	**$ —**	**$ 901,693**
Embedded derivatives	**—**	**5,841**	**—**	**5,841**
Cash flow hedging derivatives	**—**	**1,676**	**—**	**1,676**
Non-hedge derivative assets	**—**	**2,741**	**—**	**2,741**
Restricted cash	**4,405**	**—**	**—**	**4,405**
Investments at fair value through earnings	**—**	**7,688**	**—**	**7,688**
Financial assets available-for-sale				
Available-for-sale investments	**102,990**	**—**	**—**	**102,990**
	$1,009,088	**$17,946**	**$ —**	**$1,027,034**
Financial liabilities measured at fair value				
Financial liabilities at fair value through earnings				
Embedded derivatives	**$ —**	**$ 941**	**$ —**	**$ 941**
Cash flow hedging derivatives	**—**	**4,384**	**—**	**4,384**
Non-hedge derivative liabilities	**—**	**2,694**	**—**	**2,694**
	$ —	**$ 8,019**	**$ —**	**$ 8,019**

December 31, 2009	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Financial assets at fair value through earnings				
Cash and cash equivalents	$ 886,814	$ —	$ —	$ 886,814
Embedded derivatives	—	209	—	209
Cash flow hedging derivatives	—	390	—	390
Non-hedge derivatives	—	974	—	974
Restricted cash	59,031	—	—	59,031
Investments at fair value through earnings	—	138	—	138
Financial assets available-for-sale				
Available-for-sale investments	27,249	—	—	27,249
	$ 973,094	$ 1,711	$ —	$ 974,805
Financial liabilities measured at fair value				
Financial liabilities at fair value through earnings				
Embedded derivatives	$ —	$ 557	$ —	$ 557
Cash flow hedging derivatives	—	9,823	—	9,823
Non-hedge derivatives	—	748	—	748
	$ —	$11,128	$ —	$ 11,128

(b) Financial risk management:

The Company'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 earnings and cash flow within the strategic and economic goals of the Company. The Company 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 Company does not use derivative financial instruments for trading or speculative purposes.

The following is a discussion of the Company's risk exposures. Information on derivatives held by the Company as at December 31, 2010 is presented in note 18c.

(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 Company's primary exposure to foreign currency risk arises from:

- Translation of US dollar denominated revenues and expenses and, to a lesser extent, Guatemalan quetzal expenses into Canadian dollars. Substantially all of the Company's revenues are denominated in US dollars, while a small portion of its expenses are denominated in US dollars. As a result, appreciation of the Canadian dollar relative to the US dollar will reduce the Company's earnings, and a weakening of the Canadian dollar will increase the Company's earnings.
- Translation of US dollar and Guatemalan quetzal denominated operating accounts, consisting mainly of certain cash and cash equivalents, accounts receivable, accounts payable and derivatives. Cash balances in quetzals are restricted to amounts required to fund near-term operating requirements. Appreciation of the Canadian dollar relative to the US dollar or quetzal will reduce the net asset value of these operating accounts once they have been translated to Canadian dollars, resulting in foreign currency translation losses on foreign currency denominated assets and gains on foreign currency denominated liabilities.

Based on HudBay's financial instruments and non-financial derivatives outstanding as at December 31, 2010, the Company had significant market risk sensitivity to reasonably possible changes in the US$/C$ exchange rate. At December 31, 2010, US$1 was worth $0.9946. If the US$/C$ exchange rate had been higher by C$0.10 with all other variables held constant, net earnings would have been $10.7 million higher due to translation of operating accounts denominated in US dollars, and after-tax gains accumulated in OCI would have been decreased by C$1.8 million due to the revaluation of the foreign currency hedge. An equal change in the opposite direction would have decreased the Company's net earnings by $10.7 million and increased the after-tax gains accumulated in OCI by C$1.9 million.

At December 31, 2009, US$1 was worth $1.0510. If the USD/CAD exchange rate had been higher by C$0.40 with all other variables held constant, 2009 net earnings would have been $15.5 million higher due to translation of operating accounts denominated in US dollars and OCI would have been lower by C$8.9 million due to the revaluation of the foreign currency hedge. An equal change in the opposite direction would have decreased the Company's 2009 net earnings by $15.5 million and increased the Company's OCI by C$9.5 million.

The above sensitivity analyses relate solely to the financial instruments and non-financial derivatives that were outstanding as at December 31, 2010 and December 31, 2009; these analyses do not reflect the overall effect that changes in the US$/C$ exchange rate would have on the Company's results of operations.

Commodity price risk

HudBay is exposed to market risk from prices for the commodities the Company produces and sells, such as zinc, copper, gold and silver. From time to time, the Company maintains price protection programs and conducts commodity price risk management through the use of derivative contracts.

Based on HudBay's financial instruments and non-financial derivatives outstanding as at December 31, 2010, the Company's net earnings and OCI had significant market risk sensitivity to reasonably possible changes in base metal prices. If copper prices at December 31, 2010 had been higher by US$0.30/lb. with all other variables held constant, net earnings would have been $2.1 million higher due to the mark-to-market effect on the Company's embedded provisional pricing derivatives. A downward change of US$0.30/lb. would have decreased the Company's net earnings by $2.1 million.

If zinc prices at December 31, 2010 had been higher by US$0.10/lb. with all other variables held constant, after-tax OCI would have been $2.7 million lower due to the mark-to-market effect on the Company's commodity swap hedges. A downward change of US$0.10/lb. would have increased the Company's after-tax OCI by $2.3 million.

If copper prices at December 31, 2009 had been higher by US$1.50/lb. with all other variables held constant, 2009 net earnings would have been $2.3 million higher due to the mark-to-market effect on the Company's embedded provisional pricing derivatives. A downward change of US$1.50/lb. would have increased the Company's 2009 net earnings by $2.3 million.

If zinc prices at December 31, 2009 had been higher by US$0.50/lb. with all other variables held constant, 2009 after-tax OCI would have been $2.3 million lower due to the mark-to-market effect on the Company's commodity swap hedges. A downward change of US$0.50/lb. would have decreased the Company's 2009 net earnings by $18.7 million.

The above sensitivity analyses relate solely to financial instruments and non-financial derivatives that were outstanding as at December 31, 2010 and as at December 31, 2009; these analyses do not reflect the overall effect that changes in copper and zinc prices would have on the Company's results of operations.

Share price risk

HudBay is exposed to market risk from share prices as the Company holds investments in Canadian listed mineral resource companies. These investments are made to foster strategic relationships in connection with joint venture agreements and for investment purposes. Management monitors the value of these investments for the purposes of determining whether to add to or reduce the Company's positions.

Based on HudBay's investments held as at December 31, 2010, the Company had significant market risk sensitivity to reasonably possible changes in share prices. If share prices at December 31, 2010 had been higher by 25% with all other variables held constant, after-tax OCI would have been $26.8 million higher. An equal change in the opposite direction would have decreased the Company's after-tax OCI by $26.8 million.

If share prices at December 31, 2009 had been higher by 50% with all other variables held constant, 2009 after-tax OCI would have been $11.7 million higher. An equal change in the opposite direction would have decreased the Company's 2009 after-tax OCI by $11.7 million.

The above sensitivity analyses relates solely to the investments that were held as at December 31, 2010 and as at December 31, 2009.

Interest rate risk

The Company is not exposed to significant interest rate risk other than cash flow interest rate risk on its cash and cash equivalents. The Company invests its cash and cash equivalents primarily in Canadian bankers' acceptances, deposits at major Canadian banks, or treasury bills issued by the federal or provincial governments. These investments are liquid, interest-bearing investments with original maturities of six months or less.

Based on HudBay's financial instruments outstanding as at December 31, 2010, the Company's net earnings had significant sensitivity to reasonably possible changes in interest rates. If interest rates at December 31, 2010 had been higher by 2% with all other variables held constant, net earnings would have been $10.5 million higher related mainly to the Company's cash and cash equivalents. A downward change to interest rates of 0.25% would have decreased the Company's net earnings by $1.3 million.

If interest rates at December 31, 2009 had been higher by 3.00% with all other variables held constant, 2009 net earnings would have been $16.7 million higher related mainly to the Company's cash, cash equivalents and short-term investments. A downward change to interest rates of 0.25% would have decreased the Company's 2009 net earnings by $1.4 million.

The above sensitivity analyses relate solely to financial instruments that were outstanding as at December 31, 2010 and December 31, 2009.

(ii) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its obligations. The Company has taken into account its own credit risk in determining the fair value of its financial assets and liabilities. The Company's maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative assets, on the balance sheet. Refer to note 18a.

The Company holds its cash and cash equivalents in low-risk, liquid investments and deposit accounts with major Canadian banks. The Company's short-term investment policy establishes minimum acceptable counterparty credit ratings for short-term investments. Management has a credit policy in place that requires the Company to obtain credit insurance from an investment grade credit insurance provider to mitigate exposure to credit risk in its receivables. The deductible and any additional exposure to credit risk is monitored and approved on an ongoing basis. Transactions involving derivatives are with counterparties the Company believes to be creditworthy. A deterioration of economic conditions could cause an increase in the rate of customer bad debts relative to historical experience, which may be mitigated by the credit insurance described above. The Company uses an allowance to provide for doubtful accounts receivable. During the year ended December 31, 2010, the allowance decreased by $35. As at December 31, 2010, less than 1% of the Company's trade accounts receivable were past due.

Three customers accounted for approximately 22%, 8% and 6%, respectively, of total revenue during the year ended December 31, 2010 (2009 - approximately 14%, 5% and 5%, respectively, of total revenue). One customer accounted for approximately 62% of total accounts receivable as at December 31, 2010. (2009 - 14%)

(iii) Liquidity risk:

Liquidity risk is the risk that the Company 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 Company's investment policy requires it to comply with a list of approved investments, concentration and maturity limits, as well as credit quality. The Company has not invested in asset-backed commercial paper. As at December 31, 2010, the Company had cash and cash equivalents of $901,693 (2009 - $886,814). Substantially all of the Company's financial liabilities and non-financial derivative liabilities mature within one year.

(c) Derivatives:

Fair value of derivatives, as presented on the balance sheet:

December 31, 2010	Non-hedge derivative zinc contracts	Cash flow hedging derivatives	Total
Derivative assets:			
Current portion	**$ 2,741**	**$ 1,072**	**$ 3,813**
Long-term portion (note 8)	**—**	**604**	**604**
	2,741	**1,676**	**4,417**
Derivative liabilities:			
Current portion (note 9)	**2,694**	**2,751**	**5,445**
Long-term portion	**—**	**1,633**	**1,633**
	2,694	**4,384**	**7,078**
Net derivative asset (liability)	**$ 47**	**$ (2,708)**	**$ (2,661)**

December 31, 2009	Non-hedge derivative zinc contracts	Cash flow hedging derivatives	Total
Derivative assets:			
Current portion	$ 974	$ 132	$ 1,106
Long-term portion (note 8)	—	258	258
	974	390	1,364
Derivative liabilities:			
Current portion (note 9)	748	2,755	3,503
Long-term portion	—	7,068	7,068
	748	9,823	10,571
Net derivative asset (liability)	$ 226	$ (9,433)	$ (9,207)

Non-hedge derivative zinc contracts

HudBay enters into fixed price sales contracts with zinc and zinc oxide customers and, to ensure the Company continues to receive a floating or unhedged realized zinc price, enters into forward zinc purchase contracts that effectively offset the fixed price sales contracts. Forward purchases and forward customer sales of zinc are recorded as derivatives. Gains and losses on these contracts are recorded in revenues, and cash flows are classified in operating activities. However, forward customer sales of zinc oxide do not qualify as derivatives.

At December 31, 2010, the Company held contracts for forward zinc purchases of 891 tonnes that related to non-derivative forward customer sales of zinc oxide. Prices ranged from US$1,722 to US$2,340 per tonne, and settlement dates extended out to one year in the future. In addition, the Company held contracts for forward zinc purchases of 6,198 tonnes that substantially offset forward customer zinc sales of 6,198 tonnes, which have been recorded as derivatives.

Embedded provisional pricing derivatives

The Company records embedded derivatives (presented in accounts receivable and accounts payable) related to provisional pricing in concentrate purchase, concentrate sale, anode 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 based on quoted market prices during the quotational period specified in the contract. The period between provisional pricing and final pricing is typically up to three months. At each reporting date, provisionally priced metal sales and purchases are marked to market based on the forward market price for the quotational period stipulated in the contract, with changes in fair value recognized in revenues for sales contracts and in operating expenses for purchase concentrate contracts. Cash flows are classified in operating activities. At December 31, 2010, the Company's net position consisted of contracts awaiting final pricing for purchases of 5,178 tonnes of zinc, sales of 6,236 tonnes of copper, sales of 10,740 ounces of gold and sales of 99,071 ounces of silver.

Cash flow hedges

During 2009, the Company entered into a foreign exchange swap contract to hedge foreign exchange risk for future receipts of US dollars and commodity swap contracts to hedge prices for a portion of future sales of zinc. These contracts will expire in mid-2012. The risk management objective for these hedging relationships is to mitigate the impact on the Company of fluctuating zinc prices and exchange rates. Cash flow hedge accounting has been applied to the hedging relationships. As at December 31, 2010, the zinc swap contracts have been recorded as hedging net derivative liabilities at their fair value of $4,384 (2009 - liability of $9,823) and the foreign exchange swap contract has been recorded as a hedging net derivative asset at its fair value of $1,676. (2009 - asset of $390)

For the year ended December 31, 2010, the Company recorded pre-tax net gains of $7,524 (2009 - losses of $9,038) to OCI for the effective portion of these cash flow hedges and recorded pre-tax net gains of $366 (2009 - losses of $876) in earnings for the ineffective portion. Ineffective gains and losses are included in gain (loss) on derivative instruments. The Company also reclassified pre-tax net gains of $1,179 from OCI to earnings as hedged anticipated zinc sales occurred (2009 - $0).

In 2007, the Company applied hedge accounting to commodity swap contracts used to hedge prices for a portion of future sales of zinc and copper. During 2008, the Company terminated its remaining zinc and copper commodity swap contracts. The related hedging relationships were discontinued prospectively, and related gains and losses in AOCI were reclassified to earnings as the remaining hedged anticipated future sales occurred. For the year ended December 31, 2010, the Company reclassified pre-tax net gains of $2,087 from OCI to earnings (presented in revenue) as hedged anticipated zinc sales occurred (2009 - gains of $8,012).

Of the $2,693 pre-tax losses in AOCI at December 31, 2010, pre-tax losses of $1,438 will be reclassified to earnings in the next twelve months. The remaining pre-tax losses of $1,255 will be reclassified to earnings in 2012.

The following commodity swaps have been classified as cash flow hedges:

Zinc swaps - US$ denominated contracts maturing in:	Volume (Metric Tonnes)	Weighted average price US$/MT	Fair value of derivative liability
2011	10,980	2,220	2,750
2012	6,405	2,220	1,634
			$ 4,384

(d) Financial instruments at fair value through earnings – changes in value:

Financial instruments and non-financial derivatives classified as fair value through earnings include non-hedge derivative zinc contracts, embedded derivatives relating to provisional pricing, and investments at fair value through earnings. For the year ended December 31, 2010, the total amount of change in fair value that has been recognized in earnings for these items was a net gain of $25,233 (2009 - net loss of $403).

19. Commitments

(a) Operating lease commitments:

The Company has entered into various lease commitments for facilities and equipment. The leases expire in periods ranging from one to six years. The aggregate remaining minimum annual lease payments required for the next five years are as follows:

2011	$ 2,210
2012	2,618
2013	2,902
2014	2,924
2015	2,486
Thereafter	11,512

(b) Buy-sell commitments:

The Company has an agreement to sell copper concentrates representing the majority of the Company's expected copper concentrate production through 2015. Payment for the concentrates is based on the market price of contained copper and precious metals following delivery of the concentrate, less fixed treatment and refining credits.

The Company also has an agreement to purchase zinc concentrates to be delivered to Flin Flon in amount sufficient to meet the majority of the Company's requirements in 2011 for third party purchased zinc concentrates.

Payment for these zinc concentrates is based on the market price of contained metal during a quotational period following delivery of the concentrate, less a fixed treatment credit. If the Company cannot process the contracted tonnage in a timely manner, management believes the Company will be able to negotiate alternate arrangements for the sale or diversion of the tonnage.

The Company relies partly on processing purchased concentrates to contribute to operating earnings by covering a portion of fixed costs. The continued availability of such concentrates at economic terms beyond the expiry of current existing contracts cannot be determined at this time.

(c) Other commitments and agreements:

(i) With respect to the Callinan Mines Limited claims, the Company is subject to a royalty payment of $0.25 per ton of ore milled and, if aggregate cash flow for the year and cumulative cash flow are positive, a net profits interest of 6 2/3% of the net proceeds of production. During 2007, cumulative cash flow became positive. Payments are made according to the terms of the agreement.

(ii) HBMS has a profit-sharing plan whereby 10% of HBMS's after-tax earnings (excluding provisions or recoveries for future income and mining tax) calculated in accordance with Canadian GAAP 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. An expense of $15,849 (2009 - $8,124) has been included in these financial statements.

(iii) In the normal course of operations, the Company provides indemnifications that are often standard contractual terms to counterparties in transactions, such as purchase and sale contracts, service agreements and leasing transactions. These indemnification provisions may require the Company to compensate the counterparties for costs incurred as a result of various events, including environmental liabilities, changes in (or in the interpretation of) laws and regulations, or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnification provisions will vary based upon the contract, the nature of which prevents the Company from making a reasonable estimate of the maximum potential amount that could be required to pay to counterparties. Historically, the Company has not made any significant payments under such indemnification provisions. Management estimates that there are no significant liabilities with respect to these indemnification provisions.

(iv) The Company has outstanding letters of credit in the amount of $59,335, of which $56,931 is supported by the revolving credit facility as described in note 8. $2,404 represents letters of credit provided by HMI Nickel, as described in note 19(c)(vii).

(v) In the normal course of operations, the Company negotiates exploration option agreements with other companies whereby the Company and its subsidiaries may either grant options or obtain options on exploration properties.

(vi) The Company's subsidiary, HBMS, has Collective Bargaining Agreements ("CBA") in place with its unionized Flin Flon/Snow Lake workforce. In 1998, HBMS entered into an Amending Agreement that prohibits strikes and lockouts and provides for binding arbitration through the negotiations of 2012 in the event that negotiated CBA settlements are not achieved.

(vii) As a result of the Company's acquisition of HMI Nickel on August 26, 2008, the Company became subject to additional commitments which are still in effect, as follows.

- CGN and Skye Resources (B.V.I.) Inc. entered into long-term agreements with subsidiaries of Duke Energy International LLC for the supply of electrical power and construction of a new power transmission line for the Fenix project and its interconnection with the Guatemalan transmission grid. Under the terms of the agreements, the Company provided a letter of credit of US$5,000 supported by a restricted bank deposit. On February 27, 2009, these agreements were cancelled. The agreements included cancellation costs of approximately US$2,000 which were paid in 2009 and the letter of credit was cancelled. These agreements also specified a contingent obligation to purchase certain transmission line development assets upon contract cancellation and these assets were purchased in 2009 at a cost of US$5,000.
- The Company has a contingent commitment to make payments to Vale Inco based on tonnages of ore mined from the mining licence areas at the Fenix project and, if a ferro-nickel plant is operated, to pay a sales agency fee and make certain payments on any ferro-nickel produced based on a net smelter return formula.

- The Company is required to provide bonds to the Government of Guatemala in respect of security for CGN's commitments under an approved Environmental Impact Assessments program. As at December 31, 2010, these bonds are supported by a letter of credit of US$2,404, which in turn is supported by a restricted bank deposit.

20. Contingencies

The Company and its subsidiaries are involved in various claims and litigation arising in the ordinary course and conduct of business. As the outcomes are uncertain, no amounts have been recorded in these consolidated financial statements. The significant claims and litigation matters are as follows:

(a) Statements of claim were filed against Saskatchewan Power Corporation ("SaskPower"), HBMS and Churchill River Power Company Limited ("CRP") on February 10, 1995, seeking an aggregate of $1 billion in compensatory damages and in excess of $100 million in punitive damages. These claims were filed in connection with the use and operation of the Whitesand Dam and the Island Falls Hydro Electric Station in Saskatchewan, which were transferred by CRP, formerly a wholly-owned subsidiary of HBMS, to SaskPower in 1981. Based on the current knowledge of management, the ultimate resolution of the claims will not be material to the Company's financial position.

(b) On December 20, 2004, a Statement of Claim was filed by the Peter Ballantyne Cree Nation against SaskPower, the Government of Canada and the Province of Saskatchewan. The action claims damages alleged as a result of the operation and use of the Whitesand Dam and Island Falls Hydro-Electric Station. HBMS and CRP have both been named as third parties in the action by SaskPower. It has come to HudBay's attention that CRP, a former subsidiary of HBMS that was dissolved, has been revived by SaskPower for the purpose of taking legal action against CRP for alleged breaches by CRP of its obligations under a certain Purchase and Sale Agreement made in 1981. At present, the resolution of the claims against CRP and HBMS is not reasonably determinable.

(c) On March 2, 2007, a Statement of Claim was issued in the Manitoba Court of Queen's Bench by Callinan Mines Limited against HBMS seeking declaratory relief, an accounting and an undisclosed amount of damages in connection with a Net Profits Interest and Royalty Agreement between HBMS and Callinan Mines Limited dated January 1, 1988. HBMS has retained legal counsel and the likelihood of success and materiality of this claim is not reasonably determinable. See note 19(c)(i) for more information.

21. Supplementary cash flow information

(a) Change in non-cash working capital:

	2010	2009	2008
Accounts receivable	**$(37,981)**	$ 16,049	$ 3,467
Income taxes receivable	**15,214**	—	—
Inventories	**9,434**	15,759	34,784
Accounts payable and accrued liabilities	**14,821**	(31,734)	(35,142)
Taxes payable	**31,849**	(18,465)	9,614
Prepaid expenses and other current assets	**(2,002)**	229	(301)
Interest payable	**—**	(156)	29
Deferred revenue	**24,405**	—	—
	$ 55,740	$(18,318)	$ 12,451

(b) Non-cash investing activities:

	2010	2009	2008
Non-cash additions:			
Property, plant and equipment	**$7,469**	$4,101	$3,063
Computer software	**434**	—	—

(c) Interest and taxes paid:

	2010	2009	2008
Supplementary cash flow information:			
Interest paid	**$ 306**	$ 285	$ 506
Taxes paid	**15,736**	39,158	42,811

22. Segmented information

HudBay is a Canadian diversified mining company. When making decisions on expansions, opening or closing mines, as well as day-to-day operations, management evaluates profitability by operating segment described below. Included in “HBMS” are the Company’s mines and metallurgical facilities in Manitoba, Saskatchewan, Michigan and Ontario. The HMI Nickel segment relates mainly to the Fenix nickel project. The “Other” segment consists of the Company’s Balmat operations, now on care and maintenance, and the HudBay Michigan subsidiary. Accounting policies for all segments are the same as those described in note 2.

	2010				
	HBMS	HMI Nickel	Other	Corporate activities	Total
Revenue from external customers	$778,818	$ —	$ —	$ —	$ 778,818
Operating	432,414	11,271	7,321	100	451,106
Depreciation and amortization	103,018	129	—	252	103,399
Other expense[1]	20,383	661	558	25,870	47,472
Earnings (loss) before the following:	223,003	(12,061)	(7,879)	(26,222)	176,841
Exploration	(16,076)	(1,683)	(11,731)	(332)	(29,822)
Other income (expense)	1,192	(9)	—	4,748	5,931
Earnings (loss) before interest and taxes	208,119	(13,753)	(19,610)	(21,806)	152,950
Interest income					5,155
Tax expense					(88,067)
Net earnings					70,038
Total assets[2]	710,319	379,774	9,056	1,073,937	2,173,086
Property, plant and equipment [2]	515,953	373,839	16,489	625	906,906
Additions to property, plant and equipment [3]	160,107	2,421	4,985	129	167,642

	2009				
	HBMS	HMI Nickel	Other	Corporate Activities	Total
Revenue from external customers	$719,253	$ 236	$ 1,233	$ —	$ 720,722
Operating	490,903	8,329	7,043	—	506,275
Depreciation and amortization	100,354	175	—	202	100,731
Other expenses[1]	23,690	2,234	825	44,359	71,108
Earnings (loss) before the following:	104,306	(10,502)	(6,635)	(44,561)	42,608
Exploration	(4,341)	(205)	(2,833)	(230)	(7,609)
Other income (expenses)	(309)	—	2,206	99,981	101,878
	—	—	—	—	—
Earnings (loss) before interest and tax	99,656	(10,707)	(7,262)	55,190	136,877
Interest income					4,591
Tax expense					(28,988)
Net earnings					112,480
Total assets [2]	504,584	388,450	5,446	1,134,206	2,032,686
Property, plant and equipment [2]	440,585	376,028	1,328	693	818,634
Additions to property, plant and equipment [3]	85,267	11,341	3,211	267	99,948

[1] Includes foreign exchange gains and losses, which fluctuate from period to period.
[2] Total assets do not reflect intercompany balances, which have been eliminated on consolidation.
[3] Represents cash additions to property, plant and equipment. For non-cash additions, see note 21.

The Company's revenue by significant product types:

	2010	2009	2008
Copper	**$380,847**	$354,196	$553,304
Zinc	**178,275**	172,846	176,785
Gold	**103,631**	103,034	93,872
Silver	**20,807**	35,538	27,595
Other	**108,153**	60,750	149,769
Less: treatment and refining charges	**(12,895)**	(5,642)	(19,431)
	$778,818	$720,722	$981,894

The above revenues include revenues from the sale of metal produced from purchase of concentrates of:

	2010	2009	2008
Copper	**$ 305**	$56,755	$143,032
Zinc	**46,266**	58,604	15,770
Gold	**—**	389	777
Silver	**—**	17,497	13,664

23. Interest and other income

	2010	2009	2008
Interest income	**$6,120**	$ 4,745	$27,174
Interest and financing expense	**(965)**	(154)	(957)
Gain on disposal of AFS investments	**2,124**	100,217	—
Other income	**1,044**	2,578	—
	$8,323	$107,386	$26,217

24. Subsequent Event

On January 10, 2011, the Company announced that it had entered into an agreement to acquire all of the outstanding common shares of Norsemont Mining Inc. ("Norsemont"). Norsemont is a Canadian mineral exploration and development company focused on its wholly-owned Constancia copper project in southern Peru. Holders of Norsemont shares were given the ability to elect, on an individual basis, to receive 0.2617 shares of HudBay and $0.001 in cash, $4.50 in cash, or a combination of cash and HudBay shares, subject to proration necessary to effect maximum aggregate cash consideration of $130 million.

On March 1, 2011, the Company acquired 104,635,351 common shares of Norsemont through the issuance of approximately 20.5 million of HudBay's common shares, valued at approximately $347,000 using the Company's closing share price on the Toronto Stock Exchange of $16.94 on March 1, 2011, and the payment of $118,524 in cash. As a result, the Company owns approximately 91% of Norsemont's issued and outstanding shares (calculated on a fully-diluted basis). The Company intends to proceed with a compulsory acquisition transaction to acquire the remaining shares of Norsemont that it does not already own or subsequently acquire before the expiry of HudBay's take-over bid. The Company is determining the effect of this acquisition on its consolidated financial statements.

25. Reconciliation to United States Generally Accepted Accounting Principles

HudBay prepares its consolidated financial statements in accordance with Canadian GAAP, which differ in certain material respects from accounting principles generally accepted in the United States of America ("US GAAP").

The following is the reconciliation for balance sheet items:

Consolidated summarized balance sheets

	2010	2009
Total assets under Canadian GAAP	**$2,173,086**	$2,032,686
Adjustments for:		
Capitalization of exploration costs (net of investment tax credits (j)) (a)	**(88,413)**	(32,779)
Depreciation and amortization (b)	**4,219**	(7,509)
Capitalization of start-up costs (c)	**(7,568)**	(1,924)
Pension (d)	**310**	353
Tax effect of US GAAP adjustments (g)	**11,405**	4,629
Total assets under US GAAP	**$2,093,039**	$1,995,456
Total liabilities under Canadian GAAP	**$ 424,105**	$ 332,897
Adjustments for:		
Pension (d)	**21,601**	1,214
Other employee future benefits (d)	**19,257**	3,988
Tax effect of US GAAP adjustments (g)	**(30,380)**	(11,596)
Total liabilities under US GAAP	**$ 434,583**	$ 326,503

	2010	2009
Total equity under Canadian GAAP	**$1,748,981**	$1,699,789
Adjustments for:		
Capitalization of exploration costs (a)	**(91,311)**	(35,555)
Depreciation and amortization (b)	**4,219**	(7,509)
Capitalization of start-up costs (c)	**(7,568)**	(1,924)
Pension (d)	**(21,290)**	(861)
Other employee future benefits (d)	**(19,257)**	(3,988)
Investment tax credits (j)	**2,898**	2,776
Tax effect of US GAAP adjustments (g)	**41,785**	16,225
Total equity under US GAAP	**$1,658,457**	$1,668,953

Balances in the equity section under US GAAP are as follows:

	2010	2009
Common shares	**$ 665,960**	$ 680,588
Additional paid in capital	**22,348**	24,736
Retained earnings	**953,326**	960,218
Accumulated other comprehensive income	**7,120**	2,106
	1,648,754	1,667,648
Non-controlling interests	**9,702**	1,305
Total equity under US GAAP	**$1,658,456**	$1,668,953

The following is the reconciliation for statement of earnings items:

Consolidated summarized statements of earnings	**2010**	2009	2008
Net earnings, under Canadian GAAP	**$ 70,038**	$ 112,480	$ 72,480
Adjustments for:			
Capitalization of exploration costs (a)	**(55,756)**	(20,810)	(14,745)
Depreciation and amortization (b)	**11,728**	4,106	(4,163)
Capitalization of start-up costs (c)	**(5,644)**	(1,924)	—
Investment tax credits (j)	**122**	1,250	1,526
Stock-based compensation (f)	**(124)**	172	(534)
Tax on share issue costs (e)	**362**	(2,141)	34
Tax effect of US GAAP adjustments (g)	**20,098**	9,288	4,637
Net earnings	**$ 40,824**	$ 102,421	$ 59,235
Net earnings attributable to:			
Shareholders of the Company	**$ 43,771**	$ 102,381	$ 59,702
Non-controlling interests	**(2,947)**	40	(467)
Net earnings	**$ 40,824**	$ 102,421	$ 59,235
Earnings per share under US GAAP			
Basic	**$ 0.29**	$ 0.66	$ 0.44
Diluted	**$ 0.29**	$ 0.66	$ 0.44
Weighted average number of common shares outstanding:			
Basic	**150,636,835**	153,460,823	135,902,627
Diluted	**151,336,399**	154,067,282	136,713,080

The statements of comprehensive income for the years ended December 31, 2010, 2009 and 2008 under US GAAP are as follows:

Consolidated summarized statements of comprehensive income	**2010**	2009	2008
Net earnings under US GAAP	**$ 40,824**	$102,421	$ 59,235
Other comprehensive income (loss), net of tax:			
Cash flow hedges:			
Effective portion of gains/losses	**7,524**	(9,038)	19,314
Reclassed to earnings	**(3,266)**	(8,012)	(843)
Tax effect	**(1,239)**	5,123	(6,099)
Available-for-sale investments:			
Gains/losses	**38,464**	139,016	(28,680)
Reclassed to earnings	**(2,163)**	(99,908)	3,196
Tax effect	**(4,068)**	(2,379)	(7)
Currency translation adjustments			
Gains/losses	**—**	(36)	291
Tax effect	**—**	13	(105)
Other employee future benefits	**(15,269)**	(3,234)	6,696
Pension	**(20,430)**	(28,618)	20,178
Tax effect	**5,461**	8,671	(6,336)
	5,014	1,598	7,605
Comprehensive income	**$ 45,838**	$104,019	$ 66,840
Comprehensive income attributable to:			
Shareholders of the Company	**$ 48,785**	$103,979	$ 67,307
Non-controlling interests	**(2,947)**	40	(467)
Comprehensive income	**$ 45,838**	$104,019	$ 66,840

Cash flows from operating activities, investing activities and financing activities for the years ended December 31, 2010 and 2009 under US GAAP are as follows:

Consolidated statements of cash flows	**2010**	2009	2008
Operating activities under Canadian GAAP	**$ 255,590**	$106,194	$ 246,706
Adjustments for:			
Capitalization of exploration costs (a)	**(55,756)**	(20,810)	(14,745)
Capitalization of start-up costs (c)	**(5,644)**	(1,924)	—
Investment tax credits (j)	**122**	1,250	1,526
Operating activities under US GAAP	**194,312**	84,710	233,487
Investing activities under Canadian GAAP	**(162,275)**	564,209	(733,325)
Adjustments for:			
Capitalization of exploration costs (a)	**55,756**	20,810	14,745
Capitalization of start-up costs (c)	**5,644**	1,924	—
Investment tax credits (j)	**(122)**	(1,250)	(1,526)
Investing activities under US GAAP	**(100,997)**	585,693	(720,106)
Financing activities under Canadian GAAP	**(75,610)**	118	(64,639)
Financing activities under US GAAP	**(75,610)**	118	(64,639)

a) Capitalization of exploration costs

Under U.S. GAAP, the Company is required to expense all costs prior to the completion of a definitive feasibility study which establishes proven and probable reserves. Under Canadian GAAP, costs subsequent to establishing that a property has mineral resources which have the potential of being economically recoverable, are capitalized. Under Canadian GAAP, the Company capitalized costs relating to the Lalor project prior to completion of a definitive feasibility study.

b) Depreciation and amortization

Under Canadian GAAP, the Company's amortization of capitalized mine development costs using the unit-of-production method is calculated using historical costs plus estimated future development costs required to access proven and probable reserves, amortized over the related proven and probable tonnes of ore reserves. For US GAAP purposes, amortization of capitalized mine development costs is calculated using historical capitalized costs incurred. Mine development costs that benefit the entire mine life are amortized over proven and probable reserves; however, the remainder of the mine development costs are amortized over the currently accessible proven and probable reserves to which these costs relate.

c) Capitalization of start-up costs

Under US GAAP, deferral and amortization of start-up costs is prohibited and therefore such costs are expensed as incurred. Under Canadian GAAP, the Company deferred certain costs related to the re-start of the Chisel North mine.

d) Pension and other employee future benefits plans

HudBay has adopted Statement of Financial Accounting Standards ("SFAS") No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans: an amendment of FASB Statements No. 87, 88, 106, and 132(R)", effective in 2006 for US GAAP purposes, as identified in Accounting Standard Codification ("ASC") Topic 715 "Compensation - Retirement Benefits". This standard requires recognition of the funded status of each defined benefit and other post-retirement benefit plan on the balance sheet. To achieve this, the Standard first required a one-time adjustment to accumulated other comprehensive income ("AOCI") as at December 31, 2006 such that all amounts not yet recognized in net periodic pension cost were recognized in AOCI. It also requires other comprehensive income ("OCI") in subsequent periods to include prior service (costs) credits and gains (losses) arising in subsequent periods, net of amounts amortized from accumulated other comprehensive income into net periodic pension cost. Under Canadian GAAP, prior service (costs) credits and actuarial gains (losses) are not recognized in OCI and are amortized to earnings. Expense amounts for HudBay's pension and other employee benefits plans continue to be identical under Canadian and US GAAP.

The Company's US GAAP adjustments for pension included one-time adjustments to AOCI upon adoption of this standard, consisting of an increase of $1,609 related to its pension plans and a decrease of $11,648 related to other employee future benefits plans, as well as adjustments to recognize prior service (costs) credits and actuarial gains (losses) arising during the year in OCI for pension and other employee future benefit plans.

The following summarizes the additional disclosures required and different pension-related amounts recognized or disclosed in the Company's accounts under United States GAAP:

	2010	2009	2008
Costs arising in the year:			
Service cost	**$ 6,603**	$ 6,021	$ 8,310
Interest cost	**17,075**	16,782	14,505
Expected return on plan assets	**(15,413)**	(15,316)	(15,659)
Plan amendments/prior service cost	**2,619**	2,618	4,107
Actuarial loss (gain)	**16**	(1,055)	(342)
Net periodic pension cost before termination benefits	**10,900**	9,050	10,921
Special termination benefits	**510**	3,050	—
Defined benefit net periodic pension cost	**11,410**	12,100	10,921
Defined contribution net periodic pension cost	**637**	666	1,247
Net periodic pension cost under United States GAAP	**12,047**	12,766	12,168
Net periodic pension cost under Canadian GAAP	**12,047**	12,766	12,168
Net periodic pension cost difference	**$ —**	$ —	$ —
Accrued benefit liability under Canadian GAAP	**(18,887)**	(28,963)	(45,816)
Accrued other comprehensive loss under United States GAAP, on a pre-tax basis	**(21,291)**	(861)	27,758
Net amount recognized in the consolidated balance sheets under United States GAAP	**(40,177)**	(29,823)	(18,058)

The following summarizes the additional disclosures required and different other employee future benefit-related amounts recognized or disclosed in the Company's accounts under United States GAAP:

	2010	2009	2008
Costs arising in the year:			
Service cost	**$ 2,610**	$ 3,163	$ 2,282
Interest cost	**5,753**	5,326	4,352
Actuarial loss (gain)	**—**	—	—
Net periodic other employee future benefit cost under United States GAAP	**8,363**	8,489	6,634
Net periodic other employee future benefit cost under CICA 3461	**8,363**	8,489	6,634
Net periodic other employee future benefit cost difference	**$ —**	$ —	$ —
Accrued benefit liability under Canadian GAAP	**(88,788)**	(82,973)	(76,797)
Accumulated other comprehensive loss under United States GAAP, on a pre-tax basis	**(19,257)**	(3,988)	(754)
Net amount recognized in the consolidated balance sheets under United States GAAP	**(108,045)**	(86,961)	(77,551)

e) Tax on share issue costs

Under US GAAP, tax benefits associated with share issue costs are recorded as a capital transaction when recognized in subsequent periods. Under Canadian GAAP, the Company recognizes in similiar circumstances the tax benefit related to future tax deductions associated with share issue costs in earnings. The Company has recorded a US GAAP adjustment to reclassify such tax benefits from earnings to share capital.

f) Stock-based compensation

The Company adopted ASC Topic 718 "Compensation - Stock Compensation" effective January 1, 2006. The adoption of ASC Topic 718 did not result in a material change in the Company's accounting for share based payments.

Under ASC Topic 718, entities are required to estimate the number of instruments for which requisite service is expected to be rendered and adjust the fair value to reflect estimated forfeitures at the date an option is granted. Under Canadian GAAP, the Company's policy is to accrue stock-based compensation expense as if all instruments granted were expected to vest and recognize the effect of actual forfeitures as they occur. The Company has recorded US GAAP adjustments to reflect the effect of estimating forfeitures.

g) Tax effect of US GAAP adjustments

Accounting for income taxes under Canadian and US GAAP is similar, except that income tax rates of enacted or substantively enacted tax law must be used to calculate future income tax assets and liabilities under Canadian GAAP, whereas only income tax rates of enacted tax law can be used under US GAAP. In the periods presented there was no difference in tax rates. The Company has recorded tax effects of all US GAAP adjustments as appropriate.

h) Stated capital reduction

Canadian GAAP allows for the reduction of the stated capital of outstanding common shares with a corresponding offset to deficit. This reclassification, which the Company made in 2004, is not permitted by US GAAP and would result in an increase in share capital and a decrease in retained earnings of $21,979. This US GAAP adjustment did not result in an overall change to equity.

i) Accounting for uncertainty in income taxes

Under US GAAP, effective January 1, 2007, the Company adopted the provisions of the Financial Accounting Standards Board ("FASB") Interpretation 48 ("FIN 48") "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109", as identified in ASC 740. This interpretation provides guidance on the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also prescribes a recognition threshold and a measurement methodology for a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

The adoption of ASC 740 did not affect the Company's consolidated financial position, results from operations or cash flows. In the event that the Company recognizes interest accrued related to unrecognized tax benefits, it will be recorded in interest expense. Any penalties will be recorded in general and administrative expense.

j) Investment tax credits

Under US GAAP, investment tax credits are recorded as a reduction of income tax expense. Under Canadian GAAP, the Company records investment tax credits as a reduction of capitalized exploration expenses or exploration costs in the statement of earnings. The Company has recorded a US GAAP adjustment to reclassify the investment tax credits from capitalized exploration expenses or exploration costs to income tax expense.

k) Exploration expenses

Under US GAAP, exploration expenses would have been included in "earnings before the following" in the consolidated statement of earnings.

l) United States accounting pronouncements adopted effective January 1, 2009:

i) Financial Instruments

In the second quarter of 2009, the Company adopted the provisions of ASC paragraph 820-10-65-4 (formerly FSP FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly") and ASC paragraph 320-10-65-1 (formerly FSP FAS 115-2, "Recognition and Presentation of Other-Than-Temporary Impairments"). The adoption of these standards did not have a material impact on the Company's consolidated financial statements.

ii) Subsequent events

The Company adopted the provisions of ASC Section 855-10-25 (formerly SFAS No. 165 “Subsequent Events”) effective for the quarter ended June 30, 2009. The adoption did not have a material impact on the Company’s consolidated financial statements.

iii) Fair Value measurements

Effective January 1, 2009, the Company adopted ASC Subtopic 820-20 (formerly FSP FAS157-2 “Effective Date of FASB Statement No. 157”), which delayed the effective date of ASC 820 for non-financial assets or liabilities that are not required or permitted to be measured at fair value on a recurring basis to fiscal 2009. The adoption of this standard did not have a material impact on the Company’s consolidated financial statements.

iv) Business combinations and non-controlling interests

The Company adopted prospectively the provisions outlined in ASC 805 “Business Combinations” and ASC Subtopic 810-10 “Non-controlling Interests in Consolidated Financial Statements” for all business combinations with an acquisition date on or after January 1, 2009. The adoption of this standard did not have an impact on the Company as there were no business combinations completed since January 1, 2009.

v) Disclosures about derivative instruments and hedging activities

Effective January 1, 2009, the Company prospectively adopted the provisions of ASC Subtopic 815-10 (formerly SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133”). There were no additional disclosures required upon adoption of ASC Subtopic 815-10 that were not already incorporated into the Company’s Canadian GAAP financial statement disclosures for the year ended December 31, 2009. The adoption of ASC Subtopic 815-10 did not affect the Company’s accounting for derivative financial instruments.

vi) Determination of the useful life of intangible assets

Effective January 1, 2009, the Company prospectively adopted ASC Subtopic 350-30 (formerly FSP 142-3, “Determination of the Useful Life of Intangible Assets”), which did not have an impact on the consolidated financial statements.

vii) Determining whether an instrument (or embedded feature) is indexed to an entity’s common stock

Effective January 1, 2009, the Company adopted ASC Subtopic 815-40 (formerly EITF 07-5, “Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity’s Own Stock”), which did not have an impact on its consolidated financial statements.

viii) Accounting for convertible debt instruments that may be settled in cash upon conversion

Effective January 1, 2009, the Company applied, on a retrospective basis, the provisions outlined in ASC Subtopic 470-20 (formerly FSP No. APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Settlement)"). The adoption of this FSP did not have an impact on the Company's financial reporting.

ix) Non-controlling interests in consolidated financial statements

Effective January 1, 2009, the Company adopted ASC Subtopic 810-10 (formerly SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements — an amendment of ARB No. 51). ASC Subtopic 810-10 requires an entity to clearly identify and present ownership interests in subsidiaries held by parties other than the entity in the consolidated financial statements within the equity section but separate from the entity's equity. It also requires the amount of consolidated net income attributable to the parent and to the non-controlling interest be clearly identified and presented on the face of the consolidated statement of income; changes in ownership interest be accounted for similarly, as equity transactions; and when a subsidiary is deconsolidated, any retained non-controlling equity investment in the former subsidiary and the gain or loss on the deconsolidation of the subsidiary be measured at fair value. The presentation and disclosure requirements of ASC Subtopic 810-10 were applied retrospectively. The adoption of ASC Subtopic 810-10 had no impact on the consolidated financial statements other than the change in presentation of previously reported line items of non-controlling interests.

m) Recently issued accounting pronouncements

i) ASC

In July 2009, FASB's ASC became the single official source of authoritative, non-governmental GAAP in the United States. The historical GAAP hierarchy was eliminated and the ASC became the only level of authoritative GAAP, other than guidance issued by the Securities and Exchange Commission (the "SEC"). This guidance is effective for interim and annual periods ending after September 15, 2009. The Company's accounting policies are not affected by the conversion to the ASC. However, references to specific standards have been changed to refer to the appropriate sections of the ASC.

ii) Variable interest entities

In June 2009, the FASB issued Accounting Standards Update 2009-17 "Amendments to FASB Interpretation No. 46(R)" ("ASU 2009-17") (subsequently codified in ASC Topic 810). ASU 2009-17 is intended to address: the effects on certain provisions of ASC Subtopic 810-10 (formerly FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities"), as a result of the elimination of the qualifying special-purpose entity concept in Accounting Standards Update 2009-16 "Accounting for Transfers of Financial Assets - an amendment of FASB Statement No. 140" ("ASU 2009-16"); and concerns about the application of certain key provisions of ASC Subtopic 810-10, including those in which the accounting and disclosures under the Interpretation do not always provide timely and useful information about an enterprise's involvement in a variable interest entity. ASU 2009-17 was effective at the start of a Company's first fiscal year beginning after November 15, 2009, or January 1, 2010 for companies reporting earnings on a calendar year basis.

The adoption of ASU 2009-17 did not have an impact on the Company's financial reporting.

iii) Accounting for transfers of financial assets

In June 2009, the FASB issued ASU 2009-16. ASU 2009-16 amends ASC Topic 860 (formerly SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities"), by: eliminating the concept of a qualifying special purpose entity; clarifying and amending the derecognition criteria for a transfer to be accounted for as a sale; amending and clarifying the unit of accounting for sale accounting; and requiring that a transferor initially measure at fair value and recognize all assets obtained and liabilities incurred as a result of a transfer of an entire financial asset or group of financial assets accounted for as a sale. ASU 2009-16 was effective at the start of a company's first fiscal years beginning after November 15, 2009, or January 1, 2010 for companies reporting earnings on a calendar year basis. The adoption of ASU 2009-16 did not have an impact on the Company's financial reporting.

Exhibit 99.3

HudBay Minerals Inc.

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

For the Year Ended
December 31, 2010

March 9, 2011

HUDBAY MINERALS

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This Management's Discussion and Analysis ("MD&A") dated March 9, 2011 should be read in conjunction with the Company's audited consolidated financial statements and related notes for the year ended December 31, 2010, which have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Additional information regarding the Company, including its most recent Annual Information Form ("AIF"), is available on SEDAR at www.sedar.com. All figures are in Canadian dollars unless otherwise noted.

Unless the context otherwise suggests, references to "HudBay" or the "Company" or "we", "us", "our" or similar terms refer to HudBay Minerals Inc. and its subsidiaries. "HBMS" refers to Hudson Bay Mining and Smelting Co., Limited, "WPCR" refers to the White Pine Copper Refinery Inc. and "HMI Nickel" refers to HMI Nickel Inc., all wholly-owned subsidiaries of HudBay. "CGN" refers to Compañía Guatemalteca de Níquel, S.A., a 98.2%-owned subsidiary, held indirectly through HMI Nickel. "Norsemont" refers to Norsemont Mining Inc. ("Norsemont"), a 91% owned subsidiary.

FORWARD-LOOKING INFORMATION

This MD&A contains “forward-looking information” within the meaning of applicable Canadian and United States securities legislation. Forward-looking information includes, but is not limited to, information with respect to the Company’s intentions respecting Norsemont and its Constancia project, the Company’s ability to develop its Lalor project, the Back Forty project and 777 North expansion, the ability of management to execute on key strategic and operational objectives and meet production forecasts, exploration expenditures and activities and the possible success of such exploration activities, the estimation of mineral reserves and resources, the realization of mineral estimates, the timing and amount of estimated future production, costs of production, capital expenditures, estimate of salvage value, costs and timing of the development of new deposits, mineral pricing, reclamation costs, economic outlook, government regulation of mining operations, mine life projections, the ability to maintain a regular dividend on its common shares, the availability of third party concentrate for processing in HudBay’s facilities and the availability of third party processing facilities for HudBay’s concentrate, business and acquisition strategies and the timing and possible outcome of pending litigation. Often, but not always, forward-looking information can be identified by the use of forward-looking words like “plans”, “expects”, or “does not expect”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “understands”, “anticipates”, or “does not anticipate”, or “believes” or variations of such words and phrases or statements that certain actions, events or results “may”, “could”, “would”, “might”, or “will be taken”, “occur”, or “be achieved”. Forward-looking information is based on the opinions and estimates of management as of the date such information is provided and is subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of HudBay to be materially different from those expressed or implied by such forward-looking information, including the ability to develop and operate the Lalor, Constancia and Fenix projects on an economic basis and in accordance with applicable timelines, geological and technical conditions at Lalor differing from areas successfully mined by us in the past, the ability to meet required solvency tests to support a dividend payment, risks associated with the mining industry such as economic factors (including future commodity prices, currency fluctuations and energy prices), failure of plant, equipment, processes and transportation services to operate as anticipated, dependence on key personnel and employee relations, environmental risks, government regulation, actual results of current exploration activities, possible variations in ore grade or recovery rates, permitting timelines, capital expenditures, reclamation activities, land titles, and social and political developments and other risks of the mining industry as well as those risk factors discussed or referred to in HudBay’s AIF under the heading “Risk Factors”. Although HudBay has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. In addition, certain forward-looking information in this MD&A relate to prospective results of operations, financial position or cash flows based on assumptions about future economic conditions or courses of action. Such information is provided in attempt to assist the reader in identifying trends and anticipated events that may affect HudBay’s business, results of operations and financial position and may not be appropriate for other purposes. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information. HudBay does not undertake to update any forward-looking information, except as required by applicable securities laws, or to comment on analyses, expectations or statements made by third parties in respect of HudBay, its financial or operating results or its securities.

NOTE TO U.S. INVESTORS

This MD&A has been prepared in accordance with the requirements of the securities laws in effect in Canada, which differ from the requirements of United States securities laws applicable to U.S. companies. In addition, HudBay’s audited consolidated financial statements and related notes for the year ended December 31, 2010 are prepared in accordance with Canadian generally accepted accounting principles, and are subject to Canadian auditing and auditor independence standards, which auditing requirements, principles and standards are different from those of the U.S.

Information concerning the mineral properties of the Company has been prepared in accordance with the requirements of Canadian securities laws, which differ in material respects from the requirements of SEC Industry Guide 7. Under SEC Industry Guide 7, mineralization may not be classified as a "reserve" unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time of the reserve determination, and the SEC does not recognize the reporting of mineral deposits which do not meet the SEC Industry Guide 7 definition of "Reserve". In accordance with National Instrument 43-101 - Standards of Disclosure for Mineral Projects ("NI 43-101") of the Canadian Securities Administrators, the terms "mineral reserve", "proven mineral reserve", "probable mineral reserve", "mineral resource", "measured mineral resource", "indicated mineral resource" and "inferred mineral resource" are defined in the Canadian Institute of Mining, Metallurgy and Petroleum (the "CIM") Definition Standards for Mineral Resources and Mineral Reserves adopted by the CIM Council on December 11, 2005. While the terms "mineral resource", "measured mineral resource", "indicated mineral resource" and "inferred mineral resource" are recognized and required by NI 43-101, the SEC does not recognize them. You are cautioned that, except for that portion of mineral resources classified as mineral reserves, mineral resources do not have demonstrated economic value. Inferred mineral resources have a high degree of uncertainty as to their existence and as to whether they can be economically or legally mined. Under Canadian securities laws, estimates of inferred mineral resources may not form the basis of an economic analysis. It cannot be assumed that all or any part of an inferred mineral resource will ever be upgraded to a higher category. Therefore, you are cautioned not to assume that all or any part of an inferred mineral resource exists, that it can be economically or legally mined, or that it will ever be upgraded to a higher category. Likewise, you are cautioned not to assume that all or any part of measured or indicated mineral resources will ever be upgraded into mineral reserves. You are urged to consider closely the disclosure on the technical terms in Schedule A "Glossary of Mining Terms" of our AIF for the fiscal year ended December 31, 2010, available on SEDAR at www.sedar.com.

DOCUMENTS INCORPORATED BY REFERENCE

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this MD&A to the extent that a statement contained herein, or in any other subsequently filed document that also is incorporated or is deemed to be incorporated by reference herein, modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement will not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this MD&A after it has been modified or superseded.

OUR BUSINESS

HudBay Minerals Inc. (the "Company" or "HudBay") is a Canadian diversified mining company governed by the *Canada Business Corporations Act* with assets in North, Central and South America. Through its subsidiaries, HudBay owns copper/zinc/gold mines, ore concentrators and zinc production facilities in northern Manitoba and Saskatchewan, a zinc oxide production facility in Ontario, a nickel project in Guatemala and a copper project in Peru. HudBay produces copper concentrate (containing copper, gold and silver), zinc metal and zinc oxide. HudBay's shares are listed on the Toronto and New York stock exchanges under the symbol "HBM".

STRATEGY

We believe that the greatest opportunities for shareholder value creation in the mining industry are in the discovery of new mineral deposits and the development of new facilities to profitably extract ore from those deposits. We also believe that our long history of mining in northern Manitoba and our highly experienced workforce provide HudBay with a competitive advantage relative to other mining companies of similar scale.

To capitalize on these opportunities, our mission is to create sustainable value through increased commodity exposure on a per share basis, in high quality and growing long life deposits in mining friendly jurisdictions.

We intend to grow HudBay both through the exploration and development of properties we already control, such as our Lalor project in northern Manitoba, as well as through the acquisition of exploration and development properties such as Norsemont's Constancia project in Peru (in which we recently acquired a majority interest; see Recent Developments - Acquisition of Norsemont). We also intend to optimize the value of our producing assets through efficient and safe operations.

In order to ensure that any acquisitions we undertake create sustainable shareholder value, we have established a number of criteria for evaluating mineral property acquisition opportunities against our mission:

- 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 the Americas;
- We believe we have the greatest exploration and development expertise in volcanogenic massive sulphide ("VMS") and porphyry types of mineral deposits. While these types of deposits typically contain copper, zinc and precious metals in varying quantities, we are not targeting any one type of metal; rather, we focus on properties where we see the greatest opportunities for risk-adjusted returns based on our expectations for future metal prices;
- Any properties that we acquire must have excellent exploration potential. We believe that the markets for mining assets are sophisticated and fully value the delineated resources and reserves, especially at properties that are already in production which makes it difficult to acquire properties for substantially less than their fair value. However, markets may undervalue the exploration potential of prospective properties, providing us with an opportunity to create value through exploration on acquired properties;
- We believe that large, transformational mergers or acquisitions are risky and potentially value-destructive in the mining industry, so we will focus on transactions with a value of up to approximately 20% of our market capitalization, except where exceptional opportunities present themselves;
- Before we make an acquisition, we will develop a clear understanding of how we can add value to the acquired property. We intend to add value through the application of technical exploration or development expertise, the provision of needed financial capacity, or a combination of these factors and other opportunities; and
- Acquisitions should be accretive to HudBay on a per share basis. Given that our strategic focus will be on the acquisition of non-producing assets at various stages of development, when evaluating accretion we will consider measures such as net asset value per share and the contained value of reserves and resources per share.

Our key strategic objectives for 2011 and early 2012 are to:

- Advance the Lalor project, including advancing construction on the production and ventilation shafts, additional exploration from surface to evaluate opportunities along strike and in the periphery of the deposit, completing an optimization study, and making a decision on whether to construct a new concentrator near the Lalor headframe or whether to refurbish our Snow Lake concentrator;
- Continue to advance the exploration and development of the Constancia project, including building a project team and continuing with efforts to optimize the project, so that we can make a construction decision early in 2012;
- Manage the upcoming closures of the Trout Lake and Chisel North mines;
- Expand our grassroots exploration program in the Flin Flon Greenstone Belt and continue to partner with junior mining companies to access promising exploration opportunities;

- Utilize the recently completed feasibility study to assist in evaluating options for advancing the Fenix project;
- Advance the Back Forty and Reed Lake projects towards completion of economic assessments and required permit applications; and
- Identify and carry out one or more acquisitions of projects that meet our acquisition criteria described above.

2010 RESULTS SUMMARY

Our 2010 financial results reflected a continuation of the strong recovery in metal prices that began in 2009 and continued throughout 2010. Continued growth in China and other developing economies and continuing efforts by the world's major central banks to support economic recovery in developed economies provided robust fundamentals for base and precious metal price appreciation.

Operational performance was strong again in 2010. Our 777 mine produced at full capacity with strong copper grades. We completed the closure of our copper smelter and refinery, and managed the challenges associated with late-stage mining operations at our Trout Lake and Chisel North mines. Production of contained metal in concentrate met our production targets for 2010, although our sales of copper concentrate lagged production due to limited rail car availability.

We made substantial progress on our Lalor project, with Board approval of a $560 million commitment to full development of the mine, and we significantly advanced on the underground ramp to Lalor from the Chisel North mine. We also strengthened our management team with the appointment of David Garofalo as President and Chief Executive Officer ("CEO") and several other key management appointments.

During 2010 we generated net earnings of $73.0 million and operating cash flow of $199.9 million (not including changes in working capital). We reinvested our cash flow into investments in Lalor and other growth opportunities, share repurchases and the establishment of a common share dividend. In addition, we maintained our financial strength throughout 2010 by arranging a US$300 million credit facility and ending the year with cash and cash equivalents of $901.7 million and no debt.

HUDBAY MINERALS

KEY FINANCIAL AND PRODUCTION RESULTS

Financial Condition ($000s)	**Dec 31 2010**	Dec 31 2009
Cash and cash equivalents	**901,693**	886,814
Working capital	**902,522**	945,724
Total assets	**2,173,086**	2,032,686
Shareholders' equity	**1,739,279**	1,698,484

Financial Performance		Three Months Ended		Year Ended	
($000s except per share and cash cost per pound amounts)		**Dec 31 2010**	Dec 31 2009	**Dec 31 2010**	Dec 31 2009
Revenue		**183,280**	166,673	**778,818**	720,722
Earnings before tax and non-controlling interest		**41,606**	9,620	**158,105**	141,468
Net earnings attributable to shareholders		**24,493**	7,171	**72,985**	112,440
Basic and diluted net earnings per share		**0.16**	0.05	**0.48**	0.73
EBITDA [1]		**71,745**	40,571	**280,240**	143,339
Operating cash flow [1 2]		**59,927**	33,624	**199,850**	124,512
Operating cash flow per share [1 2]		**0.40**	0.22	**1.33**	0.81
Cash cost (on a co-product basis) [1]					
Copper	*($/pound)*	**1.39**	—	**1.46**	—
Zinc	*($/pound)*	**0.87**	—	**0.90**	—
Gold	*($/troy oz)*	**345**	—	**383**	—
Cash cost per pound of zinc sold [1]		**US (0.42)**	US 0.09	**US (0.39)**	US (0.03)
Operating Highlights					
Production (HBMS contained metal in concentrate) [3]					
Copper	*tonnes*	**13,660**	11,215	**52,413**	48,397
Zinc	*tonnes*	**19,120**	21,239	**77,314**	78,722
Gold	*troy oz.*	**22,375**	22,350	**87,176**	92,201
Silver	*troy oz.*	**209,788**	248,195	**843,401**	1,004,624
Metal Sold					
Copper	*tonnes*				
Cathode & anodes		**50**	8,864	**31,795**	59,981
Payable metal in concentrate [5]		**8,543**	—	**15,407**	—
Zinc - refined [4]	*tonnes*	**27,200**	29,299	**104,941**	110,070
Gold	*troy oz.*				
Contained in slimes & anode		**1,948**	19,342	**55,868**	94,263
Payable metal in concentrate [5]		**13,458**	—	**25,239**	—
Silver	*troy oz.*				
Contained in slimes & anode		**21,082**	474,195	**789,305**	2,185,407
Payable metal in concentrate [5]		**121,270**	—	**217,534**	—

[1] Refer to page 52 for non-GAAP measures. Cash costs (on a co-product basis) have not been presented for 2009 as the smelter was in operation for all of 2009 and a portion of 2010.

[2] Before changes in non-cash working capital.

[3] Metal reported in concentrate is prior to refining losses or deductions associated with smelter terms.

[4] Zinc sales include sales to our Zochem facility of 8,914 tonnes in the fourth quarter of 2010. In the fourth quarter, Zochem had sales of 11,006 tonnes of zinc oxide.

[5] Concentrate was not sold in 2009 while the smelter was in operation.

RECENT DEVELOPMENTS

Acquisition of Norsemont Mining Inc.

On January 10, 2011, we announced that we entered into an agreement to acquire all of the outstanding common shares of Norsemont, together with the associated rights issued under Norsemont's stockholder rights plan. Holders of Norsemont's common shares were given the ability to elect consideration per Norsemont common share, on an individual basis, of 0.2617 common shares of HudBay and $0.001 in cash, $4.50 in cash, or a combination of cash (greater than $0.001 and not to exceed $4.50) and HudBay common shares, subject to rounding and proration necessary to effect a maximum aggregate cash consideration of $130 million.

On March 1, 2011, we acquired 104,635,351 common shares of Norsemont through the issuance of approximately 20.5 million of our common shares and the payment of $119 million in cash and we extended our take-over bid to holders of Norsemont common shares until March 15, 2011. As a result, we own approximately 91% of Norsemont's issued and outstanding shares (calculated on a fully-diluted basis). We intend to proceed with a compulsory acquisition transaction to acquire the remaining common shares of Norsemont that we do not already own or subsequently acquire before the expiry of our take-over bid.

Norsemont's principal asset is the Constancia copper project located in the Cuzco district of southern Peru. Norsemont recently completed and filed an optimized technical report as of February 21, 2011 which outlined an increase in reserves utilizing new long-term metal pricing and increasing and sustaining production throughput in the processing plant in the later years of the project.

The feasibility study contemplates an open pit mine feeding a processing plant at up to 70,000 tonnes per day for the estimated 15 year mine life. The average yearly metal production in concentrate for the life of mine is expected to be 85,000 tonnes of copper, 1,400 tonnes of molybdenum and 69 tonnes of silver. The initial project capital is estimated to be US$920 million with a life of mine average copper cost of US$0.93/lb. We are currently reviewing the work required to make a construction decision to optimize and advance the Constancia project. This review process is expected to be complete and a feasibility optimization and exploration program and budget will be provided by the end of March 2011.

Constancia Project Mineral Reserve Estimate February 21, 2010 [1]

Category	Tonnes (Millions)	Au (g/t)	Ag (g/t)	Cu (%)	Mo (g/t)
Proven	195	.04	3.5	0.42	120
Probable	177	.05	3.7	0.40	92
Total Reserves	372	.05	3.6	0.43	105

[1] The Mineral Reserve for the FSO study is based on Net Smelter Return ("NSR") cut-off since project revenue is derived from copper, molybdenum, silver and gold. For NSR evaluation, metal prices assumed were Cu $2.25/lb, Mo $14.50/lb, Ag $14/oz and Au $1,000/oz while average metal recovery to concentrates was Cu 89%, Mo 40%, Ag 80% to Cu concentrate and Au 60% to Cu concentrate.

Full Commitment to Development of Lalor Mine

On August 4, 2010, our board of directors made a full commitment to the development of our wholly owned Lalor project by authorizing the expenditures necessary to put the project into full production. Initial production from the access ramp is scheduled in the second quarter of 2012 and full production from the 985 meter production shaft is anticipated in late 2014. The project's estimated capital cost of approximately $560 million, which includes $59 million spent to December 31, 2010, is expected to fund full project development, including access to the gold and copper-gold zones. We intend to fully fund the project from our current cash resources and future cash flows.

We expect the remaining capital spending to occur over the 2011-2014 period as follows:

	(in $ millions)
2011	$ 163
2012	$ 135
2013	$ 120
2014	$ 83
Total	$ 501

Our current mine plan for Lalor contemplates the following:

- Full production of 3,500 tonnes of ore per day.
- The approved expenditure is intended to fully fund project development, including the extension of power and water facilities to the site, a 300 person camp, surface and underground construction at the mine site, including the completion of the access ramp, a production shaft and a ventilation shaft;
- We are presently conducting an optimization study to determine whether to refurbish our existing Snow Lake concentrator, as currently planned, or to construct a new concentrator at the mine site. The estimated capital cost for the project of $560 million does not include any incremental costs that may be incurred if a new concentrator is constructed.

Development and site construction have proceeded on schedule. The Lalor project has gone 440 days without a lost time accident and all safety systems are in place and working well. We continue to make significant progress on the planned 3,200 meter access ramp at the Lalor project, having advanced 1,750 meters from the Chisel North mine as at February 28, 2011. The ramp is intended to extend to the base of the ventilation shaft that is currently under development, with expected completion of the ventilation shaft in the second quarter of 2012. Ground conditions on the ramp have been good and water intersections have been minimal since the first quarter of 2010. In January 2011, we completed the temporary ventilation exhaust, a 435 meter bored raise, and we will construct the main fresh air fan and heater system this summer in preparation for the next heating season.

Surface site construction has proceeded on several fronts. The access road to the site is complete, the main surface exhaust raise site has been cleared, and construction on the 6.1 meter diameter ventilation raise has been started with civil work proceeding on the temporary hoist and head frame arrangement and development of the pre-sink for the shaft sinker.

All power poles for the site have been installed, and the line wiring is ongoing, with the temporary substation becoming operational at the end of February. Water lines for process water and discharge water are being placed and civil work on the pump stations is underway.

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

Procurement and tendering is ongoing. The main production hoist and man hoist have been ordered with the man hoist expected to be delivered in the first quarter of 2011.

We are continuing with the metallurgical testing of the Lalor ores, focusing on gold optimization. This includes variable testing on the primary grind, with and without a regrind circuit, as well as optimization of the reagent used and projected consumption.

Tradeoff studies that we have undertaken indicate that the Lalor orebody is likely sufficient to support the construction of a new concentrator. We are continuing to evaluate options for the capacity and flowsheet of a new concentrator, and we expect to be in a position to make a decision on whether to proceed with a new concentrator in mid-2011. The construction of a new concentrator is expected to result in a greater increase in our overall capital expenditure investment in Lalor than refurbishing the existing Snow Lake concentrator.

Revised Lalor Resource and Reserve Estimates

On August 4, 2010, we announced an updated NI 43-101 compliant mineral resource estimate for the base metal zone at Lalor, which increases the tonnage in the indicated resource category by 8.1% from the resource announced in October 2009.

Base Metal Zone Mineral Resource – May 1, 2010 [1]

Category	Tonnes (Millions)	Au (g/t)	Ag (g/t)	Cu (%)	Zn (%)
Indicated	13.3	1.6	24.9	0.66	8.87
Inferred	4.8	1.3	26.2	0.58	9.25

[1] Mineral resources that are not mineral reserves do not have demonstrated economic viability.

In-fill drilling completed between late 2009 and early 2010 has allowed gold zone 21 and a portion of gold zone 25 to be classified as inferred mineral resources in accordance with NI 43-101, as shown below:

Gold Zone Inferred Mineral Resource – May 1, 2010 [1]

Category	Tonnes (Millions)	Au (g/t)	Ag (g/t)	Cu (%)	Zn (%)
Inferred	5.4	4.7	30.6	0.47	0.46

[1] Mineral resources that are not mineral reserves do not have demonstrated economic viability. Capping of the gold grades was employed to avoid any disproportionate influence of random anomalously high gold grades on the average grade determination.

A revised conceptual estimate of the tonnes and grade of the remaining portion of the gold zone was also completed. The Lalor gold zone potential estimate is conceptual in nature and to date there has been insufficient exploration to define a mineral resource compliant with NI 43-101 and it is uncertain if further exploration will result in the target being delineated as a mineral resource.

Potential Gold Zone Conceptual Estimate – May 1, 2010

Tonnes (Millions)	Au (g/t) [2]	Ag (g/t)	Cu (%)	Zn (%)
5.1-6.1	4.3-5.1	23-27	0.2-0.4	0.2-0.4

[2] Capping of the gold grades was employed to avoid any disproportionate influence of random anomalously high gold grades on the estimate of the range of average grade.

On August 4, 2010, we also announced a new conceptual estimate of the tonnes and grade of the copper-gold zone. The Lalor copper-gold zone potential estimate is conceptual in nature and to date there has been insufficient exploration to define a mineral resource compliant with NI 43-101 and it is uncertain if further exploration will result in the target being delineated as a mineral resource.

Potential Copper-Gold Zone Conceptual Estimate – May 1, 2010

Tonnes (Millions)	Au (g/t)[2]	Ag (g/t)	Cu (%)	Zn (%)
1.8-2.2	5.8-7.0	18-22	3.2-4.0	0.2-0.3

[2] Capping of the gold grades was employed to avoid any disproportionate influence of random anomalously high gold grades on the estimate of the range of average grade

For detail on the key assumptions, parameters and methods used to estimate the mineral resources, and the basis on which the potential quantity and grade of the gold zone and copper-gold zone was determined, refer to “Lalor Project Supplementary Information” in our press release dated August 4, 2010.

We have completed a reserve estimate following the completion of a pre-feasibility study based on the indicated mineral resources at Lalor. Refer to “Estimated Mineral Reserves” for details of the estimated mineral reserve.

The copper-gold zone remains open, and we are continuing to test the extension of this zone with one drill from surface at Lalor. Two drills are currently testing targets on the periphery of the Lalor deposit to locate possible satellite deposits. We also intend to conduct extensive underground exploration at Lalor, including definition drilling on the gold zone and copper-gold zone, starting in late 2012 when ramp access reaches the deposit and exploration platforms are developed.

Back Forty Project

On November 29, 2010, Aquila Resources Inc. ("Aquila") filed an updated NI 43-101 compliant resource estimate including 17.9 million tonnes of measured and indicated mineral resources with nearly one million ounces of contained gold and 3.4 million tonnes of inferred mineral resources.

Back Forty November 29, 2010 Resource Table [1]

Category	Tonnes (Millions)	Au (g/t)	Ag (g/t)	Cu (%)	Zn (%)
Open Pit					
Measured	14.1	1.59	16.97	0.15	2.54
Indicated	2.1	1.53	32.80	0.41	1.17
Measured and indicated	16.2	1.58	19.00	0.18	2.36
Inferred	1.4	1.4	32.89	0.62	1.00
Underground					
Measured	0.8	1.67	25.83	0.24	3.45
Indicated	0.9	1.28	24.72	0.34	2.85
Measured and indicated	1.7	1.46	25.23	0.29	3.13
Inferred	2.0	1.22	18.34	0.32	2.64
Combined Open Pit and Underground					
Measured and indicated	17.9	1.57	19.6	0.19	2.44
Inferred	3.4	1.31	25.17	0.46	1.87

[1] Mineral resource estimate is from "Technical Report, Back Forty Deposit, Menominee County, Michigan" as filed on SEDAR by Aquila Resources Inc. on November 29, 2010.

On March 3, 2011, Aquila announced additional drill results from the Back Forty project, which included 12 meters of 15.29 g/t gold and 66.49 g/t silver in drill hole LK-484.

The high gold intercept from LK-484 occurs approximately 250 meters down dip of the previously modeled resource and is located approximately 32 meters northeast of a 6.23 meter, 6.39 g/t gold intercept in LK-479 (see the HudBay news release dated October 15, 2010 for more details). Two drills are focused on the exploration of the deep gold zone intersected in LK-484 12 referenced above. A third drill has been mobilized to test some high ranking electromagnetic targets within a kilometer east of the deposit.

Fenix Project

On March 31, 2010, we announced a new NI 43-101 compliant mineral resource estimate for our Fenix project in eastern Guatemala. As part of the completion of an updated feasibility study at the end of 2010, we prepared a revised reserve estimate for Fenix. Refer to "Estimated Mineral Reserves" on page 43 for details of the estimated mineral reserve.

In parallel with the work that took place in 2010 updating the Fenix feasibility study and mineral reserve estimate:

- We completed 7,000 meters of diamond drilling at the Fenix project in the second quarter and we incorporated the results into the new reserve estimate;
- We are evaluating other exploration opportunities in the project vicinity that would enhance the economics of Fenix;
- We are utilizing the updated feasibility study to assist in evaluating options for advancing the Fenix project; and
- The revised feasibility study incorporates a new power strategy for Fenix based on the generation of power from coal or petroleum coke at an on-site power plant, while retaining the option to consider supplemental power supply from the Central American power grid.

VMS Ventures Inc. ("VMS")

On July 6, 2010, HBMS entered into a joint venture agreement and four option agreements with VMS respecting our Reed Lake property and a series of adjacent mineral properties held by VMS in Manitoba's Flin Flon Greenstone Belt. Pursuant to the joint venture agreement, we have a 70% interest and VMS has a 30% interest in a joint venture respecting the Reed Lake property and the two claims immediately to the south. We are the operator of the joint venture with authority and discretion as to the exploration and potential development of the property and have exclusive rights to purchase and market the ore produced from the property. We will also provide full financing of VMS's proportionate share of the costs to develop the property, which will be repayable solely from VMS's share of cash flow generated from the project.

The option agreements grant us the right to earn a 70% interest in four adjacent claim parcels held by VMS. Upon making certain cash payments and meeting work commitments over two to three years, we will earn a 70% interest in the applicable property and a new joint venture will be formed between HudBay and VMS which will have substantially the same terms as the Reed joint venture. Any failure to make the required cash payments and work commitments with respect to a certain property will cause that property to revert to VMS but will not affect our option over the other properties. Two drills are currently drilling at the Reed Lake deposit: one drill is collecting metallurgical samples, and the other is scheduled to step out and test near deposit extensions and geophysical anomalies as part of the VMS joint venture. We intend to complete an NI 43-101 compliant resource estimate for the Reed Lake property in the first quarter of 2011.

Exploration

We continue to invest in exploration. In addition to the drilling activity referred to previously at the Lalor and Back Forty projects, one drill is operating in the vicinity of Flin Flon, Manitoba testing near mine geophysical targets and trends, and we are carrying out a continual underground exploration program out at the 777 mine. Another drill is testing regional geophysical anomalies south of Flin Flon.

One drill has completed work on the Lost property, which we optioned from Halo Resources Ltd. and we are compiling and interpreting the results.

777 North Mine Expansion Approved

On August 4, 2010, we announced plans to expand the 777 Mine. The 777 North expansion involves driving a ramp from surface to the 440 meter level to access mineral resources of 550,000 tonnes grading 1.5 g/t gold, 22.5 g/t silver, 1.0% copper and 3.6% zinc. These zones are connected to the underground workings of the 777 Mine. We estimate total capital costs for the expansion at approximately $20 million, with production expected to begin in 2012 at a rate of 330 tonnes per day, producing approximately 5,500 tonnes of copper metal and 20,000 tonnes of zinc metal over the six year life of the project.

Upon completion, the 777 North expansion will provide an additional egress from the mine and is expected to supply additional ore feed to the Flin Flon concentrator and zinc plant. It will also help to sustain employment in Flin Flon, as the Trout Lake mine reaches the end of mine life, and it facilitates the development of an underground exploration platform to evaluate additional exploration opportunities near the 777 mine.

Investment in Augusta Resource Corporation ("Augusta")

On August 23, 2010, we entered into a subscription agreement with Augusta providing for the purchase, on a private placement basis, of 10,905,590 units for a purchase price of $2.75 per unit for total consideration of $30 million. Each unit consists of one common share of Augusta and one-half of one common share purchase warrant of Augusta ("Warrants"). Each whole Warrant entitles us to acquire one common share of Augusta at an exercise price of $3.90.

We own and have control over 14,789,490 common shares of Augusta (approximately 11.0% of the issued and outstanding common shares) and 5,452,795 Warrants (representing approximately 13.6% of the issued and outstanding common shares of Augusta on a fully-diluted basis). Pursuant to the terms of the Warrants, the Warrants' expiry date was recently accelerated to March 21, 2011, and we currently expect to exercise the warrants prior to expiry at a cost of $21.3 million. Pursuant to the subscription agreement, Augusta has granted us the right to participate in future equity financings in the 24 months following closing of the transaction on a basis that would permit us to maintain our current percentage equity ownership in Augusta.

Normal Course Issuer Bid

On September 29, 2009, the Toronto Stock Exchange ("TSX") accepted our application for a normal course issuer bid ("NCIB"). The NCIB permitted us to purchase up to 13,655,000 of our common shares (representing approximately 10% of the public float) during the 12 month period from October 1, 2009 to September 30, 2010. We did not renew the NCIB upon its expiry on September 30, 2010. As at December 31, 2010, we had repurchased a total of 5,646,700 of our common shares at a cost of $68.3 million.

Management Team Strengthened with Key Appointments

On June 21, 2010, we announced the appointment of David Garofalo as President and CEO and to our Board of Directors, effective July 12, 2010. Most recently, Mr. Garofalo served as Senior Vice President, Finance and Chief Financial Officer with Agnico-Eagle Mines Limited, where he had been employed since 1998. Before joining Agnico-Eagle, Mr. Garofalo served as Treasurer and in various finance roles with Inmet Mining Corporation from 1990.

On August 4, 2010, we named Ken Gillis as Senior Vice President, Corporate Development, along with other changes to our existing senior management team intended to reflect current responsibilities and facilitate execution of our strategic plan. We have continued to build our management team with the recent hirings of vice presidents of human resources and corporate social responsibility.

Common Share Dividend Paid

On September 30, 2010, a semi-annual dividend in the amount of $0.10 per common share was paid to shareholders of record as of September 15, 2010. On March 9, 2011, a semi-annual dividend in the amount of $0.10 per common share was declared with a record date of March 21, 2011 and a payment date of March 31, 2011.

New York Stock Exchange ("NYSE") Listing

On October 22, 2010, our common shares commenced trading on the NYSE under the symbol "HBM". We intend to maintain our listing on the Toronto Stock Exchange.

Copper Smelter and WPCR

On June 11, 2010, our copper smelter in Flin Flon, Manitoba, ceased operations. Operations at WPCR ceased in July due to the smelter closure.

OUTLOOK

This outlook includes forward-looking information about HudBay's operations and financial expectations that is subject to risks, uncertainties and assumptions. The outlook and financial targets are for 2011 only. The information provided in this section is forward-looking, based on HudBay's expectations and outlook and shall be effective only as of the date the targets were originally issued on March 9, 2011. Refer to "Forward-Looking Information" on page 1. The overall outlook, including targets, and our performance is generally subject to various risks and uncertainties which may impact future performance and our achievement of these targets.

Copper, gold and silver prices have recovered substantially over the course of 2010 and are currently significantly higher than average prices in 2009. If these prices and current exchange rates are sustained during 2011 and our production, sales and cost performance are as expected, our operating financial results are likely to improve substantially over 2010 results. HudBay may update its outlook depending on changes in metals prices and other factors.

For our sensitivity to metal prices and foreign exchange rates, refer to "Sensitivity Analysis" on page 17.

Material Assumptions

Our 2011 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 prices for metals and foreign exchange rates are included in the "Commodity Markets" and "Sensitivity Analysis" sections of this MD&A.

2011 Domestic Mine and Mill Production (Contained Metal in Concentrate)

		2010 Actual	2011 Forecast
Copper	(tonnes)	52,413	40,000-55,000
Zinc	(tonnes)	77,314	70,000-90,000
Gold Equivalent [1]	(oz.)	101,233	95,000-120,000

[1] Gold equivalent production includes gold and silver production. Silver converted to gold equivalent at 60:1 ratio

Contained metal production in concentrate in 2011 is expected to be similar to 2010 as we expect reduced production at Trout Lake will be offset by a full year of production at Chisel North and higher production and copper grades at the 777 mine.

2010 contained concentrate metal production was consistent with our 2010 outlook.

2011 Exploration Plan

Exploration expenditures[1] ($ millions)	Capitalized	Expensed	Total
Flin Flon Greenstone Belt			
Near mine exploration	4	—	4
Reed Lake and Cold/Lost Lake	—	2	2
Grassroots exploration	1	22	23
Other	1	3	4
	6	27	33
Other opportunities			
Fenix	3	2	5
Back Forty	1	15	16
Yukon	—	2	2
Chile	—	2	2
Other areas	—	1	1
	4	22	26
Total Target	10	49	59

[1] All values are preliminary estimates, and actual expenditures may vary and will depend on several factors and may be subject to change.

Exploration expenditures of $59 million will support ongoing exploration near our existing mines and projects and fund grassroots exploration on properties we hold in the Flin Flon Greenstone Belt, Chile and the Yukon. Expenditures on the Back Forty project will support exploration initiatives as well as project engineering and environmental permitting activities. Depending on exploration success, we may commit additional funding to exploration at Lalor and other opportunities. We expect to incur additional amounts over and above the exploration expenditures noted above at the Constancia project.

The 2011 exploration plan in the Flin Flon Greenstone Belt includes additional drilling at the Lalor project with geophysical platform holes targeting potential satellite deposits and continued tracing of known exploration targets such as the Lalor copper-gold zone. We will also continue to explore within the 777 mine with an expenditure of approximately $3 million. A concentrated effort will be focused on following up on regional targets close to Flin Flon due to the available concentrator capacity in our Flin Flon operations.

Our exploration properties include approximately 400,000 hectares in the prolific Flin Flon Greenstone Belt of Manitoba and Saskatchewan. The Company has also optioned mineral properties to several other exploration companies as a means to leverage our expenditures in the Flin Flon Greenstone Belt. Pursuant to our option agreements with Halo Resources, we have acquired an option to earn up to a 67.5% interest in Halo's Cold and Lost properties in the Sherridon district of Manitoba. We are continuing our exploration efforts at Cold and Lost, and we intend to complete an NI 43-101 compliant resource estimate in the first quarter of 2011.

Beyond the Flin Flon Greenstone Belt, we are planning additional exploration at the Fenix property in Guatemala, our San Antonio copper project in Chile and our Tom/Jason zinc-lead-silver mineral deposits in the Yukon.

2011 Capital Expenditures

Capital expenditures ($ millions)	2011 Budget
Growth	
Lalor	163
777 North	8
Fenix	13
Total Growth capital	184
Sustaining	105
Total capital expenditure	**289**

We expect to invest approximately $289 million in capital expenditures in 2011, of which approximately two-thirds is allocated toward growth initiatives. Capital expenditures at Lalor are expected to total approximately $163 million, which includes sinking of the ventilation and production shafts, continuation of the ramp from Chisel North, concentrator refurbishment costs and mine site buildings and utilities. We recently awarded the construction contract for the Lalor ventilation shaft to J.S. Redpath.

An optimization study is ongoing for the Lalor project to determine whether to refurbish the existing Snow Lake concentrator, as currently planned, or to construct a new concentrator at the mine site. The Lalor capital expenditure projections above do not incorporate any incremental costs that may arise if a new concentrator is constructed. We expect to incur additional amounts over and above the capital expenditures noted above at the Constancia project. Refer to “Capital Expenditures” on page 30 for 2010 capital expenditures by mine and processing facility.

COMMODITY MARKETS

In addition to our production, financial performance is directly affected by a number of factors including metal prices, foreign exchange rates, and input costs including energy prices. In 2010, metal prices generally performed well, contributing to the increase in our financial performance compared to 2009.

The following market analysis has been developed from various information sources including research analyst reports and industry experts.

Copper

In 2010, the London Metal Exchange (“LME”) copper price averaged US$3.42 per pound, increasing over the second half of the year from a low of US$2.76 per pound in June to a high of US$4.42 per pound in December. Strong growth in copper demand from China and other markets, combined with the inability of copper mine supply to keep up with growing demand, were key factors in the movement of copper prices to historic highs in late 2010. After a sharp increase in LME inventories in the second half of 2009, inventories were steadily drawn down over the course of 2010, although not to the historic lows seen in the 2005-2008 period.

Copper prices will likely require a continuation of global economic growth to be sustained at current levels in the shorter term, but medium term supply-demand fundamentals for copper remain positive assuming continued strong copper demand from China and other developing countries.

Zinc

In 2010, the LME zinc price averaged US$0.98 per pound, with the price fluctuating in a range between US$0.73 per pound and US$1.22 per pound over the course of the year. While zinc demand grew significantly in 2010, mine and refinery production also grew substantially in response to higher zinc prices, leading to continued growth in LME inventories to levels near the historical highs seen in 2003 and 2004.

Continued strong economic growth globally will likely be needed to support current zinc prices over the next two years. However, third party forecasts for global zinc production highlight the expected closure of a number of major zinc mines starting in 2012 and an absence of new zinc projects to replace the lost production, which suggests a positive medium-term outlook for zinc prices.

Gold

Gold prices averaged US$1,225 per ounce during 2010. The gold price appreciated steadily over 2010, reaching US$1,420 per ounce by the end of the year. The price of gold has continued to benefit from concerns about the risk of rising inflation as a result of the aggressive monetary response to the global recession from the world's major central banks.

Silver

Silver prices averaged US$20.16 per ounce during 2010. As with gold, silver prices increased to a high at the end of the year reaching US$30.90.

Foreign Exchange

As revenues from our principal products are substantially denominated in US dollars, we are affected by fluctuations in the Canadian/US dollar exchange rate. In general, a stronger Canadian dollar causes our revenue, and therefore earnings, to decrease when our US dollar receipts are converted to Canadian dollars, because the majority of our operating costs are denominated in Canadian dollars. In addition, a stronger Canadian dollar may result in foreign exchange losses due to depreciation in the value of US dollar denominated cash balances.

The Canadian dollar traded in a relatively narrow band relative to the US dollar, reaching lows of approximately $1.07 per US dollar and highs of just above parity with the US dollar, where it ended the year.

HUDBAY MINERALS

SENSITIVITY ANALYSIS

Net Earnings Sensitivity

The following table displays the approximate impact of changes in metal prices and exchange rates on our 2011 net earnings.

		Change of 10%, as represented by:[1] [2]		Would change 2011 net earnings by [1] (C$ million)	Would change 2011 net earnings per share by [3] (C$/share)	
Copper [1]	*lb.*	US$	0.40	23.1	$	0.15
Zinc [1]	*lb.*	US$	0.10	10.1	$	0.07
Gold [1]	*troy oz.*	US$	130.00	6.2	$	0.04
Silver [1]	*troy oz.*	US$	2.50	0.8	$	0.01
Exchange Rates [2]	*US$1 to C$*	C$	0.10	40.5	$	0.27

[1] Based on exchange rate of US$1 to C$1.
[2] Based on metal prices of US$1.00/lb. zinc, US$4.00/lb. copper, US$1,300/oz. gold and $25.00/oz silver.
[3] Based on weighted average number of common shares outstanding of 149.4 million.

FINANCIAL REVIEW

Earnings increased in the fourth quarter of 2010

For the fourth quarter, net earnings attributable to common shareholders were $24.5 million, reflecting a $17.3 million increase from the fourth quarter of 2009. Net earnings of $73.0 million for 2010 reflected a decrease of $39.5 million from the same period in 2009. Significant variances affecting earnings compared to the same periods in 2009 are as follows:

(in $ millions)	Three Months Ended Dec 31, 2010	Year Ended Dec 31, 2010
Increase (decrease) in earnings components compared to same period in 2009:		
Revenues	**16.6**	**58.1**
Expenses		
Operating	**10.6**	**55.2**
Depreciation and amortization	**6.9**	**(2.7)**
General and administrative	**7.4**	**16.0**
Stock-based compensation	**(1.2)**	**(1.8)**
Accretion of asset retirement obligations	**0.5**	**0.1**
Foreign exchange loss	**(2.7)**	**9.3**
Exploration	**(7.0)**	**(22.2)**
Interest and other income	**1.1**	**(99.1)**
Gain (loss) on derivative instruments	**(0.2)**	**3.7**
Non-controlling interests	**3.0**	**3.0**
Future taxes	**(19.6)**	**(19.7)**
Current taxes	**1.9**	**(39.4)**
Increase (decrease) in net earnings attributable to common shareholders	**17.3**	**(39.5)**

Earnings were higher in the fourth quarter of 2010 due to sales prices of metals sold offset by higher exploration expenses and taxes. Earnings were lower in 2010 since we had recognized a gain of $99.9 million on sale of shares of Lundin Mining Corporation (“Lundin”) in 2009. However, this was offset by improvements in revenues, operating expenses and general and administrative expenses.

Revenue increased in the fourth quarter of 2010

Total revenue for the fourth quarter was $183.3 million, $16.6 million higher than the same quarter last year. 2010's total revenue was $778.8 million, $58.1 million higher than 2009. The increases were due to the following:

(in $ millions)	Three Months Ended Dec 31	Year Ended Dec 31
Metal prices		
Higher copper prices	**28.6**	**158.0**
Higher zinc prices	**3.7**	**62.3**
Higher gold prices	**7.6**	**27.0**
Sales volumes		
Lower copper sales volumes	**(2.8)**	**(103.1)**
Lower zinc sales volumes	**(5.1)**	**(10.1)**
Lower gold sales volumes	**(5.8)**	**(16.8)**
Other		
Stronger Canadian dollar	**(6.7)**	**(66.4)**
Other volume and pricing differences	**(2.9)**	**7.2**
Change in revenues compared to same period in 2009	**16.6**	**58.1**

Sales of copper, gold and silver contained in copper concentrate were adversely affected in the third and fourth quarters by the inability of our rail service provider to supply sufficient railcars to transport our concentrate production, together with weather-related shipping delays at port late in 2010.

Sales of copper concentrate in 2011 to our principal customer will be lower than previously expected following the exercise by that customer of a one-time option to reduce their 2011 purchases. While we expect to sell our remaining 2011 production and excess inventory to other customers in the spot market for concentrate, doing so will require additional railcar capacity than would be the case if our principal customer agreed to take its full allotment in 2011. We have made arrangements to lease additional rail cars, enabling us to transport current production and reduce excess inventory gradually. We expect to draw down and sell most of the excess inventory over the course of calendar 2011.

Under the terms of contracts with our concentrate suppliers and customers, our concentrate purchases and sales are "provisionally priced". For these contracts, 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, the fair value of the final purchase or sales price adjustment is re-estimated, and changes in fair value, metal weights and assays are recognized as adjustments to revenue (in the case of concentrate sales) or cost of sales (in the case of concentrate purchases). We recorded $12.7 million in net provisional revenue pricing adjustments in the fourth quarter of 2010 and $20.5 million for the 2010 year.

Our revenue by significant product types is summarized as follows:

(in $ millions)	Three Months Ended Dec 31 2010	Three Months Ended Dec 31 2009	Year Ended Dec 31 2010	Year Ended Dec 31 2009
Copper	**87.4**	64.2	**380.8**	354.2
Zinc	**44.1**	55.2	**178.3**	172.8
Gold	**22.8**	21.9	**103.6**	103.0
Silver	**4.8**	8.5	**20.8**	35.5
Other	**29.9**	17.8	**108.2**	60.8
Gross revenue	**189.0**	167.6	**791.7**	726.3
Less: treatment & refining charges	**(5.7)**	(0.9)	**(12.9)**	(5.6)
Revenue	**183.3**	166.7	**778.8**	720.7

In accordance with our accounting policy, we deduct concentrate treatment and refining charges paid to third parties from revenues for financial statement presentation.

Realized prices increased in the fourth quarter of 2010

		LME Q4 2010[2]	Realized prices[1] for three months ended Dec 31 2010	Realized prices[1] for three months ended Dec 31 2009	LME 2010[2]	Realized prices[1] for year ended Dec 31 2010	Realized prices[1] for year ended Dec 31 2009
Prices in US$							
Zinc[3]	*US$/lb*	**1.05**	**1.08**	1.02	**0.98**	**1.03**	0.79
Copper[3]	*US$/lb*	**3.92**	**4.56**	3.10	**3.42**	**3.55**	2.34
Gold	*US$/troy oz.*	**1,367**	**1,459**	1,081	**1,225**	**1,238**	950
Silver	*US$/troy oz.*	**26.43**	**33.25**	16.96	**20.16**	**20.03**	14.19
Prices in C$							
Zinc[3]	*C$/lb*	**1.06**	**1.10**	1.08	**1.01**	**1.06**	0.88
Copper[3]	*C$/lb*	**3.97**	**4.62**	3.29	**3.52**	**3.66**	2.68
Gold	*C$/troy oz.*	**1,385**	**1,479**	1,131	**1,262**	**1,278**	1,093
Silver	*C$/troy oz.*	**26.77**	**33.70**	17.91	**20.76**	**20.67**	16.26
Exchange rate	*US$1 to C$*		**1.01**	1.06		**1.03**	1.14

[1] Realized prices are before refining and treatment charges and only on the sale of finished metal or metal in concentrate. Realized prices for copper in 2010 reflect an average of prices realized for copper cathode and spent anode sales and sales of contained copper in concentrate. Realized prices for gold and silver in 2010 reflect an average of prices realized for precious metal slimes and spent anode sales and sales of contained gold and silver in concentrate.

[2] London Metals Exchange ("LME") average for zinc, copper and gold prices, London Spot US equivalent for silver prices. HudBay's copper sales contracts are primarily based on Comex copper prices.

[3] The realized components of our metal swap cash flow hedges resulted in a gain of US$0.01/lb. for zinc during the fourth quarter of 2010 (full year gain of US$0.01/lb. for zinc). Refer to "Base Metal Price Strategic Risk Management" on page 34.

The price, quantity and mix of metals sold, along with movements in the Canadian dollar, affect our revenue, operating cash flow and earnings. Revenue from metal sales can vary from quarter to quarter due to production levels, shipping volumes, and risk and title transfer terms with customers.

Outlook (see Forward-Looking Information - page 1)

Revenues will continue to be affected by the volume of purchased zinc concentrates and the market prices of zinc, copper, gold and silver, together with fluctuation of the US dollar exchange rate compared to the Canadian dollar. Average market prices for zinc and copper in 2011 to date have been higher than average prices in 2010. If this trend continues, it will positively impact revenues in 2011 as compared to 2010.

In addition, the sale of excess copper concentrate inventory in 2011 is expected to result in higher copper and gold sales quantities in 2011 compared to 2010, assuming that we achieve our production objectives and obtain sufficient rail car capacity.

Operating expenses decreased in the fourth quarter of 2010

	Three Months Ended		Year Ended	
($000s)	**Dec 31 2010**	Dec 31 2009	**Dec 31 2010**	Dec 31 2009
Non-GAAP detailed operating expenses [1]				
Mines				
777	**15,211**	15,763	**54,364**	58,897
Trout Lake	**7,978**	10,896	**35,788**	36,391
Chisel North[2]	**5,805**	—	**16,272**	2,436
Concentrators				
Flin Flon	**6,882**	6,026	**24,025**	21,642
Snow Lake	**1,640**	—	**4,925**	1,090
Metallurgical plants				
Zinc plant	**19,210**	19,240	**74,395**	70,141
Copper smelter	**—**	12,587	**20,896**	47,902
WPCR	**—**	3,249	**7,276**	12,561
Other				
Purchased concentrate treated	**17,651**	26,843	**43,984**	116,783
Anode freight & refining	**65**	769	**3,336**	6,373
Services & administration	**11,125**	11,313	**40,921**	39,823
HBMS employee profit sharing	**5,252**	1,766	**15,849**	8,124
Net profits interest	**8,213**	4,204	**22,059**	14,658
Other [3]	**15,045**	13,862	**61,947**	52,764
Changes in domestic inventory [4]	**(21,529)**	(22,303)	**13,751**	8,471
HMI Nickel	**2,753**	1,724	**11,318**	8,219
Total operating expenses	**95,301**	105,939	**451,106**	506,275

[1] Refer to “Non-GAAP Measures” on page 52.

[2] During the first quarter of 2010, while Chisel North was undergoing start-up, all costs were initially capitalized. During the second quarter, we transferred $1.0 million from capital to operating expenses along with the related 11,703 tonnes of pre-production ore.

[3] Includes Zochem operating costs, care and maintenance costs for Balmat for 2010 and 2009 and Chisel North for 2009.

[4] A reduction of inventories requires recognition of additional operating expenses to reflect the cost of sales during the period. Conversely, an increase in inventories requires a negative adjustment to operating expenses.

For the fourth quarter of 2010, our operating expenses were $95.3 million, $10.6 million lower than the same quarter last year. In addition, 2010's full year of operating expenses was $451.1 million, $55.2 million lower than 2009. The decreases were due to the following:

(in $ millions)	Three Months Ended Dec 31	Year Ended Dec 31
Decreased volumes of purchased copper concentrate	**(7.3)**	**(65.8)**
Decreased volumes of purchased zinc concentrate	**(1.9)**	**(7.0)**
Smelter and refinery costs	**(15.8)**	**(32.3)**
Chisel North operating costs	**7.4**	**17.7**
Zochem zinc purchases	**3.0**	**17.6**
Other provisions, primarily related to smelter closure	**(0.8)**	**(3.8)**
Changes in domestic inventory	**0.8**	**5.3**
Higher profit sharing	**3.5**	**7.7**
Other operating expenses	**0.5**	**5.4**
Decrease in operating expenses compared to same period in 2009	**(10.6)**	**(55.2)**

Purchased copper concentrate volumes and direct smelter and refinery costs decreased due to the closure of the smelter. Some of these cost reductions were offset by concentrate treatment and refining charges payable to third parties, which are reduced from revenue in accordance with our accounting policies. Lower zinc concentrate purchases were more than offset by the addition of Chisel North operating costs and production in 2010.

We acquired our Balmat mine from a third party in 2003 for consideration that included a commitment to pay 30% of future net free cash flow from the Balmat operations to the vendor, up to a cap of US$25 million. The acquisition terms placed limitations on our ability to freely dispose of the Balmat assets pending full satisfaction of the purchase price. The vendor also remained responsible for certain environmental liabilities associated with Balmat. In the second quarter of 2010, we agreed with the vendor to settle the satisfaction of the purchase price and all other rights, claims, liabilities and causes of action between the parties with a payment of US$2.5 million from us and completed this transaction in the third quarter of 2010. We determined that it was appropriate to recognize an asset retirement obligation of $3.1 million associated with liabilities at Balmat in the second quarter. We expensed the full amount related to this obligation in operating expenses in the second quarter. Upon completing the settlement described above with the vendor in the third quarter, we recognized the US$2.5 million payment as property, plant and equipment based on the estimated salvage value of the assets. In the fourth quarter, we expensed an additional $1.5 million in operating expenses due to a revision in estimate.

Unit Operating Costs		Three Months Ended Dec 31 2010	Three Months Ended Dec 31 2009	Year Ended Dec 31 2010	Year Ended Dec 31 2009
Mines					
777	*$/tonne*	**41.77**	42.85	**36.53**	38.24
Trout Lake	*$/tonne*	**67.09**	67.24	**66.20**	53.57
Chisel North[1]	*$/tonne*	**85.97**	—	**71.52**	—
Total Mines [1]	*$/tonne*	**52.66**	50.31	**47.02**	40.88
Concentrators					
Flin Flon	*$/tonne*	**13.88**	11.04	**11.77**	9.63
Chisel North[1]	*$/tonne*	**27.23**	—	**24.35**	—
Metallurgical Plants					
Zinc Plant	*$/lb. Zn*	**0.343**	0.304	**0.337**	0.298
Copper Smelter[2]	*$/lb. Cu*	**—**	0.457	**0.478**	0.371
WPCR[3]	*US$/lb. Cu*	**—**	0.129	**0.112**	0.098

[1] Production at our Chisel North mine was suspended in early 2009, thus 2009 costs are not shown here. However, mining costs are reflected within the weighted average unit costs presented for total mines.
[2] The copper smelter was shut down in June 2010.
[3] Production at WPCR ceased in July 2010. The above figures reflect costs incurred from January to June as production in July was minimal.

For the fourth quarter, significant variances for 2010 versus 2009 were:

- **Depreciation and amortization** decreased by $6.9 million, totaling $20.8 million for the fourth quarter of 2010, primarily as the smelter and copper refinery had been shut down earlier in the year.
- **General and administrative** expenses decreased by $7.4 million, totaling $9.0 million for the fourth quarter of 2010. In 2009, general and administrative expense was higher mainly due to $6.9 million of severance costs for key management employees.
- **Stock-based compensation** increased by $1.2 million to $2.4 million in the fourth quarter of 2010 primarily related to expense of restricted share units (“RSUs”) issued during the 2010 year.
- **Foreign exchange** decreased by $2.7 million to a loss of $4.2 million in the fourth quarter of 2010. Foreign exchange represents changes in the Canadian dollar value of our foreign currency denominated operating accounts (including certain cash and cash equivalents, accounts receivable, accounts payable and derivatives) in response to changes in the value of the Canadian dollar relative to foreign currencies over the period. Our foreign currency denominated operating accounts are held primarily in US dollars and small amounts are held in Guatemalan quetzals. The value of the Canadian dollar relative to the US dollar increased over the fourth quarter of 2010, with exchange rates moving from $1.03 as at September 30, 2010 to $0.99 as at December 31, 2010, resulting in a foreign exchange loss of $4.2 million in the fourth quarter of 2010. Over the same period in the prior year, the value of the Canadian dollar increased, with exchange rates moving from $1.07 as at September 30, 2009 to $1.05 as at December 31, 2009, which resulted in a foreign exchange loss of $1.4 million in the fourth quarter of 2009.

- **Exploration expenses** increased by $7.0 million to $11.0 million for the fourth quarter of 2010, reflecting higher levels of exploration activity in line with our 2010 exploration plan and our commitment to the Back Forty project. Refer to “Capital Expenditures” on page 30 for information on capitalized exploration expenditures.

For the year, significant variances for 2010 versus 2009 were:

- **Depreciation and amortization** increased by $2.7 million, totaling $103.4 million for the 2010 year, primarily as a result of increases in depreciation rates for operating assets, including accelerated depreciation for the smelter and copper refinery, which were shut down late in the second quarter and early in the third quarter, respectively.
- **General and administrative** expenses decreased by $16.0 million, totaling $28.1 million for the 2010 year. The decrease resulted mainly from costs in 2009 related to the Lundin transaction, shareholder litigation, proxy solicitation and severance.
- **Stock-based compensation** increased by $1.8 million to $6.5 million for the 2010 year primarily due to the issuance of deferred share units (“DSUs”), RSUs and stock options during 2010.
- **Foreign exchange** improved by $9.3 million, to a loss of $8.5 million in 2010. The loss represents changes in the Canadian dollar value of our foreign currency denominated operating accounts (including certain cash and cash equivalents, accounts receivable, accounts payable and derivatives) in response to changes in the value of the Canadian dollar relative to foreign currencies over the period. Our foreign currency denominated operating accounts are held primarily in US dollars and small amounts are held in Guatemalan quetzals. The value of the Canadian dollar relative to the US dollar increased over the 2010 year, with exchange rates moving from $1.05 as at December 31, 2009 to $0.99 as at December 31, 2010, resulting in a foreign exchange loss of $8.5 million for the 2010 year. Over the same period in the prior year, the value of the Canadian dollar increased, with exchange rates moving from $1.22 as at December 31, 2008 to $1.05 as at December 31, 2009, which resulted in a foreign exchange loss of $17.8 million for the 2009 year.
- **Exploration expenses** increased by $22.2 million to $29.8 million for the 2010 year. The increase reflected higher levels of exploration activity in line with our 2010 exploration plan and our commitment to the Back Forty project. Refer to “Capital Expenditures” on page 30 for information on capitalized exploration expenditures.
- **Interest and other income** decreased by $99.1 million, mainly due to the gain of $99.9 million on the sale of Lundin shares recognized in the second quarter of 2009.
- **Gain (loss) on derivative instruments** increased by $3.7 million to a gain of $2.8 million in 2010 as we recognized gains on warrants of listed common shares.

Outlook

Operating expenses will continue to be affected by the volume of purchased zinc concentrates as well as production volumes. The sale of excess copper concentrate inventory will also be reflected in 2011 operating costs. Depreciation expense is expected to decline compared to the previous twelve months, as the accelerated depreciation from the closure of the smelter and refinery was largely completed by the end of the second quarter of 2010. General and administrative costs are expected to increase modestly over the remainder of 2011 from 2010 levels due to increased corporate and business development activities.

Tax Expense

Tax expense for the 2010 year decreased earnings by $59.1 million (fourth quarter - $17.7 million), compared to the same period in 2009.

	Three Months Ended		Year Ended	
($000s)	**Dec 31 2010**	Dec 31 2009	**Dec 31 2010**	Dec 31 2009
Non-cash - income tax expense [1]	**5,546**	(4,747)	**14,029**	(887)
Non-cash - mining tax expense [1]	**2,589**	(6,714)	**7,852**	3,105
Total non-cash tax expense	**8,135**	(11,461)	**21,881**	2,218
Estimated current taxes payable - income tax	**6,493**	10,895	**39,759**	24,102
Estimated current taxes payable - mining tax	**5,321**	2,821	**26,427**	2,668
Total estimated current taxes payable	**11,814**	13,716	**66,186**	26,770
Tax	**19,949**	2,255	**88,067**	28,988

[1] Non-cash tax expenses represent our draw-down/increase of non-cash future income and mining tax assets/liabilities.

Income Tax Expense

Our effective income tax rate for the 2010 year was approximately 34.0% (fourth quarter - 28.9%). As a result, we recorded income tax expense of $53.8 million (fourth quarter - $12.0 million) for the full year.

Significant items causing our 2010 effective income tax rate to be higher than the 30% statutory income tax rate include:

- Our US operations recorded losses of $31.9 million (fourth quarter - $5.1 million). These losses cause temporary differences, which result in a future tax asset. However, we have determined that we are not more likely than not to realize the benefit related to these future tax assets; accordingly, we have increased our valuation allowance, which offsets the future tax asset. The net effect is an increase to our effective tax rate because we have recorded a loss for accounting purposes but not recorded a corresponding tax benefit.
- Our Guatemalan operations realized a loss of approximately $7.0 million (fourth quarter - loss of $0.9 million). In Guatemala, there are two tax regimes for income tax purposes; the “general tax regime” applies tax at a rate of 5% of gross revenue, and the “alternative tax regime” subjects the net taxable income of CGN to a tax at a rate of 31%. Guatemalan companies have the option of electing on an annual basis to be taxed under the “alternative tax regime” for the following year. It is our view that CGN will pay tax under the “general tax regime” when temporary differences reverse. As the “general tax regime” applies tax on gross revenue, the reversal of temporary differences will not result in future cash outflows. Consequently, no future taxes have been recognized with respect to our Guatemalan operations. The net effect is an increase to our effective tax rate because we have recorded an expense for accounting purposes but not recorded a corresponding tax benefit.

- We increased our valuation allowance by approximately $5.0 million with respect to increases in temporary differences realized in the 2010 year (fourth quarter - increase of $3.8 million) that relate to obligations associated with mine closure.
- In the fourth quarter, the Company resolved a dispute with the taxation authorities related to the 1994 taxation year. As part of the settlement agreement, the Company was permitted to amend a number of its historical tax returns. The net impact of the settlement and related tax return amendments was a recovery of tax of $5.5 million.

Mining Tax Expense

The Province of Manitoba imposes mining tax on net earnings related to the sale of mineral products mined in Manitoba (mining taxable profit) at the following rates:

- 10% of total mining taxable profit if mining profit is $50 million or less;
- 15% of total mining taxable profit if mining profits are between $55 million and $100 million; and
- 17% of total mining taxable profit if mining profits exceed $105 million.

We have accumulated mining tax pools over the years and recorded the related benefits as future mining tax assets. We estimate that the tax rate that will be applicable when temporary differences reverse will be 17%.

For the 2010 year, our effective rate for mining taxes was approximately 21.7% (fourth quarter - 19.0%) For the 2009 year, mining taxes were approximately 4.1% on earnings before tax. Effective mining tax rates can vary significantly based on the composition of our earnings and the expected amount of mining taxable profits. The effective mining tax rate for 2009 was significantly lower than 2010 as a result of lower estimated mining taxable profit in 2009 which resulted in mining taxable profit being taxed at the 10% rate rather than the 17% rate which is applicable in 2010. In addition, the exclusion of certain amounts, including the gain on the disposition of the Lundin shares, from the calculation of mining taxable profit also reduced mining taxable profit in 2009. The fourth quarter tax rate was lower than the tax rate for the 2010 year as a result of revisions to our estimates of 2010 mining taxable profits.

TREND ANALYSIS AND QUARTERLY REVIEW

The following table sets forth selected consolidated financial information for each of our eight most recently completed quarters.

	2010				2009			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	($000s)							
Revenue	183,280	163,367	191,851	240,320	166,673	194,608	197,657	161,784
EBITDA[1]	71,745	55,465	69,596	83,434	40,571	58,769	28,397	15,602
Operating cash flow[1 2]	59,927	39,825	41,027	59,071	33,624	48,102	28,820	13,966
Earnings before tax	41,606	29,572	34,572	52,355	9,620	32,515	104,504	(5,171)
Net earnings	21,657	11,670	13,162	23,549	7,365	19,727	89,234	(3,846)
Earnings per share:								
Basic	0.16	0.08	0.09	0.15	0.05	0.13	0.58	(0.03)
Diluted	0.16	0.08	0.09	0.15	0.05	0.13	0.58	(0.03)

[1] Refer to “Non-GAAP Measures” on page 52.
[2] Before changes in non-cash working capital.

The price, quantity and mix, of metals sold, along with movements in the Canadian dollar, affect our revenue, operating cash flow and earnings. Revenue from metal sales can vary from quarter to quarter due to production levels, shipping volumes, and risk and title transfer terms with customers.

In 2010, we reported higher EBITDA and operating cash flow due to increased prices for zinc and copper, offset by decline in volumes and a stronger Canadian dollar. In comparison, our 2009 EBITDA and operating cash flow was lower as the global economy recovered from late 2008. A significant weakening of the Canadian dollar, which occurred at the same time as the decline in metals prices, partially offset this trend.

In the second quarter of 2009, we realized a gain of $99.9 million on the disposition of our interest in Lundin.

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

	2010	2009 ($000s)	2008
Revenue	**778,818**	720,722	981,894
Earnings before tax and non-controlling interests	**158,105**	141,468	168,603
Operating cash flow [1]	**199,850**	124,512	234,255
Net earnings attributable to common shareholders	**72,985**	112,440	72,947
Earnings per share:			
Basic	**0.48**	0.73	0.54
Diluted	**0.48**	0.73	0.54
Total assets	**2,173,086**	2,032,686	1,918,353
Total long-term financial liabilities [2]	**94,676**	90,176	102,361
Cash dividends declared per common share	**$ 0.10**	**$ —**	**$ —**

[1] Before changes in non-cash working capital. Refer to "Non-GAAP Measures" on page 52.
[2] Total long-term financial liabilities consist of non-current portions of pension obligations, other employee future benefits, obligations under capital leases, and fair value of derivative liabilities.

In 2010, our revenue, operating cash flow and earnings before tax were significantly higher primarily due to higher metal prices and a better economic climate compared to 2009.

FINANCIAL CONDITION, CASH FLOWS, LIQUIDITY AND CAPITAL RESOURCES

Financial Condition at December 31, 2010 compared to December 31, 2009

Cash and cash equivalents of $901.7 million as at December 31, 2010 reflected a $14.9 million increase from December 31, 2009. We have not invested in asset-backed commercial paper, and our cash equivalents are held in low-risk, liquid investments and deposit accounts with major Canadian banks. The increase in our cash and cash equivalents during 2010 resulted from positive operating cash flow, release of restricted cash and changes in non-cash working capital offset by capital expenditures, strategic investments, repurchase of shares and dividend payments.

Working capital decreased by $43.2 million to $902.5 million from December 31, 2009 to December 31, 2010. In addition to the higher cash and cash equivalents position, inventory decreased by $9.4 million as the build-up in copper concentrate inventory was more than offset by the reduction in copper and gold metals and the sale of anode inventories from 2009. Receivables increased by $38.0 million over the same period, primarily due to increased metal prices and the change of payment terms as we transitioned from sales of copper and gold to sales of concentrates. Zinc prices and increased zinc oxide sales also contributed to the increase. Payables increased due to Callinan NPI accruals and prior year adjustment, increased Lalor capital expenditures and higher profit sharing. We also recognized deferred revenue of $24.4 million related to two copper concentrate lots initiated in December 2010 that did not meet criteria for revenue recognition. Taxes payable increased by $33.1 million due to timing of payments and increased taxes in 2010 due to higher estimated taxable income.

During 2010, we repurchased 5,047,100 of our own shares at a cost of $63.3 million and reduced our share capital by $21.1 million, contributed surplus by $3.4 million and retained earnings by $35.8 million. In total, we repurchased 5,646,700 shares for approximately $68.3 million since the inception of the NCIB in 2009. We did not renew the NCIB upon its expiry on September 30, 2010.

The following table summarizes our cash flows for the three months and year ended December 31, 2010 and December 31, 2009.

($000s)	Three Months Ended		Year Ended	
	Dec 31 2010	Dec 31 2009	**Dec 31 2010**	Dec 31 2009
Net earnings for the period	**21,657**	7,365	**70,038**	112,480
Items not affecting cash	**38,270**	26,259	**129,812**	12,032
Net change in non-cash working capital items	**4,937**	6,008	**55,740**	(18,318)
Cash provided by operating activities	**64,864**	39,632	**255,590**	106,194
Cash used in investing activities	**(11,103)**	(33,347)	**(162,275)**	564,209
Cash (used in) provided by financing activities	**(2,751)**	1,619	**(75,610)**	118
Effect of exchange rate changes on cash and cash equivalents	**(1,056)**	(1,382)	**(2,826)**	(9,434)
Increase in cash and cash equivalents	**49,954**	6,522	**14,879**	661,087

Cash Flow from Operating Activities

Operating activities provided $64.9 million of cash flows in the fourth quarter of 2010, representing an increase of $25.2 million compared to the same period in 2009. This increase in 2010 compared to 2009 was due to various factors such as changes in non-cash working capital and higher copper prices.

In 2010, cash provided by operations was $255.6 million, reflecting an increase of $149.4 million from the same period in 2009. The overall increase is mainly due to higher copper and zinc prices in 2010 and changes in non-cash working capital. Significant changes in 2010 working capital included increases in accounts receivables of $38.0 million, inventories which decreased by $9.4 million, accounts payables which increased by $14.8 million and taxes payable which increased by $31.8 million.

Cash Flow from Investing and Financing Activities

During the fourth quarter of 2010, our investing and financing activities used cash of $13.9 million, primarily driven by capital expenditures of $53.8 million and the purchase of strategic investments of $12.3 million significantly offset by the release of restricted cash of $57.1 million. In the same quarter of 2009, our investing and financing activities used cash of $31.7 million, as we invested in capital expenditures of $36.2 million.

We used $237.9 million in investing and financing activities in 2010, due to capital asset additions of $167.6 million, repurchases of common shares of $63.3 million, strategic investments of $52.6 million and dividend payments of $14.9 million, partially offset by the release of restricted cash of $54.6 million. In 2009, our investing and financing activities provided cash of $564.3 million, as we disposed certain of our short term investments of $478.9 million and our interest in Lundin for proceeds of $235 million and invested in capital expenditures of $99.9 million and additions to restricted cash of $48.5 million.

Capital Expenditures

The following tables summarize additions to capital assets, which include $7.4 million (2009: $4.1 million) of non-cash additions.

	Three Months Ended		Year Ended	
(in $ millions)	**Dec 31 2010**	Dec 31 2009	**Dec 31 2010**	Dec 31 2009
Plant and Equipment	**10.5**	8.7	**54.0**	26.4
Capital Development	**8.2**	11.0	**37.4**	38.9
Capitalized Exploration	**38.1**	10.9	**81.5**	24.5
Capitalized Fenix project	**0.4**	0.1	**2.2**	14.3
Total	**57.2**	30.7	**175.1**	104.1

Our capital expenditures in the fourth quarter of 2010 were $26.5 million higher than the same period in 2009, mainly due to capital expenditures associated with Lalor.

	Three Months Ended		Year Ended	
(in $ millions)	**Dec 31 2010**	Dec 31 2009	**Dec 31 2010**	Dec 31 2009
777 Mine	**7.2**	5.2	**22.0**	21.5
Trout Lake Mine	**5.5**	4.7	**16.9**	21.9
Chisel North Mine	**1.5**	2.0	**10.1**	1.9
Balmat Mine and Concentrator	**—**	—	**2.6**	—
Flin Flon and Snow Lake Concentrators	**0.2**	0.6	**2.0**	2.1
Flin Flon and Snow Lake Other	**1.8**	1.7	**5.4**	3.9
Zinc Plant	**2.1**	1.7	**9.8**	5.4
Copper Smelter & WPCR [1]	**4.2**	5.1	**24.4**	10.8
Other	**—**	1.7	**3.7**	2.7
Sustaining capital expenditures	**22.5**	22.7	**96.9**	70.2
Lalor Project	**28.7**	7.9	**68.6**	19.6
Fenix Project	**0.4**	0.1	**2.2**	14.3
VMS	**2.6**	—	**2.6**	—
777 North	**3.0**	—	**4.8**	—
Growth capital expenditures	**34.7**	8.0	**78.2**	33.9
Total	**57.2**	30.7	**175.1**	104.1

[1] These amounts relate primarily to capital expenditures associated with the preparations for sales of concentrates.

Liquidity

On November 3, 2010, we entered into a credit agreement with a syndicate of banks for a new US$300 million revolving credit facility. The facility has an initial term of four years and is secured by a pledge of assets of the parent company and unconditionally guaranteed by our material subsidiaries. The facility contains customary limitations on our ability to make dividend and other payments to shareholders, none of which are expected to affect our ability to continue with the dividend policy currently in place. The facility also contains customary financial maintenance covenants, including minimum tangible net worth, debt to EBITDA and interest coverage, which we were in compliance with at December 31, 2010. At December 31, 2010, we had $56.9 million in letters of credit outstanding which would have had to be secured with cash and cash equivalents if the credit facility was unavailable.

Our cash and cash equivalents balance of $901.7 million and revolving credit facility provide a substantial cushion against unanticipated demands on liquidity.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The following table summarizes, as at December 31, 2010, certain of HudBay's contractual obligations for the period specified.

Payment Schedule	Total	Less than 1 Year	2 - 3 Years	4-5 Years	After 5 Years
			($000s)		
Operating lease obligations	24,652	2,210	5,520	5,410	11,512
Purchase obligations	20,074	19,924	100	50	—
Pension and other employee future benefits obligations	107,645	19,440	9,968	8,982	69,255
Asset retirement obligations [1]	138,836	6,467	6,206	2,386	123,777
Total	291,207	48,041	21,794	16,828	204,544

[1] Before inflation and market risk.

In addition to the contractual obligations included in the above payment schedule, HudBay also has the following commitments:

- Commitments to purchase zinc concentrates, with payments related to market prices over a quotational period;
- A profit-sharing plan with most HBMS employees;
- A royalty agreement and net profit interest agreements related to the 777 mine;
- Collective Bargaining Agreements in place with unionized Flin Flon/Snow Lake workforce that prohibit strikes and lockouts and provide for binding arbitration;
- A contingent commitment to make payments based on tonnages of ore mined at areas of the Fenix project and to pay a sales agency fee and net smelter return if a ferro-nickel plant is operated; and

- A requirement to provide security to the Government of Guatemala for commitments related to the Fenix project under an approved Environmental Impact Assessments program.

Additional details on the above commitments are available in notes 19b and 19c to our December 31, 2010 annual consolidated financial statements.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas where management's judgment is applied include ore reserve determinations used in amortization of certain property, plant and equipment, in-process inventory quantities and provision for inventory obsolescence, cost allocations for inventory, plant and equipment estimated economic lives and salvage values, assessment of impairment, ultimate realization of capitalized exploration costs, cost allocations for mine development, fair value of certain assets and liabilities, purchase price allocations, contingent liabilities, future income and mining tax assets and valuation reserves, interpretation of tax legislation, allocation of revenue and costs to non-Manitoba sourced ore for the purpose of computing Manitoba mining taxes payable, asset retirement obligations, stock-based compensation, pension obligations and other employee future benefits. Actual results could differ from those estimates by material amounts. These estimates are reviewed at least annually, and changes in estimates are reported in earnings in the period in which they became known.

Mineral Reserves and Resources

HudBay estimates mineral reserves and resources to determine future recoverable mine production based on assessment of geological, engineering and metallurgical analyses, estimates of future production costs, capital costs and reclamation costs, as well as long-term commodity prices and foreign exchange rates. Capitalized costs of mineral properties and mine development are amortized on a unit-of-production basis, based on related proven and probable mineral reserves.

Impairment

We review the carrying value of operating mines and plant and equipment for impairment when events or changes in circumstances indicate that the carrying amounts of related assets may not be recoverable. If total estimated future cash flows on an undiscounted basis are less than the carrying amount of the asset, we measure and record an impairment loss to write down the assets to fair value, which is normally the discounted value of future cash flows. Cash flows include the production of both mineral reserves and a portion of mineral resources based on management's best estimate of the most probable production profile. Cash flows are also dependent on estimates of future production costs, capital expenditures, salvage values, closure costs, reclamation costs as well as long term commodity prices and foreign exchange rates.

In-Process Inventories

In-process copper concentrates and zinc metal inventory quantities comprise a large part of our inventories by value and represent materials that are in the process of being converted into saleable product. HudBay measures in-process inventories based on assays of material received at metallurgical plants and estimates of recoveries in the production processes. We estimate the realizable value of in-process inventories at financial statement 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, an impairment charge is reported as part of current period operating costs to reduce the carrying value of the inventory.

Future Tax Assets and Liabilities

We use the asset and liability method of tax allocation for accounting for income taxes. Future income and mining tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities. Future 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. Future tax assets are reduced by a valuation allowance if it is more likely than not that some or all of the future tax assets will not be realized. We evaluate the carrying value of future tax assets on a quarterly basis and adjust the amount of the valuation allowance 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 future tax assets.

Asset Retirement Obligations

Asset retirement obligations are estimated based on environmental plans, in compliance with current environmental and regulatory requirements. We estimate and provide for decommissioning costs, and record a corresponding decommissioning asset, when a new mine or plant is placed into commercial production. Accretion expenses are accrued over the life of each associated operating mine or plant, such that at the end of the asset life the provision is equal to the balance estimated to be paid at that date. The decommissioning asset is amortized over the life of the related asset. Judgment is required to determine assumptions including credit adjusted risk-free rates, expected timing of decommissioning costs, inflationary factors and market risks. Changes in cost estimates result in offsetting changes to the asset and liability and corresponding changes to the associated amortization and accretion rates. 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.

Pensions and Other Employee Future Benefits

Our post-retirement obligations relate mainly to ongoing health care benefit plans. Obligations relating to these plans and pension plans are estimated based on actuarial determinations, which incorporate assumptions using management's best estimates of factors including plan performance, salary escalation, retirement dates of employees and drug cost escalation rates.

Estimates in Determining Fair Value of Assets and Liabilities

We record various financial assets, financial liabilities and derivatives at fair value. Fair values are based on quoted market prices, where available. If market quotes are not available, we use internal valuation models with market-based or independent information as inputs. These models could produce a fair value that may not be reflective of 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. Under the terms of these contracts, prices are subject to final adjustment at the end of a future period after title transfers based on quoted market prices during the quotational period specified in the contract. The period between provisional pricing and final pricing is typically up to three months. At each reporting date, provisionally priced metals are marked-to-market based on the forward market price for the quotational period stipulated in the contract, with changes in fair value recognized in revenues for sales contracts and in operating expenses for purchase concentrate contracts.

Where financial assets, other than those classified as fair value through earnings, show evidence of impairment, judgment is also required to conclude whether a decline in fair value is other than temporary. In making this assessment for available-for-sale investments, management considers the length and extent of a decline in fair value below its cost, the financial condition and environment of the issuer, and our ability and intention to hold the investment until its anticipated recovery.

Stock-Based Compensation

We use the fair value based method to account for the grant of stock options. Under this method, compensation cost attributable to options granted is measured at fair value at the grant date. To determine the fair value of options, we use a Black-Scholes option pricing model, which relies on estimates of the future risk-free interest rate, future dividend payments, future stock price volatility and the expected average life of the options.

RISK MANAGEMENT

From time to time we maintain price protection programs and conduct commodity price risk management to reduce risk through the use of financial instruments.

Base Metal Price Strategic Risk Management

Our strategic objective is to provide our investors with exposure to base metal prices, unless a reason exists to implement a hedging arrangement. We may hedge base metal prices from time to time to ensure we will have sufficient cash flow to meet our growth objectives, or to maximize debt capacity (and correspondingly minimize equity dilution) to the extent that third party financing may be needed to fund growth initiatives. However, we will generally prefer to raise financing for attractive growth opportunities through equity issuance if the alternative is to engage in a substantial amount of strategic metal price hedging. We may also hedge base metal prices to manage the risk of putting higher cost operations into production or the risk associated with provisional pricing terms in concentrate purchase and sales agreements.

In October 2009, we implemented a price protection program for the restart of our Chisel North mine. We entered into zinc commodity swap contracts with an average volume of approximately 2.0 million pounds of zinc per month for the period of May 2010 through July 2012, at an average price of approximately $1.01 per pound. This volume represents approximately 50% of the anticipated production from Chisel North. Hedge accounting was applied to these transactions.

Foreign Exchange Risk Management

In October 2009, we entered into foreign exchange forwards to hedge anticipated US dollar revenues. We agreed to sell US dollars and purchase C$1.45 million per month for the same period as the zinc swap contracts described above, at an average rate of approximately C$1.07 per US dollar. Hedge accounting was applied to these transactions.

For the 2010 year, we recorded pre-tax net gains of $7,524 (2009 - losses of $9,038) to other comprehensive income (“OCI”) for the effective portion of the cash flow hedges and recorded pre-tax net gains of $366 (2009 - losses of $876) in earnings for the ineffective portion. Ineffective gains and losses are included in gain (loss) on derivative instruments. We also reclassified pre-tax net gains of $3,266 from OCI to earnings as hedges were realized (2009 - gains of $8,012).

Zinc and Zinc Oxide Customer Risk Management

To provide a service to customers who purchase zinc and zinc oxide 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.

ENVIRONMENT, HEALTH AND SAFETY

The Environment

There were no significant environmental non-compliances during the year.

All producing operations have management systems certified to both OHSAS 18001 for occupational health and safety and ISO 14001 for the environment. In addition, the production and supply of HBMS' finished products are registered to the ISO 9001 quality standard.

In the third quarter of 2007, Manitoba Conservation issued a report on its study of surface soils in Flin Flon, Manitoba and Creighton, Saskatchewan. The report identified some sample levels of metal in soils that exceeded Canadian Council of Ministers of the Environment guidelines. The Flin Flon Soils Study was then initiated to assess the potential for any ongoing human health risk. The Flin Flon Soils Study was released in June 2010 and concluded that the likelihood of adverse health effects among Flin Flon area residents from exposure to the metals evaluated is negligible to low. The full study results are available on-line at www.flinflonsoilsstudy.com.

Addressing Evolving Environmental Regulations

In April 2006, the Canadian federal government issued a notice requiring the preparation and implementation of pollution prevention plans in respect of specified toxic substances released from base metal smelters and refineries. These plans were to be fully implemented no later than December 31, 2015. The required plan was prepared for the Flin Flon metallurgical complex.

The notice set annual air release targets for the specified substances to be reached by 2015 that in the absence of economically viable technological alternatives, together with other economic challenges, resulted in the determination that the copper smelter was no longer economically viable. Our copper smelter operations ceased in June 2010, essentially eliminating atmospheric emissions from the Flin Flon metallurgical complex and thereby completing our implementation of the pollution prevention plan.

Health and Safety

For the fourth quarter, we recorded a lost time accident frequency of 1.8 per 200,000 hours worked, including contractors, compared to 0.2 for the same quarter in 2009. For the full year, we recorded a lost time accident frequency of 1.2, compared to 0.5 for the same period in 2009.

We publish an annual sustainability report that specifies our environmental, health and safety performance. The 2009 report is available on our website at www.hudbayminerals.com.

OPERATIONS OVERVIEW

Mines

		Three Months Ended		Year Ended	
		Dec 31 2010	Dec 31 2009	**Dec 31 2010**	Dec 31 2009
777					
Ore	*tonnes*	**364,181**	367,826	**1,488,014**	1,540,348
Zinc	*%*	**3.89**	4.95	**4.01**	4.35
Copper	*%*	**3.24**	2.40	**2.86**	2.49
Gold	*g/tonne*	**2.25**	2.17	**2.09**	2.12
Silver	*g/tonne*	**25.42**	27.68	**25.89**	26.39
Trout Lake					
Ore	*tonnes*	**118,918**	162,045	**540,636**	679,331
Zinc	*%*	**2.23**	4.07	**2.67**	3.10
Copper	*%*	**2.05**	1.86	**2.35**	1.96
Gold	*g/tonne*	**0.95**	1.47	**1.30**	1.30
Silver	*g/tonne*	**10.12**	19.22	**12.03**	15.73
Chisel North Zinc Ore					
Ore	*tonnes*	**61,536**	—	**207,642**	48,695
Zinc	*%*	**8.38**	—	**7.49**	9.18
Chisel North Copper Ore					
Ore	*tonnes*	**5,996**	—	**5,996**	—
Zinc	*%*	**0.77**	—	**0.77**	—
Copper	*%*	**1.76**	—	**1.76**	—
Gold	*g/tonne*	**1.71**	—	**1.71**	—
Silver	*g/tonne*	**18.38**	—	**18.38**	—
Total Mines[1]					
Ore	*tonnes*	**550,631**	529,871	**2,242,288**	2,268,374
Zinc	*%*	**3.40**	4.68	**4.00**	4.08
Copper	*%*	**2.63**	2.23	**2.51**	2.28
Gold	*g/tonne*	**1.79**	1.96	**1.78**	1.84
Silver	*g/tonne*	**21.87**	25.09	**22.63**	23.17

[1] For unit operating costs, refer to page 23.

777 Mine

Ore production tonnage for the fourth quarter of 2010 was 1% lower compared to the same period in 2009. The zinc grade was lower by 21%, and the copper grade was higher by 35%, primarily due to the zinc rich areas being delayed in mining and increased tonnage from the copper rich zones. The gold grade was 4% higher, and the silver grade was 8% lower, due to the areas mined. Operating costs per tonne of ore in the fourth quarter of 2010 were 3% lower as compared to the same period in 2009.

For the 2010 year, ore production tonnage decreased by 3% compared to 2009. The hoisted tonnage in 2009 represented a production record for the mine. In addition, the hoisted tonnage was affected somewhat by the increase in waste hoisting of the access decline development below the 1412 metre level. Compared with grades in 2009, the zinc grade was 8% lower, copper grade was 15% higher, gold grade was 1% lower, and silver grade was 2% lower. The higher copper grades are attributed to increased tonnage coming from copper rich areas. Operating costs at $36.53 per tonne of ore were 4% lower as compared to 2009 due primarily to lower propane consumption as a result of a milder spring weather, lower direct mining costs particularly backfilling, cable bolting and hoisting, and decreased use of contractors.

Trout Lake Mine

Ore production tonnage for the fourth quarter of 2010 was 27% lower as compared to the same quarter in 2009. The decrease in production followed the mine plan for the quarter. Production levels are expected to remain relatively constant throughout 2011 at 1,360 tonnes per day (“tpd”) as the mine reserves are depleted to closure by the end of 2011. Zinc grade was 45% lower and copper grade was 10% higher. The zinc grades were lower, while the copper grades were higher than mine reserve grade primarily due to the increased percentage in production from the Deep West mining zone. Also reflecting the areas mined, gold grades were 35% lower and silver grades were 47% lower, respectively. Operating unit costs per tonne of ore were similar as compared to the fourth quarter of 2009.

Ore production tonnage decreased by 20% for the 2010 year compared to 2009 year in line with the mining plan. Zinc grade was lower by 14%, copper grade was 20% higher, gold grade was unchanged and silver grade was 24% lower. Improved copper grades were expected as we extracted more ore from the Deep West mining zone, which is also lower in zinc. Operating unit costs per tonne of ore mined were 24% higher, due to reduced tonnage hoisted, an increase in ground support and rehabilitation of some of the mining areas of the Deep West.

Chisel North Mine

On October 9, 2009, we announced that we would restart operations at our Chisel North mine in Snow Lake, and commenced full production in the second quarter of 2010. The copper ore is trucked to Flin Flon to be processed in the Flin Flon concentrator. During the fourth quarter of 2010, 61,536 tonnes of zinc ore were mined at a grade of 8.38% and 5,996 tonnes of copper ore at a grade of 1.76% copper, 0.77% zinc, 1.74 g/t gold and 18.38 g/t silver. Production reported during the period is up 2% over the third quarter and the zinc grade is down by 28%. Operating costs were $85.97 per tonne mined for the quarter and $71.52 per tonne for the year.

Concentrators

		Three Months Ended		Year Ended	
		Dec 31 2010	Dec 31 2009	**Dec 31 2010**	Dec 31 2009
Flin Flon Concentrator [1]					
Ore	*tonnes*	**495,752**	545,925	**2,041,618**	2,248,143
Zinc	*%*	**3.49**	4.61	**3.67**	3.95
Copper	*%*	**2.95**	2.22	**2.74**	2.31
Gold	*g/tonne*	**1.92**	1.92	**1.89**	1.86
Silver	*g/tonne*	**21.51**	24.55	**22.25**	22.99
Zinc concentrate	*tonnes*	**27,936**	40,952	**120,769**	142,647
Concentrate grade	*% Zn*	**50.94**	51.86	**51.91**	52.22
Copper concentrate	*tonnes*	**55,373**	47,219	**210,893**	197,739
Concentrate grade	*% Cu*	**24.67**	23.75	**24.85**	24.47
Zinc recovery	*%*	**82.2**	84.4	**83.8**	83.9
Copper recovery	*%*	**93.6**	92.4	**93.8**	93.2
Gold recovery	*%*	**72.6**	66.3	**70.5**	68.7
Silver recovery	*%*	**61.2**	57.6	**57.8**	60.4
Chisel North Concentrator [1]					
Ore	*tonnes*	**60,200**	—	**202,197**	49,006
Zinc	*%*	**8.32**	—	**7.48**	8.96
Zinc concentrate	*tonnes*	**9,597**	—	**29,072**	8,646
Concentrate grade	*% Zn*	**50.96**	—	**50.28**	48.95
Zinc recovery	*%*	**97.6**	—	**96.7**	96.4

[1] For unit operating costs, refer to page 23.

		Three Months Ended		Year Ended	
		Dec 31 2010	Dec 31 2009	**Dec 31 2010**	Dec 31 2009
HBMS contained metal in concentrate					
Zinc	*tonnes*	**19,120**	21,239	**77,314**	78,722
Copper	*tonnes*	**13,660**	11,215	**52,413**	48,397
Gold	*troy oz.*	**22,375**	22,350	**87,176**	92,201
Silver	*troy oz.*	**209,788**	248,195	**843,401**	1,004,624

Flin Flon Concentrator

For the fourth quarter of 2010, ore processed decreased by 9% compared to the same period in 2009. The reduction in throughput was related to the reduced feed from the Flin Flon mines, primarily lower production from the Trout Lake mine, and the higher copper head grades resulting in curtailed production to manage the higher levels of copper concentrate. Zinc head grade was 24% lower, and copper head grade was 33% higher than the fourth quarter of 2009. The gold head grade was unchanged, and the silver head grade was 12% lower. Recovery of zinc to concentrate was lower by 3% due to the lower head grades while copper recovery was 1% higher. Concentrate grades were in line with expectations. Operating cost per tonne of ore processed increased by 26% compared to 2009, primarily related to higher maintenance costs, increased contractor costs and 9% reduced throughput.

Ore processed for the 2010 year was 9% lower compared to 2009 levels. Zinc head grade in 2010 was 7% lower than last year, while copper head grade was 19% higher, consistent with the ore received from the 777 and Trout Lake mines. Recovery of zinc to concentrate was unchanged and copper recovery was 1% higher than the same period in 2009. Operating costs per tonne of ore processed were 22% higher, primarily related to higher maintenance costs, lower throughput and higher prices and consumption of copper sulphate.

Chisel North Concentrator

On October 30, 2009, we announced the restart of the Chisel North mine and concentrator. Full production was reached in the second quarter of 2010.

During the fourth quarter of 2010 the concentrator treated 60,200 tonnes of zinc ore at a grade of 8.32% with a recovery of 97.6% and a concentrate grade of 51.0% zinc. Operating costs for the fourth quarter were $27.23 per tonne milled and costs for the 2010 year were $24.35 per tonne. During the quarter, the effective milling days were reduced to 3.5 days from 5 days to match the zinc ore production from the Chisel North mine.

HUDBAY MINERALS

Metallurgical Plants

Metal Produced and Sold

		Three Months Ended		Year Ended	
		Dec 31 2010	Dec 31 2009	**Dec 31 2010**	Dec 31 2009
Refined Metal Produced [1]					
Metal from HBMS Concentrates					
Zinc	*tonnes*	**15,262**	17,702	**74,083**	70,577
Copper [2]	*tonnes*	**—**	11,836	**19,770**	49,091
Gold [2]	*troy oz.*	**—**	22,757	**35,649**	91,010
Silver [2]	*troy oz.*	**—**	281,758	**372,372**	989,715
Metal from HBMS Purchased Concentrates					
Zinc	*tonnes*	**10,162**	11,013	**25,964**	36,205
Copper [2]	*tonnes*	**—**	665	**48**	9,460
Gold [2]	*troy oz.*	**—**	17	**—**	347
Silver [2]	*troy oz.*	**—**	191,270	**—**	1,016,923
Total HBMS Metal Produced					
Zinc	*tonnes*	**25,424**	28,715	**100,047**	106,782
Copper [2]	*tonnes*	**—**	12,501	**19,818**	58,551
Gold [2]	*troy oz.*	**—**	22,774	**35,649**	91,357
Silver [2]	*troy oz.*	**—**	473,028	**372,372**	2,006,638
Metal Sold					
Zinc - refined	*tonnes*	**27,200**	29,299	**104,941**	110,070
Copper	*tonnes*				
Cathode & anodes		**50**	8,864	**31,795**	59,981
Payable metal in concentrate [3]		**8,543**		**15,407**	
Gold	*troy oz.*				
Contained in slimes & anode		**1,948**	19,342	**55,868**	94,263
Payable metal in concentrate [3]		**13,458**		**25,239**	
Silver	*troy oz.*				
Contained in slimes & anode		**21,082**	474,195	**789,305**	2,185,407
Payable metal in concentrate [3]		**121,270**		**217,534**	

[1] Metal from concentrates and purchased concentrates include copper, gold and silver returned to the copper smelter for re-processing as part of the normal production process. Metal reported in concentrate is prior to refining losses or deductions associated with smelter terms.

[2] Production excludes recycled spent anode and represents non-recycled anode production only.

[3] Copper concentrate was not sold in 2009 while the smelter was in operation.

HUDBAY MINERALS

Metallurgical Plant Production

		Three Months Ended		Year Ended	
		Dec 31 2010	Dec 31 2009	**Dec 31 2010**	Dec 31 2009
Zinc Plant					
Zinc Concentrate Treated					
Domestic	*tonnes*	**28,480**	34,214	**153,742**	139,312
Purchased	*tonnes*	**17,083**	20,523	**47,990**	68,911
Total	*tonnes*	**45,563**	54,737	**201,732**	208,223
Zinc Oxide					
Zinc from HBMS	*tonnes*	**8,914**	6,168	**29,204**	20,549
Zinc from others	*tonnes*	**16**	—	**4,108**	6
Total zinc consumption	*tonnes*	**8,930**	6,168	**33,312**	20,555
Zinc oxide produced	*tonnes*	**11,056**	7,532	**40,991**	25,107
Zinc oxide sold	*tonnes*	**11,006**	7,275	**40,470**	25,930
Smelter					
Copper concentrate treated					
Domestic	*tonnes*	**—**	52,508	**86,528**	197,022
Purchased	*tonnes*	**—**	1,680	**—**	27,630
Total	*tonnes*	**—**	54,188	**86,528**	224,652
WPCR					
Anodes received	*tonnes*	**—**	12,076	**23,487**	60,396
Cathode produced	*tonnes*	**—**	9,262	**20,933**	48,200
Spent anode produced	*tonnes*	**—**	2,924	**4,008**	11,358
Liberator anode produced	*tonnes*	**—**	341	**819**	1,091
Slimes produced	*tonnes*	**—**	47	**80**	197

For unit operating costs, refer to page 23.

Zinc Plant

Our Flin Flon, Manitoba zinc plant uses leading-edge technology to produce special high grade zinc and includes an oxygen plant, a two-stage pressure leaching plant, a four-step solution purification, an electrolysis plant and a casting plant.

Production of cast zinc in the fourth quarter of 2010 was 11% lower than the same quarter in 2009. Operating costs per pound of zinc metal produced were 13% higher due to the lower production. Cast production was lower in the fourth quarter as a result of concentrate impurities that limited plant throughput.

For the 2010 year, production was 100,047 tonnes of cast metal, 6% lower than in 2009 due to insufficient concentrate availability in the earlier part of the year and the impact of concentrate impurities in the fourth quarter of 2010. Operating costs per pound were up 13% due to lower production and increased maintenance costs as we prepared and completed the biennial maintenance shutdown.

Zinc Oxide Facility – Zochem

During the fourth quarter of 2010, Zochem consumed 8,914 tonnes of HBMS zinc and 16 tonnes of third party zinc, resulting in a production of 11,056 tonnes of zinc oxide. In comparison to the fourth quarter of 2009, sales volumes increased by 50%. Production levels increased by 47% in response to production interruptions at a competitor, which caused a sudden temporary market shortage.

For the full year, Zochem consumed 29,204 tonnes of HBMS zinc and 4,108 tonnes of third party zinc, resulting in a production of 40,991 tonnes of zinc oxide. In comparison to the fourth quarter of 2009, sales volumes increased by 56%, while production levels increased by 63% in response to stronger customer demand.

Copper Smelter

The copper smelter ceased operations with the last cast of anodes on June 11, 2010. Cleanup and decommissioning of the plant is proceeding.

White Pine Copper Refinery

Operations at the refinery ceased in July following the smelter closure. Copper cathode production for 2010 was 20,933 tonnes. The last anode was loaded on July 6th and the last cathode produced on July 27th.

Estimated Mineral Reserves (January 1, 2011) [1]

	Tonnes	Au (g/t)	Ag (g/t)	Cu (%)	Zn (%)
HBMS					
777					
Proven	4,516,000	2.27	29.38	2.87	4.44
Probable	8,307,000	1.79	27.31	1.78	4.24
777 North					
Proven	81,000	1.61	26.52	0.68	4.89
Probable	449,000	1.44	21.48	1.09	3.31
Trout Lake					
Proven	409,000	2.06	9.66	2.10	3.53
Probable	36,000	1.17	1.01	2.18	1.43
Chisel North - Zinc					
Proven	164,000	—	—	—	8.77
Probable	56,000	—	—	—	10.60
Chisel North - Copper					
Probable	92,000	2.41	31.56	1.72	3.67
Lalor Project					
Probable	10,525,000	1.55	21.00	0.64	8.31
Total Proven	5,170,000	2.17	26.84	2.68	4.51
Total Probable	19,465,000	1.65	23.66	1.14	6.43
Total Reserves	24,635,000	1.76	24.33	1.46	6.03

[1] Diluted, recovered and economically tested.

The mineral reserve and mineral resource estimates contained in this MD&A respecting Lalor (along with the estimate of tonnes and grade of the gold and copper-gold zones) and HBMS' operating mines were prepared by or under the supervision of Robert Carter, Superintendent, Mines Technical Services with HBMS. The mineral resource estimate for the Back Forty project and the mineral reserve estimate for the Fenix project were prepared under the supervision of Cashel Meagher, Vice President, Exploration of HudBay. Both Mr. Carter and Mr. Meagher are "qualified persons" for the purposes of NI 43-101.

	Tonnes	Ni (%)
Fenix		
Proven	7,800,000	2.03
Probable	28,400,000	1.81
Total Reserves	36,200,000	1.86

The above mineral reserve estimate has been prepared under the supervision of Cashel Meagher P. Geo., Vice President, Exploration, who is employed by HudBay Minerals Inc. and is a Qualified Person under NI 43-101.

Long term metal prices, including premiums used to determine economic viability of the 2011 mineral reserves were US$1 to C$1.10, US$900/oz. gold, US$15.00/oz. silver, US$2.50/lb. copper, US$1.00/lb. zinc and $7.25/lb nickel. In addition to the reserves in the above table, there are inferred mineral resources.

OUTSTANDING SHARE DATA

As of March 8, 2011, there were 169,933,875 common shares issued and outstanding. In addition, options for a maximum aggregate of 4,362,284 common shares were outstanding.

ADOPTION OF NEW ACCOUNTING STANDARDS

For information on our adoption of new accounting standards, refer to notes 3a and 3b of our December 31, 2010 annual consolidated financial statements. Refer to note 3c for information regarding new accounting standards that will be applicable to HudBay in future years.

International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board has set January 1, 2011 as the date that IFRS will replace existing Canadian GAAP for public companies with fiscal years beginning on or after that date, with comparative figures presented in these financial statements also required to comply with IFRS. Accordingly, our adoption date for IFRS is January 1, 2011, but our effective transition date is January 1, 2010 in order to accommodate IFRS comparative figures in our 2011 financial statements.

We have engaged external consultants to assist us through this complex transition project, which involves individuals from many aspects of the business, including accounting and finance, tax, information technology, legal, investor relations, logistics and operations. We have conducted workshops and training. We have established a project structure, including a charter and a detailed project plan that includes phases for planning and assessment, design and implementation. The project plan includes activities related to subsidiaries in all jurisdictions. Our project team provides regular status and informational updates to our IFRS Steering Committee and the Audit Committee of the board of directors.

Based on the detailed project plan, our project team has substantially completed the design phase and is in the implementation phase. The design phase included preparing accounting technical papers and analyses, selecting accounting policies, drafting financial statement templates, calculating transition adjustments, designing changes to information technology ("IT") systems and considering any impact on business activities. The implementation phase includes preparing the opening balance sheet as at January 1, 2010, implementing and testing changes identified in the design phase, making updates as needed to reflect changing standards, making any changes required for internal control over financial reporting ("ICFR") and disclosure controls and procedures ("DC&P") and preparing quarterly and annual IFRS financial statements for 2010 and reconciling them to our Canadian GAAP financial statements. Throughout the implementation phase, we are delivering training and knowledge transfer at appropriate points. The implementation phase will be substantially complete upon the issue of our March 31, 2011 interim IFRS financial statements and will culminate with the issue of our annual 2011 IFRS financial statements. Our project team has substantially completed accounting analyses and transition adjustment calculations related to our opening IFRS balance sheet. We have also prepared preliminary calculations of IFRS adjustments required for the nine months ended September 30, 2010. Over the next quarter, our project team will finalize these IFRS adjustments and quantify adjustments required for the fourth quarter of 2010.

To date, our IFRS Steering Committee and Audit Committee have reviewed our detailed assessment, which included identifying and prioritizing areas of differences between Canadian GAAP and IFRS, our mock-up of IFRS financial statement presentation and disclosure, including our draft first-time adoption footnote, as well as our status updates on project work findings and conclusions, including accounting policy choices and expected IFRS adjustments.

We implemented a dual reporting solution to maintain accounting records in accordance with each of Canadian GAAP and IFRS for our 2010 transition year with minimal changes to existing systems and processes. We are also continuing with the implementation of a new fixed asset subledger in conjunction with the implementation of a new Enterprise Resource Planning information system.

We completed an impact assessment related to key controls and determined that the majority of our key controls are not expected to change during and after our transition to IFRS. As we make changes to systems and processes, we are addressing in detail related internal controls. We continue to evaluate the processes and controls that are being used to develop the IFRS transition adjustments to ensure that the controls are effective.

We also completed impact assessments related to business activities such as key performance indicators, compensation plans and contracts. We determined that the main business impact of changeover to IFRS relates to HBMS' employee profit-sharing plan. Under this plan, 10% of HBMS' after-tax earnings (excluding provisions or recoveries for future income and mining tax) for any given fiscal year, currently calculated in accordance with Canadian GAAP, will be distributed to eligible employees. We have also identified operating cash flow before changes in non-cash working capital and co-product costing as key performance indicators. We are in the process of determining the effect of changeover to IFRS on the profit-sharing plan and these indicators.

Building on workshops held in the assessment phase, our project team receives additional training as we work through detailed analyses and adjustments with external consultants and our auditors. In turn, members of our project team provide specific training to others in the Company as we include them in our analyses and decision-making.

Areas that will result in significant changes to our financial reporting or that require significant efforts include the following:

- ***IFRS 1, First-time Adoption of International Financial Reporting Standards***

  IFRS 1 applies when an entity adopts IFRS for the first time and generally requires that we retrospectively apply each standard in effect as at December 31, 2011, the date of our first annual IFRS financial statements, as if we had always applied those standards. However, IFRS 1 provides certain optional exemptions and mandatory exceptions to the principle of retrospective application.

  We will elect the optional exemption for business combinations. This allows us to avoid retrospectively applying IFRS 3 (2008), *Business Combinations*, to business combinations prior to January 1, 2010, which would otherwise be a very significant undertaking. This exemption also applies to purchases accounted for as asset acquisitions under Canadian GAAP that would qualify as business combinations under IFRS 3 (2008), which contains a broader definition of a business. We have determined that our 2008 acquisition of HMI Nickel would qualify as a business combination under IFRS 3 (2008). Accordingly, we will carry forward our Canadian GAAP accounting treatment for such acquisitions. Other significant IFRS 1 exemptions that apply to us are described below.

  In accordance with the requirements of IFRS 1, we will record transition adjustments where applicable against retained earnings as at January 1, 2010 for differences between our Canadian GAAP and IFRS accounting.

- **Exploration for and evaluation of mineral resources**

  IFRS 6, *Exploration for and Evaluation of Mineral Resources* , applies to expenditures incurred on properties in the exploration and evaluation ("E&E") phase, which begins when an entity obtains the legal rights to explore a specific area and ends when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. IFRS 6 requires entities to select and consistently apply an accounting policy specifying which E&E expenditures are capitalized and which are expensed.

  We have selected an IFRS policy to expense the cost of our E&E activities and capitalize the cost of acquiring interests in mineral rights, licenses and properties in business combinations, asset acquisitions or option agreements. Under Canadian GAAP, certain expenditures are capitalized on specified properties identified through pre-feasibility or other assessments as having mineral reserves and/or resources with the potential of being developed into a mine. Application of our IFRS policy results in a transition adjustment to reverse the Lalor project assets previously capitalized under Canadian GAAP, as the amounts arose from E&E activities rather than acquisitions. Under IFRS, we will begin capitalizing Lalor project expenditures when it reaches the end of the E&E phase. We interpret the end of the E&E phase to be the point at which we have completed a preliminary feasibility study, some of the resources have been converted to reserves, and management has determined it is probable the property will be developed into a mine.

  Under IFRS, we will capitalize option payments made and record option payments received as a reduction to the cost of the related E&E asset, with any excess over cost recognized as a gain in the income statement. As a result, IFRS transition adjustments are required to reduce the cost of E&E assets for option payments received prior to our transition date that we recorded in earnings under Canadian GAAP and to increase the cost of E&E assets for option payments we previously expensed under Canadian GAAP.

  As a result of these differences, we expect transition adjustments related to E&E phase mineral properties to decrease retained earnings as at January 1, 2010 by approximately $21 million. IFRS adjustments to reverse capitalized expenditures on the Lalor project will continue during our 2010 transition year. For the nine months ended September 30, 2010, we expect adjustments related to E&E phase mineral properties to decrease comprehensive income by approximately $20 million. We have determined that the Lalor project reached the end of the E&E phase as at December 31, 2010 and entered the development phase at that time; accordingly, in 2011, we will capitalize Lalor project expenditures and present them within capital works in progress in property, plant and equipment.

- **Decommissioning and restoration**

  Under Canadian GAAP, we apply a credit-adjusted risk-free rate to measure our decommissioning and restoration liabilities and we do not re-measure them as a result of changes in the discount rate. Under IFRS, we will reflect applicable risks (excluding, in particular, credit risk) in estimated future cash flows and apply a risk-free rate when measuring our decommissioning and restoration liabilities, and in subsequent periods we will re-measure the liabilities to reflect changes in the discount rate. Differences between historical Canadian GAAP discount rates and current IFRS discount rates will result in IFRS transition adjustments.

  To simplify our transition calculations, we will apply the IFRS 1 optional exemption for determining the amount of the decommissioning and restoration liabilities to be included in the cost and accumulated depreciation of property, plant and equipment as at January 1, 2010.

Differences between historical Canadian GAAP discount rates and current IFRS discount rates result in IFRS transition adjustments to increase decommissioning and restoration liabilities and increase the carrying amount of related property, plant and equipment. We expect net transition adjustments related to these items to decrease retained earnings by approximately $15 million as at January 1, 2010. We have revised this estimate by $3 million from the figure previously disclosed in our September 30, 2010 MD&A as result of refining the assumptions used in the measurement of our decommissioning and restoration liabilities.

Differences related to decommissioning and restoration liabilities will also result in ongoing IFRS adjustments during our 2010 transition year. Re-measurement of the liability to reflect movements in discount rates will require adjustments to decommissioning liabilities, with offsetting adjustments to property, plant and equipment, except for decommissioning and restoration liabilities related to properties that have no remaining useful life, for which we will adjust other operating expense. Such changes to liability and asset balances will also affect accretion expense and depreciation expense during our 2010 transition year. For the nine months ended September 30, 2010, we expect adjustments related to decommissioning and restoration to decrease comprehensive income by approximately $9 million.

- **Property, plant and equipment**

IFRS requires capitalized costs to be directly attributable to bringing assets to a working condition for their intended use and requires depreciation to be calculated separately for individual components of an item of property, plant and equipment that have costs significant in relation to the total cost of the item. Requirements under Canadian GAAP, while similar, are less specific. Accordingly, in practice, IFRS may require more detailed component accounting. Under IFRS, components may be physical or non-physical. Costs of major inspections and overhauls are capitalized as separate components and depreciated over the useful lives of the major inspections or overhauls.

Working with staff from operations to analyze components of our property, plant and equipment at a more detailed level, we identified additional components from those currently recorded under Canadian GAAP, resulting in IFRS transition adjustments to increase accumulated depreciation. For certain equipment, the increase in accumulated depreciation also reflects a change in depreciation method from unit-of-production to straight-line because the expected pattern of future economic benefits is different at the lower level of componentization. Transition adjustments are also required to increase the carrying value of property, plant and equipment for major inspections and overhauls of mobile equipment that require capitalization as separate components under IFRS but were expensed under Canadian GAAP. We expect net transition adjustments related to these items to decrease retained earnings by approximately $5 million as at January 1, 2010.

Ongoing IFRS adjustments will also be required to depreciation expense during our 2010 transition year. For the nine months ended September 30, 2010, we expect adjustments related to property, plant and equipment to decrease comprehensive income by approximately $4 million. We are also implementing a new fixed asset subledger, which accommodates IFRS requirements for property, plant and equipment.

We will elect the optional IFRS 1 deemed cost exemption for our Balmat property, plant and equipment. Under Canadian GAAP, in 2008, we determined these assets were impaired and wrote off their carrying values. Accordingly, we do not expect to record a transition adjustment for these assets.

We will also elect the optional IFRS 1 borrowing cost exemption.

- **Mine development**

  Our project team is reviewing our Canadian GAAP policies for capitalizing and amortizing mine development costs against IFRS requirements. As part of this analysis, we are determining whether all types of capitalized costs are directly attributable to bringing the asset to a working condition for its intended use, in accordance with IAS 16, *Property, Plant and Equipment*. We do not anticipate a significant transition adjustment for these assets. We are also assessing whether differences exist with respect to depreciation of equipment used in construction projects. IFRS requires depreciation of equipment used in construction projects to be capitalized. Canadian GAAP requirements, while similar, are less specific. As a result, transition adjustments may be required.

- **Functional currency**

  IFRS requirements for determining the functional currency of an entity are more specific than those in Canadian GAAP. Although indicators considered in the determination of functional currency are similar, IFRS also provides a hierarchy for analyzing indicators in which primary factors are based on the currency that mainly influences sales prices for goods and services and labour, material and other costs of providing goods or services. In addition, IFRS requires functional currency to be determined for every entity, whereas Canadian GAAP does not specifically require such determinations to be made for domestic operations. This area requires significant judgment. Our project team has assessed the functional currency for each of HudBay's entities under IFRS. We will record a transition adjustment for our Guatemalan operations, which we have determined have a Canadian dollar functional currency under Canadian GAAP and a US dollar functional currency under IFRS. We gained control of the Back Forty project in Michigan during the third quarter of 2010 and identified a similar difference in functional currency between Canadian GAAP and IFRS. These changes will also result in IFRS adjustments during our 2010 transition year. To simplify our calculation of the transition adjustments, we will elect the optional IFRS 1 exemption to deem cumulative translation differences to be zero as at January 1, 2010 (with an offsetting adjustment to retained earnings). Under Canadian GAAP, we do not currently have a currency translation adjustment, as the measurement currency of all HudBay entities is Canadian dollars.

  We expect transition adjustments related to the change in functional currency to decrease retained earnings by approximately $5 million as at January 1, 2010. For the nine months ended September 30, 2010, we expect adjustments related to changes in functional currency to decrease comprehensive income by approximately $8 million.

- **Employee benefits**

  Under IFRS, past service costs are recognized over the vesting period, whereas Canadian GAAP allows recognition of past service costs over the expected average remaining service period. As a result, we will record a transition adjustment to charge unamortized, vested past service costs to retained earnings. Further, we will elect the IFRS 1 optional exemption to reset unamortized actuarial gains and losses to zero as at January 1, 2010 with an adjustment against retained earnings. We expect transition adjustments related to employee benefits to decrease retained earnings by approximately $4 million as at January 1, 2010.

  IFRS provides a policy choice for ongoing recognition of actuarial gains and losses. Entities may opt to recognize actuarial gains and losses in profit or loss, applying either the corridor method or an approach that results in faster recognition; alternately, entities may recognize actuarial gains and losses immediately in other comprehensive income. We will continue to apply the corridor method to recognize actuarial gains and losses in profit or loss under IFRS.

The transition adjustments described above and our policy choice for ongoing recognition of actuarial gains and losses under the corridor method will also cause ongoing IFRS adjustments during our 2010 transition year. For the nine months ended September 30, 2010, we expect adjustments related to employee benefits to increase comprehensive income by approximately $1 million.

- **Provisions**

  IFRS requires recognition of provisions that are constructive obligations, which arise when an entity's past practice or sufficiently detailed public statements have created a valid expectation in other parties that it will carry out an action. As a result, additional liabilities may require recognition under IFRS. Upon transition to IFRS, we will record provisions for donation commitments previously made that we have concluded require recognition under IFRS as constructive obligations but under Canadian GAAP are expensed as payments are made. We expect these transition adjustments to decrease retained earnings by approximately $1 million as at January 1, 2010. For the nine months ended September 30, 2010, we do not expect adjustments related to provisions.

- **Non-controlling interest**

  IFRS requires presentation of non-controlling interests within equity on the balance sheet, separate from the equity of the owners of the parent entity. We will record a transition adjustment to reclassify non-controlling interests of $1 million to equity from other long-term liabilities. We reflected the same reclassification as at January 1, 2010 in our Canadian GAAP financial statements upon early adoption of a new Canadian GAAP standard for non-controlling interests. This transition adjustment has no impact on retained earnings. The effect on comprehensive income for the nine months ended September 30, 2010 is not significant.

- **Impairment of long lived assets**

  Canadian GAAP applies a two-step process for impairment analyses. When indicators of impairment exist for an asset group, we first test the asset group's recoverability by comparing its carrying value to its undiscounted estimated future cash flows. If we determine the carrying value is not recoverable, we then measure an impairment loss by comparing the carrying value to fair value. In contrast, IFRS applies a one-step process for impairment analyses. Under IFRS, when indicators of impairment exist for an asset or cash-generating unit, we test for impairment by comparing the carrying value to the recoverable amount, which is the greater of fair value less costs to sell and value in use (discounted cash flows). As a result, impairments may be recorded more often or earlier under IFRS than under Canadian GAAP. Our project team has identified our cash-generating units and is finalizing our assessment of indicators of impairment as at our IFRS transition date. We do not anticipate a significant IFRS adjustment as at January 1, 2010 or during our 2010 transition year.

- **Income taxes**

  Accounting for income tax under IFRS is addressed under IAS 12, *Income Taxes*, and differs significantly in many respects from Canadian GAAP. Our project team has determined that differences pertaining to HudBay relate to reclassifications within equity and differences in financial statement presentation and note disclosure. The tax effect of accounting adjustments upon transition to IFRS has been reflected in the figures disclosed above. In addition to tax effecting accounting adjustments, during our 2010 transition year, we expect adjustments related to changes in tax rate assumptions on transition adjustments.

- **Cash flow statement classification**

  Under IFRS, cash flows from interest received may be classified as either operating or investing activities, and cash flows for interest paid may be classified as either operating or financing activities. Under Canadian GAAP, we classify cash flows from interest income and interest expense as operating activities. Upon transition to IFRS, we will classify cash flows from interest received as investing activities, cash flows for interest paid on borrowings as financing activities, and cash flows for other operating interest paid as operating activities. These classification changes will not require IFRS transition adjustments; however, the changes may result in differences in reported cash flow from operations, which we have identified as a key performance indicator. Currently, we have interest income but no borrowings. In this circumstance, reported cash flow from operations will be lower under IFRS, as cash flows from interest received will be reflected in investing activities instead of in operating activities. During our 2010 transition year, cash flow from operations will also be lower as a result of expensing exploration and evaluation expenditures for the Lalor project under IFRS (and classifying them in cash flow from operations) that we capitalized for CGAAP purposes (and classified in cash flow from investing activities).

In addition to the accounting policy changes described above, extensive changes to financial statement presentation and disclosure will be required upon adoption of IFRS. Our project team has prepared mock-up IFRS financial statements to reflect these changes and is continuing to implement processes to accumulate the necessary data in 2011 and future years for such changes.

The accounting policy changes described above are based on the IFRSs expected to be in effect at the end of our first IFRS reporting period, which is the year ended December 31, 2011. We will continue to monitor changing standards to enable us to assess their effect on our IFRS financial statements.

Accounting, reporting and procedural changes in areas affected by IFRS, including those described above, have also resulted in changes that affect ICFR and DC&P. As noted above, our IFRS project plan has identified those areas where changes are required to accounting policies, procedures and controls. Certain of these changes result in new or changed controls, and we are evaluating these controls to confirm that the new or revised controls are operating effectively. This evaluation will include ongoing testing of the effectiveness of the operation of the controls.

The IFRS project plan includes DC&P relating to IFRS disclosures in the MD&A as well as the preparation of regular updates to management, the Steering Committee, the Audit Committee and other stakeholders on the project plan progress and on the expected impact that transition to IFRS has on our financial reporting and disclosure responsibilities. HudBay has a Disclosure Committee whose responsibilities include the designing, establishing and monitoring of controls and other procedures so that information that we are required to disclose is done so on a timely basis and in accordance with regulatory requirements. Our Chief Financial Officer (“CFO”) is a member of both the IFRS Steering Committee and the Disclosure Committee.

We currently expect the IFRS transition adjustments described above to result in a decrease to equity attributable to owners of HudBay Minerals Inc. of approximately $50 million or approximately $0.32 per common share outstanding as at December 31, 2009, as compared to equity presented in our Canadian GAAP financial statements for the year ended December 31, 2009.

Disclosure Controls and Procedures

The Canadian Securities Administrators have issued National Instrument 52-109 ("NI 52-109"), "Certification of Disclosure in Issuers' Annual and Interim Filings" which requires Canadian public companies to submit annual and interim certificates relating to the design and operation of the disclosure controls and procedures that we use. Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management, including the CEO and the CFO, to enable this information to be reviewed and discussed so that appropriate decisions can be made regarding the timely public disclosure of the information.

As of December 31, 2010, management has evaluated the design and the operation of the disclosure controls and procedures as defined by NI 52-109. This evaluation was performed under the supervision of and with the participation of our CEO and CFO. Based on this evaluation, the CEO and CFO concluded that the design and operation of the disclosure controls and procedures were effective as of December 31, 2010.

Internal Control Over Financial Reporting

NI 52-109 also requires Canadian public companies to submit an annual certificate relating to the design and effectiveness of internal control over financial reporting ("ICFR"). ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. Management is responsible for establishing and maintaining ICFR and management, including the CEO and the CFO, has evaluated the design and effectiveness of ICFR at December 31, 2010. Based on this evaluation, management, with the participation of the CEO and CFO, has concluded that the design and operation of ICFR was effective as of December 31, 2010. We have used the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") internal control framework to evaluate the design and operation of ICFR.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis as such systems can only be designed to provide reasonable as opposed to absolute assurance. Also projections of any evaluation of the effectiveness of ICFR 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.

Changes in Internal Control over Financial Reporting

NI 52-109 also requires Canadian public companies to disclose in their MD&A any change in ICFR during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting. There were no changes to ICFR during the quarter ended December 31, 2010 that materially affected or are reasonably likely to materially affect the Company's ICFR. During 2011, we intend to implement a new Enterprise Resource Planning ("ERP") information system. The ERP implementation includes replacing our key financial systems, which could materially affect our internal control over financial reporting. As part of the ERP implementation project we intend to implement processes to ensure that our ICFR remains effective both during and after implementation of the new ERP system.

NON-GAAP MEASURES

Detailed operating expenses, EBITDA, operating cash flow before changes in non-cash working capital, operating cash flow per share, cash cost per pound of zinc sold and co-product cash costs per unit sold are included in this MD&A because these measures are performance indicators that we use internally to monitor performance. We use these measures to assess how well we are performing compared to plan and to assess the overall effectiveness and efficiency of mining, processing and refining operations. We believe that the inclusion of these measures in the MD&A helps an investor to assess performance "through the eyes of management" and that certain investors use these measures to assess our performance. These measures do not have a meaning presented by GAAP and should not be considered in isolation or as a substitute for measures prepared in accordance with GAAP. These measures are not necessarily indicative of operating profit or cash flow from operations as determined under GAAP. Other companies may calculate these measures differently.

EBITDA

The following table presents our calculation of EBITDA for the three months and year ended December 31, 2010 and December 31, 2009.

	Three Months Ended		Year Ended	
($000s)	**Dec 31 2010**	Dec 31 2009	**Dec 31 2010**	Dec 31 2009
Earnings before tax and non-controlling interests	**41,606**	9,620	**158,105**	141,468
Adjustments:				
Depreciation and amortization	**20,781**	27,653	**103,399**	100,731
Exploration	**10,954**	3,994	**29,822**	7,609
Interest and other income	**(2,206)**	(1,151)	**(8,323)**	(107,386)
Loss (gain) on derivative instruments	**610**	455	**(2,763)**	917
EBITDA	**71,745**	40,571	**280,240**	143,339

Operating cash flow before changes in non-cash working capital and operating cash flow per share

The following table presents our calculations of operating cash flow before changes in non-cash working capital and operating cash flow per share for the three months and year ended December 31, 2010 and December 31, 2009.

	Three Months Ended		Year Ended	
($000s except share and per share amounts)	**Dec 31 2010**	Dec 31 2009	**Dec 31 2010**	Dec 31 2009
Cash provided by operating activities, per financial statements	**64,864**	39,632	**255,590**	106,194
Adjustments:				
Changes in non-cash working capital	**(4,937)**	(6,008)	**(55,740)**	18,318
Operating cash flow before changes in non-cash working capital	**59,927**	33,624	**199,850**	124,512
Weighted average shares outstanding	**149,219,230**	153,973,547	**150,636,835**	153,460,823
Operating cash flow per share	**$ 0.40**	$ 0.22	**$ 1.33**	$ 0.81

Cash cost per pound of zinc sold

Our cash cost per pound of zinc sold, net of by-product credits, for the fourth quarter of 2010 was negative US$0.42 per pound, excluding costs and sales related to Balmat, HMI Nickel and corporate activities, as calculated in the following table.

	Three Months Ended		Year Ended	
($000s except as noted)	**Dec 31 2010**	Dec 31 2009	**Dec 31 2010**	Dec 31 2009
Operating expenses	**95,301**	105,939	**451,106**	506,275
General and administrative expenses [1]	**2,019**	1,914	**8,139**	6,501
	97,320	107,853	**459,245**	512,776
Exclude amounts related to Balmat and HMI Nickel	**(4,772)**	(5,071)	**(18,592)**	(15,318)
	92,548	102,782	**440,653**	497,458
Less by-product credits[2]	**(117,767)**	(96,398)	**(533,398)**	(505,938)
Cash cost net of by-products	**(25,219)**	6,384	**(92,745)**	(8,480)
Exchange rate (US $1 to C$) [3]	**1.013**	1.056	**1.030**	1.142
Cash cost net of by-products	**US (24,895)**	US 6,045	**US (90,044)**	US (7,426)
Zinc sales (000's lbs.)	**59,966**	64,593	**231,355**	240,897
Cash cost per pound of zinc sold, net of by-product credits in US $/lb.	**US (0.42)**	US 0.09	**US (0.39)**	US (0.03)

[1] General and administrative expenses relate to HBMS entity only.
[2] By-product credits include revenues from sale of copper, gold, silver, the value added by converting zinc to zinc oxide, and by-product sales.
[3] Weighted average exchange rate for sales during the period.

Cash costs net of by-product credits have been restated to exclude corporate activities in order to be better comparable with costs disclosed by comparable mining companies. For the fourth quarter of 2010, our cash cost per pound of zinc sold was negative US$0.42, a net decrease of US$0.51 from the same period in 2009, and for the 2010 year was negative US$0.39, a net decrease of US$0.36 from 2009. The decrease in cost per pound was due primarily to higher by-product copper, gold and silver credits arising from higher prices.

Our calculation of cash cost per pound of zinc sold is significantly influenced by by-product metal prices, which may fluctuate going forward.

Co-product cash costs per unit sold

Commencing in the third quarter of 2010, we introduced co-product cash costs as a new non GAAP measure. We believe that these costs serve as meaningful indicators for investors to evaluate our operations. Costs for 2009 have not been included for comparability because they included substantial purchased copper concentrate volumes together with the cost of the smelter and refinery, which were shutdown in 2010.

Whereas cash costs net of by-product credits present the cash costs of a single metal, assuming that all other metals are by-products of the given metal, co-product cash costs present a cost of producing each of our primary metals, copper, zinc and gold, based on an allocation of costs among the metals. Costs that can be readily associated with a specific metal are allocated to that metal. Mining and milling costs for our Trout Lake and 777 mines are allocated proportionately based on the value of the contained metals at prevailing metals prices. Operating overhead expenses and general and administrative expenses (in both cases, excluding costs not related to our HBMS operations) are generally allocated equally between zinc and copper with some further cost allocation to gold. In order to present a cost per finished unit sold, we also add to these costs third party treatment and refining costs, which are deducted from revenue in our financial statements.

Zinc oxide production is treated as a by-product of zinc production, so the costs of our Zochem operation are allocated to zinc operating expenses and zinc oxide revenues are deducted from total zinc cash costs. Similarly, silver production is treated as a by-product of gold production. Other miscellaneous revenues are allocated among zinc, copper and gold in the same manner as general and administrative costs.

While the impact of fluctuating metals prices is expected to be less significant on co-product cash costs than it is on by-product cash costs, changes in relative metals prices may cause our reported cash costs to vary substantially over time, irrespective of our operational results. Significant management judgement is also required in determining how costs should be allocated among metals. Caution should also be exercised in using co-product cash costs to evaluate the profitability of a particular metal, as the profitability of our polymetallic mines is dependent on the production of all of our principal metals. Our future co-product cash costs may change significantly from those reported for the three months and year ended December 31, 2010 as we complete the transition from copper smelting and refining to copper concentrate sales.

Three Months Ended December 31, 2010

($000s except as noted)	Copper	Zinc	Gold	Non-allocated costs	Total
Operating expenses	21,776	59,308	9,402	4,815	95,301
General and administrative[1]	807	807	404	7,000	9,018
Treatment and refining costs[2]	4,549	—	1,121	—	5,670
	27,132	60,115	10,927	11,815	
Zinc oxide and by-product revenues	(756)	(7,655)	(4,796)		
Co-product costs	**26,376**	**52,460**	**6,131**		
Sales volume[3]	18,943	59,965	17,779		
Co-product cash costs per unit[3] sold	**$ 1.39**	**$ 0.87**	**$ 345**		

[1] Allocation of general and administrative costs to copper, zinc and gold production exclude corporate and other non-production related costs.
[2] Treatment and refining costs are deducted from revenue.
[3] Copper and zinc sales volumes denoted in 000's pounds, and gold sales volumes denoted in troy oz.

HUDBAY MINERALS

Year Ended December 31, 2010

($000s except as noted)	Copper	Zinc	Gold	Non-allocated costs	Total
Operating expenses	141,458	240,605	50,409	18,634	451,106
General and administrative [1]	3,255	3,255	1,628	19,994	28,132
Treatment and refining costs [2]	10,854	—	2,041	—	12,895
	155,567	243,860	54,078	38,628	
Zinc oxide and by-product revenues	(3,403)	(36,282)	(22,130)		
Co-product costs	**152,164**	**207,578**	**31,948**		
Sales volume [3]	104,062	231,356	83,481		
Co-product cash costs per unit [3] sold	**$ 1.46**	**$ 0.90**	**$ 383**		

[1] Allocation of general and administrative costs to copper, zinc and gold production exclude corporate and other non-production related costs.
[2] Treatment and refining costs are deducted from revenue.
[3] Copper and zinc sales volumes denoted in 000's pounds, and gold sales volumes denoted in troy oz.

Exhibit 99.4

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)) 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) 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

   c) 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, 2011

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

Exhibit 99.5

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)) 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) 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

   c) 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, 2011

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

Exhibit 99.6

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, 2010, 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, 2011

/s/ David Garofalo
David Garofalo
Chief Executive Officer
(Principal Executive 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, 2010, 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, 2011

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

Exhibit 99.8

LETTER OF CONSENT

I, Cashel Meagher, P.Geo., refer to the Annual Report ("Annual Report") on Form 40-F of HudBay Minerals Inc. ("HudBay") filed with the Securities and Exchange Commission on March 31, 2011.

I consent to the appearance of my name in the Annual Report.

I also consent to the incorporation by reference of the appearance of my name in the Annual Report into the Registrant's Form S-8 Registration Statement (SEC File No. 333-170295).

Yours very truly,

/s/ Cashel Meagher

Per: Cashel Meagher, P.Geo.

Dated: March 31, 2011

Exhibit 99.9

LETTER OF CONSENT

I, Robert Carter, P. Eng., refer to the Annual Report ("Annual Report") on Form 40-F of HudBay Minerals Inc. ("HudBay") filed with the Securities and Exchange Commission on March 31, 2011.

I consent to the appearance of my name in the Annual Report.

I also consent to the incorporation by reference of the appearance of my name in the Annual Report into the Registrant's Form S-8 Registration Statement (SEC File No. 333-170295).

Yours very truly,

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

Dated: March 31, 2011

Exhibit 99.10

LETTER OF CONSENT

I, Sean Spraggett, P.Eng., refer to the Annual Report ("Annual Report") on Form 40-F of HudBay Minerals Inc. ("HudBay") filed with the Securities and Exchange Commission on March 31, 2011.

I consent to the appearance of my name in the Annual Report.

I also consent to the incorporation by reference of the appearance of my name in the Annual Report into the Registrant's Form S-8 Registration Statement (SEC File No. 333-170295).

Yours very truly,

/s/ Sean Spraggett

Per: Sean Spraggett, P.Eng.

Dated: March 31, 2011

Exhibit 99.11

CONSENT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

We consent to the incorporation by reference in Registration Statement No. 333-170295 on Form S-8 and to the use of our report dated March 9, 2011 relating to the consolidated financial statements of HudBay Minerals Inc. appearing in this Annual Report on Form 40-F of HudBay Minerals Inc. for the year ended December 31, 2010.

/s/ Deloitte & Touche LLP

Toronto, Canada
March 31, 2011

INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

LICENSED PUBLIC ACCOUNTANTS