

Unaudited Condensed Consolidated Interim Financial Statements
(In US dollars)

HUBBAY MINERALS INC.

For the three and six months ended June 30, 2019 and 2018

HUDBAY MINERALS INC.

Condensed Consolidated Interim Balance Sheets
(Unaudited and in thousands of US dollars)

	Note	Jun. 30, 2019	Dec. 31, 2018
Assets			
Current assets			
Cash and cash equivalents		\$ 489,527	\$ 515,497
Trade and other receivables	7	85,835	117,153
Inventories	8	147,840	118,474
Prepaid expenses and other current assets		14,337	8,894
Other financial assets	9	10,404	10,366
Taxes receivable		6,422	2,008
		754,365	772,392
Receivables	7	19,325	39,121
Inventories	8	20,566	19,476
Other financial assets	9	13,964	15,159
Intangible assets - computer software		4,383	4,162
Property, plant and equipment	10	3,903,264	3,819,812
Deferred tax assets	17b	22,071	15,513
		\$ 4,737,938	\$ 4,685,635
Liabilities			
Current liabilities			
Trade and other payables		\$ 177,127	\$ 171,952
Taxes payable		2,447	5,508
Other liabilities	11	24,070	30,551
Other financial liabilities	12	14,850	12,425
Lease liabilities	13	26,799	20,472
Deferred revenue	15	80,994	86,256
		326,287	327,164
Other financial liabilities	12	46,727	18,771
Lease liabilities	13	54,743	53,763
Long term debt	14	977,196	981,030
Deferred revenue	15	495,633	479,822
Provisions	16	238,762	204,648
Pension obligations		20,896	23,863
Other employee benefits		115,714	93,628
Deferred tax liabilities	17b	331,261	324,090
		2,607,219	2,506,779
Equity			
Share capital	18b	1,777,340	1,777,340
Reserves		(19,874)	(41,254)
Retained earnings		373,253	442,770
		2,130,719	2,178,856
		\$ 4,737,938	\$ 4,685,635

Commitments (note 20)

HUBBAY MINERALS INC.

Condensed Consolidated Interim Statements of Cash Flows
(Unaudited and in thousands of US dollars)

	Note	Three months ended June 30,		Six months ended June 30,	
		2019	2018	2019	2018
Cash generated from operating activities:					
(Loss) profit for the period		\$ (54,145)	\$ 24,673	\$ (67,562)	\$ 66,118
Tax expense	17a	10,214	25,124	5,518	56,782
Items not affecting cash:					
Depreciation and amortization	6b	91,739	83,703	169,422	164,399
Share-based payment (recoveries) expenses	6c	(1,875)	(1,883)	3,468	(3,448)
Finance expense, net	6e	35,354	35,430	77,805	72,356
Change in fair value of derivatives	6e	894	(1,840)	(3,707)	(4,471)
Amortization of deferred revenue	15	(21,297)	(17,562)	(30,809)	(43,498)
Change in taxes receivable/payable, net	21a	(113)	(2,360)	3,799	(10,802)
Unrealized gain on warrants	6e	—	(1,105)	—	(6,662)
Loss (gain) on investments	6e	2,639	2,084	1,848	4,124
Pension and other employee benefit payments, net of accruals		903	(1,586)	1,746	(1,443)
Write down of UCM receivable	6d	25,978	—	25,978	—
Other and foreign exchange		(3,062)	(6,139)	(2,098)	(8,643)
Taxes paid		(6,083)	(6,904)	(14,668)	(21,384)
Operating cash flow before change in non-cash working capital		81,146	131,635	170,740	263,428
Change in non-cash working capital	21a	25,863	(34,595)	(2,032)	(35,024)
		107,009	97,040	168,708	228,404
Cash used in investing activities:					
Acquisition of property, plant and equipment		(50,028)	(40,129)	(92,311)	(86,572)
Net purchase of investments		—	—	—	(388)
Acquisition of subsidiary, net of cash acquired	5	(44,688)	—	(44,688)	—
Change in restricted cash		1,637	—	2,374	206
Net interest received		2,198	954	4,481	1,605
		(90,881)	(39,175)	(130,144)	(85,149)
Cash used in financing activities:					
Interest paid on long-term debt		—	—	(37,375)	(37,375)
Financing costs		(4,709)	(6,324)	(10,183)	(10,554)
Lease payments		(7,380)	(5,190)	(14,829)	(10,228)
Share issuance costs		—	—	—	(70)
Dividends paid	18b	—	—	(1,955)	(2,026)
		(12,089)	(11,514)	(64,342)	(60,253)
Effect of movement in exchange rates on cash and cash equivalents		(379)	429	(192)	75
Net increase (decrease) in cash and cash equivalents		3,660	46,780	(25,970)	83,077
Cash and cash equivalents, beginning of the period		485,867	392,796	515,497	356,499
Cash and cash equivalents, end of the period		\$ 489,527	\$ 439,576	\$ 489,527	\$ 439,576

For supplemental information, see note 21.

HUDBAY MINERALS INC.

Condensed Consolidated Interim Income Statements
(Unaudited and in thousands of US dollars)

	Note	Three months ended June 30,		Six months ended June 30,	
		2019	2018	2019	2018
Revenue	6a	\$ 329,414	\$ 371,288	\$ 621,672	\$ 757,944
Cost of sales					
Mine operating costs		195,077	195,275	358,393	380,552
Depreciation and amortization	6b	91,194	83,552	168,325	164,160
		286,271	278,827	526,718	544,712
Gross profit		43,143	92,461	94,954	213,232
Selling and administrative expenses		10,422	6,104	25,323	11,819
Exploration and evaluation expenses		7,935	7,455	13,343	14,797
Other operating expenses	6d	28,909	210	40,606	8,059
Results from operating activities		(4,123)	78,692	15,682	178,557
Finance income	6e	(2,321)	(1,978)	(4,899)	(3,356)
Finance expenses	6e	37,675	37,408	82,704	75,712
Other finance loss (gains)	6e	4,454	(6,535)	(79)	(16,699)
Net finance expense		39,808	28,895	77,726	55,657
(Loss) profit before tax		(43,931)	49,797	(62,044)	122,900
Tax expense (recovery)	17a	10,214	25,124	5,518	56,782
(Loss) profit for the period		\$ (54,145)	\$ 24,673	\$ (67,562)	\$ 66,118
(Loss) earnings per share					
Basic and diluted		\$ (0.21)	\$ 0.09	\$ (0.26)	\$ 0.25
Weighted average number of common shares outstanding:					
Basic and Diluted		261,272,151	261,271,188	261,272,151	261,271,188

HUDBAY MINERALS INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

(in thousands of US dollars, except where otherwise noted)

For the three and six months ended June 30, 2019 and 2018

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
(Loss) profit for the period	\$ (54,145)	\$ 24,673	\$ (67,562)	\$ 66,118
Other comprehensive income (loss):				
Item that will be reclassified subsequently to profit or loss:				
Recognized directly in equity:				
Net exchange gain (loss) on translation of foreign currency balances	3,690	(5,915)	7,458	(13,940)
	3,690	(5,915)	7,458	(13,940)
Items that will not be reclassified subsequently to profit or loss:				
Recognized directly in equity:				
Remeasurement - actuarial (loss) gain	(5,625)	6,330	(11,341)	8,347
Tax effect	(75)	(2,225)	(715)	(2,590)
	(5,700)	4,105	(12,056)	5,757
Other comprehensive loss net of tax, for the period	(2,010)	(1,810)	(4,598)	(8,183)
Total comprehensive (loss) income for the period	\$ (56,155)	\$ 22,863	\$ (72,160)	\$ 57,935

HUDBAY MINERALS INC.

Condensed Consolidated Interim Statements of Changes in Equity
(Unaudited and in thousands of US dollars)

	Share capital (note 18)	Other capital reserves	Foreign currency translation reserve	Remeasurement reserve	Retained earnings	Total equity
Balance, January 1, 2018	\$ 1,777,409	\$ 28,837	\$ 12,552	\$ (67,852)	\$ 361,399	\$ 2,112,345
Profit	—	—	—	—	66,118	66,118
Other comprehensive (loss) income	—	—	(13,940)	5,757	—	(8,183)
Total comprehensive (loss) income	—	—	(13,940)	5,757	66,118	57,935
Contributions by and distributions to owners:						
Stock options exercised	(70)	—	—	—	—	(70)
Dividends (note 18b)	—	—	—	—	(2,026)	(2,026)
Total contributions by and distributions to owners	(70)	—	—	—	(2,026)	(2,096)
Balance, June 30, 2018	\$ 1,777,339	\$ 28,837	\$ (1,388)	\$ (62,095)	\$ 425,491	\$ 2,168,184
Profit	—	—	—	—	19,298	19,298
Other comprehensive (loss) income	—	—	(10,431)	3,823	—	(6,608)
Total comprehensive (loss) income	—	—	(10,431)	3,823	19,298	12,690
Contributions by and distributions to owners:						
Share issue costs, net of tax (note 18b)	(10)	—	—	—	—	(10)
Warrants exercised (note 18b)	11	—	—	—	—	11
Dividends (note 18b)	—	—	—	—	(2,019)	(2,019)
Total contributions by and distributions to owners	1	—	—	—	(2,019)	(2,018)
Balance, December 31, 2018	\$ 1,777,340	\$ 28,837	\$ (11,819)	\$ (58,272)	\$ 442,770	\$ 2,178,856

HUDBAY MINERALS INC.

Condensed Consolidated Interim Statements of Changes in Equity
(Unaudited and in thousands of US dollars)

	Share capital (note 18)	Other capital reserves	Foreign currency translation reserve	Remeasurement reserve	Retained earnings	Total equity
Balance, January 1, 2019	\$ 1,777,340	\$ 28,837	\$ (11,819)	\$ (58,272)	\$ 442,770	\$ 2,178,856
Loss	—	—	—	—	(67,562)	(67,562)
Other comprehensive income (loss)	—	—	7,458	(12,056)	—	(4,598)
Total comprehensive income (loss)	—	—	7,458	(12,056)	(67,562)	(72,160)
Dilution of Partner's interest in Rosemont (note 5)		25,978				25,978
Contributions by and distributions to owners:						
Dividends (note 18b)	—	—	—	—	(1,955)	(1,955)
Total contributions by and distributions to owners	—	—	—	—	(1,955)	(1,955)
Balance, June 30, 2019	\$ 1,777,340	\$ 54,815	\$ (4,361)	\$ (70,328)	\$ 373,253	\$ 2,130,719

HUDBAY MINERALS INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

(in thousands of US dollars, except where otherwise noted)

For the three and six months ended June 30, 2019 and 2018

1. Reporting entity

Hudbay Minerals Inc. ("HMI" or the "Company") was amalgamated under the Canada Business Corporations Act on January 1, 2017.

The address of the Company's principal executive office is 25 York Street, Suite 800, Toronto, Ontario. The unaudited condensed consolidated interim financial statements ("interim financial statements") of the Company for the three and six months ended June 30, 2019 and 2018 represent the financial position and the financial performance of the Company and its subsidiaries (together referred to as the "Group" or "Hudbay" and individually as "Group entities").

Wholly owned subsidiaries as at June 30, 2019 include HudBay Marketing & Sales Inc. ("HMS"), HudBay Peru Inc., HudBay Peru S.A.C. ("Hudbay Peru"), HudBay (BVI) Inc., Hudbay Arizona Inc, Rosemont Copper Company ("Rosemont") and Mason Resources (US) Inc ("Mason").

Hudbay is an integrated mining company primarily producing copper concentrate (containing copper, gold and silver), molybdenum concentrate and zinc metal. With assets in North and South America, the Group is focused on the discovery, production and marketing of base and precious metals. Directly and through its subsidiaries, Hudbay owns three polymetallic mines, four ore concentrators and a zinc production facility in northern Manitoba and Saskatchewan (Canada) and Cusco (Peru) and copper projects in Arizona and Nevada (United States). The Group also has equity investments in a number of junior exploration companies. The Company is governed by the Canada Business Corporations Act and its shares are listed under the symbol "HBM" on the Toronto Stock Exchange, New York Stock Exchange and Bolsa de Valores de Lima.

2. Basis of preparation

(a) Statement of compliance:

These interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB") and do not include all of the information required for full annual financial statements by International Financial Reporting Standards ("IFRS").

These interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2018 which includes information necessary or useful to understanding the Company's business and financial statement presentation. In particular, the Company's significant accounting policies are presented as note 3 in the audited consolidated financial statements for the year ended December 31, 2018 and have been consistently applied in the preparation of these interim financial statements, except as noted below.

As a result of the application of IFRS 16, Leases ("IFRS 16"), the Group has adopted the relevant accounting policies. Refer to note 3 for further information.

The Board of Directors approved these interim financial statements on August 8, 2019.

HUDBAY MINERALS INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

(in thousands of US dollars, except where otherwise noted)

For the three and six months ended June 30, 2019 and 2018

(b) Functional and presentation currency:

The Group's interim financial statements are presented in US dollars, which is the Company's and all material subsidiaries' functional currency, except the Company's Manitoba business unit, which has a functional currency of Canadian dollars. All values are rounded to the nearest thousand (\$000) except where otherwise indicated.

(c) Use of judgements:

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

The interim financial statements reflect the judgements outlined by the Group in its audited consolidated financial statements for the year ended December 31, 2018.

(d) Use of estimates and assumptions:

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

The interim financial statements reflect the estimates outlined by the Group in its audited consolidated financial statements for the year ended December 31, 2018.

3. Significant accounting policies

These interim financial statements reflect the accounting policies applied by the Group in its audited consolidated financial statements for the year ended December 31, 2018 and comparative periods. As a result of the application of IFRS 16, Leases ("IFRS 16"), the Group has adopted the relevant accounting policies as recast below.

(a) Property, plant and equipment

(i) Depreciation rates of major categories of assets:

- | | |
|-----------------------------|---|
| • Capital works in progress | - not depreciated |
| • Mining properties | - unit-of-production |
| • Mining assets | - unit-of-production |
| • Plant and Equipment | |
| – Equipment | - straight-line over 1 to 21 years |
| – Other plant assets | - straight-line over 1 to 21 years / unit-of-production |
| – Right-of-use assets | - straight-line over term of lease |

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

HUDBAY MINERALS INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

(in thousands of US dollars, except where otherwise noted)

For the three and six months ended June 30, 2019 and 2018

(b) Leases

The Group has applied IFRS 16 using the modified retrospective approach. The impact of the changes are disclosed in Note 4.

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The group assesses the following criteria in the determination of whether a contract conveys the right to control the use of an identified asset:

- The contract involves the use of an identified asset - this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has substantive substitution rights, then the asset is not identified;
- The Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- The Group has the right to direct the use of the asset by means of decision making rights that are most relevant to changing how and for what purpose the asset is used. In the case where decisions about the assets purpose is predetermined, the Group is determined to have the right to direct the use of the asset if either:
 - The Group has the right to operate the asset; or
 - The Group designed the asset in a way that predetermines how and for what purpose it will be used.

The Group has applied this approach to contracts entered into or changed on or after January 1, 2019. The Group's approach to other contracts is explained in Note 4.

The Group recognizes a right-of-use ("ROU") asset and lease liability at the lease commencement date. The initial measurement of the ROU asset is on a present value basis. This is based on the calculated lease liability plus any initial direct costs incurred, an estimate of removal or restoration costs, and any payments made prior to commencement of the lease less any lease incentives received.

The right of use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of the right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is measured at the present value of the lease payments that are yet to be paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be easily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise fixed payments including in-substance fixed payments and variable payments that depend on an index or rate, amounts expected to be payable under a residual value guarantee and the additional costs the Group reasonably expects to incur due to purchase options, extension options and termination options reasonably expected to be exercised.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in the expected future cash flows of a leasing contract either due to a change in index or rate, or due to a change in terms of the contract. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset is zero.

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(in thousands of US dollars, except where otherwise noted)

For the three and six months ended June 30, 2019 and 2018

The Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component for lease contracts of all asset classes.

The Group has elected not to recognise ROU assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Group does not enter into transactions where the Group acts as a lessor.

The incremental borrowing rates used for new ROU leases as at January 1, 2019 and going forward which are required to incorporate assessments of asset specific attributes such as quality and location are a key management judgements.

4. New standards

New standards and interpretations adopted

(a) IFRS 16, Leases (“IFRS 16”)

In January 2016, the IASB issued this standard which is effective for periods beginning on or after January 1, 2019, replaces the current guidance in IAS 17, Leases (“IAS 17”), and is to be applied either retrospectively or using a modified retrospective approach. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognize a lease liability reflective of future lease payments and a “right-of-use asset” for virtually all lease contracts, which has caused, with limited exceptions, most leases to be recorded on balance sheet.

The Group has selected the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 has been recognized as an adjustment to the January 1, 2019 balance for property, plant and equipment and lease liabilities. There was no retained earnings impact. The Group applied the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before January 1, 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

On the transition date of January 1, 2019, former operating leases have been recognized on the consolidated balance sheet, which has increased liabilities and property, plant and equipment balances. As a result of recognizing the former operating leases, this has reduced cost of sales, as previously recorded operating lease expense has been replaced by depreciation expense and finance expense.

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(b) Lease standard adopted - Impact Summary

Condensed Consolidated Interim Balance Sheet

	As reported December 31, 2018	Adjustment	Revised opening balance, January 1, 2019
Property, plant & equipment, net book value	\$ 3,819,812	\$ 14,980	\$ 3,834,792
Lease Liability (current)	20,472	4,949	25,421
Lease Liability (non-current)	53,763	10,031	63,794

On transition to IFRS 16, the Group recognized an additional \$14,980 of right of use assets and lease liabilities. When measuring lease liabilities, the Group discounted lease payments using the incremental borrowing rate at January 1, 2019. The range of interest rates utilized for discounting varies depending mostly on the Hudbay Group entity acting as lessee and duration of the lease; rates ranged from 1.95% to 5.13%, per annum.

For the transition to IFRS 16, effective January 1, 2019, for previous operating leases which were not capitalized, the lease liability is initially measured at the present value of the future lease payments discounted using the Company's incremental borrowing rate. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Since the Company elected not to apply the general requirements of IFRS 16 to short-term leases (i.e. one that does not include a purchase option and has a lease term at commencement date of 12 months or less) and leases of low value assets, the Company recognizes the lease payments associated with those leases as an expense on either a straight-line basis over the lease term or another systematic basis if that basis is representative of the pattern of the lessee's benefits, similar to the previous accounting for operating leases.

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied a single discount rate to a portfolio of leases with similar characteristics using a risk adjusted rate
- Adjusted the right of use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review
- Applied the exemption to not recognize right of use assets and liabilities for leases with less than 12 months of lease term
- Excluded initial direct costs from measuring the right of use asset at the date of initial application
- Used hindsight when determining the lease term if the contract contains options to extend or terminate a lease

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For the three and six months ended June 30, 2019 and 2018

Change in opening lease liability balances:

	Jan. 1, 2019
Total minimum lease payments - lease liabilities, Dec. 31, 2018	\$ 78,174
Newly capitalized leases, IFRS 16 (Note 4b)	17,708
Total minimum lease payments - lease liabilities, Jan. 1, 2019	95,882
Effect of discounting	(6,667)
Present value of minimum lease payments	89,215
Less: current portion	(25,421)
	\$ 63,794

Reconciliation of operating leases in IAS 17 to IFRS 16:

Operating lease commitments, Dec. 31, 2018	\$ 63,448
Less: short term leases - expedient	(3,663)
Less: low value leases - expedient	(10)
Less: variable consideration leases ¹	(46,120)
Add: inclusion of non-lease components (election) and expected term extensions	4,053
Lease commitments - capitalizable leases, Jan. 1, 2019	17,708
Effect of discounting	(2,728)
Newly capitalized leases at January 1, 2019	\$ 14,980

¹ Variable consideration leases include equipment used for heavy civil works at Constanca.

New standards and interpretations not yet adopted

(c) Amendment to IFRS 3 - Business Combinations

The amendment to IFRS 3 clarifies the definition of a business and includes an optional concentration test to determine whether an acquired set of activities and assets is a business. This amendment is in effect January 1, 2020 with early adoption permitted. The Group has not yet determined the effect of adoption of this amendment on its consolidated financial statements.

5. Acquisition of remaining interest in the Rosemont project

In March 2019, the Company entered into an agreement with United Copper & Moly LLC ("UCM") to purchase UCM's remaining 7.95% interest in the Rosemont project, and to terminate all of UCM's remaining earn-in and off-take rights. The acquisition was completed on April 25, 2019.

Upfront cash consideration of \$45,000 was paid on April 25, 2019, and the Company also committed to pay three annual installments of \$10,000 per year, commencing July 1, 2022.

To facilitate an orderly acquisition of UCM's interest in Rosemont, the Group, immediately prior to closing the acquisition, agreed to release UCM from repayment obligations under an intercompany Rosemont project loan in exchange for an increase in equity interest in Rosemont. As a result, the loan receivable balance of \$25,978 was written off. The Group recognized the loss on the loan receivable in the income statement (refer to Note 6d). In addition, in order to recognize previously unfunded contributions to the Rosemont Project due from UCM, the Group recognized an increase to other capital reserves, a component of shareholder's equity.

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The acquisition provides Hudbay with 100% ownership of Rosemont, allowing greater strategic flexibility with respect to capital structure and project financing alternatives. In exchange for acquiring the percentage ownership not already owned by Hudbay, the Group paid:

Cash	\$	45,000
Present value of future cash installments		23,557
Total consideration	\$	68,557

As part of the increase in ownership of the Rosemont Project, Hudbay acquired and assumed the following assets and liabilities, which represent the fair value of the assets and liabilities not already owned by Hudbay:

Current assets	\$	343
Non-current assets		68,904
Liabilities		(690)
Net assets acquired	\$	68,557

For the six months ended June 30, 2019, transactions costs totalling \$1,096 were expensed and included within selling & administrative.

HUDBAY MINERALS INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

(in thousands of US dollars, except where otherwise noted)

For the three and six months ended June 30, 2019 and 2018

6. Revenue and expenses

(a) Revenue

The Group's revenue by significant product types:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Copper	\$ 205,341	\$ 242,767	\$ 407,634	\$ 499,638
Zinc	71,561	93,323	138,767	184,246
Gold	42,269	41,583	70,753	78,190
Silver	19,757	19,046	46,375	41,222
Molybdenum	11,252	—	17,584	3,305
Other	1,444	1,451	2,510	2,365
	351,624	398,170	683,623	808,966
Variable consideration adjustments ¹	—	—	(16,295)	155
Pricing and volume adjustments ²	(270)	(4,554)	(3,573)	(4,746)
	351,354	393,616	663,755	804,375
Treatment and refining charges	(21,940)	(22,328)	(42,083)	(46,431)
	\$ 329,414	\$ 371,288	\$ 621,672	\$ 757,944

¹See note 15.

²Pricing and volume adjustments represent mark-to-market adjustments on initial estimate of provisionally priced sales, realized and unrealized changes to fair value for non-hedge derivative contracts and adjustments to originally invoiced weights and assays.

(b) Depreciation and amortization

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

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Cost of sales	\$ 91,194	\$ 83,552	\$ 168,325	\$ 164,160
Selling and administrative expenses	545	151	1,097	239
	\$ 91,739	\$ 83,703	\$ 169,422	\$ 164,399

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(c) Share-based payment expenses (recoveries)

Share-based payment expenses (recoveries) are reflected in the condensed consolidated interim income statements as follows:

	Cash-settled		Total share-based payment expense
	RSUs	DSUs	
Three months ended June 30, 2019			
Cost of sales	\$ (62)	\$ —	\$ (62)
Selling and administrative	(306)	(1,477)	(1,783)
Other operating	(30)	—	(30)
	\$ (398)	\$ (1,477)	\$ (1,875)
Six months ended June 30, 2019			
Cost of sales	\$ 365	\$ —	\$ 365
Selling and administrative	1,886	996	2,882
Other operating	221	—	221
	\$ 2,472	\$ 996	\$ 3,468
Three months ended June 30, 2018			
Cost of sales	\$ (86)	\$ —	\$ (86)
Selling and administrative	(837)	(856)	(1,693)
Other operating	(104)	—	(104)
	\$ (1,027)	\$ (856)	\$ (1,883)
Six months ended June 30, 2018			
Cost of sales	\$ (69)	\$ —	\$ (69)
Selling and administrative	(1,423)	(1,825)	(3,248)
Other operating	(131)	—	(131)
	\$ (1,623)	\$ (1,825)	\$ (3,448)

(d) Other operating expenses

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Write down of UCM receivable (note 5)	\$ 25,978	\$ —	\$ 25,978	\$ —
Regional costs	724	1,152	1,940	1,913
Pampacancha delivery obligation	—	—	7,499	7,218
Other expense (income)	2,207	(942)	5,189	(1,072)
	\$ 28,909	\$ 210	\$ 40,606	\$ 8,059

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During the first quarter of 2019, the Group recognized an obligation to deliver additional precious metal credits to Wheaton Precious Metals (“Wheaton”) as a result of the Group’s expectation that mining at the Pampacancha deposit will not begin until 2020. The obligation is to be paid in four quarterly installments, the first to be paid on March 31, 2020.

A similar obligation was recorded in the first quarter of 2018, as a result of the Pampacancha deposit not being mined in 2018.

(e) Finance income and expenses

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Finance income	\$ (2,321)	\$ (1,978)	\$ (4,899)	\$ (3,356)
Finance expenses				
Interest expense on long-term debt	19,562	19,196	39,091	38,714
Accretion on financial liabilities at amortized cost	294	313	594	627
Finance costs on deferred revenue (note 15)	15,915	16,137	37,884	32,319
Unwinding of discounts on provisions	1,113	1,157	2,298	2,276
Withholding taxes	2,078	2,364	4,268	4,701
Other finance expense	2,010	1,534	5,161	3,659
	40,972	40,701	89,296	82,296
Interest capitalized	(3,297)	(3,293)	(6,592)	(6,584)
	37,675	37,408	82,704	75,712
Other finance losses (gains)				
Net foreign exchange losses (gains)	921	(5,674)	1,780	(9,690)
Change in fair value of financial assets and liabilities at fair value through profit or loss:				
Hudbay warrants	—	(1,105)	—	(6,662)
Embedded derivatives	894	(1,840)	(3,707)	(4,471)
Investments	2,639	2,084	1,848	4,124
	4,454	(6,535)	(79)	(16,699)
Net finance expense	\$ 39,808	\$ 28,895	\$ 77,726	\$ 55,657

Interest expense related to certain long-term debt has been capitalized to the Rosemont project until commercial production is reached.

Other finance expense relates primarily to fees on the Group’s revolving credit facilities and capitalized leases.

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7. Trade and other receivables

	Jun. 30, 2019	Dec. 31, 2018
Current		
Trade receivables	\$ 64,676	\$ 102,112
Statutory receivables	10,282	12,764
Other receivables	10,877	2,277
	85,835	117,153
Non-current		
Taxes receivable	17,742	17,199
Receivable from joint venture partners (note 5)	—	20,404
Other receivables	1,583	1,518
	19,325	39,121
	\$ 105,160	\$ 156,274

As at June 30, 2019, \$8,500 (December 31, 2018 - \$11,670) of the current statutory receivables related to refundable sales taxes in Peru that Hudbay Peru has paid on capital expenditures and operating expenses.

8. Inventories

	Jun. 30, 2019	Dec. 31, 2018
Current		
Stockpile	\$ 13,133	\$ 5,463
Work in progress	10,103	1,762
Finished goods	74,611	62,546
Materials and supplies	49,993	48,703
	147,840	118,474
Non-current		
Stockpile	14,849	14,730
Materials and supplies	5,717	4,746
	20,566	19,476
	\$ 168,406	\$ 137,950

The cost of inventories recognized as an expense, including depreciation, and included in cost of sales amounted to \$260,639 and \$475,153 for the three and six months ended June 30, 2019 (three and six months ended June 30, 2018 - \$249,801 and \$481,092).

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9. Other financial assets

	Jun. 30, 2019	Dec. 31, 2018
Current		
Derivative assets	\$ 9,040	\$ 6,628
Restricted cash	1,364	3,738
	10,404	10,366
Non-current		
Investments at fair value through profit or loss	13,964	15,159
	\$ 24,368	\$ 25,525

Investments at fair value through profit or loss consist of securities in Canadian metals and mining companies, all of which are publicly traded. The change in investments at fair value through profit or loss is mostly attributed to fluctuations in market price and foreign exchange impact.

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10. Property, plant and equipment

Jun. 30, 2019	Cost	Accumulated depreciation and amortization	Carrying amount
Exploration and evaluation assets	\$ 53,160	\$ —	\$ 53,160
Capital works in progress	1,005,971	—	1,005,971
Mining properties	2,078,439	(883,628)	1,194,811
Plant and equipment	2,544,091	(980,886)	1,563,205
Plant and equipment-ROU Assets	185,871	(99,754)	86,117
	\$ 5,867,532	\$ (1,964,268)	\$ 3,903,264

2018	Cost	Accumulated depreciation and amortization	Carrying amount
Exploration and evaluation assets	\$ 52,206	\$ —	\$ 52,206
Capital works in progress	873,781	—	873,781
Mining properties	1,998,439	(780,754)	1,217,685
Plant and equipment	2,638,347	(962,207)	1,676,140
Balance, Dec. 31, 2018	5,562,773	(1,742,961)	3,819,812
IFRS 16 Adjustments	14,980	—	14,980
	\$ 5,577,753	\$ (1,742,961)	\$ 3,834,792

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11. Other liabilities

	Jun. 30, 2019	Dec. 31, 2018
Current		
Provisions (note 16)	\$ 8,718	\$ 14,276
Pension liability	11,547	11,854
Other employee benefits	2,673	2,564
Unearned revenue	1,132	1,857
	\$ 24,070	\$ 30,551

12. Other financial liabilities

	Jun. 30, 2019	Dec. 31, 2018
Current		
Derivative liabilities	\$ 4,108	\$ 2,634
Other financial liabilities at amortized cost	2,536	2,590
Embedded derivatives (note 19)	8,206	7,201
	14,850	12,425
Non-current		
Deferred Rosemont acquisition consideration (note 5)	23,787	—
Other financial liabilities at amortized cost	18,786	18,771
Embedded derivatives (note 19)	4,154	—
	46,727	18,771
	\$ 61,577	\$ 31,196

The derivative liabilities include derivative and hedging transactions. Derivative liabilities are carried at their fair value with changes in fair value recorded to the consolidated income statements. The fair value adjustments for hedging type derivatives are recorded in revenue. Fair value adjustments for embedded derivatives are recorded in other finance (gain) loss.

Other financial liabilities at amortized cost relate to agreements with communities near the Constancia operation which allow Hudbay to extract minerals over the useful life of the Constancia operation, carry out exploration and evaluation activities in the area and provide Hudbay with community support to operate in the region.

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13. Lease Liability

	Jun. 30, 2019	Dec. 31, 2018
Total minimum lease payments - lease liabilities	\$ 87,779	\$ 78,174
Effect of discounting	(6,237)	(3,939)
Present value of minimum lease payments	81,542	74,235
Less: current portion	(26,799)	(20,472)
	\$ 54,743	\$ 53,763
Minimum payments under leases:		
Less than 12 months	\$ 25,959	\$ 18,448
13 - 36 months	46,167	40,615
37 - 60 months	11,328	19,111
More than 60 months	4,325	—
	\$ 87,779	\$ 78,174

The Group has entered into leases for its South American, Manitoba and Arizona business units which expire between 2020 and 2043. The interest rates on leases which were capitalized have implicit interest rates between 1.95% to 5.13%, per annum. The range of interest rates utilized for discounting varies depending mostly on the Hudbay Group entity acting as lessee and duration of the lease. The Group has the option to purchase the equipment and vehicles leased at the end of the terms of the leases. The Group's obligations under these leases are secured by the lessor's title to the leased assets. The present value of the net minimum lease payments has been recognized as a ROU asset, which was included as a non-cash addition to property, plant and equipment, and a corresponding amount as a lease liability. The fair value of the lease liabilities approximates their carrying amount.

There are no restrictions placed on the Group by entering into these leases.

The following outlines expenses recognized within the Company's condensed consolidated income statement for the periods ended June 30, 2019, relating to leases for which a recognition exemption was applied.

	Jun. 30, 2019	
	Three months ended	Six months ended
Short-term leases	\$ 10,409	\$ 22,150
Low value leases	31	69
Variable leases	18,985	31,004
Total	\$ 29,425	\$ 53,223

Payments made for short term, low value and variable leases would mostly be captured as expenses in the consolidated income statements, however, certain amounts may be capitalized to PP&E for the Arizona business unit during its development phase and certain amounts may be reported in inventories given the timing of sales. Variable consideration leases include equipment used for heavy civil works at Constancia.

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14. Long-term debt

Long-term debt is comprised of the following:

	Jun. 30, 2019	Dec. 31, 2018
Senior unsecured notes (a)	\$ 984,672	\$ 989,306
Less: Unamortized transaction costs - revolving credit facilities (b)	(7,476)	(8,276)
	\$ 977,196	\$ 981,030

(a) Senior unsecured notes

Balance, January 1, 2018	\$ 987,903
Change in fair value of embedded derivative (prepayment option)	316
Accretion of transaction costs and premiums	1,087
Balance, December 31, 2018	\$ 989,306
Change in fair value of embedded derivative (prepayment option)	(5,210)
Accretion of transaction costs and premiums	576
Balance, June 30, 2019	\$ 984,672

The \$1,000,000 aggregate principal amount of senior notes are comprised of two series: (i) a series of 7.25% senior notes due 2023 in an aggregate principal amount of \$400,000 and (ii) a series of 7.625% senior notes due 2025 in an aggregate principal amount of \$600,000.

The senior notes are guaranteed on a senior unsecured basis by substantially all of the Company's subsidiaries, other than HudBay (BVI) Inc. and certain excluded subsidiaries, which include the Company's subsidiaries that own an interest in the Rosemont project and any newly formed or acquired subsidiaries that primarily hold or may develop non-producing mineral assets that are in the pre-construction phase of development.

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(b) Unamortized transaction costs - revolving credit facilities

Balance, January 1, 2018	\$	8,328
Accretion of transaction costs		(1,946)
Transaction costs		1,894
Balance, December 31, 2018	\$	8,276
Accretion of transaction costs		(1,141)
Transaction costs		341
Balance, June 30, 2019	\$	7,476

As at June 30, 2019, the Arizona business unit had \$58,931 in surety bonds issued to support future reclamation and closure obligations and the Peru business unit had \$40,000 in surety bonds issued to support its reclamation obligations. No cash collateral is required to be posted. The South American business unit had \$43,509 in letters of credit issued under the Peru facility to support its reclamation obligations and the Manitoba business unit had \$85,246 in letters of credit issued under the Canada facility to support its reclamation and pension obligations. Given that these letters of credit are issued under the senior credit facilities, no cash collateral is required to be posted.

15. Deferred revenue

On August 8, 2012 and November 4, 2013, the Group entered into precious metals stream transactions with Wheaton whereby the Group has received aggregate deposit payments of \$885,000 against delivery of (i) 100% of payable gold and silver from the 777 mine until the end of 2016, and delivery of 50% of payable gold and 100% of payable silver for the remainder of the 777 mine life; and (ii) 100% of payable silver and 50% of payable gold from the Constancia mine.

In addition to the deposit payments, as gold and silver is delivered to Wheaton, the Group receives cash payments equal to the lesser of (i) the market price and (ii) \$400 per ounce (for gold) and \$5.90 per ounce (for silver), subject to 1% annual escalation after three years.

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

The Group has determined that precious metals stream contracts are subject to variable consideration and contain a significant financing component. As such, the Company recognizes a financing charge at each reporting period and will gross up the deferred revenue balance to recognize the significant financing element that is part of these contracts.

The Group expects that the remaining performance obligations for the 777 and Constancia streams will be settled by the expiry of their respective stream agreements, which is no earlier than 2036.

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The following table summarizes changes in deferred revenue:

Balance, January 1, 2018	\$	601,930
Amortization of deferred revenue		
Liability drawdown		(96,038)
Variable consideration adjustment		2,656
Finance costs		64,921
Effects of changes in foreign exchange		(7,391)
Balance, December 31, 2018	\$	566,078
Amortization of deferred revenue		
Liability drawdown		(47,104)
Variable consideration adjustment		16,295
Finance costs (note 6e)		
Current year additions		31,837
Variable consideration adjustment		6,047
Effects of changes in foreign exchange		3,474
Balance, June 30, 2019	\$	576,627

Consideration from the Company's stream agreement is considered variable. Gold and silver revenue can be subject to cumulative adjustments when the number of ounces to be delivered under the contract changes. During the year ended December 31, 2018, and first quarter of 2019, the Company recognized an adjustment to gold and silver revenue and finance costs due to a net increase in the Company's reserve and resource estimates.

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

	Jun. 30, 2019	Dec. 31, 2018
Current	\$ 80,994	\$ 86,256
Non-current	495,633	479,822
	\$ 576,627	\$ 566,078

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16. Provisions

Reflected in the condensed consolidated interim balance sheets as follows:

Jun. 30, 2019	Decommissioning, restoration and similar liabilities	Deferred share units	Restricted share units	Other	Total
Current (note 11)	\$ 1,520	\$ 3,712	\$ 3,414	\$ 72	\$ 8,718
Non-current	235,638	—	3,124	—	238,762
	\$ 237,158	\$ 3,712	\$ 6,538	\$ 72	\$ 247,480

Dec. 31, 2018	Decommissioning, restoration and similar liabilities	Deferred share units	Restricted share units	Other	Total
Current (note 11)	\$ 1,234	\$ 4,288	\$ 8,412	\$ 342	\$ 14,276
Non-current	200,790	—	3,789	69	204,648
	\$ 202,024	\$ 4,288	\$ 12,201	\$ 411	\$ 218,924

17. Income and mining taxes

(a) Tax expense:

The tax expense (recoveries) is applicable as follows:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Current:				
Income taxes	\$ (1,417)	\$ 1,755	\$ 5,656	\$ 16,769
Mining taxes	7,190	7,767	5,855	14,710
Adjustments in respect of prior years	423	(258)	(642)	707
	6,196	9,264	10,869	32,186
Deferred:				
Income tax - origination, revaluation and/or and reversal of temporary differences	8,598	15,659	(3,573)	24,878
Mining taxes (recoveries) - origination, revaluation and/or reversal of temporary difference	(5,168)	321	(2,159)	22
Adjustments in respect of prior years	588	(120)	381	(304)
	4,018	15,860	(5,351)	24,596
	\$ 10,214	\$ 25,124	\$ 5,518	\$ 56,782

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Adjustments in respect of prior years refers to amounts changing due to the filing of tax returns and assessments from government authorities.

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

	Jun. 30, 2019	Dec. 31, 2018
Deferred income tax asset	\$ 22,071	\$ 15,513
Deferred income tax liability	(316,595)	(307,313)
Deferred mining tax liability	(14,666)	(16,777)
	(331,261)	(324,090)
Net deferred tax liability balance, end of period	\$ (309,190)	\$ (308,577)

(c) Changes in deferred tax assets and liabilities:

	Six months ended Jun. 30, 2019	Year ended Dec. 31, 2018
Net deferred tax liability balance, beginning of year	\$ (308,577)	\$ (277,466)
Deferred tax recovery (expense)	5,351	(40,245)
OCI transactions	(715)	520
Items charged directly to equity	—	—
Foreign currency translation on the deferred tax liability	(5,249)	8,614
Net deferred tax liability balance, end of period	\$ (309,190)	\$ (308,577)

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18. Share capital

(a) Preference shares:

Authorized: Unlimited preference shares without par value

(b) Common shares:

Authorized: Unlimited common shares without par value

Issued and fully paid:

	Six months ended Jun. 30, 2019		Year ended Dec. 31, 2018	
	Common shares	Amount	Common shares	Amount
Balance, beginning of year	261,272,151	\$ 1,777,340	261,271,188	\$ 1,777,409
Share issue costs, net of tax	—	—	—	(80)
Warrants exercised	—	—	963	11
Balance, end of period	261,272,151	\$ 1,777,340	261,272,151	\$ 1,777,340

During the six months ended June 30, 2019, the Company paid \$1,955 in dividends on March 29, 2019 to shareholders of record as of March 8, 2019. During the six months ended June 30, 2018, the Company paid \$2,026 in dividends on March 29, 2018 to shareholders of record as of March 9, 2018.

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19. Financial instruments

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

The following presents the fair value ("FV") and carrying value ("CV") of the Group's financial instruments and non-financial derivatives:

Recurring measurements	Jun. 30, 2019		Dec. 31, 2018	
	FV	CV	FV	CV
Financial assets at amortized cost				
Cash and cash equivalents ¹	\$ 489,527	\$ 489,527	\$ 515,497	\$ 515,497
Restricted cash ¹	1,364	1,364	3,738	3,738
Fair value through profit or loss				
Trade and other receivables ^{1, 2}	77,136	77,136	126,311	126,311
Non-hedge derivative assets ³	9,040	9,040	6,628	6,628
Prepayment option - embedded derivatives ⁷	8,874	8,874	3,664	3,664
Investments at FVTPL ⁴	13,964	13,964	15,159	15,159
Total financial assets	599,905	599,905	670,997	670,997
Financial liabilities at amortized cost				
Trade and other payables ^{1, 2}	168,657	168,657	164,628	164,628
Lease liability ⁹	81,542	81,542	74,235	74,235
Deferred Rosemont acquisition consideration ¹	23,787	23,787	—	—
Other financial liabilities ⁵	18,158	21,322	17,425	21,361
Senior unsecured notes ⁶	1,033,092	993,546	988,294	992,970
Unamortized transaction costs ⁸	(7,476)	(7,476)	(8,276)	(8,276)
Fair value through profit or loss				
Embedded derivatives ³	12,360	12,360	7,201	7,201
Non-hedge derivative liabilities ³	4,108	4,108	2,634	2,634
Total financial liabilities	1,334,228	1,297,846	1,246,141	1,254,753
Net financial liability	\$ (734,323)	\$ (697,941)	\$ (575,144)	\$ (583,756)

¹Cash and cash equivalents, restricted cash, trade and other receivables and trade and other payables are recorded at carrying value, which approximates fair value due to their short-term nature and generally negligible credit losses.

²Excludes tax and other statutory amounts.

³Derivatives are carried at their fair value, which is determined based on internal valuation models that reflect observable forward market commodity prices, currency exchange rates, and discount factors based on market US dollar interest rates adjusted for credit risk.

⁴All investments are carried at their fair value, which is determined using quoted market bid prices in active markets for listed shares and determined using valuation models for shares of private companies.

⁵These financial liabilities relate to agreements with communities near the Constancia project in Peru (note 12). Fair values have been determined using a discounted cash flow analysis based on expected cash flows and a credit adjusted discount rate.

⁶Fair value of the senior unsecured notes (note 14) has been determined using the quoted market price at the period end.

⁷Fair value of the prepayment option embedded derivative related to the long-term debt (note 14) has been determined using a binomial tree/lattice approach based on the Hull-White single factor interest rate term structure model.

⁸The carrying value of the facilities approximates the fair value as the facilities are based on floating interest rates.

⁹As a result of IFRS 16, the January 1, 2019 opening balance has been prospectively changed to \$89,215 (note 4).

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Fair value hierarchy

The table below provides an analysis by valuation method of financial instruments that are measured at fair value subsequent to recognition. Levels 1 to 3 are defined based on the degree to which fair value inputs are observable and have a significant effect on the recorded fair value, as follows:

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

June 30, 2019	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Financial assets at FVTPL:				
Non-hedge derivatives	\$ —	\$ 9,040	\$ —	\$ 9,040
Investments at FVTPL	13,964	—	—	13,964
Prepayment option embedded derivative	—	8,874	—	8,874
	\$ 13,964	\$ 17,914	\$ —	\$ 31,878
Financial liabilities measured at fair value				
Financial liabilities at FVTPL:				
Embedded derivatives	\$ —	\$ 12,360	\$ —	\$ 12,360
Non-hedge derivatives	—	4,108	—	4,108
	\$ —	\$ 16,468	\$ —	\$ 16,468

December 31, 2018	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Financial assets at FVTPL:				
Non-hedge derivatives	\$ —	\$ 6,628	\$ —	\$ 6,628
Investments at FVTPL	15,159	—	—	15,159
Prepayment option embedded derivative	—	3,664	—	3,664
	\$ 15,159	\$ 10,292	\$ —	\$ 25,451
Financial liabilities measured at fair value				
Financial liabilities at FVTPL:				
Embedded derivatives	\$ —	\$ 7,201	\$ —	\$ 7,201
Non-hedge derivatives	—	2,634	—	2,634
	\$ —	\$ 9,835	\$ —	\$ 9,835

The Group's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. During the three and six months ended June 30, 2019, and at December 31, 2018 the Group did not make any transfers.

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(b) Derivatives and hedging:

Copper fixed for floating swaps

Hudbay enters into copper fixed for floating swaps in order to manage the risk associated with provisional pricing terms in copper concentrate sales agreements. As at June 30, 2019, the Group had 29,000 tonnes of net copper swaps outstanding at an effective average price of \$2.79/lb and settling across July to October 2019. As at December 31, 2018, the Group had 29,950 tonnes of net copper swaps outstanding at an effective average price of \$2.77/lb and settling across January to April 2019. The aggregate fair value of the transactions at June 30, 2019 was an asset position of \$4,798 (December 31, 2018 was an asset position of \$4,171).

Non-hedge derivative gold and silver contracts

From time to time, the Group enters into gold and silver forward sales contracts to hedge the commodity price risk associated with the future settlement of provisionally priced deliveries. At June 30, 2019 and December 31, 2018, the Group held no gold or silver forward sales contracts.

Non-hedge derivative zinc contracts

Hudbay enters into fixed price sales contracts with zinc customers and, to ensure that the Group continues to receive a floating or unhedged realized zinc price, Hudbay enters into forward zinc purchase contracts that effectively offset the fixed price sales contracts. At June 30, 2019, the Group held contracts for forward zinc purchased of 6,307 tonnes (December 31, 2018 – 2,925 tonnes) that related to forward customer sales of zinc. Prices range from \$2,386 to \$2,740 per tonne (December 31, 2018 – \$2,400 to \$3,203 per tonne) and settlement dates extend to December 2021. The aggregate fair value of the transactions at June 30, 2019 was a net asset position of \$134 (December 31, 2018 – a net liability position of \$177).

(c) Embedded derivatives

Changes in fair value of provisionally priced receivables

The Group records changes in fair value of provisionally priced receivables related to provisional pricing in concentrate purchase, concentrate sale and certain other sale contracts. Under the terms of these contracts, prices are subject to final adjustment at the end of a future period after title transfers based on quoted market prices during the quotation period specified in the contract. The period between provisional pricing and final pricing is typically up to three months.

Changes in fair value of provisionally priced receivables are presented in trade and other receivables when they relate to sales contracts and in trade and other payables when they relate to purchase contracts. At each reporting date, provisionally priced metals are marked-to-market based on the forward market price for the quotation period stipulated in the contract, with changes in fair value recognized in revenue for sales contracts and in cost of sales for purchase concentrate contracts. Cash flows related to changes in fair value of provisionally priced receivables are classified in operating activities.

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As at June 30, 2019 and 2018, the Group's net position consisted of contracts awaiting final pricing which are as indicated below:

Metal in concentrate	Unit	Sales awaiting final pricing		Average price (\$/unit)	
		Jun. 30, 2019	Dec. 31, 2018	Jun. 30, 2019	Dec. 31, 2018
Copper	<i>tonnes</i>	29,631	30,519	2.72	2.69
Zinc	<i>tonnes</i>	—	199	—	1.13
Gold	<i>oz</i>	15,469	15,528	1,412	1,279
Silver	<i>oz</i>	126,731	96,646	15.28	15.45

The aggregate changes in fair value of provisionally priced receivables within the copper and zinc concentrate sales contracts at June 30, 2019, was a liability position of \$3,784 (December 31, 2018 – a liability position of \$6,351).

Prepayment option embedded derivative

The senior unsecured notes (note 14) contain prepayment options, which represent embedded derivatives that require bifurcation from the host contract. The prepayment options are measured at fair value, with changes in the fair value being recognized as unrealized gains or losses in finance income and expense (note 6e). The fair value of the embedded derivative at June 30, 2019 was an asset of \$8,874 (December 31, 2018 - an asset of \$3,664).

Pampacancha delivery obligation-embedded derivative

The Group has recognized an obligation to deliver additional precious metal credits to Wheaton as a result of the Pampacancha deposit not being mined in 2018 or 2019. The fair value of the embedded derivative at June 30, 2019 was a liability of \$12,360 (December 31, 2018 – \$7,201).

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20. Commitments and contingencies

(a) Capital commitments

As at June 30, 2019, the Group had outstanding capital commitments in Canada of approximately \$5,103 primarily related to committed long-lead orders for the Lalor mine, all of which can be terminated by the Group, approximately \$37,041 in Peru primarily related to exploration option agreements, all of which can be terminated by the Group, and approximately \$207,517 in Arizona, primarily related to its Rosemont project, of which approximately \$87,317 cannot be terminated by the Group.

21. Supplementary cash flow information

(a) Change in non-cash working capital:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Change in:				
Trade and other receivables	\$ 36,505	\$ (20,328)	\$ 28,979	\$ 5,959
Other financial assets/liabilities	(11,612)	3,231	(958)	(18,526)
Inventories	1,816	222	(18,225)	(12,726)
Prepaid expenses	(3,679)	(1,987)	(5,186)	(390)
Trade and other payables	1,780	(17,712)	(4,030)	(20,973)
Change in taxes payable/receivable, net	113	2,360	(3,799)	10,802
Provisions and other liabilities	940	(381)	1,187	830
	\$ 25,863	\$ (34,595)	\$ (2,032)	\$ (35,024)

(b) Non-cash transactions:

During the six months ended June 30, 2019, the Group entered into the following non-cash investing and financing activities which are not reflected in the consolidated statements of cash flows:

- Remeasurement of the Group's decommissioning and restoration liabilities for the six months ended June 30, 2019 led to a net increase in related property, plant and equipment assets of \$26,491 (six months ended June 30, 2018 - increase of \$802) mainly as a result of lower discount rates.
- Property, plant and equipment included \$4,618 of net additions related to capital additions under capitalized leases with ROU assets.
- The Group, immediately prior to closing the acquisition, agreed to release UCM from repayment obligations under a Rosemont project loan in exchange for an increase in equity in Rosemont. As a result, the loan receivable balance of \$25,978 was written off. The Group recognized the loss on write-off of the loan receivable in the income statement (refer to Note 6d). In addition, in order to recognize previously unfunded contributions to the Rosemont Project due from UCM, the Group recognized an increase to other capital reserves, a component of shareholder's equity.

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22. Segmented information

Corporate and other activities include the Group's exploration activities in Chile, Canada and since the December 2018 acquisition of Mason, the State of Nevada. The exploration entities are not individually significant, as they do not meet the minimum quantitative thresholds. Corporate and other activities are not considered a segment and are included as a reconciliation to total consolidated results.

Three months ended June 30, 2019					
	Manitoba	Peru	Arizona	Corporate and other activities	Total
Revenue from external customers	\$ 152,561	\$ 176,853	\$ —	\$ —	\$ 329,414
Cost of sales					
Mine operating costs	100,426	94,651	—	—	195,077
Depreciation and amortization	35,558	55,636	—	—	91,194
Gross profit	16,577	26,566	—	—	43,143
Selling and administrative expenses	—	—	—	10,422	10,422
Exploration and evaluation	4,142	1,655	—	2,138	7,935
Other operating expense	545	923	27,332	109	28,909
Results from operating activities	\$ 11,890	\$ 23,988	\$ (27,332)	\$ (12,669)	\$ (4,123)
Finance income					(2,321)
Finance expenses					37,675
Other finance loss					4,454
Loss before tax					(43,931)
Tax expense					10,214
Loss for the period					<u>\$ (54,145)</u>

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Three months ended June 30, 2018					
	Manitoba	Peru	Arizona	Corporate and other activities	Total
Revenue from external customers	\$ 193,816	\$ 177,472	\$ —	\$ —	\$ 371,288
Cost of sales					
Mine operating costs	109,650	85,625	—	—	195,275
Depreciation and amortization	31,989	51,563	—	—	83,552
Gross profit	52,177	40,284	—	—	92,461
Selling and administrative expenses	—	—	—	6,104	6,104
Exploration and evaluation	3,070	959	—	3,426	7,455
Other operating (income) and expenses	(227)	937	179	(679)	210
Results from operating activities	\$ 49,334	\$ 38,388	\$ (179)	\$ (8,851)	\$ 78,692
Finance income					(1,978)
Finance expenses					37,408
Other finance gain					(6,535)
Profit before tax					49,797
Tax expense					25,124
Profit for the period					\$ 24,673

Six months ended June 30, 2019					
	Manitoba	Peru	Arizona	Corporate and other activities	Total
Revenue from external customers	\$ 259,693	\$ 361,979	\$ —	\$ —	\$ 621,672
Cost of sales					
Mine operating costs	185,547	172,846	—	—	358,393
Depreciation and amortization	63,372	104,953	—	—	168,325
Gross profit	10,774	84,180	—	—	94,954
Selling and administrative expenses	—	—	—	25,323	25,323
Exploration and evaluation	7,966	2,547	—	2,830	13,343
Other operating expense	2,731	9,638	27,957	280	40,606
Results from operating activities	\$ 77	\$ 71,995	\$ (27,957)	\$ (28,433)	\$ 15,682
Finance income					(4,899)
Finance expenses					82,704
Other finance gains					(79)
Loss before tax					(62,044)
Tax expense					5,518
Loss for the period					\$ (67,562)

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Six months ended June 30, 2018					
	Manitoba	Peru	Arizona	Corporate and other activities	Total
Revenue from external customers	\$ 359,490	\$ 398,454	\$ —	\$ —	\$ 757,944
Cost of sales					
Mine operating costs	208,180	172,372	—	—	380,552
Depreciation and amortization	58,901	105,259	—	—	164,160
Gross profit	92,409	120,823	—	—	213,232
Selling and administrative expenses	—	—	—	11,819	11,819
Exploration and evaluation	6,996	2,090	—	5,711	14,797
Other operating (income) and expenses	(445)	8,848	294	(638)	8,059
Results from operating activities	\$ 85,858	\$ 109,885	\$ (294)	\$ (16,892)	\$ 178,557
Finance income					(3,356)
Finance expenses					75,712
Other finance gains					(16,699)
Profit before tax					122,900
Tax expense					56,782
Profit for the period					\$ 66,118

June 30, 2019					
	Manitoba	Peru	Arizona	Corporate and other activities	Total
Total assets	\$ 675,896	\$ 2,734,278	\$ 992,598	\$ 335,166	\$ 4,737,938
Total liabilities	492,292	924,126	146,560	1,044,241	2,607,219
Property, plant and equipment ¹	605,436	2,284,436	984,218	29,174	3,903,264

¹ Included in Corporate and other activities is \$21.7 million of property, plant and equipment that is located in Nevada.

December 31, 2018					
	Manitoba	Peru	Arizona	Corporate and other activities	Total
Total assets	\$ 621,253	\$ 2,751,525	\$ 896,693	\$ 416,164	\$ 4,685,635
Total liabilities	424,576	921,773	115,470	1,044,960	2,506,779
Property, plant and equipment ¹	572,947	2,353,229	868,921	24,715	3,819,812

¹ Included in Corporate and other activities is \$21.6 million of property, plant and equipment that is located in Nevada.

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23. Events after the reporting period

On July 31, 2019, the U.S. District Court for the District of Arizona (“Court”) issued a ruling in the lawsuits challenging the U.S. Forest Service’s issuance of the Final Record of Decision (“FROD”) for the Rosemont project in Arizona. The Court ruled to vacate and remand the FROD such that Rosemont cannot proceed with construction at this time.

The Company is evaluating the potential for any impact arising from the Court's decision which may pertain to subsequent financial statements.