HudBay Minerals Inc.

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

For the Three and Six Months
Ended June 30, 2009

August 6, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

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FORWARD-LOOKING INFORMATION

This Management's Discussion and Analysis ("MD&A") contains "forward-looking information", within the meaning of applicable Canadian securities legislation. Forward-looking information includes, but is not limited to, information with respect to HudBay Mineral Inc.'s ("HudBay") 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, the economic outlook, currency fluctuations, government regulation of mining operations, environmental risks, mine life projections, 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 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 Annual Information Form ("AIF") dated March 30, 2009 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.

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.

INTRODUCTION

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, and "HMI Nickel" refers to HMI Nickel Inc., both wholly-owned subsidiaries of HudBay. "CGN" refers to Compañía Guatemalteca de Níquel, S.A., a 98.2%-owned subsidiary, held indirectly through HMI Nickel. "WPCR" refers to the White Pine Copper Refinery Inc.

This MD&A dated August 6, 2009 is intended to supplement and complement HudBay's unaudited interim consolidated financial statements and related notes for the three and six months ended June 30, 2009, which have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). This MD&A should also be read in conjunction with both the audited annual consolidated financial statements and annual MD&A for the year ended December 31, 2008. Additional information regarding the Company, including its audited annual consolidated financial statements and annual MD&A for the year ended December 31, 2008 and its most recent AIF, is available on SEDAR at www.sedar.com.

All figures are in thousands of Canadian dollars unless otherwise noted.

OUR BUSINESS

HudBay (TSX: HBM) is a Canadian-based, integrated base metals mining, metallurgical processing and refining company with assets in North and Central America. We own zinc and copper mines, concentrators and metal production facilities in northern Manitoba and Saskatchewan, a zinc oxide production facility in Ontario, a copper refinery in Michigan and a nickel project in Guatemala. In addition to our primary products, zinc and copper, we also produce gold, silver and zinc oxide. Our objective is to increase shareholder value through efficient operations, organic growth and accretive acquisitions, while maintaining our financial strength.

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KEY FINANCIAL AND PRODUCTION RESULTS

		Three Months Ended		Six Months Ended	
		Jun 30 2009	Jun 30 2008	**Jun 30 2009**	Jun 30 2008
Financial Highlights		*($000s except per share and cash cost per pound amounts)*			
Revenue		**197,657**	284,035	**359,441**	555,672
Earnings before tax		**104,705**	64,542	**99,425**	111,139
Net earnings		**89,415**	33,202	**85,457**	54,754
EBITDA [1]		**28,598**	86,351	**44,091**	157,316
Operating cash flow [1 2]		**28,865**	70,721	**42,837**	141,372
Basic and diluted net earnings per share		**0.58**	0.26	**0.56**	0.43
Operating cash flow per share [1 2]		**0.19**	0.56	**0.28**	1.12
Cash cost per pound of zinc sold [1]		**US (0.06)**	US (0.55)	**US 0.14**	US (0.34)
Operating Highlights					
Production					
Zinc [3]	*tonnes*	**23,999**	33,672	**49,639**	68,382
Copper [4]	*tonnes*	**15,521**	17,384	**31,760**	36,656
Gold [4]	*troy oz.*	**24,333**	28,506	**45,595**	51,505
Silver [4]	*troy oz.*	**490,966**	524,608	**1,055,841**	961,521
Metal Sold					
Zinc [5]	*tonnes*	**24,473**	34,802	**51,422**	67,718
Copper	*tonnes*	**19,633**	18,957	**35,824**	39,559
Gold	*troy oz.*	**24,397**	30,311	**53,021**	50,119
Silver	*troy oz.*	**599,033**	554,733	**1,205,064**	838,200

Financial Condition ($000s)	**Jun 30, 2009**	Dec 31, 2008
Cash, cash equivalents and short-term investments	**845,956**	704,668
Working capital	**924,447**	763,677
Cash (less debt) [6]	**845,649**	700,936
Total assets	**1,972,198**	1,918,353
Shareholders' equity	**1,673,892**	1,558,700

[1] EBITDA, operating cash flow before changes in non-cash working capital, operating cash flow per share, and cash cost per pound of zinc sold are considered non-GAAP measures (refer to "Non-GAAP Measures" on page 33). For EBITDA refer to page 19. For the reconciliation of operating cash flow before changes in non-cash working capital and operating cash flow per share, refer to page 34. For the reconciliation of cash cost per pound of zinc sold, net of by-product credits, refer to page 35.

[2] Before changes in non-cash working capital.

[3] Production includes Balmat payable metal in concentrate shipped.

[4] Production excludes recycled spent anode and represents non-recycled anode production only.

[5] Zinc sales include sales to our Zochem facility of 4,893 tonnes in the second quarter of 2009. Zochem had sales of 6,397 tonnes of zinc oxide in the second quarter.

[6] Cash, cash equivalents and short-term investments of $845,956 less capital leases of $307 as at June 30, 2009.

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EXECUTIVE SUMMARY

Recent Developments

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, subject to satisfaction of certain conditions, on the basis of 0.3919 of a HudBay common share for each Lundin common share. The transaction was to be completed in the first quarter of 2009.

Also on November 21, 2008, we entered into a subscription agreement (the "Subscription Agreement") with Lundin whereby we agreed to acquire 96,997,492 common shares of Lundin at a price of $1.40 per share in a private placement (the “Private Placement”), with aggregate gross proceeds to Lundin of $135.8 million. The Private Placement 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 Toronto Stock Exchange granting conditional approval for the listing of the HudBay common shares to be issued as consideration pursuant to the Arrangement Agreement. The OSC decision found that HudBay shareholder approval of the acquisition of Lundin was required as a condition to the listing of the additional HudBay common shares. As such, the OSC prohibited HudBay from issuing any securities in connection with the transaction contemplated by the Arrangement Agreement without the transaction having been approved by a simple majority of the votes cast at a special meeting of our shareholders.

We entered into a termination agreement providing for the termination of the Arrangement Agreement with Lundin (the “Termination Agreement”) on February 23, 2009 after our Board of Directors concluded we were unlikely to receive the requisite shareholder approval. Pursuant to the Termination Agreement, each of HudBay and Lundin has released the other in respect of any and all claims arising from the Arrangement Agreement. Neither party will be liable for the payment of any termination fees to the other.

On March 23, 2009, our previous Board of Directors resigned, and the nominees of SRM Global Master Fund Limited Partnership (“SRM”) were appointed to HudBay’s Board. The transition in our Board followed the resolution of a proxy contest initiated by SRM in December 2008. In connection with the Board transition, Colin K. Benner resigned as interim chief executive officer and Peter R. Jones was appointed chief executive officer. Mr. Benner had replaced Allen J. Palmiere, who resigned as chief executive officer on March 9, 2009.

On May 26, 2009, we sold our stake in Lundin for cash proceeds of approximately $235.7 million, representing a gain of approximately $99.9 million. In connection with the sale, HudBay and Lundin agreed to terminate all continuing rights and obligations under the Termination Agreement, other than a mutual release and a reciprocal standstill covenant that expires February 23, 2010. HudBay and Lundin also agreed to terminate all continuing rights and obligations under the Subscription Agreement and entered into a mutual release in respect of any and all claims connected with or arising from the Subscription Agreement and certain representations and warranties under the Termination Agreement.

On January 9, 2009, we announced that we would place our Chisel North mine and Snow Lake concentrator on care and maintenance until economic conditions warrant re-evaluation. The suspension of operations was due to depressed base metals prices related to the global economic downturn. We suspended operations at the mine in February 2009, and the concentrator ceased production of concentrate in March 2009.

On June 18, 2009, we announced that we expect to close our Flin Flon copper smelter before July 1, 2010, and WPCR shortly thereafter. The impact on our ongoing financial results is expected to be minimal, as the processing costs from the sale of concentrates are expected to be similar to existing costs. Further, the smelter is part of an integrated complex, and reclamation costs, which have been fully accounted for on our balance sheet, will occur only when the entire Flin Flon metallurgical complex ultimately shuts down. We anticipate employee reductions as a result of the closure to be approximately 225 in Flin Flon and 65 at the WPCR, and have accrued a severance provision of approximately $6.1 million in June 2009 corresponding with the estimated contractual obligations upon severance. Actual severance costs may vary significantly from this amount depending on the implementation of employee reductions.

On August 6, 2009, our board of directors approved the filing of a normal course issuer bid (“NCIB”) with the Toronto Stock Exchange. ("TSX") Subject to TSX approval, the NCIB is expected to permit us to acquire up to approximately 13.7 million common shares during the twelve months following the effective date of the filing. The filing of the NCIB does not commit us to repurchase a fixed number of its common shares; rather, we intend to utilize the NCIB opportunistically to repurchase shares.

Financial Highlights

The effect of the global recession on market prices for base metals continued to significantly affect financial results in the second quarter of 2009. As in the first quarter of 2009, realized prices for zinc and copper were significantly lower than in the second quarter of 2008. Partially offsetting this impact was a weaker Canadian dollar relative to the US dollar, reflecting the impact of weak global economic conditions on Canada’s key commodity exports.

We recorded cash flow from operating activities of $28.9 million before changes in non-cash working capital for the quarter, or $0.19 per share, as compared to $70.7 million, or $0.56 per share, for the same quarter in 2008. Cash, cash equivalents and short-term investments were $846.0 million and working capital was $924.4 million as at June 30, 2009.

Net earnings were $89.4 million for the quarter, or $0.58 per share, compared to net earnings of $33.2 million for the same quarter in 2008, or $0.26 per share. The principal reason for this variance was a gain of $99.9 million on the disposition of our interest in Lundin. Other significant variances were:

- Revenues of $197.7 million were $86.4 million lower than for the second quarter of 2008 due primarily to lower zinc and copper prices and lower zinc and gold volumes, partially offset by a weaker Canadian dollar;
- Operating expenses of $145.5 million were $42.9 million lower than for the second quarter of 2008 due primarily to reduced prices of purchased copper concentrates;
- Lower interest and other income, excluding the Lundin gain, decreased earnings before tax by $5.7 million due to lower interest rates;
- Lower exploration expenses increased earnings before tax by $4.9 million;
- Foreign exchange losses decreased earnings before tax by $14.9 million; and
- Reduced tax expenses of $15.3 million increased net earnings by $16.1 million.

The increase of $141.3 million in cash, cash equivalents and short-term investments from December 31, 2008 was principally due to the proceeds from our disposition of Lundin shares in May 2009.

Operational Highlights

Our production remains on track to meet our expectations for our 2009 guidance, although zinc production from HudBay sources is expected to be at the lower end of the previously announced guidance of 75,000 - 90,000 tonnes in 2009. In addition, total silver production is expected to exceed 2009 guidance as a result of processing silver-rich purchased copper concentrate, which did not materially affect our earnings. Mine production for the second quarter of 2009, was 576,779 tonnes of ore, compared to 767,005 tonnes for the same quarter in 2008 due to the suspension of operations at the Chisel North and Balmat mines. Ore grade for zinc was 3.46%, and for copper was 2.08%, as compared to 5.49% for zinc and 1.72% for copper for the same quarter in 2008. Lower production from Balmat and Chisel North negatively affected weighted average zinc grades, as did lower realized grades at the Trout Lake mine.

Excluding zinc concentrate from Balmat, production from our zinc plant decreased to 23,999 tonnes, compared to 26,436 tonnes in the same quarter of 2008. Unit operating costs decreased by 5% to 31.3¢/lb., reflecting lower costs for operating and maintenance materials.

Non-recycled copper production was lower by 11% due primarily to the lack of availability of economically purchased concentrate. The smelter's unit operating costs, which exclude recycled production, decreased by 18% to 32.3¢/lb. of copper produced, the impact of lower production being more than offset by the reduction in costs for heavy fuel oil.

Gold production decreased 15% due to lower volumes of concentrates and lower head grades. Silver production decreased by 6%, primarily from a specific purchased concentrate source.

For the second quarter of 2009, our cash cost per pound of zinc sold, net of by-product credits from copper, precious metals, zinc oxide and other associated revenue, was negative US$0.06/lb. compared to negative US$0.55/lb. in the same quarter of last year, excluding costs and sales related to Balmat and HMI Nickel (refer to “Non-GAAP Measures” on page 33). The increase was principally due to lower by-product copper credits arising mainly from lower volumes and prices, offset in part by the benefit of a weaker Canadian dollar.

Exploration

In the second quarter of 2009, we continued exploration activities in support of developing the growth potential of our exploration properties within the Flin Flon Greenstone Belt, as well as our operating mines. The key focus of our exploration activities was our Lalor zinc-gold discovery ("Lalor Deposit") for which we capitalized exploration costs of $4.7 million in the quarter. In addition to the $6.9 million originally projected in our MD&A for the year ended December 31, 2008, we intend to spend an additional $6.1 million on our Lalor Deposit in 2009. The aim of the 2009 Lalor exploration program is to advance the project to the feasibility stage, with the hope of then developing a mine. The purpose of the increased expenditures is to determine the magnitude of the gold mineralization that is still open to the north of the deposit and to increase confidence on the interpretations of the zones.

Total exploration spending in the quarter, including capitalized exploration and amounts against which we recorded investment tax credits, was $6.8 million, compared to $13.0 million in the second quarter of 2008. In-mine exploration in the operating mines represented approximately $0.5 million of our exploration spending in the quarter. Year-to-date spending for 2009 was $11.3 million, compared to $21.5 million for the same period in 2008.

Outside the Flin Flon Greenstone Belt, we carried out drill site reclamation at three drill sites around Minto, Ontario.

Environment, Health and Safety

For the quarter, we recorded a lost time accident frequency of 0.6 per 200,000 hours worked, including contractors, compared to 0.9 for the same quarter in 2008. There were no significant environmental non-compliances during the quarter.

Year-to-date, HudBay recorded a lost time accident frequency of 0.7 compared to 0.8 for the same period in 2008.

Fenix Project Update

In November 2008, we decided to delay construction of our Fenix nickel project ("Fenix Project") in Guatemala in light of the significant deterioration in metals prices and recent global economic uncertainty. During the second quarter of 2009, we continued with upgrades to the road from Rio Dulce to El Estor and assessments of power supply and transportation alternatives. Community projects continued in the local town of El Estor.

Copper Smelter Closure

On June 18, 2009, we announced that we expect to close our Flin Flon copper smelter before July 1, 2010 and WPCR shortly thereafter. The carrying values of the smelter and copper refinery at June 30, 2009 were $29.3 million and $20.1 million respectively. Based on an assessment of the recovery of the carrying value of these assets as part of an integrated asset group, we concluded that their carrying values would not be impaired. This conclusion could change if we enter into an agreement to sell copper concentrate to a third party and commence shipments prior to mid 2010. Based on management's estimate of salvage value, the rates of depreciation for the smelter and the copper refinery have been increased such that the assets will be fully depreciated by mid 2010.

Outlook

Although they continue to be significantly lower than a year ago, copper prices and, to a lesser extent, zinc prices have recovered somewhat from the sharp declines seen in late 2008. Although the global economic outlook remains uncertain, there are signs that the economic downturn has bottomed out and that base metals demand may be positioned to recover.

On June 19, 2009, following a strategic review of HudBay and its operations by management and the new Board of Directors, we announced the key elements of our strategic plan. Our strategy will pursue two broad themes. First, we intend to optimize operations and grow our principal operating platform in northern Manitoba. This strategy includes closing the Flin Flon copper smelter by July 1, 2010, continuing to evaluate reopening the Chisel North mine, continuing exploration in the Flin Flon Greenstone Belt and aggressively pursuing development of the Lalor Deposit.

The second key theme of our strategic plan is to grow beyond our Manitoba base. This includes our Fenix Project in Guatemala and pursuing potential acquisition opportunities worldwide.

There are a number of key initiatives in implementing the plan. A decision on the next phase of development for the Lalor Deposit is expected in later 2009. Copper concentrate sales arrangements are also expected to be entered into by the end of 2009, to support the closure of the copper smelter by July 1, 2010. A revised project plan for the Fenix Project is expected in early 2010. The Company also continues to pursue acquisition opportunities.

FINANCIAL REVIEW

Net Earnings Analysis

For the second quarter, net earnings were $89.4 million, reflecting a $56.2 million increase from the second quarter of 2008. Year-to-date 2009 net earnings of $85.5 million reflected a $30.7 million increase from 2008.

Significant variances affecting the second quarter and year-to-date earnings are described as follows:

	Three Months Ended Jun 30, 2009	Six Months Ended Jun 30, 2009
	($ millions)	
Net earnings for the period ended June 30, 2008	**33.2**	**54.8**
Increase (decrease) in earnings components:		
Revenues	**(86.4)**	**(196.2)**
Costs and expenses		
Operating	**42.9**	**93.7**
Depreciation, depletion and amortization	**(0.4)**	**2.8**
General and administrative	**(1.6)**	**(4.9)**
Stock-based compensation	**2.4**	**4.8**
Accretion of asset retirement obligations	**(0.2)**	**(0.4)**
Foreign exchange gain / loss	**(14.9)**	**(11.0)**
Exploration	**4.9**	**9.9**
Interest and other income	**94.2**	**88.4**
Gain / loss on derivative instruments	**(0.8)**	**1.2**
Future taxes	**(0.6)**	**19.5**
Current taxes	**16.7**	**22.9**
Increase in net earnings	**56.2**	**30.7**
Net earnings for the period ended June 30, 2009	**89.4**	**85.5**

Revenue

Total revenue for the second quarter was $197.7 million; $86.4 million lower than for the same quarter last year. Significant revenue variances were:

- Lower copper prices decreased revenue by $76.7 million. Our average realized copper price was US$2.22/lb. in the second quarter of 2009 compared with US$3.79/lb. in the second quarter of 2008;
- The Canadian dollar, which was weaker over the second quarter of 2009 than it was over the second quarter of 2008, increased our revenues denominated in US dollars by $41.8 million;
- Lower zinc prices decreased revenue by $23.1 million for zinc metal. Our average realized zinc price was US$0.70/lb. in the second quarter of 2009 compared to US$1.03/lb. in the second quarter of 2008;
- Silver prices decreased revenue by $2.8 million;
- Higher copper sales volumes increased revenue by $3.9 million;
- Lower zinc sales volumes decreased revenue by $4.3 million;
- Decreased gold sales volumes decreased revenue by $6.4 million.
- Lower Balmat concentrate sales decreased revenues by $7.7 million. Balmat sales were $7.8 million in the second quarter of 2008, whereas there were only pricing adjustments in the second quarter of 2009;
- During 2009, we disposed of our 50% ownership in Considar Metal Marketing SA Inc. (“CMMSA”), which had contributed revenues of approximately $7.4 million in the second quarter of 2008. The transaction will not have a material effect on our marketing activities; and
- Other volume and pricing differences decreased revenue by $3.7 million.

Year-to-date revenue was $359.4 million, $196.2 million lower than for 2008. Significant revenue variances were:

- Lower copper prices decreased revenue by $174.9 million. Our average realized copper price was US$1.98/lb. in 2009 compared with US$3.64/lb. in 2008;
- The Canadian dollar, which was slightly weaker over 2009 than it was over 2008, increased our revenues denominated in US dollars by $100.8 million;
- Lower zinc prices decreased revenue by $68.0 million for metal. Our average realized zinc price was US$0.63/lb. in 2009 compared with US$1.11/lb. in 2008;
- Lower silver prices decreased revenue by $4.1 million;
- Lower copper sales volumes decreased revenue by $19.6 million;
- Lower zinc sales volumes decreased revenue by $4.4 million;
- Higher gold sales volumes increased revenue by $3.2 million;
- Higher silver sales volumes increased revenues by $5.7 million;
- Lower Balmat concentrate sales decreased revenues by $16.5 million. Balmat sales were $17.3 million in the same period of 2008, whereas there were minimal sales from 2008 production in the same period of 2009;
- Revenues were less in 2009 because the Company disposed of its interest in CMMSA, which had contributed revenues of approximately $12.8 million in the same period of 2008.
- Other volume and pricing differences decreased revenue by $5.6 million.

Excluding the impact of foreign exchange, the key drivers of our revenue are quantities of metal sold and realized metal prices. Refer to “Key Financial and Production Results” on page 4 for information on our metal sales quantities.

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HudBay Realized Prices

				HudBay Realized Prices [1] Three Months Ended		HudBay Realized Prices [1] Six Months Ended	
		Q2 2009 **Average**	**Q2** 2008 Average	**Jun 30 2009**	Jun 30 2008	**Jun 30 2009**	Jun 30 2008
Prices in US$[2]							
Zinc [3]	*US$/lb.*	**0.67**	0.96	**0.70**	1.03	**0.63**	1.11
Copper [3]	*US$/lb.*	**2.12**	3.83	**2.22**	3.79	**1.98**	3.64
Gold	*US$/troy oz.*	**922**	896	**919**	925	**901**	891
Silver	*US$/troy oz.*	**13.73**	17.17	**13.55**	17.75	**12.97**	17.04
Prices in C$							
Zinc [3]	*C$/lb.*	**0.78**	0.97	**0.82**	1.04	**0.76**	1.12
Copper [3]	*C$/lb.*	**2.47**	3.87	**2.60**	3.82	**2.38**	3.66
Gold	*C$/troy oz.*	**1,076**	905	**1,077**	937	**1,099**	899
Silver	*C$/troy oz.*	**16.03**	17.35	**15.85**	18.00	**15.75**	17.22
Exchange rate	*US$1 to C$*	**1.17**	1.01	**1.17**	1.01	**1.21**	1.01

[1] Realized prices are before refining and treatment charges and only on the sale of finished metal, excluding metal in concentrates.

[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$0.02/lb. for zinc and a gain of US$0.02/lb. for copper during the second quarter of 2009. Refer to "Base Metal Price Strategic Risk Management" on page 24.

Expenses

Operating Expenses

For the second quarter of 2009, our operating expenses were $145.5 million; $42.9 million lower than the same quarter last year. Significant variances were:

- The Canadian dollar, which was weaker over the second quarter of 2009 than it was over the second quarter of 2008, increased our operating costs denominated in US dollars (other than Balmat) by an estimated $12.3 million, most of which related to purchased concentrates;
- Reduced purchase prices for copper concentrates decreased operating costs by approximately $27.8 million as compared to the second quarter of 2008;
- Suspension of operations at Balmat resulted in a reduction of $12.1 million in operating costs from the second quarter of 2008. During the second quarter of 2008, Balmat operating costs associated with higher sales volumes were $12.1 million.
- Care and maintenance costs of $0.7 million and $1.5 million were incurred respectively for Balmat and Chisel North mines;
- Lower operating costs in the zinc plant and smelter of $2.8 million and $4.1 million were primarily due to lower production and associated savings in consumables as well as lower heavy fuel oil costs;
- Lower mining and milling costs due to closure of Chisel North mine were more than offset by increased volumes of purchased concentrates;
- Scientific research and development investment tax credits of approximately $2.0 million were recorded as a reduction of operating costs during the period. These credits related to claims submitted for 2008 as well as adjustments to the investment tax credits recorded for the 2006 and 2007 years, compared to $0.3 million of tax credits in the second quarter of 2008;
- Accruals for contractual termination costs based on employee agreements were recorded in the amount of $6.1 million in anticipation of employee reductions related to the 2010 smelter and refinery closures;
- Lower profit sharing and net profits interest expenses decreased operating costs by $4.4 million and $2.2 million, respectively, as these are dependent on earnings performance and metals prices;
- As noted previously, we disposed of our 50% ownership in CMMSA. During the second quarter of 2008, we recorded operating costs of approximately $6.7 million for sales generated by CMMSA;
- Expenditures for the HMI Nickel segment, which we acquired in August 2008, were $2.1 million, primarily for care and maintenance; and
- Other operating expenses decreased costs by $3.8 million.

Key inventory changes during the second quarter were:[1]

- Concentrate inventory - Domestic zinc concentrate increased by 5,200 tonnes to 7,700 tonnes, and domestic copper concentrate decreased by 1,000 tonnes to 3,100 tonnes;
- Inventory in process - Copper anodes decreased by 2,000 tonnes to 7,000 tonnes; and
- Finished metal inventory - Zinc decreased by 900 tonnes to 15,500 tonnes, and copper decreased by 2,200 tonnes to 2,800 tonnes.

For the quarter, our inventory in process and finished metal inventory decreased by $20.2 million, primarily due to lower volumes of copper metal as well as copper concentrates. For the year-to-date, inventories decreased by $30.6 million primarily due to lower volumes of copper and gold finished metals, as well as zinc oxide.

Year-to-date operating expenses were $280.6 million, $94.5 million lower than in 2008. Significant variances were:

- Reduced purchase prices for copper concentrates decreased operating costs by approximately $60.5 million compared to the same period in 2008;
- The Canadian dollar, which was slightly weaker over 2009 than it was over 2008, increased operating costs denominated in US dollars (other than Balmat) by an estimated $28.7 million, most of which related to purchased concentrates;
- Suspension of operations at Balmat resulted in a reduction of $22.5 million in operating costs from the year to date 2008. During the year to date 2008, Balmat operating costs associated with higher sales volumes were $23.3 million, whereas there were minimal sales in the year to date 2009;
- Care and maintenance costs of $2.4 million and $3.3 million were incurred respectively for Balmat and Chisel North;
- Lower operating costs in the zinc plant and smelter of $5.0 million and $6.7 million were primarily due to lower production and associated savings in consumables as well as lower heavy fuel oil costs;
- Lower mining and milling costs due to closure of Chisel North mine were more than offset by increased volumes of zinc purchased concentrates;
- Scientific research and development investment tax credits of approximately $2.0 million were recorded as a reduction of operating costs during the period. These credits related to claims submitted for 2008 as well as adjustments to the investment tax credits recorded for the 2006 and 2007 years, compared to $0.3 million of tax credits in the second half of 2008;
- Accruals for contractual termination costs based on employee agreements were recorded in the amount of $6.1 million in anticipation of employee reductions related to the 2010 smelter and refinery closures;
- Lower profit sharing and net profits interest expenses decreased operating costs by $8.9 million and $4.2 million, respectively, as these are dependent on earnings performance and metals prices;
- As noted previously, we disposed of our 50% ownership in CMMSA. During the second quarter of 2008, we recorded operating costs of approximately $11.4 million for sales generated by CMMSA;
- Expenditures for the HMI Nickel segment, which we acquired in August 2008, were $4.8 million, primarily for care and maintenance; and
- Other operating expenses and changes in volumes decreased costs by $18.9 million.

[1] Inventories of concentrates and other quantities are approximate. Estimates will change from period to period as quantities are reassessed.

Unit Operating Costs		Three Months Ended Jun 30 2009	Three Months Ended Jun 30 2008	Six Months Ended Jun 30 2009	Six Months Ended Jun 30 2008
Mines					
777	*$/tonne*	**36.30**	36.17	**38.54**	38.18
Trout Lake	*$/tonne*	**48.58**	49.07	**47.59**	49.22
Chisel North	*$/tonne*	**-**	63.84	**-**	59.96
Balmat [1]	*$/tonne*	**-**	65.47	**-**	64.25
Total Mines [1]	*$/tonne*	**40.09**	46.97	**39.67**	47.31
Concentrators					
Flin Flon	*$/tonne*	**9.13**	10.72	**9.13**	9.99
Snow Lake	*$/tonne*	**-**	22.33	**-**	20.86
Balmat	*$/tonne*	**-**	12.55	**-**	13.34
Metallurgical Plants					
Zinc Plant	*$/lb. Zn*	**0.313**	0.331	**0.311**	0.327
Copper Smelter	*$/lb. Cu*	**0.323**	0.396	**0.336**	0.375
WPCR	*US$/lb. Cu*	**0.084**	0.071	**0.089**	0.074
Non-GAAP Detailed Operating Expenses [2]	*($000s)*				
Mines					
777		**14,474**	13,429	**30,167**	27,962
Trout Lake		**8,648**	9,511	**16,933**	19,391
Chisel North		**-**	5,252	**2,436**	9,908
Balmat		**-**	7,830	**-**	14,571
Concentrators					
Flin Flon		**5,184**	5,796	**10,344**	11,108
Snow Lake		**-**	1,677	**1,090**	3,296
Balmat		**-**	1,393	**-**	2,908
Metallurgical Plants					
Zinc Plant		**16,547**	19,314	**34,060**	39,031
Copper Smelter		**11,049**	15,183	**23,526**	30,268
WPCR		**3,091**	2,832	**6,392**	5,963
Other					
Purchased concentrate treated		**35,747**	45,421	**62,203**	115,938
Anode freight & refining		**2,066**	1,982	**4,192**	4,393
Services & administration		**8,601**	11,782	**17,294**	23,601
HBMS employee profit sharing		**1,774**	6,221	**2,971**	11,851
Net profits interest		**2,730**	4,924	**5,540**	9,698
Other [3]		**17,170**	17,539	**29,420**	32,889
Changes in domestic inventory [4]		**16,371**	18,401	**29,253**	12,414
HMI Nickel		**2,091**	-	**4,822**	-
Total Operating Expenses, per financials		**145,543**	188,487	**280,643**	375,190

[1] As production at our Balmat and Chisel North mine have been suspended, unit production costs for subsequent periods were not meaningful as a comparative tool and have not been presented. However, these costs are reflected within the weighted average unit costs presented for total mines.

[2] Refer to “Non-GAAP Measures” on page 33.

[3] Includes our share of Considar Metal Marketing ("CMM") operating costs for 2008 and care and maintenance costs for Balmat and Chisel North for 2009.

[4] We reduced inventories, requiring recognition of additional operating expenses to reflect the cost of sales during the period.

For the second quarter, other significant variances for 2009 versus 2008 were:

- **Depreciation and amortization** increased by $0.4 million, totaling $23.2 million for the second quarter of 2009. Decreases of $3.2 million and $1.7 million from the suspension of our Balmat operations and Chisel North operations were more than offset by increases in rates for operating assets, including accelerated depreciation for the smelter and refinery in light of the change in the economic life of these assets.

- **General and administrative** expenses increased by $1.6 million, totaling $7.2 million for the second quarter of 2009. The increase is primarily due to expenses relating to proxy solicitation and other corporate expenditures.

- **Stock-based compensation** decreased by $2.4 million to $0.5 million in the second quarter of 2009; an annual grant of options has yet to be issued in 2009 pending review by our Board of Directors, whereas an annual grant of options was issued in the first quarter of 2008.

- **Foreign exchange loss** changed by $14.9 million to a loss of $14.7 million in the second quarter of 2009. Foreign exchange loss represents changes in the Canadian dollar value of our foreign currency denominated operating accounts (including certain cash, cash equivalents and short-term investments, 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; small amounts are held in Guatemalan quetzals. The value of the Canadian dollar relative to the US dollar increased over the second quarter of 2009, with exchange rates moving from $1.26 as at March 31, 2009 to $1.16 as at June 30, 2009, resulting in a foreign exchange loss of $14.7 million in the second quarter of 2009. Over the same period in the prior year, the value of the Canadian dollar decreased, with exchange rates moving from $1.03 as at March 31, 2008 to $1.02 as at June 30, 2008, which resulted in a foreign exchange gain of 0.3 million in the second quarter of 2008.

- **Exploration expenses** decreased by $4.9 million to $1.6 million for the second quarter of 2009 compared to $6.5 million in the second quarter of 2008. Refer to "Capital Expenditures" on page 23 for information on capitalized exploration expenditures.

- **Interest and other income** increased earnings before tax by $94.2 million, mainly due to the $99.9 million gain on sale of Lundin shares partially offset by a decrease of $6.1 million in interest income. Interest income was lower in the second quarter of 2009 due to lower interest rates and lower invested cash.

For the year to date, other significant variances for 2009 versus 2008 were:

- **Depreciation and amortization** decreased by $2.8 million, totaling $44.3 million for year-to-date 2009. Decreases of $7.8 million and $0.9 million from the suspension of our Balmat operations and Chisel North operations were partially offset by increases in rates for operating assets, including accelerated depreciation for the smelter and refinery in light of the change in the economic life of these assets.

- **General and administrative** expenses increased by $4.9 million, totaling $20.3 million for year-to-date 2009. The increase resulted mainly from approximately $7.6 million for costs related to the Lundin transaction, shareholder litigation, proxy solicitation, and severance. Approximately $4.7 million of executive retirement and severance costs were included in the operating results of the first half of 2008.

- **Stock-based compensation** decreased by $4.8 million to $2.7 million year-to-date in the second quarter of 2009; an annual grant of options has yet to be issued in 2009, pending review by the Board of Directors, whereas an annual grant of options was in the first quarter of 2008.

- **Foreign exchange loss** increased by $11.0 million, to a loss of $9.4 million in 2009. The year-to-date loss represents changes in the Canadian dollar value of our foreign currency denominated operating accounts (including certain cash, cash equivalents and short-term investments, 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; small amounts are held in Guatemalan quetzals. The value of the Canadian dollar relative to the US dollar increased over the year-to-date of 2009, with exchange rates moving from $1.22 as at December 31, 2008 to $1.16 as at June 30, 2009, resulting in a foreign exchange loss of $9.4 million for year-to-date 2009. Over the same period in the prior year, the value of the Canadian dollar decreased, with exchange rates moving from $0.99 as at December 31, 2007 to $1.02 as at June 30, 2008, which resulted in a foreign exchange gain of $1.6 million for year-to-date 2008.

- **Exploration expenses** decreased by $9.9 million to $2.6 million for year-to-date 2009. We expensed costs associated with the Lalor Deposit during the first quarter of 2008 and capitalized them thereafter. Refer to “Capital Expenditures” on page 23 for information on capitalized exploration expenditures.

- **Interest and other income** increased earnings before tax by $88.4 million, mainly due to gain on sale of Lundin shares, offset by a decrease by $11.8 million in other income due to lower interest rates and lower invested cash.

Tax Expense

Lower tax expenses increased year to date net earnings by $42.4 million.

The statutory income tax rate decreased from approximately 32.5% for the full 2008 year to an estimated rate of 31.3% for the full 2009 year as a result of federal and provincial income tax rate reductions.

Our effective income tax rate for year to date 2009 was approximately 5% (second quarter - 7%). Significant items causing our effective income tax rate to be lower than the 31.3% statutory income tax rate include:

- an effective capital gains tax rate of 16.5% applicable to the gain related to the disposition of Lundin shares; and

- recognition of tax assets of $16.3 million related to previously unrecognized tax deductions.

Significant items partially offsetting the effect of the above noted items include:

- stock based compensation (not deductible for tax purposes) and other costs that are not fully deductible for tax purposes partially offset the effect of the above noted items.

- an increase in the valuation allowance with respect to increases in temporary differences that related to foreign operations and obligations associated with mine closure. Our valuation allowance increased by $3 million year-to-date.

Mining Tax Expense

The Province of Manitoba announced reductions to its mining tax rate in March 2009 which became substantively enacted in the second quarter. The mining tax rate is reduced to 10%, 15% or 17% from 18% depending on the amount of taxable mining profits. We have accumulated mining tax pools over the years and have recorded the related benefits as future mining tax assets. We consider some additional factors in estimating the required valuation allowance for mining tax assets, primarily because the rate of deductions is more restrictive for mining tax purposes. As at June 30, 2009, the future mining tax asset recorded on our balance sheet was net of a valuation allowance related to temporary differences for mining tax pools that we expect to reverse more than three years in the future. We estimate that the tax rate that will be applicable when temporary differences reverse will be 10% or 15%. Consequently, the rate reductions announced by the Province of Manitoba have resulted in a decrease in the future mining tax asset of approximately $9.2 million. We review estimates for the valuation allowance each quarter and, in so doing, consider uncertainties associated with future longer term metal prices and foreign exchange rates. During the second quarter, after applying our mining tax pools to current earnings and recording the adjustment of $9.2 million, the future mining tax asset was partially drawn down.

Our effective rate for mining taxes was approximately 9% (second quarter - 7%) on our year-to-date income before tax. For the full 2008 year, mining taxes were approximately 17% on earnings before tax. Effective mining tax rates can vary significantly based on the composition of our earnings (losses). A current mining tax recovery was recorded in the second quarter which reflects changes in the estimated 2008 current tax provision.

	Three Months Ended		Six Months Ended	
Tax Expense	**Jun 30 2009**	Jun 30 2008	**Jun 30 2009**	Jun 30 2008
	($000s)			
Non-cash - income tax expense *	**4,319**	12,478	**931**	29,817
Non-cash - mining tax expense *	**8,696**	(86)	**10,240**	881
Total non-cash draw-down	**13,015**	12,392	**11,171**	30,698
Estimated current taxes payable - income tax	**3,462**	9,625	**3,897**	9,715
Estimated current taxes payable - mining tax	**(1,187)**	9,323	**(1,100)**	15,972
Total estimated current taxes payable	**2,275**	18,948	**2,797**	25,687
Tax Expense	**15,290**	31,340	**13,968**	56,385

* Non-cash tax expenses represent our draw-downs of non-cash future income and mining tax assets.

HUDBAY MINERALS

*EBITDA **

The following table presents our calculation of EBITDA for the three and six months ended June 30, 2009 and June 30, 2008.

	Three Months Ended		Six Months Ended	
	Jun 30 2009	Jun 30 2008	**Jun 30 2009**	Jun 30 2008
	($000s)			
Earnings before tax, per financial statements	**104,705**	64,542	**99,425**	111,139
Adjustments:				
Depreciation and amortization	**23,224**	22,847	**44,256**	47,080
Exploration	**1,577**	6,480	**2,632**	12,576
Interest and other income	**(100,966)**	(6,806)	**(102,906)**	(14,508)
(Loss) gain on derivative instruments	**58**	(712)	**684**	1,029
EBITDA *	**28,598**	86,351	**44,091**	157,316

* Refer to "Non-GAAP Measures" on page 33. EBITDA represents earnings before interest, taxes, depreciation and amortization, gain/loss on derivative instruments, exploration and interest and other income.

TREND ANALYSIS AND QUARTERLY REVIEW

The following table sets forth selected consolidated financial information for each of our eight most recently completed quarters.

	2009		2008				2007	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
	($000s)							
Revenue	197,657	161,784	178,781	247,441	284,035	271,637	242,596	319,805
EBITDA[1]	28,598	15,493	46,300	88,633	86,351	70,965	72,014	118,414
Operating cash flow[2]	28,865	13,972	38,805	54,484	70,721	70,651	83,809	113,921
Earnings (loss) before tax	104,705	(5,280)	24,614	33,898	64,542	46,597	31,722	94,266
Net earnings (loss)	89,415	(3,958)	15,819	2,780	33,202	21,552	28,459	66,465
Earnings (loss) per share:								
Basic	0.58	(0.03)	0.10	0.02	0.26	0.17	0.22	0.52
Diluted	0.58	(0.03)	0.10	0.02	0.26	0.17	0.22	0.52

1 EBITDA is considered a non-GAAP measure (refer to "Non-GAAP Measures" on page 33).

2 Before changes in non-cash working capital (refer to "Non-GAAP Measures" on page 33).

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.

Prices for zinc and copper fell dramatically in the fourth quarter of 2008 and have only partially recovered in the first half of 2009. As a result, our EBITDA and operating cash flow have declined substantially in the past nine months compared to the levels we enjoyed in early 2008. A significant weakening of the Canadian dollar, which occurred at the same time as the decline in metals prices in the fourth quarter of 2008, partially offset this trend.

In the fourth quarter of 2007 and the third quarter of 2008, we recorded asset impairment losses on our Balmat mine assets of $15.1 million and $27.2 million, respectively. In addition, we recorded a foreign exchange gain of $34.8 million in the fourth quarter of 2008. In the second quarter of 2009 we realized a gain of $99.9 million on the disposition of our interest in Lundin.

FINANCIAL CONDITION, CASH FLOWS, LIQUIDITY AND CAPITAL RESOURCES

Financial Condition at June 30, 2009 Compared to Financial Condition as at December 31, 2008

Cash, cash equivalents and short-term investments of $846.0 million as at June 30, 2009 reflected a $141.3 million increase from the balance of $704.7 million as at December 31, 2008. We have not invested in asset-backed commercial paper, and our cash equivalents and short-term investments are held in low-risk, liquid investments with major Canadian banks. The increase in our cash, cash equivalents and short-term investments during the first half of 2009 was due mainly to the realization of $235.7 million in proceeds from the disposition of our interest in Lundin, offset in part by the reclassification of cash, cash equivalents and short-term investments of $52.3 million to restricted cash in order to support letters of credit previously supported by our credit facility, which expired on February 27, 2009. Cash balances in 2009 have also been affected by changes in non-cash working capital and costs related to the Lundin transaction, shareholder litigation, proxy solicitation, severance and other merger and acquisition related activities.

Working capital increased by $160.8 million to $924.4 million from December 31, 2008 to June 30, 2009. In addition to the higher cash, cash equivalents and short-term investments position, the significant changes in working capital included decreases in payables of $40.2 million, which reflected settlement of project deferral costs of the Fenix Project, payment of Lundin transaction costs and normal fluctuations in timing of payments, offset in part by increases in payables due to prices and volumes of purchased concentrates; decreases in taxes payable of $21.5 million due mainly to cash payments in the first quarter for 2008 income taxes, as noted above; and decreases in inventory of $29.9 million, due primarily to lower volumes of finished metals, including gold on hand.

On January 15, 2009, we redeemed our remaining Senior Secured Notes with proceeds from our cash held in trust.

Our credit facility expired on February 27, 2009 and has not been renewed or replaced. We plan to establish a replacement credit facility once credit market conditions are more favourable for borrowers.

As at June 30, 2009, letters of credit of $61.3 million were outstanding, including $40.5 million provided to the provinces of Saskatchewan and Manitoba for reclamation undertakings and $8.9 million provided by HMI Nickel. Approximately $52.3 million of our outstanding letters of credit were previously supported by the credit facility noted above. As noted above, we reclassified cash, cash equivalents and short-term investments of $52.3 million to restricted cash in order to support letters of credit previously supported by our credit facility, which expired on February 27, 2009.

Our contractual obligations at June 30, 2009 have not changed materially from December 31, 2008. We estimate that costs to purchase transmission line development assets upon the February 2009 cancellation of long-term agreements related to the Fenix Project may be up to approximately US$5.5 million, reflecting an increase of up to US$2.0 million from the estimate reported as at December 31, 2008, based on further discussions with our counterparty. In addition, our minimum required contributions to our defined benefit pension plans has increased by $9.3 million for each of the calendar years 2009 and 2010 and by $9.2 million for each of the calendar years 2011, 2012 and 2013.

The Company offers a Deferred Share Unit ("DSU") Plan for members of the Board of Directors. Under the DSU Plan, a director receives a certain fixed portion of his or her compensation in the form of notional common shares of the Company called DSUs. Each director may also make a quarterly election to receive all or a portion of his or her cash fees for the upcoming quarter in the form of DSUs. The issue and redemption prices of each DSU are based on the average trading price of the Company's common shares for the five trading days prior to the issuance or redemption. The DSUs vest on the grant date. DSUs are redeemable when a participant is no longer a director of the Company by a lump sum cash payment amount based on the value of the DSUs at the time. The DSU liability is revalued quarterly based on the change in the Company's share price. The change in the value of the DSU liability is included in the operating results in the period of the change.

At June 30, 2009, the value of the outstanding liability related to the DSU Plan was $330 (2008 - $NIL).

The following table summarizes our cash flows for the three and six months ended June 30, 2009 and June 30, 2008.

	Three Months Ended		Six Months Ended	
	Jun 30 2009	Jun 30 2008	**Jun 30 2009**	Jun 30 2008
	($000s)		*($000s)*	
Net earnings for the period	**89,415**	33,202	**85,457**	54,754
Items not affecting cash	**(60,550)**	37,519	**(42,620)**	86,618
Net change in non-cash items	**3,080**	10,482	**(32,870)**	(1,339)
Cash provided by operating activities	**31,945**	81,203	**9,967**	140,033
Cash provided by (used in) investing activities	**208,672**	(125,744)	**615,555**	(149,950)
Cash provided by (used in) financing activities	**1,459**	(7,822)	**(2,185)**	(19,842)
Effect of exchange rate changes on cash and cash equivalents	**(5,949)**	301	**(3,108)**	1,171
Increase (decrease) in cash and cash equivalents	**236,127**	(52,062)	**620,229**	(28,588)

HUDBAY MINERALS

Cash Flow from Operating Activities

Operating activities provided $31.9 million of cash flows in the second quarter, representing a $49.3 million decline compared to the same period in 2008. The decline is due to lower sales prices and volumes, the impact of fluctuations in foreign exchange and corporate costs. Excluding taxes, our net non-cash add-back to net (loss) earnings was $98.7 million lower than it was for the same period last year, mainly from net gains reclassified from accumulated other comprehensive income ("AOCI"), variances in our depreciation and amortization, stock-based compensation and foreign exchange gains.

Year-to-date cash provided by operations was $10.0 million, reflecting a decrease of $130.1 million from operating cash provided in the same period in 2008. The decline is mainly due to lower sales prices and volumes compared to 2008. Other significant factors explaining the change in operating cash flows included non-cash future tax expense, which was $19.5 million lower than it had been in 2008; foreign exchange loss (gain), for which the non-cash adjustment was $4.6 million lower than it had been in 2008 and the change in fair value of derivatives, for which the non-cash adjustment was $3.7 million lower than it had been in 2008. Significant changes in non-cash working capital over year-to-date 2009 included accounts payable and accrued liabilities, which decreased by $44.1 million over the year on a non-cash basis primarily due to decreases in volumes and prices of purchased concentrates and lower profit sharing accruals for the year; inventories, which decreased by $30.2 million due to reductions to previously accumulated copper concentrate and finished metals inventories, as well as lower costs associated with inventories related to purchased concentrates, partially offset by higher volumes of zinc metal inventory; and taxes payable, which decreased by $20.1 million as a payment was made in the first quarter for 2008 taxes.

Cash Flow from Investing and Financing Activities

During the second quarter, our investing and financing activities provided cash of $210.1 million, primarily driven by the cash inflow of $235.7 million from the sale of our interest in Lundin which was partially offset by $25.1 million in additions to property, plant and equipment. In 2008, our second quarter cash outflows for investing and financing activities consisted mainly of property, plant and equipment additions of $30.5 million and an investment of $95.2 million in HMI Nickel.

Year-to-date cash provided by investing and financing activities was represented mainly by the Company's $478.9 million net redemptions of short-term investments in Canadian bankers' acceptances and proceeds of $235.7 million from the disposition of its investment in Lundin. A portion of these cash receipts were invested in additions to property, plant and equipment and restricted cash balances.

Liquidity

During the second quarter of 2009, our operating cash flow (before changes in non-cash operating working capital) fully funded our capital expenditures. In addition, our cash, cash equivalents and short-term investments balance of $846.0 million provides a substantial cushion against unanticipated demands on liquidity, and we do not currently have any material commitments to incur capital expenditures on new growth opportunities.

The declines in the prices for equity and other financial assets in late 2008 adversely affected valuations of our defined benefit pension plan assets. Based on actuarial valuation reports as at December 31, 2008, the solvency deficits in our defined benefit pension plans totaled $31.8 million, compared to $13.2 million at December 31, 2007. As a result, our required cash contributions to these plans, which reflect amortization of the solvency deficits over five years, has increased from $17.4 million in 2008 to $26.8 million in 2009.

On August 6, 2009, our board of directors approved the filing of an NCIB with the TSX. Subject to TSX approval, the NCIB is expected to permit us to acquire up to approximately 13.7 million common shares during the twelve months following the effective date of the filing. The filing of the NCIB does not commit us to repurchase a fixed number of its common shares; rather, we intend to utilize the NCIB opportunistically to repurchase shares.

Capital Expenditures

The following summarizes our capital expenditures by mine and processing facility.

	Three Months Ended		Six Months Ended	
	Jun 30 2009	Jun 30 2008	**Jun 30 2009**	Jun 30 2008
	($ millions)		*($ millions)*	
777 Mine	**5.4**	4.7	**11.3**	10.3
Trout Lake Mine	**6.1**	7.6	**13.3**	15.6
Chisel North Mine	**-**	1.8	**(0.1)**	3.5
Balmat Mine and Concentrator	**-**	3.3	**-**	8.4
Flin Flon and Snow Lake Concentrators	**0.4**	1.1	**1.4**	1.6
Flin Flon and Snow Lake Other	**1.2**	2.3	**1.6**	3.3
Zinc Plant	**1.4**	4.3	**2.4**	5.1
Zinc Oxide Plant	**0.1**	0.2	**0.3**	0.4
Copper Smelter	**2.1**	0.2	**3.7**	0.3
WPCR	**0.2**	0.3	**0.2**	1.5
Other	**0.3**	-	**0.5**	-
Sustaining capital expenditures	**17.2**	25.8	**34.6**	50.0
Lalor Deposit	**4.7**	4.7	**7.8**	4.7
Fenix Project [1]	**3.0**	-	**5.6**	-
Growth capital expenditures	**7.7**	4.7	**13.4**	4.7
Total	**24.9**	30.5	**48.0**	54.7

[1] In 2008, Fenix Project expenditures commenced with our acquisition of HMI Nickel on August 26, 2008.

	Three Months Ended		Six Months Ended	
	Jun 30 2009	Jun 30 2008	**Jun 30 2009**	Jun 30 2008
	($ millions)		*($ millions)*	
Plant and Equipment	**7.3**	9.3	**12.2**	13.9
Capital Development	**9.4**	15.1	**21.5**	32.9
Capitalized Exploration	**5.2**	6.1	**8.7**	7.9
Capitalized Fenix Project	**3.0**	-	**5.6**	-
Total	**24.9**	30.5	**48.0**	54.7

Our capital expenditures in the second quarter were $5.6 million lower than the same period in 2008, as reduced sustaining capital expenditures were partially offset by capitalized expenditures on our Lalor Deposit and Fenix Project. The same factors explained a $6.7 million decline in capital expenditures for the first six months of 2009 compared to the same period in 2008.

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, in the absence of a strategic reason 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 we may need third party financing to fund growth initiatives. Given our strong cash position and balance sheet, we have no current plans to enter into base metal price hedging arrangements.

In the first quarter of 2007, we implemented a price protection program for our Bur deposit and applied hedge accounting to the commodity swap contracts used to hedge prices for a portion of future sales of zinc and copper through 2010. In December 2007, we decided to defer the development of the Bur deposit in favour of the Lalor Deposit. Following this decision, and with lower zinc prices, we unwound the zinc and copper swaps in December 2007 and in 2008. As the unwound zinc and copper swaps were part of effective hedging relationships, for accounting purposes, the mark-to-market gains or losses recognized to the point of unwinding remained in OCI and are being reclassified to earnings in periods through to 2010. As a result of the anticipated closure of the Flin Flon copper smelter, it is likely that certain of the 2010 hedged anticipated copper sales will not occur. Accordingly, we reclassified related gains of $0.5 million from AOCI to earnings in the second quarter of 2009.

For the second quarter of 2009, we reclassified pre-tax net gains of $2.0 million from OCI to earnings as hedged anticipated zinc and copper sales occurred. Of the $5.4 million pre-tax gain in AOCI at June 30, 2009, gains of $4.4 million will be reclassified to earnings in the next twelve months.

Year-to-date, the Company reclassified a pre-tax gain of $4.7 million from OCI to earnings.

Zinc and Zinc Oxide Customer Risk Management

We enter into fixed price sales contracts regarding zinc and zinc oxide to provide a service to customers who purchase finished metal and oxide from our plants and require known future prices. We ensure we continue to receive a floating or unhedged realized zinc price by also entering into forward zinc purchase contracts that effectively offset the fixed price sales contracts with our customers.

Foreign Exchange Risk Management

We may enter into foreign exchange hedging arrangements from time to time, either to manage our exposure to Canadian dollar-denominated operating costs when revenues are predominantly denominated in US dollars, or to manage our exposure to US dollar-denominated cash balances.

OPERATIONS OVERVIEW

Mines

Mines		Three Months Ended Jun 30 2009	Jun 30 2008	Six Months Ended Jun 30 2009	Jun 30 2008
777					
Ore	*tonnes*	**398,762**	371,328	**782,645**	732,371
Zinc	*%*	**3.94**	4.55	**3.87**	4.44
Copper	*%*	**2.21**	2.65	**2.47**	2.64
Gold	*g/tonne*	**2.02**	2.28	**1.94**	2.17
Silver	*g/tonne*	**22.59**	26.23	**23.31**	25.04
Trout Lake					
Ore	*tonnes*	**178,017**	193,807	**355,834**	393,974
Zinc	*%*	**2.39**	4.24	**2.34**	3.95
Copper	*%*	**1.77**	1.64	**1.80**	1.96
Gold	*g/tonne*	**0.96**	1.26	**1.07**	1.33
Silver	*g/tonne*	**9.38**	22.08	**12.40**	20.48
Chisel North					
Ore	*tonnes*	**-**	82,267	**48,695**	165,252
Zinc	*%*	**-**	8.31	**9.18**	7.57
Balmat					
Ore	*tonnes*	**-**	119,603	**-**	226,790
Zinc	*%*	**-**	8.50	**-**	8.08
Total Mines					
Ore	*tonnes*	**576,779**	767,005	**1,187,174**	1,518,387
Zinc	*%*	**3.46**	5.49	**3.63**	5.20
Copper	*%*	**2.08**	1.72	**2.18**	1.80
Gold	*g/tonne*	**1.69**	1.48	**1.62**	1.45
Silver	*g/tonne*	**18.51**	19.89	**20.11**	19.22

For unit operating costs, refer to page 15.

777 Mine

Ore production at our 777 mine for the second quarter increased by 7% compared to the same period in 2008. The improved production is a result of planned productivity improvements at the mine and the addition of credited tonnage from the surface stockpile. The zinc grade was lower by 13%, and the copper grade was lower by 17%, due to the areas we mined during the quarter. The gold grade was 11% lower, and the silver grade was 14% lower, also related to the areas mined in the quarter. Operating costs per tonne of ore in the second quarter were marginally higher as compared to the same period in 2008.

Ore production at the 777 mine for year-to-date 2009 increased by 7% compared to year-to-date 2008. Improvements in the mine ore handling system, productivity improvements and tonnage from the surface stockpile have all contributed to the production increase. Compared with grades in 2008, the zinc grade was 13% lower, copper grade was 6% lower, gold grade was 11% lower, and silver grade was 7% lower. The lower metal grades are attributed to the areas mined. Operating costs at $38.54 per tonne of ore were marginally higher as compared to the same period in 2008.

Trout Lake Mine

Ore production at Trout Lake for the second quarter was 8% lower as compared to the same quarter in 2008. The decrease in production falls in line with our 2009 budget plan. Going forward a higher percentage of tonnage will come from deeper areas of the mine, smaller, narrower stoping blocks and pillar recovery mining. Zinc grade was 44% lower and copper grade was 8% higher, primarily because we mined lower grade areas in copper and zinc due to mining difficulties with some of the pillar stopes. Areas mined were higher in copper and lower in zinc than originally planned. As per the areas mined, gold grade was 24% lower, and silver grade was 58% lower. Operating costs per tonne of ore were 1% lower as compared to the second quarter of 2008.

Ore production at Trout Lake decreased by 10% for year-to-date 2009 compared to year-to-date 2008. This is consistent with the 2009 mining plan, reflecting smaller mining blocks, longer haul distances to ore passes and pillar recovery. Zinc grade was 41% lower, copper grade was 8% lower, gold grade was 20% lower and silver grade was 39% lower. Lower grades are being mined and dilution has increased due to the narrower ore widths. Improved copper grades are expected in the third quarter as we extract more ore from the Deep West mining zone. Operating costs per tonne of ore mined were 3% lower, due to reduced ground support and rehabilitation of some of the mining areas.

Chisel North Mine

On January 9, 2009, we announced that we would suspend operations at our Chisel North mine and concentrator in Snow Lake, Manitoba due to depressed prices of base metals and the economic downturn. We suspended operations at the mine in February 2009, and the concentrator ceased production of concentrate in March 2009. The mine and concentrator will remain under care and maintenance until economic conditions warrant re-evaluation.

Balmat Mine

On August 22, 2008, we announced the suspension of operations at our Balmat Mine as a result of lower prices for zinc metal and continued high operating costs. We placed the Balmat operation on care and maintenance and reduced the carrying values of Balmat's property, plant and equipment to zero in 2008.

HUDBAY MINERALS

Concentrators

Concentrators		Three Months Ended **Jun 30 2009**	Jun 30 2008	Six Months Ended **Jun 30 2009**	Jun 30 2008
Flin Flon Concentrator					
Ore	*tonnes*	**567,883**	540,576	**1,132,599**	1,112,079
Zinc	*%*	**3.51**	4.38	**3.44**	4.29
Copper	*%*	**2.10**	2.32	**2.26**	2.42
Gold	*g/tonne*	**1.73**	1.95	**1.69**	1.89
Silver	*g/tonne*	**19.17**	24.65	**20.27**	23.43
Zinc concentrate	*tonnes*	**32,040**	39,359	**62,318**	79,207
Concentrate grade	*% Zn*	**52.65**	52.08	**52.19**	51.65
Copper concentrate	*tonnes*	**45,104**	47,117	**97,049**	102,601
Concentrate grade	*% Cu*	**24.47**	24.68	**24.62**	24.42
Zinc recovery	*%*	**84.6**	86.6	**83.5**	85.8
Copper recovery	*%*	**92.5**	92.8	**93.2**	93.1
Gold recovery	*%*	**71.7**	79.8	**71.6**	79.2
Silver recovery	*%*	**60.0**	63.1	**62.0**	63.9
Snow Lake Concentrator					
Ore	*tonnes*	**-**	75,121	**49,006**	158,045
Zinc	*%*	**-**	8.33	**8.96**	7.55
Zinc concentrate	*tonnes*	**-**	11,650	**8,646**	22,027
Concentrate grade	*% Zn*	**-**	51.55	**48.95**	51.33
Zinc recovery	*%*	**-**	96.0	**96.4**	94.8
Balmat					
Ore	*tonnes*	**-**	111,045	**-**	218,082
Zinc	*%*	**-**	8.67	**-**	8.12
Zinc concentrate	*tonnes*	**-**	15,695	**-**	29,346
Concentrate grade	*% Zn*	**-**	57.77	**-**	57.04
Zinc recovery	*%*	**-**	94.2	**-**	94.5

For unit operating costs, refer to page 15.

Flin Flon Concentrator

For the second quarter of 2009, ore processed increased by 5% compared to the same period in 2008. This was due to reduced maintenance down time increasing the concentrator availability, and increased feed from the surface stockpiles. Zinc head grade was 20% lower, and copper head grade was 9% lower. The gold head grade was 11% lower, and the silver head grade was 22% lower. Recovery of zinc to concentrate was 2% lower, while recovery of copper to concentrate was slightly better than the same period in 2008, consistent with the head grades we saw over the period. Operating cost per tonne of ore processed decreased by 15%, related to lower costs for some consumables, grinding media and increased throughput.

Ore processed for year-to-date 2009 is 2% higher than 2008 levels. Zinc head grade in 2009 was 20% lower than last year, while copper head grade was 7% lower, consistent with the ore received from the 777 and Trout Lake mines. Recovery of zinc to concentrate was 3% lower, and copper recovery was slightly higher than the same period in 2008. Operating costs per tonne of ore processed were 9% lower, primarily related to reduced purchase prices for reagents, grinding media and no copper sulphate production required for the Snow Lake concentrator.

Snow Lake Concentrator

The Snow Lake concentrator ceased production of zinc concentrate in February 2009 and produced a lead/gold concentrate in March prior to closure. Suspension of operations was completed by the end of May 2009, and the operation has been placed under care and maintenance. There was no ore concentrated in the second quarter of 2009.

Balmat Concentrator

As noted above, operations at the Balmat mine were suspended on August 22, 2008, with limited concentrator production during the latter part of 2008. Final concentrates were shipped in the first quarter of 2009. During the second quarter of 2008, 7,739 tonnes was sold.

HUDBAY MINERALS

Metallurgical Plants

Metal Produced and Sold

		Three Months Ended		Six Months Ended	
		Jun 30 2009	Jun 30 2008	**Jun 30 2009**	Jun 30 2008
Metal Produced [1]					
Metal from HBMS Concentrates					
Zinc	*tonnes*	**13,727**	24,602	**34,552**	50,755
Copper [2]	*tonnes*	**12,044**	12,860	**24,587**	24,894
Gold [2]	*troy oz.*	**24,239**	28,321	**45,320**	50,961
Silver [2]	*troy oz.*	**194,528**	253,995	**438,117**	499,958
Metal from HBMS Purchased Concentrates					
Zinc	*tonnes*	**10,272**	1,834	**15,087**	3,376
Copper [2]	*tonnes*	**3,477**	4,524	**7,173**	11,762
Gold [2]	*troy oz.*	**94**	185	**275**	544
Silver [2]	*troy oz.*	**296,438**	270,613	**617,724**	461,563
Total HBMS Metal Produced					
Zinc	*tonnes*	**23,999**	26,436	**49,639**	54,131
Copper [2]	*tonnes*	**15,521**	17,384	**31,760**	36,656
Gold [2]	*troy oz.*	**24,333**	28,506	**45,595**	51,505
Silver [2]	*troy oz.*	**490,966**	524,608	**1,055,841**	961,521
Balmat					
Zinc metal in concentrate for sale	*tonnes*	**-**	9,065	**-**	16,737
Metal in concentrate purchased from Xstrata [3]	*tonnes*	**-**	(1,829)	**-**	(2,486)
Total Produced [4]					
Zinc	*tonnes*	**23,999**	33,672	**49,639**	68,382
Copper [2]	*tonnes*	**15,521**	17,384	**31,760**	36,656
Gold [2]	*troy oz.*	**24,333**	28,506	**45,595**	51,505
Silver [2]	*troy oz.*	**490,966**	524,608	**1,055,841**	961,521
Metal Sold					
Zinc, including sales to Zochem	*tonnes*	**24,473**	34,802	**51,422**	67,718
Copper	*tonnes*	**19,633**	18,957	**35,824**	39,559
Gold	*troy oz.*	**24,397**	30,311	**53,021**	50,119
Silver	*troy oz.*	**599,033**	554,733	**1,205,064**	838,200

[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] For 2008, includes tonnes from metal in Balmat purchased concentrates, purchased from a third party.

[4] Includes production of metal and metal in concentrate.

Metal Produced and Sold

		Three Months Ended		Six Months Ended	
		Jun 30 2009	Jun 30 2008	**Jun 30 2009**	Jun 30 2008
Zinc Plant					
Zinc Concentrate Treated					
Domestic	*tonnes*	**26,863**	49,969	**69,447**	102,766
Purchased	*tonnes*	**19,882**	3,471	**29,156**	6,481
Total	*tonnes*	**46,745**	53,440	**98,603**	109,247
Zinc Oxide					
Zinc from HudBay	*tonnes*	**4,893**	5,977	**9,371**	12,847
Zinc from others	*tonnes*	**6**	1,821	**6**	2,227
Total zinc consumption	*tonnes*	**4,899**	7,798	**9,377**	15,074
Zinc oxide produced	*tonnes*	**5,952**	9,602	**11,447**	18,484
Zinc oxide sold	*tonnes*	**6,397**	8,899	**12,351**	18,052
Smelter					
Copper concentrate treated					
Domestic	*tonnes*	**45,536**	63,625	**95,715**	119,777
Purchased	*tonnes*	**9,931**	13,882	**21,284**	36,020
Total	*tonnes*	**55,467**	77,507	**116,999**	155,797
WPCR					
Anodes received	*tonnes*	**17,021**	21,555	**32,686**	43,189
Cathode produced	*tonnes*	**13,818**	17,484	**26,666**	34,902
Spent anode produced	*tonnes*	**3,466**	4,070	**5,635**	7,760
Liberator anode produced	*tonnes*	**302**	247	**462**	770
Slimes produced	*tonnes*	**58**	56	**105**	107

For unit operating costs, refer to page 15.

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 second quarter was 9% lower than the same quarter in 2008. Operating costs per pound of zinc metal produced were 5% lower. The lower production was the result of insufficient concentrate available in 2009 to allow for full production. Unit costs were lower during the second quarter of 2009 as a result of lower consumable costs and other cost containment actions. In addition, unit costs in the second quarter of 2008 reflected increased maintenance and repair costs in preparation of the biennial shutdown.

Year-to-date production was 49,639 tonnes of cast metal, 8% lower than in 2008 due to insufficient concentrate availability. Operating costs per pound were down 5% because of the higher input costs and the effect of the major scheduled maintenance shutdown in the second quarter.

For the second half of 2009, we have entered into agreements to purchase zinc concentrate that, when combined with expected domestic concentrate production, should keep the zinc plant operating near capacity.

Zinc Oxide Facility – Zochem

During the second quarter of 2009, Zochem consumed 4,893 tonnes of our zinc and produced 5,952 tonnes of zinc oxide. In comparison to the second quarter of 2008, sales volumes decreased by 28%, while production levels decreased by 38%. Lower sales levels were a direct reflection of the downturn in the US economy. Second quarter operating costs per pound of zinc oxide were higher reflecting the decreased production rates through the period.

Year-to-date production of zinc oxide was 11,447 tonnes, 38% lower than in 2008. Unit operating costs for the period were higher than 2008, mainly due to lower production volumes.

Copper Smelter

The smelter treats both copper concentrate from HudBay's own mines and copper concentrate purchased from others. Approximately 18% of the concentrate we treated in the second quarter was purchased concentrate, unchanged from the second quarter of 2008. Our main source of purchased concentrate has been from existing settled contracts originally scheduled to extend into 2009. Owing to current low market prices for treating copper concentrates, we have not been able to obtain favourable economic terms to purchase copper concentrate beyond early 2009 and have exercised early termination rights on existing contracts. We will continue to purchase concentrates, priced previously and on favourable terms, from these suppliers in limited amounts in 2009. We will evaluate future opportunities to purchase copper concentrates based on the market rates for treatment and refining charges combined with our expected operating costs.

In the past, we have sold the spent copper anode from the WPCR to third parties. In light of lower treatment of purchased copper concentrate, which created additional processing capacity, in 2008 we began shipping spent copper anodes from the WPCR back to our Flin Flon smelter for processing. Recycling the spent copper anode allows us to use this additional processing capacity to achieve finished metal premiums on the copper contained in the spent copper anodes, rather than selling the spent copper anodes to a third party and incurring refining fees. Spent copper anode was both sold to third parties and treated in Flin Flon during the quarter.

Our non-recycled copper production was 11% lower in the second quarter of 2009 compared to the same quarter in 2008, primarily due to the lack of availability of economically purchased concentrate. Operating costs per pound of copper anode produced were 18% lower than the second quarter of 2008, attributed mainly to lower direct costs of heavy fuel oil and other operating materials.

Year-to-date, new copper in anode production was 13% lower than in 2008, reflecting lower copper concentrate throughput and reduced copper grade. Year-to-date operating costs per pound of copper were 10% lower in 2009 compared to 2008, primarily due to decreased costs of consumables including heavy fuel oil.

As described above, we expect to close the copper smelter before July 1, 2010 and WPCR shortly thereafter.

White Pine Copper Refinery

The refinery electro-refines copper anode produced at our Flin Flon smelter into market standard copper cathode. During processing, anode slimes containing precious metals are recovered, dried and sold. Approximately 18% of the copper anode processed at the refinery, called spent anode, is returned to the smelter at Flin Flon for remelting or sold to a third party. We sell LME grade copper cathode to various customers in the business of making wire, tube and brass.

For the second quarter of 2009, copper cathode production decreased by 21% compared to the same quarter last year, mainly due to lower anode production. Operating costs per pound of copper cathode were 18% higher, also due to lower production levels.

Copper cathode production for year-to-date 2009 was 26,666 tonnes, 24% lower than in 2008, mainly due to the lower anode production. Operating costs per pound of copper cathode produced were 20% higher, primarily related to the lower throughput.

OUTSTANDING SHARE DATA

As of August 5, 2009, there were 153,393,706 common shares of HudBay issued and outstanding, as well as 22,521 warrants (pre-consolidated) exercisable for a maximum aggregate of 750 common shares. In addition, options for a maximum aggregate of 5,768,162 common shares were outstanding.

HUDBAY MINERALS

ADOPTION OF NEW ACCOUNTING STANDARDS

For information on our adoption of new accounting standards and on new accounting standards that will be applicable to us in future years, refer to note 3 of the June 30, 2009 interim consolidated financial statements.

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. Accordingly, IFRS-compliant financial statements will first be required for the first quarter of 2011. Comparative figures presented in these financial statements are also required to comply with IFRS.

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 established a project structure, including a charter and a detailed project plan that includes phases for planning and assessment, design and implementation. Our project team is providing regular status updates to the IFRS Steering Committee and the Audit Committee of the Board of Directors.

We have performed our initial assessment, which included identifying and prioritizing areas of differences between Canadian GAAP and IFRS, and have conducted workshops and training. Our project team is continuing detailed impact assessments. Areas that will require significant efforts or that may result in significant changes to our financial reporting include property, plant and equipment, asset retirement obligations, exploration for and evaluation of mineral resources, impairment of long-lived assets, translation of transactions denominated in foreign currencies and income taxes, as well as the transitional provisions of IFRS 1, *First-time Adoption of International Financial Reporting Standards*. During the next quarter, we will start the design phase, which will include preparing position papers and analyses to enable us to begin selecting accounting policies and draft financial statement templates. Our project team will continue to monitor changing standards, assess their effect on the IFRS project and update the project plan as required.

As our project progresses toward adoption of IFRS in 2011, we will provide additional insight into the expected impact of the transition to IFRS on our financial reporting, information technology and data systems, internal control over financial reporting, disclosure controls and procedures and business activities. We have not yet determined the impact of transition to IFRS on our financial statements.

NON-GAAP MEASURES

EBITDA, operating cash flow before changes in non-cash working capital, operating cash flow per share, detailed operating expenses and cash cost per pound of zinc 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.

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 and six months ended June 30, 2009 and June 30, 2008.

	Three Months Ended		Six Months Ended	
	Jun 30 2009	Jun 30 2008	**Jun 30 2009**	Jun 30 2008
	($000s except share and per share amounts)			
Cash (used in) provided by operating activities, per financial statements	**31,945**	81,203	**9,967**	140,033
Adjustments:				
Changes in non-cash working capital	**(3,080)**	(10,482)	**32,870**	1,339
Operating cash flow before changes in non-cash working capital*	**28,865**	70,721	**42,837**	141,372
Weighted average shares outstanding	**153,228,805**	126,447,836	**153,128,078**	126,456,329
Operating cash flow per share*	**$0.19**	$0.56	**$0.28**	$1.12

* Refer to “Non-GAAP Measures” on page 33.

Cash cost per pound of zinc sold*

Our cash cost per pound of zinc sold, net of by-product credits, for the second quarter of 2009 was negative US$0.06 per pound, excluding costs and sales related to Balmat and HMI Nickel, as calculated in the following table.

	Three Months Ended		Six Months Ended	
	Jun 30 2009	Jun 30 2008	**Jun 30 2009**	Jun 30 2008
	($000s except as noted)			
Operating expenses	**145,543**	188,487	**280,643**	375,190
General and administrative expenses	**7,205**	5,600	**20,333**	15,453
	152,748	194,087	**300,976**	390,643
Exclude amounts related to Balmat and HMI Nickel	**(2,839)**	(12,085)	**(7,954)**	(23,318)
	149,909	182,002	**293,022**	367,325
Less by-product credits [1]	**(153,520)**	(214,740)	**(273,957)**	(407,604)
Cash cost net of by-products	**(3,611)**	(32,738)	**19,065**	(40,279)
Exchange rate (US$1 to C$) [2]	**1.170**	1.010	**1.210**	1.007
Cash cost net of by-products	**US (3,086)**	US (32,407)	**US 15,756**	US (39,999)
Zinc sales (000's lbs.), excluding Balmat	**53,954**	59,240	**111,598**	117,468
Cash cost per pound of zinc sold*, net of by-product credits in US$/lb.	**US (0.06)**	US (0.55)	**US 0.14**	US (0.34)

* Refer to “Non-GAAP Measures” on page 33.

[1] By-product credits include revenues from sale of copper, gold, silver, the value added by converting zinc to zinc oxide, and our proportionate share of by-product sales by CMM.

[2] Weighted average exchange rate for sales during the period.

For the second quarter, our cash cost per pound of zinc sold was negative US$0.06, a net increase of US$0.49 from the same period in 2008 due primarily to lower by-product copper credits which resulted mainly from lower prices, offset in part by the benefit of a weaker Canadian dollar.

Our calculation of cash cost per pound of zinc sold is significantly influenced by by-product metal prices, which may fluctuate going forward.