HUDBAY MINERALS INC

HudBay Minerals Inc.

Interim Consolidated Financial Statements
For the Periods Ended June 30, 2007
(expressed in Canadian Dollars)

HudBay Minerals Inc.

Consolidated Statements of Earnings
Unaudited
(In thousands of Canadian dollars, except share and per share amounts)

	Three months ended June 30		Six months ended June 30	
	2007	2006	**2007**	2006
Revenue (note 14)	**$ 358,298**	$ 261,727	**$ 707,440**	$ 469,690
Expenses:				
Operating	**197,344**	138,942	**381,852**	260,829
Depreciation and amortization	**23,294**	15,649	**45,168**	31,191
General and administrative	**4,898**	4,495	**9,471**	8,172
Stock-based compensation (note 10e)	**2,074**	1,823	**6,783**	4,074
Accretion of asset retirement obligation	**789**	659	**1,578**	1,319
Foreign exchange loss (gain)	**13,074**	(25)	**15,118**	(1,293)
	241,473	161,543	**459,970**	304,292
Operating earnings	**116,825**	100,184	**247,470**	165,398
Exploration	**(10,512)**	(3,871)	**(18,261)**	(7,005)
Gain (loss) on derivative instruments	**2,919**	9,221	**(8,060)**	13,552
Interest and other income	**12,846**	1,972	**18,808**	3,144
Interest expense	**(416)**	(3,279)	**(815)**	(8,033)
Other	**291**	(9,637)	**326**	(10,823)
Earnings before tax	**121,953**	94,590	**239,468**	156,233
Tax expense (benefit) (note 9)	**52,814**	(58,246)	**107,253**	(72,589)
Net earnings for the period	**$ 69,139**	$ 152,836	**$ 132,215**	$ 228,822
Earnings per share:				
Basic	**$ 0.55**	$ 1.71	**$ 1.05**	$ 2.62
Diluted	**$ 0.54**	$ 1.30	**$ 1.03**	$ 2.03
Weighted average number of common shares outstanding (note 10f)				
Basic	126,656,543	89,335,965	126,398,873	87,375,369
Diluted	128,440,639	117,203,669	128,337,978	112,702,524

See accompanying notes to interim consolidated financial statements.

HudBay Minerals Inc.

Consolidated Statements of Retained Earnings
Unaudited
(In thousands of Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2007	2006	**2007**	2006
Retained earnings, beginning of period	**$ 704,794**	$ 154,718	**$ 642,723**	$ 78,732
Net earnings for the period	**69,139**	152,836	**132,215**	228,822
Transition adjustment - financial instruments (note 3a)	**-**	-	**(1,005)**	-
Retained earnings, end of period	**$ 773,933**	$ 307,554	**$ 773,933**	$ 307,554

Consolidated Statements of Comprehensive Income
Unaudited
(In thousands of Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2007	2006	**2007**	2006
Net earnings for the period	**$ 69,139**	$ 152,836	**$ 132,215**	$ 228,822
Other comprehensive income (loss), net of tax (note 11)	**(11,432)**	-	**(16,374)**	-
Comprehensive income, end of period	**$ 57,707**	$ 152,836	**$ 115,841**	$ 228,822

See accompanying notes to interim consolidated financial statements.

HudBay Minerals Inc.

Consolidated Balance Sheets
Unaudited
(In thousands of Canadian dollars)

	June 30, 2007	December 31, 2006
Assets:		
Current assets:		
Cash and cash equivalents	**$ 564,685**	$ 385,864
Accounts receivable	**110,585**	132,275
Inventories	**188,796**	163,842
Prepaid expenses	**4,861**	7,288
Current portion of fair value of derivatives (note 12b)	**5,376**	2,579
Future income and mining tax assets (note 9b)	**82,877**	154,063
	957,180	845,911
Property, plant and equipment (note 4)	**448,528**	444,044
Other assets (note 5)	**20,879**	28,560
	$1,426,587	$1,318,515
Liabilities and Shareholders' Equity:		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 115,930**	$ 139,922
Taxes payable	**13,297**	30,217
Current portion of other liabilities (note 6)	**37,328**	28,087
	166,555	198,226
Long-term debt (note 7)	**3,409**	10,214
Pension obligations	**39,350**	41,675
Other employee future benefits	**67,516**	65,083
Asset retirement obligations	**35,097**	33,548
Fair value of derivatives (note 12b)	**25,616**	-
Obligations under capital leases	**3,535**	4,979
Future income tax liabilities (note 9b)	**533**	582
	$ 341,611	$ 354,307
Shareholders' equity:		
Share capital:		
Common shares (note 10b)	**309,451**	308,441
Warrants (note 10c)	**1**	3
Contributed surplus (note 10e)	**17,554**	13,098
Cumulative translation adjustment	**-**	(57)
Retained earnings	**773,933**	642,723
Accumulated other comprehensive income (loss) (note 11)	**(15,963)**	-
	1,084,976	964,208
	$1,426,587	$1,318,515

See accompanying notes to interim consolidated financial statements.

HudBay Minerals Inc.

Consolidated Statements of Cash Flows
Unaudited
(In thousands of Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2007	2006	**2007**	2006
Cash provided by (used in):				
Operating activities:				
Net earnings for the period	**$ 69,139**	$ 152,836	**$ 132,215**	$ 228,822
Items not affecting cash:				
Depreciation and amortization	**23,294**	15,649	**45,168**	31,191
Future tax expense (benefit)	**41,940**	(66,705)	**83,799**	(81,643)
Foreign exchange (gain) loss	**8,274**	(5,861)	**8,746**	(5,343)
Amortization of deferred financing costs	**-**	4,706	**-**	5,068
Accretion expense on asset retirement obligation	**789**	659	**1,578**	1,319
Stock-based compensation	**2,074**	1,823	**6,783**	4,074
Change in fair value of derivatives	**(6,218)**	(3,837)	**6,265**	(6,996)
Other	**(1,632)**	(942)	**(4,394)**	(190)
	137,660	98,328	**280,160**	176,302
Change in non-cash working capital (note 13)	**(54,650)**	(13,974)	**(41,259)**	(65,822)
	83,010	84,354	**238,901**	110,480
Financing activities:				
Repayment of loans payable	**(4,000)**	(4,000)	**(4,000)**	(4,000)
Repayment of senior secured notes	**-**	(110,350)	**-**	(111,518)
Repayment of obligations under capital leases	**(1,003)**	(950)	**(1,992)**	(1,886)
Issuance of common shares, net of cost	**-**	16,958	**-**	16,958
Proceeds on exercise of stock options	**4,424**	2,568	**5,922**	3,748
Proceeds on exercise of warrants	**-**	40,019	**10**	44,288
	(579)	(55,755)	**(60)**	(52,410)
Investing activities:				
Additions to property, plant and equipment	**(26,529)**	(41,155)	**(50,490)**	(68,158)
Acquisition of White Pine Copper Refinery, Inc., net of cash acquired	**-**	-	**-**	(17,041)
Purchase of investments	**(400)**	-	**(400)**	-
Additions to environmental deposits	**-**	48	**-**	63
	(26,929)	(41,107)	**(50,890)**	(85,136)
Effect of exchange rate changes on cash and cash equivalents	**(8,589)**	(1,416)	**(9,130)**	(1,154)
Change in cash and cash equivalents	**46,913**	(13,924)	**178,821**	(28,220)
Cash and cash equivalents, beginning of period	**517,772**	127,364	**385,864**	141,660
Cash and cash equivalents, end of period	**$ 564,685**	$ 113,440	**$ 564,685**	$ 113,440
Cash and cash equivalents is comprised of:				
Cash on hand and demand deposits	**$ 51,099**	$ 113,059	**$ 51,099**	$ 113,059
Money market instruments	**513,586**	381	**513,586**	381
	$ 564,685	$ 113,440	**$ 564,685**	$ 113,440

See accompanying notes to interim consolidated financial statements.

1. Nature of business

HudBay Minerals Inc. (the "Company" or “HudBay”) was formed by amalgamation in 1996 under the Business Corporations Act (Ontario) and was continued under the Canada Business Corporations Act on October 25, 2005. HudBay is an integrated mining company that operates mines, concentrators and a metal production complex in northern Manitoba and Saskatchewan. HudBay also owns a zinc oxide production facility in Ontario, the White Pine copper refinery in Michigan, and the Balmat zinc mine in New York State. Hudson Bay Mining and Smelting Co., Limited (“HBMS”), the principal subsidiary of the Company, was incorporated in 1927 and has been in continuous production in Northern Manitoba since 1930.

2. Basis of presentation and principles of consolidation

These unaudited interim consolidated financial statements include the financial statements of the Company, all of its subsidiaries and the proportionate share of the assets and liabilities of any joint ventures where the Company shares joint ownership.

The interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (“GAAP”) following the same accounting policies as disclosed in the audited consolidated financial statements for the year ended December 31, 2006, except as noted in note 3.

The unaudited interim consolidated financial statements do not include all of the information and disclosures required by Canadian GAAP for audited annual financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included in the unaudited interim consolidated financial statements. The unaudited interim consolidated financial statements should be read in conjunction with the most recent audited annual consolidated financial statements of the Company, including the notes thereto.

3. Adoption of new accounting standards

(a) Financial instruments:

On January 1, 2007, the Company prospectively adopted three new accounting standards that were issued by the Canadian Institute of Chartered Accountants (CICA): Handbook Section 1530, Comprehensive Income, Section 3855, Financial Instruments – Recognition and Measurement, and Section 3865, Hedges.

As required, the Company applied these standards on a prospective basis; accordingly, comparative amounts for prior periods have not been restated.

The Company recorded the following transition adjustments as at January 1, 2007:

- Reduction to opening retained earnings of $1,193, net of taxes, representing changes made to the value of certain financial instruments, other than available-for-sale assets, in compliance with the measurement basis under the new standards;
- Increase to opening retained earnings of $188, net of taxes, to recognize the remaining deferred gain from cash flow hedging relationships that became ineligible for hedge accounting and were terminated prior to January 1, 2007. The hedging relationships had used US dollar put options to hedge against forecasted US dollar sales;
- Recognition in accumulated other comprehensive income ("AOCI") of $448, net of taxes, related to the gain on available-for-sale financial assets; and
- Reclassification to AOCI of $37, net of taxes, of net foreign currency losses that was previously presented as a separate item in shareholders' equity at their gross amount of $57.

(b) Accounting Changes:

Effective January 1, 2007, the Company adopted the revised CICA Section 1506 "Accounting Changes". The Company has not made any voluntary change in accounting principles since the adoption of the revised standard.

(c) Future accounting changes:

Capital Disclosures and Financial Instruments – Disclosures and Presentation
On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535, *Capital Disclosures*, Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation*. These new standards will be applicable to the Company on January 1, 2008.

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. There will be no impact on the Company's financial statements as this standard addresses only disclosure requirements.

The new Sections 3862 and 3863 replace Section 3861, *Financial Instruments — Disclosure and Presentation*, revising and enhancing disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about

the nature and extent of risks arising from financial instruments and how the entity manages those risks.

4. Property, plant and equipment

June 30, 2007	Cost	Accumulated depreciation and amortization	Net book value
Property, plant and equipment	**$ 363,727**	**$ 60,960**	**$ 302,767**
Mine development	**231,598**	**102,829**	**128,769**
Mineral exploration properties	**16,992**	**-**	**16,992**
	$ 612,317	**$ 163,789**	**$ 448,528**

December 31, 2006	Cost	Accumulated depreciation and amortization	Net book value
Property, plant and equipment	$ 339,164	$ 46,325	$ 292,839
Mine under development	26,534	-	26,534
Mine development	180,121	72,442	107,679
Mineral exploration properties	16,992	-	16,992
	$ 562,811	$ 118,767	$ 444,044

The Balmat mine began commercial production on January 1, 2007. During 2006, all expenditures associated with the mine start-up, including pre-production operating costs net of revenues, were classified as mine under development

5. Other assets

	June 30, 2007	December 31, 2006
Long-term portion of future tax asset	**$ 7,248**	$ 18,941
Investments, at fair value (2006 at cost)	**5,585**	6,823
Cash held in trust (note 7)	**3,847**	-
Long-term portion of fair value of derivatives (note 12b)	**3,034**	1,631
Environmental deposits	**1,165**	1,165
	$ 20,879	$ 28,560

6. Current portion of other liabilities

	June 30, 2007	December 31, 2006
Current portion of long-term debt	**$ 7,071**	$ 4,000
Current portion of pension obligation	**15,854**	16,554
Current portion of other employee future benefits	**2,282**	2,282
Current portion of obligations under capital leases	**3,484**	4,032
Current portion of fair value of derivatives (note 12b)	**8,484**	527
Current portion of future income taxes payable	**46**	543
Interest payable on long-term debt	**107**	149
	$ 37,328	$ 28,087

7. Long-term debt

	June 30, 2007	December 31, 2006
Senior Secured Notes	**$ 3,409**	$ 3,380
Province of Manitoba	**7,071**	10,834
	10,480	14,214
Less current portion of long-term debt	**7,071**	4,000
	$ 3,409	$ 10,214

The Company has recorded the Senior Secured Notes at fair value, with changes in fair value recorded to gain (loss) on derivative instruments on the statement of earnings. The Province of Manitoba loan is classified in the current portion of other liabilities and is recorded at amortized cost, which approximates its fair value.

As at January 1, 2007, HBMS had a $50 million revolving credit facility that was scheduled to mature on January 30, 2007. On January 17, 2007 it was further increased to $80 million with the maturity date extended to April 30, 2007. On July 27, 2007, the maturity date was further extended to November 30, 2007.

The borrowings under this facility may be made in either Canadian dollars in the form of (a) Prime Rate Advances or (b) Bankers' Acceptances or in United States dollars in the form of (i) United States Base Rate Advances or (ii) London Interbank Offered Rate (LIBOR) loans. Borrowings under these facilities bear interest, when drawn, at a rate that varies based on the type of borrowing. Canadian or US dollar denominated letters of credit or guarantees may also be used against this facility. The credit facility is secured by a first charge on the issued shares, inventory, inventory-related receivables and certain cash

of HBMS, HBED and HMS. As of June 30, 2007 there were no amounts drawn under the facility. The Company is in compliance with covenants under this credit facility.

On February 21, 2007, HBMS completed the covenant defeasance of HBMS outstanding 9 5/8% Senior Secured Notes due 2012 ("the Notes"). The covenant defeasance involved the irrevocable deposit in trust by HBMS with The Bank of New York, as trustee, of approximately US$3,316 (C$3,880) of U.S. government securities, such amount being sufficient to pay the principal of US$2,900 (C$3,387) at the time of covenant defeasance), and interest and premium on the outstanding Notes to the redemption date of January 15, 2009. Pursuant to the terms of the indenture governing the Notes, the collateral securing the Notes was released.

8. Pension and other future employee benefit expense

	Three months ended June 30		Six months ended June 30	
	2007	2006	**2007**	2006
Defined benefit pension expense	**$ 2,994**	$ 3,129	**$ 5,988**	$ 5,987
Defined contribution pension expense	**239**	97	**453**	199
Other future employee benefits expense	**1,710**	1,617	**3,420**	3,234
	$ 4,943	$ 4,843	**$ 9,861**	$ 9,420

9. Taxes

(a) Tax expense (benefit)

		Three months ended June 30		Six months ended June 30	
		2007	2006	**2007**	2006
Tax expense (benefit) applicable to:					
Current	- income taxes	**$ 115**	$ 119	**$ 136**	$ 714
	- mining taxes	**10,759**	8,340	**23,318**	8,340
		10,874	8,459	**23,454**	9,054
Future	- income taxes	**38,685**	(66,705)	**77,273**	(81,643)
	- mining taxes	**3,255**	-	**6,526**	-
		41,940	(66,705)	**83,799**	(81,643)
Tax expense (benefit)		**$ 52,814**	$(58,246)	**$ 107,253**	$(72,589)

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

	June 30, 2007	December 31, 2006
Future tax asset		
Current portion	**$ 82,877**	$ 154,063
Long-term portion (included in other assets)	**7,248**	18,941
	90,125	173,004
Future tax liabilities		
Current portion (included in current portion of other liabilities)	**46**	543
Long-term portion	**533**	582
	579	1,125
	$ 89,546	$ 171,879

(c) Changes in future tax assets and liabilities

	Three months ended June 30		Six months ended June 30	
	2007	2006	**2007**	2006
Balance, beginning of period	**$125,037**	$ 35,813	**$171,879**	$ 24,534
Future tax (expense) recovery	**(41,940)**	66,705	**(83,799)**	81,643
Flow-through shares	-	-	**(7,251)**	(3,659)
Financial instruments transition				
- retained earnings	-	-	**568**	**-**
- other comprehensive income (“OCI”)	-	-	**(77)**	**-**
Current OCI transactions	**6,407**	-	**8,178**	-
Other	**42**	**-**	**48**	**-**
Balance, end of period	**$ 89,546**	$102,518	**$ 89,546**	$102,518

The net future tax assets (income and mining) reflect a valuation allowance that represents management’s estimate of the allowance necessary to reflect the future tax assets at an amount that the Company considers is more likely than not to be realized.

10. Share capital

(a) Preference shares:

Authorized:
Unlimited preference shares

(b) Common shares:

Authorized:
Unlimited common shares

Issued:

	Three months ended June 30, 2007		Six months ended June 30, 2007	
	Common Shares	Amount	Common Shares	Amount
Balance, beginning of period	126,234,908	$ 303,226	126,006,001	$ 308,441
Exercise of warrants	266	1	3,352	13
Exercise of options	873,474	6,224	1,099,295	8,248
Tax impact of flow-through shares	-	-	-	(7,251)
Balance, end of period	127,108,648	$ 309,451	127,108,648	$ 309,451

In February 2007, the Company renounced $20,075 of the flow-through financing to investors with an effective date of December 31, 2006. In accordance with EIC-146, “Flow-through shares”, the Company reduced its share capital by $7,251 using a tax rate of approximately 36% applied to the temporary taxable differences created by the renunciation.

(c) Warrants:

	Three months ended June 30, 2007		Six months ended June 30, 2007	
	Number	Amount	Number	Amount
Warrants outstanding, beginning of period	30,521	$ 1	123,101	$ 3
Exercised	(8,000)	-	(100,580)	(2)
Warrants outstanding, end of period	22,521	$ 1	22,521	$ 1

Warrants outstanding to acquire common shares (30 warrants required to acquire one common share) of the Company at June 30, 2007 have an exercise price of $0.105 and expire December 21, 2009.

(d) Stock option plan:

During the six months the Company granted additional options to directors and employees consistent with the Company's stock option plan (the "Plan") approved in June 2005.

The fair value of the options granted during 2007 has been estimated at the date of grant using a Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 4.28%; dividend yield of 0%; volatility factor of the expected market price of the Company's common stock of 50%; and a weighted average expected life of these options of 4 years.

	Three months ended June 30, 2007		Six months ended June 30, 2007	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Balance, beginning of period	4,212,493	$10.74	3,183,269	$ 6.46
Granted	-	-	1,261,711	20.82
Exercised	(873,474)	5.07	(1,099,295)	5.39
Forfeited	-	-	(6,666)	9.70
Outstanding, end of period	3,339,019	$12.23	3,339,019	$12.23

The weighted average fair value of options granted during the six-month period was $9.00.

The following table summarizes the options outstanding at June 30, 2007:

Number of options outstanding	Exercise price	Weighted average remaining contractual life (years)	Number of options exercisable	Weighted average remaining contractual life (years)
882,294	$2.59	7.9	882,294	7.9
16,667	3.00	1.4	16,667	1.4
75,000	3.35	8.3	-	-
849,569	9.70	8.7	362,371	8.7
200,000	14.06	8.9	100,000	8.9
60,000	17.77	9.4	20,000	9.4
1,235,489	20.80	9.7	407,707	9.7
20,000	21.75	9.6	6,666	9.6
3,339,019	$12.23		1,795,705	

(e) Contributed surplus:

	Three months ended June 30		Six months ended June 30	
	2007	2006	**2007**	2006
Balance, beginning of period	**$17,281**	$ 11,804	**$ 13,098**	$ 10,015
Stock-based compensation expense	**2,074**	1,823	**6,783**	4,074
Transfer to common shares on exercise of stock options	**(1,801)**	(930)	**(2,327)**	(1,392)
Balance, end of period	**$17,554**	$ 12,697	**$ 17,554**	$ 12,697

(f) Earnings per share data:

	Three months ended June 30		Six months ended June 30	
	2007	2006	**2007**	2006
Net earnings available to common shareholders	**$ 69,139**	$ 152,836	**$ 132,215**	$ 228,822
Weighted average common shares outstanding	**126,656,543**	89,335,965	**126,398,873**	87,375,369
Plus net incremental shares from assumed conversions:				
Warrants	**871**	25,317,068	**1,716**	23,016,962
Stock options	**1,783,225**	2,550,636	**1,937,389**	2,310,193
Diluted weighted average common shares	**128,440,639**	117,203,669	**128,337,978**	112,702,524

11. Other comprehensive income (loss) ("OCI")

	Three months ended June 30, 2007	Six months ended June 30, 2007
Accumulated OCI (loss), beginning of period:		
Cash flow hedge loss (net of tax of $1,669, $0)	$ (2,950)	$ -
Investments (net of tax of $0, $97)	(1,537)	448
Currency translation adjustments (net of tax of $25, $20)	(44)	(37)
Accumulated OCI (loss), beginning of period:	(4,531)	411
OCI (loss) for the period:		
Effective portion of changes in fair value of cash flow hedges	(17,636)	(22,255)
Changes in fair value of investments	(102)	(2,184)

Currency translation adjustments	(101)	(113)
OCI (loss), before tax	(17,839)	(24,552)
Income tax benefit related to OCI	6,407	8,178
OCI (loss), net of tax for the period	(11,432)	(16,374)
Accumulated OCI (loss), end of period		
Cash flow hedge loss (net of tax of $8,038, $8,038)	(14,217)	(14,217)
Investments (net of tax of $0, $0)	(1,639)	(1,639)
Currency translation adjustments (net of tax of $63, $63)	(107)	(107)
Accumulated OCI (loss), end of period	$ (15,963)	$ (15,963)

12. Financial instruments

The Company's main types of financial instruments are cash and equivalents, accounts receivable, accounts payable and accrued liabilities, investments, long-term debt and derivatives.

(a) Risk management using financial instruments

The Company from time to time employs derivative financial instruments, including forward and option contracts, to manage risk originating from actual exposures to commodity price risk, foreign exchange risk and interest rate risk. Hedge accounting under CICA 3865 is applied when certain criteria have been met. The Company does not use derivative financial instruments for trading or speculative purposes.

(i) Foreign currency risk

The Company is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Company entities. The currency giving rise to this risk is primarily US dollars. The Company uses forward exchange or currency collar contracts to limit the effects of movements in exchange rates on foreign currency-denominated assets and liabilities and future anticipated transactions.

The Company holds put options securing the right, but not the obligation, to sell US$4.375 million per quarter at $1.20482, continuing to January 2009. The options have been classified as non-hedge derivative assets and recorded at their fair value of $4,310 as at June 30, 2007. Gains and losses on the options are presented in gain (loss) on derivative instruments on the income statement.

(ii) Commodity price risk

From time to time, the Company maintains price protection programs and conducts commodity price risk management through the use of forward sales contracts, spot deferred contracts, option contracts and commodity collar contracts.

Non-hedge contracts

The Company has entered into sales contracts with customers to provide zinc and zinc oxide at fixed prices. These forward physical sales contracts expose the Company to changes in market prices of zinc. The Company manages the risk associated with these contracts by entering into forward zinc purchase contracts to convert the fixed price to a floating price arrangement. At June 30, 2007, the Company had outstanding forward contracts to purchase 9,818 tonnes of zinc at prices ranging from US$1,315 to US$4,345 per tonne with settlement dates in the next year. The forward zinc purchase contracts have been recorded as non-hedge net derivative liabilities at their fair value of $1,405 as at June 30, 2007. A mark-to-market net loss has been recorded in revenues.

Under the provisions of Section 3855, the Company now accounts for certain of its forward physical zinc customer sales contracts as derivatives. The mark-to-market gains and losses recorded on these physical zinc customer sale contracts offset in part the mark-to-market gains and losses recorded on the forward zinc purchase contracts described above. At June 30, 2007, the Company recorded as derivatives physical zinc customer sales contracts for 7,442 tonnes of zinc at prices ranging from US$1,425 to US$4,405 with settlement dates in the next year. The Company has recorded their fair value of $1,254 as non-hedge net derivative assets. A mark-to-market gain has been recorded in revenues.

The Company has separated and recorded at fair value embedded derivatives related to provisional pricing in concentrate purchase, concentrate sale, anode sale, and certain other sale contracts. Under the terms of these contracts, prices are set on a specified future date after shipment based on quoted market prices. The Company records the embedded derivatives in accounts receivable for sales contracts and in accounts payable for purchase concentrate contracts. Each period, the provisionally priced metals are marked to market based on the forward market price for the quotational period stipulated in the contract until the quotational period expires. The Company records mark-to-market adjustments (both gains and losses) in revenue for sales contracts and in operating expenses for purchase concentrate contracts.

Cash Flow Hedges

During the year, the Company entered into commodity swap contracts to hedge prices for a portion of future sales of zinc and copper. Cash flow hedge accounting has been applied to the hedging relationships under Section 3865. The commodity swap contracts have been recorded as hedging net derivative liabilities at their fair value of $29,849 as at June 30, 2007. For the six months ended June 30, 2007, pre-tax net losses of $22,255 (three months ended $17,636) were recorded to OCI for the effective portion of the cash flow hedges, and pre-tax net losses of $1,070 (three months ended gain of $516) were recorded in earnings for the ineffective portion. This loss has been included in gain (loss) on derivative instruments. In the first quarter of 2007, the Company also recorded a loss on derivative instruments of $9,254 in earnings equal to the change in fair value between the trade date of the commodity swap contracts and the designation date for the hedging relationships.

Of the $22,255 pre-tax loss deferred in AOCI at June 30, 2007, management estimates that $4,700 will be reclassified to earnings in the next twelve months. This will happen when the anticipated future zinc and copper sales take place and monthly settlements of the related commodity swap contracts occur.

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

	Metric tonnes	Weighted average price US$/MT	Fair value of net derivative liability $000s
Zinc swaps – US$ denominated contracts:			
Maturing in 1 year	7,650	3,153	$ 705
Maturing between 1 to 2 years	15,300	2,912	1,329
Maturing between 2 to 3 years	15,300	2,477	3,229
Maturing between 3 to 4 years	7,650	2,283	1,603
	45,900	2,702	6,866
Copper swaps – US$ denominated contracts:			
Maturing in 1 year	2,100	5,050	4,718
Maturing between 1 to 2 years	4,650	4,831	8,501
Maturing between 2 to 3 years	5,100	4,475	7,155
Maturing between 3 to 4 years	2,550	4,300	2,609
	14,400	4,643	22,983
Total fair value of net derivative liability at June 30, 2007			$29,849

(iii) Interest rate risk

Interest rates on the Company's debt are disclosed in note 8 to the 2006 annual consolidated financial statements.

(iv) Credit risk

Management has a credit policy in place, and the exposure to credit risk is monitored on an ongoing basis. Transactions involving derivatives are with creditworthy counterparties. The Company's swap agreements are governed by master agreements with customary wording under which collateral is not required. Management does not expect any counterparty to fail to meet its obligations. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative assets on the consolidated balance sheet.

(b) Fair values of financial instruments

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values are based on quoted market prices, where available. If market quotes are not available, fair value is based on internal valuation models that use market-based or independent information as inputs. These models could produce a fair value that may not be reflective of future fair value.

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

June 30, 2007	US dollar put options	Non-hedge derivative zinc contracts	Cash flow hedging derivatives	Other	Total
Fair value of derivative assets					
Current portion	**$ 2,467**	**$ 2,111**	**$ 798**	**$ -**	**$ 5,376**
Long-term portion (note 5)	**1,843**	**-**	**1,191**	**-**	**3,034**
	4,310	**2,111**	**1,989**	**-**	**8,410**
Fair value of derivative liabilities					
Current portion (note 6)	**-**	**2,262**	**6,222**	**-**	**8,484**
Long-term portion	**-**	**-**	**25,616**	**-**	**25,616**
	-	**2,262**	**31,838**	**-**	**34,100**
	$ 4,310	**$ (151)**	**$(29,849)**	**$ -**	**$(25,690)**

December 31, 2006	US dollar put options	Non-hedge derivative zinc contracts	Cash flow hedging derivatives	Other	Total
Fair value of derivative assets					
Current portion	$ 941	$ 1,638	$ -	$ -	$ 2,579
Long-term portion (note 5)	1,631	-	-	-	1,631
	2,572	1,638	-	-	4,210
Fair value of derivative liabilities					
Current portion (note 6)	-	233	-	294	527
Long-term portion	-	-	-	-	-
	-	233	-	294	527
	$ 2,572	$ 1,405	$ -	$ (294)	$ 3,683

13. Supplementary cash flow information

(a) Change in non-cash working capital

	Three months ended June 30		Six months ended June 30	
	2007	2006	**2007**	2006
Accounts receivable	**$ (9,149)**	$ (8,360)	**$ 22,506**	$ (50,442)
Inventories	**(14,336)**	(23,174)	**(24,954)**	(37,657)
Accounts payable and accrued liabilities	**(35,240)**	11,755	**(24,276)**	19,748
Taxes payable	**2,401**	8,260	**(16,920)**	9,465
Prepaid expenses	**1,602**	(1,622)	**2,427**	(1,729)
Interest payable	**72**	(833)	**(42)**	(5,207)
	$ (54,650)	$ (13,974)	**$ (41,259)**	$ (65,822)

(b) Other

	Three months ended June 30		Six months ended June 30	
	2007	2006	**2007**	2006
Supplementary cash flow information:				
Interest paid	**$ 190**	$ 3,899	**$ 622**	$ 12,805
Taxes paid	**9,745**	(150)	**41,524**	330

14. Segmented information

The Company is an integrated base metals producer with the majority of the operations in a single reportable operating segment.

The Company's revenue by significant product types:

	Three months ended June 30		Six months ended June 30	
	2007	2006	**2007**	2006
Revenues:				
Copper	**$ 192,361**	$ 149,306	**$ 369,345**	$ 261,789
Zinc	**99,288**	40,190	**198,841**	100,310
Zinc oxide	**37,631**	34,109	**76,185**	60,149
Precious metals and other	**29,018**	38,122	**63,069**	47,442
	$ 358,298	$ 261,727	**$ 707,440**	$ 469,690

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

Copper	**$ 59,677**	$ 38,672	**$ 110,286**	$ 73,490
Zinc	**$ 12,859**	$ 647	**$ 21,924**	$ 769