Consolidated Financial Statements
(In Canadian dollars)

HUDBAY MINERALS INC.

Years ended December 31, 2008 and 2007

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AUDITORS' REPORT

To the Shareholders,
HudBay Minerals Inc.

We have audited the consolidated balance sheets of HudBay Minerals Inc. as at December 31, 2008 and 2007 and the consolidated statements of earnings, retained earnings, comprehensive income and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP
Chartered Accountants

Winnipeg, Manitoba
March 4, 2009

HUDBAY MINERALS INC.

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

Years ended December 31, 2008 and 2007

	2008	2007
Revenue (note 26)	**$ 981,894**	$ 1,269,841
Expenses:		
Operating	**685,616**	730,748
Depreciation and amortization	**88,295**	94,697
General and administrative	**30,578**	18,188
Stock-based compensation (note 18d,e)	**11,952**	11,979
Accretion of asset retirement obligations (note 15)	**3,847**	3,282
Foreign exchange (gain) loss	**(42,348)**	22,578
	777,940	881,472
Earnings before the following:	**203,954**	388,369
Exploration	**(25,583)**	(33,067)
Interest and other income (note 27)	**26,217**	33,841
Loss on derivative instruments	**(589)**	(3,515)
Asset impairment losses (notes 5, 8)	**(30,433)**	(20,172)
Share of losses of equity investee (note 4)	**(3,915)**	-
Earnings before tax	**169,651**	365,456
Tax expense (note 17a)	**96,298**	138,317
Net earnings for the year	**$ 73,353**	$ 227,139
Earnings per share:		
Basic	**$0.54**	$1.79
Diluted	**$0.54**	$1.77
Weighted average number of common shares outstanding (note 18f):		
Basic	**135,902,627**	126,847,106
Diluted	**136,713,080**	128,507,554

See accompanying notes to consolidated financial statements.

HUDBAY MINERALS INC.

Consolidated Balance Sheets
(In thousands of Canadian dollars)

Years ended December 31, 2008 and 2007

	2008	2007
Assets:		
Current assets:		
Cash, cash equivalents and short-term investments (note 6)	**$ 704,668**	$ 757,574
Accounts receivable	**68,879**	71,511
Inventories (note 7)	**146,645**	183,739
Prepaid expenses and other current assets	**8,196**	7,646
Cash held in trust (note 12a)	**3,836**	-
Future income and mining tax assets (note 17b)	**21,217**	43,809
Current portion of fair value of derivatives (note 21c)	**4,198**	7,635
	957,639	1,071,914
Property, plant and equipment (note 9)	**817,879**	450,334
Available-for-sale investments (note 5)	**118,960**	2,706
Other assets (note 10)	**23,875**	26,673
	$ 1,918,353	$ 1,551,627
Liabilities and Shareholders' Equity:		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 137,776**	$ 142,994
Taxes payable	**22,297**	6,409
Current portion of other liabilities (note 11)	**33,889**	41,605
	193,962	191,008
Long-term debt (note 12)	**-**	3,208
Pension obligations (note 13)	**28,133**	38,846
Other employee future benefits (note 14)	**74,128**	70,153
Asset retirement obligations (note 15)	**41,317**	35,046
Obligations under capital leases (note 16)	**100**	1,611
Future income tax liabilities (note 17b)	**22,013**	718
Fair value of derivatives (note 21c)	**-**	19,804
	$ 359,653	$ 360,394
Shareholders' equity:		
Share capital:		
Common shares (note 18b)	**$ 632,380**	$ 311,143
Warrants (note 18c)	**20**	1
Contributed surplus (note 18e)	**32,345**	16,633
Retained earnings	**912,289**	868,857
Accumulated other comprehensive loss (note 19)	**(18,334)**	(5,401)
	1,558,700	1,191,233
	$ 1,918,353	$ 1,551,627

Commitments (note 23), Contingencies (note 24), Subsequent Events (note 28).
See accompanying notes to consolidated financial statements.

On behalf of the Board:
"John H. Bowles" Director
"Ronald P. Gagel" Director

HUDBAY MINERALS INC.

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

Years ended December 31, 2008 and 2007

	2008	2007
Cash provided by (used in):		
Operating activities:		
Net earnings for the year	**$ 73,353**	$ 227,139
Items not affecting cash:		
Depreciation and amortization	**88,295**	94,697
Stock-based compensation (note 18d,e)	**11,952**	11,979
Accretion expense on asset retirement obligations (note 15)	**3,847**	3,282
Foreign exchange (gain) loss	**(19,298)**	1,528
Change in fair value of derivatives	**(2,553)**	16,643
Asset impairment losses (notes 5, 8)	**30,433**	20,172
Future tax expense (note 17a)	**49,365**	106,140
Revenue reclassified from OCI (note 19)	**(843)**	-
Share of losses of equity investee (note 4)	**3,915**	-
Other	**(3,805)**	(3,690)
	234,661	477,890
Change in non-cash working capital (note 25a)	**12,045**	20,283
	246,706	498,173
Financing activities:		
Repayment of loans payable (note 12b)	**(7,500)**	(4,000)
Repayment of obligations under capital leases	**(4,470)**	(4,030)
Repurchase of common shares (note 18b)	**(53,291)**	(6,184)
Issuance of common shares, net of costs	**-**	(10)
Proceeds on exercise of warrants	**-**	10
Proceeds on exercise of stock options	**622**	7,690
	(64,639)	(6,524)
Investing activities:		
Additions to property, plant and equipment	**(144,717)**	(116,938)
Purchase of short-term investments	**(602,824)**	-
Sale of short-term investments	**123,883**	-
Purchase of equity investments - HMI Nickel (note 4)	**(95,221)**	-
Purchase of other non-current investments	**(145,193)**	(888)
Cash acquired with HMI Nickel, net of cash paid (note 4)	**130,747**	-
	(733,325)	(117,826)
Effect of exchange rate changes on cash and cash equivalents	**19,411**	(2,113)
Change in cash and cash equivalents	**(531,847)**	371,710
Cash and cash equivalents, beginning of year	**757,574**	385,864
Cash and cash equivalents, end of year	**225,727**	757,574
Short-term investments	**478,941**	-
Cash, cash equivalents and short-term investments (note 6)	**$ 704,668**	$ 757,574

For supplemental information, see note 25.
See accompanying notes to consolidated financial statements.

HUDBAY MINERALS INC.

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

Years ended December 31, 2008 and 2007

	2008	2007
Retained earnings, beginning of year	**$ 868,857**	$ 642,723
Net earnings for the year	**73,353**	227,139
Transition adjustment - financial instruments (note 3b)	**-**	(1,005)
Share repurchases (note 18b)	**(29,921)**	-
Retained earnings, end of year	**$ 912,289**	$ 868,857

See accompanying notes to consolidated financial statements.

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

Years ended December 31, 2008 and 2007

	2008	2007
Net earnings for the year	**$ 73,353**	$ 227,139
Other comprehensive income (loss), net of tax (note 19):		
Net gains (losses) on cash flow hedges	**12,372**	(5,227)
Net losses on available-for-sale investments	**(25,491)**	(459)
Currency translation adjustments	**186**	(126)
	(12,933)	(5,812)
Comprehensive income for the year	**$ 60,420**	$ 221,327

See accompanying notes to consolidated financial statements.

1. Nature of business

HudBay Minerals Inc. (the "Company" or “HudBay”) is a Canadian company continued under the Canada Business Corporations Act on October 25, 2005. HudBay is a base metals mining company with assets in North and Central America. An integrated mining company, HudBay operates zinc and copper mines, concentrators and metal production facilities in northern Manitoba and Saskatchewan, a zinc oxide production facility in Ontario, the White Pine Copper Refinery in Michigan and owns the Balmat zinc mine and concentrator in New York State and the Fenix nickel project in Guatemala.

2. Significant accounting policies

(a) Basis of presentation:

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

These consolidated financial statements include the financial statements of the Company, all of its subsidiaries, and the proportionate share of the assets and liabilities of any joint ventures in which the Company shares joint control. The significant subsidiaries include Hudson Bay Mining and Smelting Co., Limited (“HBMS”), Hudson Bay Exploration and Development Company Limited (“HBED”), White Pine Copper Refinery Inc. (“WPCR”), HudBay Marketing and Sales Inc. (“HMS”), HMI Nickel Inc. ("HMI Nickel"), St. Lawrence Zinc Company LLC (“St. Lawrence”), and a 50% ownership of Considar Metal Marketing SA Inc. (“CMMSA”). Compañía Guatemalteca de Níquel, S.A. ("CGN") is a 98.2%-owned subsidiary of HMI Nickel.

(b) Use of estimates:

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

(c) Translation of foreign currencies:

The Company's functional currency is the Canadian dollar.

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

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

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

(d) Revenue recognition:

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

Under the terms of contracts with independent companies, the Company's concentrate and certain other sales are "provisionally priced". For these contracts, sales prices are subject to final adjustment at the end of a future period after shipment, based on quoted market prices during the quotational period specified in the contract. Revenues are recognized when title passes to the customers, using forward prices to estimate the fair value of the total consideration receivable. At each reporting date, the fair value of the final sales price adjustment is re-estimated, and changes in fair value, metal weights and assays are recognized as adjustments to revenue.

(e) Cash and cash equivalents:

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

(f) Inventories:

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

(g) Property, plant and equipment:

(i) Mineral properties:

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

(b) Mineral exploration properties capitalized as part of acquisitions are carried at initial fair value and are subject to an annual impairment review and evaluation.

(ii) Mine development expenditures:

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

Ongoing repairs, maintenance and development expenditures are charged to operations as incurred. These include ore stope access drifts, footwall and hangingwall drifts in stopes, drawpoints, drill drifts, sublevels, slots, drill raises, stope manway access raises and definition diamond drilling.

(iii) Commercial production:

The decision on when commercial production is reached is based on a range of criteria that is considered relevant to the specific situation, including: a pre-determined percentage of design capacity for the mine and mill; achievement of continuous production, ramp-ups, or other output; and expected net margin during the pre-production period. In a phased mining approach, consideration is given to milestones achieved at each phase of completion. Management assesses the operation's ability to sustain production over a period of approximately one to three months, depending on the complexity related to the stability of continuous operation. Commercial production is considered to have commenced at the beginning of the month in which the criteria are met.

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

(iv) Plant and equipment:

Expenditures for plant and equipment additions, major replacements and improvements are capitalized at cost, net of applied investment tax credits. Plant and equipment, including assets under capital lease, are depreciated on either unit-of-production or straight-line basis. The unit-of-production method is based on proven and probable tonnes of ore reserves. The assets using the straight-line method are depreciated over the estimated useful economic lives of the assets, which extend up to 13 years. The Company also considers salvage values in its determination of depreciation.

(v) Capitalized interest:

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

(vi) Impairment of long-lived assets:

The Company reviews and evaluates the carrying value of its operating mines and exploration and development properties for impairment when events or circumstances indicate that the carrying amounts of related assets or groups of assets may not be recoverable. If the total estimated future cash flows on an undiscounted basis are less than the carrying amount of the asset, an impairment loss is measured and assets are written down to fair value, which is normally the discounted value of future cash flows. Future cash flows are estimated based on estimated future recoverable mine production, expected sales prices (considering current and historical commodity prices, price trends and related factors), production levels, cash costs of production, and capital and reclamation costs, all based on detailed engineering life-of-mine plans. Future recoverable mine production is determined from reserves and resources after taking into account estimated dilution and recoveries during mining, and estimated losses during ore processing and treatment. Estimates of recoverable production from measured, indicated and inferred mineral resources are considered economically mineable and are based

on management's confidence in converting such resources to proven and probable reserves. Long-lived assets are grouped for purposes of estimating future cash flows at the lowest level of assets and liabilities for which identifiable cash flows are largely independent of the cash flows of other assets. Assumptions underlying future cash flow estimates are subject to risks and uncertainties. It is possible that changes in estimates could occur which may affect the expected recoverability of the Company's investments in mineral properties.

(h) Pension and other employee future benefits:

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

The Company accrues its obligations under the defined benefit plans as the employees render the services necessary to earn the pension and other retirement benefits. The actuarial determination of the accrued benefit obligations for pensions and other retirement benefits uses the projected benefit method prorated on service (which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors). The measurement date of the plan assets and accrued benefit obligation coincides with the Company’s fiscal year. The most recent actuarial valuation for funding purposes for the two largest pension plans was performed in 2008 using data as of December 31, 2007.

Actuarial gains (losses) on plan assets arise from the difference between the actual return on plan assets for a period and the expected return on plan assets for that period. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation. The average remaining service period of the active employees covered by the pension plans is 10.4 years. The average remaining service period of the active employees covered by the other retirement benefits plan is 12.6 years.

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

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

(i) Financial instruments:

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

(i) Non-derivative financial instruments – classification:

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

Available-for-sale financial assets are measured at fair value with gains and losses recorded in other comprehensive income ("OCI"), except for impairment losses, until the assets are derecognized, at which time the cumulative gain or loss previously recognized in accumulated other comprehensive income ("AOCI") is recognized in earnings. The Company has designated investments in listed shares as available-for-sale.

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

(ii) Derivatives:

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

(iii) Hedge accounting:

The Company may use derivatives and non derivative financial instruments to manage exposures to interest, currency, credit and other market risks. Where hedge accounting can be applied, a hedging relationship is designated as a fair value hedge, a cash flow hedge or a hedge of foreign currency exposure of a net investment in a self-sustaining foreign operation. The purpose of hedge accounting is to ensure that gains, losses, revenues and expenses from

effective hedging relationships are recorded in earnings in the same period.

At the inception of a hedge, the Company formally documents the hedging relationship and the risk management objective and strategy for undertaking the hedge. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows. The Company tests effectiveness each period. Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge, or the derivative is terminated or sold, or upon the sale or early termination of the hedged item.

During the year ended December 31, 2008, the Company had only cash flow hedging relationships. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative is recognized in OCI, while the ineffective portion is recognized in earnings. When a hedged anticipated transaction subsequently occurs, the Company's policy is to remove the associated gains and losses that were recognized in OCI and include them in the initial carrying amount of the asset acquired or liability incurred. When hedge accounting is discontinued, amounts previously recognized in AOCI are reclassified to earnings during the periods when the variability in the cash flows of the hedged item affects earnings. However, when a hedged item ceases to exist or when it is probable that an anticipated transaction will not occur, gains and losses previously recognized in AOCI are reclassified immediately to earnings. For contracts accounted for as a hedge of an identifiable current or anticipated position, the Company classifies the cash flows of the contract in the same manner as the cash flows of the position being hedged.

(iv) Fair values of financial instruments:

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

(v) Impairment:

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

(j) Stock-based compensation plans:

The Company's stock based compensation plan is described in note 18d. The Company accounts for all stock based compensation using the fair value based method. Under this method, compensation cost attributable to options granted is measured at fair value at the grant date and expensed over the vesting period, with a corresponding increase to contributed surplus. Any consideration paid on exercise of stock options or purchase of stock is credited to share capital.

(k) Income and mining taxes:

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

(l) Flow-through shares:

Prior to 2008, the Company financed a portion of its exploration and development activities through the issue of flow-through shares. Under the terms of these share issues, the tax attributes of the related expenditures are renounced to subscribers. Share capital is reduced and future income tax liabilities and/or tax recoveries are increased by the estimated income tax benefits renounced by the Company to the subscribers.

(m) Earnings per share:

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

(n) Asset retirement obligations:

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

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

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

(o) Exploration costs:

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

3. Adoption of new accounting standards

(a) Adopted in 2008:

Capital Disclosures and Financial Instruments – Disclosures and Presentation

As required by the CICA, effective January 1, 2008, the Company adopted three new accounting standards addressing disclosure requirements:

CICA Handbook Section 1535, *Capital Disclosures*, specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) qualitative information and summary quantitative data about what the entity manages as capital; (iii) whether the entity has complied with any externally imposed capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. Refer to note 20.

CICA Handbook Section 3862, *Financial Instruments - Disclosures*, and Section 3863, *Financial Instruments - Presentation*, replaced 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. Refer to note 21.

Inventories

On January 1, 2008, the Company adopted the new CICA Handbook Section 3031, *Inventories*, replacing the existing Section 3030. This section requires measurement of inventories at the lower of cost and net realizable value; clarifies allocation of overheads and other costs to inventory; requires consistent use of either first-in, first-out or weighted average to measure inventories; requires that insurance and capital spares be accounted for as property, plant and equipment; and requires reversal of any previous writedowns when there is a subsequent increase in the value of inventories. The Company's adoption of this standard had no effect on the financial statements.

(b) Adopted in 2007:

Comprehensive Income, Financial Instruments - Recognition and Measurement, and Hedges

On January 1, 2007, the Company adopted three new accounting standards that were issued by the CICA: Handbook Section 1530, *Comprehensive Income*, Section 3855, *Financial Instruments – Recognition and Measurement*, and Section 3865, *Hedges*. The Company applied these standards in accordance with transitional provisions, and comparative amounts for prior periods were not restated.

The Company recorded the following transition adjustments to opening retained earnings and AOCI 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 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 were previously presented as a separate item in shareholders' equity at their gross amount of $57.

Accounting changes

Effective January 1, 2007, the Company adopted the revised CICA Handbook Section 1506, *Accounting Changes*, which requires that (i) a voluntary change in accounting principles can be made if, and only if, the changes result in more reliable and relevant information; (ii) changes in accounting policies are accompanied with restated amounts for prior periods and reasons for the change; and (iii) for changes in estimates, the nature and amount of the change should be disclosed. The Company has not made any voluntary change in accounting principles since the adoption of the revised standard.

(c) Future accounting changes:

Goodwill and Intangible Assets

In February 2008, the CICA issued Section 3064, *Goodwill and Intangible Assets*, replacing Section 3062, *Goodwill and Other Intangible Assets* and Section 3450, *Research and Development Costs*. The new section will be applicable to the Company on January 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. The Company does not expect adoption of this new section to have a significant effect on its consolidated financial statements.

Business Combinations

In January 2009, the CICA issued Section 1582, *Business Combinations*, replacing Section 1581 of the same name. The new section will apply prospectively to business combinations for which the acquisition date is on or after January 1, 2011. Section 1582, which provides the Canadian equivalent to International Financial Reporting Standard 3, *Business Combinations (January 2008)*, establishes standards for the accounting for a business combination. Section 1582 requires business acquisitions (including non-controlling interests and contingent consideration) to be measured at fair value on the acquisition date, generally requires acquisition-related costs to be expensed, requires gains from bargain purchases to be recorded in net earnings, and expands the definition of a business. As Section 1582 will apply only to future business combinations, it will not have a significant effect on the Company's consolidated financial statements prior to such acquisitions.

Consolidated Financial Statements and Non-controlling Interests

In January 2009, the CICA issued Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-controlling Interests*, which together replace the existing Section 1600, *Consolidated Financial Statements*, and provide the Canadian equivalent to International Accounting Standard 27, *Consolidated and Separate Financial Statements (January 2008)*. The new sections will be applicable to the Company on January 1, 2011. Section 1601 establishes standards for the preparation of consolidated financial statements, and Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The Company is assessing the impact, if any, of the adoption of these new sections on its consolidated financial statements.

International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a strategic plan that will significantly affect financial reporting requirements for Canadian companies. The strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's existing GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported

by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

4. Acquisition of HMI Nickel

On August 26, 2008, the Company acquired all of the issued and outstanding common shares of Skye Resources Inc. (since renamed HMI Nickel Inc.) pursuant to a court-approved plan of arrangement. In exchange for each HMI Nickel common share, HMI Nickel shareholders received 0.61 of a HudBay common share plus $0.001 in cash. In addition, the Company exchanged HMI Nickel's outstanding stock options and warrants for similar securities of HudBay at an exchange ratio of 0.61 and at a price equivalent to the original purchase price divided by 0.61. In total, HudBay issued as consideration 31,295,685 common shares, granted 1,864,404 stock options and assumed 1,894,050 warrants.

On June 27, 2008, the Company acquired 12,679,266 common shares of HMI Nickel at a total cost of $95,221 in a private placement. For the period prior to acquisition of control on August 26, 2008, the Company accounted for this investment using the equity method to reflect the strategic nature of the plan of arrangement. The difference between the Company's carrying value of the investment and its proportionate share of HMI Nickel's net book value was attributed to the Fenix nickel project in property, plant and equipment, held by CGN, HMI Nickel's 98.2%-owned subsidiary. HudBay has recorded in earnings a loss of $3,915 to reflect its share of the results of HMI Nickel's operations during the period that HudBay had significant influence over HMI Nickel.

The Company accounted for this two-step acquisition as a purchase of assets, rather than a business combination, as HMI Nickel did not meet the definition of a business as defined by EIC-124, *Definition of a Business*. Accordingly, the Company determined the cost of assets and liabilities acquired from HMI Nickel by allocating the purchase price for the group of assets to each item on the basis of its fair value at the time of acquisition. The fair values determined for the assets and liabilities acquired exceeded the consideration paid.

Purchase price:

31.3 million HudBay common shares	$ 341,436
Cash of $0.001 per HMI Nickel common share	51
1.9 million stock options issued by HudBay	6,309
1.9 million warrants issued by HudBay	19
Transaction costs	9,458
	357,273
Private placement investment	95,221
Share of losses of equity investee	(3,915)
	$ 448,579

The fair value of share consideration was measured based on HudBay's closing common share price of $10.91 per share on August 25, 2008, the business day before the acquisition date. The options and warrants have been valued using the Black-Scholes option pricing model. All options vested upon completion of the transaction.

The purchase price allocation has been adjusted from that disclosed in the third quarter of 2008 as valuations and analyses have been finalized. The following table summarizes the allocation of the purchase price to assets and liabilities acquired, based on estimates of fair value:

	Acquired through private placement investment, June 27, 2008	Share of HMI Nickel loss prior to acquisition of control	Acquisition of control, Aug. 26, 2008	Total acquired, Aug. 26, 2008
Cash and cash equivalents	$ 29,004	$ -	$ 111,252	$ 140,256
Other current assets	161	-	924	1,085
Restricted cash	1,537	-	6,576	8,113
Property, plant and equipment	5,004	(288)	19,772	24,488
Mineral properties	63,036	(3,627)	249,090	308,499
Accounts payable and accrued liabilities	(2,271)	-	(25,171)	(27,442)
Asset retirement obligations	(1,250)	-	(5,170)	(6,420)
	$ 95,221	$ (3,915)	$ 357,273	$ 448,579

The following summarizes net cash acquired on the acquisition:

Cash and cash equivalents acquired	$ 140,256
Cash paid for transaction costs	(9,458)
Cash of $0.001 per HMI Nickel common share	(51)
	$ 130,747

5. Available-for-sale investments

Available-for-sale investments consist of investments in listed shares that have no fixed maturity date or coupon rate. Gains and losses are recorded in OCI and are included in earnings and in investing activities on the statements of cash flows when realized.

On December 11, 2008, the Company acquired 96,997,492 common shares of Lundin Mining Corporation ("Lundin") at a price of $1.40 per share in a private placement that was approved by the Toronto Stock Exchange. Aggregate gross proceeds to Lundin were $135,796, to be used for general corporate purposes. The investment represented approximately 19.9% of Lundin's outstanding common shares after issuance. The Company has determined this investment was not subject to significant influence and has classified it as available-for-sale. At December 31, 2008, the fair value of the Company's investment in Lundin was $112,517, and the Company has recognized a loss of $23,279 in OCI to reflect this change in value. The Company concluded that the decline in the value of this investment is temporary. In making this assessment, the Company noted that the period of decline in fair value below cost has been short, and the Company intends and is able to hold this investment until its anticipated recovery in fair value. The Company will continue to assess this investment for impairment in future periods.

In total, the Company recognized a pre-tax loss of $28,680 in OCI to reflect changes in fair value of its available-for-sale investments. The Company also recorded an impairment loss of $3,196 on other available-for-sale investments in listed shares (2007 - $5,059) for which the decline in fair value was determined to be other than temporary. As a result, related losses have been removed from AOCI and recognized in earnings as impairment.

6. Cash, cash equivalents and short-term investments

	2008	2007
Cash and cash equivalents:		
Cash on hand and demand deposits	**$ 225,727**	$ 41,298
Short-term money market instruments with original maturities of three months or less	**-**	716,276
	225,727	757,574
Short-term investments:		
Short-term bankers' acceptances with original maturities within six months	**478,941**	-
	$ 704,668	$ 757,574

7. Inventories

	2008	2007
Work-in-process	**$ 59,138**	$ 112,177
Finished goods	**68,067**	53,518
Materials and supplies	**19,440**	18,044
	$ 146,645	$ 183,739

During the year ended December 31, 2008, finished goods inventories at the Company's Balmat mine were written down to net realizable value, and an expense of $4,773 was recognized in operating expenses (2007 - $1,063).

8. Balmat asset impairment losses

During 2008, the Company recorded an asset impairment loss of $27,237 on its Balmat zinc mine. In its second year of commercial production, the performance of the Balmat mine continued to fall short of the Company's expectations, which had been recently revised as part of the previous asset impairment taken in the fourth quarter of 2007. Due to this operating shortfall and rapidly declining zinc prices, the Balmat mine operations were suspended on August 22, 2008.

Based on the anticipated expenses and deferral of operating cash flow associated with a period of care and maintenance, the Company completed a review of the discounted value of future cash flows and determined that the carrying value of Balmat's assets was not likely to be recoverable. Therefore, the carrying value of the Balmat property, plant and equipment has been written off in the amount of $24,927. As well, the carrying value of Balmat's materials and supplies inventory has been written down by $2,310 to its net realizable value. The Company is currently continuing exploration on the Balmat property.

In 2007, the Company recorded an asset impairment loss of $15,113 on its Balmat zinc mine, which was reflected as an increase in accumulated depreciation and amortization. The Company determined that the carrying value was not recoverable, and therefore the carrying value of the Balmat property, plant and equipment was written down to its estimated fair value of $23,600 based on the discounted value of future cash flows.

9. Property, plant and equipment

2008	Cost	Accumulated depreciation and amortization	Net book value
Property, plant and equipment	**$ 443,511**	**$ 105,904**	**$ 337,607**
Mine development	**284,376**	**171,979**	**112,397**
Mineral properties	**367,875**	**-**	**367,875**
	$ 1,095,762	**$ 277,883**	**$ 817,879**

2007	Cost	Accumulated depreciation and amortization	Net book value
Property, plant and equipment	$ 389,229	$ 79,565	$ 309,664
Mine development	272,355	148,677	123,678
Mineral properties	16,992	-	16,992
	$ 678,576	$ 228,242	$ 450,334

Refer to note 4 for details on the Company's acquisition of HMI Nickel. Fenix construction costs and mineral properties are not being amortized or depreciated as they are not in operation. The carrying value of other property, plant and equipment under construction or development that is not being amortized was $26,734 (2007 - $23,859).

Additional information:

	2008	2007
Equipment under capital leases included in property, plant and equipment:		
Cost	**$ 1,998**	$ 18,109
Less accumulated depreciation	**1,184**	5,244
	$ 814	$ 12,865
Amortization expense related to equipment under capital leases	**$ 214**	$ 1,551

10. Other assets

		2008		2007
Investments, at fair value through earnings	**$**	**110**	$	-
Restricted cash		**10,568**		1,165
Long-term portion of cash held in trust (note 12a)		**-**		3,289
Long-term portion of future tax asset (note 17b)		**13,197**		21,261
Long-term portion of fair value of derivatives (note 21c)		**-**		958
	$	**23,875**	$	26,673

The increase in the Company's restricted cash relates mainly to letters of credit provided with respect to the Fenix project.

11. Current portion of other liabilities

		2008		2007
Current portion of:				
Long-term debt (note 12)	**$**	**3,321**	$	7,294
Pension obligation (note 13)		**17,683**		14,586
Other employee future benefits (note 14)		**2,668**		2,007
Asset retirement obligation (note 15)		**5,315**		3,195
Obligations under capital leases (note 16)		**411**		3,370
Future tax liabilities (note 17b)		**42**		51
Fair value of derivatives (note 21c)		**4,293**		10,975
Interest payable on long-term debt		**156**		127
	$	**33,889**	$	41,605

12. Long-term debt

		2008		2007
Senior Secured Notes (a)	**$**	**3,321**	$	3,208
Province of Manitoba (b)		**-**		7,294
		3,321		10,502
Less current portion of long-term debt (note 11)		**3,321**		7,294
	$	**-**	$	3,208

(a) Senior Secured Notes:

On December 21, 2004, a subsidiary of the Company issued US$175 million Senior Secured Notes ("Notes") bearing interest at 9.625% per annum with interest payable semi-annually in arrears on January 15 and July 15 of each year, commencing on July 15, 2005. The Notes were scheduled to mature on January 15, 2012. Subsequent to the issuance of the Notes, the subsidiary that issued the Notes amalgamated with HBMS. During 2005 and 2006, the Company used operating cash flow to repurchase US$172.1 million of the Notes, reducing the outstanding notional amount of the Notes to US$2.9 million.

On February 21, 2007, the Company completed the covenant defeasance of HBMS' outstanding 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 of 3.25% U.S. government securities, such amount being sufficient to pay the principal of US$2,900 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.

The Company designated the Notes and the cash held in trust as fair value through earnings. Both instruments are carried at fair value, with gains and losses included in loss on derivative instruments in the statements of earnings.

During the year ended December 31, 2008, the Company recorded interest expense on the Notes of $298 (2007 - $300).

Subsequent to December 31, 2008, on January 15, 2009, all remaining Notes were redeemed with proceeds from the Company's cash held in trust.

(b) Loan payable:

During 2008, the Company repaid its interest-free loan from the Province of Manitoba. Non-cash interest expense accreted during the year was $206 (2007 - $459).

(c) Credit facility:

As at December 31, 2008, the Company had an $80 million revolving credit facility. The facility subsequently expired on February 27, 2009 and has not been renewed. Refer to note 28d for additional information. As of December 31, 2008 there were no amounts drawn under the facility, and the Company was in compliance with covenants under the credit facility.

13. Pension obligation

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

The Company uses a December 31 measurement date for all of its plans. For the Company's significant plans, the most recent actuarial valuations filed for funding purposes were performed during 2008 using data as at December 31, 2007. For these plans, the next actuarial valuation required for funding purposes will be performed as at December 31, 2008. Any actuarial gains or losses over 10 per cent of the greater of the obligation and the fair value of assets are amortized over the expected service life of the plan population.

The defined benefit pension plans were amended in 2006 to grant benefit improvements for past service. The Company elected to amortize these past service costs over three years.

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

	2008	2007
Obligations and funded status:		
Change in pension obligation:		
Obligation, beginning of year	**$ 264,494**	$ 258,140
Service cost	**8,310**	8,471
Interest cost	**14,505**	13,958
Employee contributions	**165**	167
Actuarial gain	**(59,107)**	(7,137)
Benefits paid	**(14,518)**	(9,105)
Obligation, end of year	**213,849**	264,494
Change in pension plan assets:		
Fair value of plan assets, beginning of year	**218,641**	200,874
Actual return on plan assets - (loss) gain	**(27,034)**	8,611
Employer contributions	**18,537**	18,094
Employee contributions	**165**	167
Benefits paid	**(14,518)**	(9,105)
Fair value of plan assets, end of year	**195,791**	218,641
Unfunded status of plans, end of year	**(18,058)**	(45,853)
Unamortized past service costs	**-**	4,107
Unamortized net actuarial gain	**(27,758)**	(11,686)
Net amount recognized, end of year	**(45,816)**	(53,432)
Less current portion (note 11)	**(17,683)**	(14,586)
	$ (28,133)	$ (38,846)

During the year, the Company fully settled its obligations under the pension plans for former employees of the Ruttan mine, which was closed in 2002, by purchasing annuity contracts from an insurance company. Additional funding of $664 was required to the Salaried Plan to fully fund the wind-up deficiency under this plan. No additional funding was required under the Hourly Plan, and surplus assets of $176 remain in the plan. The Company is working with the regulators to ascertain the appropriate treatment of these surplus assets. These surplus assets are expected to be distributed during 2009.

Pension expense includes the following components:

	2008	2007
Costs arising in the year:		
Service cost	**$ 8,310**	$ 8,471
Interest cost	**14,505**	13,958
Actual asset return	**(27,034)**	(8,611)
Actuarial gain	**(59,107)**	(7,137)
	(63,326)	6,681
Difference in costs arising and recognized in the year:		
Actual return on plan assets - loss (gain)	**11,375**	(4,698)
Actuarial loss	**58,765**	7,206
Plan amendments	**4,107**	4,107
Defined benefit pension expense	**10,921**	13,296
Defined contribution pension expense	**1,247**	898
	$ 12,168	$ 14,194

Additional information:

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

	2008	2007
To determine the net benefit expense for the year:		
Discount rate - defined benefit	**5.50%**	5.25%
Discount rate - defined contribution	**4.17%**	4.23%
Expected return on plan assets	**7.00%**	6.50%
Rate of compensation increase	**2.35%***	2.35%*
To determine the accrued benefit obligations at the end of the year:		
Discount rate - defined benefit	**7.50%**	5.50%
Discount rate - defined contribution	**4.17%**	4.23%
Rate of compensation increase	**1.75%***	2.35%*

* plus a merit and promotion scale

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

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

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

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

Plan assets:

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

	2008		2007	
	Weighted average	Target	Weighted average	Target
Equity securities	**44%**	**50%**	48%	52%
Debt securities	**56%**	**50%**	52%	48%
	100%	**100%**	100%	100%

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

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

14. Other employee future benefits

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

	2008	2007
Obligations and funded status:		
Change in other employee future benefits obligation:		
Obligation, beginning of year	**$ 79,610**	$ 79,013
Service cost	**2,282**	2,350
Interest cost	**4,352**	4,127
Actuarial gain	**(6,696)**	(3,889)
Benefits paid	**(1,998)**	(1,991)
Obligation, end of year	**77,550**	79,610
Change in plan assets:		
Fair value of plan assets, beginning of year	**-**	-
Employer contributions	**1,998**	1,991
Benefits paid	**(1,998)**	(1,991)
Fair value of plan assets, end of year	**-**	-
Unfunded status of plans, end of year	**(77,550)**	(79,610)
Unamortized net actuarial loss	**754**	7,450
Net amount recognized, end of year	**(76,796)**	(72,160)
Less current portion (note 11)	**(2,668)**	(2,007)
	$ (74,128)	$ (70,153)

Other employee future benefits expense includes the following components:

	2008	2007
Costs arising in the year:		
Service cost	**$ 2,282**	$ 2,350
Interest cost	**4,352**	4,127
Actuarial gain	**(6,696)**	(3,889)
	(62)	2,588
Difference in costs arising and recognized in the year:		
Actuarial loss	**6,696**	4,198
Other employee future benefits expense	**$ 6,634**	$ 6,786

Additional information:

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

	2008	2007
To determine the net benefit expense for the year:		
Discount rate	**5.50%**	5.25%
Weighted average health care trend rate	**7.80%**	8.20%
To determine the benefit obligations at the end of the year:		
Discount rate	**7.50%**	5.50%
Weighted average health care trend rate	**8.30%**	7.80%

The weighted average health care cost trend rate used in measuring other employee future benefits was assumed to begin at 8.3% in 2009, gradually declining to 4.6% by 2029 and remaining at those levels thereafter.

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

	2008	2007
Accumulated post-retirement benefit obligation	**$ 16,106**	$ 16,919
Aggregate of service and interest cost	**1,606**	1,533

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

	2008	2007
Accumulated post-retirement benefit obligation	**$ 12,702**	$ 13,193
Aggregate of service and interest cost	**1,222**	1,167

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

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

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

15. Asset retirement obligations

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

		2008		2007
Balance, beginning of year	**$**	**38,241**	$	33,548
Obligations recognized during the year		**199**		5,796
Obligations recognized upon acquisition of HMI Nickel (note 4)		**6,420**		-
Revisions in estimated cash flows		**(778)**		(2,458)
Obligations settled during the year		**(1,297)**		(1,927)
Accretion expense		**3,847**		3,282
Balance, end of year		**46,632**		38,241
Less current portion (note 11)		**5,315**		3,195
	$	**41,317**	$	35,046

Total undiscounted future cash flows required to settle the decommissioning and restoration asset retirement obligations are estimated to be $105.1 million (2007 - $65.2 million) before adjusting for inflation, market, and credit risk. The increase in the undiscounted obligations was mainly due to the obligations assumed as a result of the acquisition of HMI Nickel's Guatemalan property, which has an estimated mine life in excess of 25 years. Credit adjusted risk-free rates ranging from 9.0% to 10.0% (2007 - 9.0% to 9.5%) have been used to determine the additional obligations recognized during the year. The Company's asset retirement obligations were revised in 2008 to reflect minor changes in amounts and timing of estimated cash flows. The net effect was a reduction in the obligations of $778. During 2007, the majority of the Flin Flon Metallurgical complex expenditures were extended to 2020. Although the Balmat mine has been placed on care and maintenance, no significant changes are anticipated to the amount or timing of the obligations. Management anticipates that the asset retirement obligations relating to the Flin Flon operations will substantially be settled at or near the closure of the mining and processing facilities, anticipated to occur from 2012 to 2020.

The Company's exploration and exploitation licences require that it reclaim any land covered by those licences which it disturbs during exploration and exploitation activities for the Fenix Project. Although the timing and the amount of the actual expenditures can be uncertain, and given that the Company has chosen to delay construction of the Fenix project in Guatemala in light of the significant deterioration in metals prices and recent global economic uncertainty, the Company has estimated the present value of the future reclamation obligation arising from its activities relating to the Fenix Project as at December 31, 2008 to be $6.7 million.

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

estimate, when applicable. Environmental laws and regulations are continually evolving in all regions in which the Company operates. The Company is not able to determine the impact, if any, of environmental laws and regulations that may be enacted in the future on its results of operations or financial position due to the uncertainty surrounding the ultimate form that such future laws and regulations may take.

16. Obligations under capital leases

The Company has entered into capital lease obligations for equipment.

		2008		2007
Lease obligations	**$**	**511**	$	4,981
Less current portion (note 11)		**411**		3,370
	$	**100**	$	1,611

The following represents the minimum lease payments for equipment used in operations for the next two years:

2009	$	429
2010		101
		530
Less imputed interest		(19)
		511

The capital lease average interest rate was 6.0% and is fixed for the term of the leases that expire 2009 to 2010. Interest expense on capital leases in 2008 was $191 (2007 - $399).

17. Income and mining taxes

(a) Tax expense:

		2008	2007
Tax expense applicable to:			
Current	- income taxes	**$ 24,692**	$ 407
	- mining taxes	**22,241**	31,770
		46,933	32,177
Future	- income taxes	**42,819**	104,063
	- mining taxes	**6,546**	2,077
		49,365	106,140
Tax expense		**$ 96,298**	$ 138,317

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

	2008	2007
Future tax assets		
Current portion	**$ 21,217**	$ 43,809
Long-term portion (note 10)	**13,197**	21,261
	34,414	65,070
Future tax liabilities		
Current portion (note 11)	**42**	51
Long-term portion	**22,013**	718
	22,055	769
	$ 12,359	$ 64,301

Future tax assets and liabilities are composed of:

	2008	2007
Future income tax asset (note 17e)	**$ 14,933**	$ 39,043
Future income tax liability (note 17e)	**(22,055)**	(769)
Future mining tax asset (note 17f)	**19,481**	26,027
	$ 12,359	$ 64,301

(c) Changes in future tax assets and liabilities:

	2008	2007
Balance, beginning of year	**$ 64,301**	$ 171,879
Future tax expense	**(49,365)**	(106,140)
Flow-through shares	**-**	(7,251)
Financial instruments transition		
- retained earnings	**-**	568
- OCI	**-**	(77)
OCI (loss) transactions	**(112)**	3,321
Pre-production investment tax credit	**(1,926)**	1,913
Other	**(539)**	88
Balance, end of year	**$ 12,359**	$ 64,301

(d) Reconciliation to statutory tax rate:

As a result of Canadian mining operations, the Company is subject to both income and mining taxes. Generally, most expenditures incurred are deductible in computing income tax, whereas mining tax legislation, although based on a measure of profitability from carrying on mining operations, is more restrictive in respect of the deductions permitted in computing income subject to mining tax. These restrictions include deductions for financing expenses, such as interest and royalties. In addition, income unrelated to carrying on mining operations is not subject to mining tax.

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

		2008		2007
Statutory tax rate		**32.54%**		36.04%
Tax expense at statutory rate	**$**	**55,204**	$	131,710
Effect of:				
Resource and depletion allowance, net of resource tax recovery		**(9,571)**		(12,023)
Adjusted income taxes		**45,633**		119,687
Mining taxes		**28,787**		33,847
		74,420		153,534
Temporary income tax differences not recognized		**17,387**		13,217
Tax benefit not recognized		**10,739**		2,123
Permanent differences related to:				
- capital items		**(5,475)**		848
- stock based compensation		**3,985**		4,327
Other income tax permanent differences		**1,400**		7,773
Recognition of prior years' income tax temporary differences		**(2,760)**		(39,188)
Impact related to reduction of tax rates		**(3,398)**		(4,317)
Tax expense	**$**	**96,298**	$	138,317
Tax expense applicable to:				
Current taxes	**$**	**46,933**	$	32,177
Future taxes		**49,365**		106,140
Tax expense	**$**	**96,298**	$	138,317

(e) Income tax effect of temporary differences:

The tax effects of temporary differences that give rise to significant portions of the future tax assets or future tax liabilities at December 31, 2008 and 2007 are as follows:

	2008	2007
Future income tax assets (liabilities):		
Property, plant and equipment	**$ 22,713**	$ (20,313)
Pension obligation	**9,137**	15,471
Other employee future benefits	**1,355**	19,901
Asset retirement obligations	**1,547**	10,271
Non-capital losses (note 17g)	**28,630**	37,847
Share issue and debt costs	**4,444**	6,422
Capital losses	**-**	2,115
Other	**3,360**	3,974
	71,186	75,688
Less valuation allowance	**56,253**	36,645
Net future income tax asset (note 17b)	**14,933**	39,043
Less current portion	**13,163**	33,498
	$ 1,770	$ 5,545
Future income tax liabilities (assets):		
Property, plant and equipment	**$ 39,075**	$ -
Pension obligation	**(4,941)**	-
Other employee future benefits	**(19,776)**	-
Asset retirement obligations	**(9,382)**	-
Share issue and debt costs	**(2,553)**	-
Other	**(318)**	769
	2,105	769
Less valuation allowance	**19,950**	-
Net future income tax liability (note 17b)	**22,055**	769
Less current portion	**42**	51
	$ 22,013	$ 718

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

(f) Mining tax effect of temporary differences:

The tax effects of temporary differences that give rise to significant portions of the future tax assets at December 31, 2008 and 2007 are as follows:

	2008	2007
Future mining tax assets:		
Property, plant and equipment	**$ 27,121**	$ 39,013
Less valuation allowance	**7,640**	12,986
Net future mining tax asset (note 17b)	**19,481**	26,027
Less current portion	**8,054**	10,311
	$ 11,427	$ 15,716

The mining tax valuation allowance represents management's best 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. The Company's mining tax valuation allowance provides for future mining tax assets expected to be realized beyond the next three years. This recognition period is considered appropriate due to the lower depreciation rate applied to assets for mining tax purposes, which extends the timeframe for realization of future mining tax assets, as well as the uncertainties of future longer-term metal prices and exchange rates and will continue to be reviewed as circumstances change.

(g) Non-capital losses:

At December 31, 2008, the Company had cumulative non-capital losses of $47.1 million in Canada and net operating losses of US$43.7 million in the US. The benefit related to approximately $2.6 million of the Canadian non-capital losses has been recognized on the balance sheet. The US net operating losses have not been recognized.

The Canadian non-capital losses were incurred between 2004 and 2008 and expire between 2012 and 2028. The utilization of approximately $44.5 million of non-capital losses is restricted as a result of a change in control. The US net operating losses were incurred between 2004 and 2007 and have a 20-year carry-forward period.

(h) Other disclosure:

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

18. Share capital

(a) Preference shares:

Authorized:
Unlimited preference shares

(b) Common shares:

Authorized:
Unlimited common shares

Issued:

	2008		2007	
	Common shares	**Amount**	Common shares	Amount
Balance, beginning of year	**127,032,612**	**$ 311,143**	126,006,001	$ 308,441
Exercise of warrants	**-**	**-**	3,352	13
Exercise of options	**111,827**	**976**	1,344,559	10,737
Shares repurchased	**(5,420,000)**	**(21,175)**	(321,300)	(787)
Tax impact of flow-through shares	**-**	**-**	-	(7,251)
Share issue costs	**-**	**-**	-	(10)
Issued - acquisition of HMI Nickel (note 4)	**31,295,685**	**341,436**	-	-
Balance, end of year	**153,020,124**	**$ 632,380**	127,032,612	$ 311,143

On December 12, 2007, the Company announced a share repurchase program, through the facilities of the Toronto Stock Exchange, for cancellation of up to 9,946,093 common shares (approximately 9.5% of the Company's public float as of December 11, 2007) by way of a normal course issuer bid. Purchases of common shares were made from time to time at market prices and in accordance with the rules of the Toronto Stock Exchange. This repurchase program was authorized to be in effect until December 16, 2008.

During 2008, the Company repurchased for cancellation 5,420,000 common shares (2007 - 321,300) at a net cost of $53,291 (2007 - $6,184). The Company recorded a reduction in share capital of $21,175 (2007 - $787). The excess net cost over the average book value of the shares was recorded as a reduction to contributed surplus of $2,195 (2007 - $5,397) and a reduction to retained earnings of $29,921 (2007 - $0).

In February 2007, the Company renounced tax deductions of $20,075 with an effective date of December 31, 2006 to holders of flow-through shares that had been issued in April 2006. The Company reduced its share capital by $7,251, reflecting a tax rate of approximately 36% applied to the temporary taxable differences created by the renunciation.

(c) Warrants:

	2008		2007	
	Number of Warrants	**Amount**	Number of Warrants	Amount
Balance, beginning of year	**22,521**	**$ 1**	123,101	$ 3
Exercised	**-**	**-**	(100,580)	(2)
Issued - acquisition of HMI Nickel (note 4)	**1,894,050**	**19**	-	-
Balance, end of year	**1,916,571**	**$ 20**	22,521	$ 1

As part of HudBay's acquisition of HMI Nickel, the Company assumed 1,894,050 warrants with an exercise price of $24.80 per warrant (one warrant required to acquire one common share). The warrants are listed on the Toronto Stock Exchange under the symbol "HBM.WT". Subsequent to December 31, 2008, all 1,894,050 warrants expired on January 26, 2009.

At December 31, 2008, the Company also has 22,521 unlisted warrants outstanding to acquire common shares (30 warrants required to acquire one common share) of the Company with an exercise price of $0.105 and an expiry date of December 21, 2009.

(d) Stock option plan:

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

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

Awards of share units may also be granted to employees, officers and directors under the Company’s Long-Term Equity Plan. No grants were made under this plan in 2008.

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

The fair value of the options granted during 2008 has been estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rate of 2.9% (2007 - 4.3%); dividend yield of 0% (2007 - 0%); volatility factor of 52% (2007 - 50%); and a weighted average expected life of 4 years for options issued under the original Plan and 3 years for options issued under the amended Plan (2007 - 4 years).

As part of HudBay's acquisition of HMI Nickel, the Company granted 1,864,404 options to former optionholders of HMI Nickel with a weighted average exercise price of $10.93 and weighted average remaining contractual life of 1.5 years. The grant date fair value of these options granted was estimated using a Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rate of 2.9%; dividend yield of 0%; volatility factor of 51%; and a weighted average expected life of 1.1 year. These options were fully vested at the time of grant; accordingly, their grant date fair value has been included in the purchase price and will not be reflected in stock-based compensation expense.

	2008		2007	
	Number of shares subject to option	**Weighted average exercise price**	Number of of shares subject to option	Weighted average exercise price
Balance, beginning of year	**3,271,532**	**$ 13.29**	3,183,269	$ 6.46
Granted	**2,504,313**	**13.65**	1,481,711	21.10
Exercised	**(111,828)**	**5.57**	(1,344,559)	5.72
Forfeited	**(368,477)**	**10.35**	(48,889)	13.74
Granted - acquisition of HMI Nickel (note 4)	**1,864,404**	**10.93**	-	-
Balance, end of year	**7,159,944**	**$ 13.07**	3,271,532	$ 13.29

The weighted average fair value of options granted during the year was $4.73 per option (2007 - $9.12) at the grant date.

The following table summarizes the options outstanding at December 31, 2008:

	Options outstanding			Options exercisable	
Range of exercise prices	Number of options outstanding	Weighted-average remaining contractual life (years)	Weighted-average exercise price	Number of options exercisable	Weighted-average exercise price
$ 2.59 - 7.33	1,880,262	4.2	$ 5.21	1,302,662	$ 4.40
9.70 - 11.03	1,328,385	5.2	10.12	1,168,385	10.05
14.06 - 15.86	1,817,452	7.8	15.49	906,300	15.11
16.14 - 17.95	701,600	5.7	17.09	458,266	17.14
20.75 - 22.20	1,432,245	8.1	21.11	960,577	21.10
$ 2.59 - 22.20	7,159,944		$ 13.07	4,796,190	$ 12.36

(e) Contributed surplus:

	2008	2007
Balance, beginning of year	**$ 16,633**	$ 13,098
Stock-based compensation expense	**11,952**	11,979
Transfer to common shares on exercise of stock options	**(354)**	(3,047)
Share repurchases	**(2,195)**	(5,397)
Options granted - acquisition of HMI Nickel (note 4)	**6,309**	-
Balance, end of year	**$ 32,345**	$ 16,633

(f) Earnings per share data:

	2008	2007
Net earnings available to common shareholders	**$ 73,353**	$ 227,139
Weighted average common shares outstanding	**135,902,627**	126,847,106
Plus net incremental shares from assumed conversions:		
- Warrants	**496**	1,185
- Stock options	**809,957**	1,659,263
Diluted weighted average common shares	**136,713,080**	128,507,554

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

	2008	2007
Accumulated OCI (loss), beginning of year:		
Cash flow hedge losses (net of tax of $3,145, $0)	**$ (5,227)**	$ -
(Losses) gains on investments (net of tax of $7, $97)	**(11)**	448
Currency translation adjustments (net of tax of $92, $20)	**(163)**	(37)
Accumulated OCI (loss), beginning of year	**(5,401)**	411
OCI (loss) for the year:		
Effective portion of changes in fair value of cash flow hedges (note 21c)	**19,314**	(8,372)
Less reclassified to earnings (note 21c)	**(843)**	-
Changes in fair value of investments (note 5)	**(28,680)**	(5,622)
Less reclassified to earnings as impairment (note 5)	**3,196**	5,059
Currency translation adjustments	**291**	(198)
OCI (loss), before tax	**(6,722)**	(9,133)
Income tax expense (benefit) related to OCI (loss)	**(6,211)**	3,321
OCI (loss), net of tax for the year	**(12,933)**	(5,812)
Accumulated OCI (loss), end of year:		
Cash flow hedge gains (losses) (net of tax of $2,954, $3,145)	**7,145**	(5,227)
Losses on investments (net of tax of $0, $7)	**(25,502)**	(11)
Currency translation adjustments (net of tax of $13, $92)	**23**	(163)
Accumulated OCI (loss), end of year	**(18,334)**	(5,401)
Retained earnings, end of year	**912,289**	868,857
Accumulated OCI (loss) and retained earnings, end of year	**$ 893,955**	$ 863,456

20. Capital disclosures

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

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

HudBay monitors its capital and capital structure on an ongoing basis to ensure it is sufficient to achieve the Company's short-term and long-term strategic objectives. HudBay monitors its cash, cash equivalents and short-term investments, which were $704,668 as at December 31, 2008. The Company does not currently have significant debt outstanding, and so it is not subject to externally imposed capital

requirements other than the requirement to maintain sufficient cash balances to fund continuing operations. Interest coverage ratios, debt to book capitalization ratios and debt to cash flow ratios are metrics that would also be evaluated during periods when financial leverage was employed as an element of the Company's capital structure. Refer to note 18b for information on the Company's share repurchase program.

21. Financial instruments

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

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

		Carrying value and fair value	
	Classification	**December 31, 2008**	December 31, 2007
Financial assets			
Cash, cash equivalents and short-term investments [1]	FV through earnings	**$ 704,668**	$ 757,574
Accounts receivable			
Trade and other receivables [1]	Loans & receivables	**68,648**	68,361
Embedded derivatives [2]	FV through earnings	**231**	3,150
Cash held in trust [3]	FV through earnings	**3,836**	3,289
Non-hedge derivative assets [2]	FV through earnings	**4,198**	8,593
Available-for-sale investments [4]	Available-for-sale	**118,960**	2,706
Investments at fair value through earnings [4]	FV through earnings	**110**	-
Restricted cash [1]	FV through earnings	**10,568**	1,165
		$ 911,219	$ 844,838
Financial liabilities			
Accounts payable			
Trade payables & accrued liabilities [1]	Other financial liabilities	**$ 132,320**	$ 142,994
Embedded derivatives [2]	FV through earnings	**5,456**	-
Interest payable [1]	Other financial liabilities	**156**	127
Derivative liabilities			
Hedging derivatives [2]	Hedging derivatives	**-**	26,449
Non-hedge derivatives [2]	FV through earnings	**4,293**	4,330
Long-term debt			
Senior Secured Notes [5]	FV through earnings	**3,321**	3,208
Province of Manitoba	Other financial liabilities	**-**	7,294
Obligations under capital leases	Other financial liabilities	**511**	4,981
		$ 146,057	$ 189,383
Net financial assets		**$ 765,162**	$ 655,455

[1] Cash, cash equivalents and short-term investments, accounts receivable, restricted cash, accounts payable and accrued liabilities, and interest payable on long-term debt are recorded at their carrying value, which approximates fair value due to their short-term nature and generally negligible credit losses.

[2] Derivatives and embedded provisional pricing derivatives are carried at their fair value, which is determined based on internal valuation models that reflect observable forward market commodity prices, currency exchange rates, and discount factors based on market US dollar interest rates. Valuations assume all counterparties have a high credit rating.

[3] The Company has designated its cash held in trust, which consists of 3.25% US government securities and US-denominated cash, as fair value through earnings. Fair value is determined using quotations obtained from a financial institution.

[4] Available-for-sale investments in listed shares are carried at their fair value, which is determined using quoted market bid prices in active markets. Investments at fair value through earnings consist of warrants to purchase common shares, which are carried at their fair value as determined using a Black-Scholes model.

[5] The Company has designated its Senior Secured Notes as fair value through earnings. Fair value is determined based on a valuation technique that reflects the street convention rate on a similar debt instrument.

(b) Financial risk management:

The Company's financial risk management activities are governed by Board-approved policies addressing risk identification, hedging authorization procedures and limits, and reporting. HudBay's policy objective, when hedging activities are undertaken, is to reduce the volatility of future earnings and cash flow within the strategic and economic goals of the Company. The Company from time to time employs derivative financial instruments, including forward and option contracts, to manage risk originating from exposures to commodity price risk, foreign exchange risk and interest rate risk. Significant derivative transactions are approved by the Board of Directors, and hedge accounting is applied when certain criteria have been met. The Company does not use derivative financial instruments for trading or speculative purposes.

The following is a discussion of the Company's risk exposures. Information on derivatives held by the Company as at December 31, 2008 is presented in note 21c.

(i) Market risk

Market risk is the risk that changes in market prices, including foreign exchange rates, commodity prices and interest rates, will cause fluctuations in the fair value or future cash flows of a financial instrument.

Foreign currency risk

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

- Translation of US dollar denominated revenues and expenses and, to a lesser extent, Guatemalan quetzal expenses into Canadian dollars. Substantially all of the Company's revenues are denominated in US dollars, while less than half of its expenses are denominated in US dollars. As a result, appreciation of the Canadian dollar relative to the US dollar will reduce the Company's earnings, and a weakening of the Canadian dollar will increase the Company's earnings.

- Translation of US dollar and Guatemalan quetzal denominated operating accounts, consisting mainly of certain cash, cash equivalents and short-term investments, accounts receivable, accounts payable and derivatives. Cash balances in quetzals are restricted to amounts required to fund near-term operating requirements. Appreciation of the Canadian dollar relative to the US dollar or quetzal will reduce the net asset value of these operating accounts once they have been translated to Canadian dollars, resulting in foreign currency translation losses on foreign currency denominated assets and gains on foreign currency denominated liabilities.

Based on HudBay's financial instruments and non-financial derivatives outstanding as at December 31, 2008, the Company had significant market risk sensitivity to reasonably possible changes in the USD/CAD exchange rate. At December 31, 2008, US$1 was worth $1.2180. If the USD/CAD exchange rate at December 31, 2008 had been higher by C$0.40 with all other variables held constant, after-tax net earnings for the year ended December 31, 2008 (related to financial instruments and non-financial derivatives outstanding at that date) would have been $29.0 million higher, primarily due to translation of operating accounts denominated in US dollars. An equal change in the opposite direction would have decreased the Company's after-tax net earnings by $28.2 million.

The above sensitivity analysis relates solely to the financial instruments and non-financial derivatives that were outstanding as at December 31, 2008; this analysis does not reflect the overall effect that changes in the USD/CAD exchange rate would have on the Company's results of operations.

Commodity price risk

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

Based on HudBay's financial instruments and non-financial derivatives outstanding as at December 31, 2008, the Company's net earnings and OCI had significant market risk sensitivity to reasonably possible changes in copper prices. If copper prices at December 31, 2008 had

been higher by US$1.50/lb. with all other variables held constant, after-tax net earnings for the year ended December 31, 2008 (related to financial instruments and non-financial derivatives outstanding at that date) would have been $4.3 million lower due to the mark-to-market effect on the Company's embedded provisional pricing derivatives. A reasonably possible downward change of US$0.50/lb. at December 31, 2008 would have increased the Company's after-tax net earnings by $1.4 million.

The above sensitivity analysis relates solely to financial instruments and non-financial derivatives that were outstanding as at December 31, 2008; this analysis does not reflect the overall effect that changes in copper prices would have on the Company's results of operations.

Share price risk

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

Based on HudBay's investments held as at December 31, 2008, the Company had significant market risk sensitivity to reasonably possible changes in Canadian metals and mining share prices. If Canadian metals and mining share prices at December 31, 2008 had been higher by 50% with all other variables held constant, after-tax OCI for the year ended December 31, 2008 would have been $49.6 million higher, primarily due to the Company's investment in Lundin. An equal change in the opposite direction would have decreased the Company's after-tax OCI by $59.0 million.

The above sensitivity analysis relates solely to the investments that were held as at December 31, 2008.

Interest rate risk

The Company is not exposed to significant interest rate risk other than cash flow interest rate risk on its cash, cash equivalents and short-term investments. The Company invests its cash, cash equivalents and short-term investments primarily in bankers' acceptances of major Canadian banks, which are liquid, interest-bearing investments with original maturities of six months or less. Interest rates on the Company’s debt and cash held in trust, which were settled subsequent to December 31, 2008, are disclosed in note 12.

Based on HudBay's financial instruments outstanding as at December 31, 2008, the Company's net earnings had significant sensitivity to reasonably possible changes in interest rates. If interest rates at December 31, 2008 had been higher by 3.00% with all other variables held constant, after-tax net earnings for the year ended December 31, 2008 would have been $15.5 million higher related mainly to the Company's cash, cash equivalents and short-term investments. A reasonably possible downward change to interest rates of 0.75% at December 31, 2008 would have decreased the Company's after-tax net earnings by $3.9 million.

The above sensitivity analysis relates solely to financial instruments that were outstanding as at December 31, 2008.

(ii) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its obligations. The Company's maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative assets, on the balance sheet.

Management has a credit policy in place that requires the Company to obtain credit insurance from an investment grade credit insurance provider to mitigate exposure to credit risk in its receivables. The deductible and any additional exposure to credit risk is monitored and approved on an ongoing basis. Transactions involving derivatives are with counterparties the Company believes to be creditworthy. The Company’s swap agreements are governed by master trading agreements. A continuation of recent adverse economic conditions could cause an increase in the rate of customer bad debts relative to historical experience, although this may be mitigated by the credit insurance described above. The Company uses an allowance to provide for doubtful accounts receivable. During the year ended December 31, 2008, the allowance increased by $315. As at December 31, 2008, less than 3% of the Company's trade accounts receivable was aged more than 30 days.

One customer accounted for approximately 10% of total accounts receivable as at December 31, 2008.

(iii) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities. HudBay's objective is to maintain sufficient liquid resources to meet operational and investing requirements. The Company's investment policy requires it to comply with a list of approved investments, concentration and maturity limits, as well as credit quality. The Company has not invested in asset-backed commercial paper. As at December 31, 2008, the Company had cash, cash equivalents and short-term investments of $704,668. Substantially all of the Company's financial liabilities and non-financial derivative liabilities mature within one year.

(c) Derivatives:

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

December 31, 2008	US dollar put options	Non-hedge derivative zinc contracts	Cash flow hedging derivatives	Total
Fair value of derivative assets				
Current portion	**$ 92**	**$ 4,106**	**$ -**	**$ 4,198**
Fair value of derivative liabilities				
Current portion (note 11)	**-**	**4,293**	**-**	**4,293**
Net derivative asset (liability)	**$ 92**	**$ (187)**	**$ -**	**$ (95)**

December 31, 2007	US dollar put options	Non-hedge derivative zinc contracts	Cash flow hedging derivatives	Total
Fair value of derivative assets				
Current portion	$ 3,943	$ 3,692	$ -	$ 7,635
Long-term portion (note 10)	958	-	-	958
	4,901	3,692	-	8,593
Fair value of derivative liabilities				
Current portion (note 11)	-	4,330	6,645	10,975
Long-term portion	-	-	19,804	19,804
	-	4,330	26,449	30,779
Net derivative asset (liability)	$ 4,901	$ (638)	$ (26,449)	$ (22,186)

US dollar put options

The Company holds put options securing the right, but not the obligation, to sell US$4.375 million per quarter at $1.20482. The final exercise date is in January 2009. Hedge accounting has not been applied. Gains have been presented in loss on derivative instruments on the statements of earnings. Upon settlement, cash flows are classified in operating activities.

Non-hedge derivative zinc contracts

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

At December 31, 2008, the Company held contracts for forward zinc purchases of 1,159 tonnes that related to non-derivative forward customer sales of zinc oxide. Prices ranged from US$1,085 to US$2,020 per tonne, and settlement dates extended out up to one year. In addition, the Company held contracts for forward zinc purchases of 13,193 tonnes that substantially offset forward customer zinc sales of 13,193 tonnes, which have been recorded as derivatives.

Cash flow hedging derivatives

The Company applied hedge accounting to commodity swap contracts used to hedge prices for a portion of future sales of zinc and copper. During the first quarter, the Company terminated its remaining zinc commodity swap contracts, and during the fourth quarter the Company terminated its remaining copper commodity swap contracts. The related hedging relationships were discontinued prospectively, and related gains and losses in AOCI are reclassified to earnings when the hedged anticipated future zinc sales occur.

For the year ended December 31, 2008, the Company recorded pre-tax net gains of $19,314 (2007 - losses of $8,372) to OCI for the effective portion of the cash flow hedges and recorded pre-tax net gains of $1,151 (2007 - gains of $1,061) in earnings for the ineffective portion. Ineffective gains and losses are included in loss on derivative instruments. In 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. The Company reclassified pre-tax net gains of $843 from OCI to earnings (presented in revenue) as hedged anticipated zinc and copper sales occurred. Of the $10,099 pre-tax gain in AOCI at December 31, 2008, gains of $7,480 will be reclassified to earnings in the next twelve months. The remaining portion will be reclassified to earnings in 2010. Cash flows related to the commodity swap contracts have been classified in operating activities.

Embedded provisional pricing derivatives

The Company records embedded derivatives (presented in accounts receivable and accounts payable) related to provisional pricing in concentrate purchase, concentrate sale, anode sale, and certain other sale contracts. Under the terms of these contracts, prices are subject to final adjustment at the end of a future period after title transfers based on quoted market prices during the quotational period specified in the contract. The period between provisional pricing and final pricing is typically up to three months. At each reporting date, provisionally priced metals are marked to market based on the forward market price for the quotational period stipulated in the contract, with changes in fair value recognized in revenues for sales contracts and in operating expenses for purchase concentrate contracts. Cash flows are classified in operating activities. At December 31, 2008, the Company's net position consisted of contracts awaiting final pricing for purchases of 3,611 tonnes of zinc, purchases of 1,592 tonnes of copper, sales of 3,260 ounces of gold and purchases of 145,229 ounces of silver.

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

Financial instruments and non-financial derivatives classified as fair value through earnings include US dollar put options, non-hedge derivative zinc contracts, embedded derivatives relating to provisional pricing, and investments at fair value through earnings. For the year ended December 31, 2008, the total amount of change in fair value that has been recognized in earnings for these items was a net loss of $2,482 (2007 - net gain of $3,785).

The Company has chosen to designate its Senior Secured Notes and related cash held in trust as fair value through earnings. For the year ended December 31, 2008, the total amount of change in fair value that has been recognized in earnings for these items was a net gain of $689 (2007 - net gain of $164).

Any interest income earned or interest expense incurred on these financial instruments or non-financial derivatives is excluded from the gains and losses reported above and is included in interest and other income or interest expense in the statements of earnings.

22. Investment in joint ventures

CMMSA, an entity incorporated under the laws of the Grand Duchy of Luxembourg, is a joint venture in which the Company holds a 50% interest. The joint venture, together with its wholly-owned subsidiary, Considar Metal Marketing Inc. ("CMM"), carries on the business of providing metal marketing to customers in various metal-related industries.

The following is a summary of the Company's 50% pro rata share of the book value of the assets, liabilities, revenue and expenses of the CMMSA joint venture.

This information is presented on a non-consolidated basis.

	2008	2007
Assets		
Current assets	**$ 5,143**	$ 4,164
Property, plant and equipment	**38**	58
Liabilities		
Current liabilities	**$ 2,775**	$ 2,458
Future income taxes payable	**42**	51
Sales	**$ 28,649**	$ 20,788
Costs and expenses:		
Operating, general and administrative	**28,094**	20,442
Depreciation and amortization	**21**	25
	28,115	20,467
Other income	**224**	66
Interest expense	**(23)**	(20)
Earnings before tax	**735**	367
Tax expense	**271**	78
Net earnings	**$ 464**	$ 289
Cash flows:		
Operating activities	**$ 563**	$ 1,259
Investing activities	**(1)**	(11)

23. Commitments

(a) Operating lease commitments:

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

2009	$	1,394
2010		1,087
2011		779
2012		481
2013		485

Through its joint venture interest in CMMSA, as at December 31, 2008, the Company has various lease commitments for facilities and equipment which expire in periods ranging from one to three years. The aggregate remaining minimum annual lease payments, representing 50% of CMMSA's commitment, required for the next three years are as follows:

2009	$	115
2010		117
2011		35

The Company has recorded operating lease expense of $1,453 (2007 - $827), including $103 (2007 - $113) for the 50% share of the CMMSA leases.

(b) Buy-sell commitments:

The Company has a commitment to purchase copper concentrate based on a schedule of payments rather than actual physical delivery. The contract contemplates delivery of up to 12,000 dry metric tonnes in 2009, consisting of delayed shipments from 2006 and 2008.

The Company has an agreement to purchase zinc concentrates to be delivered to Flin Flon. The contract contemplates delivery of up to 35,000 dry metric tonnes in 2009.

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

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

(c) Other commitments and agreements:

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

(ii) HBMS has a profit-sharing plan whereby 10% of HBMS's after-tax earnings (excluding provisions or recoveries for future income and mining tax) calculated in accordance with Canadian generally accepted accounting principles for any given fiscal year will be distributed to all eligible employees in the Flin Flon/Snow Lake operations, with the exception of executive officers and key management personnel. An expense of $21,315 (2007 - $42,601) has been accrued in these financial statements.

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

(iv) The Company has outstanding letters of credit in the amount of $61,253. Of this amount, $40,479 represents security provided by HBMS to the Provinces of Saskatchewan and Manitoba for reclamation undertakings, and $8,934 represents letters of credit provided by HMI Nickel, as described in note 23(c)(viii).

(v) In 2003, the Company established St. Lawrence as a wholly-owned subsidiary. St. Lawrence was incorporated in the State of New York for the purposes of acquiring the Balmat zinc mine. On September 24, 2003, St. Lawrence purchased the Balmat zinc mine and related assets located in upper New York State. The asset purchase agreement requires the Company to pay a cash purchase price of 30% of annual positive future net free cash flow from Balmat mine operations, after allowing for reasonable capital and exploration expenditures, subject to a "cap" of US$25 million. The agreement also places certain restrictions on the purchased assets until payment of the "cap" has been reached. The Company has placed the Balmat mine on care and maintenance. Based on the purchase agreement calculation, the mine has not generated

positive cash flow, and no cash purchase price has been paid or accrued.

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

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

(viii) As a result of the Company's acquisition of HMI Nickel on August 26, 2008, the Company became subject to additional commitments, as follows.

- Through its subsidiaries, the Company has entered into a number of procurement contracts related to the construction of the Fenix project. As of December 31, 2008, the remaining purchase obligations associated with those contracts total US$4,061 and are due within one year.

- CGN and Skye Resources (B.V.I.) Inc. entered into long-term agreements with subsidiaries of Duke Energy International LLC for the supply of electrical power and construction of a new power transmission line for the Fenix project and its interconnection with the Guatemalan transmission grid. Under the terms of the agreements, the Company provided a letter of credit of US$5,000 supported by a restricted bank deposit. Subsequent to December 31, 2008, on February 27, 2009, these agreements were cancelled. The agreements included cancellation costs of approximately US$2,000, which have been accrued as at December 31, 2008. The agreements also specified a contingent obligation to purchase certain transmission line development assets upon contract cancellation at a cost of approximately US$3,500; these costs will be recorded in 2009 as they are incurred.

- The Company has a contingent commitment to make payments to Vale Inco based on tonnages of ore mined from the mining licence areas at the Fenix project and, if a ferro-nickel plant is operated, to pay a sales agency fee and make certain payments on any ferro-nickel produced based on a net smelter return formula.

- The Company has a contingent commitment relating to a letter of intent signed on July 31, 2007 by CGN with the Government of Guatemala to pay to the Government a ferro-nickel royalty in addition to the existing Mining Law Royalty under the Mining Act. The letter of intent was signed with the previous administration and has not been ratified by the Government.

- The Company is required to provide bonds to the Government of Guatemala in respect of security for CGN's commitments under an approved Environmental Impact Assessments program. As at December 31, 2008, these bonds are supported by a letter of credit of US$2,335, which in turn is supported by a restricted bank deposit.

24. Contingencies

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

The significant claims and litigation matters are as follows:

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

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

(c) On March 2, 2007, a Statement of Claim was issued in the Manitoba Court of Queen's Bench by Callinan Mines Limited against HBMS seeking declaratory relief, an accounting and an undisclosed amount of damages in connection with a Net Profits Interest and Royalty Agreement between HBMS and Callinan Mines Limited dated January 1, 1988. HBMS has retained legal counsel and the likelihood of success and materiality of this claim is not reasonably determinable. See note 23(c)(i) for more information.

25. Supplementary cash flow information

(a) Change in non-cash working capital:

	2008	2007
Accounts receivable	**$ 3,467**	$ 61,580
Inventories	**34,784**	(19,897)
Accounts payable and accrued liabilities	**(35,723)**	2,788
Taxes payable	**9,789**	(23,808)
Prepaid expenses and other current assets	**(301)**	(358)
Interest payable	**29**	(22)
	$ 12,045	$ 20,283

(b) Non-cash investing activities:

	2008	2007
Non-cash additions to property, plant and equipment	**$ 3,063**	$ -

(c) Other:

	2008	2007
Supplementary cash flow information:		
Interest paid	**$ 506**	$ 937
Taxes paid	**42,811**	56,068

26. Segmented information

The Company is an integrated metals producer. When making decisions on expansions, opening or closing mines, as well as day-to-day operations, management evaluates the profitability of the overall operation of the Company. The Company's main mining operations are located in Manitoba and Saskatchewan. Activities related to the Company's HMI Nickel site in Guatemala and Balmat mine in New York State, due to their geographical distance, receive separate attention in certain areas. The HMI Nickel segment relates mainly to the Fenix nickel project. The Balmat segment consists of a zinc mine and concentrator. The Balmat mine suspended operations on August 22, 2008. Included in "Other" are the Company's Manitoba, Saskatchewan and head office activities. Accounting policies for the HMI Nickel and Balmat segments are the same as those described in note 2.

	2008			
	HMI Nickel	**Balmat**	**Other**	**Total**
Revenue from external customers	**$ -**	**$ 21,410**	**$ 960,484**	**$ 981,894**
Depreciation and amortization	**218**	**8,895**	**79,182**	**88,295**
Operating (loss) earnings	**(10,707)**	**(27,035)**	**241,696**	**203,954**
Exploration	**(94)**	**(2,298)**	**(23,191)**	**(25,583)**
Interest and other income	**274**	**65**	**25,878**	**26,217**
Asset impairment losses (note 8)	**-**	**(27,237)**	**(3,196)**	**(30,433)**
Share of losses of equity investee	**-**	**-**	**(3,915)**	**(3,915)**
Other	**-**	**-**	**(589)**	**(589)**
(Loss) earnings before tax	**(10,527)**	**(56,505)**	**236,683**	**169,651**
Tax expense	**15**	**-**	**96,283**	**96,298**
Net (loss) earnings for the period	**(10,542)**	**(56,505)**	**140,400**	**73,353**
Total assets *	**454,715**	**5,463**	**1,458,175**	**1,918,353**
Property, plant and equipment	**361,935**	**-**	**455,944**	**817,879**
Additions to property, plant and equipment	**29,166**	**10,213**	**108,401**	**147,780**

* Total assets do not reflect intercompany balances, which have been eliminated on consolidation.

	2007			
	HMI Nickel	Balmat	Other	Total
Revenue from external customers	$ -	$ 35,735	$ 1,234,106	$ 1,269,841
Depreciation and amortization	-	14,140	80,557	94,697
Operating (loss) earnings	-	(14,601)	402,970	388,369
Exploration	-	(809)	(32,258)	(33,067)
Interest and other income	-	147	33,694	33,841
Asset impairment losses	-	(15,113)	(5,059)	(20,172)
Other	-	-	(3,515)	(3,515)
(Loss) earnings before tax	-	(30,376)	395,832	365,456
Tax expense	-	(74)	138,391	138,317
Net (loss) earnings for the period	-	(30,302)	257,441	227,139
Total assets *	-	33,578	1,518,049	1,551,627
Property, plant and equipment	-	23,609	426,725	450,334
Additions to property, plant and equipment	-	24,260	92,678	116,938

* Total assets do not reflect intercompany balances, which have been eliminated on consolidation.

The Company's revenue by significant product types:

	2008	2007
Copper	**$ 551,466**	$ 668,775
Zinc	**200,185**	352,894
Zinc oxide	**78,690**	134,635
Gold	**93,480**	70,566
Silver	**26,973**	17,787
Other	**31,100**	25,184
	$ 981,894	$ 1,269,841

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

	2008	2007
Copper	**$ 143,032**	$ 265,251
Zinc	**15,770**	34,220
Gold	**777**	1,604
Silver	**13,664**	6,188

During the year ended December 31, 2008, one customer accounted for approximately 20% of total revenue, and a second customer accounted for approximately 11% of revenues. During the year ended December 31, 2007, three customers accounted for approximately 23%, 13% and 12% of total revenue, respectively. Revenues from these customers have been presented in the "Other" operating segment.

27. Interest and other income

	2008	2007
Interest income	**$ 27,174**	$ 28,883
Other income	**-**	6,336
Interest expense	**(957)**	(1,378)
	$ 26,217	$ 33,841

28. Subsequent Events

(a) On January 9, 2009, the Company announced that it would suspend operations at its Chisel North mine and concentrator in Snow Lake, Manitoba due to depressed prices of base metals and the economic downturn. Operations at the mine were suspended in February 2009. The concentrator will cease production of concentrate in March 2009, and closure of the concentrator will be complete by the end of May 2009. The mine and concentrator will remain under care and maintenance until economic conditions warrant re-evaluation.

(b) On January 23, 2009, the Ontario Securities Commission (the "OSC") set aside the Toronto Stock Exchange's December 10, 2008 decision granting conditional approval for the listing of the HudBay shares to be issued as consideration in connection with the acquisition by HudBay of all of the issued and outstanding shares of Lundin pursuant to an arrangement under the Canada Business Corporations Act. The OSC determined in its decision that HudBay shareholder approval of the acquisition of Lundin by HudBay is required as a condition to the listing of the additional common shares of HudBay and prohibited HudBay from issuing any securities in connection with the acquisition without HudBay having first obtained the approval of a simple majority of the votes cast by HudBay shareholders entitled to vote at a duly convened special meeting of its shareholders. On February 23, 2009, the Company and Lundin agreed to terminate the previously announced plan of arrangement whereby the Company was to acquire the outstanding shares of Lundin. Neither party will be liable for the payment of any termination fees to the other.

(c) The Company has called a special meeting of shareholders for March 25, 2009 to consider a proposal from a HudBay shareholder to remove the Company's existing Board of Directors and replace them with a slate of nominees proposed by that shareholder.

(d) On February 27, 2009, the Company’s $80 million revolving credit facility expired. HudBay’s lenders refused to extend the credit facility due to concern about the pending meeting of HudBay shareholders noted above. The Company had not drawn on the credit facility. As a result of the expiration of the credit facility in 2009, the Company may reclassify amounts from cash, cash equivalents and short-term investments to restricted cash to cover letters of credit provided by HBMS related to reclamation undertakings, pension obligations, and other items. As at December 31, 2008, these letters of credit amounted to $52.3 million.