



## Business Update

November 26, 2018

Hello Everyone.

I am aware there are rumors about the future of the Flin Flon operations. Our intention was to communicate this business update when we had more definitive news in the New Year. I would like to address them so that each of you has the same facts.

We have to be honest: after mining for 90 years in the Flin Flon area, we now know that we won't have an anchor mine to replace 777 and sustain operations in Flin Flon the same way they are today.

Despite a lot of work over the past few years, the most likely scenario is that mining operations will cease in Flin Flon in 2021. As a result, the Flin Flon mill will also cease operations. Our efforts to find new sources of ore from 777 did not turn out as we hoped. In 2022, with only Lalor ore available the Zinc Plant will have only 50% of the feed that it has today. It is unlikely we will be able to technically or commercially operate the plant at this reduced throughput. The most likely outcome is that the Zinc Plant will also close in 2021.

Understandably, everyone will want to know what this means for jobs. The truth is we are working to figure it out, but we don't have all of the information we need right now. I can tell you that we know there will be a need for more people at Stall Mill and Lalor Mine. We are also optimistic that there will be additional jobs at New Brit Gold mill once refurbished and potentially at Pen if this project moves forward. At this point, we are still working through these business scenarios and since these studies are still ongoing, we cannot provide a definitive answer. We anticipate offering training to help people transition to future roles, but we also expect that job loss will be part of the outcome. We know you want to be able to plan for your future and we will do everything possible to communicate as clearly and swiftly as we can so you can make plans.

We understand that this will have a large impact on our employees and the communities we operate in. We had hoped to share this information when we had a clearer picture of the impact. Even though we do not have all answers at this moment, the respectful thing to do is to start the planning process for an orderly transition to a smaller mine and mill operation based in Snow Lake.

Over the last few years, we have consistently communicated that Reed and 777 mine closures were approaching. We developed the three pillar plan to mitigate the impact to our employees and communities we operate in. The first two pillars were about ramping up Lalor mine and Stall mill to 4500 tpd. The third pillar was finding ways to maintain operation of the Zinc plant. Since we haven't found new ore from 777 and with only Lalor ore available, from 2022 the Zinc Plant would have only 50% of the feed that it has today. Continued operation doesn't look feasible. The sensible thing to do at this point is plan ahead under the scenario with the most probable outcome, which at this stage is not having sufficient feed for the Zinc plant post 777 mine closure.

I am sure you have a lot of questions - about what this means for yourself, your family and community. I do not have all of the answers at this moment. But we will work on this together, to make the best plan that takes care of our people as best we can and we will continue to communicate regularly and clearly as we have in the past many months. Take Care and Work Safe.

Respectfully

A handwritten signature in black ink, appearing to read "Robert Assabgui".

Robert Assabgui  
VP Manitoba Business Unit

<For Internal Hudbay Communication Only>



## Q&A

### **Why is the zinc plant expected to close?**

In simplest terms, from what we know today there won't be enough feed to keep the plant going economically. The Zinc Plant is designed to sustain a throughput of nominal 200,000 tonnes of concentrate per annum. With only Lalor ore, there would be about half that.

With the pending closure of 777 mine, we initiated the Zinc Plant project a few years ago, to work collaboratively with all stakeholders on finding solutions to reduce costs to keep the Zinc plant competitive at lower feed rates. Back when the project was initiated, the closure of 777 mine was thought to be end of 2019. With Lalor at 4500 tpd, the anticipated Zinc concentrate production would have been about 70% of the capacity. As we know it today, Lalor will only produce about 50% of the feed required to keep the Zinc plant full in 2022 after 777 mine shuts down, due to the expected decline in Lalor's zinc grades over time.

### **Couldn't the Pen deposit solve the feed problem?**

Pen is the only known source of additional feed for the Zinc plant that could be economically viable. If it proves viable, it would only be a limited, short-term solution based on what we know.

The infill drill program at the Pen deposit was completed in 2018, and we are advancing the mine study for this scenario. Pen is a near surface deposit, located 7 km from Lalor. It would be a comparable operation to Reed mine, albeit much smaller. It is a marginal deposit, and it will be very sensitive to the price of Zinc and operating and capital costs. We are advancing the mine feasibility study to ensure we leave no stone unturned. If the Pen study is positive, it might provide for the extension of the Zinc plant. There are many variables, and it is hard to predict the future.

### **Are you giving up on exploration?**

Absolutely not. But we don't have any firm basis to believe exploration will yield a timely solution at this point and we don't want to give anyone false hope. We expect to continue investing in exploration in Manitoba.

### **What about finding other ore around 777?**

Over the last few years, we have been successful in extending the life of 777 mine from 2019 to 2021.

This was done by developing additional ore zones in the mine. In order to extend the life past 2021, we initiated an exploration program from surface and a remnant mining study. Over the course of the summer, we drilled several diamond drill holes near the Centoba park. Unfortunately this program was not successful. No economic mineralization was found. We also analysed a number of mine plans to include the mining of the remnants, but this did not prove to be viable either.

### **What are the options at Snow Lake?**

We are pushing ahead with the ramp up at Lalor and Stall. We have yet to achieve steady state production at Lalor of 4500 tpd, and our teams have plans in place to achieve this next year. At both Lalor and Stall, we need additional people.

Lalor is expected to transition from a zinc rich base metal mine to a copper-gold rich mine in 2022. Over the last several months we've done a lot of work on the Lalor gold and copper-gold zones. We've completed our trade-off studies, and believe that the best scenario for the business and for people is to refurbish the New Britannia gold mill. We are encouraged by the very positive results that have come out of this work to date.

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