Waterton Demands Acquisition Moratorium from Hudbay Minerals

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- Waterton calls on Hudbay Board to immediately terminate any discussions or plans to execute the Mantos Transaction and any other material acquisitions in the near future.

TORONTO, Oct. 5, 2018 - Waterton Precious Metals Fund II Cayman, LP and Waterton Mining Parallel Fund Offshore Master, LP (the "Funds"), each of which are managed by Waterton Global Resource Management, Inc. (the "Investment Adviser", the Investment Adviser together with the Funds ("Waterton" or "We")), owning 12,514,886 or approximately 4.8% of the issued and outstanding shares of HudBay Minerals Inc. ("Hudbay" or the "Company") (TSX:HBM) (NYSE:HBM), sent the following letter to the Company's Board of Directors (the "Board").

The full text of the letter follows:

The Board of Directors of
HudBay Minerals Inc.
25 York Street, Suite 800
Toronto, ON
M5J 2V5

Members of the Board:

Waterton Precious Metals Fund II Cayman, LP and Waterton Mining Parallel Fund Offshore Master, LP (the "Funds"), each of which are managed by Waterton Global Resource Management, Inc. (the "Investment Adviser", the Investment Adviser together with the Funds ("Waterton" or "We")), own 12,514,886 or approximately 4.8% of the issued and outstanding shares of HudBay Minerals Inc. ("Hudbay" or the "Company") (TSX:HBM) (NYSE:HBM).

Waterton is a private equity firm that specializes in the metals and mining sector. Waterton's institutional platform uniquely combines in-house investment management, mining and permitting personnel that have extensive experience in evaluating, optimizing and permitting mining assets around the world, and specifically in the Americas, including in Arizona. Given its breadth of in-house technical expertise, Waterton has conducted extensive technical due diligence based on public information on Hudbay's portfolio and believes Hudbay has world class assets.

We appreciate the opportunity to have engaged with management over the past several weeks. On August 31, 2018, members of Waterton's Investment Team met with Alan Hair, Chief Executive Officer and Eugene Lei, Vice President Corporate Development of the Company (the "Initial Meeting"). At the Initial Meeting, amongst other matters, Hudbay's recent poor market performance and operational issues were discussed. During that meeting, management advised Waterton that Hudbay had no plans to undertake material acquisitions and, specifically in respect of producing assets, that Hudbay had looked at all copper producing mines with none of them making sense for the Company. From our discussions with other shareholders, we understand that management may have similarly communicated to other shareholders that Hudbay had no intentions to undertake material acquisitions.

Our informed, unyielding view is that under no circumstances should Hudbay be engaging in any material acquisitions at this time, including any transactions that could adversely impact shareholders, the Company's balance sheet, and/or the Company's ability to effectively progress its current portfolio of assets. Waterton has been in contact with institutional investors holding approximately one-third of Hudbay's shares. Thus far, unanimously, all of these shareholders are emphatically opposed to the Company engaging in a material

M&A transaction. Prior to executing on any transaction, the Board should solicit the opinion of its shareholders. This view is based on the following key factors:

- Based on the Company's current underperformance and discounted valuation, the Company would be forced to transact from a position of weakness.
- If the Company intends, in line with its guidance to the market, to begin construction of the Rosemont copper project ("Rosemont") in the first quarter of 2019, then in our estimate the Company will face an imminent funding requirement of ~$1.1 billion -- this reinforces, from a capital allocation perspective, the need to terminate any potential negotiations for new acquisitions immediately, and specifically acquisitions like the Mantos Transaction which, according to the Bloomberg Article, have a material purchase price and ~$1 billion worth of required follow-on capital.
- Given the obvious operational issues at the Company's current assets (summarized below), management's focus should be on executing on their existing portfolio and meeting their stated objectives to the market and their shareholders.
- Hudbay should not be pursuing growth for the sake of empire building. Too many Canadian mining companies justify transactions by financially engineering per share value accretion and in many instances, this only sends companies down a familiar path of value destruction.

As you can therefore imagine, we were extremely disturbed and troubled by the Bloomberg report yesterday (the "Bloomberg Article") that Hudbay is in discussions to acquire Mantos Copper S.A. ("Mantos"), a producing Chilean miner, for as much as C$1 billion (the "Mantos Transaction"). The market reaction to the Bloomberg Article was starkly negative, with the share price falling markedly intraday.

In light of this report and given that the sales process for Mantos publicly kicked off in May 2018, Mr. Hair's recent statements to us at the Initial Meeting were materially misleading, at best, and we are compelled to give the Board this simple directive: under no circumstances should Hudbay pursue the Mantos Transaction or any other material M&A transactions. We have yet to receive any reassurance from the Board that Hudbay will not be proceeding with any material M&A transactions. On the contrary, the Company's late afternoon press release commenting on the Bloomberg Article makes it appear all the more likely that Hudbay is in the late stages of a material transaction (the "Hudbay Release").

To be clear, it is not Waterton's practice as a private equity firm to issue public statements of this nature. However, in light of the gravity of the circumstances and potential imminent material erosion of shareholder value, we have been left with no other choice but to engage on a public basis in an effort to protect value on behalf of all shareholders. As a top five shareholder of the Company, we call on the Board of Directors of Hudbay to immediately terminate any discussions or plans to execute the Mantos Transaction and any other material acquisitions in the near term (the "Acquisition Moratorium") and to provide corresponding comfort to this effect to the Company's shareholders.

In addition to Waterton's concerns about an imminent acquisition, we would like to address the statement in the Hudbay Release to the effect that the Company "has had a consistent strategy of optimizing the value of its current operations." We were shocked to read this statement as it is patently false for the reasons outlined below. At the Initial Meeting, it became clear to Waterton that Hudbay lacks a credible plan to advance the development of its core assets. The Company's recent market performance and operational misses have led Waterton to lose confidence in management and the Board.

Hudbay Shares Have Underperformed

We believe that as a result of a lack of strategic focus and inability to execute, the Company's shares are significantly and persistently undervalued by the market. Hudbay currently trades at a 55%[1] discount to its peer group average on a cash flow basis. Year to date, Hudbay's share price has declined 44% and the copper price has declined just 12% over the same period.[2]

We believe that if the Company continues on its current course operationally and/or does an M&A transaction, this will cause massive value destruction.

Poor Execution

As stated previously, we believe that Hudbay has a high-quality portfolio of assets; nevertheless, in each of its core assets, we believe that Hudbay has demonstrated a consistent lack of foresight and planning resulting in value erosion for its shareholders. The fact that these issues seem to have impacted Hudbay's three core assets, illustrates a broader and systematic failure to plan effectively and to hold management to account.

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[1] As at close of business on October 1, 2018.

[2] As at close of business on October 4, 2018.

Arizona:

Hudbay's stewardship of its Rosemont copper project in Arizona has been a case study in poor execution. The Company has, by its own admission, surpassed its own "worst case" permitting timeline scenario even though permitting for Rosemont has been ongoing for a decade. Not only has the Company failed to obtain all of the relevant permits required to construct and operate Rosemont, but the Company seems to have fundamentally misunderstood the permitting regime in the United States.

In Q3, 2017, shortly following the issuance of the Record of Decision and underlying Biological Opinion for Rosemont (collectively, the "Permits"), the Board approved a bought deal financing for C$242 million. While the use of proceeds from the financing was vague, it was widely understood by the market that the funds would be utilized to finance the construction of Rosemont. At the Initial Meeting, Mr. Hair confirmed this was undeniably the Board's intention. Accordingly, the Board's rationale for closing the bought deal financing in late September 2017 must have been based on the assumption that (i) the Permits would not be appealed; and (ii) the pending 404 Clean Water Act Permit from the U.S. Corps of Engineers would be granted very shortly following the issuance of the Permits, allowing the Company to proceed with the construction of Rosemont in late 2017. During the Initial Meeting, Mr. Hair conceded that these assumptions were a "major miscalculation" and a "sore spot for investors." Indeed, any reasonable person with permitting and regulatory experience in the United States would have known that the likelihood of the foregoing assumptions proving true was extremely low given the challenges, regulatory uncertainty and public opposition to Rosemont's permitting process. Note that over 36,000 public comments were submitted during the permitting process for Rosemont, a material number of comments by any standard, and that during that same period, two distinct legal proceedings were brought against the lead state agency following its approval of certain permits for Rosemont. Against this backdrop, assuming that the Permits would not be challenged, and that construction of Rosemont could proceed in late 2017, shows a patent and clear lack of understanding of the key issues relating to one of the Company's core assets. In fact, as the Board should have expected, the Permits were challenged by several well-capitalized and highly sophisticated advocacy groups in late 2017 and in early 2018 and construction at Rosemont could not proceed on the timeline that the market had expected.

Thirteen months after the closing of the bought deal financing (the announcement of which was followed by a 17.9% drop in the share price), shareholders remain in the dark regarding the details relating to the delayed issuance of the 404 Clean Water Act Permit and the various outstanding legal challenges against the Permits. This is another instance of the Company not providing shareholders with appropriate visibility on key issues.

Peru:

Regarding the Company's Constancia project in Peru, management has been unable to negotiate access to mine higher-grade material as outlined in their mine plan, forcing Hudbay to reduce its 2018 precious metals production guidance at Constancia by ~20%. This failure has resulted in penalties for the Company under its streaming agreement with Wheaton Precious with more penalties expected to accrue in 2019. In addition, operating costs at Constancia have been steadily increasing, exceeding the high-end of guidance provided by management in 2017 and tracking above 2018 guidance through the first half of this year. The guidance misses are particularly alarming in light of the flexibility built into the estimates – approximately +/- 10% relative to the midpoint – further highlighting management's inability to provide shareholders with reliable guidance and calling into question their ability to formulate and execute on plans for the Company's assets.

Manitoba:

Despite operating in the region for over 90 years and Mr. Hair's intimate knowledge with the Company's Manitoba operations having been the COO of the Company prior to assuming the role of CEO in 2016, Hudbay has failed to devise and convey a strategic plan to the market for its Manitoba assets following the closure of the Reed Mine in 2018 and the expected closure of the 777 Mine in 2021, demonstrating, once again, a lack of planning and ability to properly guide the market on key operational mining metrics. For example, in 2017, despite the wide operating cost range provided to the market, Hudbay exceeded the top end of that range and its operating costs were 20% higher than the midpoint of guidance provided by management. As a further example, in Q1 2018, Hudbay released cost guidance for the year which was ~20% higher than 2017's guidance and subsequently revised their cost guidance higher by a further ~12% in July 2018 following a disappointing second quarter.

As illustrated above, in addition to a consistent lack of foresight and planning, the Company has either serially misguided or completely failed to provide guidance to the market on material issues, significantly eroding shareholder trust.

We Urge the Board to Immediately Commit Publicly to an Acquisition Moratorium

Given the negative reaction to the Bloomberg Article, shareholders are clearly dissatisfied. In light of the foregoing concerns, we urge you not to continue down the current, potentially value destructive path and, instead, commit to an Acquisition Moratorium in order for the Board to fully understand the views and deep concerns of its shareholders. We believe that a failure to do so may violate the Board's fiduciary duties and would be contrary to the expectations of Hudbay shareholders.

It is our hope that the Board will appreciate the urgency of the matters described in this letter and will heed our call to implement our suggestions on timely basis and avoid the need for Waterton to exercise the other remedies available to it and other shareholders. However, we must reserve our rights to take any and all actions that we may deem warranted in order to ensure the best interests of shareholders are paramount in the boardroom.

Sincerely,

Isser Elishis
Chief Investment Officer

Contact

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About Waterton

Waterton is a leading private equity firm dedicated to developing high quality resource assets in stable jurisdictions. Waterton's founding team has a successful track record of originating, structuring, managing and exiting investments through acquisitions, joint ventures and partnerships, across a range of sectors and asset classes. Waterton's core strength is its cross-functional, fully-integrated, in-house team of professionals who possess significant mining, financial and legal expertise. Waterton's team employs a proactive approach to asset management, leveraging significant sector knowledge and extensive industry relationships to support the firm's investment activities.

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