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PRESENTATION

Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to the Hudbay Fourth Quarter 2019 Results Conference Call. (Operator Instructions) I would like to remind everyone that this conference call is being recorded today, February 21, 2020, at 9:00 a.m. Eastern Time. I will now turn the conference over to Candace Brûlé, Director, Investor Relations. Please go ahead.

Candace Brûlé - Hudbay Minerals Inc. - Director of IR

Thank you, operator. Good morning, and welcome to Hudbay's 2019 Fourth Quarter Results Conference Call. Hudbay's financial results were issued yesterday and are available on our website at www.hudbay.com. A corresponding PowerPoint presentation is available, and we encourage you to refer to it during this call. Our presenter today is Peter Kukielski, Hudbay's President and Chief Executive Officer. Accompanying, Peter, for the Q&A portion of the call will be David Bryson, our Senior Vice President and Chief Financial Officer; Cashel Meagher, our Senior Vice President and Chief Operating Officer; and Eugene Lei, our Senior Vice President, Corporate Development and Strategy.

Please note that comments made on today's call may contain forward-looking information and this information, by its nature, is subject to risks and uncertainties. And as such, actual results may differ materially from the views expressed today. For further information on these risks and uncertainties, please consult the company's relevant filings on SEDAR and EDGAR. Documents are also available on our website. As a reminder, all amounts discussed on today's call are in U.S. dollars, unless otherwise noted. And now I'll pass the call over to Peter Kukielski. Peter?



Peter Gerald Jan Kukielski - *Hudbay Minerals Inc. - President, CEO & Director*

Thank you, Candace. Good morning, everyone, and thank you for joining us. I'm sure you are all aware I have recently been appointed as President and CEO after serving in the interim role, since July of last year. I'm honored and excited to take on this role and to continue working with an extremely talented team. Hudbay is an iconic Canadian copper company that has been around for over 90 years. We have built an exceptional pipeline of low-cost, long-life assets in mining-friendly jurisdictions. And intend to utilize our core competencies of exploration, mine development and efficient operations to continue to execute on our strategic priorities and generate value for all of our stakeholders. We announced yesterday that David Bryson, our CFO, will be retiring at the end of March after 11 years with the company. He has made the personal decision to take an extended sabbatical away from work before considering what he'll do next. This transition has been planned for over a year since David indicated his intention to make this change. The transition was postponed in order to ensure an orderly transition of the CEO role, and I greatly appreciate the time we have spent together since I joined the company. We are conducting an executive search to consider all available candidates. In the meantime, Eugene Lei will provide continuity and a steady hand as interim CFO until the search process is completed.

Eugene is expected to return to its corporate development and strategy role afterwards. We also announced that Alan Hibben, a Board member and former Board Chair has stepped down from the Board. This change is consistent with the plan that was put in place when our board was refreshed, and we are grateful to Alan for his contributions to Hudbay's success during his time on the Board.

I'd now like to turn our focus over to our corporate achievements and challenges in 2019, followed by an overview of our production and cost outlook. I'll also spend a few minutes describing what I believe are the Hudbay competitive advantages and will conclude with a discussion of my strategic vision for the company and our strategic priorities.

2019 year saw a solid operating results due to our efforts on the continuous improvement of mine performance, while implementing various improvement initiatives across the business. We achieved full year production and unit cost guidance in both Peru and Manitoba, continuing our trend of achieving copper production guidance every year for the past 5 years. The Constancia mine in Peru achieved record mill throughput and record copper recoveries in 2019, as we are seeing the benefits of several metallurgical enhancements at the mill. The Lalor mine achieved record output in 2019 due to the successful mine ramp up to 4,500 tonnes per day early in the year, and the 777 mine significantly increased mine output from successfully implemented efficiency initiatives. These achievements in Manitoba resulted in zinc production exceeding the top end of the guidance range. Not only are we pleased with our operating performance in 2019, we're also proud of our continued strong ESG performance. I'm especially proud of the Manitoba business unit for their towards sustainable mining leadership award in 2019. And the Peru business unit overcame substantial external challenges during the year that severely affected our peers, and our operation wouldn't have been successful without the team's strong partnerships with our local communities.

In early 2019, we announced a significant increase in reserves and an updated mine plan for Lalor, which is projected to more than double the annual gold production from the mine. Through the refurbishment of the nearby New Britannia gold mill and related infrastructure upgrades in Snow Lake, Lalor's annual gold production is expected to increase to approximately 140,000 ounces at all-in sustaining cash costs of approximately \$450 per ounce starting in 2022.

I believe that Lalor is on track to become one of the best gold mines in Canada. The Hudbay exploration team also discovered a new deposit in the Snow Lake region in 2019, called the 1901 Deposit, and we successfully defined an initial resource estimate, a mere 6 months later, along with advanced drilling activities focused on defining the gold potential at the deposit. After receiving the long-awaited final federal permits at Rosemont in early 2019, we acquired the minority joint venture interest in the project and embarked on a plan for early development activities for the project. However, those plans came to a halt in July after a U.S. district judge issued an unprecedented ruling against the federal agencies and the issuance of the permits at Rosemont. We are obviously deeply disappointed and frustrated by the decision, which appears to overturn decades of settled mining law in the United States. Both Hudbay and the federal agencies have appealed the decision with the U.S. Ninth Circuit Court of Appeals, which could take 2 years to conclude.

In 2019, we also refreshed the Board, appointed a new CEO, and with these new developments behind us, we are now moving forward with a focus on executing our strategic priorities as we embark on a very promising future. We've started off the year strong from a strategy execution perspective with the recent announcement of the Pampacancha surface rights agreement. We made significant progress on the negotiations with community

during 2019, which paved the way to successfully reaching an agreement in February, positioning us well to be mining the high-grade satellite deposit before the end of the year.

Our patient and prudent approach to community engagement was validated through the successful agreement, and we believe this approach is what differentiates Hudbay in Peru, reinforces the strong relationships we have with the community and is essential in building a sustainable long-term business in Peru. We were pleased to provide our annual production and cost guidance with our results yesterday. New this year, we have introduced a longer-term 3-year production outlook to our guidance disclosures, as shown on Slide 9.

In 2020, consolidated copper production is forecast to be between 98,000 and 117,000 tonnes of copper, lower than 2019 levels due to planned lower copper grades at Constancia, in line with the mine plan. As we have had recent strong performance from the mill, the upper end of Peru's range reflects the mill's full year throughput limits imposed by its operating permits. With the addition of the higher grade Pampacancha satellite deposit, total copper production is expected to increase by 18% from 2020 to 2022.

Production of zinc contained in concentrate in 2020 is forecast to be another strong year, with the 2020 guidance range slightly higher than the range in 2019. That trend is expected to continue into 2021, with Lalor maintaining steady production at 4,500 tonnes per day and the company continuing to maximize the output from the 777 mine as it nears the end of its mine life in the second quarter of 2022.

Consolidated production of precious metals contained in concentrate in 2020 is forecast to increase by approximately 4% compared to 2019 production, primarily due to higher precious metals production at Lalor from the planned mining of approximately 90,000 tonnes from the gold zones in 2020, as part of stope sequencing in preparation for the restart of the New Britannia gold mill. By 2022, consolidated precious metals production is expected to increase by 67% through the restart of the new Britannia gold mill in Manitoba and the addition of the Pampacancha high-grade satellite deposit in Peru.

Total planned sustaining capital expenditure in 2020 are expected to slightly decrease from 2019 levels due to lower spending in Manitoba, offset by higher planned spending in Peru, primarily related to higher capitalized stripping costs. In Manitoba, we continue to implement improvements on the legacy Flin Flon tailings impoundment area as we proactively incorporate higher industry-wide tailings dam standards. This spending is expected to be approximately \$20 million per year from 2020 to 2022, but these expenditures will not impact sustaining capital expenditures since they are associated with the updated decommissioning and restoration liability, and therefore, will be accounted for as a drawdown of the liability.

Manitoba growth capital spending of \$80 million relates to a significant portion of the New Britannia mill refurbishment costs as construction activities are on track to commence in the second quarter of 2020. The New Britannia mill refurbishment costs are expected to total approximately \$115 million over 2020 and 2021, higher than the original estimate of approximately \$95 million as we are introducing new instruments expected to further improve mill efficiency but are also anticipating labor cost inflation and some cost escalation on equipment. The capital investment in the New Britannia mill offers high returns and a short payback period based on current reserves at Lalor. Once the New Britannia gold mill is in operation by 2022, gold will account for over 60% of revenues at Lalor with annual gold production expected to grow to approximately 140,000 ounces at a sustaining cash cost of approximately \$450 per ounce over the first 5 years.

Peru growth capital of \$70 million includes initial expenditures for developing the Pampacancha deposit and acquiring surface rights from the local community. This figure excludes the costs associated with recognizing the current uses of the land by certain community members, which are subject to pending agreements with those individuals. As I mentioned earlier, Hudbay's patient approach to community negotiations has proven successful, demonstrating our strong relationships with the neighboring communities and positioning us well to unlock future value on our other regional growth targets in Peru. The \$20 million allocated to be spent in Arizona is intended to support ongoing efforts on the Rosemont project and advance preliminary economic studies at the Mason project in Nevada.

Our exploration portfolio of owned or optioned mineral properties consists of approximately 850,000 hectares across Canada, Peru, the United States and Chile. Our 2020 exploration budget of \$25 million, which includes option payments will be focused on exploration near existing processing infrastructure in Peru and Manitoba. We will provide further details of our exploration plans when we publish our annual reserves and resources updated at the end of March. Combined unit costs for Manitoba in 2020 are forecast to be similar to 2019 levels as Lalor's costs have normalized

after the ramp up to 4,500 tonnes per day. Combined unit costs for Peru in 2020 are also expected to be similar to 2019 levels as the plant continues to operate at full capacity.

I'm going to spend a few moments talking about the strategic advantage of that Hudbay offers, which can be summarized in 6 elements, as shown on Slide 11. Long-life assets located in mining-friendly jurisdictions. A proven track record of operational excellence and low-cost mines, a focus on free cash flow generation and prudent capital allocation. A world-class management team with proven mining industry experience, strong ESG performance and a copper focus with a diversified organic growth pipeline.

Hudbay's key assets all have total mine lives of greater than 15 years, which ensures our stakeholders reap their rewards through several commodity cycles during the mine life. This coupled with the fact that our assets are located in the first quartile of attractive mining regions in the world, positions us well to provide a stable, low-risk vehicle for investors. We are especially proud of our proven track record of operational excellence. We have a strong history of achieving or exceeding copper production guidance over the past 5 years. We are well positioned on the cash cost curve, reflecting our corporate focus on cost control, operational efficiencies and continuous improvement at each of our operations. This low-cost profile enables Hudbay to continue to generate positive cash flows even in lower commodity price environments, while enjoying significantly higher cash flows and stronger commodity price environments. A prime example of our focus on cost control and operational efficiencies is seen through Constancia's unit cost benchmarking.

As shown on Slide 14, I'm proud to say that Constancia is one of the lowest-cost open-pit copper mines in South America. It isn't the largest of the mines shown on the slide, and therefore, isn't benefiting from economies of scale. These costs demonstrate the team's focus on being as efficient as possible in all aspects of the operation, including mining, milling and logistics, while never being satisfied and always looking for ways to continuously improve.

The benefit of low-cost and efficient operations is that the business generates free cash flow in all stages of the commodity price cycle. Looking back over the past 4 years, Hudbay has generated sufficient, significant EBITDA and positive free cash flow during this volatile copper price environment. This is also a testament to our prudent management of the balance sheet as seen through reducing net debt by more than 50% and investing in low-capital, high-return brownfield projects with short paybacks on our invested capital. Both the Pampacancha development and the New Britannia gold mill refurbishment are examples of these prudent investments. I've said many times to many people since I've joined Hudbay that this company has a disproportionately talented team for a company of its size. We truly have some of the best mining specialists in the industry and the bench strength is impressive. We have strong expertise in all aspects of the mining cycle, exploration, project development and operations. We have diverse strengths in both open pit and underground, along with experience across several commodity types and global jurisdictions.

Our exploration team has been highly successful in growing the reserve base at our 2 flagship operations, Constancia and Lalor, both seeing greater than 90% growth since the initial reserve estimates. Lalor was an in-house geophysical discovery on our wholly-owned land using our innovative exploration techniques and is the largest VMS deposit found in the Snow Lake region to date. The Lalor deposit was found in 2007. Construction of the main production shaft was approved in 2010 and was completed on-time and on-budget in 2014, one of the fastest time lines of discovery to first production in the industry.

As I highlighted earlier, the Manitoba exploration team discovered a new deposit in early 2019 and successfully developed an initial resource estimate, a mere 6 months later. The team has also been busy building an exciting portfolio of over 850,000 hectares of land in Peru, Chile, Canada and the U.S., and we look forward to continuing to replicate our exploration success.

From a mine development perspective, our team is one of the best, having experience in both large-scale open pit and underground mines. We acquired the Constancia deposit in 2011, sanctioned full project development in 2012, after completing our own detailed engineering studies and achieved commercial production in early 2015. The mine was completed on time with one of the best CapEx cost controls in the industry at that time.

In addition, Constancia's commissioning schedule was the fastest ramp-up time line achieved in the industry at 5 months versus the peer average of 17 months as seen on Slide 17. Other global mining companies have recognized this achievement and use Constancia as a benchmark for their

own mine commissioning schedules. Not only are we proud of this success at Constancia but we also achieved this success while simultaneously building the Lalor & Reed mines, which both came in on-time and on-budget.

Our strong track record in ESG is just as important as our technical track record. Slide 18 highlights a few of our achievements in each of the environmental social impact, health and safety and governance areas. As a member of Mining Association of Canada, we follow the Towards Sustainable Mining or TSM program, and we are implementing TSM's updated tailings management protocol at all of our operations. We are proud of our strong TSM tailings ratings. The Manitoba and Peru business units maintained their TSM ratings AA and A, respectively, across all the tailings management indicators in the 2018 TSM progress report.

From a social impact perspective, we have been successfully operating in Manitoba for over 90 years having a positive impact on the surrounding communities through the discovery, operation and reclamation of over 25 mines. We are recognized for our leading community relations expertise in Peru, and this is best demonstrated with the success of the recent Pampacancha surface rights agreement with the local community. We are proud of our strong local employment numbers and pride ourselves on the significant investments we make into the communities in which we operate. We believe our strong social license to operate is a Hudbay competitive advantage. We are a leader on health and safety in Peru, with the best safety track record out of all the Peruvian copper mining companies. That said, we are always looking to improve, and we're setting clear targets for 2020.

I would like to recognize the sustainability efforts of our Manitoba team. In 2019, Hudbay's Manitoba operations received the Mining Association of Canada's Towards Sustainable Mining Leadership Award for achieving a level A ranking in their results across all 6 areas of performance. The performance areas are aboriginal and community outreach, crisis management, safety and health, tailings management, biodiversity conservation management and energy use and greenhouse gas emissions management. We are extremely proud of this achievement as it further demonstrates the company's commitment and successful track record of strong environmental, social and governance performance. From a governance perspective, we have a fully refreshed Board, including 3 female directors and have ranked favorably in recent governance ranking surveys, ranking seventh highest out of Canadian mining companies and the only base metal mining company to be ranked in the top 100 of all Canadian public companies.

The last strategic advantage is we are a copper-focused company with a diversified organic growth pipeline. Our primary source of revenue is from copper and the fundamentals for copper remains strong, with expectations of a significant long-term supply and demand gap. Copper demand will benefit from increasing demand for power from renewable energy sources and growing adoption of electric vehicles, which both require substantially more copper than legacy alternatives. And as the world moves towards decarbonization, the relatively small carbon footprint of copper production compared to aluminum will position copper as a vital component of the greener future.

Despite copper being our primary metal, Hudbay offers the unique opportunity of growing exposure in both copper and gold, as we discussed earlier in the presentation. This commodity diversification provides the right balance of upside exposure and potential downside risk protection, as we've seen the gold price strengthened recently, as copper prices have been weaker. From a strategy perspective, the team and I have spent quite a bit of time over the last several months reviewing our strategic plan. This included discussions with the Board, and we have reaffirmed key elements of our strategic vision with a focus on copper and mining-friendly jurisdictions. We will have a greater focus on capital allocation and risk-adjusted returns, looking at opportunities that leverage the 4 key areas of our competitive advantage and value creation I've discussed today, that is exploration, mine development, efficient operations and ESG excellence.

In light of this refreshed strategic vision, our short-term priorities include delivering free cash flow from Pampacancha, drilling Lalor gold to add reserves and extend the mine life and refurbishing the New Britannia mill to increase gold production. We are a disciplined, growth-focused company. And as we look to deliver the second stage of growth at Hudbay, our priorities over the medium-term will be to unlock value at the Rosemont and Mason properties in the U.S., test the Constancia regional exploration targets, maximize value from Lalor gold and pursue accretive acquisitions and partnerships that fit our strategic criteria, while never losing focus of prudently managing our balance sheet.

I've touched on several of our pipeline assets throughout the presentation today, but I would like to close with a quick snapshot of our leading organic growth pipeline on Slide 21. We believe we are well positioned with strong assets at several different stages within our portfolio. We believe



this unique pipeline provides significant growth potential for Hudbay, and we have the right team and core competencies to execute on this pipeline, deliver on our strategic priorities and create value for all of our stakeholders.

And with that, we're pleased to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from Orest Wowkodaw with Scotiabank.

Orest Wowkodaw - *Scotiabank Global Banking and Markets, Research Division - Senior Equity Research Analyst of Base Metals*

Question about your CapEx spending and the free cash flow outlook. Your guidance is calling for a fairly significant step-up in spend this year at \$385 million. In that scenario, based on your production cost guidance, from my perspective, it looks like you're going to be fairly significant negative free cash flow in 2020. I'm curious how high you're willing to take the net debt-to-EBITDA ratio this year? Because I suspect it's going to go way up. And as a follow-up, I'm curious how much does the CapEx spend fall or decline, I guess, in 2021.

Peter Gerald Jan Kukielski - *Hudbay Minerals Inc. - President, CEO & Director*

Thanks very much, Orest. Look, I think that my primary comment is going to be that we are going to be absolutely prudent with respect to management of our balance sheet. That will be a huge area of focus for us. But to provide a little bit more specific commentary with respect to exactly what we intend to do, I'm going to pass this -- ask Eugene to comment.

Chi-Yen Lei - *Hudbay Minerals Inc. - SVP of Corporate Development & Strategy*

Orest, we have amended, modernized our covenants and our revolver to allow us to increase flexibility to make those investments that Peter had mentioned. They're well with -- the investments and the spending are well within the covenants that were recently amended to allow us that flexibility to make these high-return, low-capital investments, and we believe the payback to investments play short. So it's within the realm of what we can do.

Orest Wowkodaw - *Scotiabank Global Banking and Markets, Research Division - Senior Equity Research Analyst of Base Metals*

Okay. And can you give us some commentary on what the profile looks like for next year? I mean, how quickly does the CapEx come off?

Chi-Yen Lei - *Hudbay Minerals Inc. - SVP of Corporate Development & Strategy*

Of the \$385 million that you mentioned, \$170 million is growth capital, and that's significantly the bulk of the investments that are needed at both New Brit and at Pampacancha to realize on those investments. So you can take, call it, the \$170 million of the top for the following year. The sustaining capital for Peru and Manitoba of about \$100 million each will drop in 2021, more in line with what the 43-101.



Orest Wowkodaw - Scotiabank Global Banking and Markets, Research Division - Senior Equity Research Analyst of Base Metals

Okay. Okay. So we should expect a significant drop off then in CapEx in '21?

Chi-Yen Lei - Hudbay Minerals Inc. - SVP of Corporate Development & Strategy

Correct.

Peter Gerald Jan Kukielski - Hudbay Minerals Inc. - President, CEO & Director

Orest, I'd also mentioned that you have slightly higher CapEx in 2020 or sustaining CapEx in 2020 in Peru because of deferral of some of the capitalized stripping that we would have done in 2019.

Operator

Our next question is from Matthew Murphy with Barclays.

Matthew Murphy - Barclays Bank PLC, Research Division - Analyst

I saw in the release of the comment that part of the maintenance at Constancia was taken to also make sure you comply with the full year permanent limitation on throughput. I hadn't realized that you were up against that. I guess, can you clarify what the limit is? And what it would take to move it if you wanted to do so down the road?

Peter Gerald Jan Kukielski - Hudbay Minerals Inc. - President, CEO & Director

Yes. Thanks, Matt. Look, I mean, we're in the process of planning and evaluating potential debottlenecking opportunities for the plant. And that includes some of the permitting that's required in order to increase our throughput. Cashel, do you want to comment specifically on some of the elements of that limitations.

Cashel Aran Meagher - Hudbay Minerals Inc. - Senior VP & COO

Yes. So it bumps up around 31.5 million tonnes process per annum is what our permit allows. There are facilities going forward for amendments of that permit. We're pursuing what those opportunities are and costing out how to best avail of them. And so it would go through a modification of our ESIA. I think it's something we can provide more clarity to sort of in the second half of this year of what those time lines and costs might be. But we see the capacity in the mine to be able to put more throughput through, and we think this would be quite an efficient use of capital that it won't require a huge amount of work at Constancia to be able to increase that capacity in the future.

Matthew Murphy - Barclays Bank PLC, Research Division - Analyst

Okay. And one other question, if I could. The tailings dam spend in Flin Flon, can you just clarify? That is a cash outflow, correct?

Peter Gerald Jan Kukielski - Hudbay Minerals Inc. - President, CEO & Director

Yes, that's correct. It is a cash outflow.

Matthew Murphy - *Barclays Bank PLC, Research Division - Analyst*

And it flows through the income statement as an expense?

David Stewart Bryson - *Hudbay Minerals Inc. - Senior VP & CFO*

So the spend we talked about in the press release -- it's David, Matt. Sort of what we did in the fourth quarter was we recognized additional DRO associated with those legacy facilities. And that's linked to us being proactive with changes to industry standards around tailings. And so we're sort of scheduling that work. Because it's now part of the DRO as at the end of Q4, it's neither CapEx nor OpEx. What happens is that the additional DRO increases, property, plant and equipment on the other side of the balance sheet and the additional PPE gets depreciated over the remaining 777 mine life. So that's how you'll see it show up in the income statement. And then -- so there's not kind of a direct impact to the P&L, it's indirect through depreciation. And then -- but you'll see that spending come through the cash flow statement on a line that will appear in cash from operations.

Operator

Our next question is from Matthew Fields with Bank of America.

Matthew Wyatt Fields - *BofA Merrill Lynch, Research Division - Director*

Just want to say congratulations to David as well. It's been a pleasure working with you and best of luck in all your future endeavors.

David Stewart Bryson - *Hudbay Minerals Inc. - Senior VP & CFO*

Thanks, Matt.

Matthew Wyatt Fields - *BofA Merrill Lynch, Research Division - Director*

Bigger picture on the balance sheet. I understand that 2020 is going to be sort of heavier CapEx here, but it seems like you're a little bit overcapitalized at this point? Is the idea to kind of shrink the balance sheet by maybe refinancing those shorter-dated notes into a smaller issue until there's more clarity on Rosemont. What's the kind of intermediate to longer-term plan on the balance sheet here?

Chi-Yen Lei - *Hudbay Minerals Inc. - SVP of Corporate Development & Strategy*

Sure. Matt, it's Eugene here. In terms of the balance sheet this year, as you correctly state, there will be a year of investment, where we'll be putting money in those high-return projects that Peter outlined. In terms of the bonds, the first tranche of \$400 million isn't due until 2023. So we're really in no rush to have to deal with those. We'll have plenty of time to address them. As we always do, we monitor the market, and we'll look at opportunities to lower our cost of capital over the longer term as those opportunities present itself. But we're not feeling any pressure to address them these days -- right now.

Operator

Our next question is from Greg Barnes with TD Securities.



Greg Barnes - *TD Securities Equity Research - MD and Head of Mining Research*

I think my concerns align with Lalor on the heavy CapEx for this year. Is there a way to flex that number if these lower copper prices stick around for a while?

Peter Gerald Jan Kukielski - *Hudbay Minerals Inc. - President, CEO & Director*

Greg, look, I think the primary focus is that New Brit and Pampacancha are such high return, and in fact, short return projects that they are no regret investments for us. And given that both of these projects are effectively completed next year, we don't think that it makes any sense in order to defer them at all. What I will say is that if we continue in a price environment or a declining price environment, we will find ways of cutting our costs. In 2016, we did the same thing. We took \$100 million out of our cost base, and we will find ways to do that. But I don't think that deferring of either Pampacancha or New Brit makes any sense.

Greg Barnes - *TD Securities Equity Research - MD and Head of Mining Research*

Okay. Then I like the second point. Peter, maybe perhaps it would be a good idea to put in place a cost reduction plan because these copper prices could stay around for a while, and I think you're going to need that Flex.

Peter Gerald Jan Kukielski - *Hudbay Minerals Inc. - President, CEO & Director*

I absolutely agree.

Operator

Our next question is from Dalton Baretto with Canaccord.

Dalton Baretto - *Canaccord Genuity Corp., Research Division - Analyst*

I'd like to start by echoing everyone else and wishing David Bryson all the best and also congratulating you, Peter, on your new role.

Peter Gerald Jan Kukielski - *Hudbay Minerals Inc. - President, CEO & Director*

Thank you very much, Dalton. I appreciate it.

David Stewart Bryson - *Hudbay Minerals Inc. - Senior VP & CFO*

Thanks, Dalton.

Dalton Baretto - *Canaccord Genuity Corp., Research Division - Analyst*

So Peter, I just want to kind of touch on your last strategic point that the copper focus. Most of your growth profile is in gold. Can you talk a little bit about whether you're comfortable with that? And if you're not, how do you think about changing that?

Peter Gerald Jan Kukielski - Hudbay Minerals Inc. - President, CEO & Director

That's a great question. Look, what I'm really comfortable with is value. And I think that, as I mentioned, gold sort of provides a little bit of diversification that provides us with a fantastic hedge in a slightly volatile copper environment, bearing in mind that we think that copper -- the fundamentals for copper are extraordinary. If you think of it in a slightly more in the short term, Pampacancha gives us the growth that we need. But in the longer term, we have massive number of copper options in our portfolio. Specifically, the regional opportunities around Constancia, then, of course, there's Rosemont and there's Mason. So we remain copper focused, but we see that there's an opportunity to daylight extraordinary value in the Manitoba camp through gold. But noting also that it's not only gold that we are converting or at least -- yes, converting in Manitoba, it is also base metals. So for example, as we drill in the 1901 Deposit to sort of outline the gold component, we will be converting base metals.

Dalton Baretto - Canaccord Genuity Corp., Research Division - Analyst

Okay. Great. That's helpful. And then just maybe one other one. You mentioned Rosemont, can you talk a little bit about the implications, if any, of that recent ruling?

Peter Gerald Jan Kukielski - Hudbay Minerals Inc. - President, CEO & Director

Yes -- no, I'm happy to do that. Look, I think the recent ruling -- we certainly were not surprised by Judge Soto's ruling on the ESA case in light of his previous decisions on the Rosemont project. But we believe that his ruling of reminding the biological opinion back to the federal agencies for review is unnecessary, as we believe the research and studies all concluded that the potential impact to endangered species would comply with the regulation. The federal permits on Rosemont were issued after more than 12 years of careful review and study by 17 corporate agencies. So we are reviewing the decision and will continue to follow the direction of the government agencies, but there's no surprise there, and there's no real hard implication. We do think that it potentially simplifies things a little bit for the Ninth Circuit, but it's not material.

Operator

Our next question is from Lawson Winder with Bank of America.

Lawson Winder - BofA Merrill Lynch, Research Division - VP & Research Analyst

David, first of, all the best to you. It has been a pleasure working with you. And Peter, Congratulations and thank you for your detailed comments at the start of the call. Just a couple of questions for me. So on the money being paid out to the community, could you help us just by giving us an idea in terms of cadence, in terms of how that gets paid out? I mean, are we looking at a lump-sum payment in Q1. Or -- and also what would that payment amount be? Or is it something that will be spread out over the quarters?

Peter Gerald Jan Kukielski - Hudbay Minerals Inc. - President, CEO & Director

Sure, Lawson. Look, the -- so the first -- the payment will not be made until such time as the land has been vacated by folks using it. We refer to those folks as the possessors. So when all informal mining activity has ceased and the possessors have vacated the land, then the payment will be made to the community, and it will be a lump-sum payment.

Lawson Winder - BofA Merrill Lynch, Research Division - VP & Research Analyst

Okay. And the amount of that payment, approximately?



Peter Gerald Jan Kukielski - Hudbay Minerals Inc. - President, CEO & Director

We can't state specifically what that amount is, but we guided you towards an expenditure of about \$70 million of total.

Lawson Winder - BofA Merrill Lynch, Research Division - VP & Research Analyst

Yes. No, that's very helpful. And then maybe just around the individual agreements. Are you able to give us an idea of sort of the quantum of how many individual agreements there are to go? And what that -- what we can look at some sort of guidance on what that amount could be?

Peter Gerald Jan Kukielski - Hudbay Minerals Inc. - President, CEO & Director

Look, I think I would guide you to by saying that it's substantially less than what we're paying for the land lease or to the community. There are -- so we already have agreements in place with a large majority of those possessors, and we expect those agreements to be concluded certainly in the first half of this year.

Lawson Winder - BofA Merrill Lynch, Research Division - VP & Research Analyst

Okay. So substantially, that's okay. That's very helpful. And then just finally on -- you spoke briefly about reclamation, I believe, in Manitoba. I didn't quite hear your comments there. And I was just curious, did you mention how much that amount was? And then sort of like what the sort of annual payment would be on that once 777 goes down? And maybe you didn't comment on that, and I apologize if I missed it, but...

Peter Gerald Jan Kukielski - Hudbay Minerals Inc. - President, CEO & Director

Yes, sorry, if there was any confusion. What we were referring to was spending of about USD 20 million per year in 2020, '21 and '22 associated with the legacy facilities, legacy tailings dams with the enhancements to industry standards. So that's a bit of a one-off than the actual closure of the Flin Flon facilities once 777 is done will be relatively nominal. Then the final reclamation of the tailings, the metallurgical complex are provided for in our DRO. But we wouldn't expect that to be triggered until certainly beyond Lalor's mine life or any other lines that we'd expect to be discovered in the Northern Manitoba camp in the future.

Operator

Our next question is from Stefan Ioannou with Cormark Securities.

Stefan Ioannou - Cormark Securities Inc., Research Division - Analyst of Institutional Equity Research

Maybe, David, just a follow-up on sort of your last comments there on Manitoba, just maybe for a little bit of clarity then. Is it sort of -- would it be fair to assume that the current spending on the tailings in Flin Flon is sort of in effect crossing the Ts and dotting the Is with regards to eventual closure obligations, obviously, in the meantime, keeping everything else sort of running and/or on care and maintenance until much later when Lalor closes down. Is that how I should be looking into this? Or should we assume this is sort of the beginning of the end, for lack of a better word, for Flin Flon; and Hudbay, as a company, is probably looking at closure versus maybe trying to find more feed for Flin Flon going forward?

David Stewart Bryson - Hudbay Minerals Inc. - Senior VP & CFO

It's more independent of the timing of Flin Flon's closure as we've seen tailings incidents with other companies in the industry over the last number of years. There has been a reassessment, and there's proposed guidance by the Canadian Dam Association on margins of safety to enhance those margins of safety. And what we're doing is we're proactively sort of applying that to our legacy tailings facilities in Flin Flon. And we've done the work to identify what needs to be done, and we're going ahead and doing that work over the next 3 years.

Stefan Ioannou - Cormark Securities Inc., Research Division - Analyst of Institutional Equity Research

Got it. So I mean -- yes, so I mean, hypothetically, if 777 was going to go on for infinite, you'd still be doing this work?

David Stewart Bryson - Hudbay Minerals Inc. - Senior VP & CFO

That's correct.

Operator

(Operator Instructions) Our next question comes from Oscar Cabrera with CIBC.

Oscar M. Cabrera - CIBC Capital Markets, Research Division - Research Analyst

Like everyone, I'd like to reiterate David Bryson's help. Thanks very much for all your help through the years, David, all the best in your retirement. And Peter, congratulations. We look forward to working with you.

David Stewart Bryson - Hudbay Minerals Inc. - Senior VP & CFO

Thanks, Oscar.

Peter Gerald Jan Kukielski - Hudbay Minerals Inc. - President, CEO & Director

Thanks, Oscar.

Oscar M. Cabrera - CIBC Capital Markets, Research Division - Research Analyst

If I just -- I was wondering if you can provide or just remind me of the covenants that you have now for your debt? And is this applicable to lines of credit or to the debentures that you have in your balance sheet?

David Stewart Bryson - Hudbay Minerals Inc. - Senior VP & CFO

Sure. Oscar, it's David again. So we laid out the details of the revised bank covenants in our MD&A, in the liquidity and capital resources section. So I won't sort of go through all of the detail in the interest of time. Those financial covenants relate only to our revolving credit facility. The bonds that we have outstanding have no financial maintenance covenants as is customary. And at this point, we have no borrowings drawn on the revolving credit facility. So it's really around ensuring that we maintain ample liquidity as we move through this buildout and look ahead to the growing cash flow over the next couple of years.

Oscar M. Cabrera - CIBC Capital Markets, Research Division - Research Analyst

No, I mean. I'm assuming that that's part of the buffer that Peter was referring to when we get the question in terms of what you're doing with your debt now in longer term?

Peter Gerald Jan Kukielski - Hudbay Minerals Inc. - President, CEO & Director

I think I just sort of supplement that commentary from earlier is that we do think that we have a number of levers available to us, whether it be the revolver or other options if it became necessary, if we found ourselves in a significantly lower copper price environment to be able to manage liquidity appropriately. And we don't have any major concerns about that.

Oscar M. Cabrera - CIBC Capital Markets, Research Division - Research Analyst

Okay. And then turning to capital allocation. I think it's a tough time in the copper or commodities market currently, but probably better days ahead. But as you've seen the -- how are you seeing returning cash to shareholders after you finish this CapEx plan in 2020 versus developing Mason, for example? Is there -- if you can just provide us with your thoughts on -- because I mean your free cash flow yield increases quite substantially based on our numbers after 2021 if there's no more project spend?

Peter Gerald Jan Kukielski - Hudbay Minerals Inc. - President, CEO & Director

Oscar, look, I think as I said earlier, I think that 2020 is an investment year for us. And but it's an investment year that's focused on short payback, high-return projects. After that, and as we move into what I believe will be a significantly improved copper price environment, then we'll reassess at every step as we typically do. And I would say that our focus, of course, is going to be on looking what the best use of our capital is in the context of the business requirements as well as the requirements of our shareholders. So as we will always do, is we will take a look at returning cash to shareholders, whether it's through dividends or whether it's through share buybacks or whatever, in comparison to all opportunities that are available to us. But we will be very focused on that, and it will be something that remains dynamic and consistent with the environment in which we find ourselves operating.

Operator

Our next question is from Ralph Profiti with Eight Capital.

Ralph M. Profiti - Eight Capital, Research Division - Principal

On the Rosemont CapEx guidance, how much are you assuming in, say, contractual obligations that you're sort of attempting? Or there is room for deferral into later years?

Peter Gerald Jan Kukielski - Hudbay Minerals Inc. - President, CEO & Director

Ralph, we actually are not spending anything on setting any capital on commitments. The commitments that you see we have really relates to contractual requirements that can be deferred well into the future. So what we've done is we've paid back the cost of carrying Rosemont substantially by reducing the team and project costs, but we do have an increase in legal fees with the addition of lawyers specialized in mining law and our pellet lawyers as well as we have some smaller expenditure on development of studies for the Mason project. So there is -- there are no costs that are obligations in terms of contractual obligations.

Ralph M. Profiti - Eight Capital, Research Division - Principal

Okay. If I can switch to Manitoba costs. It looks like the guidance on unit costs for 2020, coming in at around \$135 a tonne at the midpoint. I'm wondering, is that sort of -- it seems as though that's sort of a normalization on costs because you've telegraphed very well how 2019 was going to come in at the higher end. And I'm just wondering, over time, say, on this 3-year outlook, is that a good run rate to use as you ramp up and see the denominator changes, and you're going to continue to be influenced by pressure on labor and other inflationary aspects.

Peter Gerald Jan Kukielski - Hudbay Minerals Inc. - President, CEO & Director

It's rough. I'd say that unit cost has now stabilized since we've achieved a production ramp up at Lalor. So our focus now is on optimizing production. I think we do expect total Manitoba unit cost to be similar in 2020. And I'd also noting that our costs compare very favorably to our peers and to benchmarks in the area, you could expect that the costs will remain at about this level.

Operator

This concludes the question-and-answer session. I would like to turn the conference back over to Candace Brûlé for any closing remarks.

Candace Brûlé - Hudbay Minerals Inc. - Director of IR

Thank you, operator, and thank you, everyone, for participating today. Please feel free to reach out to our Investor Relations team for any further questions. You may now disconnect your lines at this time.

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