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Tony Davis

tdavis@azstarnet.com

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Hudbay Looking to Expand Beyond Rosemont in Arizona

Kelly Presnell / Arizona Daily Star

Hudbay Minerals Inc. president and chief executive officer David Garofalo

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The company that just took over the long-delayed Rosemont Mine project hopes to develop more mines in Arizona and possibly near Tucson, its officials say.

But Hudbay Minerals Inc. officials aren't ready to say how they'll deal with issues blocking final permitting of Rosemont —seven years after Augusta first issued a mining plan of operations.

Toronto-based Hudbay wrapped up a takeover of Vancouver, B.C.-based Augusta Resource Corp., parent company of Rosemont Copper, about a week ago.

Hudbay plans to create an Arizona operating unit not just to get Rosemont permitted and built, but to look for other potential mine sites, company officials said this week.

But in a a question and answer session with the Arizona Daily Star, Hudbay's top

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executives said they haven't been closely involved with the Rosemont project long enough to know how they'll deal with controversies dogging the proposed open-pit mine.

They also aren't ready to give a timeline for getting permits that would allow construction to start at the Rosemont site in the Santa Rita Mountains southeast of Tucson. The mine needs a final "record of decision" from the U.S. Forest Service, a Clean Water Act permit from the Army Corps of Engineers and certification by the Arizona Department of Environmental Quality that it's unlikely to pollute surface water.

The company has run mines in Canada for 85 years, including three currently operating in Manitoba, and plans to open an open pit copper mine later this year in Peru.

Three top Hudbay officials sat down with the Star on Wednesday: **David Garofalo**, president and CEO; **Patrick Merrin**, vice president for business development and technical services; and **David Clarry**, vice president for corporate social responsibility. They were interviewed by Star editor **Bobbie Jo Buel**, editorial page editor **Maria Parham**, editorial writer **Sarah Garrecht Gassen** and environmental reporter **Tony Davis**. The interview transcript has been edited for length and clarity.

Q. What made Rosemont a good target for you?

Garofalo: Geography was probably our first criteria. We want to invest in an area with an established regulatory framework for permitting projects, one that we can understand, one that does issue permits with mitigations in place. We also looked at geology. One of our core competencies is geophysics. We have a geophysics team in Manitoba, led by a guy who has been here 40 years. We try to leverage off that expertise in those types of geological settings. We're not all over the world, with every type of geology. Rosemont fits very well . . . Rosemont is probably the most shovel ready of a half-dozen opportunities that we have.

There is not a long list of opportunities for greenfield (mine sites with nothing on them to demolish) copper projects in the world. That's why copper prices have been so buyoyant for a number of years and there's a supply challenge. The demand increases each year, as the Chinese urbanize, with more cars, home construction and transmission lines. (Copper) consumption in China per capita is only half of that of the industrialized world. Also India, with its unshackled economy. Also Brazil, and Africa, where many parts are still underdeveloped.

Q. But copper prices have been stagnant or dropping for some time now.

Garofalo: I've been in the business for 25 years. For the first 15 of my 25 years, copper prices were 60 cents a pound. Having copper prices at these (current) levels has been fantastic. They have flatlined the last year or two.

Some new projects are coming on line this year and next. We're only starting to see a supply side response to an increase in prices in the last six or eight years. It takes a long time to bring new production onstream, typically from discovery to production, at least a decade. Rosemont is not unusual in that regard.

We're just now seeing a supply increase in response to increased copper prices. Beyond this year and next, there's nothing else coming on. While we may be in short term surplus this year and next, we're looking at chronic deficits to come back in 2016.

Q. When do you expect the Rosemont Mine to get permitted?

Merrin: It's very difficult to predict from here to the end. We do want to tap them fast, but we want to respect the process.

Q. Do you have a strategy different than Augusta's to try to get shovels moving?

Garofalo: There's nothing we can do on the process side that's any different from what Rosemont did. They did an excellent job of taking the project to this stage. The only thing we would have done differently . . . We would done a little more careful job of managing expectations of shareholders. Augusta constantly put out expectations they couldn't achieve. I'm not criticizing them. I understand that dynamic.

Q. You have said you want to try to look for mining opportunities in this region and in Arizona, and that you hope to find sites within spitting distance of Rosemont, to be able to extend the mine's life. Any details?

Garofalo: That was a comment I made in the abstract. I think it's been defined as having life north of 20 years in the (Rosemont Mine) feasibility study. Tacking on another 10 years, talking academically, doesn't do anything for the value of it.

We have two concentrators in Manitoba and we're building a third. Our business model was over a very large land position and we continually drill along a large geological trend. To reuse that infrastructure over and over again tends to generate a much stronger return than starting from scratch. We're doing the same in Peru. When I say, 'within spitting distance', that means within the area of interest. It doesn't have to be near Rosemont. It can be somewhere else in the southwestern U.S.

Merrin: As you progress through the mine life, you get a much better understanding of what the ore body can become. You look 20 years out, it's very difficult for us to predict what we'll be able to do. We're learning a lot more about the (Rosemont) project itself. We have a lot more information to look at now, things like how strong is the rock which allows you to determine the slopes of pit and tells you how deep you can go. We don't understand that. What we're permitting is what we understand now. That's what we want to move forward with. Anything in the future is speculation.

Q. You've talked about hoping to extend the life of the mine. What about those three parcels on which you have mining claims north and west of Rosemont — Broadtop Butte, Peach Elgin and Copper World? Are you going to drill and pursue those?

Merrin: We're very focused on building the mine in the purview of the permit. We're not interested in changing that. We look at those satellite deposits, we just don't know, the honest answer is that we don't know if they could become economic. We don't know if they'll ever get permitted. It's premature to know when we have so little information.

Q. How do you plan or hope to clear the permitting hurdles?

Garofalo: We're delivering mitigation plans to the Corps and Forest Service. That is in active consideration right now. (The officials declined to give more specifics because they just took over Augusta.)

Is there anything we'll be doing differently? Not really. The process is well baked, really under way. It's just ongoing dialogue. That's honestly where we are at this stage. That

has to continue.

Clarry: What we want to do is take the permitting discussion out of the public spotlight and let the regulators do their job. We don't to get into a public dissecting of how the permitting is going, unless the regulators want to do that.

Q. Will the change in ownership slow down the process?

Garofalo: We're not proposing to slow it down in any way. We can accelerate engineering, which Augusta didn't have the capital to pursue. The engineering has been suspended since 2011, which means to put it bluntly, if Augusta had gotten their permits today, they weren't in a position to start construction.

Q. How long will the engineering take you?

Garofalo: Some of that will depend on permitting. We need to get onto the site. It really depends. There's some we can do in advance of the final record of decision in terms of engineering. There's a lot we can't do in advance of the record of decision.

Q: Is it like two years?

Merrin: We're trying to understand what's there now. We had a wide range of technical experts sitting with Rosemont. We know what's required from us to go to the board, from a production standpoint. We know what it has to look like from an engineering perespective. We have a much better idea of how much and how long it will take. It will take $60 million to $80 million to get from where we are now to to the point to where we can make a construction decision (to start construction). I don't mean to be evasive. We have to do a whole bunch of drilling on the site to understand the deposit better. That will require a record of decision.

Q. All the mitigation plans and other promises made by Rosemont Copper — will you keep them?

A. Any contractual commitments they made, we'll honor.

Q: What about the CAP water pipeline, to recharge CAP water near Green Valley?

Garofalo: We don't know. We're getting on the ground. We've been here four days. We need to get in and understand them.

Merrin: I believe we see the CAP thing as contractual. In the final environmental impact statement, anything in there (for mitigation), is commitments.

Q. You say you have all these experts out there. Will that change the dynamic in how many local people will be hired? Will you use local people for construction?

Garofalo: It's in our economic interest to source locally as much as possible. . . In Peru, 95 percent of our work force is Peruvian. One thing I noticed in the last two days is how deep the supply network is here for mining. The mining school is excellent. There is a deep pool of talent to draw upon. We're not going to parachute thousands of Canadians here. Putting people here on expatriate contracts is prohibitively expensive.

Q. How will you handle operations in Arizona? Will you keep the Rosemont Copper executives, or bring in your own?

Merrin: This is an Arizona business unit. Our job here is to grow local businesses, not

just to build one mine but to grow in Arizona, the southern U.S. and Mexico. All the (Augusta) accounting functions being done in Vancouver and Denver are being moved here as quickly as we can get it. Technical expertise should reside within the area. We will have a specialist in evaluating mineral properties. . . Maybe not just a stone's throw from where we are, but if we can find great properties, we'll be trying to move that along.

Garofalo: (Augusta CEO) **Gil Clausen** and (Augusta and Rosemont Copper Senior Vice President) **Jamie Sturgess** are gone. **Rod Pace** will be in transition. Here's choosing to leave but will work for awhile under a consulting arrangement. Pat (Merrin) will be running the business unit. Pat is going through the organization, interviewing people right now. We will be adding employees.

Q. As you go through the agreements that have been made, how will the public know? How will we know?

Garofalo: It's typical of any permitting process, whether here, Manitoba or Peru. We've built mines in parks before. We just opened one in a provincial park in Manitoba. We have complete transparency. It's not like we're going to be in a cloak of secrecy here. We're not out there to raise money. We don't need to breathlessly tell the market that permits are coming in two months, which Augusta did 12 times in two years. That's wrong. I understand that dynamic, but that dynamic doesn't exist for us.

Merrin: For Augusta's ability to continue from a financial perspective, they needed to generate news. We don't anticipate generating press releases on small advancements. We will allow the process to move ahead. For us, news is when we get (the permits), not milestones along the way.

Q. Pima County Administrator Chuck Huckelberry and Rod Pace have been corresponding over a possible mitigation agreement, in part for the Army Corps permit. Pace's letter outlining Rosemont Copper's offer was written June 20, three days before the Hudbay-Augusta takeover agreement was announced. So did Hudbay have anything to do with it? Does Hudbay support it?

Garofalo: We wouldn't have any influence over correspondence like that. It's a bit premature for us to have anything on that.

(Later, Merrin issued a statement saying that "We are studying the impact of these communications and how to best craft final mitigation planning for the Rosemont project.")

Q. Rosemont Copper was always very careful to say it hadn't made a decision on how to get ore from the property. Do you know the answer?

Merrin: We don't know. We just started looking at it. Our main engineering meetings started today. It's going to be going on a number of months.

Q. It's been a big questions: What roads? Will you go north, south, west? Will you put ore on the railroad? Where will you put it on the railroad? It has local impacts.

Merrin: It's something we have to look at holistically. It's important to say to stakeholders that once we get permits, that does not mean we stop looking at our phones. Our provincial park mine in Manitoba has unique characteristics. It's done that way because people in the park asked us to build it that way. That kind of dialogue is

important in the early phases of engineering.

Q. There's been a lot of news lately about the Colorado River, and how Lake Mead is dropping and that there may not be enough water there to satisfy all our Central Arizona Project uses in a few years or longer. If that happens, how will that affect your ability to compensate for your mine's groundwater pumping, for which you plan to bring down CAP water in the pipeline?

Merrin: I don't think we're in a position to comment right now on it.

Garofalo: Water management is an issue wherever we are, in southern Peru, in Manitoba. Sometimes dealing with excess water, sometimes dealing with a lack of water. We still have solutions each way.

Q. Where will your operations be located — in Tucson, Sahuarita or Green Valley?

Merrin: That's a great question. The offices we have now (on Ruthrauff Road on the northwest side) are not adequate once we get up and going. Every mine construction is a little different . . . Being close to the mine is going to be important.

Q. What reclamation do you do when you close mines? A big concern here is what happens when you close the mine.

Merrin: I understand that there's been $1 million spent with the University of Arizona on the best way to mitigate the site. It's different in every site. We will continue that work. One of the first decisions I made was to continue that work. The mine design that is here is a world class mine, a modern mine. It has features to it that have leading edge technology that will allow us to reclaim early. It's important to do this right. I think mitigation plans will continue to be developed. It is a little early for us to truly understand what we will do. One thing we like about this project is that the design is world class from an environmental perspective. In a couple of areas, the technology is new.

Q. Such as?

Garofalo: The dry stack tailings is the largest. I did it in a water challenged environment, in Mexico with a gold company I was with before Hudbay.

Pat (Merrin) also visited a large dry stack tailings facility at an iron ore mine in Australia, about half the size of what Rosemont will ultimately be. It was a very similar filter press system . . . It works extremely well.

Q. What do you mean that it's working?

Garofalo: It's functioning as designed. It's producing a dry tail, which you can stack, as opposed to putting them in a tailings pond. You get immediate recovery of water. You can reclaim it.

Q. Does Hudbay intend to build the copper export facility in Topolobampo, Sinaloa, that Augusta was planning?

Garofalo: We're getting briefed on it next week. We have very little insight on that.