Goodmans LLP

Barristers & Solicitors

Bay Adelaide Centre
333 Bay Street, Suite 3400
Toronto, Ontario M5H 2S7

Telephone: 416.979.2211
Facsimile: 416.979.1234
goodmans.ca

April 14, 2014

BY COURIER AND ELECTRONICALLY

British Columbia Securities Commission
PO Box 10142, Pacific Centre
701 West Georgia Street, 12th Floor
Vancouver, BC V7Y 1L2

Attention: Secretary of the British Columbia Securities Commission (the "Commission")

Dear Sirs/Mesdames:

Re: Application for an Order under Section 161(1) of the *Securities Act* (British Columbia) to Cease Trade Securities Issued Under a Shareholder Rights Plan Implemented by Augusta Resource Corporation

We are counsel to HudBay Minerals Inc. ("**Hudbay**") in connection with its offer dated February 10, 2014, as amended (the "**Offer**"), to purchase all of the outstanding common shares of Augusta Resource Corporation ("**Augusta**"). On behalf of Hudbay, we are applying to the Commission for an order under Section 161(1) of the *Securities Act* (British Columbia) (the "**Act**") to cease trade securities issued under a shareholder rights plan (the "**Augusta Pill**") implemented by Augusta pursuant to an agreement with Computershare Investor Services Inc. dated April 18, 2013.

Hudbay is applying for that order to permit holders of common shares of Augusta ("**Augusta Shares**") the opportunity to choose to accept, and receive the consideration available to them under, the Offer. For the reasons discussed in greater detail below, it is time for the Augusta Pill "to go", as, among other things:

- Augusta has not provided its shareholders with any alternative transaction to the Offer and is now, in effect, "just saying no" to the Offer,
- as of the date of this application, it has been 64 days since the first announcement of Hudbay's intention to make the Offer, and Augusta's board of directors and management will have had 85 days when the Offer expires on May 5, 2014 to identify alternative transactions,
- the Augusta Pill is not serving the purpose that the Commission has accepted a shareholder rights plan may serve, and
- the Augusta Pill is impairing the *bona fide* interests of the shareholders of Augusta.

BACKGROUND

Hudbay

Hudbay is an integrated mining company producing copper concentrate (containing copper, gold and silver) and zinc metal. With assets in North and South America, Hudbay is focused on the discovery, production and marketing of base and precious metals. Hudbay's growth strategy is focused on the exploration and development of properties it already controls – including its 777 underground mine in Flin Flon, Manitoba, its Lalor project near Snow Lake, Manitoba and its Constancia project in Peru – and other assets that it may acquire that fit its strategic criteria. Over the course of its 87-year history, Hudbay has

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successfully built and operated 28 mines. Hudbay is a reporting issuer in each of the provinces of Canada, and its common shares are listed on the Toronto Stock Exchange (the "**TSX**") and the New York Stock Exchange (the "**NYSE**").

Augusta

Augusta also is a mining company. As disclosed by Augusta, Augusta's sole material property is the Rosemont Project in Arizona. Once in production, the Rosemont Project is expected to be one of the largest copper mines in the United States, and its progress has been followed closely by mining sector participants for years. Augusta is a reporting issuer in each of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick and Newfoundland, and the Augusta Shares are listed on the TSX and NYSE-MKT. The Commission has been designated as Augusta's "principal regulator".

Augusta filed an initial feasibility study on the Rosemont property on August 29, 2007. In November 2008, Augusta completed an update of the Rosemont property's proven and probable mineral reserve estimates as set out in the initial feasibility study. On January 15, 2009, Augusta filed a further feasibility study that, in Augusta's words, "re-confirmed the Rosemont Project as an economically robust open pit copper/molybdenum mine with low development risk". Augusta publicly filed a further feasibility study (the "**2012 Feasibility Study**") on August 28, 2012.

Since March 2010, when it disclosed that:

> *[Rosemont] is currently in the permitting stage with the goal of receiving the Record of Decision in the fourth quarter of 2010 and construction to commence in the first quarter of 2011*[1],

Augusta has been telling its shareholders (and others) that the Rosemont Project is in the final stages of permitting. As highlighted in Schedule A, Augusta has incorrectly estimated the time required to complete the permitting process for, and commence construction of, the Rosemont Project and found it necessary or expedient to extend its guidance as to its timetable on at least eleven separate occasions. Based on the most recent guidance provided by Augusta, the Rosemont Project is now more than four years behind Augusta's original guidance.

Augusta Initiatives – 2010-2013

Since at least early-2010, Augusta has been actively exploring various financing and strategic initiatives on a global basis. In the first half of 2010, Augusta:

- completed a US$43 million senior secured loan (the "**Red Kite Loan**") and copper concentrate off-take agreement for the Rosemont Project with Red Kite Explorer Trust ("**Red Kite**"), in connection with which Augusta paid an origination fee of 2% of the loan amount and issued to Red Kite warrants to acquire 1,791,700 Augusta Shares (the "**Red Kite Arrangements**"),[2]

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[1] Management's Discussion and Analysis filed March 25, 2010. The final Record of Decision from the United States Forest Service and a permit under Section 404 of the Clean Water Act from the U.S. Army Corps of Engineers are among the material regulatory authorizations still to be obtained by Augusta in respect of the Rosemont Project.

[2] On April 20, 2012, the maturity date of the Red Kite Loan was extended, and Augusta agreed to extend the expiry date of the warrants held by Red Kite to April 22, 2014 and committed to sell to Red Kite 80% of the annual copper

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- signed a definitive agreement (the "**Silver Wheaton Agreement**") with Silver Wheaton Corporation under which Augusta agreed to provide Silver Wheaton with silver and gold in an amount equal to 100% of the payable silver and gold to be produced by the Rosemont Project in consideration for initial cash payments of US$230 million (the conditions for which, including receipt of required permits on a basis not susceptible to further challenge, have not yet been satisfied) and payments of US$3.90 per ounce of silver and US$450 per ounce of gold delivered during the mine life, or prevailing market prices if lower; and

- announced that it had closed a C$32.5 million bought deal financing of Augusta Shares.

The outstanding balance of the Red Kite Loan of US$107.6 million is secured against all of the assets of Augusta, including the Rosemont Project, and matures in July 2014. Notwithstanding their apparent materiality, none of the documentation for the Red Kite Arrangements has been publicly filed by Augusta.

Hudbay regularly considers strategic opportunities, including acquisitions of development projects that have the potential to complement Hudbay's business, support its corporate strategy and enhance shareholder value. In early 2010, Hudbay identified Augusta as a potentially attractive strategic opportunity. By mid-summer 2010, Hudbay – and others – were engaged in discussions with Augusta about a range of strategic initiatives.

In that context, during 2010 senior executives of Hudbay and Augusta discussed possible strategic transactions that could benefit the shareholders of both companies, including private placements of Augusta Shares and a business combination. During the summer of 2010, with the approval of Augusta, Hudbay acquired 3,883,900 Augusta Shares (approximately 3.1% of the then outstanding Augusta Shares) in the open market. Shortly after, to assist Augusta with its short-term financing needs while Hudbay and Augusta continued their discussions of a possible business combination, Augusta sold to Hudbay an additional 10,905,590 Augusta Shares and warrants (all of which have been exercised) to acquire a further 5,452,795 Augusta Shares (which resulted in Hudbay owning approximately 13.6% of the Augusta Shares on a partially-diluted basis). Hudbay thus became the largest shareholder of Augusta, which continues to be the case today.[3]

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cathode production of the Rosemont Property at market terms.

On October 5, 2012, the Red Kite Loan was increased by an additional US$40 million, and Augusta agreed to adjust the exercise price of all, and extend the maturity of certain, of the warrants, pay an increased origination fee amount of 2.2925% on the additional loan amount and increase the percentage of Rosemont's gross annual copper concentrate production to be delivered to Red Kite (and cancel the previous commitment to sell to Red Kite a percentage of the annual copper cathode production).

On December 16, 2013, the Red Kite Loan was further increased by US$26.6 million, in connection with which Augusta paid an arrangement fee of 4% and issued warrants to acquire 3.3 million Augusta Shares at a price of US$2.12 per share.

[3] Prior to this time, Ross Beaty, directly and indirectly through his wholly-owned company, Kestrel Holding Ltd. ("**Kestrel**"), had been the largest shareholder of Augusta, holding 14,535,500 Augusta Shares (approximately 11.9% of the then outstanding Augusta Shares).

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In the midst of these discussions about a possible business combination, Augusta announced that it had entered into:

- an earn-in agreement with a Korean consortium pursuant to which the members of the consortium were to acquire a 20% joint venture interest in the Rosemont Project in consideration for funding US$176 million of project expenses (the conditions for a substantial portion of which, including that the deposit under the Silver Wheaton Agreement is payable, have not yet been satisfied) – Augusta has received, and since spent, $70 million of this funding; and

- an off-take agreement with the Korean consortium in respect of 30% of the copper concentrate and 20% of the copper cathode and molybdenum concentrates annually produced by the Rosemont Project.

Ultimately, the discussions of a possible business combination between Augusta and Hudbay did not prove to be fruitful, and in December 2010, Hudbay shifted its focus to other corporate development opportunities.

During 2011 and 2012, senior management of Hudbay and Augusta had intermittent communications.

Following the release of the 2012 Feasibility Study, Hudbay began an independent technical review and engaged its own advisors to assess various technical aspects of the Rosemont Project, including the likely permitting timeline, which had been (and is continuing to be) delayed significantly beyond estimates publicly provided by Augusta. That review was assisted by, among other things, the extensive marketing initiatives that have been undertaken by Augusta since the 2012 Feasibility Study, including the news releases that Augusta has issued providing updates about the Rosemont Project, the investor presentations that it discussed at industry conferences and the information posted on the Rosemont Copper website (http://rosemontcopper.com). That review also was assisted by the analyst reports published by BMO Capital Markets, Canaccord Genuity Corp., CIBC World Markets, Cormark Securities Inc., Dundee Securities Corp., Laurentian Bank Securities, National Bank Financial, Scotia Capital and TD Securities. Augusta and its only mineral property have been extensively marketed and followed.

In the first quarter of 2013, senior management of Hudbay again approached senior management of Augusta to discuss whether Augusta would be interested in pursuing a private placement transaction that would provide Augusta with additional liquidity. Hudbay was advised that Augusta was not interested in a private placement but was interested in meeting with Hudbay's management team. Senior management of Augusta met with senior management of Hudbay and visited Hudbay's Constancia project in Peru. Hudbay's interest in Augusta continued, and Hudbay acquired an additional 2,816,300 Augusta Shares in the open market (which resulted in Hudbay increasing its ownership by 1.95% to approximately 16% of the then outstanding Augusta Shares). Hudbay publicly disclosed its increased ownership position in a Schedule 13D/A that was filed on April 17, 2013.

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The Adoption of the Augusta Pill and Advance Notice Policy

The Augusta Pill

The Stated Purpose of the Augusta Pill

On April 19, 2013, Augusta announced that its board of directors had adopted the Augusta Pill and an advance notice policy (the "**Augusta ANP**"). In its news release, Augusta stated that:

> *The Rights Plan is intended to ensure, to the extent possible, that all holders of common shares of the Company and the Board have adequate time to consider and evaluate any unsolicited take-over bid for the common shares of the Company, provide the Board with adequate time to identify, solicit, develop and negotiate value-enhancing alternatives, as considered appropriate, to any unsolicited take-over bid and encourage the fair treatment of the Company's shareholders in connection with any unsolicited take-over bid.*

The Augusta Pill has served this purpose. By the time the Offer expires, 85 days will have passed since the announcement of the Offer, more than twice the time that a take-over bid is legally required to be open for acceptance and nearly one and a half times the period that a "Permitted Bid" would be required to be open for acceptance under the Augusta Pill.

The Effect of the Augusta Pill

What Augusta did not indicate – either at the time of its adoption, when it was first presented to shareholders for their consideration in October 2013, or when it was again presented to shareholders in the context of the Offer – was the extent to which the terms of the Augusta Pill diverge from the terms of shareholder rights plans ("**SRPs**") that are the norm in Canada (as discussed below under "The First Meeting to Consider the Augusta Pill" and "The "Second Meeting to Consider the Augusta Pill").[4] Among other things, the Augusta Pill:

- is triggered upon a person acquiring beneficial ownership of 15% of the outstanding Augusta Shares – a threshold that is 25% lower than the threshold for the application of the Canadian take-over bid regime and the threshold in a typical SRP,

- contains an extraordinary definition of "beneficial ownership" that deems a person to beneficially own Augusta Shares that a person has the right to vote – a provision that, among other things, facilitates the entrenchment of incumbent management and directors of Augusta by limiting the ability of holders of Augusta Shares to pursue a dissident proxy process or otherwise exercise their votes in a coordinated manner,

- does not contain an exemption for "permitted lock-up agreements", which has become a standard feature of SRPs as such agreements may facilitate the transactions available for shareholders to choose between, and

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[4] On March 28, 2014, Augusta announced that it will ask Augusta shareholders to re-affirm the continuation of the Augusta Pill at a meeting of shareholders to be held on May 9, 2014 (the "**Second Pill Meeting**"). Augusta subsequently announced that the Second Pill Meeting would be held on May 2, 2014.

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- affords extraordinary discretion to the board of directors of Augusta to amend or waive the Augusta Pill (or to redeem the rights issued under the Augusta Pill), which results in the actual effect of the Augusta Pill being uncertain and determined by the board of directors of Augusta, rather than the holders of the Augusta Shares – a provision that permits the Augusta Pill to be used by the directors of Augusta to limit dissident proxy solicitations and facilitate management's solicitation of proxies.

Overwhelmingly, these significant terms are inconsistent with the terms of most of the recent shareholder-approved SRPs in Canada and the key aspects of "new generation" shareholder rights plans that ISS Proxy Advisory Services ("**ISS**") highlighted in their 2013 proxy voting guidelines for TSX-listed issuers.[5] Notwithstanding this, only the 15% trigger was specifically discussed by Augusta in the management information circulars for the First Pill Meeting and the Second Pill Meeting, leaving shareholders to otherwise assume the Augusta Pill is a "typical" SRP.

The Augusta Advance Notice Policy

Concurrently with its implementation of the Augusta Pill, the board of directors of Augusta adopted the Augusta ANP. In its news release, Augusta stated that its board of directors did so:

> *in order to facilitate an orderly and efficient annual general or, where the need arises, special meeting, ensure that all shareholders receive adequate notice of director nominations and sufficient information with respect to all nominees, and allow shareholders to register an informed vote having been afforded reasonable time for appropriate deliberation.*

The Augusta ANP was approved at the meeting of its shareholders on June 20, 2013 (the "**June Meeting**") by holders of 70% of the outstanding Augusta Shares.

Notwithstanding the ostensible purpose for which the Augusta board of directors adopted the Augusta ANP, on June 26, 2013 – a mere six days following the June Meeting – Augusta issued a news release disclosing that it had appointed Mr. Lenard Boggio to Augusta's board of directors. The addition of Mr. Boggio to Augusta's board of directors less than one week after the shareholders of Augusta had been asked to, and did, elect a specific slate of directors, flew in the face of the Augusta ANP and suggested that there was one set of rules for the appointment of directors selected by insiders and another set of rules for other shareholders.

The Insider Private Placements

In the Management's Discussion and Analysis that Augusta filed on August 14, 2013, Augusta disclosed that on that day it had entered into a note purchase agreement with "two of its existing major shareholders" (who were not identified) to issue an aggregate of C$10 million in convertible unsecured notes (the "**Warke/Beaty Notes**")[6]. Augusta did not disclose the identity of these "major shareholders" until

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[5] Attached at Schedule B is ISS' October 2013 report recommending shareholders reject the ratification of the Augusta Pill.

[6] Augusta disclosed that the Warke/Beaty Notes were to have a five-year maturity date, bear interest at 7% per annum, and have a conversion price equal to a premium of 30% of the volume weighted average trading price of the Augusta Shares on the TSX for the five trading days prior to the closing date, which was anticipated to occur on or about September 4, 2013. Augusta recently disclosed in the Notes to the financial statements filed March 31, 2014

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February 24, 2014, when the directors of Augusta issued their directors' circular (the "**Directors' Circular**") in response to the Offer. In the Directors' Circular, it was disclosed that:

- Kestrel, a corporation controlled by Ross Beaty, holds C$5 million aggregate principal amount of the Warke/Beaty Notes, which may be converted into 1,849,760 Augusta Shares that, together with the other Augusta Shares that Mr. Beaty holds or over which he has direction or control, would represent approximately 10.38% of the Augusta Shares (calculated on a partially-diluted basis), and

- Richard Warke, the Executive Chairman and a director of Augusta, exercises direction or control over C$5 million aggregate principal amount of the Warke/Beaty Notes that are held by Augusta Investments Inc., which also may be converted into 1,849,760 Augusta Shares.

In a news release issued on September 5, 2013, Augusta disclosed that it had issued "the first tranche" of the Warke/Beaty Notes for C$2 million, with Augusta having the option to issue the balance of the Warke/Beaty Notes in multiple stages at any time before October 31, 2013. In the Notes to the financial statements that Augusta filed on November 14, 2013, Augusta disclosed that the "second tranche" of Warke/Beaty Notes had been issued for C$1.5 million on September 19, 2013 and that the remaining C$6.5 million of the Warke/Beaty Notes had been issued "subsequent to September 30, 2013".

Also in the Notes to the financial statements filed on November 14, 2013, Augusta disclosed for the first time that:

- the Warke/Beaty Notes contained a "change of control conversion price adjustment" that may be triggered upon a change of control where 10% or more of the consideration received is in equity securities of an acquirer that are not traded on a stock exchange or other property that is not traded or intended to be traded on the stock exchange immediately following the transaction, and

- the conversion option inherent in the Warke/Beaty Notes had a fair value of US$0.77 million.

In the accompanying Management's Discussion and Analysis, Augusta disclosed (again for the first time) that it had paid a "commitment fee" of $0.2 million on the Warke/Beaty Notes, notwithstanding Augusta's weak financial position.

As is the case with the Red Kite Arrangements, Augusta has not publicly filed any of the documentation for the Warke/Beaty Notes.

The First Meeting to Consider the Augusta Pill

Notwithstanding that the Augusta Pill was implemented in April 2013 and the June Meeting was held shortly thereafter, the Augusta Pill was not placed before shareholders of Augusta until a special meeting of shareholders held on October 17, 2013 (the "**First Pill Meeting**"). The management information circular for the First Pill Meeting (which was only eight and one half pages long, three and one half pages of which consisted of proxy mechanic-related information) provided only summary information about the Augusta Pill.

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that the Warke/Beaty Notes have a weighted average conversion price of C$2.70 per Augusta Share and that the effective interest rate was between 18.7% and 22.1%.

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Like the news release issued by Augusta when the Augusta Pill was adopted, the management information circular for the First Pill Meeting stated that:

> *The Rights Plan is intended to ensure, to the extent possible, that all holders of common shares and the Board have adequate time to consider and evaluate any unsolicited take-over bid for the common shares, provide the Board with adequate time to identify, solicit, develop and negotiate value-enhancing alternatives, as considered appropriate, to any unsolicited take-over bid and encourage the fair treatment of the Corporation's shareholders in connection with any unsolicited take-over bid.*

While the management information circular provided a summary of certain terms of the Augusta Pill, it provided no sense of the degree to which the terms of the Augusta Pill diverge from the typical SRP or the potential implications of the Augusta Pill, including its ability to facilitate entrenchment of the board of directors and management of Augusta.

At the First Pill Meeting, the Augusta Pill was approved by holders of less than a majority of the outstanding Augusta Shares (presumably including votes cast in favour of the Augusta Pill by the directors and officers of Augusta). Disregarding the Augusta Shares that are reported to have been beneficially owned or controlled by those directors and officers who may benefit from the protection of their positions by the Augusta Pill, and their close business associates[7], it would appear that less than 20% of the outstanding Augusta Shares were voted in favour of the Augusta Pill. Further, it is not apparent that those few shareholders who voted in favour of the Augusta Pill, and who were not directors or officers of Augusta, would have understood the potentially significant implications of the unusual attributes of the Augusta Pill.

This is highlighted by, for example, an unusual provision of the Augusta Pill that can only have been intended as a means of entrenchment by the directors and management of Augusta who proposed the Augusta Pill. In contrast to the prevailing norm, the Augusta Pill deems a person to be the "beneficial owner" of any securities to which that person has the right to vote. Giving those words their natural meaning, a person holding a proxy in respect of Augusta Shares and having the right to vote those shares would be deemed to be the beneficial owner of those shares for the purpose of the Augusta Pill. This has a number of possible significant results, including to make the Augusta Pill a significant defence against proxy initiatives and a mechanism for board entrenchment. It has long been accepted as uncontroversial, even in jurisdictions (such as Delaware) where the statutory framework is more accommodating of SRPs, that no rights plan can operate so as to disenfranchise shareholders and impede the removal and replacement of directors through shareholder democracy.[8] The Augusta Pill operates to do just that.[9]

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[7] Schedule C summarizes certain cross-appointments and relationships of the directors and officers of Augusta and Ross Beaty (see "The Insider Private Placements" above) and former insiders, collectively holding approximately 26.5% of the outstanding Augusta Shares.

[8] In the seminal case regarding "dead hand" pills, *Carmody v. Toll Brothers Inc. 723 A2d 1180, 1998 Del. Ch. LEXIS 131*, the Delaware Court of Chancery confirmed the "fundamental value that the shareholder vote has primacy in our system of corporate governance [is] because it is the 'ideological underpinning upon which the legitimacy of directorial power rests.'" In *Toll Brothers*, the court found preclusive and unreasonable any "defensive measure [that] makes a bidder's ability to wage a successful proxy contest and gain control either 'mathematically impossible' or 'realistically unattainable'."

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The Decision to Make the Offer

After the First Pill Meeting, at the request of senior management of Augusta, management of Augusta and Hudbay met on October 30, 2013. At that meeting, Augusta management suggested that there could once again be an opportunity for Hudbay and Augusta to enter into a friendly business combination in advance of Augusta obtaining the remaining material permits in respect of the Rosemont Project. Augusta management also suggested that the board of directors and certain shareholders of Augusta likely would prefer to receive consideration in the form of shares of a company like Hudbay, rather than cash, and that they would contact Hudbay to set up a meeting in early-December for a more substantive discussion. Other than communications in December 2013 concerning a proposal by Augusta that Hudbay enter into a confidentiality agreement with a standstill provision, which Hudbay declined to do when Augusta management advised Hudbay that Augusta did not have any material undisclosed information about the Rosemont Project, Hudbay heard nothing further.

On February 9, 2014, Hudbay determined to make the Offer and issued a news release to that effect.

Under the Offer, which initially was open for acceptance until 5:00 p.m. (Toronto time) on March 19, 2014, Hudbay offered to acquire all of the issued and outstanding Augusta Shares not already owned by Hudbay, together with the associated rights issued under the Augusta Pill. Consistent with the suggestion made by Augusta management in October 2013 that equity of Hudbay would be a preferable form of consideration, holders of Augusta Shares who accept the Offer will receive 0.315 common shares of Hudbay for each Augusta Share. That consideration represents a premium of 62% based on the 20-day

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[9] This framework results in the Augusta Pill having been "triggered" no later than the First Pill Meeting as:

- Messrs. Warke and Clausen, the Executive Chairman and the President and Chief Executive Officer, respectively, of Augusta (who were the individuals named as proxy nominees on the form of proxy provided to holders of Augusta Shares in connection with the First Pill Meeting) are deemed to have beneficially owned all of the Augusta Shares in respect of which they were appointed as proxies,
- no later than the date of the First Pill Meeting, each of Messrs. Warke and Clausen became an "acquiring person",
- as a result, a "flip-in event", a "stock acquisition date" and a "separation time" arose, which has not been waived by the directors of Augusta, and
- no later than the First Pill Meeting, the rights issued under the Augusta Pill separated from the Augusta Shares and have become exercisable by all holders (other than Messrs. Warke and Clausen, whose rights would have become null and void), to permit those holders to acquire Augusta Shares on a substantially dilutive basis, provided that such exercise would not result in those persons becoming "acquiring persons". As a result of the manner in which the Augusta Pill is drafted, Hudbay could not exercise any of its rights and would be diluted by the exercise of rights by other shareholders (including directors and officers of Augusta).

This result may have been obviated by the ability of the directors of Augusta to waive this triggering of the Augusta Pill (and which they would have the discretion not to do so in connection with a dissident proxy solicitation).

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volume-weighted average prices of Hudbay and Augusta on the TSX for the period ending February 7, 2014, and a premium of 18% to Augusta's closing share price on the TSX on February 7, 2014.[10]

The Offer is subject to customary conditions, including receipt of all necessary regulatory approvals, no material adverse change in Augusta and the Augusta Pill being waived, invalidated or cease-traded. The Offer also included a minimum tender condition that, unless waived by Hudbay, would have resulted in Hudbay not being required to take up and pay for Augusta Shares deposited under the Offer unless those shares, together with the Augusta Shares held by Hudbay and its affiliates, represented not less than 66 2/3% of Augusta Shares (on a fully-diluted basis). As discussed below under "Amendment of the Offer", Hudbay has since twice extended the expiry time of the Offer and, in response to another tactic of Augusta directors and officers and their purported "blocking" position, waived the minimum tender condition.

Augusta's Response to the Offer

In contrast to the process followed by most boards of directors that are responding to a take-over bid, the Augusta board of directors did not establish a special committee to oversee Augusta's response to the Offer. In this context, it would appear that:

- Gil Clausen, the President and Chief Executive Officer of Augusta,
- Richard Warke, the Executive Chairman of Augusta and beneficiary of the Warke/Beaty Notes, and
- Robert Pirooz, an individual with a close relationship with one of the beneficiaries of the Warke/Beaty Notes, Ross Beaty[11]

each of whom has a relationship which could be reasonably expected to interfere with the exercise of his judgement, have been part of the concerted opposition to the Offer, voting on critical decisions of the Augusta board of directors.

Augusta's initial response to the Offer, as disclosed in the Directors' Circular was, in part, anticipated:

- Augusta has publicly criticized the Offer, and
- Augusta has indicated that its board of directors:

> *is pursuing and evaluating alternative strategic transactions in order to identify other options that may be in the best interests of Augusta and its Shareholders and which may result in a transaction that is superior to the HudBay Offer. Augusta has been approached by, and its Financial Advisors have been approached by, and/or have initiated contact with, a number of third parties. Discussions are ongoing and Augusta*

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[10] For reasons that Hudbay has not been able to determine, the closing price of the Augusta Shares on the TSX increased from C$2.00 on February 5, 2014 to C$2.51 on February 7, 2014.

[11] Mr. Pirooz was first appointed as a director of Augusta effective November 9, 2012 by the other directors of Augusta. Although not disclosed in the management information circular for the June Meeting (or the Second Pill Meeting, at which directors are proposed for election), Mr. Pirooz holds, or has held, various, senior positions in companies in which Mr. Beaty is involved (see Schedule C).

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has established an electronic data room for purposes of providing confidential information to third parties who have entered into confidentiality agreements.

Augusta also disclosed that directors, officers, Mr. Beaty and three other unnamed shareholders of Augusta, who as a group held over 33% of the Augusta Shares (on a fully-diluted basis), had advised Augusta that they would not tender to the Offer and, as a result of the minimum tender condition originally contained in the Offer, the Offer could not succeed.[12]

Amendment of the Offer

On March 14, 2014, in the face of the statement by Augusta that directors, officers, Mr. Beaty and certain shareholders of Augusta holding over 33% of the Augusta Shares (on a fully-diluted basis) had advised Augusta that they will not tender to the Offer and, as a result of the minimum tender condition originally contained in the Offer, the Offer could not succeed, Hudbay announced that it had varied the Offer to, among other things:

- waive the minimum tender condition, and
- extend the Offer to 5:00 p.m. (Toronto time) on April 2, 2014

so that holders of Augusta Shares would have the opportunity to choose to accept the Offer.

On March 31, 2014, Hudbay announced that it had extended the Offer for another five weeks to May 5, 2014. By May 5, 2014, 85 days will have elapsed since Hudbay's announcement of its intention to make the Offer. That is almost one and a half times the 60 days contemplated for a Permitted Bid under the Augusta Pill and 29 days more than the average period required of auctions in similar situations (as reflected at Schedule D). In that context, and as a transaction with Augusta must be weighed by Hudbay against other strategic opportunities, Hudbay also announced that it will not extend the Offer beyond May 5, 2014 unless, at or by that date, the remaining conditions to the Offer have been satisfied or waived.

The Potential for an Alternative Transaction

Notwithstanding that 64 days now have passed since the announcement of the Offer and that, as disclosed in the Director's Circular, by February 24, 2014, Augusta already had established an electronic data room and been in contact with a number of third parties, including "those who had previously conducted site visits to the Rosemont Project and/or who [had] expressed interest in considering a transaction", Augusta has provided nothing to suggest that there is a reasonable prospect of an alternative transaction.

In its last news release on March 28, 2014 that addressed its "process", Augusta only disclosed that nine confidentiality agreements had been executed and that site visits were to continue over the next "three to four weeks". Augusta did not provide any information with respect to:

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[12] This "blocking position" would have made it difficult for Hudbay to succeed even with a Permitted Bid for the same reasons that the Commission noted that it would have been difficult for Icahn to succeed with a permitted bid for *Lions Gate*. To succeed through a Permitted Bid would require Hudbay to obtain 50.1% of the outstanding shares that it did not already own. As Hudbay holds approximately 16% of the Augusta Shares (on a basic basis) and the directors, officers, Mr. Beaty and three "unnamed shareholders" are said by Augusta to hold over 33% of the Augusta Shares (on a fully-diluted basis), Hudbay would have to acquire approximately 80% of the balance of the outstanding Augusta Shares (on a basic basis) to successfully make a Permitted Bid.

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- when those confidentiality agreement had been entered into,
- who the parties were or their ability or willingness to transact,
- how many parties were actively engaged in a diligence process or whether any parties were negotiating a transaction, or
- why an additional three to four weeks – eleven weeks since commencement of the Offer – are required to schedule visits to a site 30 miles from Tucson, Arizona.

In its most recent news release on April 8, 2014, Augusta was silent as to the prospects for an alternative transaction. Similarly, the management information circular for the Second Pill Meeting provides no information as to the prospects for an alternative transaction, other than that no offers for an alternative transaction satisfactory to Augusta had been received and that one further confidentiality agreement had been entered into, notwithstanding that almost 60 days had passed since the announcement of the Offer.

The Second Meeting to Consider the Augusta Pill

On March 28, 2014 Augusta also announced it had called the Second Pill Meeting for the purpose of asking shareholders to re-affirm the continuation of the Augusta Pill in the face of the Offer. Augusta presumably is doing so because they do not believe the voting results at the First Pill Meeting are sufficient to justify the continuation of the Augusta Pill.

The board of directors of Augusta is effectively suggesting that the Augusta Pill should permit them to "just say no" and:

- oppose any application that may be made by Hudbay to have the Augusta Pill cease traded,
- work to complete the permitting process for the Rosemont Project, and
- work to arrange any available financing for the development of the Rosemont Project and all other ancillary matters that will allow the Rosemont Project to move to construction.

As a fourth point, they suggest that the Augusta Pill should permit Augusta to:

> *continue discussions with any interested parties who wish to explore a change of control transaction on terms that, quite unlike the Hudbay Offer, will offer full and fair value to the Shareholders for relinquishing their investment in the unique, world-class Rosemont project. If any such offer is received, it will be promptly brought forward to the Shareholders for their consideration and approval.*

The management information circular for the Second Pill Meeting suggests that the board of directors and management of Augusta are oriented toward continuing to "just say no" and that there is no reasonable prospect for an alternative transaction.

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IT IS TIME FOR THE AUGUSTA PILL TO GO

The Context in Which the Augusta Pill Must Be Assessed

As the Commission has consistently stated when considering whether to exercise its public interest jurisdiction to cease trade a SRP:

- The approach to SRPs is based on the guidance in National Policy 62-202 – *Take-Over Bids – Defensive Tactics* ("**NP 62-202**"), which continues to define the "public interest".

- It is in the public interest that each shareholder of the target company be given the opportunity to decide whether or not to accept or reject the bid.

- SRPs are not contrary to the public interest when used to buy time for the target company board to respond appropriately to the bid. For example, a SRP can be an appropriate means for a target company board to discharge its fiduciary duty.

It follows that SRPs are acceptable only as a temporary defence. The issue is not whether a SRP should go, but when.

In considering the question of whether the time has come for a SRP "to go", the Commission has looked at various factors including:

- whether the target company board is likely to succeed in finding an alternative transaction, taking into account what it has done to find alternatives to the bid, the size and complexity of the target, length of time that has passed from the announcement of the Offer and the number of alternative potential, viable offerors,[13]

- when the SRP was adopted and whether the shareholders approved the SRP or there is otherwise broad shareholder support for it (noting that shareholder approval is relevant, but not determinative),

- whether the bid is coercive or unfair (noting that even where coercion is found, it is at most a factor in determining whether to allow the SRP to continue while the target company board seeks alternatives);[14] and

- the likelihood that the bid will not be extended if the SRP is not terminated.

The Augusta Pill Has Served its Purported Purpose

The board of directors of Augusta has had more than reasonable time to seek alternatives to the Offer, and has provided nothing to suggest that there is a real and substantial possibility of the board producing a better transaction for shareholders. It has been 64 days since Hudbay announced its intention to commence the Offer, and by the time the Offer expires, 85 days will have passed since the announcement

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[13] In this respect, Schedule D is indicative of the typical length of time to find an alternative transaction.

[14] *Re Icahn Partners LP*, 2010 BCSECCOM 432 ("*Lions Gate*") at para 33.

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of the Offer. Those 85 days are more than twice the time that a take-over bid is legally required to be open for acceptance and nearly one and a half times the period that a "Permitted Bid" would be required to be open for acceptance under the Augusta Pill.

Augusta is not a complex company. Its single material property is the subject of a technical report that has been available for 19 months and, as a project expected to be one of the largest copper mines in the United States, has been closely followed by industry participants for years. As recently as December 2013, senior management of Augusta confirmed that there was no material information about Augusta that had not been publicly disclosed. Since at least 2010, Augusta has been engaged in discussions with various parties (including Hudbay) about possible strategic transactions. The Augusta board of directors and Augusta's financial advisors have not provided any information that would suggest they are likely to succeed in finding an alternative transaction. Over the two months since the Offer was made, they have suggested only that their ongoing "strategic process is well underway"[15] and that such process has "proven to be very robust".[16] However, other than announcing that other parties are in the process of reviewing Augusta, no alternative transactions have been presented. Based on the disclosure in the management information circular for the Second Pill Meeting and Augusta's stated intention to re-affirm the Augusta Pill at each annual meeting of shareholders, it is obvious no alternative transactions are anticipated.

There is nothing to suggest that if more time were available there would be a real and substantial possibility of the board of directors of Augusta producing a better transaction for Augusta shareholders.

At the same time, the past conduct of the board of directors of Augusta would suggest that they have no inclination to negotiate a transaction that may result in an erosion of their control of Augusta, and are attempting to perpetuate that control:

- the terms of the Augusta Pill are indicative of an effort on the part of the directors of Augusta to impede the democratic process of shareholder voting,
- their discussions with Hudbay since 2010 have been inconsistent and unproductive,
- the pattern of disclosure that they have provided about the timing and financing of the Rosemont Project consistently has demonstrated an unsubstantiated and overly optimistic perspective on Augusta's only material property,
- their governance practices – including recent director appointments, the insider financing, the adoption of a SRP that frustrates possible dissident proxy initiatives and the failure to appoint a special committee to respond to the Offer – provide no basis for confidence that they will act in the best interests of other shareholders,
- as only recently disclosed in the Directors' Circular, the board of Augusta has implemented a number of costly "change of control" provisions – including those in respect of the Red Kite Arrangements and the single-trigger "golden parachute" payments of approximately C$8.1 million

[15] News release of Augusta issued March 17, 2014.

[16] News release of Augusta issued March 28, 2014.

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to management and insiders (almost half of which could go to Messrs. Clausen and Warke alone)[17] – that serve to inhibit alternative strategic transactions, and

- notwithstanding the supposed intention of the Augusta board of directors, as expressed by Mr. Warke, Executive Chairman of Augusta, "of putting the power directly in [shareholders'] hands", the construction of a co-ordinated "blocking position" comprised of the board of directors and management of Augusta and four other shareholders (including Mr. Beaty, a beneficiary of the recent insider financing), and the implementation of the Augusta Pill (which precludes dissident shareholder initiatives), have the opposite effect, further entrenching the directors and officers and taking the power of choice away from the holders of Augusta Shares.

In this context, the Augusta Pill has served its purpose – both within the framework established by NP 62-202 and the purpose for which Augusta publicly stated the Augusta Pill was intended – and it is time for the Augusta Pill "to go" and for the holders of Augusta Shares to have the opportunity to decide whether to accept the Offer.

Shareholder Approval of the Augusta Pill is Not Determinative

As described above, the Augusta Pill was adopted by Augusta's board of directors in April 2013. Despite an intervening shareholders meeting in June 2013, the board chose not to put the Augusta Pill to shareholders until six months later at the First Pill Meeting in October 2013.

The circumstances surrounding the approval of the Augusta Pill at the First Pill Meeting are indicative of an uninformed vote, with shareholder approval obtained through what *Pulse Data*[18] describes as "managerial coercion or inappropriate managerial pressure". In particular,

- the abbreviated disclosure regarding the terms of the Augusta Pill in the management information circular for the First Pill Meeting provides little, if any, sense as to the manner and extent to which the terms of the Augusta Pill diverge from the norm in Canada, and

- the unprecedented, and clearly calculated, structure of the Augusta Pill – again not brought to the attention of shareholders - that prohibits shareholders from soliciting proxies while Augusta's directors and management continue to do so with impunity, is on its face indicative of inappropriate and undue influence on the part of Augusta's directors and management.

In the face of the Offer, the Augusta board of directors called the Second Pill Meeting, which it then manoeuvred to take place as proximate as possible to the expiration of the Offer. In so doing, the board of directors of Augusta has clearly positioned itself to attempt to rely upon what it hopes will be proximate

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[17] At some point between May 2011 and May 2012, Augusta amended the change of control benefits payable to management. The management information circular issued by Augusta for the meeting of holders of Augusta Shares in June 2011 disclosed that these benefits were payable only upon termination without cause or resignation with "Good Reason" following a "change of control". The management information circular issued by Augusta for the meeting of holders of Augusta Shares in June 2012 disclosed that these benefits are payable upon a resignation of a named executive officer for any reason following a change of control. The Directors' Circular disclosed that this benefit is similarly payable to each of the other officers.

[18] *Re Pulse Data Inc.*, (2007) A.B.A.S.C. 895.

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support of Augusta shareholders to contest this application. (The low level of support of disinterested shareholders at the First Pill Meeting should be (and apparently is) of concern to Augusta.)

Leading into the Second Pill Meeting however, the lack of relevant information and the instances of managerial coercion remain, as well as the one-sided prohibition on solicitation of proxies. In the management information circular for the Second Pill Meeting, the board chose not to expand upon, and improve, its disclosure relevant to the vote. Even further, the circular misleads Augusta shareholders by suggesting that a request for comments from the Canadian Securities Administrators has altered the long-standing framework under NP 62-202. Until the Commission takes formal action to repeal or amend NP 62-202, it continues to govern and define the Commission's approach to SRPs, including the Augusta Pill, and gives primacy to the fundamental right of shareholders to tender their shares to a take-over bid.

In the context of NP 62-202, the Commission has observed that shareholder approval of a SRP is a relevant factor in its consideration of whether to exercise its public interest jurisdiction to cease trade a SRP, but it is not determinative.[19]

Given the absence of another bidder, Augusta will no doubt and necessarily place a good deal of reliance on the decisions in *Pulse Data* and *Neo*[20] as standing for the proposition that shareholder approval in the face of the Offer is determinative. That reliance, however, is misplaced in this case in at least three respects.

First, on the facts of this case and unlike the findings in *Pulse Data* and *Neo,* shareholders have not been provided with adequate information relevant to the vote, some of the information provided has been misleading, and further, there have been clear examples of managerial coercion, all of which impact the quality of the vote as an indicator of shareholder preference. In the presence of aggravating factors, the Commission has said that it would "likely" cease trade a SRP.[21]

Second, this Commission has been very critical of the decisions in *Pulse Data* and *Neo* to the extent those decisions are relied upon by targets to assert that shareholder approval of a SRP is, or ought to be, determinative, even when there is no alternative transaction.[22] In *Lions Gate,* the Commission specifically noted that, in *Pulse Data*, the minority of the target's shareholders who approved the SRP in the face of the bid determined the outcome, an outcome that was "inconsistent with the principle that the shareholders ultimately have the opportunity to decide whether or not to tender to the bid."

Third, shareholder approval, even in the face of a bid, does not give the Augusta board of directors license to use the Augusta Pill indefinitely. As stated in *Chapters Inc.*[23]:

> *When shareholders approve a pill, it does not mean that they want the pill to continue indefinitely. A company's board of directors is not permitted to maintain a shareholder rights plan indefinitely to prevent a bid's proceeding, but may do so as long as the board*

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[19] *Lions Gate* at para 91 citing *Cara* at para 65.

[20] *Re Neo Material Technologies Inc. and Pala Investments Holdings Limited, et al,* (2009) 32 O.S.C.B. 6941.

[21] *Lions Gate* at para 62 and102.

[22] *Lions Gate* at para 98 and 99.

[23] *Re Chapters Inc. and Trilogy Retail Enterprises L.P.* (2001) 24 O.S.C.B. 1657.

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> *is actively seeking alternatives and there is a real and substantial possibility that the board can increase shareholder choice and maximize shareholder value.*

That approach was recently confirmed in *Lions Gate* in the context of a strategic pill, where this Commission held that[24]:

> *As we have made clear in these reasons, there is no basis for allowing an SRP to continue if the target board is not actively seeking alternatives to the bid. In those circumstances, shareholder approval is not relevant.*

In this context, there is nothing to suggest that shareholder approval of the Augusta Pill should be a reason to determine that it is not time for the Augusta Pill to go and deny holders of the Augusta Shares the opportunity to determine whether to accept the Offer.

Additionally, to the extent the Commission were ever to consider reversing the position clearly articulated in *Pulse Data*, *Neo* and *Lions Gate*, such reversal should only be done where the record of management and board conduct indicate no concern whatsoever about improper motives, and where the SRP is compliant with best practices and raises no concerns about its improper design or use. Neither is the case here.

The Offer is Not Coercive or Unfair

As one might have anticipated, Augusta's board of directors has characterized Hudbay's waiver of the minimum tender condition as "coercive", "ill considered", "desperate" and an "appalling tactic".[25]

Even if the Offer were opportunistic, which it is not, as the panel noted in *Samson*[26], there is nothing wrong with an offer being opportunistic, and it is normal for unsolicited bids to be opportunistic.

As for the minimum tender condition, the Offer originally had such a condition. That condition was waived by Hudbay only after Augusta disclosed that directors, officers, Mr. Beaty and three unnamed shareholders of Augusta, who as a group hold over 33% of the Augusta Shares (on a fully-diluted basis), had advised Augusta that they will not tender to the Offer and, as a result of the minimum tender condition originally contained in the Offer, the Offer could not succeed. The Offer continues to be for all of the Augusta Shares and Hudbay waived the minimum tender condition to prevent the directors, officers and four shareholders from depriving all other holders of Augusta Shares the ability to choose to accept the Offer. Permitting the board of directors and management of Augusta and those four shareholders to make that choice for the other holders of Augusta Shares would have been inconsistent with the Commission's consistent position that is in the public interest that each shareholder of a target company be given the opportunity to decide whether to accept or reject a bid.

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[24] *Lions Gate* at para 106.

[25] News release of Augusta issued March 17, 2014.

[26] *Re Samson Canada, Ltd.*, (1999), 8 A.S.C.S. 1791.

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The Commission has observed that[27]:

> *the reservation of the right to waive the minimum tender condition is a feature common to all types of bids – a feature that never has been found to be, in and of itself, coercive.*

As the Commission noted in *Lions Gate*[28], *Falconbridge*[29] is the only decision to which it was referred in which coercion was found in connection with an all-share bid. As the Commission also noted, the circumstances in Falconbridge were unique and, as in *Lions Gate*, are not relevant in the context of this application. The Offer has none of the indicia of coercion. Even where coercion was found to exist in *Falconbridge*, however, the SRP was only allowed to continue temporarily; it was not allowed to operate to frustrate the bid.

Hudbay will not extend the Offer in the face of the Augusta Pill

Hudbay will not extend the Offer beyond May 5, 2014 unless, at or by that date, the remaining conditions to the Offer have been satisfied or waived, including the condition that the Augusta Pill has been waived, invalidated or cease-traded. Failing to cease trade the Augusta Pill would therefore frustrate the Offer, the only transaction available to holders of Augusta Shares, thereby denying Augusta shareholders their fundamental right, as set out in NP 62-202, to have the opportunity to decide whether to accept the Offer.

As Augusta itself has disclosed:

> *[t]he Company's current financial position indicates the existence of a material uncertainty that raises substantial doubt about the Company's ability to continue as a going concern and is dependent on the Company receiving the permits necessary for the construction of the Rosemont Project and raising additional debt or equity financing to meet its obligations as they become due. The Company must obtain additional funding in the third quarter of 2014 in order to continue development and construction of the Rosemont Project . . . . However, there is no assurance that such additional funding and/or project financing will be obtained or obtained on commercially favourable terms.*[30]

Given the significant financial issues facing Augusta and the "material uncertainty that raises substantial doubt about [Augusta's] ability to continue as a going concern", shareholders should have the ability to make their own decision as to whether to accept the Offer.

In this context, the time has come for the Augusta Pill "to go".

SCHEDULING

In light of the expiry of the Offer on May 5, 2014, we respectfully request that the Commission consider and determine this application by no later than May 1, 2014.

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[27] *Lions Gate* at para 129.

[28] *Lions Gate* at para 124.

[29] *Re Falconbridge Ltd.* (2006), 29 O.S.C.B. 6783.

[30] Audited financial statements of Augusta for the year ended December 31, 2013, filed March 31, 2014

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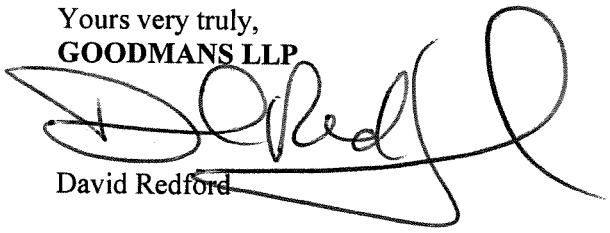
Should you have any questions or require any additional information, please do not hesitate to contact the undersigned.

Yours very truly,
GOODMANS LLP



David Redford

cc: Gord Smith, *British Columbia Securities Commission*
Leslie Rose, *British Columbia Securities Commission*
Patrick Donnelly, *HudBay Minerals Inc.*
Gil Clausen, *Augusta Resource Corporation*
Kevin Thomson, *Davies, Ward, Philips & Vineberg*
Alan Mark, Jonathan Lampe, Kari MacKay, *Goodmans LLP*

HUDBAY MINERALS INC.

CERTIFICATE OF VERIFICATION

To: British Columbia Securities Commission

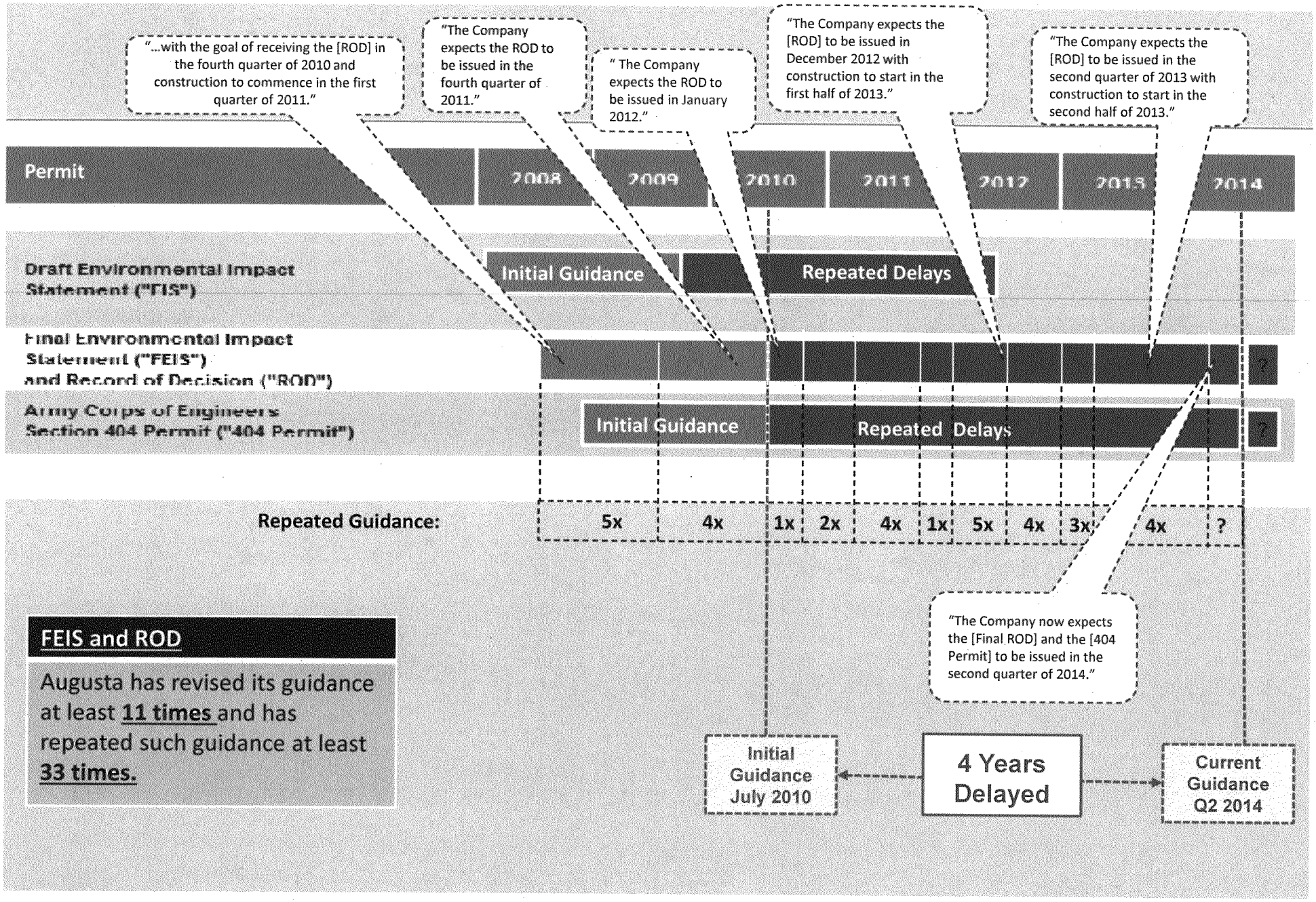
HudBay Minerals Inc. hereby authorizes Goodmans LLP to make this application and confirms the truth of the facts contained therein.

DATED as of this 14th day of April, 2014.

HUDBAY MINERALS INC.

By _____
Name: Patrick Donnelly
Title: Vice President, Legal and Corporate Secretary

Schedule A
Repeated Permitting Delays



FEIS and ROD

Augusta has revised its guidance at least **11 times** and has repeated such guidance at least **33 times.**

Schedule B
ISS Report
(See Attached)

An MSCI Brand

Augusta Resource Corporation

Key Takeaways

The Shareholder Rights Plan is not a "new generation" plan and does not warrant support. Specifically noted is the unacceptably low 15% triggering threshold.

Meeting Type: Special
Meeting Date: 17 October 2013
Record Date: 16 September 2013
Meeting ID: 825090

Toronto Stock Exchange: AZC
Index: N/A
Sector: Diversified Metals & Mining
GICS: 15104020

Primary Contact(s)
RV Viswanathan
ca-research@issgovernance.com

Agenda & Recommendations

Policy: Canada

Incorporated: Canada

Item	Code	Proposal	Board Rec.	ISS Rec.
MANAGEMENT PROPOSALS				
1	M0609	Approve Shareholder Rights Plan	FOR	AGAINST

Shaded areas indicate recommendations against board
▶ Items deserving attention due to contentious issues or controversy

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Meeting Agenda & Proposals

Item 1. Approve Shareholder Rights Plan — AGAINST

VOTE RECOMMENDATION

A vote AGAINST this resolution is warranted because the plan is not a "new generation" plan.

BACKGROUND INFORMATION

Policies: Shareholder Rights Plan (TSX)

Vote Requirement: Majority of votes cast by "Independent Shareholders", as defined in the plan

DISCUSSION

PROPOSAL

Approve the shareholder rights plan adopted by the board on April 18, 2013, and to be ratified at this meeting.

Under the plan, if a person or group acquired 15% or more of the company's outstanding common shares, shareholders would have the right to purchase additional shares at half of their market value. The company notes that the plan was not adopted in response to any known or anticipated acquisition proposal, but rather to ensure the fair and equal treatment of shareholders in connection with any takeover bid for the company. In addition, the board says that the current 35-day limit on takeover offers under Canadian securities legislation is insufficient to provide shareholders and the board with adequate time to consider any unsolicited takeover bid for the company.

PLAN SUMMARY

New Plan:	Yes
Adoption:	2013
Latest Version:	April 18, 2013
Expiry:	2016
Sunset:	3-year
Ownership Trigger:	15%
Minimum Permitted Bid Period:	60 days
Partial Bids Permitted:	No
Acceptable Key Definitions:	No
Acceptable Exemption for Lock-Up Agreements:	No
Grandfathering Provision:	Yes

Analysis

Many Canadian companies have recently adopted rights plans which address the concerns of institutional investors by, among other things, providing for three-year sunset provisions and allowing partial bids to proceed despite board opposition. These "new generation" plans ensure that in a takeover bid situation the board has limited discretion to interpret and administer the plan and shareholders receive fair and equal treatment.

The plan is a permitted bid plan with a 15% ownership trigger and a minimum share deposit requirement to approve a takeover bid. A Permitted Bid, according to the provisions of the plan, must be made to all holders of shares and for all shares by means of a takeover bid circular and remain open for deposits for not less than 60 days. Shares may not be taken up under a Permitted Bid unless more than 50% of the shares held by Independent Shareholders are deposited and in the event that this condition is satisfied, the offeror is obligated to make a public announcement of the fact and the bid must remain open for further deposits for an additional ten business days. Based on this definition, partial bids are not permitted under the plan. Partial bids are integral to rights plans since Canadian takeover bid legislation is premised on the right of shareholders to determine for themselves the acceptability of any bid for their shares, partial or otherwise.

Certain definitions or provisions of the plan, which are critical in determining who may trigger the plan and limiting the discretion of the board, do not meet "new generation" guidelines:

- Acquiring Person fixes an unacceptable threshold of 15% (whereas a Takeover Bid is defined as an offer to acquire voting shares that together with voting shares beneficially owned constituted in aggregate 20% of the voting shares outstanding) and does not include the standard 1% cushion to prevent inadvertent triggering of the plan;
- Grandfathered Person fixes an unacceptable threshold of 15% and does not include the standard 1% cushion to prevent inadvertent triggering of the plan (*HudBay Minerals currently owns 15.98% of the shares and has already breached the plan)*;
- Associate is not confined to family relationships, but also refers to corporations and persons who have direct or indirect control of more than 10% of the voting rights which may have a chilling effect on the legitimate corporate governance activities of institutional investors, and which is not an acceptable definition of control for purposes of a right plan which the definitions of Affiliate and Associate address;
- Beneficial Owner does not contain any time limit on the right to acquire shares; makes references to the voting of securities which is unacceptable for the purpose of a rights plan which is premised on ownership; and makes references to one or more Securities Acts which then pull in other definitions which are inappropriate to the purpose and operation of a "new generation" rights plan;
- Controlled is defined in terms of equity interests in addition to voting securities, which may pull in entities that neither control nor are controlled by a Person making a takeover bid; the reference to "equity interests" is too broad and may broaden the ambit of the plan unacceptable to its purpose.
- Exempt Acquisition does not contain the required cap on distributions made pursuant to prospectus, private placement or other distributions, which may result in a change of control without shareholder approval;
- Independent Shareholders does not include Investment Managers, Trust Companies, Pension Funds, and other parties who are exempt under the definition of Beneficial Owner and therefore these institutional investors and others would not be deemed independent for purposes of approving a takeover bid for the company.
- Permitted Bid provision does not permit partial bids which is unacceptable as shareholders should have the ability to make the determination for themselves as to the acceptability of any bid for their shares, partial or otherwise and may value and support the presence of a significant shareholder who may drive shareholder value;
- The plan does not contain any exemption for lock-up agreements, which must be included since a lock-up agreement can trigger a plan as determined by the Manitoba Court of Queen's Bench decision in the case of United Grain Growers in March 1997;
- Pro Rata Acquisition does not contain the necessary cap to prevent the acquisition of voting shares pursuant to the acquisition or exercise of rights pursuant to a rights offering, which may result in a change of control without shareholder approval by means of a backstopped rights offering;
- Acting Jointly or in Concert contains the discretionary language "for the purpose of", leaving it open to interpretation;
- Exchange Option provision allows the board to exchange the rights for other securities at its sole option without shareholder approval;

- Redemption and Waiver provisions grant directors authority to waive the plan or redeem the rights without shareholder approval which is unacceptable as the removal of the plan's purported protection should only be permitted by a further shareholder vote;
- Supplement and Amendment provisions permit the board to amend the plan without further shareholder approval "whether or not such action would materially adversely affect the interests of the holders of Rights generally". This ability to amend the plan once it has been approved by shareholders may adversely affect the rights of shareholders or the holders of Rights is unacceptable from a corporate governance viewpoint, as many shareholders vote by proxy, particularly institutional shareholders who will cast votes on this item, and therefore cannot know what amendments may be presented after the shareholder meetings that may adversely impact their rights.

On the basis of the foregoing, the AZC rights plan is not a "new generation" plan.

Equity Ownership Profile

Type	Votes per share	Issued
Common Shares	1.00	144,252,062

Ownership - Common Shares	Number of Shares	% of Class
HudBay Minerals Inc.	23,058,585	15.98
GCIC Ltd.	14,864,600	10.30
Augusta Capital Corp.	9,724,025	6.74
JPMorgan Asset Management (UK) Ltd.	9,064,827	6.28
Front Street Capital, Inc.	7,564,400	5.24
Mackenzie Financial Corp.	5,447,602	3.78
Archer Capital Management LP	4,599,543	3.19
Smithwood Advisers LP	3,345,500	2.32
Gilder, Gagnon, Howe & Co. LLC	3,004,388	2.08
Knighthead Capital Management LLC	2,308,100	1.60
Arrowpoint Asset Management LLC	1,565,558	1.09
AGF Investments, Inc.	1,235,948	0.86
BlackRock Advisors LLC	894,729	0.62
Columbia Wanger Asset Management LLC	900,000	0.62
I. G. Investment Management Ltd.	845,882	0.59
Canada Pension Plan Investment Board	785,100	0.54
Intact Investment Management, Inc.	617,800	0.43
Russell Investment Management Co.	619,000	0.43

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Additional Information

Meeting Location	Terminal City Club in the Atkins Room, 837 West Hastings Street, Vancouver, British Columbia
Meeting Time	11:30
Security IDs	050912203(CUSIP)

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ISS may in some circumstances afford issuers, whether or not they are clients of ICS or any other MSCI subsidiary, the right to review draft research analyses so that factual inaccuracies may be corrected before the report and recommendations are finalized. Control of research analyses and voting recommendations remains, at all times, with ISS.

ISS makes its proxy voting policy formation process and summary proxy voting policies readily available to issuers, investors and others on its public website: http://www.issgovernance.com/policy.

Schedule C

Cross-Appointments and Material Relationships[1]

Set out below is a summary of certain cross-appointments and relationships among the directors and officers of Augusta and Ross Beaty and other former insiders.

	Current & Former Insiders												
	Richard W. Warke	**Gilmore Clausen**	**W. Durand (Randy) Eppler**	**Christopher M.H. Jennings**	**Robert Pirooz**	**Robert P. Wares**	**Letitia Cornacchia (Wong)**	**Gordon Jang**	**Charles J. Magolske**	**Purni Parikh**	**Ross J. Beaty**	**Donald Clark *(D: Feb 2014)***	**Stuart Angus**
Richard W. Warke		X	X		X	X	X	X	X	X	X	X	X
Gilmore Clausen	X		X			X	X	X	X	X		X	X
W. Durand (Randy) Eppler	X	X					X	X		X			
Christopher M.H. Jennings													X
Robert Pirooz	X						X	X		X	X	X	X
Robert P. Wares	X	X					X		X	X		X	X
Letitia Cornacchia (Wong)	X	X	X		X	X			X	X	X	X	X
Gordon Jang	X	X	X		X					X	X		
Charles J. Magolske	X	X				X	X			X		X	X
Purni Parikh	X	X	X		X	X	X	X	X		X	X	X
Ross J. Beaty	X				X		X	X		X		X	X
Donald Clark	X	X			X	X	X		X	X	X		X
Stuart Angus	X	X		X	X	X	X		X	X	X	X	

(1) Source: Bloomberg and continuous disclosure documents filed on SEDAR

Schedule C
Cross Appointments and Material Relationships

Company	Current and Former Insiders
Global Copper Corp.[1]	Robert P. Pirooz (Secretary and Board Member: 2/2005 to 8/2008) Ross J. Beaty (Chairman: 5/2005 to 8/2008; President & CEO: 5/2005 to 3/2006)
Lumina Copper Corp.	Robert P. Pirooz (Non-Executive Chairman: 2/2012 to Present) Ross J. Beaty (10% Reporting Security Holder Since: 8/2008)
Magma Energy Corp. (now Alterra Power Corp.)[2]	Robert P. Pirooz (Lead Director: 10/2010 to 4/2011; Board Member: 1/2008 to 5/2011) Ross J. Beaty (Chairman/Founder: 1/2008 to Present)
Northern Peru Copper Corp.[3]	Robert P. Pirooz (Board Member: 5/2005 to 8/2006) Ross J. Beaty (3 - 10% Reporting Security Holder: 5/2005 to 1/2008; Chairman: 8/2006 to 2007)
Pan American Silver Corp.	Robert P. Pirooz (General Counsel: 1/2003 to Present; Board Member: 5/2006 to Present) Ross J. Beaty (Chairman/Founder: 4/1995 to Present) Gordon Jang (Controller: 1/2003 to 3/2005)
Plata Latina Minerals Corp.	Richard W. Warke (Board Member: 4/2010 to Present) Gilmore Clausen (Non-Exec Chairman: 4/2010 to Present) W. Durand (Randy) Eppler (Board Member: 12/2010 to Present) Letitia Cornacchia (Wong) (VP Investor Relations, Corporate Communications: 3/2012 to Present) Gordon Jang (VP/CFO: 12/2010 to 2/2012) Purni Parikh (VP: Legal/Secretary: 12/2010 to Present)
Regalito Copper Corp.[4]	Robert P. Pirooz (VP/Secretary and Board Member: 5/2003 to 5/2005; Chief Executive Officer: 5/2005 to 5/2006) Ross J. Beaty (Board Member: 5/2003 to 4/2006)
Tsodilo Resources Limited	Christopher M.H. Jennings (Board Member: 6/2002 to 8/2005) Stuart Angus (Board Member: 9/2004 to 4/2011)

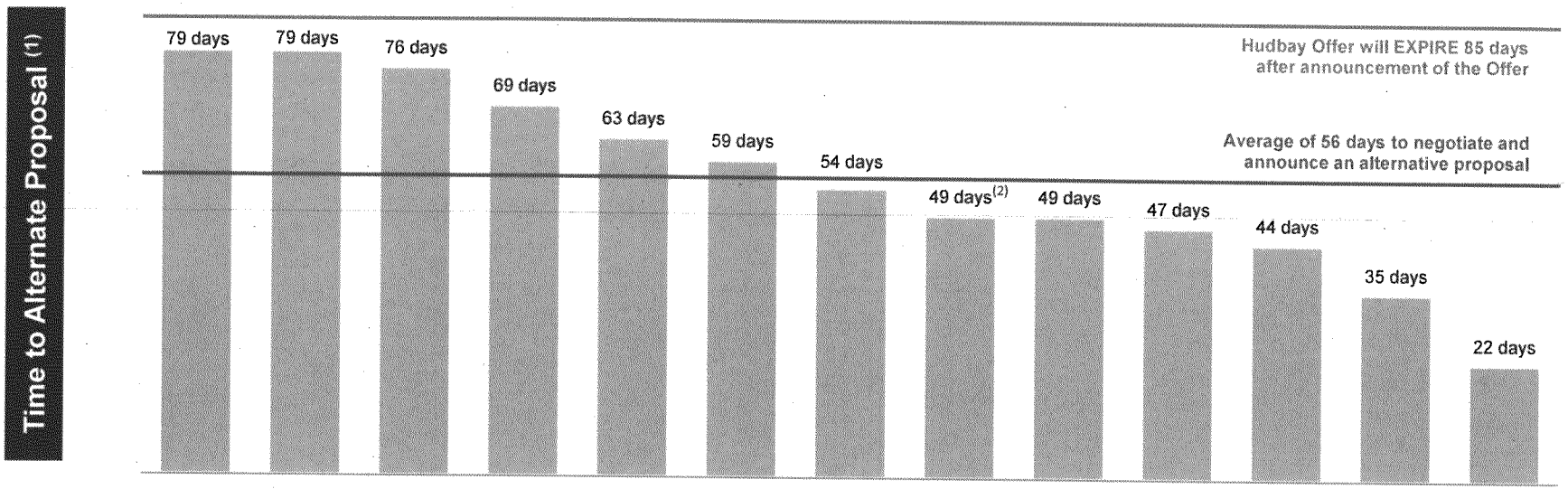
Schedule C
Cross Appointments and Material Relationships

Company	Current and Former Insiders
Ventana Gold Corp.[5]	Richard W. Warke (Chairman Founder: 6/2008 to 3/2011) Robert P. Pirooz (Board Member: 6/2009 to 3/2011) Letitia Cornacchia (Wong) (VP, Investor Relations: 9/2010 to 3/2011) Purni Parikh (Secretary: 2/2008 to 3/2011) Ross J. Beaty (Investor: 05/2010)[6] Donald Clark *(D.)* (Secretary: 8/2009 to 3/2011; President/Secretary: 2/2009 to 8/2009; President: 3/2006 to 8/2009) Stuart Angus (Board Member: 12/2006 to 3/2011)
Wildcat Silver Corp.[7]	Richard W. Warke (Chairman and CEO: 7/2008 to Present) Robert P. Wares (Board Member: 5/2006 to Present) Gilmore Clausen (Non-Executive Vice Chairman: 12/2010 to Present) Letitia Cornacchia (Wong) (VP Investor Relations, Corporate Communications: 9/2010 to Present) Charles J. Magolske (VP, Corp Development: 12/2010 to Present) Purni Parikh (VP/Secretary: 2/2010 to Present) Donald Clark *(D.)* (Board Member: 5/2006 to Recent; President/CEO: 5/2006 to 7/2008) Stuart Angus (Board Member: 5/2006 to Present)

[1] Global Copper Corp. was acquired by Teck Cominco Limited in 2008.
[2] On May 13, 2011, Magma Energy Corp. and Plutonic Power Corporation announced the completion of the merger pursuant to a plan of arrangement. In connection with the plan of arrangement, Magma changed its name to "Alterra Power Corp."
[3] On March 28, 2008, Copper Bridge Acquisition Corp. acquired all of the remaining outstanding common shares of Northern Peru Copper Corp.
[4] On March 14, 2006 Regalito Copper Corp. signed an agreement with Pan Pacific Copper Co., Ltd., whereby a subsidiary of Pan Pacific, PPC Canada Enterprises Corp., acquired all of the issued and outstanding shares of Regalito Copper Corp..
[5] On March 16, 2011, AUX Canada Acquisition Inc. acquired Ventana Gold Corp.
[6] In May, 2010, Ross J. Beaty and Richard W. Warke provided Ventana Gold Corp. with an aggregate of US$20,000,000 in short-term debt financing.
[7] Formerly Compcorp Ventures Inc.

Schedule D
Auction Timelines

Precedent Unsolicited Mining Transactions with a Negotiated Alternative Proposal



Target	Osisko	Tyler Resources	IAMGOLD	Alcan	Frontera	Freewest	Hathor	Inco	Aurizon	Baffinland Iron Mines	Fording	Pioneer	Equinox
Unsolicited Bidder	Goldcorp	Mercator	GoldenStar	Alcoa	Invecture	Noront	Cameco	Teck Cominco	Alamos	Iron Ore Holdings	Sherritt	NovaGold	Minmetals
Alternate Proposal Counterparty	Yamana	Jinchuan	GoldFields	Rio Tinto	Southern Copper	Cliffs	Rio Tinto	Phelps Dodge	Hecla	ArcellorMittal	Teck Cominco	Barrick	Barrick
Offer Announcement Date	13-Jan-14	19-Oct-07	27-May-04	4-May-07	3-Dec-08	5-Oct-09	26-Aug-11	8-May-06	14-Jan-13	22-Sep-10	21-Oct-02	19-Jun-06	3-Apr-11

Source: Public disclosure

1. Number of days between the announcement of the unsolicited bidder's intention to make an offer and the announcement of a negotiated alternative transaction
2. Time between Teck Cominco announcing an unsolicited offer for all of Inco's outstanding shares and Phelps Dodge / Inco / Falconbridge announcing a two-step negotiated transaction whereby Inco would acquire Falconbridge by way of an enhanced offer and Phelps Dodge would then acquire the "new Inco"