



IBERIAN
MINERALS



Iberian Minerals Corp.

Management's Discussion and Analysis
Three and six months ended June 30, 2010

Introduction

This report provides a discussion and analysis of the financial condition and results of operations of Iberian Minerals Corp. (“Iberian” or the “Company”) to enable the reader to assess material changes in financial condition between June 30, 2010 and December 31, 2009 and results of operations for the three and six month periods ended June 30, 2010 and June 30, 2009.

This Management’s Discussion and Analysis (“MD&A”) has been prepared as of August 26, 2010. This MD&A is intended to supplement and complement the unaudited interim consolidated financial statements and notes thereto for the three and six months ended June 30, 2010 (collectively the “Financial Statements”). The reader should review the Financial Statements in conjunction with the review of this MD&A. This MD&A should be read in conjunction with both the annual audited consolidated financial statements for the year ended December 31, 2009, the most recent Annual Information Form (“AIF”) for the year ended December 31, 2009 and the 2009 Annual Report. These documents can be found at www.sedar.com. The Company prepares and files its consolidated financial statements in accordance with Canadian generally accepted accounting principles (“GAAP”). The currency referred to in this document is the United States dollar, unless otherwise specified.

Trafigura Beheer B.V. (“Trafigura”) is a related party by virtue of its significant shareholdings in the Company. Trafigura owns approximately 46% of all outstanding registered shares of the Company. The Company is economically dependent on Trafigura as it is the Company’s main customer.

Unless otherwise noted, financial information is presented in thousands of U.S. dollars.

Forward-looking Statements

This MD&A includes certain “forward-looking statements” and “forward-looking information” under applicable securities laws. Except for statements of historical fact, certain information contained herein constitutes forward-looking statements. Forward-looking statements are frequently characterized by words such as “plan”, “expect”, “project”, “intend”, “believe”, “anticipate”, “estimate”, and other similar words, or statements that certain events or conditions “may” or “will” occur. Forward-looking statements are based on the opinions and estimates of management at the date the statements are made, and are based on a number of assumptions and subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. Assumptions upon which such forward-looking statements are based include that all required third party regulatory and governmental approvals will be obtained. Many of these assumptions are based on factors and events that are not within the control of Iberian and there is no assurance they will prove to be correct. Factors that could cause actual results to vary materially from results anticipated by such forward-looking statements include changes in market conditions and other risk factors discussed or referred to in this MD&A and other documents filed with the applicable securities regulatory authorities and available at www.sedar.com. Although Iberian has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Iberian undertakes no obligation to update forward-looking statements if circumstances or management’s estimates or opinions should change except as required by applicable securities laws. The reader is cautioned not to place undue reliance on forward-looking statements.

1. Description of business

Iberian is a corporation continued under the laws of Switzerland, and is a global base metals company with mining interests in Peru and Spain. On June 17, 2009 the Company was re-domiciled from Canada to Switzerland, and is now governed by Swiss law.

The Condestable Mine, owned by the Company's subsidiary, Compania Minera Condestable S.A. ("CMC" or "Condestable") is located approximately 90 km south of Lima, Peru and operates at 2.2 million tonnes per year of ore processed, producing copper concentrates that also contain gold and silver.

The Aguas Tenidas Mine, owned by the Company's subsidiary, Minas de Aguas Tenidas S.A. ("MATSA") in the Andalusia region of Spain approximately 110 km north-west of Seville, operates a 1.7 million tonnes per year underground mine and concentrator that produces copper, zinc and lead concentrates that also contain silver. MATSA is nearing completion of a planned expansion of the processing plant to allow operations at 2.2 million tonnes per year.

Iberian's registered office is in Lucerne, Switzerland. The Company has offices in Geneva, Toronto, Lima and Seville and a global workforce of more than 2,000 employees and contract workers. The Company is listed on the Toronto Venture Exchange ("TSXV"), and trades under the symbol IZN.

2. Summarized results for the three and six months ended June 30, 2010

Financial:

Three months ended June 30, 2010

- Recorded net income of \$90.52 million or \$0.27 per registered share which included:
 - Sales of \$51.70 million and gross margin of \$(13.72) million;
 - A realized loss of \$24.39 million on commodity hedges in the period (included in sales);
 - An unrealized non-cash gain of \$131.11 million on derivative financial instruments outstanding, as a result of the reduction of metal prices over the period.
- Cash flow provided by operations before changes in non-cash working capital was \$1.49 million. Cash flow used in operations after changes in non-cash working capital was \$16.59 million.

Six months ended June 30, 2010

- Recorded net income of \$80.61 million or \$0.24 per registered share which included:
 - Sales of \$107.49 million and gross margin of \$(20.99) million;
 - A realized loss of \$45.23 million on commodity hedges in the period (included in sales);
 - An unrealized non-cash gain of \$118.96 million on derivative financial instruments outstanding, as a result of the reduction of metal prices over the period.
- Cash flow from operations before changes in non-cash working capital was \$12.56 million. Cash flow used in operations after changes in non-cash working capital was \$15.77 million.

Operational – CMC:

Three months ended June 30, 2010

- Condestable Mine continued to process copper ore at budgeted rates. The copper ore grade was slightly lower than expected at 1.18% versus 1.23% in the second quarter of 2009. The copper ore grade of 1.18% in the second quarter of 2010 improved from the first quarter 2010 copper ore grade of 1.10%.
- CMC processed 550,708 tonnes of ore in the period versus 530,201 tonnes for the same period of the prior year (increase of 4%).
- Copper concentrate shipments in the period were 23,014 DMT versus 24,309 DMT in the prior year (decrease of 5%).
- Contained copper production in the period was 5,829 tonnes versus 5,973 tonnes in the prior year (decrease of 2%).
- The Cash Operating Cost (*non-GAAP measure; refer to section 5*) for the period was \$1.02 per payable pound of copper versus prior year of \$0.90. This was an improvement from the first quarter 2010 Cash Operating Cost of \$1.06.

Six months ended June 30, 2010

- Copper ore grade was lower than expected at 1.14% versus 1.23% in 2009.
- CMC processed 1,102,391 tonnes of ore in the period versus 1,064,839 tonnes for the same period of the prior year (increase of 4%).
- Copper concentrate shipments in the period were 44,296 DMT versus 48,649 DMT in the prior year (decrease of 9%).
- Contained copper production in the period was 11,164 tonnes versus 12,087 tonnes in the prior year (decrease of 8%).
- The Cash Operating Cost for the period was \$1.04 per payable pound of copper versus prior year of \$0.85.

Other

- Completed the previously announced purchase from Corianta S.A. of all remaining interest in the Raul Mine, which forms part of the Condestable operation (the “Raul Transaction”). The purchase price was \$28.00 million. As such, CMC is no longer obligated to make royalty payments that it was previously required to pay in connection with the lease of the Raul Mine.
- Completed the closing of a \$55.00 million senior secured debt facility which ultimately funded the Raul Transaction.

Operational – MATSA (no comparables for the same period in 2009):

Three months ended June 30, 2010

- MATSA processed 381,795 tonnes of ore in the period.
- Produced 20,659 DMT of copper concentrate and 9,718 DMT of zinc concentrate. Contained metal was 4,465 tonnes of copper and 4,633 tonnes of zinc.
- The Cash Operating Cost was \$2.38 per payable pound of copper. It was higher than anticipated for steady state as the production rate in the period was below current design capacity of 1.7

Mtpa at an average of 90%. The copper circuit operated on target while the poly-metallic circuit realized improvements and produced a separate copper concentrate in the second quarter.

Six months ended June 30, 2010

- MATSA processed 739,357 tonnes of ore in the period.
- Produced 40,062 DMT of copper concentrate and 15,677 DMT of zinc concentrate. Contained metal was 9,631 tonnes of copper and 7,566 tonnes of zinc.
- The Cash Operating Cost was \$2.30 per payable pound of copper. It was higher than anticipated for steady state as the production rate in the period was below current design capacity of 1.7 Mtpa at 87%.

Other

- Received from the relevant authority of the Junta de Andalucia in Spain, the environmental authorization which permits the use of six new reagents for the operation of the new modular copper/lead flotation separation circuit at the Aguas Tenidas Mine. The reagents have been received on site and the bulk copper/lead separation circuit started in early April.
- Completed the closing of a \$50.00 million senior secured, revolving debt facility which has resolved the previously announced funding shortfall.
- Received the €10.09 million grant from Junta de Andalucia in Spain (the "Grant"). The Grant, which was finalized in February this year, relates to the "Programa de Incentivos para el Fomento de la Innovacion y el Desarrollo Empresarial en Andalucia" (Incentive Program for the Promotion of Innovation and Business Development in Andalucia) and was awarded based on satisfying certain employment and financial conditions, which Iberian has completed.

3. Overview of financial results

The following table presents a summarized Statement of Operations for the three and six months ended June 30, 2010 with comparatives for the three and six months ended June 30, 2009.

Effective April 1, 2010, the Company's functional currency became U.S. dollars. The Company also converted its reporting currency to U.S. dollars. In accordance with GAAP, the Company restated all amounts presented for comparative purposes into U.S. dollars.

For accounting purposes, to September 30, 2009, MATSA was in a pre-production phase. As such, sales and costs and expenses of mining operations incurred in this phase were not recognized in the operating statement for the comparative periods (three and six months ended June 30, 2009). Commercial production at MATSA was declared with effect from October 1, 2009. Sales and costs of expenses of mining operations for MATSA have been recognized in the operating statement of the Company in the current periods (three and six months ended June 30, 2010).

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
Sales	51,695	25,482	107,494	50,581
Costs and expenses of mining operations	46,411	13,432	90,685	25,936
Mine site amortization	19,002	6,128	37,799	12,227
Gross margin	(13,718)	5,922	(20,990)	12,418
Expenses				
Administrative expenses and other	3,832	2,710	7,705	5,260
Foreign exchange (gain)/loss	5,856	(4,117)	(7,222)	(2,954)
Unrealized loss (gain) on derivative financial instruments	(131,114)	58,890	(118,955)	128,374
Total expenses	(121,426)	57,483	(118,472)	130,680
Net income (loss) before income taxes	107,708	(51,561)	97,482	(118,262)
Non-controlling interest	92	(345)	92	(685)
Income tax expense	1,256	2,732	2,678	6,052
Future income tax recovery	15,844	(14,665)	14,100	(36,681)
Net income (loss)	90,516	(39,283)	80,612	(86,948)
Basic earnings (loss) per share (\$)	0.27	(0.13)	0.24	(0.31)
Diluted earnings (loss) per share (\$)	0.22	(0.13)	0.20	(0.31)

Three months ended June 30, 2010 versus 2009

During the three month period ended June 30, 2010 (the "Current Quarter") the Company recorded net income of \$90.52 million or \$0.27 per share compared to a net loss of \$39.28 million or \$0.13 per share for the same period of 2009 (the "Comparative Quarter"). Gross margin for the Current Quarter was \$(13.72) million compared to \$5.92 million for the Comparative Quarter. Net income before income taxes for the Current Quarter was \$107.71 million compared to net loss before income taxes of \$51.56 million for the Comparative Quarter. The \$129.80 million increase in net income in the Current Quarter was primarily due to an unrealized gain on derivative financial instruments of \$131.11 million versus an unrealized loss on derivative financial instruments of \$58.89 million in the Comparative Quarter.

Sales in the Current Quarter were \$51.70 million (Comparative Quarter - \$25.48 million) and operating costs and mine site administrative expenses in the Current Quarter were \$46.41 million (Comparative Quarter - \$13.43 million). Mine site amortization increased from \$6.13 million in the Comparative Quarter to \$19.00 million in the Current Quarter. Gross margin in the Current Quarter was \$(13.72) million (Comparative Quarter - \$5.92 million). The Company's payable copper production increased 73% from 5,684 FMT in the Comparative Quarter to 9,839 FMT in the Current Quarter. The Company produced 3,856 FMT of zinc in the Current Quarter (Comparative Quarter - nil). Operating costs and mine site administrative expenses increased by 246% versus the Comparative Quarter. Mine site amortization increased by 210% versus the Comparative Quarter. The significant increases in sales, operating costs and mine site administrative expenses, and mine site amortization were due to the inclusion of operating results for MATSA in its first year of commercial production.

Other income in the Current Quarter was \$121.43 million (Comparative Quarter - total expenses of \$57.48 million). This variance of \$178.91 million was due to the cumulative effect of the following:

- i. Unrealized gain on derivative financial instruments was \$131.11 million in the Current Quarter versus unrealized loss on derivative financial instruments of \$58.89 million in the Comparative Quarter. This

variation is primarily due to the differential between the hedged commodity prices or hedged foreign exchange rates and market commodity prices or exchange rates as at June 30, 2010 and 2009 and the movement in this fair value adjustment since March 31, 2010 and 2009. **This is an unrealized gain or loss that must be recorded in accordance with GAAP. Future gains or losses to be realized upon settlement of the commodity derivative contracts or foreign exchange forward contracts may differ materially. For further discussion please refer to section 11 of this MD&A.**

- ii. Foreign exchange loss was \$5.86 million in the Current Quarter versus a foreign exchange gain of \$4.12 million in the Comparative Quarter.
- iii. Finance charges increased to \$1.59 million in the Current Quarter from \$0.83 million in the Comparative Quarter due to the increased debt that the Company has in the Current Quarter.
- iv. Convertible debenture interest and accretion increased to \$1.29 million in the Current Quarter from \$0.40 million in the Comparative Quarter primarily due to the early re-payment of the CA\$ 25.00 million Dundee Resources convertible debenture which required the Company to accelerate accretion expense relating to this convertible debenture.
- v. The remaining accounts (administrative expenses, stock option compensation, corporate amortization, and interest income) all experienced immaterial changes in the Current Quarter versus the Comparative Quarter.

As at June 30, 2010, property, plant and equipment, net of accumulated amortization was \$411.41 million (December 31, 2009 - \$410.20 million). In the Current Quarter, property plant and equipment expenditures were \$8.41 million primarily incurred by MATSA on the expansion project. In the Current Quarter, MATSA received the Grant from Junta de Andalucia in Spain and was recorded as a reduction of property, plant and equipment.

Current income tax expense in the Current Quarter was \$1.26 million (Comparative Quarter – \$2.73 million). The decrease of \$1.47 million was due to lower taxable income generated at CMC as a result of lower gross margin in the Current Quarter. Future income tax expense for the Current Quarter was \$15.84 million (Comparative Quarter – income tax recovery of \$14.67 million). The future tax expense in the Current Quarter primarily related to the future tax impact of the unrealized gain on derivative financial instruments at CMC. MATSA's future tax position in the Current Quarter remained neutral as future tax assets were realized only to the extent that they offset future income tax liabilities.

Six months ended June 30, 2010 versus 2009

During the six month period ended June 30, 2010 (the "Current Period") the Company recorded net income of \$80.61 million or \$0.24 per share compared to a net loss of \$86.95 million or \$0.31 per share for the same period of 2009 (the "Comparative Period"). Gross margin for the Current Period was \$(20.99) million compared to \$12.42 million for the Comparative Period. Net income before income taxes for the Current Period was \$97.48 million compared to net loss before income taxes of \$118.26 million for the Comparative Period. The \$167.56 million increase in net income in the Current Period was primarily due to an unrealized gain on derivative financial instruments of \$118.96 million versus an unrealized loss on derivative financial instruments of \$128.37 million in the Comparative Period.

Sales in the Current Period were \$107.49 million (Comparative Period - \$50.58 million) and operating costs and mine site administrative expenses in the Current Period were \$90.69 million (Comparative Period - \$25.94 million). Mine site amortization increased from \$12.23 million in the Comparative Period to \$37.80 million in the Current Period. Gross margin in the Current Period was \$(20.99) million (Comparative Period - \$12.42 million). The Company's payable copper production increased 73% from 11,507 FMT in the Comparative Period to 19,848 FMT in the Current Period. The Company produced 6,312 FMT of zinc in the Current Period (Comparative Period – nil). Operating costs and mine site administrative expenses increased by 250% versus the Comparative Period. Mine site amortization increased by 209% versus the Comparative Period. The significant increases in sales, operating costs and mine site administrative expenses, and mine site amortization were due to the inclusion of operating results for MATSA in its first year of commercial production.

Other income in the Current Period was \$118.47 million (Comparative Period – total expenses of \$130.68 million). This variance of \$249.15 million was due to the cumulative effect of the following:

- i. Unrealized gain on derivative financial instruments was \$118.96 million in the Current Period versus unrealized loss on derivative financial instruments of \$128.37 million in the Comparative Period. This variation is primarily due to the differential between the hedged commodity prices or hedged foreign exchange rates and market commodity prices or exchange rates as at June 30, 2010 and 2009 and the movement in this fair value adjustment since December 31, 2009 and 2008. **This is an unrealized gain or loss that must be recorded in accordance with GAAP. Future gains or losses to be realized upon settlement of the commodity derivative contracts or foreign exchange forward contracts may differ materially. For further discussion please refer to section 11 of this MD&A.**
- ii. Foreign exchange gain was \$7.22 million in the Current Period versus \$2.95 million in the Comparative Period.
- iii. Finance charges increased to \$3.83 million in the Current Period from \$1.59 million in the Comparative Period due to the increased debt that the Company has in the Current Period.
- iv. Convertible debenture interest and accretion increased to \$1.74 million in the Current Period from \$0.77 million in the Comparative Period primarily due to the early re-payment of the CA\$ 25.00 million Dundee Resources convertible debenture which required the Company to accelerate accretion expense relating to this convertible debenture.
- v. The remaining accounts (administrative expenses, stock option compensation, corporate amortization, and interest income) all experienced immaterial changes in the Current Period versus the Comparative Period.

As at June 30, 2010, property, plant and equipment, net of accumulated amortization was \$411.41 million (December 31, 2009 - \$410.20 million). In the Current Period, property plant and equipment expenditures were \$39.62 million; \$28.00 million relating to the Raul Transaction at CMC and \$10.33 million incurred by MATSA, primarily relating to the expansion project. The property, plant and equipment expenditures in the Current Period were offset by amortization expense and the receipt by MATSA of the Grant.

Current income tax expense in the Current Period was \$2.68 million (Comparative Period – \$6.05 million). The decrease of \$3.37 million was due to lower taxable income generated at CMC as a result of lower gross margin in the Current Period. Future income tax expense for the Current Period was \$14.10 million (Comparative Period – income tax recovery of \$36.68 million). The future tax expense in the Current Period primarily related to the future tax impact of the unrealized gain on derivative financial instruments at CMC. MATSA's future tax position in the Current Period remained neutral as future tax assets were realized only to the extent that they offset future income tax liabilities.

Realized metals prices

The average prices of copper, zinc, gold and silver for the three and six months ended June 30, 2010 and 2009 are summarized below:

CMC (prices in U.S. Dollars)	Realized prices				Market prices			
	Three months		Six months		Three months		Six months	
For the period ended June 30,	2010	2009	2010	2009	2010	2009	2010	2009
Copper (per lb.)	2.05	2.02	2.05	1.98	3.19	2.12	3.23	1.84
Gold (per oz.)	1,114	896	1,077	891	1,196	922	1,152	915
Silver (per oz.)	18.32	13.80	17.70	13.76	18.32	13.73	17.62	13.17

Note: Realized prices include impact of realized hedge gains or losses.

MATSA (prices in U.S. Dollars)	Realized prices				Market prices			
	Three months		Six months		Three months		Six months	
For the period ended June 30,	2010	2009	2010	2009	2010	2009	2010	2009
Copper (per lb.)	2.11	-	2.36	-	3.19	2.12	3.23	1.84
Zinc (per lb.)	0.82	-	0.88	-	0.92	0.67	0.98	0.60
Silver (per oz.)	18.05	-	17.59	-	18.32	13.73	17.62	13.17

Note: Realized prices include impact of realized hedge gains or losses.

Summary of Consolidated Quarterly Results

	Q2		Q1		Q4		Q3	
	June 30,		March 31,		December 31,		September 30,	
	2010		2010		2009		2009	
Sales	\$	51,695	\$	55,799	\$	67,012	\$	26,705
Net income (loss)		90,516		(9,904)		(65,322)		(70,403)
Earnings (loss) per share basic		0.27		(0.03)		(0.22)		(0.23)
Earnings (loss) per share fully diluted		0.22		(0.03)		(0.22)		(0.23)
Total assets		520,109		536,840		522,340		498,750
Cash and cash equivalents		18,565		9,078		14,703		11,486
Shareholders' equity		165,383		72,594		78,458		140,895

	Q2		Q1		Q4		Q3	
	June 30,		March 31,		December 31,		September 30,	
	2009		2009		2008 ⁽¹⁾		2008 ⁽¹⁾	
Sales	\$	25,482	\$	25,099	\$	18,489	\$	26,415
Net income (loss)		(39,283)		(47,665)		(17,831)		161,769
Earnings (loss) per share basic		(0.13)		(0.19)		(0.07)		0.64
Earnings (loss) per share fully diluted		(0.13)		(0.19)		(0.07)		0.64
Total assets		485,832		405,031		485,278		786,964
Cash and cash equivalents		29,249		13,754		63,544		25,971
Shareholders' equity		194,962		195,244		245,314		237,062

(1) In previously released, prior period interim consolidated financial statements, the Company had not recognized future tax assets related to CMC's unrealized losses on its derivative instruments due to the interpretation of a certain Peruvian tax law in effect at the time. In 2009 this tax law was overturned. The Company has reflected the change in tax law on a prospective basis with restatement for prior period presentation.

4. Operational results

MATSA

Operating statistics for the three and six months ended June 30, 2010 are as follows. Commercial production at Aguas Tenidas was declared during the fourth quarter of 2009 and as such there are no prior year comparatives for these periods.

Periods ended June 30,	Unit	Three months 2010	Six months 2010
<u>Copper ore</u>			
Ore mined	t	293,732	578,944
Ore processed	t	276,580	558,266
Copper ore grade	%	1.79	1.84
Concentrate grade	%	21	22
Copper recovery rate	%	82	84
Copper concentrate	DMT	18,322	37,725
Copper contained in concentrate	t	3,949	8,487
Silver contained in concentrate	oz	58,337	122,808
Payable copper contained in concentrate	t	3,766	8,110
Payable silver contained in concentrate	oz	40,664	86,420
<u>Polymetallic ore</u>			
Ore mined	t	114,392	176,051
Ore processed	t	105,215	181,091
Copper ore grade	%	1.38	1.30
Copper concentrate grade	%	22	22
Copper recovery rate	%	41	41
Zinc ore grade	%	7.02	6.68
Zinc concentrate grade	%	48	48
Zinc recovery rate	%	60	62
Copper concentrate	DMT	2,337	2,337
Copper/lead bulk concentrate	DMT	-	6,071
Zinc concentrate	DMT	9,718	15,677
Copper contained in concentrate	t	516	1,144
Zinc contained in concentrate	t	4,633	7,566
Silver contained in concentrate	oz	138,607	211,702
Payable copper contained in concentrate	t	502	1,070
Payable zinc contained in concentrate	t	3,856	6,312
Payable silver contained in concentrate	oz	71,088	125,999
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Cash Operating Cost per lb of payable copper	USD	2.38	2.30

- Cash Operating Cost per payable pound of copper was \$2.38 for the Current Quarter and \$2.30 for the Current Period. Cash Operating Cost was higher than anticipated for steady state as the Current Period production rate was below nameplate capacity of 1.7 Mtpa at 87%. In the Current Quarter the processing plant ran at an average of 90% of capacity.
- The copper circuit generally operated on target. The copper ore head grade for the Current Quarter was 1.79% and for the Current Period averaged 1.84%. Copper concentrate grade was 21% in the Current Quarter and 22% for the Current Period. The copper circuit recovery rate was 82% in the Current Quarter and 84% for the Current Period.
- The poly-metallic circuit continued to improve in the Current Quarter.
 - Poly ore processed in the Current Quarter was 105,215 tonnes, which represented a 39% improvement over the 75,875 tonnes processed in the first quarter.
 - With the higher throughput achieved in the Current Quarter, MATSA produced 9,718 DMT of zinc concentrate as compared to 5,959 DMT in the first quarter. The zinc ore head grade for the Current Quarter was 7.02% and for the Current Period averaged 6.68%. Zinc concentrate grade was 48% in the Current Quarter and for the Current Period. The zinc recovery rate was 60% in the Current Quarter and 62% for the Current Period.
 - For the first time, in the Current Quarter, a good quality copper concentrate was produced from this circuit, as 2,337 DMT of copper concentrate was produced with a concentrate grade of 22%. Prior to this MATSA was producing and selling a copper/lead bulk concentrate.
 - MATSA has produced a low quality lead concentrate, using new reagents for which recent authorization was obtained in the first quarter, but it is not yet of a saleable quality. The Company anticipates that it will be able to produce a saleable lead concentrate by the end of 2010 but that no assurances can be given as to exact timing in this regard.
 - Despite the challenges in producing a saleable lead concentrate the ability to produce a good quality copper concentrate has resulted in savings of TC/RCs and freight which were previously higher as a result of inferior commercial terms for the copper/lead bulk concentrate. The impact on net sales amounted to approximately \$2 million in the Current Quarter versus the first quarter of 2010.
- In June 2010 MATSA received the previously announced grant of €10.09 million from the Junta de Andalucía. The Grant, which was finalized in February this year, relates to the "Programa de Incentivos para el Fomento de la Innovación y el Desarrollo Empresarial en Andalucía" (Incentive Program for the Promotion of Innovation and Business Development in Andalucía) and was awarded based on satisfying certain employment and financial conditions, which Iberian has completed. This Grant was accounted for as a capital grant and was recorded in the interim consolidated financial statements as a credit to property, plant and equipment.
- Mine development is on schedule, with the ramp extension and lower level development being performed by a mining contractor. Successful labour negotiations resulted in the securing of a seven day working week for mine production and development personnel who complement plant and haulage personnel already on seven day per week work schedules. The new labour arrangements were effective from May 18, 2010. Paste backfilling has greatly improved in recent weeks and is on schedule with prior backlog recovered and now up to date.
- Update on previously announced 30% processing plant expansion:
 - The expansion is progressing on schedule.

- The major item for the expansion, being the installation of an additional deep cone thickener, is now completed and will start operating with the poly-metallic expansion.
 - The copper circuit expansion was completed in early August and is operating at the expanded rate of 3,000 tpd with budgeted recovery and concentrate grade.
 - The remaining modifications to the poly-metallic circuit, including pumps, piping and electrical, are on-going and the expansion is expected to be completed in early September 2010 for planned expanded production rate in September 2010 of 3,000 tpd. The combined throughput of both the copper and poly-metallic circuits will be 6,000 tpd of processed ores.
 - The planned raising of the tailings deposit (second phase) has commenced and is expected to be completed by early Q1 of 2011. This work is being performed by a contractor under third party QA/QC supervision.
 - The expansion required the presentation of a revised Study and Unified Environmental Report. This was presented in April 2010. The local authorities have estimated a four month period to complete the review and authorization process, which is expected to be in time for the planned start-up.
 - A new secondary crushing circuit has been added to the plant expansion project at an expected capital cost of \$2 million. The new circuit is expected to maximize grinding capacity through both SAG mills and should be operational at the end of September 2010.
- In the first quarter, MATSA received from the relevant authority of the Junta de Andalucia in Spain, the environmental authorization which permits the use of six new reagents for the operation of the new modular copper/lead flotation separation circuit. The bulk copper/lead separation circuit started in early April 2010.
 - Subsequent to the end of the periods, for the month of July, MATSA processed approximately 149,000 tonnes of ore (105% of capacity).

CMC

The following are the highlights of CMC for the three and six months ended June 30, 2010 and 2009:

- Ore processed in the Current Quarter and Current Period exceeded that of the Comparative Quarter and Comparative Period by 4%. The copper ore grade in the Current Quarter was 1.18%, down from 1.23% in the Comparative Quarter. For the Current Period the copper ore grade was 1.14% versus 1.23% in the Comparative Period. The result was a 2% reduction of contained copper produced in the Current Quarter versus the Comparative Quarter and for the Current Period a reduction of 8% contained copper produced versus the Comparative Period.
- The low copper ore grade in the Current Period was primarily due to mining development in certain veins that contained lower than expected grades. In addition a brief, illegal labour stoppage required that CMC process low grade, stockpiled ore for a period of 6 days in March.
- Operating statistics for the three and six months ended June 30, 2010 and 2009 were:

Periods ended June 30,	Unit	Three months		Six months	
		2010	2009	2010	2009
Ore mined	t	552,706	530,883	1,104,033	1,058,210
Ore processed	t	550,708	530,201	1,102,391	1,064,839
Copper ore grade	%	1.18	1.23	1.14	1.23
Concentrate grade	%	25	25	25	25
Copper recovery rate	%	90	91	89	92
Copper concentrate	DMT	23,014	24,309	44,296	48,649
Copper contained in concentrate	t	5,829	5,973	11,164	12,087
Gold contained in concentrate	oz	4,020	4,414	7,279	9,100
Silver contained in concentrate	oz	65,662	59,502	131,708	119,988
Payable copper contained in concentrate	t	5,571	5,684	10,668	11,507
Payable gold contained in concentrate	oz	3,318	3,984	6,269	8,189
Payable silver contained in concentrate	oz	63,821	53,123	122,966	108,206
Cash Operating Cost per lb of payable copper	USD	\$ 1.02	\$ 0.90	\$ 1.04	\$ 0.85

- Cash Operating Cost for the Current Quarter was \$1.02 per payable pound of copper (Comparative Quarter – \$0.90). The 13% increase in the Cash Operating Cost was due to a combination of lower payable copper produced (decrease of 2%) and higher operating costs. Operating costs were negatively impacted in the Current Quarter due to higher mine development costs due to higher cost of mining contractors, higher energy consumption, increased plant maintenance costs and higher insurance premiums.
- Cash Operating Cost for the Current Period was \$1.04 per payable pound of copper (Comparative Period – \$0.85). The 22% increase in the Cash Operating Cost was due to a combination of lower payable copper produced (decrease of 7%) and higher operating costs. Operating costs were negatively impacted in the Current Period due to higher mine development costs due to higher cost of mining contractors, higher energy consumption, increased plant maintenance costs and higher insurance premiums.
- A capital project to expand secondary crushing capacity was approved in the first quarter of 2010 at an expected cost of \$3.30 million to be funded from operating cash flows. The additional crushing capacity will provide added flexibility and reliability in the processing plant. The secondary crushing capacity is expected to be available in Q2 of 2011. Other sustaining capital projects are progressing on target through the Current Period.
- On March 30, 2010 CMC completed the previously announced Raul Transaction and now owns a 100% interest in the Raul Mine, which forms part of the Condestable operation. The purchase price was \$28.00 million. As such, CMC is no longer obligated to make royalty payments that it was previously required to pay in connection with the lease of the Raul Mine.

5. Non-GAAP measures

The Company has included certain non-GAAP measures including “Cash Operating Cost per pound of payable copper”, “cash flow from operating activities before changes in non-cash working capital” and “adjusted working capital” in this MD&A. Non-GAAP measures do not have any standardized meaning prescribed under Canadian GAAP, and therefore they may not be comparable to similar measures presented by other companies. These measures are intended to provide additional information and should not be considered in isolation or as a substitute for indicators prepared in accordance with Canadian GAAP.

The Cash Operating Cost per pound of payable copper includes cash operating costs, including treatment and refining charges (“TC/RC”), freight and distribution costs, and is net of by-product metal credits (zinc, gold and silver). The Cash Operating Cost per pound of payable copper indicator is consistent with the widely accepted industry standard established by Brook Hunt and is also known as the C1 cash cost.

Adjusted working capital is calculated by deducting the current portion of derivative instruments from the working capital surplus/deficiency reported in the Company’s consolidated balance sheets.

6. Liquidity and capital resources

The Company monitors factors that could impact on its liquidity as part of the Company’s overall capital management strategy. Factors that are monitored include but are not limited to the market price of copper, zinc, lead, gold and silver, foreign currency rates, production levels, operating costs, capital costs and administrative costs.

The following is a summary of the Company’s cash position and cash flows as at June 30, 2010 and December 31, 2009 and for the three and six months ended June 30, 2010 and 2009:

	As at June 30, 2010	As at December 31, 2009
Cash	18,565	14,703
Restricted cash	17,870	23,593
Working capital (deficiency)	(80,496)	(205,149)

For the period ended June 30,	Three months 2010	2009	Six months 2010	2009
Cash flows				
Cash flow from operating activities after changes in working capital items	(16,590)	10,233	(15,772)	11,111
Cash flow from operating activities before changes in working capital items	1,491	5,150	12,555	13,661
Cash flow from financing activities	20,208	41,780	45,574	36,645
Cash flow to investing activities	6,567	(34,730)	(24,639)	(79,270)

Cash and cash equivalents as at June 30, 2010 increased to \$18.57 million from \$14.70 million at December 31, 2009. The net increase was due to the combined impact of cash generated from operations and the completion of the MATSA Facility partially offset by CMC’s investing activities (Raul Transaction), spending on the 30% plant expansion and related mine development at MATSA and repayment of the \$21.00 million Trafigura Bridge Facility by MATSA.

Iberian reported working capital deficiency of \$80.50 million at June 30, 2010 compared with \$205.15 million at December 31, 2009. The \$124.65 million decrease in working capital deficiency is due to the combined impact of a decrease in current portion of derivative instruments liability of \$77.65 million, a decrease in current portion of long-term debt of \$40.33 million, a decrease in trade payables and accrued liabilities of \$6.81 million, an increase in trade and other receivables of \$4.04 million, an increase in inventories of \$9.13 million and an increase in cash and cash equivalents of \$3.86 million. This was partially off-set by a decrease

in current portion of future tax assets of \$13.72 million and a decrease in restricted cash of \$3.58 million. The Company reported adjusted working capital (*non-GAAP measure – refer to section 5*) of \$15.89 million as at June 30, 2010 compared with deficiency of \$31.11 million at December 31, 2009.

Financial Capability

The Company's long term success and ability to service its ongoing debt obligations and cover projected corporate costs is dependent on the mining operations ability to generate positive cash flow. At this time, based on current metal prices (inclusive of the Company's existing commodity hedge positions), production forecasts, availability of a \$20 million standby debt facility and current adjusted working capital, the Company believes it has the financial capability to meet its debt obligations, capital expenditures, operational and corporate activities for the next twelve months.

The Company's interim consolidated financial statements for the period ended June 30, 2010 have been prepared on the basis that it is a going concern. The Company's ability to continue as a going concern is uncertain and is dependent upon its ability to fund its working capital, the Aguas Tenidas capital requirements, and to generate sustained positive cash flows from MATSA. The interim consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate, and these adjustments may be material.

Operating cash flow

Cash flow provided by operations before changes in non-cash working capital items for the Current Quarter was \$1.49 million compared to \$5.15 million for the Comparative Quarter. Change in non-cash working capital items for the Current Quarter was \$(18.08) million, compared to \$5.08 million for the Comparative Quarter. Cash flow used in operations after changes in working capital items for the Current Quarter was \$16.59 million, compared to cash provided of \$10.23 million for the Comparative Quarter.

Cash flow provided by operations before changes in non-cash working capital items for the Current Period was \$12.56 million compared to \$13.66 million for the Comparative Period. Change in non-cash working capital items for the Current Period was \$(28.33) million, compared to \$2.55 million for the Comparative Period. Cash flow used in operations after changes in working capital items for the Current Period was \$15.77 million, compared to cash provided of \$11.11 million for the Comparative Period.

Financing activities

CMC

On March 29, 2010, the Company, through its subsidiary CMC, closed a \$28.00 million bridge loan facility with Trafigura (the "CMC Bridge Loan"). The CMC Bridge Loan was advanced to CMC on the same date. The loan was repayable on the earlier of March 29, 2011 or completion of a \$55.00 million amended, secured debt facility (see the following paragraph) and bore interest at Libor plus 6.00%. The proceeds of the CMC Bridge Loan were used to complete the Raul Transaction. This was a related party transaction.

On March 31, 2010 CMC completed an amended senior, secured debt facility (the "CMC Facility") with Societe Generale acting as Sole Lead Arranger and Scotiabank Peru S.A.A. acting as mandated arranger and On-shore Collateral Agent for a total of \$55.00 million. The CMC Facility is a 3 year, non-revolving, facility and carries an interest rate of 3-month Libor plus 3.00%. The CMC Facility has scheduled, quarterly, repayments commencing June 30, 2010 to December 31, 2011 of \$2.50 million and increasing to \$7.50 million from March 31, 2012 to March 31, 2013. With the proceeds of the CMC Facility, CMC repaid the remaining principal outstanding of \$25.50 million on the syndicated loan and repaid the \$28.00 CMC Bridge Loan. As at June 30, 2010 the outstanding principal on the CMC Facility is \$52.50 million. Refer to section 11 (Financial instruments) for disclosure of hedging requirements in connection with the CMC Facility which have been executed by CMC.

MATSA

In April of 2010, MATSA completed a \$50.00 million senior debt financing (the "Senior Facility") with BNP Paribas, Natixis and Societe Generale. The key features of the Senior Facility are as follows:

Amount:	\$50.00 million
Type of Facility:	Revolving
Rate:	Libor plus 3.00% and mandatory cost, if any
Term:	3 years
Mandatory Reductions:	Reduces to \$47.00 million after 12 months, \$42.00 million after 18 months, \$30.00 million after 24 months, and \$9.00 million after 30 months

The initial draw-down under the Senior Facility, in the amount of \$37.00 million occurred on April 22, 2010. Upon initial draw-down, MATSA repaid a \$21.00 million bridge facility held by Trafigura. A further drawdown of \$8.00 million occurred such that the balance outstanding on the Senior Facility as at June 30, 2010 was \$45.00 million. Subsequent to the end of the period, on August 2, 2010, a drawdown of \$5.00 million was made such that the balance outstanding on the Senior Facility as at August 26, 2010 is \$50.00 million. Refer to section 11 (Financial instruments) for disclosure of hedging requirements in connection with the Senior Facility which have been executed by MATSA.

As required by the Senior Facility, Trafigura has entered into a standby facility (the "Standby Facility") with MATSA for \$20.00 million. The Standby Facility bears interest at a rate of Libor plus 6.00 %, is available immediately for the term of the Senior Facility and is unsecured. No funds have been drawn on the Standby Facility.

MATSA periodically enters into short-term loans with Trafigura, secured by its Value Added Tax receivable (the "VAT loans"). The VAT loans matured on the earlier of collection by MATSA of the underlying VAT receivable or an agreed future date. The interest rate on the VAT loans was lender's cost of funds plus 4.00%. During the six months ended June 30, 2010 MATSA repaid the following VAT loans such that the balance outstanding at June 30, 2010 was nil:

- i. VAT loan advanced on December 18, 2009 of \$2,400 was repaid in April, 2010;
- ii. VAT loan advanced on March 9, 2010 of \$1,600 was repaid in June, 2010;
- iii. VAT loan advanced on March 22, 2010 of \$1,300 was repaid in June, 2010.

Corporate

In April 2010, the Company completed a re-financing of its CA\$ 25.00 million convertible debenture held by Dundee Resources (the "Dundee Debenture"). The Company re-financed the Dundee Debenture with two private investors (the "New Debentures") and Dundee Resources was repaid CA\$ 25.00 million principal, with accrued interest of CA\$ 0.30 million on April 13, 2010.

The New Debentures, with principal of CA\$ 25.00 million, bear interest at 7% per annum, payable quarterly in arrears and mature on December 31, 2011. In connection with the New Debentures, the Company has granted to the investors an aggregate of 44,642,856 non-transferable warrants to purchase registered shares of the Company (the "Warrants"). Each Warrant is exercisable at a price of CA\$ 0.56 (the "Exercise Price") per registered share until December 31, 2011. The Warrants, if exercised, shall reduce the outstanding indebtedness of the Company under the New Debentures by an amount equal to the Exercise Price multiplied by the number of Warrants exercised. The New Debentures are subordinate to the Senior Facility but in priority to any advances under the Standby Facility.

On June 25, 2010 the Company closed a private placement of 7% convertible debentures due December 31, 2011 (the "Private Debentures") in the aggregate principal amount of CA\$ 3.61 million to certain insiders of Iberian. The Debentures are convertible into registered shares of Iberian (the "Shares") at a conversion rate of CA\$ 0.56 per share and, if fully converted, would convert into 6,445,982 Shares. At any time prior to the maturity date, if the volume weighted average price of the Shares on the TSXV for any consecutive 20 day

period is equal to or greater than a 60% premium to the conversion rate, then Iberian shall have the right to accelerate the conversion of the Debentures upon delivery of written notice to the holders. The Private Debentures are unsecured. The proceeds from the Private Debentures are being used for the corporate and administrative function of the Company and to address the funding shortfall for this function for 2010.

Net cash inflow from financing activities for the Current Period was \$20.21 million compared to \$40.40 million for the Comparative Quarter.

Net cash inflow from financing activities for the Current Period was \$45.57 million compared to \$35.26 million for the Comparative Period.

Investing activities

Capital expenditures for the Current Quarter were a recovery of \$6.57 million (Comparative Quarter – expenditure of \$32.56 million). The Current Quarter recovery was primarily due to MATSA's receipt of the Grant, offset by ongoing expansion expenditures at MATSA. In the Current Quarter, property plant and equipment expenditures were \$8.41 million primarily incurred by MATSA on the expansion project.

Capital expenditures for the Current Period were \$24.64 million (Comparative Period - \$77.10 million). In the Current Period, property plant and equipment expenditures were \$39.62 million; \$28.00 million relating to the Raul Transaction at CMC and \$10.33 million incurred by MATSA, primarily relating to the expansion project. The property, plant and equipment expenditures in the Current Period were offset by amortization expense and the receipt by MATSA of the Grant.

7. Capitalization

Shareholders' equity as at June 30, 2010 was \$165.38 million compared to \$78.46 million as at December 31, 2009.

The following table sets out the registered shares, warrants, options and other dilutive instruments outstanding as at June 30, 2010 and December 31, 2009:

	June 30, 2010	December 31, 2009
Registered shares issued and outstanding	338,055,865	338,055,865
Options	9,450,000	8,715,000
Warrants	74,283,209	29,640,353
Potential dilution of convertible debenture	6,445,982	27,173,913
Total	428,235,056	403,585,131

Share Capital

As at June 30, 2010, the Company had 338,055,865 registered shares outstanding, unchanged from December 31, 2009. The basic weighted average number of registered shares outstanding was 338,055,865 shares for the Current Quarter and Current Period.

As of August 26, 2010 the total number of registered shares outstanding is unchanged at 338,055,865. The total number of registered shares, warrants, options and other dilutive instruments as of August 26, 2010 is 428,235,056.

Warrants

As at June 30, 2010, the Company had a total of 74,283,209 share purchase warrants outstanding (December 31, 2009 – 29,640,353). Expiry dates range from October 2010 to June 2013, and exercise prices range from CA\$ 0.52 to CA\$ 1.30.

During the Current Period, the Company issued 44,642,856 share purchase warrants to two private investors in connection with the issuance of the New Debentures (refer to section 6 of this MD&A for further discussion). The warrants are exercisable at a price of CA\$ 0.56 and will expire on December 31, 2011.

Stock Options

The following table summarizes the stock option plan for the period ended June 30, 2010:

	Number of Stock options	Weighted average exercise price (CA\$)
Balance , December 31, 2009	8,715,000	1.02
Cancelled/ Expired	(260,000)	(0.86)
Granted	995,000	0.56
Balance, June 30, 2010	9,450,000	1.09
Exercisable, June 30, 2010	7,136,666	0.98

During the period ended June 30, 2010 no stock options were exercised. The Company granted 995,000 options to acquire registered shares of the Company to an officer and certain employees with an exercise price of CA\$ 0.56. The options are non-assignable and have a five year-term.

Subsequent to the end of the period the Company granted 900,000 options to acquire registered shares of the Company to certain directors at an exercise price of CA\$ 0.56 per share. The options are non-assignable and have a five year term.

8. Transactions with Related Parties

The Company had the following transactions with related parties:

The Trafigura group provides management, operational, mining and administrative services to CMC. The amount charged for the three and six months ended June 30, 2010 was \$0.23 million (2009 – \$0.26 million) and \$0.45 million (2009 – \$0.45 million), respectively, which includes out-of-pocket expenses. Included in payables at June 30, 2010 is \$0.57 million due to Trafigura (December 31, 2009 – \$0.10 million).

Trafigura has lent the Company €10.67 million (\$13.09 million) to cover various social and environmental remediation guarantees at MATSA. This loan has a ten year term, expiring August 8, 2018 with an effective interest rate fixed at Libor plus 4.00%. At June 30, 2010 this loan has \$1.36 million included in interest payable at an interest rate of 4.23% (December 31, 2009 - \$0.75 million).

MATSA previously entered into certain commodity forward and option contracts with Trafigura as counterparty (see section 11 – *Financial Instruments - Derivatives*). In connection with these contracts between MATSA and Trafigura, the cost of margin calls up to \$40.00 million was on the account of Trafigura. MATSA was charged interest at a rate of 4.98% by Trafigura on the excess. During the three and six months ended June 30, 2010, MATSA incurred interest of \$0.14 million (June 30, 2009 – \$nil) and \$1.00 million (June 30, 2009 – \$nil), respectively. In accordance with the terms of the Senior Facility, all counterparty risk on the commodity forward contracts was transferred to the lending banks and without margin calls. With regards to commodity option contracts still with Trafigura as counterparty the existing margin call obligation remains.

Trafigura is counterparty for certain foreign exchange forward contracts held by MATSA totalling \$131.22 million.

Included in receivables is \$17.19 million, of which \$4.92 million is due from Trafigura for copper and concentrates and \$12.27 million from Cormin for copper concentrates.

The Company entered into a series of VAT loan agreements with Trafigura during the period (see section 6 – *Liquidity and capital resources*).

In October 2009, the Company, through its subsidiary MATSA, arranged the \$21.00 million Bridge Facility with Trafigura. In April of 2010, the Bridge Facility was fully repaid with interest of \$0.63 million.

On March 29, 2010, CMC arranged the \$28.00 million Bridge Loan with Trafigura. On March 31, 2010, this facility was repaid.

The Company's Private Debentures were placed with certain insiders of the Company.

These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

9. Administration and Other Expenses

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Accounting and corporate services	\$ 4	\$ 9	\$ 26	\$ 14
Head office expenses	446	271	1,243	726
Professional and consulting fees	164	732	375	1,367
Transfer agent, listing and filing fees	41	5	62	20
Shareholders' information	89	49	97	72
Travel	12	(14)	13	17
Advertising, promotion and public relations	-	-	-	11
Occupancy costs	72	90	102	173
Directors' fees	48	65	97	109
Capital tax	-	-	-	-
	\$ 876	\$ 1,207	\$ 2,015	\$ 2,510

10. Foreign exchange

Foreign exchange rate movement can have a significant effect on the Company's operations, financial position and results. Effective April 1, 2010, the Company's functional and reporting currencies were converted to U.S. dollars. The Company's sales are denominated in U.S. dollars while the Company's operating expenses and other expenses are denominated in Euros ("EUR"), U.S. dollars, Peruvian New Soles ("PEN") and to a lesser extent Canadian dollars and Swiss Francs ("CHF"). Accordingly, fluctuations in the exchange rates can significantly impact the results of operations and carrying value of assets and liabilities on the balance sheet.

During the Current Quarter the Company recognized foreign exchange loss of \$5.86 million (Comparative Quarter – foreign exchange gain of \$4.12 million). For the Current Period the Company recognized foreign exchange gain of \$7.22 million (Comparative Period – \$2.95 million).

The Company entered into certain hedge contracts where the value of the EUR has been fixed against the U.S. dollar. For further detail see section 11 of this MD&A.

The following tables summarize the movement in key currencies versus the U.S. dollar:

For the periods ended June 30,	Three months		Six months	
	2010	2009	2010	2009
Average exchange rate				
CAD-USD	1.0276	1.1680	1.0342	1.2049
EUR-USD	0.7851	0.7348	0.7538	0.7499
CHF-USD	1.1077	1.1123	1.0824	1.1287
PEN-USD	2.8065	2.9837	2.8117	3.0562

As at,	June 30,	March 31,	December 31,	June 30,	March 31,
	2010	2010	2009	2009	2009
Period-end exchange rate					
CAD-USD	1.0484	1.0192	1.0494	1.1560	1.2495
EUR-USD	0.8193	0.7433	0.6977	0.7119	0.7573
CHF-USD	1.0852	1.0642	1.0380	1.0856	1.1490
PEN-USD	2.8458	2.8706	2.9211	3.0609	3.1713

11. Financial instruments - derivatives

The Company recorded an unrealized gain on derivative financial instruments of \$131.11 million in the Current Quarter compared with an unrealized loss of \$58.89 million in the Comparative Quarter. The Company recorded an unrealized gain on derivative financial instruments of \$118.96 million in the Current Period compared with an unrealized loss of \$128.37 million in the Comparative Period. These unrealized gains and losses on derivative financial instruments were discussed in section 3 of this MD&A.

As at June 30, 2010, the derivative instruments liability was \$138.97 million (December 31, 2009 – \$262.72 million). The \$123.75 million decrease in the liability in the period is primarily due to the decline of copper and zinc market prices over the Current Quarter and Period.

Hedging activity and monitoring is overseen by the Company's Hedging Committee. In accordance with derivative accounting rules, the Company has opted not to apply hedge accounting. As a result, the fair value of the financial instruments is reflected in current earnings from period to period. This accounting results in fluctuations in net earnings from period to period until such time as the contracts are closed. The unrealized mark-to-market gain or loss represents the value on notional cancellation of these contracts based on market values as at June 30, 2010. Future gains or losses to be realized upon settlement of the commodity derivative contracts may differ materially.

Commodity hedging

The following summarizes the details of the commodities hedging program as at June 30, 2010:

MATSA

Metal	Period	Contract type	Volume	Unit	Strike price per unit (U.S.\$)
Copper	July - December 2010	Forward	1,279	Fine metric t	5,724
Copper	July - December 2010	Call options sold	6,100	Fine metric t	4,200
Copper	2011	Forward	19,602	Fine metric t	4,865
Copper	2012	Forward	17,496	Fine metric t	7,390
Copper	January - March 2013	Forward	1,800	Fine metric t	7,319
Zinc	July - December 2010	Forward	1,836	Fine metric t	1,630
Zinc	July - December 2010	Call options sold	4,900	Fine metric t	1,500
Zinc	2011	Forward	16,848	Fine metric t	1,601
Zinc	2012	Forward	13,446	Fine metric t	2,042
Zinc	January - March 2013	Forward	1,125	Fine metric t	2,272

CMC

Metal	Period	Contract type	Volume	Unit	Strike price per unit (U.S.\$)
Copper	July - December 2010	Forward	10,375	Fine metric t	4,419
Copper	2011	Forward	20,625	Fine metric t	3,494
Copper	January 2012	Forward	1,750	Fine metric t	3,408
Copper	February - December 2012	Put options purchased	5,500	Fine metric t	6,500
Copper	February - December 2012	Call options sold	5,500	Fine metric t	8,760
Copper	January - March 2013	Put options purchased	1,500	Fine metric t	6,500
Copper	January - March 2013	Call options sold	1,500	Fine metric t	8,760
Gold	July - December 2010	Forward	1,200	Fine ounces	741.50
Gold	2011	Forward	2,400	Fine ounces	741.50

Currently, all commodity hedging is mandated by the MATSA Senior Facility and the CMC Facility.

Pursuant to the Senior Facility, MATSA is to maintain a commodity hedging program under certain conditions and by way of forward sales, Asian swap sales or a combination of options. During the Current Quarter, MATSA restructured its commodity forward contracts and entered into certain new commodity forward contracts such that, as at June 30, 2010, the positions presented in the table above are in effect. As part of this restructuring all of the counter-party risk was assumed by the lenders of the Senior Facility and the hedging lines are un-margined.

In connection with the CMC Facility, on April 1, 2010, CMC entered into the following option contracts with Societe Generale from March 2012 to April 2013, which is incorporated into the table above:

- (i) Sale of copper call options for 7,000 FMT of copper at \$8,760 per FMT copper;
- (ii) Purchase of copper put options for 7,000 FMT of copper at \$6,500 per FMT of copper.

This is a zero cost, collar hedging strategy whereby positions have been entered into to achieve a minimum hedge price and a maximum hedge price. This ensures that Condestable will realize a minimum price of

\$6,500 per FMT of copper and market price participation up to \$8,760 per FMT of copper. There is no cost to the Company for this collar hedging strategy. Pre-existing forward copper contracts for CMC remain in effect.

Currency hedging

Pursuant to the Senior Facility, MATSA is to maintain a foreign exchange hedging program under certain conditions and by way of currency puts, calls, options, swaps or other hedging transaction of a similar nature to mitigate foreign currency exchange risk in respect of capital and operating expenditures by MATSA. As a result, the following foreign exchange forward contracts are in effect at MATSA as at June 30, 2010:

Foreign exchange contracts - sell - Euro/US\$			
Period	Contract type	Amount US\$	Forward rate
July - December 2010	Forwards	56,017,000	1.4324
2011	Forwards	59,020,000	1.4052
2012	Forwards	50,806,000	1.4113
January - March 2013	Forwards	6,446,000	1.4324

As at June 30, 2010, the mark to market unrealized loss position of the foreign exchange forward contracts was \$21.66 million. Trafigura is the counter-party to certain of these foreign exchange forward contracts in the amount of \$131.22 million.

12. Off-balance sheet arrangements

The Company has no off-balance sheet arrangements.

13. Subsequent events

The following transactions occurred subsequent to June 30, 2010:

- a) On July 21, 2010 the Company granted 900,000 share purchase options to acquire registered shares of Iberian to certain directors at an exercise price of CA\$ 0.56 per registered shares;
- b) On August 2, 2010 MATSA drew \$5.00 million on the MATSA Facility such that the full \$50.00 million is outstanding as of this date.

14. Risk factors

Due to the nature of the Company's business in the mining industry it is subject to various risks that could materially impact the future operating results of the Company and could cause actual events to differ materially from those described in forward-looking statements relating to the Company. Readers are encouraged to read and consider the risk factors detailed in the Company's AIF for the year ended December 31, 2009 which has been filed with the appropriate securities regulatory authorities.

15. Critical accounting estimates

The preparation of the June 30, 2010 interim consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods then ended. Critical accounting estimates represent estimates that are uncertain and for which changes in those estimates could materially impact on the Company's financial statements. Management reviews its estimates and assumptions on an ongoing basis using the most current information available.

There has been no change in the Company's critical accounting policies and estimates since December 31, 2009 except as disclosed in section 17 of this MD&A. Readers should refer to the critical accounting policies and estimates described in the Company's audited consolidated financial statements and MD&A for the year ended December 31, 2009.

16. International Financial reporting standards ("IFRS") changeover plan

In 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises, effective for the interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company will adopt IFRS for its year beginning January 1, 2011. The adoption date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010, reconciliation from equity under Canadian GAAP to IFRS at the date of transition (January 1, 2010) and reconciliation from profit and loss under Canadian GAAP to IFRS for the prior year comparable quarter and year to date for 2010.

Project Update

A project team was established at the inception of the project and is providing overall guidance to the conversion project. The audit committee of the Company is kept informed of management's decisions on accounting policy choices under IFRS, project status and IFRS developments. The Company completed a work plan for the design and implementation phases of the project which are underway.

Key activities that have commenced and will continue in 2010 include:

- Revision of accounting policies – The project team is in the process of drafting accounting papers to document IFRS decisions made. These accounting papers will serve to document the Company's new accounting policies, procedures and changes in controls.
- Preparation and auditor procedures on the IFRS opening balance sheet for January 1, 2010 — Significant differences between Canadian GAAP and IFRS impacting the Company's opening balance sheet for January 1, 2010 are in the process of being measured. The Company's external auditor will perform procedures on the IFRS opening balance sheet later this year.
- Preparation of draft IFRS financial statements templates, disclosures and related decisions – This activity has not yet commenced and is scheduled for execution and completion by Q4 of 2010.
- Dual reporting — Management has determined that changes to existing financial reporting systems are not required to handle the 2010 dual reporting period. IFRS adjustments for the comparative quarters will not be numerous or overly complex. As a temporary solution, comparative 2010 interim and annual consolidated financial statements and disclosure data are being compiled using end user computing tools. The project will cutover to the Company's existing financial systems effective January 1, 2011. At that time new accounts required for IFRS will be opened in the charts of accounts and the 2010 IFRS adjustments to opening balances will be made.
- People — All personnel impacted by the IFRS changeover will receive training appropriate to their role on some or all of the following:
 - IFRS technical topics
 - New accounting and reporting procedures
 - Changes in processes and controls

- Training plans are currently being developed and some training will begin as early as Q3 2010.
- Communication programs – The project team regularly communicates project status and significant impacts of transition to affected parties.

In addition to the early-stage progress made on these aspects of the project, it is expected and planned that significant progress to completing the steps above will occur in the remainder of the third and fourth quarters of 2010.

Impact of IFRS on the 2011 Consolidated Financial Statements

The Company has identified the following major differences between its current accounting policies and those required or expected to apply in preparing IFRS consolidated financial statements along with their directional impact on financial reporting in 2011 (and restated 2010 comparatives). This list is not meant to be comprehensive but reflects the differences management has determined to be the most relevant at this time.

Standards	IFRS accounting differences	Preliminary findings
Mining interests (Included in Property, plant and equipment) <i>(Included in IFRS 6, IAS 16 and IAS 38)</i>	Under IFRS a distinction is made between tangible and intangible assets such as mining concession rights and other licenses.	Mining interests that will be reclassified to intangibles are currently being identified by the Company.
Impairment of assets <i>(IAS 36)</i>	IAS 36 does not include a separate “trigger” for recognizing impairment losses based on an assessment of undiscounted cash flows. Instead a single-step impairment testing of assets at the independent cash generating unit (CGU) level will be required. Future cash flows used to determine the value of assets for impairment testing are discounted. In addition impairments other than for goodwill can be reversed in subsequent periods.	Impairments are likely to occur more often under IFRS as the undiscounted cash flow assessment is removed and assets are assessed directly at their recoverable amount (fair value). The Company has determined that it has two CGUs, the mines at CMC and MATSA. Management is currently assessing the consequent impact of this fact.
Decommissioning liability (asset retirement obligation) <i>(IAS37)</i>	IAS 37 requires the use of management’s best estimate of the enterprise’s cash outflows, rather than fair value measurement on initial recognition, and requires the use of current interest rates in each	The Company has determined that this change in measurement will likely increase the decommissioning liability. There will be a corresponding increase in Property, plant and equipment.

Standards	IFRS accounting differences	Preliminary findings
	estimate. Present value should be used only where the effect of the time value of money is material.	The net impact is currently being assessed by the Company.
Financial instruments (IAS 32, IAS 39 and, IFRS 7)	Under IFRS there are specific differences even if the general principles are similar. The Company has a number of financial instruments on the balance sheet. Derivative and convertible debt agreements and investment balances will require a detailed assessment of the impact under IFRS.	The net impact is currently being assessed by the Company.
Earnings per share (EPS) (IAS 33)	IAS 33 has a different method for calculating the number of incremental shares to be included in determining year-to-date EPS. Dilution under IAS 33 is a reduction in earnings per share or an increase in loss per share resulting from the assumption that convertible instruments are converted, options or warrants are exercised, or ordinary shares are issued upon the satisfaction of specified conditions. The treasury stock method is not used.	<p>As the treasury stock method assumes that only “in the money” option proceeds are used to purchase registered shares of the Company at the average market price during the year, the number of shares used to compute diluted EPS will be greater; all incremental shares will be included.</p> <p>The Company has determined that this change in measurement will slightly increase the dilution of EPS.</p> <p>The net impact is currently being assessed by the Company.</p>
Income taxes (IAS 12)	Although the broad principles are the same, there are numerous specific differences under IAS 12. In addition the tax aspects of each accounting policy choice and requirement as well as each IFRS 1 election set out below will need to be considered.	The net impact is currently being assessed by the Company. Depending on the changes involved, this may involve the recognition of additional deferred tax assets and liabilities and could impact the actual tax to be paid by the company.

The Company has assessed other relevant standards, including, but not limited to, IAS 16 *Property, Plant and Equipment*, IAS 18 *Revenue*, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 23 *Borrowing Costs*, IAS 24 *Related Party Disclosures*, IAS 27 *Consolidated and Separate Financial Statements*, IFRS 2 *Share-based Payments* and, IFRS 3 *Business Combinations*.

The Company has also chosen certain exemptions from the retrospective applications of IFRS at the transition date that are provided by IFRS 1. The selections that are relevant to the Company are set out in the following table. The Company's current intentions are also indicated.

Optional exemption	Company's election
<i>Business combinations</i>	<p>A first time adopter may elect not to retrospectively restate any business combinations prior to the date of transition (i.e. prospective application of IFRS 3). For many Canadian entities that have completed acquisitions since inception electing to apply this exemption may save a lot of time, costs and resources.</p> <p>The Company intends to use this exemption.</p>
<i>Share-based payment transactions</i>	<p>A first time adopter is encouraged but not required to retrospectively apply IFRS 2 to equity instruments (equity settled transactions) granted on or before November 7, 2002. Similarly, a first time adopter is encouraged but not required to apply IFRS 2 to equity instruments that were granted after November 7, 2002 and that vested before the date of transition to IFRS.</p> <p>The Company intends to use this exemption.</p>
<i>Fair value or revaluation as deemed cost</i>	<p>This exemption allows the Company to initially measure an item of Property, Plant or Equipment and a limited number of intangible assets on transition to IFRS at fair value or a previous valuation under Canadian GAAP.</p> <p>The Company may selectively apply this exemption when historical information is not available for specific assets.</p>
<i>Assets and liabilities of subsidiaries</i>	<p>Where a group adopts IFRS later than a subsidiary, IFRS 1 requires the entity in its consolidated financial statements, to measure the assets and liabilities of the subsidiary at the same carrying amounts as in the financial statements of the subsidiary, after adjusting for consolidation and equity accounting adjustments and for the effects of the business combination in which the entity acquired the subsidiary.</p> <p>The Company has determined that the CMC and MATSA subsidiaries have substantively adopted IFRS at earlier dates and the Company</p>

Optional exemption	Company's election
intends to use this exemption.	
<i>Decommissioning liabilities included in the cost of property, plant and equipment</i>	<p>An entity may elect not to apply the requirements of IFRIC 1, <i>Changes in Existing Decommissioning, Restoration and Similar Liabilities</i> retrospectively in determining the IFRS carrying amount of the assets to which the decommissioning liabilities relate. Adopting this option would provide relief because the Company will not have to attempt to determine when and how the changes in estimates arose. Instead, it will have to recalculate the liability in accordance with IFRS at the transition date and then adjust the cost of the asset and accumulated depreciation.</p> <p>The Company intends to use this exemption.</p>
<i>Borrowing costs</i>	<p>This exemption allows the Company to adopt IAS 23, which requires the capitalization of borrowing costs on all qualifying assets, prospectively from the date of the opening IFRS balance sheet.</p> <p>The Company intends to use this exemption.</p>

The IFRS accounting differences, preliminary findings concerning accounting policies and the IFRS 1 selections set out above are based on current IFRS which are subject to change. The Company's reporting under IFRS in 2011 will be based on the standards effective for that year. Accordingly, the Company continues to monitor standards development by the International Accounting Standards Board and the AcSB.

17. Changes in accounting policies and new accounting pronouncements

Effective April 1, 2010, the Company changed its reporting currency from Canadian to U.S. dollars to reflect the change in functional currency of the Company to U.S. dollars. The change in functional currency was made with the change in status of MATSA to a self-sustaining operation. This combined with the completion of the MATSA Senior Facility and the CMC Facility, both in U.S. dollars, and the fact that sales of the Company are quoted by U.S. dollar-denominated markets triggered the change in the Company's functional currency to U.S. dollars.

18. Outlook

CMC

CMC set two priorities entering 2010. The first priority was to complete the Raul Transaction, which occurred on March 31, 2010. The purchase of the Raul mine lease and royalty provides Iberian with greater control over the mining operation at CMC and eliminates the Raul royalty payments. In connection with the completion of the Raul Transaction, CMC successfully completed the CMC Facility. The second priority was to improve reliability of the mining operations by investing approximately \$3.30 million in capital costs to improve the secondary crushing. This project is progressing on target. With secondary crushing expected to be operational in Q2 2011.

It is expected that CMC will process 2.2 million tonnes of ore in 2010, in line with Iberian's 2010 guidance. The projected contained copper production for 2010 is now expected to be 23,500 t, approximately 5% lower than prior 2010 guidance of 24,500 t, primarily due to lower than expected copper ore grade realized in the first quarter. It is expected, for the balance of 2010, that CMC will have access to higher copper ore grades from the Karina vein and will thus achieve an average copper ore grade for the second half of 2010 of 1.20%. The forecast copper ore grade for 2010 is now expected to be approximately 1.17%. Cash Operating cost guidance for 2010 is forecast to be \$1.03 per payable pound of copper for 2010 as compared to guidance previously issued of \$0.85. The increase reflects lower than expected copper production and higher operating costs realized during the year.

MATSA

At MATSA, having successfully dealt with financing needs in the Current Quarter, the immediate priority is the completion of the 30% plant expansion. It is expected that the expansion will be completed by the end of Q3 2010. The Company expects that MATSA will operate at the expanded production rate in Q4 of 6,000 tpd of processed ore (equivalent of 2.2 Mtpa of processed ore). The expansion required the presentation of a revised Study and Unified Environmental Report to local Spanish authorities. This was presented in April 2010. It is expected that the local authorities will complete the review and authorization process in time for the planned start-up in Q3. While the Company does not anticipate any issues obtaining such authorization from local authorities, the impact of any negative developments in this regard would be a delay in the ability to operate the processing plant at the forecasted expanded rate.

As previously reported, the copper/lead bulk separation circuit was started in early April following completion of enhancements and after receiving permits for the use of six new reagents for the operation of the new modular copper/lead flotation separation circuit at the Aguas Tenidas Mine. As a result of the enhancements MATSA has been able to produce copper concentrate and low quality lead concentrate from the poly-metallic circuit. Due to lead concentrate quality issues, the lead concentrate produced was not saleable. MATSA has undertaken further enhancements as part of the plant expansion project with the expectation that the lead concentrate will be commercially saleable by the end of 2010. However, for purposes of the revised 2010 guidance issued below, the Company is not expecting any credit for such lead concentrate.

The Company issues the following updated 2010 guidance for MATSA:

	Unit	Year	Q4
Ore processed	MT	1.7 to 1.8 million	550,000
Copper concentrate	DMT	92,000	26,000
Zinc concentrate	DMT	52,000	25,000
Lead concentrate	DMT	-	-
Contained copper	t	21,000	5,500
Contained zinc	t	25,000	12,000
Contained lead	t	-	-
Fine silver	oz	580,000	100,000
Cash Operating Cost	\$ per lb of payable copper	2.05	1.70

19. Other Information

Additional information about the Company is available on SEDAR at www.sedar.com.