



**IBERIAN**  
MINERALS



Iberian Minerals Corp.  
Management's Discussion and Analysis  
Three months ended March 31, 2011

## 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 March 31, 2011 and December 31, 2010 and results of operations for the three months ended March 31, 2011 and March 31, 2010.

This Management’s Discussion and Analysis (“MD&A”) has been prepared as of June 27, 2011. This MD&A is intended to supplement and complement the unaudited condensed consolidated financial statements and notes thereto as at and for the three months ended March 31, 2011 (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, 2010, and the most recent Annual Information Form (“AIF”) for the year ended December 31, 2010. These documents can be found at [www.sedar.com](http://www.sedar.com). The Company prepares and files its consolidated financial statements in accordance with International Financial Reporting Standards (“IFRS”). 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 48.1% of all outstanding registered shares of the Company.

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](http://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.

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 (6,000 tpd) 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 2.2 million tonnes per year (6,000 tpd) underground mine and concentrator that produces copper, zinc and lead concentrates that also contain silver.

Iberian's registered office is in Lucerne, Switzerland. The Company has offices in Seville, Lima and Toronto and a global workforce of more than 2,500 employees and contract workers. The Company is listed on the Toronto Venture Exchange ("TSXV"), and trades under the symbol IZN.

## 2. Highlights – first quarter 2011

### Financial:

- Recorded net income of \$30.16 million or \$0.08 per registered share which included:
  - Sales of \$37.23 million and gross margin of \$(22.57) million;
  - A realized loss of \$58.64 million on commodity hedges (included in sales);
  - An unrealized non-cash gain of \$63.08 million on derivative financial instruments outstanding, principally as a result of commodity hedging positions in copper and zinc that were delivered into during the period and were thus retired.
- As at March 31, 2011 MATSA held 6,096 FMT of copper in concentrate and 2,951 FMT of zinc in concentrate at port awaiting shipment with approximate market value of \$64 million as at March 31, 2011. The Company received payment in advance of sale of these metals in the amount of \$56.43 million during the period.
- Cash flow provided by operations was \$34.05 million.
- Subsequent to the end of the period, on June 24, 2011 the Company completed a CA\$ 76 million equity financing which allows for the buy-out of Trafigura's 45.96% net-profit interest in Condestable for 2011 to 2014 for \$60 million.

### Operational – CMC:

- Condestable Mine processed copper ore at budgeted rates. The average copper ore grade was 1.12% in 2011 versus 1.10% in 2010.
- CMC processed 578,700 tonnes of ore in 2011 versus 551,700 tonnes of ore in 2010 (increase of 5%).
- Copper concentrate production in 2011 was 23,400 DMT versus 21,300 DMT in 2010 (increase of 10%).
- Contained copper production in 2011 was 5,770 FMT versus 5,340 FMT tonnes in the prior year.
- The Cash Operating Cost (*non-IFRS measure; refer to section 5*) in 2011 was \$1.08 per payable pound of copper versus prior year of \$1.06.

#### **Other**

- Subsequent to the end of the period, in May 2011 completed an amendment to its senior debt facility and increased the principal to \$60 million and extended the term by six months (to September 2013).

#### Operational – MATSA:

- MATSA processed 514,100 tonnes of ores in 2011 versus 357,600 tonnes of ores in 2010 (increase of 44%).
- Produced 26,800 DMT of copper concentrate (2010 – 19,400 DMT), 17,400 DMT of zinc concentrate (2010 – 6,000 DMT) and 10,400 DMT of lead concentrate (2010 – nil). Contained metal production was 6,000 FMT of copper (2010 – 5,170 tonnes), 8,450 FMT of zinc (2010 – 2,930 tonnes), 1,950 FMT of lead (2010 – nil) and 298,800 ounces of silver (2010 – 137,600 ounces).
- The Cash Operating Cost was \$1.72 per payable pound of copper (2010 - \$2.23 per payable pound of copper).

#### **Other**

- Subsequent to the end of the period, in May 2011 MATSA was awarded the exploration concessions by the local authorities for the Sotiel property. The Sotiel mine, which forms part of the concessions, was a past producing mine as is located approximately 25 km from the Aguas Tenidas operation.

### **3. Outlook**

*The forward-looking information contained in this section is subject to the risk factors and assumptions contained in the cautionary statement on Forward-looking Statements included with this MD&A.*

The first six months of 2011 has proven to be a very busy period for the Company. Accomplishments included the following:

- Production results for Q1 that have met and in some cases exceeded operating parameters.
- The decision to exercise the option to buy-out Trafigura's 45.96% Net Profit Interest ("NPI"), which was contingent consideration to be paid by Iberian to Trafigura as part of the acquisition of CMC in 2008, for \$60 million.
- The receipt of the exploration concessions for the Sotiel Mine in Spain.
- Completion of a CA\$ 76 million equity financing to fund both the NPI buy-out and Sotiel Mine evaluation work plan.

For the balance of 2011 the Company's focus will be on numerous priorities both with Operations and with Developments as referred to in the following.

#### Operations

At both CMC and MATSA the Company expects to meet previously issued production guidance for 2011.

For CMC the priority is to complete the plant expansion activities to allow for daily operations at 6,600 tpd by the end of Q3 2011.

For MATSA the priority remains optimization of metallurgical performance in the processing plant. The 2011 budget parameters for the copper and polymetallic circuits are substantially being met. The focus will be to further optimize both concentrate grades and recoveries.

MATSA is currently engaged in contract negotiations with the labour unions representing the operations' employees. The most recent contract expired on December 31, 2010. While the company is optimistic that a new collective labour agreement will be reached without a work stoppage any negative developments in this regard may negatively impact on expected production from Aguas Tenidas in 2011.

#### Development

With the recent receipt of the exploration concessions for the Sotiel Mine in Spain the Company will be actively studying a possible rehabilitation and re-start of the Sotiel Mine together with a related expansion study for the operations at Aguas Tenidas. A budget for this work program of approximately \$20 million has been approved by the Board of Directors and is expected be spent over the remainder of 2011.

#### **4. Overview of financial results**

The following table presents a summarized Statement of Operations for the quarter ended March 31, 2011 with comparatives for the quarter ended March 31, 2010.

Periods ended March 31,	2011	2010
	\$	\$
<b>Sales</b>	<b>37,230</b>	55,799
Costs and expenses of mining operations	<b>59,801</b>	74,649
<b>Gross loss</b>	<b>(22,571)</b>	(18,850)
<b>Expenses</b>		
Administrative expenses and other	<b>1,446</b>	1,235
Foreign exchange (gain) loss	<b>3,141</b>	(12,658)
Contingent consideration fair value	-	5,233
Unrealized (gain) loss on derivative instruments	<b>(63,078)</b>	12,159
Total expenses (other income)	<b>(58,491)</b>	5,969
<b>Operating income (loss)</b>	<b>35,920</b>	(24,819)
Net finance costs	<b>6,231</b>	2,496
<b>Profit (loss) before taxation</b>	<b>29,689</b>	(27,315)
Income tax expense	<b>843</b>	1,422
Future income tax expense (recovery)	<b>(1,316)</b>	9,030
<b>Net income (loss)</b>	<b>30,162</b>	<b>(37,767)</b>
<b>Basic earnings (loss) per share (\$)</b>	<b>0.083</b>	(0.112)
<b>Diluted earnings (loss) per share (\$)</b>	<b>0.077</b>	(0.112)

#### Quarter ended March 31, 2011 versus 2010

During the quarter ended March 31, 2011 (the "Current Quarter") the Company recorded net income of \$30.16 million or \$0.08 per share compared to a net loss of \$37.77 million or \$0.11 per share for the quarter ended

March 31, 2010 (the "Comparative Quarter"). Gross loss for the Current Quarter was \$22.57 million compared to \$18.85 million for the Comparative Quarter. Income before taxation for the Current Quarter was \$29.69 million compared to loss before taxation of \$27.32 million for the Comparative Quarter. The \$67.93 million increase in net income was primarily due to unrealized hedging gains of \$63.08 million in the Current Quarter versus unrealized hedging losses of \$12.16 million in the Comparative Quarter. This was partially offset by a higher gross loss of \$3.72 million, a higher foreign exchange loss of \$15.80 million and an unrealized loss on warrants of \$4.38 million.

Sales in the Current Quarter were \$37.23 million (Comparative Quarter - \$55.80 million) and costs and expenses of mining operations in the Current Quarter were \$59.80 million (Comparative Quarter - \$74.65 million). Mine site amortization decreased from \$30.65 million in the Comparative Quarter to \$29.79 million in the Current Quarter. Gross loss in the Current Quarter was \$22.57 million (Comparative Quarter - \$18.85 million). The Company's payable copper production increased 12% from 10,510 FMT in the Comparative Quarter to 11,770 FMT in the Current Quarter. The Company produced 8,450 FMT of zinc in the Current Quarter (Comparative Quarter - 2,930 FMT). Operating costs and mine site administrative expenses decreased by 32% versus the Comparative Quarter. Mine site amortization decreased by 3% versus the Comparative Quarter. The significant decrease in sales, despite higher volumes of produced metal were primarily due to realized hedging losses of \$58.64 million in the Current Quarter (Comparative Quarter - \$20.85 million). Further to this, MATSA's cost of concentrate inventory increased by \$19.52 million in the Current Quarter from December 31, 2010. The inventory increase was due to timing of shipments. The Company received advance payments in the amount of \$56.43 million in the Current Quarter. The advances are recorded in trade and other payables as deferred revenue. These amounts will be recorded as sales in a subsequent period when criteria for revenue recognition are met (i.e. shipment of the concentrates).

Other income in the Current Quarter was \$58.49 million (Comparative Quarter - total expenses of \$5.97 million). This positive variance of \$64.46 million was due to the cumulative effect of the following:

- i. Unrealized hedging gain of \$63.08 million in the Current Quarter versus unrealized hedging loss of \$12.16 million in the Comparative Quarter; a variance of \$75.24 million. This variation is primarily due to commodity hedging contracts that matured in the Current Quarter whereby the prior unrealized loss was realized and recorded in the reported sales of the Company. In addition, it includes the differential between the hedged commodity prices or hedged foreign exchange rates and market commodity prices or exchange rates as at March 31, 2011 and 2010 and the movement in this fair value adjustment since December 31, 2010 and 2009. This is an unrealized gain or loss that must be recorded in accordance with IFRS. 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 refer to section 11 of this MD&A.
- ii. Foreign exchange loss was \$3.14 million in the Current Quarter versus a \$12.66 million foreign exchange gain in the Comparative Quarter.

Net finance costs in the Current Quarter were \$6.23 million (Comparative Quarter - \$2.50 million). The increase was primarily due to a \$4.38 million increase in the fair value of certain share purchase warrants that are tied to a CA\$ 25 million debenture. Under IFRS these warrants are classified as a warrant liability on the balance sheet and are valued using the Black-Scholes model at each reporting date. Fair value gains and losses on the warrants are recorded in net finance costs.

As at March 31, 2011, property, plant and equipment, net of accumulated amortization was \$619.71 million (December 31, 2010 - \$637.11 million). In the Current Quarter, property plant and equipment expenditures were \$11.32 million; capital expenditures of \$7.72 million incurred by MATSA, primarily relating to the tailings expansion project (second phase) and crushing expansion, and \$3.70 million incurred by CMC related to its plant expansion project.

Current income tax expense in the Current Quarter was \$0.84 million (Comparative Quarter - \$1.42 million). Future income tax recovery for the Current Quarter was \$1.32 million (Comparative Quarter - future income tax expense of \$9.03 million). The future tax recovery in the Current Quarter was primarily due to unrealized foreign exchange gains on non-monetary tax balances at MATSA denominated in Euros. This was partially off-set by future tax expense recorded in connection with the unrealized hedging gains described above.

### Selected Quarterly Information

The table below presents selected financial data for the Company's eight most recently completed quarters.

	Q1		Q4		Q3		Q2	
	March 31,		December 31,		September 30,		June 30,	
	2011		2010 (1)		2010 (1)		2010 (1)	
Sales	\$	37,230	\$	61,747	\$	57,482	\$	51,695
Net income (loss)		30,162		(67,318)		(97,683)		90,516
Earnings (loss) per share basic		0.08		(0.19)		(0.29)		0.27
Earnings (loss) per share fully diluted		0.08		(0.19)		(0.29)		0.22
Total assets		778,185		567,042		534,960		520,109
Cash and cash equivalents		31,204		12,964		11,422		18,565
Equity		160,413		12,038		68,100		165,383

  

	Q1		Q4		Q3		Q2	
	March 31,		December 31,		September 30,		June 30,	
	2010		2009 (1)		2009 (1)		2009 (1)	
Sales	\$	55,799	\$	67,012	\$	26,705	\$	25,482
Net loss		(37,767)		(65,322)		(70,403)		(39,283)
Loss per share basic		(0.11)		(0.22)		(0.23)		(0.13)
Loss per share fully diluted		(0.11)		(0.22)		(0.23)		(0.13)
Total assets		772,433		522,340		498,750		485,832
Cash and cash equivalents		9,078		14,703		11,486		29,249
Equity		192,324		78,458		140,895		194,962

(1) as previously presented under Canadian GAAP

### Realized metals prices

The average prices of copper, zinc, lead, gold and silver for the three months ended March 31, 2011 and 2010 are summarized below.

CMC (prices in U.S. Dollars)	Realized prices		Market prices	
	Three months		Three months	
For the period ended March 31,	2011	2010	2011	2010
Copper (per lb.)	<b>1.98</b>	2.05	<b>4.38</b>	3.28
Gold (per oz.)	<b>1,264</b>	1,035	<b>1,384</b>	1,109
Silver (per oz.)	<b>31.75</b>	17.03	<b>31.66</b>	16.92

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

MATSA (prices in U.S. Dollars)	Realized prices		Market prices	
	Three months		Three months	
For the period ended March 31,	2011	2010	2011	2010
Copper (per lb.)	<b>2.69</b>	2.58	<b>4.38</b>	3.28
Zinc (per lb.)	<b>0.70</b>	0.97	<b>1.09</b>	1.04
Lead (per lb.)	<b>1.18</b>	-	<b>1.18</b>	1.01
Silver (per oz.)	<b>31.35</b>	17.08	<b>31.66</b>	16.92

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

## 5. Operational results

### MATSA

Operating statistics for the three months ended March 31, 2011 and 2010 were:

Periods ended March 31,	Unit	Three months	
		2011	2010
<b><u>Copper ore</u></b>			
Ore mined	t	<b>304,687</b>	285,212
Ore processed	t	<b>305,748</b>	281,685
Copper ore grade	%	<b>2.17</b>	1.88
Concentrate grade	%	<b>22</b>	23
Copper recovery rate	%	<b>86</b>	86
Copper concentrate	DMT	<b>25,403</b>	19,403
Copper contained in concentrate	FMT	<b>5,713</b>	4,538
Silver contained in concentrate	oz	<b>92,319</b>	64,471
Payable copper contained in concentrate	FMT	<b>5,459</b>	4,344
Payable silver contained in concentrate	oz	<b>67,476</b>	45,756
<b><u>Polymetallic ore</u></b>			
Ore mined	t	<b>214,180</b>	61,659
Ore processed	t	<b>208,335</b>	75,875
Zinc ore grade	%	<b>5.99</b>	6.11
Zinc concentrate grade	%	<b>49</b>	49
Zinc recovery rate	%	<b>68</b>	64
Copper ore grade	%	<b>1.06</b>	1.27
Copper concentrate grade	%	<b>21</b>	-
Copper/lead concentrate grade	%	-	10
Copper recovery rate	%	<b>19</b>	66
Lead ore grade	%	<b>1.87</b>	-
Lead concentrate grade	%	<b>19</b>	-
Lead recovery rate	%	<b>51</b>	-
Zinc concentrate	DMT	<b>17,366</b>	5,959
Copper concentrate	DMT	<b>1,358</b>	-
Copper/lead concentrate	DMT	-	6,071
Lead concentrate	DMT	<b>10,412</b>	-
Zinc contained in concentrate	FMT	<b>8,451</b>	2,933
Copper contained in concentrate	FMT	<b>288</b>	629
Lead contained in concentrate	FMT	<b>1,954</b>	-
Silver contained in concentrate	oz	<b>206,504</b>	73,095
Payable zinc contained in concentrate	FMT	<b>7,061</b>	2,456
Payable copper contained in concentrate	FMT	<b>275</b>	568
Payable lead contained in concentrate	FMT	<b>1,641</b>	-
Payable silver contained in concentrate	oz	<b>136,210</b>	54,911
Cash Operating Cost per lb of payable copper	USD	<b>1.72</b>	2.23

- Cash Operating Cost per payable pound of copper was \$1.72 for the Current Quarter versus \$2.23 for the Comparative Quarter, an improvement of 23%. The improvement was primarily due to increased payable copper production and a significant increase in by-product zinc, silver and lead credits in the Current Quarter.
- The copper circuit operated above target metallurgical parameters in the Current Quarter. The copper ore head grade was 2.17%. Copper concentrate grade was 22% and the copper circuit recovery rate was 86%, compared to 23% and 86% respectively in Q1 2010.
- The poly-metallic circuit results in the Current Quarter were as follows:
  - Poly ore processed was 208,335 tonnes. The shortfall in processed tonnes to budget was due to limitations due to grind requirements, which we expect to be addressed when the secondary crusher comes online, pending operating permit approval.
  - Produced a quarterly record 17,366 DMT of zinc concentrate. The zinc ore head grade was 5.99%. Zinc concentrate grade achieved was 49% and the zinc recovery rate was 68% (as compared to budget recovery rate of 66%, and 64% during the equivalent period in 2010).
  - Due to higher than expected lead ore head grades in the mine during the period and circuit restrictions, lead concentrate production and silver recovery was favoured over copper concentrate production. Lead concentrate produced was 10,412 DMT with a concentrate grade of 19% and silver grade of 370 g/T and a lead recovery of 51%.
  - Copper concentrate production from this circuit was 1,358 DMT with a concentrate grade of 21% and recovery rate of 19%.
  - Silver production was 206,504 ounces in the period, compared to 73,095 ounces in Q1 2010, owing principally to the added contained silver in the lead concentrate.
- On-going projects including status updates are as follows:
  - Earthwork related to the planned raising of the tailings deposit (second phase) has been completed and the phase II operation permit is expected early in Q3. This work was performed by a contractor under third party QA/QC supervision.
  - The crushing expansion, which consists of the installation of a second, parallel primary crusher and in-line secondary cone crusher, to optimize plant throughput has been commissioned, and is only pending final operating permit. The delay in permitting is due to an unexpected request by authorities to update the site closure plan and submit to public consultation ahead of the 2012 E.U. deadline for waste dump characterization. Approval is expected in Q3. The ROM pad expansion, for better blending of mined production to meet optimal mill feed parameters, was completed in Q1 of 2011.
  - Work is underway to install lead and copper cleaner column cells to improve further copper and lead concentrate grades. Completion occurred in Q2 with commissioning and testing to occur in Q3.

## CMC

The following are the highlights of CMC for the three months ended March 31, 2011 and 2010:

- Ore processed in the Current Quarter exceeded that of the Comparative Quarter by 5%. The copper ore grade in the Current Quarter was 1.12% versus a copper ore grade of 1.10% in the Comparative Quarter. Contained copper produced in the Current Quarter exceeded the Comparative Quarter by 8%.
- Operating statistics for the three months ended March 31, 2011 and 2010 were:

Periods ended March 31,	Unit	Three months	
		2011	2010
Ore mined	t	<b>587,956</b>	551,326
Ore processed	t	<b>578,738</b>	551,683
Copper ore grade	%	<b>1.12</b>	1.10
Concentrate grade	%	<b>25</b>	25
Copper recovery rate	%	<b>89</b>	88
Copper concentrate	DMT	<b>23,387</b>	21,283
Copper contained in concentrate	FMT	<b>5,768</b>	5,335
Gold contained in concentrate	oz	<b>3,406</b>	3,259
Silver contained in concentrate	oz	<b>77,840</b>	66,046
Payable copper contained in concentrate	FMT	<b>5,506</b>	5,097
Payable gold contained in concentrate	oz	<b>3,084</b>	2,951
Payable silver contained in concentrate	oz	<b>69,705</b>	59,144
Cash Operating Cost per lb of payable copper	USD	<b>\$ 1.08</b>	\$ 1.06

- Cash Operating Cost for the Current Quarter was \$1.08 per payable pound of copper (Comparative Quarter – \$1.06). Contributing to the increased costs in the Current Quarter were ore and waste transportation costs and higher consumables costs in the processing plant.
- 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.
- In late 2010 a project to expand the processing plant by 10% commenced with expected ramp-up to 6,600 tpd of ore processed in Q3 of 2011. At a total budgeted cost of \$11.7 million, the objective of the plant expansion is to maintain current levels of copper metal production in light of decreasing average copper ore head grade in the mine. The expansion is being funded through leasing arrangements and operating cash flows. Major project works are nearing completion. Production testing will commence in July 2011.
- Current exploration activities are being carried out at Condestable Norte, Vinchos Centro and Vinchos Sur.
  - Condestable Norte: executed 5 diamond drill holes for 1,338 m oriented to increase low grade resources. In Resurrection Pit evaluations will commence with probes and sampling.



Iberian reported working capital deficiency of \$375.81 million at March 31, 2011 compared with \$396.53 million at December 31, 2010. The \$20.72 million decrease in working capital deficiency is primarily due to the combined impact of:

- \$18.24 million increase in cash and cash equivalents;
- \$20.52 million increase in inventories;
- \$59.81 million increase in trade and other payables (includes deferred revenue); and
- \$41.20 million decrease in derivative instruments liability.

#### 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 and the availability of a \$20 million standby debt facility, the Company believes it has the financial capability to meet its debt obligations, capital expenditures, operational and corporate activities for the next twelve months.

#### Operating cash flow

Cash flow used in operations before changes in non-cash working capital items for the Current Quarter was \$1.19 million compared to cash provided by operations of \$11.39 million for the Comparative Quarter. Cash flow provided by operations after changes in working capital items for the Current Quarter was \$34.05 million, compared to \$0.84 million for the Comparative Year.

#### Financing activities

##### *CMC*

No financing activities were undertaken by CMC during the three month period ended March 31, 2011. Refer to section 17 (Subsequent events) for further developments after the end of the period.

##### *MATSA*

During the three month period ended March 31, 2011 MATSA repaid \$2.30 million in short-term loans on its banking lines with local Spanish banks. These loans were originally advanced in Q4 of 2010 and the proceeds were used for general working capital purposes.

In accordance with the terms of the Senior Facility (as defined in note 9d to the interim financial statements), MATSA is required to maintain certain financial covenants. As at December 31, 2010 MATSA did not meet its debt service coverage and Iberian, as the Guarantor under the Senior Facility, did not maintain a minimum consolidated tangible net worth of \$150.00 million. As at December 31, 2010 MATSA's debt service coverage ratio was 0.58:1 and the consolidated tangible net worth of Iberian was approximately \$140.00 million. As a result, the full \$50.00 million outstanding under the Senior Facility was classified as current as at December 31, 2010 in accordance with GAAP. As of the date of this MD&A, the Company and the senior lenders are discussing a waiver agreement to remedy the covenant violations. The Company expects that this matter will result in a satisfactory outcome. As at March 31, 2011 no further covenant breaches under the Senior Facility have occurred. Additionally MATSA met its mandatory reduction requirement in re-paying \$3.00 million in principal to the senior lenders in April 2011.

##### *Corporate*

On June 25, 2010 the Company issued a 7% convertible debenture 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 6,445,983 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 were used for the corporate and administrative function of the Company. This is a related party transaction. During the first quarter of 2011, the Private Debentures were converted into 6,445,983 registered shares of the Company as per the term disclosed above. Accrued interest up to the date of issuance of the registered shares in the amount of CA\$ 0.03 million was paid to the holders. The Private Debentures were retired.

Net cash outflow to financing activities for the Current Quarter was \$4.99 million compared to inflow of \$24.88 million in the Comparative Quarter.

#### Investing activities

Capital expenditures for the Current Quarter were \$11.32 million (Comparative Quarter - \$31.38 million). In the Current Quarter, property plant and equipment expenditures were \$7.72 million by MATSA primarily relating to the tailings expansion project (second phase) and crushing expansion, and \$3.70 million incurred by CMC related to its plant expansion activities.

## **8. Capitalization**

Equity as at March 31, 2011 was \$160.41 million compared to \$124.28 million as at December 31, 2010.

The following table sets out the registered shares, warrants, options and other dilutive instruments outstanding as at March 31, 2011 and December 31, 2010:

	<b>March 31, 2011</b>	<b>December 31, 2010</b>
Registered shares issued and outstanding	366,521,848	360,055,865
Stock options	10,905,000	10,930,000
Warrants	52,283,209	52,283,209
Potential dilution of convertible debenture	-	6,445,983
<b>Total</b>	<b>429,710,057</b>	<b>429,715,057</b>

#### Share Capital

As at March 31, 2011, the Company had 366,521,848 registered shares outstanding (December 31, 2010 – 360,055,865). The basic weighted average number of registered shares outstanding for the three month period ended March 31, 2011 was 363,499,056 shares (2010 – 338,055,865 shares).

The Company issued 6,445,983 registered shares when the Private Debentures were converted in February 2011. The underlying conversion price was CA\$ 0.56.

The Company issued 20,000 registered shares in the three month period ended March 31, 2011 as a result of the exercise of stock options by an employee.

#### Warrants

As at March 31, 2011, the Company had a total of 52,283,209 share purchase warrants outstanding (December 31, 2010 – 52,283,209). Expiry dates range from December 2011 to June 2013, and exercise prices range from CA\$ 0.56 to CA\$ 1.30.

## Stock Options

The following table summarizes the stock option plan for the period ended March 31, 2011:

	Number of Stock options	Weighted average exercise price (CAD\$)
Balance , December 31, 2010	10,930,000	0.92
Exercised	(20,000)	(0.70)
Granted	-	0.00
Balance, March 31, 2011	10,910,000	0.92
Exercisable, March 31, 2011	7,885,000	1.07

During the period ended March 31, 2011 no stock options were granted.

## **9. Transactions with Related Parties**

The Company had the following transactions with related parties:

Trafigura provides management, operational, mining and administrative services to CMC. Included in payables at March 31, 2011 is \$nil due to Trafigura (2010 – \$0.01).

Trafigura has lent the Company €10.67 million (\$15.04 million at March 31, 2011) 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 March 31, 2011 this loan has \$0.38 million included in interest payable at an interest rate of 4.26%.

MATSA previously entered into certain commodity forward and option contracts with Trafigura as counterparty. In connection with these contracts between MATSA and Trafigura, the cost of margin calls up to \$40 million were on the account of Trafigura. MATSA was charged interest at a rate of 4.98% by Trafigura on the excess. During the quarter ended March 31, 2011, MATSA did not incur in any interest charges. 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. The fair value of all commodity and foreign exchange contracts held by Trafigura, as counter-party as at March 31, 2011 was a liability of \$1.64 million (December 31, 2010 – \$14.34 million).

Trafigura is counterparty for certain foreign exchange forward contracts held by MATSA totalling \$64.12 million as at March 31, 2011.

Included in receivables is \$30.28 million as at March 31, 2011 (December 31, 2010 - \$32.50 million), of which \$7.78 million (2010 - \$4.09 million) is due from Trafigura for copper, zinc and lead concentrates produced by MATSA and \$22.51 million (2010 - \$28.41 million) from a subsidiary of Trafigura, Consorcio Minero S.A., for copper concentrates produced by CMC.

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.

## 10. Foreign exchange

Foreign exchange rate movement can have a significant effect on the Company's operations, financial position and results. The Company's sales are denominated in U.S. dollars while the Company's operating expenses, income taxes 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 first quarter of 2011 the Company recognized foreign exchange loss of \$3.14 million (Q1 2010 – gain of \$12.66 million).

The Company previously 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 March 31,	Three months	
	2011	2010
<b>Average exchange rate</b>		
CAD-USD	0.9861	1.0401
EUR-USD	0.7310	0.7675
CHF-USD	0.9407	1.0569
PEN-USD	2.7440	2.8158

As at,	March 31,	Dec. 31,
	2011	2010
<b>Period-end exchange rate</b>		
CAD-USD	0.9718	0.9980
EUR-USD	0.7051	0.7495
CHF-USD	0.9158	0.9354
PEN-USD	2.8004	2.7711

## 11. Financial instruments - derivatives

The Company recorded an unrealized gain on derivative financial instruments of \$63.08 million in the first quarter of 2011 compared with an unrealized loss of \$12.16 million in the first quarter of 2010. These unrealized gains and losses on derivative financial instruments were discussed in section 4 of this MD&A.

As at March 31, 2011, the derivative instruments liability was \$236.12 million (December 31, 2010 – \$299.20 million). The \$63.08 million decrease in the liability in the period is primarily due to the impact of copper and zinc hedge positions that matured in the first quarter of 2011. Upon maturity the Company records the eventual realized gain or loss on derivative instruments in its sales. During the first quarter of 2011 the realized loss on commodity hedging contracts was \$58.64 million (Q1 2010 - \$20.85 million).

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 March 31, 2011. 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 March 31, 2011:

<u>MATSA</u>					
Metal	Period	Contract type	Volume	Unit	Strike price per unit (U.S.\$)
Copper	2011	Forward	16,599	Fine metric t	4,883
Copper	2012	Forward	17,496	Fine metric t	7,396
Copper	January - March 2013	Forward	1,800	Fine metric t	7,319
Zinc	2011	Forward	12,699	Fine metric t	1,602
Zinc	2012	Forward	13,446	Fine metric t	2,042
Zinc	January - March 2013	Forward	1,125	Fine metric t	2,272
Silver	2011	Forward	76,851	Fine ounces	34.36

<u>CMC</u>					
Metal	Period	Contract type	Volume	Unit	Strike price per unit (U.S.\$)
Copper	2011	Forward	15,550	Fine metric t	3,408
Copper	January 2012	Forward	1,750	Fine metric t	3,408
Gold	2011	Forward	1,800	Fine ounces	741.50

<u>Collar hedging ranges</u>					
Copper	February 2012 - March 2013	Put options purchased	7,000	Fine metric t	6,500
		Call options sold		Fine metric t	8,760
Copper	February 2012 - March 2013	Put options purchased	1,050	Fine metric t	7,500
		Call options sold		Fine metric t	10,450
Copper	February 2012 - March 2013	Put options purchased	1,960	Fine metric t	8,000
		Call options sold		Fine metric t	10,970
Copper	February 2012 - March 2013	Put options purchased	3,990	Fine metric t	8,000
		Call options sold		Fine metric t	10,950

As part of its positions MATSA has hedged its one month quotational period pricing exposure and is included in the positions reported above.

All commodity hedging is in accordance with the conditions of the MATSA Senior Facility and the CMC Facility.

### Currency hedging

The following foreign exchange forward contracts are in effect at MATSA as at March 31, 2011:

Foreign exchange contracts - sell - Euro/US\$			
Period	Contract type	Amount US\$	Forward rate
2011	Forwards	41,768,000	1.4036
2012	Forwards	50,806,000	1.4113
January - March 2013	Forwards	6,438,000	1.4324

As at March 31, 2011, the mark to market unrealized loss position of the foreign exchange forward contracts was \$0.89 million. Trafigura is the counter-party to certain of these foreign exchange forward contracts in the amount of \$64.11 million, and represents 65% of total U.S. dollar value of these forward contracts.

## 12. Income taxes

The Company recorded income tax recovery of \$0.47 million for the Current Quarter as compared to income tax expense of \$10.45 million in the Comparative Quarter. The income tax provision for the Current Quarter is made up of a current income tax expense of \$0.84 million and a future income tax recovery of \$1.32 million. In the Comparative Quarter the income tax provision was made up of a current income tax expense of \$1.42 million and a future income tax expense of \$9.03 million. The current income tax expense in both periods primarily reflects the current taxes incurred at CMC in the Peruvian tax jurisdiction. The future tax recovery in the Current Quarter was primarily due to unrealized foreign exchange gains on non-monetary tax balances at MATSA denominated in Euros. This was partially off-set by future tax expense recorded in connection with the unrealized hedging gains.

## 13. Contingencies

In the year ended December 31, 2008 the Company acquired its interest in CMC from Trafigura. The business combination was accounted for as a purchase transaction, with the Company as the acquirer of CMC. As part of the agreement for this transaction, Trafigura was granted a 45.96% net operating profit interest ("NPI") of CMC for a term of four years commencing on January 1, 2011 payable in cash or, at the option of Trafigura and subject to regulatory approval including the approval of the TSXV, in registered shares. The Company has the right until June 30, 2011 to purchase the NPI for \$60.00 million.

In accordance with IFRS the NPI was recorded as a liability in the balance sheet. The liability was determined using a discounted cash-flow approach. As at March 31, 2011 the liability recorded was \$60.00 million (December 31, 2010 - \$60.00 million).

## 14. Off-balance sheet arrangements

The Company has no off-balance sheet arrangements.

## 15. Subsequent events

- a) In May 2011 MATSA received the exploration concessions in respect of the Sotiel Mine, a formerly producing underground copper-zinc mine in the Andalusia region of Spain.

- b) On May 17, 2011 Condestable amended its senior, secured debt facility with sole lead arranger Societe Generale S.A. The amended facility provides an additional \$15.00 million to the existing \$55.00 million facility. Upon drawdown under the amended facility terms, the aggregate principal amount outstanding was \$60.00 million the maturity date was extended to September 30, 2013. Principal repayments under the amended facility are as follows: \$4.00 million on December 31, 2011 followed by quarterly repayments of \$8.00 million commencing on March 31, 2012 to the new maturity date.
- c) On May 31, 2011 the Company determined to exercise its right to purchase from Trafigura its 45.96% net profit interest in Condestable.

Pursuant to a share purchase agreement dated November 20, 2007 (the "CMC Purchase Agreement") between Iberian and Trafigura, Iberian is obligated to pay to Trafigura an amount equal to 45.96% of the after tax net operating profit of Condestable (the "NPI") in respect of the period from January 1, 2011 through December 31, 2014. In accordance with the terms of the CMC Purchase Agreement, Iberian retained the option to purchase the NPI from Trafigura at any time until June 30, 2011 in consideration of the payment of \$60.00 million (the "NPI Buy-out").

- d) On May 31, 2011 the Company entered into an agreement with a syndicate of underwriters led by Wellington West Capital Markets Inc. and including Cormark Securities Inc. (the "Underwriters") which have agreed to purchase, on a bought deal basis, 73,430,000 registered shares (the "Shares") of Iberian at a purchase price of CA\$ 0.90 per Share (the "Offering Price"), for aggregate gross proceeds of approximately CA\$ 66 million (the "Offering"). The Underwriters have been granted an over-allotment option, exercisable at any time prior to 30 days from and including the closing date of the Offering, to acquire up to an additional 11,014,500 Shares, equal to 15% of the number of Shares sold pursuant to the Offering, at the Offering Price, for additional gross proceeds of up to approximately CA\$ 9.9 million. As a result, the total gross proceeds from the Offering would increase to approximately CA\$ 76 million if the over-allotment option is fully exercised.

The net proceeds of the Offering will be used to finance the NPI Buy-out, to fund Iberian's work program at its Sotiel property and for general working capital purposes.

The Offering closed on June 24, 2011.

## **16. 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, 2010 which has been filed with the appropriate securities regulatory authorities.

## **17. International Financial Reporting Standards ("IFRS")**

Effective January 1, 2011, IFRS became Canadian GAAP for publicly accountable enterprises. As a result, the Company's condensed consolidated financial statements for the first quarter of 2011 are reported in accordance with IFRS, with comparative information for 2010 restated.

The Company developed and executed a changeover plan in order to begin reporting in accordance with IFRS from January 1, 2011. The changeover plan included an assessment phase, a design phase and an implementation phase, resulting in the Company's first interim reporting under IFRS for the three months ended March 31, 2011.

The final phases of the changeover plan will be completed over the course of 2011 which will include possible changes to internal controls and the embedding of IFRS processes in the activities of the subsidiaries. The Company will continue to monitor accounting and regulatory developments and evaluating impacts on the Company's financial reporting, and continuing to fulfill presentation and reporting requirements.

#### Reconciliations from Canadian GAAP to IFRS

The condensed consolidated financial statements for the first quarter of 2011 include reconciliations from previous Canadian GAAP reporting to IFRS for the Company's opening balance sheet as at January 1, 2010, and balance sheet as at December 31, 2010 and the statements of loss for the three months ended March 31, 2010 and the year ended December 31, 2010. Also included are reconciliations of equity as at January 1, 2010, as at March 31, 2010 and as at December 31, 2010.

#### IFRS accounting policies

The Company's significant accounting policies under IFRS are disclosed in our condensed consolidated financial statements for the first quarter of 2011, and resulting accounting changes are highlighted in the reconciliations from previous Canadian GAAP reporting. The exemptions from full retrospective application elected by the Company in accordance with IFRS 1 "First time adoption of International Financial Reporting Standards" are also disclosed in the condensed consolidated financial statements for the first quarter of 2011.

### **18. Critical accounting policies, estimates and accounting changes**

The preparation of the Company's consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. There is a full discussion and description of the Company's critical accounting policies in the condensed consolidated financial statements for the three months ended March 31, 2011.

For a discussion of recent accounting pronouncements please refer to Note 2 of the accompanying condensed consolidated financial statements for the three months ended March 31, 2011.

### **19. Other Information**

Additional information about the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).