



IBERIAN
MINERALS



Iberian Minerals Corp.

Management's Discussion and Analysis

Three and nine months ended September 30, 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 September 30, 2011 and December 31, 2010 and results of operations for the three and nine months ended September 30, 2011 and September 30, 2010.

This Management’s Discussion and Analysis (“MD&A”) has been prepared as of November 10, 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 and nine months ended September 30, 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. The reader should also refer to the unaudited condensed consolidated financial statements for the three months ended March 31, 2011 for full disclosure of the results of the Company’s transition to International Financial Reporting Standards (“IFRS”). These documents can be found at www.sedar.com. The Company prepares and files its consolidated financial statements in accordance with 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 48.3% 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. 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 Swiss corporation 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 2.4 million tonnes per year (6,600 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 Andalucia 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 – three and nine months ended September 30, 2011

Financial:

Three months ended September 30, 2011

- Recorded net income of \$123.59 million or \$0.27 per registered share which included:
 - Sales of \$60.11 million and gross loss of \$24.09 million;
 - A realized loss of \$52.42 million on commodity hedges (included in sales) which caused the gross loss;
 - An unrealized non-cash gain of \$164.22 million on derivative financial instruments outstanding, partially as a result of commodity hedging positions in copper and zinc that were delivered into during the period and were thus retired and partially due to a decline in metals prices impacting the fair value of outstanding hedge positions.
- Cash flow provided by operations before changes in working capital items was \$1.49 million.

Nine months ended September 30, 2011

- Recorded net income of \$201.55 million or \$0.51 per registered share which included:
 - Sales of \$183.48 million and gross loss of \$54.02 million;
 - A realized loss of \$171.03 million on commodity hedges (included in sales) which caused the gross loss;
 - An unrealized non-cash gain of \$292.66 million on derivative financial instruments outstanding, partially as a result of commodity hedging positions in copper and zinc that were delivered into during the period and were thus retired and partially due to a decline in metals prices impacting the fair value of outstanding hedge positions.
- Cash flow provided by operations before changes in working capital items was \$22.28 million.
- In June 2011 the Company completed a CA\$ 76 million equity financing which allowed for the buy-out of Trafigura's 45.96% net-profit interest ("NPI") in Condestable (for 2011 to 2014) for \$60 million. The buy-out of the NPI was completed on June 30, 2011.

Operational – CMC:

Three months ended September 30, 2011

- Condestable Mine processed copper ore at expected rates. The average copper ore grade was 1.05% in 2011 versus 1.21% in 2010.
- CMC processed 597,139 tonnes of ore in 2011 versus 564,541 tonnes of ore in 2010 (increase of 6%).
- Copper concentrate production in 2011 was 24,551 DMT versus 24,544 DMT in 2010 (no change versus prior year).
- Contained copper production in 2011 was 5,688 FMT versus 6,088 FMT in the prior year (decrease of 6%).
- The Cash Operating Cost (*non-IFRS measure - refer to section 6*) in 2011 was \$1.19 per payable pound of copper produced versus prior year of \$0.99.

Nine months ended September 30, 2011

- Condestable Mine processed copper ore at expected rates. The average copper ore grade was 1.09% in 2011 versus 1.16% in 2010.
- CMC processed 1,769,167 tonnes of ore in 2011 versus 1,666,932 tonnes of ore in 2010 (increase of 6%).
- Copper concentrate production in 2011 was 72,428 DMT versus 68,840 DMT in 2010 (increase of 5%).
- Contained copper production in 2011 was 17,387 FMT versus 17,252 FMT in the prior year (increase of 1%).
- The Cash Operating Cost in 2011 was \$1.12 per payable pound of copper produced versus prior year of \$1.02. For the current year this is below the 2011 guidance of \$1.15 per payable pound of copper.

Other

- In May 2011 CMC 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).
- Major project works were completed on the previously announced 10% processing plant expansion. The processing plant reached 6,600 tpd of ore processed in June 2011.

Operational – MATSA:

Three months ended September 30, 2011

- MATSA processed 518,682 tonnes of ores in 2011 versus 460,999 tonnes of ores in 2010 (increase of 12%).
- Produced 28,707 DMT of copper concentrate (2010 – 26,754 DMT), 18,260 DMT of zinc concentrate (2010 – 5,968 DMT) and 7,280 DMT of lead concentrate (2010 – nil). Contained metal production was 6,638 FMT of copper (2010 – 5,767 FMT), 8,632 FMT of zinc (2010 – 2,834 FMT), 1,217 FMT of lead (2010 – nil) and 235,549 ounces of silver (2010 – 181,978 ounces).
- The Cash Operating Cost was \$1.56 per payable pound of copper produced (2010 - \$2.06 per payable pound of copper produced). For the current year this is below the 2011 guidance of \$1.75 per payable pound of copper produced.

Nine months ended September 30, 2011

- MATSA processed 1,499,209 tonnes of ores in 2011 versus 1,200,355 tonnes of ores in 2010 (increase of 25%). The copper ore head grade was 2.20% (2010 – 1.83%).
- Produced 84,064 DMT of copper concentrate (2010 – 66,817 DMT), 50,893 DMT of zinc concentrate (2010 – 21,645 DMT) and 23,525 DMT of lead concentrate (2010 – nil). Contained metal production was 18,916 FMT of copper (2010 – 15,399 FMT), 24,390 FMT of zinc (2010 – 10,400 FMT), 4,216 FMT of lead (2010 – nil) and 725,101 ounces of silver (2010 – 516,488 ounces).
- The Cash Operating Cost was \$1.67 per payable pound of copper produced (2010 - \$2.24 per payable pound of copper produced). For the current year this is below the 2011 guidance of \$1.75 per payable pound of copper produced.

Other

- 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 and is located approximately 30 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.

Operations

The Company updates previously issued production guidance for 2011.

- At Condestable, due to a decreased copper ore head grade in recent months, it is expected that produced metal will be as follows: 22,500 FMT copper, 13,000 Foz gold and 289,300 Foz silver. The Cash Operating Cost per pound of payable copper produced is expected to be \$1.15.
- The production guidance for Aguas Tenidas remains as follows: 25,000 FMT copper, 33,900 FMT zinc, 3,700 FMT lead and 730,000 Foz silver. The Cash Operating Cost per pound of payable copper produced is expected to be \$1.75.
- The labour contract negotiations on-going at MATSA are progressing in a positive fashion. The most recent contract expired on December 31, 2010. The Company remains hopeful that a new collective labour agreement will be reached in the coming weeks.

Development

The Company continues activities relating to the study of 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 was approved by the Board of Directors in June 2011 and is expected to be spent over the remainder of 2011 and early 2012. It is expected that, having completed a substantial portion of the evaluation in the coming months, the Company could make a construction decision by the end of 2011.

4. Overview of financial results

The following table presents a summarized Statement of Operations for the three and nine months ended September 30, 2011 with comparatives for the three and nine months ended September 30, 2010.

<i>(thousands of U.S. Dollars)</i>	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
	\$	\$	\$	\$
Sales	60,110	57,482	183,482	164,976
Costs and expenses of mining operations	84,196	71,966	237,499	223,574
Gross loss	(24,086)	(14,484)	(54,017)	(58,598)
Expenses				
Administrative expenses and other	1,876	1,066	4,947	3,281
Exploration and evaluation expenditures	4,816	-	4,816	-
Foreign exchange gain	(4,770)	(177)	(1,607)	(6,394)
Contingent consideration fair value	-	9,442	-	5,233
Unrealized (gain) loss on derivative instruments	(164,216)	97,862	(292,656)	(21,093)
Total expenses (other income)	(162,294)	108,193	(284,500)	(18,973)
Operating income (loss)	138,208	(122,677)	230,483	(39,625)
Net finance (income) costs	(4,490)	5,897	3,783	4,786
Income (loss) before taxation	142,698	(128,574)	226,700	(44,411)
Current income tax expense (recovery)	(931)	2,933	150	5,611
Future income tax expense (recovery)	20,042	(29,112)	25,003	3,796
Net income (loss)	123,587	(102,395)	201,547	(53,818)
Basic earnings (loss) per share (\$)	0.27	(0.30)	0.51	(0.16)
Diluted earnings per share (\$)	0.26	(0.30)	0.48	(0.16)

Third quarter ended September 30, 2011 versus 2010

During the quarter ended September 30, 2011 (the "Current Quarter") the Company recorded net income of \$123.59 million or \$0.28 per share compared to net loss of \$102.40 million or \$0.30 per share for the quarter ended September 30, 2010 (the "Comparative Quarter"). Gross loss for the Current Quarter was \$24.09 million compared to \$14.48 million for the Comparative Quarter. Income before taxation for the Current Quarter was \$142.70 million compared to loss before taxation of \$128.57 million for the Comparative Quarter. The change in net income, versus net loss in the Comparative Quarter, was primarily due to unrealized hedging gain of \$164.22 million in the Current Quarter versus unrealized hedging loss of \$97.86 million in the Comparative Quarter. This was partially offset by a higher gross loss of \$24.09 million in the Current Quarter versus gross loss of \$14.48 million in the Comparative Quarter.

Sales in the Current Quarter were \$60.11 million (Comparative Quarter - \$57.48 million) and costs and expenses of mining operations in the Current Quarter were \$84.20 million (Comparative Quarter - \$71.97 million). Mine site amortization decreased from \$29.89 million in the Comparative Quarter to \$28.49 million in the Current Quarter. Gross loss in the Current Quarter was \$24.09 million (Comparative Quarter - \$14.48 million). The Company's payable copper production increased 4% from 11,322 FMT in the Comparative Quarter to 11,775 FMT in the Current Quarter. The Company produced 7,171 FMT of payable zinc in the Current Quarter (Comparative Quarter - 2,357 FMT). Operating costs and mine site administrative expenses increased by 32% versus the Comparative Quarter primarily due to cost recognition based on timing of concentrate shipments. Mine site amortization decreased in the Current Quarter by 5% versus the Comparative Quarter.

In the Current Quarter MATSA shipped 26,500 DMT of copper concentrates and 25,100 DMT of zinc concentrate. In Q2 2011 MATSA shipped 38,200 DMT of copper concentrates and 10,800 DMT of zinc concentrate. In Q1 2011 MATSA shipped 14,900 DMT of copper concentrate and 13,100 DMT of zinc concentrate. MATSA's concentrate inventory (cost basis) increased by \$3.79 million in the Current Quarter from June 30, 2011 and increased by \$11.51 million in the Current Period from December 31, 2010. The inventory movements in both periods were due to timing of concentrate shipments.

Other income in the Current Quarter was \$162.29 million (Comparative Quarter – total expenses of \$108.19 million). The variance of \$270.48 million was due to the cumulative effect of the following:

- i. Unrealized hedging gain of \$164.22 million in the Current Quarter versus unrealized hedging loss of \$97.86 million in the Comparative Quarter; a variance of \$262.08 million. This variation is partially 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. Also in the Current Quarter the gain was partially attributable to lower market copper and zinc prices which resulted in a substantially lower fair value net liability on future commodity hedging contracts as measured at September 30, 2011. In the Comparative Quarter the unrealized hedging loss was primarily due to a substantial increase in market copper and zinc prices and not due to settlement of hedging contracts. Unrealized gains or losses on derivative hedging contracts 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. The Company incurred exploration and evaluation expenditures of \$4.82 million in the Current Quarter in connection with the Sotiel property and Aguas Tenidas expansion evaluation activities.
- iii. Foreign exchange gain was \$4.77 million in the Current Quarter versus \$0.18 million gain in the Comparative Quarter.

Net finance income in the Current Quarter was \$4.49 million (Comparative Quarter – net finance costs of \$5.90 million). The variance was primarily due to a \$6.51 million decrease in the fair value of certain share purchase warrants that are tied to a CA\$ 25 million debenture and other warrants. 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 (income).

As at September 30, 2011, property, plant and equipment, net of accumulated amortization was \$578.95 million (December 31, 2010 - \$637.11 million). In the Current Quarter, property plant and equipment expenditures were \$11.20 million; capital expenditures of \$9.29 million incurred by MATSA, primarily relating to the tailings expansion project (second phase) and long-term mine development, and \$1.91 million incurred by CMC related to its plant expansion project.

Current income tax recovery in the Current Quarter was \$0.93 million (Comparative Quarter – expense of \$2.93 million). Future income tax expense for the Current Quarter was \$20.04 million (Comparative Quarter – recovery of \$29.11 million). The future tax expense in the Current Quarter was primarily due to the tax effect of unrealized hedging gains described above.

Nine months ended September 30, 2011 versus 2010

During the nine months ended September 30, 2011 (the “Current Period”) the Company recorded net income of \$201.55 million or \$0.51 per share compared to net loss of \$53.82 million or \$0.16 per share for the nine months ended September 30, 2010 (the “Comparative Period”). Gross loss for the Current Period was \$54.02 million compared to \$58.60 million for the Comparative Period. Income before taxation for the Current Period was \$226.70 million compared to loss before taxation of \$44.41 million for the Comparative Period. The \$255.37 million increase in net income was primarily due to unrealized hedging gain of \$292.66 million in the Current Period versus unrealized hedging gain of \$21.09 million in the Comparative Period. This was partially off-set by a lower foreign exchange gain of \$1.61 million in the Current Period versus \$6.39 million foreign exchange gain in the Comparative Period. Also off-setting was higher future income tax in the Current Period of \$25.00 million versus \$3.80 million in the Comparative Period.

Sales in the Current Period were \$183.48 million (Comparative Period - \$164.98 million) and costs and expenses of mining operations in the Current Period were \$237.50 million (Comparative Period - \$223.57 million). Mine site amortization decreased from \$90.82 million in the Comparative Period to \$88.89 million in the Current Period. Gross loss in the Current Period was \$54.02 million (Comparative Period - \$58.60 million). The Company's payable copper production increased 11% from 31,181 FMT in the Comparative Period to 34,606 FMT in the Current Period. The Company produced 20,321 FMT of payable zinc in the Current Period (Comparative Period – 8,427 FMT). Operating costs and mine site administrative expenses increased by 12% versus the Comparative Period. Mine site amortization decreased by 2% versus the Comparative Period.

The increase in sales of 11% in the Current Period was primarily due to higher concentrate shipments by MATSA versus the Comparative Period. In the Current Period MATSA shipped 79,700 DMT of copper concentrates and 49,100 DMT of zinc concentrate. In the Comparative Period MATSA shipped 74,250 DMT of copper concentrate and 21,100 DMT of zinc concentrate. MATSA's concentrate inventory increased by \$11.51 million in the Current Period versus December 31, 2010. The inventory movement was due to timing of concentrate shipments. The Company received advance payments in the amount of \$35.65 million in the Current Period against un-shipped concentrate. 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 Period was \$284.50 million (Comparative Period – \$18.97 million). The variance of \$265.53 million was due to the cumulative effect of the following:

- i. Unrealized hedging gain of \$292.66 million in the Current Period versus \$21.09 million in the Comparative Period; a variance of \$271.57 million. This variation is partially due to commodity hedging contracts that matured in the Current Period whereby the prior unrealized loss was realized and recorded in the reported sales of the Company. Also in the Current Period the gain was partially attributable to lower market copper and zinc prices which resulted in a substantially lower fair value net liability on future commodity hedging contracts as measured at September 30, 2011. In the Comparative Period the lower unrealized hedging gain was primarily due to higher market copper and zinc prices and not due to settlement of hedging contracts. Unrealized gains or losses on derivative hedging contracts 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. The Company incurred exploration and evaluation expenditures of \$4.82 million in the Current Period in connection with the Sotiel property and Aguas Tenidas expansion evaluation activities.
- iii. Foreign exchange gain was \$1.61 million in the Current Period versus \$6.39 million gain in the Comparative Period.

Net finance costs in the Current Period were \$3.78 million (Comparative Period – \$4.79 million). The decrease was partially due to a \$2.02 million decrease in the fair value of certain share purchase warrants that are tied to a CA\$ 25 million debenture and other warrants. 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. In addition there were no accretion charges on the CA\$ 25 million debenture in the Current Period as these were fully accreted in 2010.

As at September 30, 2011, property, plant and equipment, net of accumulated amortization was \$578.95 million (December 31, 2010 - \$637.11 million). In the Current Period, property plant and equipment expenditures were \$29.74 million; capital expenditures of \$23.00 million incurred by MATSA, primarily relating to the tailings expansion project (second phase), crushing expansion and long-term mine development, and \$6.87 million incurred by CMC primarily related to its plant expansion project.

Current income tax expense in the Current Period was \$0.15 million (Comparative Period – \$5.61 million). Future income tax expense for the Current Period was \$25.00 million (Comparative Period – \$3.80 million). The future tax expense in the Current Period was primarily due to the tax effect of unrealized hedging gains described above. This was partially off-set by recognition of prior years' tax loss carry-forwards at MATSA.

Selected Quarterly Information

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

	Q3		Q2		Q1		Q4	
	September 30,		June 30,		March 31,		December 31,	
	2011		2011		2011		2010	
Sales	\$	60,110	\$	86,142	\$	37,230	\$	61,747
Net income (loss)		123,587		47,796		30,162		(59,886)
Earnings (loss) per share basic		0.27		0.13		0.08		(0.18)
Earnings (loss) per share fully diluted		0.26		0.12		0.08		(0.18)
Total assets		755,429		774,037		778,185		750,938
Cash and cash equivalents		25,126		32,808		31,204		12,964
Equity		408,107		284,424		160,413		124,278

	Q3		Q2		Q1		Q4	
	September 30,		June 30,		March 31,		December 31,	
	2010		2010		2010		2009 (1)	
Sales	\$	57,482	\$	51,695	\$	55,799	\$	67,012
Net income (loss)		(102,395)		86,346		(37,767)		(65,322)
Earnings (loss) per share basic		(0.30)		0.26		(0.11)		(0.22)
Earnings (loss) per share fully diluted		(0.30)		0.21		(0.11)		(0.22)
Total assets		753,700		759,611		772,433		522,340
Cash and cash equivalents		11,422		18,565		9,078		14,703
Equity		171,999		274,096		192,324		78,458

(1) as previously presented under Canadian GAAP

Realized metals prices

The average prices of copper, zinc, lead, gold and silver for the three and nine months ended September 30, 2011 and 2010 are summarized below.

CMC (prices in U.S. Dollars)	Realized prices				Market prices			
	Three months		Nine months		Three months		Nine months	
For the period ended September 30,	2011	2010	2011	2010	2011	2010	2011	2010
Copper (per lb.)	1.68	2.14	1.80	2.08	4.08	3.29	4.20	3.25
Gold (per oz.)	1,499	1,140	1,377	1,098	1,700	1,227	1,530	1,177
Silver (per oz.)	37.55	18.94	36.14	18.14	38.79	18.96	36.21	18.07

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

MATSA (prices in U.S. Dollars)	Realized prices				Market prices			
	Three months		Nine months		Three months		Nine months	
For the period ended September 30,	2011	2010	2011	2010	2011	2010	2011	2010
Copper (per lb.)	2.57	2.45	2.38	2.40	4.08	3.29	4.20	3.25
Zinc (per lb.)	0.75	0.81	0.85	0.85	1.01	0.91	1.04	0.96
Lead (per lb.)	1.14	-	1.18	-	1.12	0.92	1.15	0.94
Silver (per oz.)	40.77	18.75	35.21	17.91	38.79	18.96	36.21	18.07

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

5. Operational results

MATSA

Operating statistics for the three and nine months ended September 30, 2011 and 2010 were:

Periods ended September 30,	Unit	Three months		Nine months	
		2011	2010	2011	2010
<u>Copper ore</u>					
Ore mined	t	257,205	348,691	878,166	927,636
Ore processed	t	274,240	362,290	867,343	920,555
Copper ore grade	%	2.20	1.82	2.20	1.83
Concentrate grade	%	23	22	22	22
Copper recovery rate	%	86	82	86	83
Copper concentrate	DMT	22,601	24,908	72,859	62,633
Copper contained in concentrate	FMT	5,184	5,393	16,336	13,881
Silver contained in concentrate	oz	61,993	77,105	220,676	199,913
Payable copper contained in concentrate	FMT	4,958	5,144	15,608	13,275
Payable silver contained in concentrate	oz	40,193	53,411	163,966	139,830
<u>Polymetallic ore</u>					
Ore mined	t	230,785	104,843	645,342	281,397
Ore processed	t	244,442	98,709	631,866	279,800
Zinc ore grade	%	5.39	4.91	5.71	6.19
Zinc concentrate grade	%	47	47	48	48
Zinc recovery rate	%	66	61	68	61
Copper ore grade	%	1.17	1.08	1.10	1.26
Copper concentrate grade	%	24	20	23	21
Copper recovery rate	%	51	38	38	40
Lead ore grade	%	1.55	-	1.69	-
Lead concentrate grade	%	18	-	18	-
Lead recovery rate	%	33	-	39	-
Zinc concentrate	DMT	18,260	5,968	50,893	21,645
Copper concentrate	DMT	6,106	1,846	11,205	4,184
Copper/lead concentrate	DMT	-	-	-	6,071
Lead concentrate	DMT	7,280	-	23,525	-
Zinc contained in concentrate	FMT	8,632	2,834	24,390	10,400
Copper contained in concentrate	FMT	1,454	374	2,580	1,518
Lead contained in concentrate	FMT	1,217	-	4,216	-
Silver contained in concentrate	oz	173,556	104,873	504,425	316,575
Payable zinc contained in concentrate	FMT	7,171	2,357	20,321	8,427
Payable copper contained in concentrate	FMT	1,393	355	2,468	1,415
Payable lead contained in concentrate	FMT	999	-	3,510	-
Payable silver contained in concentrate	oz	97,776	20,799	303,121	177,466
Cash Operating Cost per lb of payable copper	USD	1.56	2.06	1.67	2.24

- Cash Operating Cost per payable pound of copper was \$1.56 for the Current Quarter versus \$2.06 for the Comparative Quarter, an improvement of 24%. The Cash Operating Cost per payable pound of copper for the Current Period was \$1.67 versus \$2.24 for the Comparative Period, an improvement of 25%. The improvements were primarily due to increased payable copper production and a significant increase in by-product zinc, silver and lead credits in the Current Quarter and Current Period versus the comparative periods.
- Ores processed (combined copper and poly-metallic) were 94% of budget in the Current Quarter and 92% of budget in the Current Period. Ore throughput in the Current Quarter was impacted by a four day labour stoppage. Earlier in the Current Period a planned maintenance on the ball mill occurred. Despite lower ore throughput the metallurgical performance of both circuits was better than planned, particularly in the poly-metallic circuit where a better grinding of the ore was achieved. Metal production was within budgeted parameters.
- The copper circuit has operated above target metallurgical parameters in 2011 so far.
 - In the Current Quarter the copper ore head grade was 2.20% (Comparative Quarter – 1.82%); copper concentrate grade was 23% (Comparative Quarter – 22%); and the copper circuit recovery rate was 86% (Comparative Quarter – 82%).
 - In the Current Period the copper ore head grade was 2.20% (Comparative Period – 1.83%); copper concentrate grade was 22% (Comparative Period – 22%); and the copper circuit recovery rate was 86% (Comparative Period – 83%).
- The poly-metallic circuit results were as follows:
 - Poly ore processed was 244,442 tonnes in the Current Quarter and 631,866 tonnes in the Current Period.
 - Produced 18,260 DMT of zinc concentrate in the Current Quarter and 50,893 DMT of zinc concentrate in the Current Period. The zinc ore head grade was 5.39% in the Current Quarter and 5.71% in the Current Period. Zinc concentrate grade achieved in the Current Quarter was 47% and the zinc recovery rate was 66%. In the Current Period the zinc concentrate grade was 48% and the zinc recovery rate was 68% (as compared to budget recovery rate of 66%).
 - In the Current Quarter copper concentrate production from this circuit was 6,106 DMT with a concentrate grade of 24% and recovery rate of 51%. These metallurgical results are the highest achieved in a quarter to date. In the Current Period copper concentrate production was 11,205 DMT with a concentrate grade of 23% and recovery rate of 38%.
 - In the Current Quarter lead concentrate production from this circuit was 7,280 DMT with a concentrate grade of 18% and recovery rate of 33%. In the Current Period lead concentrate production was 23,525 DMT with a concentrate grade of 18% and recovery rate of 39%.

- Concentrate inventory movements:

Concentrate inventory			Copper	Zinc
As at January 1, 2011		DMT	14,352	2,817
First quarter:	Production	DMT	27,408	17,366
	Shipments	DMT	<u>(14,926)</u>	<u>(13,175)</u>
As at March 31, 2011		DMT	26,834	7,008
Second quarter:	Production	DMT	28,300	15,236
	Shipments	DMT	<u>(38,243)</u>	<u>(10,831)</u>
As at June 30, 2011		DMT	16,891	11,413
Third quarter:	Production	DMT	28,707	18,260
	Shipments	DMT	<u>(26,532)</u>	<u>(25,092)</u>
As at September 30, 2011		DMT	<u>19,066</u>	<u>4,581</u>

- As expected, MATSA received the final 2.2 Mtpa expansion permit in October from the local Spanish mining authorities. Together with this authorization the second, parallel primary crusher and in-line secondary cone crusher, which was completed earlier in the year, started operating on November 1, 2011.
- On-going projects including status updates are as follows:
 - Earthwork related to the planned raising of the tailings deposit (second phase) has been completed. 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 the final operating permit was received in October 2011. The ROM pad expansion, for better blending of mined production to meet optimal mill feed parameters, was completed in Q1 of 2011.
 - Lead and copper cleaner column cells were installed in the processing plant to help improve copper and lead concentrate grades, with mixed results.
- Sotiel Project and Aguas Tenidas Expansion Project Update:
 - A project manager was hired during Q2 to lead the detailed engineering of both projects;
 - Engineering and consulting companies have been engaged to undertake detailed engineering of the projects. The formal decision to proceed with both projects is still pending and subject to completion of the economic analysis and board approval;
 - The primary focus at the Sotiel mine site is de-watering of the existing mine, which will allow access to the underground. A water treatment plant will be installed on site in conjunction with the de-watering of the Sotiel mine.

- Work has commenced in infrastructure, surveying, engineering and geology to prepare a feasibility report to be submitted in connection with the permitting process. In addition work is underway to validate historical resources to 43-101 compliant standards.
- Outside contractors will be undertaking survey work for roads and potential ramp locations. Regional and structural geology are also being compiled to aid in interpretation of the Sotiel deposits.
- The approved budget for the Sotiel Project and Aguas Tenidas Expansion Project evaluation is \$20 million to be incurred over the remainder of 2011 and early 2012.

CMC

The following are the highlights of CMC for the three and nine months ended September 30, 2011 and 2010:

- Ore processed in the Current Quarter exceeded that of the Comparative Quarter by 6%. Ore processed in the Current Period exceeded that of the Comparative Period by 6%. The copper ore grade in the Current Quarter was 1.05% versus a copper ore grade of 1.21% in the Comparative Quarter. For the Current Period the copper ore grade was 1.09% versus 1.16% in the Comparative Period. Contained copper produced in the Current Quarter decreased by 6% versus the Comparative Quarter. For the Current Period the contained copper production exceeded the Comparative Period by 1%. The contained copper production in 2011 has been negatively impacted by a lower average copper head grade of the ore versus 2010. This has been partially off-set by an increase in the ore processed during 2011.
- Operating statistics for the three and nine months ended September 30, 2011 and 2010 were:

Periods ended September 30,	Unit	Three months		Nine months	
		2011	2010	2011	2010
Ore mined	t	608,008	550,346	1,787,493	1,654,379
Ore processed	t	597,139	564,541	1,769,167	1,666,932
Copper ore grade	%	1.05	1.21	1.09	1.16
Concentrate grade	%	23	25	24	25
Copper recovery rate	%	91	90	90	89
Copper concentrate	DMT	24,551	24,544	72,428	68,840
Copper contained in concentrate	FMT	5,688	6,088	17,387	17,252
Gold contained in concentrate	oz	3,543	3,382	10,574	10,660
Silver contained in concentrate	oz	79,404	76,216	240,667	207,925
Payable copper contained in concentrate	FMT	5,424	5,823	16,588	16,491
Payable gold contained in concentrate	oz	3,207	3,065	9,574	9,334
Payable silver contained in concentrate	oz	71,213	68,363	215,625	191,329
Cash Operating Cost per lb of payable copper	USD	\$ 1.19	\$ 0.99	\$ 1.12	\$ 1.02

- Cash Operating Cost for the Current Quarter was \$1.19 per payable pound of copper (Comparative Quarter – \$0.99). In the Current Period the Cash Operating Cost was \$1.12 per payable pound of copper (Comparative Period - \$1.02). Contributing to the increased costs were higher development costs, ore and waste transportation costs and higher consumables costs in the processing plant.
- The secondary crushing capacity expansion was completed in the second quarter of 2011 at an actual cost of \$3.90 million. The additional crushing provides added flexibility and reliability in the processing plant.

- 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. 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 was funded through leasing arrangements and operating cash flows. Major project works were completed in Q2 2011 such that the processing plant reached 6,600 tpd of ore processed in June 2011.
- Processing plant optimization projects are being carried out during the remainder of 2011 to allow for operations at 7,000 tpd. This further expanded ore processing rate is expected to be implemented in Q1 2012. The total cost of the phased expansion from 6,000 tpd to 7,000 tpd is expected to be \$14.2 million and includes all activities carried out and described above. The majority of the spending has already occurred.
- Current exploration activities are being carried out at Condestable Norte, Vinchos Centro, Vinchos Sur and the old Progreso open pit. The work is being complemented with at-depth geophysical studies, using the Titan 24. The program is expected to be completed by the end of 2011 with final results to follow thereafter.

6. Non-IFRS measures

The Company has included certain non-IFRS measures including “Cash Operating Cost per pound of payable copper” and “cash flow from operating activities before changes in non-cash working capital” in this MD&A. Non-IFRS measures do not have any standardized meaning prescribed under IFRS, 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 IFRS.

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.

7. 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 September 30, 2011 and December 31, 2010 and for the nine months ended September 30, 2011 and 2010:

<i>(thousands of U.S. Dollars)</i>	As at September 30, 2011	As at Dec. 31, 2010
Cash	25,126	12,964
Restricted cash	25,277	21,606
Working capital (deficiency)	(90,184)	(396,528)

For the period ended September 30,	Nine months	
	2011	2010
Cash flows		
Cash flow from operating activities after changes in working capital items	(1,774)	428
Cash flow from operating activities before changes in working capital items	22,284	24,656
Cash flow from financing activities	44,364	45,207
Cash used by investing activities	(29,738)	(48,510)

Cash and cash equivalents as at September 30, 2011 increased to \$25.13 million from \$12.96 million at December 31, 2010. The net increase was due to the combined impact of cash generated from operations and financing activities net of capital expenditures for the year to date 2011 of \$29.74 million and loan repayments of \$7.53 million in the first nine months of 2011.

Iberian reported working capital deficiency of \$80.85 million at September 30, 2011 compared with \$396.53 million at December 31, 2010. The \$315.68 million decrease in working capital deficiency is primarily due to the combined impact of:

- \$11.65 million increase in trade and other receivables;
- \$10.80 million increase in inventories;
- \$30.79 million increase in trade and other payables (includes deferred revenue of \$35.65 million);
- \$60.00 million decrease in contingent consideration liability; and
- \$216.09 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 provided by operations before changes in non-cash working capital items for the Current Period was \$22.28 million compared to cash provided by operations of \$24.66 million for the Comparative Period. Cash flow used in operations after changes in working capital items for the Current Period was \$1.77 million, compared to cash generation of \$0.43 million for the Comparative Period.

Financing activities

CMC

In May 2011 Condestable amended its senior, secured debt facility with sole lead arranger Societe Generale S.A. The amended facility provided an additional \$15.00 million to the prior \$55.00 million facility. Upon drawdown under the amended facility terms, the aggregate principal amount outstanding was \$60.00 million and the maturity date was extended by six months 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.

MATSA

During the nine month period ended September 30, 2011 MATSA repaid \$2.03 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 condensed consolidated 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 \$50.00 million outstanding under the Senior Facility was classified as current as at December 31, 2010. During Q3 2011 MATSA and the senior lenders executed a waiver agreement to remedy the aforementioned covenant breaches. The principal amount of the Senior Facility that is due beyond the next twelve months (\$30.00 million) was re-classified to non-current liabilities as at September 30, 2011. As at September 30, 2011 the current portion of the Senior Facility, due within the next twelve months, was \$17.00 million.

Subsequent to the end of Q3 2011 MATSA repaid \$5.00 million of principal due in October 2011. This amount was classified as restricted cash as at September 30, 2011 as it was set aside in the facility account.

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.

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 agreed to purchase, on a bought deal basis, 84,444,500 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\$ 76 million (the "Offering"). The net proceeds of the Offering were used to finance the \$60 million NPI Buy-out with the remaining funds to pay for Iberian's work program at its Sotiel property and for general working capital purposes. The Offering closed on June 24, 2011.

Trafigura purchased 40,617,805 registered shares through the Offering. Subsequent to the Offering and completion of the NPI Buy-out, Trafigura owns approximately 48.3% of all outstanding registered shares of Iberian.

In September 2011 CMC declared a dividend to its shareholders in the gross amount of \$21.86 million. The portion paid to Iberian, as 98.73% shareholder of CMC, was used to settle inter-group debt between Iberian Minerals Corp. (Switzerland) and CMC. As a result of this transaction CMC was required to pay a withholding tax in Peru in the amount of \$0.89 million and dividends to the minority shareholders of CMC of \$0.28 million. The benefit of this transaction for the Company was to reduce income tax exposure in Peru on the debt interest. Due to the tax position of the Company in Switzerland the dividend income received by Iberian is not expected to be taxable.

Cash provided by financing activities for the Current Period was \$44.36 million compared to \$45.21 million in the Comparative Period.

Investing activities

Capital expenditures for the Current Period were \$29.74 million (Comparative Period - \$48.51 million). In the Current Period, property plant and equipment expenditures were \$23.00 million by MATSA primarily relating to the tailings expansion project (second phase), crushing expansion and long-term mine development, and \$6.87 million incurred by CMC related to its plant expansion activities.

8. Capitalization

Equity as at September 30, 2011 was \$408.11 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 September 30, 2011 and December 31, 2010:

	September 30, 2011	December 31, 2010
Registered shares issued and outstanding	452,502,899	360,055,865
Stock options	13,800,000	10,930,000
Warrants	52,283,209	52,283,209
Potential dilution of convertible debenture	-	6,445,983
Total	518,586,108	429,715,057

Share Capital

As at September 30, 2011, the Company had 452,502,899 registered shares outstanding (December 31, 2010 – 360,055,865). The basic weighted average number of registered shares outstanding for the nine month period ended September 30, 2011 was 396,429,365 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.

In connection with the aforementioned Offering, the Company issued 84,444,500 registered shares on June 24, 2011 at an issue price of CA\$ 0.90 per registered share. Gross proceeds of the Offering were CA\$ 76.00 million. The Company paid a commission to the Underwriters in the amount of CA\$ 1.97 million.

As partial consideration for the NPI Buy-out, Iberian issued to Trafigura 1,236,551 registered shares at a deemed issue price of CA\$ 0.90 on June 30, 2011.

The Company issued 320,000 registered shares in the nine month period ended September 30, 2011 as a result of the exercise of stock options by an employee and a director. The average exercise price of the options exercised was CA\$ 0.56. The Company received proceeds in the amount of CA\$ 0.18 million.

Warrants

As at September 30, 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 September 30, 2011:

	Number of Stock options	Weighted average exercise price (CA\$)
Balance , December 31, 2010	10,930,000	0.92
Exercised	(320,000)	(0.56)
Cancellations/expiries	(1,935,000)	(1.23)
Granted	5,125,000	0.90
Balance, September 30, 2011	13,800,000	0.88
Exercisable, September 30, 2011	7,614,988	0.94

During the period ended September 30, 2011 the Company granted a total of 5,125,000 stock options to directors, officers and employees. The options have a term of 5 years from the date of issuance and are exercisable at a price of CA\$ 0.90. The options are subject to vesting provisions.

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 September 30, 2011 is \$nil due to Trafigura (December 31, 2010 – \$0.01).

Trafigura has lent the Company €10.67 million (\$14.52 million at September 30, 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 September 30, 2011 this loan has \$0.72 million included in interest payable at an interest rate of 4.22%.

MATSA previously entered into certain foreign exchange forward contracts with Trafigura as counterparty. The fair value of all foreign exchange contracts held by Trafigura, as counter-party as at September 30, 2011 was a liability of \$1.10 million (December 31, 2010 –\$14.34 million). The foreign exchange forward contracts held by MATSA with Trafigura as counter-party total \$17.46 million as at September 30, 2011.

Included in receivables is \$42.93 million as at September 30, 2011 (December 31, 2010 - \$32.50 million), of which \$10.42 million (2010 - \$4.09 million) is due from Trafigura for copper, zinc and lead concentrates produced by MATSA and \$32.50 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.

The Company purchased the NPI from Trafigura for \$60 million in June 2011. The terms of the NPI Buy-out were negotiated pursuant to a share purchase agreement dated November 20, 2007 when Iberian agreed to purchase its initial 92% interest in CMC from Trafigura.

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 ("USD"), Peruvian New Soles ("PEN") and to a lesser extent Canadian dollars ("CAD") 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 third quarter of 2011 the Company recognized foreign exchange gain of \$4.77 million (Q3 2010 – \$0.18 million). During the nine months ended September 30, 2011 the Company recognized foreign exchange gain of \$1.61 million (2010 – gain of \$6.39 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 September 30,	Three months		Nine months	
	2011	2010	2011	2010
Average exchange rate				
CAD-USD	1.0203	0.9625	1.0227	0.9659
EUR-USD	1.4155	1.2891	1.4071	1.3147
CHF-USD	1.2176	0.9668	1.1432	0.9377
PEN-USD	0.3607	0.3508	0.3573	0.3479

As at,	Sep. 30, 2011	Dec. 31, 2010
Period-end exchange rate		
CAD-USD	0.9540	1.0054
EUR-USD	1.3506	1.3339
CHF-USD	1.1089	1.0686
PEN-USD	0.3597	0.3520

11. Financial instruments - derivatives

The Company recorded an unrealized gain on derivative financial instruments of \$164.22 million in the third quarter of 2011 compared with an unrealized loss on derivative financial instruments of \$97.86 million in the third quarter of 2010. During the nine months ended September 30, 2011 the Company recorded an unrealized gain on derivative financial instruments of \$292.66 million (2010 – gain of \$21.09 million). These unrealized gains and losses on derivative financial instruments were discussed in section 4 of this MD&A.

As at September 30, 2011, the net derivative instruments liability was \$6.54 million (December 31, 2010 – \$299.20 million), which comprised of a current liability of \$23.34 million and a non-current asset of \$16.80 million. The \$292.66 million decrease in the liability in the period is partially due to the impact of copper and zinc hedge positions that matured in the first nine months of 2011. Upon maturity the Company records the eventual realized gain or loss on derivative instruments in its sales. During the first nine months of 2011 the realized loss on commodity hedging contracts was \$171.03 million (2010 - \$69.55 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 September 30, 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 September 30, 2011:

MATSA

<u>Metal</u>	<u>Period</u>	<u>Contract type</u>	<u>Volume</u>	<u>Unit</u>	<u>Strike price per unit (U.S.\$)</u>
Copper	2011	Forward	4,973	Fine metric t	4,737
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	4,475	Fine metric t	1,628
Zinc	2012	Forward	13,446	Fine metric t	2,042
Zinc	January - March 2013	Forward	1,125	Fine metric t	2,272
Lead	2011	Forward	500	Fine metric t	2,613
Silver	2011	Forward	51,875	Fine ounces	37.06
<u>Collar hedging ranges</u>					
Silver	January 2012 - March 2013	Put options purchased	68,550	Fine ounces	35.00
		Call options sold		Fine ounces	45.50
Silver	January 2012 - March 2013	Put options purchased	148,500	Fine ounces	35.00
		Call options sold		Fine ounces	45.89
Silver	January 2012 - March 2013	Put options purchased	76,179	Fine ounces	35.00
		Call options sold		Fine ounces	46.00
Silver	April 2013 - December 2013	Put options purchased	136,170	Fine ounces	35.00
		Call options sold		Fine ounces	48.50

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

CMC

Metal	Period	Contract type	Volume	Unit	Strike price per unit (U.S.\$)
Copper	2011	Forward	5,225	Fine metric t	3,408
Copper	January 2012	Forward	1,750	Fine metric t	3,408
Gold	2011	Forward	600	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
Copper	April 2013 - December 2013	Put options purchased	4,500	Fine metric t	8,000
		Call options sold		Fine metric t	10,100
Silver	October 2011 - September 2013	Put options purchased	204,000	Fine ounces	40.00
		Call options sold		Fine ounces	50.10

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 September 30, 2011:

Foreign exchange contracts - sell - Euro/US\$				
Period	Contract type	Amount US\$	Forward rate	
2011	Forwards	6,160,000	1.3690	
2012	Forwards	27,437,000	1.3944	
January - March 2013	Forwards	6,446,000	1.4324	

As at September 30, 2011, the mark to market unrealized loss position of the foreign exchange forward contracts was \$1.59 million. Trafigura is the counter-party to certain of these foreign exchange forward contracts in the amount of \$17.46 million, and represents 44% of total U.S. dollar value of these forward contracts.

12. Income taxes

The Company recorded income tax expense of \$19.11 million for the Current Quarter as compared to income tax recovery of \$26.18 million in the Comparative Quarter. The income tax provision for the Current Quarter is made up of a current income tax recovery of \$0.93 million and future income tax expense of \$20.04 million. In the Comparative Quarter the income tax provision was made up of a current income tax expense of \$2.93 million and a future income tax recovery of \$29.11 million.

The Company recorded income tax expense of \$25.15 million for the Current Period as compared to income tax expense of \$9.41 million in the Comparative Period. The income tax provision for the Current Period is made up of a current income tax expense of \$0.15 million and future income tax expense of \$25.00 million. In the Comparative Period the income tax provision was made up of a current income tax expense of \$5.61 million and a future income tax expense of \$3.80 million.

The current income tax expense (recovery) in both periods primarily reflects the current taxes incurred at CMC in the Peruvian tax jurisdiction. The future tax expense in the Current Period and Current Quarter was primarily due to the tax effect of unrealized hedging gains described above.

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 had the right until June 30, 2011 to purchase the NPI for \$60.00 million.

As previously discussed the Company completed the buy-out of the NPI on June 30, 2011.

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 September 30, 2011 the liability recorded was \$nil (December 31, 2010 - \$60.00 million).

14. Off-balance sheet arrangements

The Company has no off-balance sheet arrangements.

15. Subsequent events

The significant transactions occurred subsequent to September 30, 2011:

- i. In October 2011 MATSA provided a bank guarantee of \$2.40 million (€1.76 million) to the Spanish mining authorities in connection with the granting of the final permit to allow expanded operations of MATSA at a level of 2.2 million tonnes per year of extracted and processed ores. The permit also covered other minor projects;
- ii. On October 20, 2011, MATSA made its scheduled \$5.00 million principal repayment under the terms of the Senior Facility. Following this payment the principal outstanding under the Senior Facility was reduced to \$42.00 million.

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 and second quarters 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.

The condensed consolidated financial statements for the third quarter of 2011 include reconciliations from previous Canadian GAAP reporting to IFRS of net income and comprehensive income for the three and nine months ended September 30, 2010. Also included is a reconciliation of equity as at September 30, 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 and nine months ended September 30, 2011.

19. Other Information

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