



**IBERIAN**  
MINERALS



Iberian Minerals Corp.

Management's Discussion and Analysis  
Three months ended March 31, 2010

## Introduction

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

This Management’s Discussion and Analysis (“MD&A”) has been prepared as of May 19, 2010. This MD&A is intended to supplement and complement the unaudited interim consolidated financial statements and notes thereto for the three months ended March 31, 2010 (collectively the “Financial Statements”). The reader should review the Financial Statements in conjunction with the review of this MD&A. This MD&A should be read in conjunction with both the annual audited consolidated financial statements for the year ended December 31, 2009, the most recent Annual Information Form (“AIF”) for the year ended December 31, 2009 and the 2009 Annual Report. These documents can be found at [www.sedar.com](http://www.sedar.com). The Company prepares and files its consolidated financial statements in accordance with Canadian generally accepted accounting principles (“GAAP”). The currency referred to in this document is the Canadian dollar, unless otherwise specified.

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

Unless otherwise noted, financial information is presented in thousands of Canadian 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. On June 17, 2009 the Company was re-domiciled from Canada to Switzerland, and is now governed by Swiss law.

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

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

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

## 2. Summarized results for the three months ended March 31, 2010

### Financial:

- Net loss was \$10.01 million or \$0.03 per share, compared with \$60.49 million or \$0.24 per share for the same period of 2009. The loss in 2010 was primarily due to an unrealized loss on derivative financial instruments of \$12.35 and a gross margin of \$(7.56) million partially off-set by a foreign exchange gain of \$13.60 million.
- Sales in the period were \$58.04 million compared to \$31.24 million for the same period of 2009.
- Cash flow from operations before changes in non-cash working capital was \$11.83 million compared with \$12.52 million for the same period of 2009. Cash flow from operations after changes in non-cash working capital was \$0.17 million compared with \$3.01 million for the same period of 2009.

### Operational – CMC:

- Operations at the Condestable Mine remained in a steady state however the copper ore grade was lower than expected at 1.10% versus 1.23% in the first quarter of 2009.
- CMC processed 551,683 tonnes of ore in the period versus 534,638 tonnes for the same period of the prior year (increase of 3%).
- Copper concentrate shipments in the period were 21,283 tonnes versus 24,339 tonnes in the prior year (decrease of 13%).
- Contained copper production in the period was 5,335 tonnes versus 6,114 tonnes in the prior year (decrease of 13%).
- Operating costs for the period, C1 and C3, were US\$ 1.06 and US\$ 1.59 per payable pound of copper versus prior year C1 and C3 of US\$ 0.81 and US\$ 1.04 respectively.

### **Other**

- CMC completed the previously announced purchase from Corianta S.A. of all remaining interest in the Raul Mine, which forms part of the Condestable operation (the "Raul Transaction"). The

purchase price was US\$ 28.00 million. As such, CMC is no longer obligated to make royalty payments that it was previously required to pay in connection with the lease of the Raul Mine.

- CMC completed the closing of a US\$ 55.00 million senior secured debt facility which ultimately funded the Raul Transaction.

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

- MATSA processed 285,212 tonnes of ore in the period.
- Shipments in the first quarter were 19,403 tonnes of copper concentrate, 5,959 tonnes of zinc concentrate and 6,071 tonnes of copper-lead bulk concentrate. Contained metal was 4,538 tonnes of copper and 2,933 tonnes of zinc.
- Operating costs for the first quarter (C1 and C3) were US\$ 2.23 and US\$ 3.18 per payable pound of copper. C1 and C3 cost figures were higher than anticipated for steady state as the production rate in the period was below current design capacity of 1.7 Mtpa at 84%. The copper circuit operated on target while the poly-metallic circuit was below target on throughput and zinc recovery; however improvement in the poly-metallic circuit was realized in the quarter versus the fourth quarter of 2009 as ore throughput and zinc recovery increased by 97% and 25% respectively.

**Other**

- MATSA received from the relevant authority of the Junta de Andalucia in Spain, the environmental authorization which permits the use of six new reagents for the operation of the new modular copper/lead flotation separation circuit at the Aguas Tenidas Mine. The reagents have been received on site and the bulk copper/lead separation circuit started in early April.
- Subsequent to the end of the first quarter, MATSA completed the closing of a US\$ 50.00 million senior secured, revolving debt facility which has resolved the previously announced funding shortfall.

**3. Overview of financial results**

The following table presents a summarized Statement of Operations for the three months ended March 31, 2010 with comparatives for the three months ended March 31, 2009.

For accounting purposes, to September 30, 2009, MATSA was considered to be in a pre-production phase. As such, sales and costs and expenses of mining operations incurred in this phase were not recognized in the operating statement for the comparative period (three months ended March 31, 2009). Commercial production at MATSA was declared with effect from October 1, 2009. Sales and costs of expenses of mining operations for MATSA have been recognized in the operating statement of the Company in the current period (three months ended March 31, 2010).

Three months ended March 31,	2010	2009
	\$	\$
<b>Sales</b>	<b>58,037</b>	31,238
Costs and expenses of mining operations	<b>46,043</b>	15,563
Mine site amortization	<b>19,558</b>	7,590
<b>Gross margin</b>	<b>(7,564)</b>	8,085
<b>Expenses</b>		
Administrative expenses and other	<b>4,027</b>	3,176
Foreign exchange (gain)/loss	<b>(13,602)</b>	1,445
Unrealized loss on derivative financial instruments	<b>12,352</b>	87,646
Total expenses	<b>2,777</b>	92,267
<b>Net loss before income taxes</b>	<b>(10,341)</b>	(84,182)
Non-controlling interest	-	(424)
Income tax expense	<b>1,479</b>	4,132
Future income tax recovery	<b>(1,814)</b>	(27,400)
<b>Net loss</b>	<b>(10,006)</b>	(60,490)
Basic (loss) income per share (\$)	<b>(0.03)</b>	(0.24)
Diluted (loss) income per share (\$)	<b>(0.03)</b>	(0.24)

During the three month period ended March 31, 2010 the Company recorded net loss of \$10.01 million or \$0.03 per share compared to net loss of \$60.49 million or \$0.24 per share for the same period of 2009. Gross margin for the period was \$(7.56) million compared to \$8.09 million for the same period of 2009. Net loss before income taxes for the period was \$10.34 million compared to \$84.18 million for the same period of 2009. The \$50.48 million decrease in net loss in 2010 was primarily due to a reduced unrealized loss on derivative financial instruments of \$12.35 million versus \$87.65 million for the same period of 2009.

Sales were \$58.04 million (2009 - \$31.24 million) and costs and expenses of mining operations were \$46.04 million (2009 - \$15.56 million). Mine site amortization increased from \$7.59 million in 2009 to \$19.56 million in 2010. Gross margin for the period was \$(7.56) million (2009 - \$8.09 million). The Company's sales of payable copper increased 61% from 5,824 tonnes in 2009 to 9,441 tonnes in 2010. The Company sold 2,456 tonnes of zinc in 2010 (2009 – nil). Costs and expenses of mining operations increased by 196% versus the prior year. Mine site amortization increased by 158% versus the prior year. The significant increases in sales, costs and expenses of mining operations and mine site amortization were due to the inclusion of operating results for MATSA in its first year of commercial production.

Total expenses decreased in the period from \$92.27 million in 2009 to \$2.78 million in 2010 due to the cumulative effect of the following:

- i. Unrealized loss on derivative financial instruments was \$12.35 million in 2010 versus \$87.65 million in 2009. This reduced loss is primarily due to the differential between the hedged commodity prices or hedged foreign exchange rates and market commodity prices or exchange rates as at March 31, 2010 and 2009 and the movement in this fair value adjustment since December 31, 2009 and 2008. **This is an unrealized loss that must be recorded in accordance with GAAP. Future losses (or gains) to be realized upon settlement of the commodity derivative contracts or foreign exchange forward contracts may differ materially. For further discussion please refer to section 11 of this MD&A.**
- ii. Foreign exchange gain increased to \$13.60 million in 2010 from loss of \$1.45 million in 2009. The increase was due to a greater strengthening in the Canadian dollar against the US dollar, Euro and New Soles ("PEN") and the impact on translation into Canadian dollars of foreign denominated working capital accounts.

- iii. Finance charges increased to \$2.33 million in 2010 from \$0.96 million in 2009 primarily due to higher interest expense incurred related to the US\$ 21.00 million bridge loan from Trafigura which was not outstanding in 2009 and margin call interest incurred on commodity forward contracts that were in a negative mark to market position.
- iv. The remaining accounts (administrative expenses, stock option compensation, convertible debenture interest and accretion, corporate amortization, and interest income) all experienced immaterial changes in the current year period versus 2009.

As at March 31, 2010, property, plant and equipment, net of accumulated amortization was \$440.21 million (December 31, 2009 - \$431.12 million). The increase (net of amortization) of \$9.09 million during the period primarily related to the impact of the Raul Transaction by CMC.

Current income tax expense for the three months ended March 31, 2010 was \$1.48 million (2009 – \$4.13 million). The decrease of \$2.65 million was due to lower taxable income generated at CMC as a result of lower sales in 2010. Future income tax recovery for the period ended March 31, 2010 was \$1.81 million (2009 - \$27.40 million). The future tax recovery primarily related to the future tax impact of the unrealized loss on derivative financial instruments. MATSA's future tax assets were realized only to the extent that they offset future income tax liabilities.

#### Realized metals prices

The average prices of copper, zinc, gold and silver for the three months ended March 31, 2010 and 2009 are summarized below:

CMC <i>(prices in U.S. Dollars)</i>	Realized prices		Market prices	
	Three months		Three months	
For the period ended March 31,	2010	2009	2010	2009
Copper (per lb.)	<b>2.05</b>	1.93	<b>3.28</b>	1.56
Gold (per oz.)	<b>1,035</b>	886	<b>1,109</b>	909
Silver (per oz.)	<b>17.03</b>	13.72	<b>16.92</b>	12.61

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

MATSA <i>(prices in U.S. Dollars)</i>	Realized	Market
	2010	2010
For the 3 months ended March 31,	2010	2010
Copper (per lb.)	<b>2.58</b>	<b>3.28</b>
Zinc (per lb.)	<b>0.97</b>	<b>1.04</b>
Silver (per oz.)	<b>17.08</b>	<b>16.92</b>

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

## Summary of Consolidated Quarterly Results

	<b>Q1</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>
	<b>March 31,</b>	<b>December 31,</b>	<b>September 30,</b>	<b>June 30,</b>
	<b>2010</b>	<b>2009</b>	<b>2009</b>	<b>2009</b>
Sales	\$ 58,037	\$ 70,839	\$ 29,322	\$ 29,734
Net loss	(10,006)	(68,344)	(75,197)	(45,610)
Net loss per share basic	(0.03)	(0.22)	(0.22)	(0.15)
Net loss per share fully diluted	(0.03)	(0.22)	(0.22)	(0.15)
Total assets	545,322	548,978	534,012	565,023
Cash and cash equivalents	9,222	15,453	12,298	34,016
Shareholders' equity	73,740	82,460	150,856	226,742

	<b>Q1</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>
	<b>March 31,</b>	<b>December 31,</b>	<b>September 30,</b>	<b>June 30,</b>
	<b>2009</b>	<b>2008<sup>(1)</sup></b>	<b>2008<sup>(1)</sup></b>	<b>2008<sup>(1)</sup></b>
Sales	\$ 31,238	\$ 22,400	\$ 27,501	\$ 29,153
Net income (loss)	(60,490)	(16,147)	173,287	(59,288)
Net income (loss) per share basic	(0.24)	(0.06)	0.68	(0.23)
Net income (loss) per share fully diluted	(0.24)	(0.06)	0.61	(0.23)
Total assets	510,866	591,068	837,487	754,990
Cash and cash equivalents	17,349	77,397	27,639	55,059
Shareholders' equity	\$ 246,263	\$ 298,791	\$ 252,280	\$ 83,448

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

## 4. Operational results

### MATSA

Operating statistics for the three months ended March 31, 2010 and December 31, 2009 are as follows. Commercial production at Aguas Tenidas was declared during the fourth quarter of 2009 and as such there are no prior year comparatives for the first quarter. As a basis of comparison for the current period, the Company has elected to present operational results from the fourth quarter of 2009.

Three months ended,	Unit	March 31, 2010	December 31, 2009
<b><u>Copper ore</u></b>			
Ore mined	t	285,212	322,275
Ore processed	t	281,685	321,951
Copper ore grade	%	1.88	1.84
Concentrate grade	%	23	23
Copper recovery rate	%	86	81
Copper concentrate	DMT	19,403	20,398
Copper contained in concentrate	t	4,538	4,800
Silver contained in concentrate	oz	64,471	51,536
Payable copper contained in concentrate	t	4,344	4,596
Payable silver contained in concentrate	oz	45,756	31,862
<b><u>Polymetallic ore</u></b>			
Ore mined	t	61,659	56,881
Ore processed	t	75,875	38,507
Copper ore grade	%	1.27	1.20
Copper/lead bulk concentrate grade	%	10	12
Copper recovery rate	%	66	62
Zinc ore grade	%	6.11	6.57
Zinc concentrate grade	%	49	49
Zinc recovery rate	%	64	51
Copper/lead bulk concentrate	DMT	6,071	2,368
Zinc concentrate	DMT	5,959	2,473
Copper contained in concentrate	t	629	274
Zinc contained in concentrate	t	2,933	1,218
Silver contained in concentrate	oz	73,095	20,605
Payable copper contained in concentrate	t	568	250
Payable zinc contained in concentrate	t	2,456	1,020
Payable silver contained in concentrate	oz	54,911	18,321
C1 cost per lb of payable copper	USD \$	2.23	\$ 2.61
C3 cost per lb of payable copper	USD \$	3.18	\$ 3.34

- Operating costs for the first quarter (C1 and C3) were US\$ 2.23 and US\$ 3.18 per payable pound of copper. C1 and C3 cost figures were higher than anticipated for steady state as the production rate in the period was below nameplate capacity of 1.7 Mtpa at 84%. In comparison to the fourth quarter of 2009 the C1 and C3 cost indicators have improved by 15% and 5% respectively.
- The copper circuit operated on target while the poly-metallic circuit was below target on throughput and zinc recovery. The copper circuit recovery rate has increased to 86% in the first quarter, improving from 81% in the fourth quarter of 2009.

- With regards to the poly-metallic circuit, the zinc recovery realized significant improvement, increasing to 64% in the first quarter, up from 51% in the previous quarter. This is positive progress as the zinc recoveries are expected to increase towards a target recovery of 75%.
- MATSA received from the relevant authority of the Junta de Andalucia in Spain, the environmental authorization which permits the use of six new reagents for the operation of the new modular copper/lead flotation separation circuit. The reagents have been received on site and the bulk copper/lead separation circuit started in early April. Separation of the copper in the poly-metallic circuit is now being achieved, although further optimization is required.
- Mine development is on schedule, with the ramp extension and lower level development being performed by a mining contractor. Successful labour negotiations have resulted in the securing of a seven day working week for mine production and development personnel who will complement plant and haulage personnel already on seven day per week work schedules. The new labour arrangements are with effect from May 18, 2010. Paste backfilling has greatly improved in recent weeks and is on schedule with prior backlog recovered and now up to date.
- Update on previously announced 30% processing plant expansion:
  - The expansion is progressing on schedule.
  - The major item for the expansion, being an additional deep cone thickener, is in construction.
  - The remaining modifications to the processing plant, including pumps, piping and electrical, are on-going and the expansion is expected to be completed by the end of August 2010 for planned expanded production rate in September 2010 of 6,000 tpd of processed ores.
  - The planned raising of the tailings deposit (second phase) has commenced and is expected to be completed by early Q1 of 2011. This work is being performed by a contractor under third party QA/QC supervision.
  - The expansion required the presentation of a revised Study and Unified Environmental Report. This was presented in April 2010. The local authorities have estimated a four month period to complete the review and authorization process, which is expected to be in time for the planned September 2010 start-up.

## CMC

The following are the highlights of CMC for the three months ended March 31, 2010 and 2009:

- Operations at the Condestable Mine remained in a steady state; however, the copper ore grade was lower than expected at 1.10% versus 1.23% in the first quarter of 2009. The low copper ore grade in 2010 was primarily due to mining development in certain veins that contained lower than expected grades. In addition a brief, illegal labour stoppage required that CMC process low grade, stockpiled ore for a period of 6 days in March. Operating results for the month of April 2010 have shown a return to target copper ore grades of 1.22% as mining development has returned to higher grade areas of the Karina Vein.
- Operating statistics for the three months ended March 31, 2010 and 2009 were:

Three months ended March 31,	Unit	Three months	
		2010	2009
Ore mined	t	<b>551,326</b>	527,327
Ore processed	t	<b>551,683</b>	534,638
Copper ore grade	%	<b>1.10</b>	1.23
Concentrate grade	%	<b>25</b>	25
Copper recovery rate	%	<b>88</b>	93
Copper concentrate	DMT	<b>21,283</b>	24,339
Copper contained in concentrate	t	<b>5,335</b>	6,114
Gold contained in concentrate	oz	<b>3,259</b>	4,686
Silver contained in concentrate	oz	<b>66,046</b>	60,487
Payable copper contained in concentrate	t	<b>5,097</b>	5,824
Payable gold contained in concentrate	oz	<b>2,951</b>	4,205
Payable silver contained in concentrate	oz	<b>59,144</b>	55,083
C1 cost per lb of payable copper	USD	<b>\$ 1.06</b>	\$ 0.81
C3 cost per lb of payable copper	USD	<b>\$ 1.59</b>	\$ 1.04

- Operating costs for the first quarter (C1 and C3) were US\$ 1.06 and US\$ 1.59 per payable pound of copper (2009 – C1 of US\$ 0.81 and C3 of \$1.04). The 31% increase in the C1 cost was due to a combination of lower payable copper produced (decrease of 12%) and higher operating costs. Operating costs were negatively impacted in the current period due to higher mine development costs and increased maintenance costs. The 52% increase in C3 cost, in addition to factors mentioned above, was due to a US\$ 1.40 million increase in the Raul mine royalty. This increase is attributed to an increased market copper price in 2010 versus 2009.
- A capital project to expand secondary crushing capacity was approved in the first quarter of 2010 at an expected cost of US\$ 3.30 million. The additional crushing capacity will provide added flexibility and reliability in the processing plant. Other sustaining capital projects are progressing on target through the first quarter.
- On March 30, 2010 CMC completed the previously announced Raul Transaction and now owns a 100% interest in the Raul Mine, which forms part of the Condestable operation. The purchase price was US\$ 28.00 million. As such, CMC is no longer obligated to make royalty payments that it was previously required to pay in connection with the lease of the Raul Mine.

## 5. Non-GAAP measures

The Company has included certain non-GAAP measures including “cash cost per pound of payable copper (C1 or C3)” and “cash flow from operating activities before changes in non-cash working capital” in this MD&A. Non-GAAP measures do not have any standardized meaning prescribed under Canadian GAAP, and therefore they may not be comparable to similar measures presented by other companies. These measures are intended to provide additional information and should not be considered in isolation or as a substitute for indicators prepared in accordance with Canadian GAAP.

The C1 cash 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.

The C3 cost per pound of payable copper includes C1 and additional costs such as site amortization, royalties and interest costs.

C1 and C3 indicators are consistent with the widely accepted industry standard established by Brook Hunt. Prior period C1 and C3 figures have been re-stated where necessary to conform to this standard.

## 6. Liquidity and capital resources

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

The following is a summary of the Company’s cash position and cash flows as at March 31, 2010 and December 31, 2009 and for the periods ended March 31, 2010 and 2009:

<i>(in thousands of Canadian Dollars)</i>	<b>As at March 31, 2010</b>	As at December 31, 2009
Cash	<b>9,222</b>	15,453
Restricted cash	<b>20,117</b>	24,796
Working capital (deficiency)	<b>(206,313)</b>	(215,612)

  

<i>(in thousands of Canadian Dollars)</i>	<b>2010</b>	2009
<b>Cash flows</b>		
Cash flow from operating activities after changes in working capital items	<b>1,168</b>	3,012
Cash flow from operating activities before changes in working capital items	<b>11,826</b>	12,515
Cash flow from financing activities	<b>25,136</b>	(6,390)
Cash flow to investing activities	<b>(31,699)</b>	(55,434)

Cash and cash equivalents as at March 31, 2010 decreased to \$9.22 million from \$15.45 million at December 31, 2009. The decrease in the period was primarily due to CMC’s investing activities (purchase of Raul Mine lease and royalty) partially off-set by cash flow from operating and financing activities.

Iberian reported working capital deficiency of \$206.31 million at March 31, 2010 compared with \$215.61 million at December 31, 2009. The \$9.30 million decrease in working capital deficiency is due to the combined impact of a decrease in trade payables and accrued liabilities of \$13.07 million, a decrease in current portion of long-term debt of \$18.28 million and an increase in current portion of future tax assets of \$3.16 million. This was partially off-set by a decrease in cash and cash equivalents of \$6.23 million, a decrease in restricted cash

of \$3.16 million, a decrease in trade and other receivables of \$3.38 million and an increase in current portion of derivative instruments of \$12.85 million.

As at March 31, 2010 the Company continued to anticipate, based on its forecasts, that MATSA was projecting a cash shortfall of approximately US\$ 40.00 million to US\$ 45.00 million. There can be no assurances that this figure will not increase when forecasts are updated in future periods. Subsequent to the end of the first quarter, in early April 2010, the Company completed a US\$ 50.00 million senior, secured debt facility for MATSA which addressed this funding shortfall. For further discussion refer to section 13 of this MD&A (Subsequent events).

With respect to the corporate and administrative function, the Company projects a funding shortfall of approximately \$3.00 million to \$4.00 million to the end of 2010. There can be no assurances that this range will not increase as the Company moves forward. The Company is currently evaluating external financing options to address the corporate cash shortfall and believes it may conclude a financing transaction by the end of the second quarter. However, the timing of completion is uncertain and subject to risk of deferral.

The Company's interim consolidated financial statements for the period ended March 31, 2010 have been prepared on the basis that it is a going concern. The Company's ability to continue as a going concern is uncertain and is dependent upon its ability to fund its working capital, the Aguas Tenidas capital requirements, and to generate sustained positive cash flows from MATSA. The interim consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate, and these adjustments may be material.

#### Operating cash flow

Cash flow provided by operations before changes in non-cash working capital items for the first quarter was \$11.83 million compared to \$12.52 million for the first quarter of 2009. Change in non-cash working capital items for the first quarter was \$(10.66) million, compared to \$(9.50) million for the first quarter of 2009. Cash flow provided by operations after changes in working capital items for the first quarter was \$1.17 million, compared to \$3.01 million for the first quarter of 2009.

#### Financing activities

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

On March 31, 2010 CMC completed an amended senior, secured debt facility (the "CMC Facility") with Societe Generale acting as Sole Lead Arranger and Scotiabank Peru S.A.A. acting as Mandated Arranger and On-shore Collateral Agent for a total of US\$ 55.00 million. The CMC Facility is a 3 year, non-revolving, facility and carries an interest rate of 3-month Libor plus 3.00%. The CMC Facility has scheduled, quarterly, repayments commencing June 30, 2010 to December 31, 2011 of US\$ 2.50 million and increasing to US\$ 7.50 million from March 31, 2012 to March 31, 2013. With the proceeds of the CMC Facility, CMC repaid the remaining principal outstanding of US\$ 25.50 million on the syndicated loan and repaid the US\$ 28.00 CMC Bridge Loan with Trafigura.

During the period MATSA entered into a series of short-term, Value Added Tax ("VAT") loans with Trafigura:

- i. On March 9, 2010, a VAT loan of US\$ 1.60 million was received from Trafigura. The interest rate was lender's cost of funds plus 4.00%. The loan is repayable on the earlier of receipt of VAT refund from the Spanish authorities or July 31, 2010;
- ii. On March 22, 2010, a VAT loan of US\$ 1.30 million was received from Trafigura. The interest rate was lender's cost of funds plus 4.00%. The loan is repayable on the earlier of receipt of VAT refund from the Spanish authorities or August 31, 2010.

Each of these loans is a related party transaction.

Net cash inflow from financing activities for the period ended March 31, 2010 was \$25.14 million compared to \$(6.39) million for the first quarter of 2009, due to long-term debt repayments in the prior year.

#### Investing activities

Capital expenditures for the first quarter of 2009 were \$31.70 million (2009 - \$55.43 million). The current period spending was primarily related to the US\$ 28.00 million cost of the Raul Transaction. The spending in the prior year primarily related to the on-going development and ramp-up of the MATSA operation.

Capitalized operating expenditures of \$3.68 million relating to MATSA, as it was in a pre-operating phase for accounting purposes until October 1, 2009, are included in the prior year balance.

## 7. Capitalization

Shareholders' equity as at March 31, 2010 was \$73.74 million compared to \$82.46 million as at December 31, 2009.

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

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Registered shares issued and outstanding	338,055,865	338,055,865
Options	8,715,000	8,715,000
Warrants	29,640,353	29,640,353
Potential dilution of convertible debenture	27,173,913	27,173,913
<b>Total</b>	<b>403,585,131</b>	<b>403,585,131</b>

#### Share Capital

As at March 31, 2010, the Company had 338,055,865 registered shares outstanding, unchanged from December 31, 2009. The basic weighted average number of registered shares outstanding was 338,055,865 shares for the three months ended March 31, 2010.

As of May 19, 2010 the total number of registered shares outstanding is unchanged at 338,055,865. The total number of registered shares, warrants, options and other dilutive instruments as of May 19, 2010 is 421,054,074.

#### Warrants

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

Subsequent to the period end, the Company issued 44,642,856 share purchase warrants to two private investors in connection with the issuance of the New Debentures (refer to section 13(b) of this MD&A for further discussion). The warrants are exercisable at a price of \$0.56 and will expire on December 31, 2011.

## Stock Options

The following table summarizes the stock option plan for the period ended March 31, 2010:

	Number of Stock options	Weighted average exercise price (\$)
Balance , December 31, 2009	8,715,000	1.02
Cancelled/ Expired	-	0.00
Granted	-	0.00
Balance, March 31, 2010	8,715,000	1.02
Exercisable, March 31, 2010	6,371,667	1.17

During the period ended March 31, 2010 no stock options were exercised.

## **8. Transactions with Related Parties**

The Company had the following transactions with related parties:

Trafigura provides management and administrative services to CMC. The amount charged for the period ended March 31, 2010 was US\$ 0.22 million (2009 – US\$ 0.19 million) which includes out-of-pocket expenses. Included in payables at March 31, 2010 is \$0.60 million (December 31, 2009 – \$0.01 million) due to Trafigura.

Trafigura lent the Company €10.67 million (\$14.65 million) to cover various social and environmental remediation guarantees at MATSA. This loan has a ten year term, expiring August 8, 2018 with an effective interest rate fixed at Libor plus 4.00%. At March 31, 2010 this loan has \$1.14 million included in interest payable at an interest rate of 4.80% (December 31, 2009 - \$0.08 million).

MATSA has entered into hedge forward contracts with Trafigura as counterparty. For more details see section 11 of this MD&A. In connection with the hedge contracts between MATSA and Trafigura, the cost of margin calls up to US\$ 40.00 million are fully covered by Trafigura. MATSA is charged interest at a rate of 4.98% by Trafigura on the excess. During the period ended March 31, 2010 MATSA incurred interest of US\$ 0.41 million (2009 – nil).

Included in receivables is \$15.45 million, of which \$7.25 million is due from Trafigura and \$8.20 million from Consorcio Minero S.A. ("Cormin"), a subsidiary of Trafigura. Both receivables relate to the sale of the Company's concentrates, which are sold exclusively to Trafigura and Cormin under long-term off-take agreements.

During the period, Value Added tax ("VAT") loans were advanced to MATSA from Trafigura. The loans were repayable on the earlier of receipt of VAT refunds from the Spanish tax authority or on maturity. On December 18, 2009, a VAT loan was advanced to MATSA in the amount of US\$ 2.40 million. The interest rate was borrower's cost of funds plus 4.00%. This loan shall remain in force until the date of its maturity which shall be the earliest of the date the borrower receives payment of VAT from the Spanish authorities or March 31, 2010. On March 9, 2010, a second VAT loan of US\$ 1.60 million was received from Trafigura. The interest rate was lender's cost of funds plus 4.00%. Interest on this loan for the three months ended March 31, 2010 was \$4. The loan is repayable on the earlier of receipt of VAT refund from the Spanish authorities or July 31, 2010. On March 22, 2010, a third VAT loan of US\$ 1.30 million was received from Trafigura. The interest rate was lender's cost of funds plus 4.00%. Interest on this loan for the three months ended March 31, 2010 was \$1. The loan is repayable on the earlier of receipt of VAT refund from the Spanish authorities or August 31, 2010. In April 2010, the Company repaid the first VAT loan of US\$ 2.40 million with interest of \$27 for the three months ended March 31, 2010.

In October 2009, the Company, through its subsidiary MATSA, arranged the US\$ 21.00 million bridge loan facility with Trafigura. Subsequent to March 31, 2010, this bridge loan facility was repaid.

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

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

## 9. Administration and Other Expenses

(thousands of Canadian dollars)	Period ended March 31,	
	2010	2009
Accounting and corporate services	\$ 22	\$ 6
Head office expenses	830	567
Professional and consulting fees	220	790
Transfer agent, listing and filing fees	21	19
Shareholders' information	9	28
Travel	–	39
Advertising, promotion and public relations	–	13
Occupancy costs	31	103
Directors' fees	52	56
	<b>\$ 1,185</b>	<b>\$ 1,621</b>

## 10. Foreign exchange

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

During the first quarter of 2010, the Company recognized foreign exchange gain of \$13.60 million (2009 – foreign exchange loss of \$1.45 million). The gain in the current year occurred as a result of a strengthening of the Canadian dollar versus the U.S. dollar, EUR, CHF and PEN and the impact this had on the translation of the Company's foreign denominated expenses and liabilities into Canadian dollars.

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

The following tables summarize the movement in key currencies versus the Canadian dollar:

	For the periods ended		
	March 31, 2010	March 31, 2009	December 31, 2009
<b>Average exchange rate</b>			
USD-CAD	<b>1.0409</b>	1.2453	1.1415
EUR-CAD	<b>1.4406</b>	1.6217	1.5851
CHF-CAD	<b>0.9844</b>	1.0841	1.0503
PEN-CAD	<b>0.3653</b>	0.3906	0.3787
	As at		
	March 31, 2010	March 31, 2009	December 31, 2009
<b>Period-end exchange rate</b>			
USD-CAD	<b>1.0158</b>	1.2613	<b>1.0510</b>
EUR-CAD	<b>1.3737</b>	1.6710	<b>1.5000</b>
CHF-CAD	<b>0.9646</b>	1.1058	<b>1.0107</b>
PEN-CAD	<b>0.3573</b>	0.3988	<b>0.3623</b>

## 11. Financial instruments - derivatives

The Company recorded an unrealized loss on derivative financial instruments of \$12.35 million for the first quarter of 2010 compared with \$87.65 million in the first quarter of 2009. This unrealized loss on derivative financial instruments was discussed in section 3 of this MD&A.

As at March 31, 2010, the derivative instruments liability was \$273.89 million (December 31, 2009 – \$276.12 million). The \$2.23 million decrease in the liability in the period is primarily due to the strengthening of the Canadian dollar versus the Euro and the impact this had on the Euro-denominated portion of the liability in the first quarter of 2010, partially offset by the impact of the unrealized derivative loss recorded in the period.

### Commodity hedging

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 loss represents the value on notional cancellation of these contracts based on market values as at March 31, 2010. Future losses (or gains) to be realized upon settlement of the commodity derivative contracts may differ materially.

The following summarizes the details of the commodities hedging program as at March 31, 2010:

MATSA

Metal	Period	Contract type	Volume	Unit	Strike price per unit (U.S.\$)
Copper	April - December 2010	Forward	20,400	Fine metric t	4,305
Copper	July - December 2010	Call options sold	6,100	Fine metric t	4,200
Zinc	April - December 2010	Forward	26,700	Fine metric t	1,667
Zinc	July - December 2010	Call options sold	4,900	Fine metric t	1,500

CMC

Metal	Period	Contract type	Volume	Unit	Strike price per unit (U.S.\$)
Copper	April - December 2010	Forward	15,700	Fine metric t	4,419
Copper	2011	Forward	20,625	Fine metric t	3,494
Copper	January 2012	Forward	1,750	Fine metric t	3,408
Gold	April - December 2010	Forward	1,800	Fine ounces	741.50
Gold	2011	Forward	2,400	Fine ounces	741.50

The hedging program for CMC is fixed and in accordance with the terms of the CMC Facility. Hedge positions for MATSA are continually reviewed and adjusted, to enhance alignment with evolving production schedules. Under the terms of the US\$ 50.00 million MATSA Facility, which was closed subsequent to the period end, the Company entered into a bank mandated hedging program under the terms of the MATSA Facility (refer to section 13 – Subsequent events, for further discussion).

Currency hedging

From time to time, MATSA will enter into arrangements to fix the exchange rate on certain of its U.S. dollar denominated cash flows. For the period ended March 31, 2010, the Company recorded an unrealized loss on its foreign exchange forward contracts of \$9,854 (2009 – nil). Foreign exchange positions as at March 31, 2010 were as follows:

Foreign exchange contracts - sell				
Period	Contract type	Amount US\$	Forward rate	
April - December 2010	Forwards	83,925,136	1.4320	
2011	Forwards	34,377,600	1.4324	
2012	Forwards	34,377,600	1.4324	
January - March 2013	Forwards	6,445,800	1.4324	

## 12. Off-balance sheet arrangements

The Company has no off-balance sheet arrangements.

## 13. Subsequent events

- a) In connection with the CMC Facility, CMC has entered into the following option contracts with Societe Generale from March 2012 to April 2013:
- (i) Sale of copper call options for 7,000 FMT of copper at US\$ 8,760 per FMT copper;
  - (ii) Purchase of copper put options for 7,000 FMT of copper at US\$ 6,500 per FMT of copper.
- Pre-existing forward copper contracts for CMC, as disclosed in section 11, of this MD&A remain in effect.
- b) The Company completed a re-financing of its \$25.00 million convertible debenture held by Dundee Resources. The Company re-financed the Dundee Resources debenture with two private investors (the "New Debentures") and Dundee Resources was repaid \$25.00 million principal, with accrued interest of \$0.03 million on April 13, 2010.

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

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

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

The initial draw-down under the Senior Facility, in the amount of US\$ 37.00 million occurred on April 22, 2010. Upon initial draw-down, MATSA repaid a US\$ 21.00 million bridge facility held by Trafigura. A further drawdown of US\$ 8.00 million occurred such that the balance outstanding on the Senior Facility as at May 18, 2010 is US\$ 45.00 million.

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

Pursuant to the Senior Facility, MATSA is to maintain a commodity hedging program under certain conditions and by way of forward sales, asian swap sales or a combination of options, the main conditions are outlined below:

- (i) At any time prior to December 31, 2010, no more than:
  - 50% of the forecasted annual production of payable copper, lead and silver and of hedgeable zinc at MATSA; or
  - 70% of proven and probable reserves of MATSA
- (ii) At any time after January 1, 2011, no more than:
  - 70% of the forecasted annual production of payable copper, lead and silver and of hedgeable zinc at MATSA; or
  - 70% of proven and probable reserves of MATSA.

Pursuant to the Senior Facility, MATSA is to maintain a foreign exchange hedging program under certain conditions and by way of currency puts, calls, options, swaps or other hedging transaction of a similar nature to mitigate foreign currency exchange risk in respect of capital and operating expenditures by MATSA, the main conditions are outlined below:

- (i) No more than 100% of the foreign currency exchange exposure of capital and operating expenditures from the date of the agreement until the full repayment
- (ii) No speculative foreign currency exchange transactions shall be undertaken

As a result, MATSA has restructured its existing commodity and foreign exchange forward contracts and entered into new commodity and foreign exchange forward contracts such that the forward contracts in force at MATSA, as at April 14, 2010 are summarized as follows:

<b>Copper</b>			
<b>Period</b>	<b>Contract type</b>	<b>FMT (Fine metric tons)</b>	<b>Strike price US\$/FMT</b>
April 2010 – December 2010	Forward	4,104	4,300
April 2010 – December 2010	Call options sold	6,100	4,200
January 2011 – December 2011	Forward	19,602	4,865
January 2012 – December 2012	Forward	17,496	7,390
January 2013 – March 2013	Forward	1,800	7,319

  

<b>Zinc</b>			
<b>Period</b>	<b>Contract type</b>	<b>FMT (Fine metric tons)</b>	<b>Strike price US\$/FMT</b>
April 2010 – December 2010	Forward	4,959	1,630
April 2010 – December 2010	Call options sold	4,900	1,500
January 2011 – December 2011	Forward	16,848	1,601
January 2012 – December 2012	Forward	13,446	2,042
January 2013 – March 2013	Forward	1,125	2,272

The forward foreign exchange contracts in force at MATSA are as follows:

<b>Foreign exchange contracts – Euro/US\$</b>			
<b>Period type</b>	<b>Contract</b>	<b>Amount US\$ (000)</b>	<b>Forward rate US\$</b>
April 2010 – December 2010	Forward	85,575	1.4305
January 2011 – December 2011	Forward	50,806	1.4113
January 2012 – December 2012	Forward	45,330	1.4166
January 2013 – March 2013	Forward	6,446	1.4324

The counterparties to all commodity and foreign exchange contracts are BNP Paribas, Natixis and Societe Generale. Trafigura is counterparty to certain foreign exchange contracts.

#### **14. Risk factors**

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

#### **15. Critical accounting estimates**

The preparation of the March 31, 2010 interim consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods then ended. Critical accounting estimates represent estimates that are uncertain and for which changes in those estimates could materially impact on the Company's financial statements. Management reviews its estimates and assumptions on an ongoing basis using the most current information available.

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

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

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

#### Project Update

A project team was established at the inception of the project and is providing overall guidance to the conversion project. The audit committee of the Company is kept informed of management's decisions on

accounting policy choices under IFRS, project status and IFRS developments. The Company completed a work plan for the design and implementation phases of the project which are underway.

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

- Training programs – All major company personnel impacted by the IFRS changeover from site staff to the executive management and directors will undergo various levels of training. Training programs are currently being developed.
- Communication programs – The project team regularly communicates project status and significant impacts of transition to affected parties.
- Revision of accounting policies – The project team is in the process of drafting accounting papers to document IFRS decisions made. These accounting papers will serve as the Company's new accounting policy manual.
- Preparation of draft IFRS financial statements templates, disclosures and related decisions – This activity has not yet commenced and is scheduled for execution and completion by Q3 of 2010.
- Preparation and auditor procedures on the IFRS opening balance sheet for January 1, 2010 – Significant differences between Canadian GAAP and IFRS impacting the Company's opening balance sheet for January 1, 2010 are in the process of being measured. The Company's external auditor will perform procedures on the IFRS opening balance sheet later this year.

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

#### Future Expected Changes to IFRS

The Company is monitoring current IFRS developments during the design and implementation phase as numerous changes are expected to come into effect prior to the adoption date.

### **17. Changes in accounting policies and new accounting pronouncements**

The Company reported no changes to its accounting policies in the period ended March 31, 2010 and did not adopt any new accounting pronouncements in the same period.

### **18. Outlook**

The outlook for CMC is positive in that it will continue to produce copper concentrate at similar levels to 2009. CMC set two priorities entering 2010. The first priority was to complete the Raul Transaction, which occurred on March 31, 2010. The purchase of the Raul mine lease and royalty generally allows for greater control over the mining operation and eliminates the Raul royalty payments. In connection with this, CMC successfully completed the CMC Facility. The second priority is to improve reliability of the operation by investing US\$ 3.30 million in improvement of secondary crushing. This project is progressing on target.

It is expected that CMC will process 2.2 million tonnes of ore in 2010, in line with 2010 guidance. The projected contained copper production for 2010 is now expected to be 24,000 t or 2% lower than prior 2010 guidance issued, primarily due to lower than expected copper ore grade realized in the first quarter. It is expected, for the balance of 2010, CMC will have access to higher copper ore grades from the Karina vein.

At MATSA both circuits at the processing plant are operational and processing results continue to improve as evidenced by the first quarter operating results.

Enhancements to the poly-metallic circuit were concluded in the first quarter of 2010 that have allowed production of a separate copper concentrate and low quality lead concentrate, rather than a bulk concentrate,

since early April 2010. The planned process plant expansion to increase capacity to the equivalent of 2.2 million tonnes per annum is underway and is on target for expected completion in August 2010 with the anticipated increase in production of 30% expected to commence in September 2010.

At the outset of 2010, MATSA set three significant short term priorities.

First, a projected funding shortfall for 2010 of between approximately US\$ 40.00 million and US\$ 45.00 million was identified. MATSA successfully addressed this funding requirement through the closing of the US\$ 50.00 million Senior Facility which, completed in April 2010.

Second, MATSA sought to successfully complete and implement the current enhancements to the poly-metallic circuit. The modular installation was completed and commissioned in Q1 2010. The effective use of this circuit is dependent on additional reagents being used. MATSA received from the relevant authority of the Junta de Andalucia, in Spain, the environmental authorization which permits the use of six new reagents for the operation of the new modular copper/lead flotation separation circuit at the Aguas Tenidas Mine. The bulk separation circuit was started in early April and MATSA is now achieving separation and producing a copper concentrate and low quality lead concentrate from the poly-metallic circuit, although further optimization is being undertaken.

Finally, during 2010, MATSA seeks to successfully complete and implement the planned processing plant expansion. Currently, the Company is on track to be operating at the 2.2 Mtpa level by the end of the third quarter of 2010. The capital cost estimate for the expansion is expected to be approximately US\$ 15.00 million and consists of mine and processing equipment that is comparable in nature to that currently employed in the operations. The ability to operate at the increased level will depend on added employment, successful completion of certain labour arrangements, and applications to the government authorities for the necessary permits to allow operations at the increased level of 2.2 Mtpa. There can be no assurance as to the fact or timing of, or conditions attached to any government permits or authorizations. While the Company does not anticipate any issues relating to an end of Q3 operation at 2.2 Mtpa, the impact of any negative developments in this regard would be the inability to expand the processing plant, either in whole or in part.

The Company projects that MATSA is now on track to process between 1.8 million and 1.9 million tons of ore for 2010 versus 2010 guidance previously issued of 1.9 million to 2.0 million, or a reduction of approximately 5%.

## **19. Other Information**

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