



**IBERIAN**  
MINERALS



Iberian Minerals Corp.

Management's Discussion and Analysis  
Three and six months ended June 30, 2009

## Introduction

This report provides a discussion and analysis of the financial condition and results of operations of Iberian Minerals Corp. (“Iberian” or the “Company”) to enable the reader to assess material changes in financial condition between June 30, 2009 and December 31, 2008 and results of operations for the three and six month periods ended June 30, 2009 and June 30, 2008.

This Management’s Discussion and Analysis (“MD&A”) has been prepared as of August 19, 2009. This MD&A is intended to supplement and complement the unaudited consolidated financial statements and notes thereto for the three and six months ended June 30, 2009 (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, 2008, the most recent Annual Information Form (“AIF”) for the year ended December 31, 2008 and the 2008 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 common shares of the Company.

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 included 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 Canadian listed global base metals company with mining interests in Peru and Spain.

The Condestable Mine, owned by the Company's subsidiary, Compania Minera Condestable S.A. ("CMC" or "Condestable") is located approximately 90 km south of Lima, Peru and operates at 2.2 million tonnes per year 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"), is in the Andalusia region of Spain approximately 110 km north-west of Seville. Ramp-up continues on a 1.7 million tonnes per year underground mine and concentrator that will produce copper, zinc and lead concentrates that also contain gold and silver.

With corporate headquarters in Toronto, Iberian has offices in Geneva, Lima and Seville and a global workforce of more than 1,750 employees and contract workers. The Company is listed on the Toronto Venture Exchange, and trades under the symbol IZN.

## 2. Summarized results for the three months ended June 30, 2009

### Financial:

- Net loss was \$45.61 million or \$0.15 per share for the quarter, compared with \$59.29 million or \$0.23 per share in the second quarter of 2008. The reduced loss in 2009 was primarily due to an increased future tax recovery versus 2008 and a reduction in costs and expenses of mining operations versus 2008.
- Before the impact of unrealized loss on derivative financial instruments the net income before income taxes was \$8.60 million for the quarter, compared with a net loss before income taxes of \$0.68 million in the second quarter of 2008.
- Sales were \$29.73 million for the quarter compared to \$29.15 million in the second quarter of 2008.
- Cash flow from operations before changes in non-cash working capital was \$5.58 million compared with \$3.63 million in 2008. Cash flow from operations after changes in non-cash working capital was \$11.51 million compared with \$(6.34) million in the second quarter of 2008.
- Cash flow used in investing activities in the quarter was \$40.53 million compared to \$51.91 million in the second quarter of 2008.
- On May 26, 2009, the Company announced the completion of a financing by way of special warrants. The Company issued 76,925,000 Special Warrants for gross proceeds of \$40,001,000. Each Special Warrant was exercised into one common share of the Company. Trafigura purchased 47,493,000 special warrants under the offering and increased its total shareholdings of the Company to 154,582,163 common shares for an ownership interest in Iberian of approximately 46%.
- On June 10, 2009, the shareholders of the Company approved a special resolution authorizing the re-domiciling of the Company by way of corporate law continuance from being governed by the laws of Canada to those of Switzerland, which continuance was effective on June 17, 2009.

### Operational – CMC:

- Operations at the Condestable Mine continued in a steady state, and on plan.
- CMC processed 530,201 tonnes of ore in the period versus 552,042 tonnes in the prior year.
- Copper concentrate shipments in the period were 24,115 tonnes versus 25,507 in the prior year.

- Cash operating costs for Q2 (C1 and C3) were US\$0.49 and US\$1.11 per pound of copper produced versus prior year C1 and C3 of \$0.49 and \$1.29 respectively.

#### Development – MATSA:

- The Company continued its commissioning and ramp-up of production at MATSA, with commencement of commercial production targeted for the fourth quarter of 2009.
- The acquisition of the mining division of the underground mining contractor was successfully completed on July 31, such that the total labour force at MATSA now stands at approximately 420 employees.
- All principal permits are now in place for the mine.

### **3. Overview of financial results**

The following table presents a summarized Statement of Operations for the three and six months ended June 30, 2009 with comparatives for the three and six months ended June 30, 2008:

For accounting purposes MATSA is considered to be in a pre-production phase. As such, sales and costs and expenses of mining operations incurred in this phase are not recognized in the operating statement and are capitalized in property, plant and equipment until such time that MATSA achieves commercial production.

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>Sales</b>	<b>29,734</b>	29,154	<b>60,972</b>	47,966
Costs and expenses of mining operations	<b>22,824</b>	31,117	<b>45,977</b>	50,193
<b>Gross margin</b>	<b>6,910</b>	(1,963)	<b>14,995</b>	(2,227)
<b>Expenses</b>				
Administrative expenses and other	<b>3,111</b>	2,682	<b>5,511</b>	4,135
Foreign exchange (gain)/loss	<b>(4,803)</b>	(3,969)	<b>(3,358)</b>	5,147
Unrealized loss on derivative financial instruments	<b>68,137</b>	62,901	<b>156,135</b>	119,449
Total expenses	<b>66,445</b>	61,614	<b>158,288</b>	128,731
<b>Net loss before income taxes</b>	<b>(59,535)</b>	(63,577)	<b>(143,293)</b>	(130,958)
Income tax expense	<b>3,188</b>	3,782	<b>7,320</b>	5,536
Future income tax recovery	<b>(17,113)</b>	(8,071)	<b>(44,513)</b>	(27,148)
<b>Net loss</b>	<b>(45,610)</b>	(59,288)	<b>(106,100)</b>	(109,346)
Loss per share (\$)	<b>(0.15)</b>	(0.23)	<b>(0.38)</b>	(0.45)

#### Three months ended June 30, 2009 versus 2008

During the three month period ended June 30, 2009 the Company recorded net loss of \$45.61 million or \$0.15 per share compared to net loss of \$59.29 million or \$0.23 in 2008. Gross margin for the period was \$6.91 million compared to \$(1.96) million in 2008. Net loss before income taxes for the period was \$59.54 million

compared to \$63.58 million in 2008. Net loss was \$13.68 million less in 2009 primarily due to lower cost and expenses of mining operations and an increase in the future income tax recovery versus the prior year. This was partially off-set by a higher unrealized loss on derivative financial instruments.

Cash flow from operations was \$11.51 million (2008 – cash flow used in operations of \$6.34 million). Working capital deficiency as at June 30, 2009 was \$81.68 million (December 31, 2008 – surplus of \$63.18 million).

Sales were \$29.73 million (2008 - \$29.15 million) and cost and expenses of mining operations were \$22.82 million (2008 - \$31.12 million), resulting in gross margin of \$6.91 million (2008 - \$(1.96) million). The Company's sales of payable copper decreased 5% from 5,977 tonnes in 2008 to 5,684 tonnes in 2009. Despite the decrease in volume, sales increased by 2% due to the significant strengthening of the U.S. dollar versus the prior year and the impact on the translation of sales into Canadian dollars. Costs and expenses of mining operations decreased by 27% versus the prior year primarily due to a \$7.18 million decrease in mine site depreciation and amortization. This decrease resulted from the significant impairment charge taken on CMC's mining interest as at December 31, 2008 and the resulting decline in the basis of the mining interest for purposes of amortization.

Expenses increased in the period from \$61.61 million in 2008 to \$66.85 million in 2009. The variance versus the prior year was due to the following:

- i. Unrealized loss on derivative financial instruments increased to \$68.14 million in 2009 from \$62.90 million in 2008. The increased loss is due to the differential between the hedged commodity prices and market commodity prices as at June 30, 2009 and 2008 and the movement in this mark to market adjustment since March 31, 2009 and 2008. **This is a notional loss that must be recorded in accordance with GAAP. It is not an economic obligation of the Company and it does not estimate future gains or losses to be realized. For further discussion please refer to section 11 of this MD&A.**
- ii. Foreign exchange gain increased to \$4.80 million in 2009 from \$3.97 million in 2008. 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. The remaining accounts (stock option compensation, administrative expenses, finance charges, convertible debenture interest and accretion, realized loss on derivative financial instruments, corporate depreciation and amortization, and interest income) all experienced immaterial changes in the current year period versus 2008.

As at June 30, 2009, property, plant and equipment, net of accumulated amortization was \$437.33 million (December 31, 2008 - \$350.52 million). The net increase of \$39.21 million during the current period primarily related to on-going capital expenditures at MATSA for the development and commissioning.

Future income tax recovery for the three months ended June 30, 2009 increased to \$17.11 million (2008 - \$8.07 million). The future tax recovery related to the recognition of future tax assets which arose due to the unrealized loss on derivative financial instruments in both MATSA and CMC. In the prior year the Company had no basis to recognize the future tax recovery generated in MATSA and as such added the amount to the valuation allowance. In 2009 the MATSA portion of the unrealized loss on derivative financial instruments did meet the criteria for recognition.

The comprehensive loss for the three months ended June 30, 2009 of \$13.00 million is the unrealized foreign currency translation loss resulting from the translation of CMC's U.S. dollar denominated assets and liabilities to Canadian dollars using the current rate method (2008 – unrealized foreign currency translation gain of \$10.45 million).

### Six months ended June 30, 2009 versus 2008

During the six month period ended June 30, 2009 the Company recorded net loss of \$106.10 million or \$0.38 per share compared to net loss of \$109.35 million or \$0.45 in 2008. Gross margin for the period was \$15.00 million compared to \$(2.23) million in 2008. Net loss before income taxes for the period was \$144.12 million compared to \$130.96 million in 2008. Net loss was \$3.25 million less in 2009 primarily due to lower cost and expenses of mining operations and an increase in the future income tax recovery versus the prior year. This was partially off-set by a higher unrealized loss on derivative financial instruments.

Cash flow from operations was \$14.52 million (2008 – \$4.02 million). Working capital deficiency as at June 30, 2009 was \$81.68 million (December 31, 2008 – surplus of \$63.18 million).

Sales were \$60.97 million (2008 - \$47.97 million) and cost and expenses of mining operations were \$45.98 million (2008 - \$50.19 million), resulting in gross margin of \$15.00 million (2008 - \$(2.23) million). The Company's sales of payable copper increased 18% from 9,782 tonnes in 2008 to 11,507 tonnes in 2009. The increase is primarily due to the timing of the acquisition of CMC by the Company on January 31, 2008. As a result the prior year period was five months versus six months in 2009. Costs and expenses of mining operations decreased by 8% versus the prior year primarily due to a \$9.14 million decrease in mine site depreciation and amortization. This decrease resulted from the significant impairment charge taken on CMC's mining interest as at December 31, 2008 and the resulting decline in the basis of the mining interest for purposes of amortization. The decrease was partially off-set by an increase in operating costs of \$3.30 million due to a full six month operating period in 2009 versus five months in 2008.

Expenses increased in the period from \$128.73 million in 2008 to \$159.11 million in 2009. The variance versus the prior year was due to the following:

- i. Unrealized loss on derivative financial instruments increased to \$156.14 million in 2009 from \$119.45 million in 2008. The increased loss is due to the differential between the hedged commodity prices and market commodity prices as at June 30, 2009 and 2008 and the movement in this mark to market adjustment since December 31, 2008 and 2007. **This is a notional loss that must be recorded in accordance with GAAP. It is not an economic obligation of the Company and it does not estimate future gains or losses to be realized. For further discussion please refer to section 11 of this MD&A.**
- ii. Foreign exchange gain increased to \$3.36 million in 2009 from a loss of \$5.15 million in 2008. 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 \$1.92 million from \$0.79 million in 2008. This increase is due to the interest expense on the US \$70 million CMC syndicated loan which was obtained in May 2008. In 2009 this loan accrued interest for a full six months versus approximately six weeks in the prior year period.
- iv. The remaining accounts (stock option compensation, administrative expenses, convertible debenture interest and accretion, corporate depreciation and amortization, and interest income) all experienced immaterial changes in the current year period versus 2008.

As at June 30, 2009, property, plant and equipment, net of accumulated amortization was \$437.33 million (December 31, 2008 - \$350.52 million). The net increase of \$86.81 million during the current period primarily related to on-going capital expenditures at MATSA for its development and commissioning.

Future income tax recovery for the six months ended June 30, 2009 increased to \$44.51 million (2008 - \$27.15 million). The future tax recovery related to the recognition of future tax assets which arose due to the unrealized loss on derivative financial instruments in both MATSA and CMC. In the prior year the Company had no basis to recognize the future tax recovery generated in MATSA and as such added the amount to the valuation allowance. In 2009 the MATSA portion of the unrealized loss on derivative financial instruments did meet the criteria for recognition.

The comprehensive loss for the six months ended June 30, 2009 of \$5.93 million is the unrealized foreign currency translation loss resulting from the translation of CMC's U.S. dollar denominated assets and liabilities to Canadian dollars using the current rate method (2008 – \$3.35 million).

### Realized metals prices

The average prices of copper, gold and silver for the three and six month periods ended June 30, 2009 and 2008 are summarized below:

<i>(prices in U.S. Dollars)</i>	Realized prices				Market prices			
	3 months		6 months		3 months		6 months	
For the period ended June 30,	2009	2008	2009	2008	2009	2008	2009	2008
Copper (per lb.)	<b>2.02</b>	2.35	<b>1.98</b>	2.33	<b>2.12</b>	3.83	<b>1.84</b>	3.78
Gold (per oz.)	<b>896</b>	871	<b>891</b>	890	<b>922</b>	896	<b>915</b>	916
Silver (per oz.)	<b>13.80</b>	14.71	<b>13.76</b>	14.78	<b>13.73</b>	17.17	<b>13.17</b>	17.72

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

### Summary of Consolidated Quarterly Results

	Second quarter June 30, 2009		First quarter March 31, 2009		Fourth quarter December 31, 2008 <sup>(1)</sup>		Third quarter September 30, 2008 <sup>(1)</sup>	
Sales	\$	29,734	\$	31,238	\$	22,400	\$	27,501
Net income (loss)		(45,610)		(60,490)		(16,147)		173,287
Net income (loss) per share basic		(0.15)		(0.24)		(0.06)		0.68
Net income (loss) per share fully diluted		(0.15)		(0.24)		(0.06)		0.61
Total assets		565,023		510,866		591,068		837,487
Cash and cash equivalents		34,016		17,349		77,397		27,639
Shareholders' equity	\$	226,742	\$	246,263	\$	298,791	\$	252,280

	Second quarter June 30, 2008 <sup>(1)</sup>		First quarter March 31, 2008 <sup>(1)</sup>		Fourth quarter December 31, 2007		Third quarter September 30, 2007	
Revenues	\$	29,153	\$	18,812	\$	–	\$	–
Net income (loss)		(59,288)		(50,058)		(2,008)		(1,853)
Net income (loss) per share basic		(0.23)		(0.22)		(0.01)		(0.01)
Net income (loss) per share fully diluted		(0.23)		(0.22)		(0.01)		(0.01)
Total assets		754,990		622,492		170,059		162,335
Cash and cash equivalents		55,059		24,434		9,772		35,215
Shareholders' equity	\$	83,448	\$	139,150	\$	111,214	\$	111,114

(1) As described in Note 3 of the June 30, 2009 unaudited interim consolidated financial statements, the results for the four quarters of 2008 have been restated.

## 4. Operational results

### MATSA

MATSA produced 7,911 tonnes of copper concentrate and 1,912 tonnes of zinc concentrates for revenues of US \$8.5 million during the three months ended June 30, 2009. In the six month period ended June 30, 2009 MATSA produced 13,028 tonnes of copper concentrate and 4,535 tonnes of zinc concentrate for revenues of US \$10.9 million. Since the facilities have not achieved commercial production for accounting purposes, all expenses and sales directly related to MATSA have been capitalized.

Capital spending totalled approximately \$58.05 million for the second quarter of 2009. The expenditures were allocated to mining interest in the amount of \$5.55 million, construction in progress of \$45.68 million and equipment of \$6.82 million.

The Company continues to ramp-up production at Aguas Tenidas, with commencement of commercial production targeted for the fourth quarter of 2009. The previously announced acquisition of the underground mining division of Inersa was successfully completed on July 31, 2009. All principal permits are now in place for the Mine.

The Company continues to expect to process approximately 1 million tonnes of ore (combined copper and polymetallic ores) during ramp-up in 2009, split 60%/40% as to copper ores and polymetallic ores. Exploration and delineation of copper stockwork ores, located to the east of the previously announced copper stockwork resource continues, with a view to maximizing ore reserves in proximity to the existing mine infrastructures.

A key focus at Aguas Tenidas has been, and continues to be the timely development and movement of ore for feed to the process plant. With the acquisition of the Inersa underground operation, and direct control over that aspect of the mine operation, the Company plans to increase efficiencies and effectiveness, including some rationalization of the mine work force.

At the present time, the copper processing circuit is fully operational, and metallurgical recovery for copper continues to meet expectations with June and July copper recovery measured at 80.8%, and in excess of 82%, respectively. Copper concentrate grade is meeting expectations with 23% Cu for the month of July.

The polymetallic circuit was shut down during most of June and all July for completion of modifications in preparation for production of bulk copper/lead concentrates. The previous temporary floatation circuit changes, undertaken to demonstrate viability of this concept, have now been made permanent. The polymetallic circuit, which restarted on August 3, is producing copper-lead bulk concentrates as well as zinc concentrates. Work on further optimization of the polymetallic circuit continues. During the balance of the year the Company expects further short term modifications within the process plant to improve recovery on the polymetallic circuit and allow recovery of three distinct concentrates as planned in the feasibility study.

Asphalting of the Santa Barbara ramp which is dedicated to the haulage of production ore and waste has been completed, and has improved transport efficiencies. The Mine is currently hauling some 5,000 tonnes per day of combined ore and waste, as against a planned 5,600 tonnes per day. Other operational improvements have been completed, the most notable being the VR3 ventilation raise. The paste plant is fully operational.

## CMC

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

- Operations at the Condestable Mine continue in a steady state, and on plan.
- Operating statistics for the three and six months ended June 30, 2009 were:

### CMC operating statistics

Periods ended June 30,	3 months		6 months (i)	
	2009	2008	2009	2008
<b>Sales</b>				
Copper concentrate (tonnes)	<b>24,115</b>	25,507	<b>48,259</b>	41,471
Payable copper contained in concentrate (tonnes)	<b>5,684</b>	5,977	<b>11,507</b>	9,782
Payable gold contained in concentrate (ounces)	<b>3,996</b>	3,683	<b>8,186</b>	6,369
Payable silver contained in concentrate (ounces)	<b>53,275</b>	63,569	<b>108,200</b>	100,096
Ore mined (tonnes)	<b>530,883</b>	560,883	<b>1,058,210</b>	910,211
Ore processed (tonnes)	<b>530,201</b>	552,042	<b>1,064,839</b>	909,976
Copper ore grade (%)	<b>1.23</b>	1.23	<b>1.23</b>	1.23
Concentrate grade (%)	<b>24.6</b>	24.6	<b>24.7</b>	24.8
Copper recovery rate (%)	<b>91.5</b>	92.4	<b>92.1</b>	91.7
Cash cost (C1) per lb of copper produced (U.S. \$)	<b>\$ 0.49</b>	\$ 0.49	<b>\$ 0.45</b>	\$ 0.47
Cash cost (C3) per lb of copper produced (U.S. \$)	<b>\$ 1.11</b>	\$ 1.29	<b>\$ 1.08</b>	\$ 1.25

(i) in 2008 the period was for 5 months ended June 30, 2008.

- Of the previously announced US\$4.7 million in 2009 capital projects, consisting of the acquisition of two six-yard scoop trams, one diamond drill, mill spares (main power transformer and ball mill motor) which will further enhance operational stability, and completion of the automated plant monitoring and control system, the Company has completed US\$3.6 million of acquisitions with US\$2.9 million already onsite. It is expected that all acquisitions and projects will be final by the fourth quarter of the year.
- Work has also commenced on the Karina Vein Extension as noted in the Company's press release of August 11, 2009.
- The 1,500 meter exploration program on Vinchos Este, consisting of surface diamond drilling, continues. Located in an area some 300-400 meters to the east of the current Condestable mine in an area not included in current reserves or resources, the program was undertaken based on surface trenching which demonstrated the extension of surface horizons. The drill program is aimed to test potential extension of horizons underground. The first of three drill holes is nearing completion, and results are positive to date. It is expected that the program should be complete by the end of September, with results to follow shortly thereafter.

## 5. Non-GAAP measures

The Company has included certain non-GAAP measures including "cash cost per pound of copper produced (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 copper produced only includes cash operating costs and is net of by-product metal credits.

The C3 cost per pound of copper produced includes C1 and additional costs such as site administration, treatment and refining charges ("TC/RC"), depreciation and amortization, royalties, related head office and interest costs.

## 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, production levels, operating costs, capital costs and administrative costs.

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

<i>(in thousands of Canadian Dollars)</i>	<b>As at June 30, 2009</b>	As at December 31, 2008
Cash	<b>34,016</b>	77,397
Restricted cash	<b>24,227</b>	30,620
Working capital	<b>(81,681)</b>	63,184

<i>(in thousands of Canadian Dollars)</i>	3 months		6 months	
For the period ended June 30,	<b>2009</b>	2008	<b>2009</b>	2008
<b>Cash flows</b>				
Cash flow from operating activities after changes in working capital items	<b>11,511</b>	(6,339)	<b>14,523</b>	4,016
Cash flow from operating activities before changes in working capital items	<b>5,579</b>	3,630	<b>18,611</b>	4,100
Cash flow from financing activities	<b>47,768</b>	88,921	<b>41,378</b>	143,273
Cash flow to investing activities	<b>(40,526)</b>	(51,907)	<b>(95,960)</b>	(102,400)

Cash and cash equivalents as at June 30, 2009 decreased to \$34.02 million from \$77.40 million at December 31, 2008. The decrease is primarily due to the continuing investment at MATSA which is expected to be in commercial production by the beginning of the fourth quarter of 2009.

Iberian reported working capital deficiency of \$81.68 million at June 30, 2009 compared with working capital surplus of \$63.18 million at December 31, 2008. The reason for this deficiency is due to the combined impact of the change in value of the current portion of derivative instruments from an asset position of \$40.77 million to a liability position of \$32.95 million, decrease in cash of \$43.38 million, increase in trade payables and accrued liabilities of \$14.49 million and increase in current portion of long-term debt of \$21.61 million.

The Company's current cash flow projections indicate that cash flow from operations may not be sufficient to allow the Company to address its working capital deficit and complete the ramp up of MATSA. Certain unanticipated events, such as the acquisition of MATSA's underground mining contractor and uncertainty regarding timing of receipt of an approved €10.00 million government grant for MATSA, together with lack of production from the polymetallic circuit at MATSA may contribute to the Company's possible cash shortfall. As such the Company is actively pursuing non-dilutive external financing options. There can be no assurance that obtaining possible financing will be successful.

### Operating cash flow

Cash flow generated from operations before changes in non-cash working capital items for the three months ended June 30, 2009 was \$5.58 compared to \$3.63 million in 2008. Changes in non-cash working capital items for the three months ended June 30, 2009 was \$5.93 million, compared to \$(9.97) million in 2008. Cash inflow from operations after changes in working capital items for the three months ended June 30, 2009 was \$11.51 million, compared to an outflow of \$6.34 million in 2008.

Cash flow generated from operations before changes in non-cash working capital items for the six months ended June 30, 2009 was \$18.61 compared to \$4.10 million in 2008. Changes in non-cash working capital items for the six months ended June 30, 2009 was \$(4.09) million, compared to an outflow of \$0.84 million in 2008. Cash inflow from operations after changes in working capital items for the six months ended June 30, 2009 was \$14.52 million, compared to \$4.02 million in 2008.

#### Financing activities

On April 2, 2009, the Company, pursuant to a contractual pre-emptive right issued to Trafigura an aggregate of 1,706,472 common shares in consideration of payment of \$0.32 per share, for a total of \$546.

On April 17, 2009, the Company received a US \$19.8 million loan from Trafigura. This loan shall remain in force until the maturity date, which shall be the earliest of the Company receiving payment of Value Added Tax from the Spanish authorities or December 31, 2009. The effective interest rate is fixed at 6.10% per annum. This loan was fully repaid in early July 2009 subsequent to the period end.

On May 26, 2009, the Company concluded a private placement financing by way of special warrants. The Company issued 76,925,000 Special Warrants for gross proceeds of \$40,001,000. Each Special Warrant was exercised into one common share of the Company. Trafigura purchased 47,493,000 special warrants under the offering. Trafigura increased its shareholdings in the Company to 154,582,163 common shares for an ownership interest in Iberian of approximately 46%.

Cash inflow from financing activities for the three month period ended June 30, 2009 was \$47.77 million compared to \$88.92 million in 2008.

Cash inflow from financing activities for the six month period ended June 30, 2009 was \$41.38 million compared to \$143.27 million in 2008.

To June 30, 2009, approximately US\$ 12.72 million was repaid by CMC in connection with the syndicated loan such that the balance of the syndicated loan is \$51.81 million as at June 30, 2009.

#### Investing activities

Cash outflow to investing activities was \$40.53 million for the three months ended June 30, 2009 (2008 - \$51.91 million). Cash outflow to investing activities was \$95.96 million for the six months ended June 30, 2009 (2008 - \$102.40 million). In both periods the cash flow spent primarily related to the on-going development and commissioning of MATSA.

## 7. Capitalization

Shareholders' equity as at June 30, 2009 was \$226.74 million compared to \$298.79 million as at December 31, 2008.

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

	<b>June 30, 2009</b>
Common shares issued and outstanding	336,596,792
Options	9,970,000
Warrants	16,022,479
Potential dilution of convertible debenture	30,000,000
<b>Total</b>	<b>389,814,271</b>

### Share Capital

As at June 30, 2009, the Company had 336,596,792 (December 31, 2008 – 255,608,763) common shares outstanding. The basic weighted average number of common shares outstanding was 279,243,763 shares for the six months ended June 30, 2009.

The Company issued 76,925,000 common shares in the second quarter related to its private equity placement by way of special warrants as previously discussed. The Company also issued 1,706,472 common shares to Trafigura pursuant to a contractual pre-emptive right. See section 8 'Transactions with Related Parties'.

### Warrants

As at June 30, 2009, the Company had a total of 16,022,479 (December 31, 2008 – 16,022,479) share purchase warrants outstanding. Expiry dates on share purchase warrants ranged from August 2009 to June 2013, and exercise prices ranged from \$1.30 to \$2.60. As at the date of this MD&A, 6,959,050 share purchase warrants expired, with another 1,423,076 share purchase warrants expiring on August 31, 2009. The remaining 7,640,353 share purchase warrants are exercisable at \$1.30 until June 30, 2013.

### Stock Options

The following table summarizes the stock based compensation for the six months ended June 30, 2009:

	Number of Stock options	Weighted average exercise price (\$)
Balance , December 31, 2008	12,390,000	1.14
Cancelled/ Expired	(5,195,000)	1.10
Granted	2,775,000	0.55
<b>Balance, June 30, 2009</b>	<b>9,970,000</b>	<b>0.99</b>
<b>Exercisable, June 30, 2009</b>	<b>7,491,666</b>	<b>1.03</b>

## 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 three and six months ended June 30, 2009 were US\$ 262 (2008 – US\$ 139) and US\$ 449 (2008 – US\$ 418), respectively which includes out-of-pocket expenses. Included in payables at June 30, 2009 is \$96 due to Trafigura.

Trafigura has lent the Company €10,667 (\$17,384) to cover various social and environmental remediation guarantees at MATSA. At June 30, 2009 this loan is still outstanding with \$535 included in interest payable. In 2008, Trafigura had lent the Company a bridge loan of \$12.26 million with interest payable of \$169 which was subsequently repaid.

The Company's subsidiary MATSA has entered into hedge forward contracts with Trafigura. For more details see section 11 of this MD&A.

Included in receivables is \$14.62 million, of which \$0.96 million is due from Trafigura and \$13.67 million from Consorcio Minero S.A. ("Cormin"), a subsidiary of Trafigura, for copper concentrates.

On April 17, 2009, the Company received US \$19.8 million Value Added Tax ("VAT") loan from Trafigura. This loan was repaid in July 2009 when the Company received payment of the VAT refund from Spanish tax authorities. Subsequent to the period end, Trafigura advanced a second VAT loan to the Company in the amount of US \$9.0 million. The second VAT loan is repayable upon receipt of the VAT refund from Spanish tax authorities.

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)	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Accounting and corporate services	\$ 11	\$ 6	\$ 17	\$ 50
Head office expenses	316	409	883	654
Professional and consulting fees	853	736	1,643	1,251
Transfer agent, listing and filing fees	7	43	26	78
Shareholders' information	58	66	86	75
Travel	(16)	130	23	217
Advertising, promotion and public relations	–	8	13	49
Occupancy costs	105	27	208	53
Directors' fees	75	5	131	17
Capital tax	–	51	–	51
	\$ 1,409	\$ 1,481	\$ 3,030	\$ 2,495

Three months ended June 30, 2009 versus 2008 – decrease of \$72

The decrease over the prior year is not material.

Six months ended June 30, 2009 versus 2008 – increase of \$535

The increase in the period primarily relates to professional and consulting fees incurred as a result of the Company re-domiciling to Switzerland.

## 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 whilst the Company's operating expenses are denominated in Euros ("EUR"), U.S. dollars, Peruvian New Soles ("PEN") and to a lesser extent Canadian dollars and Swiss Francs ("CHF").

During the three months ended June 30, 2009, the Company recognized foreign exchange gain of \$4.80 million (2008 – gain \$3.97 million). During the six months ended June 30, 2009, the Company recognized foreign exchange gain of \$3.36 million (2008 – loss of \$5.15 million). In both periods the gain 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 period ended June 30,	3 months		6 months		Year ended
	2009	2008	2009	2008	Dec. 31
<b>Average exchange rate</b>					
USD-CAD	1.1669	1.0101	1.2057	1.0074	1.0660
EUR-CAD	1.5891	1.5786	1.6059	1.5419	1.5603
CHF-CAD	1.0498	0.9797	1.0671	0.9603	0.9840
PEN-CAD	0.3859	0.3594	0.3884	0.3536	0.3642

For the period ended March 31,	3 months	
	2009	2008
<b>Average exchange rate</b>		
USD-CAD	1.2443	1.0045
EUR-CAD	1.6217	1.5057
CHF-CAD	1.0841	0.9417
PEN-CAD	0.3906	0.3479

As at June 30,	2009	2008	As at Mar. 31	As at Dec. 31
<b>Period-end exchange rate</b>				
USD-CAD	1.1630	1.0197	1.2613	1.2180
EUR-CAD	1.6297	1.6041	1.6710	1.7046
CHF-CAD	1.0697	0.9983	1.1058	1.1472
PEN-CAD	0.3859	0.3433	0.3988	0.3902

## 11. Derivatives

The Company recorded unrealized loss on derivative financial instruments of \$68.14 million for the quarter ended June 30, 2009 compared with \$62.90 million in 2008. For the six month period ended June 30, 2009 the Company recorded unrealized loss on derivative financial instruments of \$156.14 million compared with \$119.45 million in 2008. These unrealized losses on the derivative financial instruments were discussed in section 3 of this MD&A.

As at June 30, 2009 the derivative instruments liability was \$80.65 million (December 31, 2008 – derivative asset of \$75.31 million). The significant negative movement is primarily due to the increase in market prices of copper and zinc which, as at June 30, 2009 are higher than the hedged prices of copper and zinc.

### Commodity hedging

The cornerstone of Iberian's Hedging Policy is the protection of the Company's assets. 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 June 30, 2009 and does not represent an economic obligation for the Company nor does it represent an estimate of future gains or losses.

The following summarizes the details of the commodities hedging program as at June 30, 2009:

#### MATSA

Metal	Period	Contract type	Volume	Unit	Price per unit (U.S.\$)
Copper	Balance of 2009	Forward	5,000	Fine metric t	4,944
Copper	2010	Forward	15,100	Fine metric t	3,838
Copper	2010	LME options	4,175	Fine metric t	4,200
Copper	2011	LME options	1,925	Fine metric t	4,200
Zinc	Balance of 2009	Forward	5,000	Fine metric t	1,611
Zinc	2010	Forward	12,350	Fine metric t	1,331
Zinc	2010	LME options	4,900	Fine metric t	1,500

#### CMC

Metal	Period	Contract type	Volume	Unit	Price per unit (U.S.\$)
Copper	Balance of 2009	Forward	10,050	Fine metric t	4,419
Copper	2010	Forward	20,475	Fine metric t	4,419
Copper	2011	Forward	20,625	Fine metric t	3,492
Copper	2012	Forward	1,750	Fine metric t	3,408
Gold	Balance of 2009	Forward	1,200	Fine ounces	741.50
Gold	2010	Forward	2,400	Fine ounces	741.50
Gold	2011	Forward	2,400	Fine ounces	741.50

For MATSA at June 30, 2009, if the spot price of copper and zinc had been 10% higher or lower while all other variables were held constant, the pre-tax income effect for the three months would increase or decrease by \$15.62 million as a result of the changes in the fair values of the derivative instruments.

For CMC, at June 30, 2009, if the spot price of copper, silver and gold had been 10% higher or lower while all other variables were held constant, the pre-tax income effect for the three months would increase or decrease by \$26.50 million as a result of the changes in the fair values of the derivative instruments. The CMC hedge program is mandated as a condition of the US\$ 70 million syndicated loan that was obtained in May 2008.

#### 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. As at June 30, 2009 the Company has an unrealized gain on its foreign exchange contracts of \$590,000.

### **12. Contractual commitments**

MATSA's capital commitments totalled approximately \$46.21 million as at June 30, 2009.

The Company is committed to future minimum lease payments as follows (in thousands of Canadian dollars):

2009 - \$3,998; 2010 - \$4,168; 2011 - \$2,711; 2012 - \$982; and 2013 - \$297 for a total of \$12,156. See Note 17 to the June 30, 2009 unaudited interim consolidated financial statements for detail of these commitments by country.

### **13. Off-balance sheet arrangements**

The Company has no off-balance sheet arrangements.

### **14. Subsequent events**

- On July 26, 2009 the Company paid \$747 in satisfaction of the July 26, 2009 interest payment in accordance with the terms of the convertible debenture.
- MATSA received a value-added tax loan in the amount of US \$9 million from Trafigura on July 28, 2009.
- On July 31, 2009, the Company, through MATSA, concluded an agreement whereby it acquired the underground mining division of its mining contractor, Ingenieria de Suelos y Explotacion de Recursos S.A. ("Inersa"), for the sum of €6.0 million. Inersa agreed to subscribe for common shares of the Company in the amount of €0.48 million.

### **15. 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, 2008 which has been filed with the appropriate securities regulatory authorities.

## **16. Critical accounting estimates**

The preparation of the June 30, 2009 unaudited 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, 2008. 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, 2008.

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

### Goodwill, deferral of costs and internally developed intangible assets

In February 2008, the Canadian Institute of Chartered Accountants ("CICA") issued Section 3064, "Goodwill and Intangible Assets," which replaces Section 3062, "Goodwill and Other Intangible Assets." This new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Concurrent with the adoption of this standard, CICA Emerging Issues Committee Abstract 27, "Revenues and Expenditures in the Pre-operating Period," ("EIC-27") was withdrawn. The standard is effective for the Company's fiscal year beginning January 1, 2009. Adoption of this standard did not have any impact to the Company's consolidated financial statements.

### Credit risk and the fair value of financial assets and financial liabilities

On January 20, 2009, the CICA issued Emerging Issues Committee ("EIC") Abstract 173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" ("EIC173"), to be applied without restatement of prior periods to all financial assets and liabilities measured at fair value in interim and annual consolidated financial statements. EIC 173 requires the Company to consider the Company's own credit risk and the credit risk of the counterparty in determining the fair value of financial assets and financial liabilities, including derivative instruments. The Company adopted EIC 173 in the current periods. There was no impact to the carrying amount of the Company's financial instruments.

### Mining exploration costs

On March 27, 2009, the EIC issued Abstract EIC-174, Mining Exploration Costs regarding the capitalization and impairment of exploration costs. This Abstract is to be applied to all financial statements issued after March 27, 2009. Upon adoption of EIC-174 there were no changes to the Company's financial position or results of operations.

### International Financial Reporting Standards ("IFRS")

In 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that the changeover to International Financial Reporting Standards ("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. The Company is in the process of assessing the differences between IFRS and the Company's current accounting policies, as well as the alternatives available upon adoption, and has not quantified the effect of adopting IFRS.

## Business Combinations

The Canadian Institute of Chartered Accountants (“CICA”) issued certain new accounting standards which will be in effect for fiscal years beginning on or after January 1, 2009 for accounting for business combinations. Section 1582 “Business Combinations” will require most assets acquired and liabilities assumed, including contingent liabilities to be measured at fair value and that all acquisition costs to be expensed.

## Non-controlling Interests and Consolidated Financial Statements

Two new sections were added with an effective date of January 1, 2011 with early adoption permitted, consolidated financial statements and non-controlling interest:

- Section 1601, “Consolidated financial statements”, establishes the standards for preparing consolidated financial statements.
- Section 1602, “Non-controlling interests” will require that non-controlling interests be recognized as a separate component of equity and that net earnings be calculated without a deduction for non-controlling interest.

## **18. Outlook**

Iberian expects a number of challenging quarters ahead as the effects of the global recession play out in the world economy. The Company’s operations are subject to the fluctuations in the market prices of copper, zinc and lead and to some extent those of gold and silver.

CMC has been in continuous production since 1998. The outlook for CMC is positive. It is expected to continue to produce copper at similar levels to 2008.

At Aguas Tenidas, as noted, unanticipated events have further negatively affected cash flow, including acquisition of the Inersa underground contractor and continued delay of receipt of the approved government grant. Delays in production due to modifications to the polymetallic circuit, together with on-going ramp-up issues, both of which have been and are being addressed, have also affected the financial condition at MATSA.

While the Company has undertaken to roll forward out of the money hedges to maximize cash flow in 2009, together with other cash conservation measures, the Company foresees a further potential cash shortfall as a result of the MATSA operation in the second half of 2009. Management is currently examining all factors relevant to determining the extent the shortfall, and is taking all available measures to minimize the size of the shortfall. Based on current information and assumptions, the indicated cash shortfall to the Company could be in the range of \$20 to \$30 million. As such, the Company is also actively pursuing non-dilutive external financing options, but there can be no assurance that any financing will be obtained, or the terms on which any financing will be obtained.

## **19. Other Information**

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