

# IBERIAN MINERALS CORP. – MANAGEMENT’S DISCUSSION AND ANALYSIS

## THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008

(All amounts in thousands of Canadian dollars unless otherwise indicated)

### Introduction

This management discussion and analysis (“MD&A”) of results, operations and financial condition of Iberian Minerals Corp. (“Iberian” or the “Company”), describes the operating and financial results of the Company for the nine months ended September 30, 2008. “Trafigura” means Trafigura Beheer B.V. (a related party by virtue of its significant shareholding in the Company) and all of its subsidiaries. Trafigura owns approximately 42% of all outstanding common shares of the Company. This MD&A supplements, but does not form part of the September 30, 2008 unaudited interim consolidated financial statements of the Company, and should be read in conjunction with Iberian’s unaudited interim consolidated financial statements and related notes for the nine months ended September 30, 2008, as well as the MD&A and the audited financial statements for the year ended December 31, 2007. The Company prepares and files its interim consolidated financial statements in accordance with Canadian generally accepted accounting principles (“GAAP”). The currency referred to in this document is the Canadian dollars, all holdings in foreign currencies by Iberian or its subsidiaries have been converted to Canadian dollars in accordance with foreign currency translation accounting as disclosed in Note 2 (c) of the September 30, 2008 unaudited interim consolidated financial statements.

### 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 transactions will be completed, 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.

## Highlights for the Nine Months Ended September 30, 2008

During the nine months ended September 30, 2008, the Company and its subsidiaries accomplished the following:

- Acquired approximately 92% of Compania Minera Condestable S.A. (“CMC” or “Condestable”) effective January 31, 2008. As a result of this acquisition, Iberian became a producing company.
- Condestable raised a US\$ 70.00 million loan facility which was used to fund the construction at the Minas Aguas Teñidas project (“MATSA”).
- Completed a US\$ 210.00 million project finance facility to fund the construction at the Minas Aguas Teñidas project. To September 30, 2008 a total of US\$ 109.91 million has been drawn down.
- Completed the hedging requirements of the US\$ 210.00 million facility. These hedges were completed on June 24, 2008.

## Overview of the Nine Months Ended September 30, 2008

During the nine months of 2008, Iberian continued construction and development of the Aguas Teñidas project held by Iberian’s wholly owned Spanish subsidiary Minas Aguas Teñidas S.A. (“MATSA”) and also completed: (i) the acquisition of Compania Minera Condestable S.A. (“CMC” or “Condestable”), an operating base metal producing mine in Peru, (effective January 31, 2008); (ii) arranging a US\$ 70.00 million syndicated loan with Société Générale as the lead lender. This loan was fully advanced on May 21, 2008. The loan is repayable quarterly in equal amounts of US\$ 6,364 starting August 29, 2008 until fully repaid on February 28, 2011. The loan bears interest at three months Libor plus 2.25%. The proceeds of this loan were used to fund construction at the Aguas Teñidas Project; and (iii) on June 24, 2008, arranging a US\$ 210.00 million Project Finance Facility (the “Facility”) for the Company’s Aguas Teñidas Project in Spain. The lead lenders are Investec Bank (UK) PLC, BNP Paribas and Société Générale. The Facility comprises of three parts: US\$ 170.00 million as a term facility; US\$ 10.00 million as a convertible loan; and US\$ 30.00 million as a cost overrun facility. This Facility is guaranteed by Iberian until the completion date as defined in the Facility. (See Note 9 (d) of the September 30, 2008 unaudited interim consolidated financial statements for details of the terms and repayment schedule); (iv) As part of the requirements of the Facility, MATSA was required to hedge 70% of the forecasted hedgable copper production and 65% of the forecasted hedgable zinc and silver production. These hedges were completed on June 24, 2008. (See below section titled “risks and uncertainties” sub section “commodity price and forward contract risk”).

Construction at Aguas Teñidas progressed during the first nine months of 2008. Project expenditure for the nine months ended September 30, 2008 totalled approximately \$167.82 million, with \$53.79 million being spent in the third quarter of 2008, \$73.40 million in second quarter of 2008 and \$40.63 million in first quarter of 2008. The construction of the new Santa Barbara ramp progressed satisfactorily. To September 30, 2008 a total of 3,500 meters have been completed with 410 meters remaining to complete the Santa Barbara ramp.

Progress on the plant and ancillary facilities continued during this period with a target completion of later this year. The tailings facility, main substation, power lines, fresh water facility, warehouse and roads were completed.

At September 30, 2008, MATSA had 163 employees with an additional 881 contractors on site.

Exploration drilling underground continued on the copper stockwork target focusing on the eastern part of the deposit. A total of 3,658 meters was drilled in the third quarter of 2008 for a total of 7,318 meters for the first three quarters of 2008. On surface, in the third quarter, 2,514 meters were drilled to the west

of the known Aguas Teñidas deposit and the old Aguas Teñidas mine deposit. Total drilled for first three quarters of 2008 was 6,104 meters. Also in the third quarter, 2,203 meters of geotechnical core drilling was completed to assess rock mechanics in areas of planned underground development and future production areas. For the first three quarters of 2008 a total of 3,723 meters was drilled.

Effective January 31, 2008, the Company completed the acquisition of Condestable from Trafigura. In consideration for the acquisition, 65,990,833 of the Company's common shares were issued to Trafigura valued at \$82,730. The Company's unaudited interim consolidated financial statements include the results of the operations of Condestable for the period February 1, 2008 to September 30, 2008. As a result of this, the Company is no longer a development stage company and is now an operating company. The Company is entitled to approximately 92% of the undistributed profits of Condestable for the period October 1, 2007 to January 31, 2008.

CMC is a base metals producing company, incorporated under the laws of Perú and its shares are listed for trading on the Lima Stock Exchange. CMC is the owner of the Condestable mine and a lessee of the Raúl mine (collectively, the "Condestable Mine") which is a copper/gold property located approximately 90 km south of Lima, Perú. The Condestable Mine has been in continuous production since 1998. CMC's registered office and head office are in Lima, Perú.

As the holder of approximately 92% of the issued shares of Condestable, Iberian started the process in Perú to acquire the remaining shares through a formal process with the Lima stock exchange. During the third quarter, the Company filed an offer of purchase in Perú to acquire the remaining 3,474,288 shares of Condestable at a price of New Soles 9.67 in accordance with the requirements of the Lima Stock Exchange and the Peruvian securities authorities. The offer price was determined by an independent valuator appointed in Perú as required by applicable Peruvian regulatory requirements. The offer to purchase the Condestable shares will take place through the Lima Stock Exchange over a period of 40 days commencing August 14, 2008 and ending October 30, 2008. All Condestable shares tendered to the offer will be purchased by the Company at a closing scheduled for November 5, 2008. Upon closing of the offer, the shares of Condestable will be delisted from the Lima Stock exchange, taking Condestable private.

During the nine months ended September 30, 2008, the Company and its subsidiaries made the following appointments: Mr. Daniel Vanin as the Chief Executive Officer ("CEO") and President, two new directors Mr. Jesus Fernandez and Mr. Philippe Blavier, Mrs. Victoria Vargas as the Vice President Investor Relations and Mr. Ken Norris as the Chief Operating Officer of MATSA.

## 1.1 Date of MD&A

This MD&A was prepared on November 14, 2008

## 1.2 Overall Performance

### Review of Results for the Three Months Ended September 30, 2008

Iberian reported a net income of \$195.15 million for the three months ended September 30, 2008, compared to a net loss of \$1.85 million for the corresponding period in 2007.

The results of operations for the third quarter of 2008 include the operations of Condestable for the period July 1, 2008 to September 30, 2008. Condestable's revenue for this period was \$27.50 million, the cost and expenses of the mining operation were \$19.04 million resulting in a gross margin of \$8.46 million.

The main factors that contributed to the consolidated net income in the third quarter of 2008 were an unrealized gain on derivative financial instruments of \$225.93 million, a foreign exchange gain of \$5.76 million and interest income of \$0.05 million. These were partly offset by: (i) amortization of the mining interest gross up of \$12.24 million (see Note 5 and 7 of the September 30, 2008 unaudited interim consolidated financial statements); (ii) administration costs of \$1.05 million; (iii) CMC's employee legal profit participation future benefits of \$0.69 million; and (iv) finance charges of \$0.88 million.

As noted above the Company recorded a substantial gain on derivative instruments. This gain is as a result of the decline in metal prices. This decline in metal prices when applied to the derivative instruments over their life resulted in an unrealized gain since the current metal prices are lower than that of the derivative instruments as recorded in the books of Iberian.

As part of the purchase price allocation related to the acquisition of Condestable, the Company had recorded on January 31, 2008, a substantial loss on the derivative instruments. Further losses on Condestable's derivatives were recorded for the second quarter of 2008. Of the \$225.93 million of unrealized gain on derivative instruments recorded in the third quarter, \$117.80 million resulted from the Condestable hedges and the remainder from the MATSA hedges. The details on both the Condestable and MATSA hedges are explained in Note 13 of the September 30, 2008 unaudited interim consolidated financial statements.

The consolidated statements of income (loss) as presented for the period ended September 30, 2008 are substantially different from the comparative period of 2007, in that these statements now include the operations of Condestable for the three months ended September 30, 2008. A comparison of the results for the quarter ended September 30, 2008 with those of the corresponding period in 2007 is discussed below.

The main items with no comparatives as a result of the consolidation of Condestable's results for the three month period are as follows: (a) revenue of \$27.50 million; (b) cost of revenues \$19.04 million; (c) finance charges of \$1.15 million; (d) unrealized gain on derivative instruments of \$117.80 million; (e) interest income of \$1.34 million; (f) employee legal profit participation future benefits of \$0.69 million; (g) income tax expenses of \$2.36 million; and (h) future income tax expense of \$10.63 million.

The analysis below relates to comparatives of the operating and corporate expenses for the third quarter of 2008 and 2007:

- (i) Stock option compensation of \$0.15 million decreased by \$0.84 million in comparison with the third quarter of 2007. This decrease was due to the timing of the vesting of stock options and their corresponding treatment as an expense for accounting purposes.
- (ii) Administrative costs totalled \$1.05 million for the third quarter of 2008, compared to \$0.81 million for the corresponding period in 2007. A breakdown of the administrative costs for the three months is

set out in section 1.15 (d) entitled "Administration and Other Expenses". The increase of \$0.24 million is due to the net impact of the following items:

- (a) In the third quarter of 2008, accounting and corporate services were \$5 compared to \$24 in 2007. Head office expenses were \$530 compared to \$259 in 2007. This increase in head office expenses of \$271 is mainly due to the increase in personnel expenses of approximately \$209 and the setting up of the new Iberian corporate office and its related expenses.
- (b) Professional and consulting fees for the third quarter of \$458 increased by \$214 over 2007. Included in this are legal and audit fees of approximately \$248 (2007 - \$124) and consulting fees of approximately \$194 (2007 - \$92). Travel costs for the third quarter of 2008 were \$29 compared to \$114 as a result of decreased travel. The occupancy cost of \$73 in the third quarter of 2008 (2007 - \$35) is as a result of costs relating to the new corporate head office. Director's fees for this quarter were \$60 (2007 - \$18). Capital tax recoveries were \$190 compared with a charge of \$53 for the same quarter in 2007. In 2008, there is a possibility that new Ontario provincial legislation may be such that the Company will not be subject to capital tax. The Company is seeking a tax ruling in this matter; however, to prevent penalties in the event that Iberian does not receive a favourable ruling, Iberian has prepaid capital taxes in the amount of \$119 and is recorded in the other receivables of the September 30, 2008 unaudited interim consolidated financial statements.
- (iii) The interest on the \$25.00 million, five year, convertible subordinated debenture issued to Dundee Resources Limited ("Dundee") is payable semi-annually on July 26<sup>th</sup> and January 26<sup>th</sup> of each year. The interest accrued for the third quarter of 2008 was \$374 (2007 - \$378), the accretion attributable for the same period was \$92 (2007 - \$86) for a total interest expense of \$466 (2007 - \$464). The actual interest from January 27, 2008 to July 26, 2008 was \$745 (2007 - \$744) and was repaid by issuing 857,358 common shares (2007 - 473,780 common shares).
- (iv) The interest on US\$10.00 million MATSA convertible loan facility for the three months ended September 30, 2008 was \$83. The accretion attributable to this convertible debenture for the three months ended September 2008 was \$45 for a total interest expense on the consolidated unaudited interim statements of \$128.
- (v) There was a foreign exchange gain of \$5,757 in the third quarter of 2008 compared to \$40 in the corresponding quarter in 2007. This gain arose from the Company's increased level of exposure to fluctuations in the value of the Euro and United States dollar against the Canadian dollar.
- (vi) Interest income increased to \$476 in the third quarter of 2008 from \$374 in 2007 reflecting the higher average level of cash on deposit during the third quarter of 2008 compared with the corresponding period in 2007. This increased cash was primarily from the restricted cash held at Condestable which was required for the derivative liability.
- (vii) The comprehensive loss for the third quarter of \$8,213 is comprised of the unrealized foreign currency translation loss of \$8,099 resulting from the translation of the Condestable's United States dollar denominated financial statements using the current rate method and the increase in the unrealized loss on long term investments of \$114. Under new standards issued by the Canadian Institute of Chartered Accountants ("CICA"), as set out in Note 2 (b) of the September 30, 2008 unaudited interim consolidated financial statements and effective from January 1, 2007, all financial assets are to be measured at fair value and this loss is required to be presented outside the net income (loss) of the Company within the category "other comprehensive income (loss)". In addition, an amount of \$225,932 was recorded as a gain as result of the unrealized gain on derivative financial instruments.

## Review of Results for the Nine Months Ended September 30, 2008

Iberian reported a net income of \$65.02 million for the nine months ended September 30, 2008, compared to a net loss of \$3.93 million for the corresponding period in 2007.

The results of operations for the nine months ended September 30, 2008 include operations of Condestable for the period February 1, 2008 to September 30, 2008. Condestable's revenue for this period was \$75.47 million, the cost and expenses of the mining operation were \$47.24 million resulting in a gross margin of \$28.23 million.

The main factors that contributed to the consolidated net income in the nine months ended September 30, 2008 were an unrealized gain on derivative financial instruments of \$106.48 million, a foreign exchange gain of \$0.71 million and interest income of \$0.80 million. These were partly offset by: (i) amortization of the mining interest gross up of \$32.64 million (see Note 5 and 7 of the September 30, 2008 unaudited interim consolidated financial statements); (ii) administration costs of \$3.55 million; (iii) Condestable's employee legal profit participation future benefits of \$2.29 million; and (iv) finance charges of \$1.67 million.

On January 31, 2008, the acquisition date of Condestable, a loss on the derivative instruments was recorded in the purchase price allocation. Of the \$106.48 million of unrealized gain on derivative instruments, \$48.31 million resulted from the Condestable hedges and the remainder is a result of the MATSA hedges. The details on both the Condestable and MATSA hedges are explained in Note 13 of the September 30, 2008 unaudited interim consolidated financial statements.

The consolidated statements of income (loss) as presented for the nine month period ended September 30, 2008 are substantially different from the comparative period of 2007, in that these statements now include the operations of Condestable for the eight months ended September 30, 2008. A comparison of the results for the nine months ended September 30, 2008 with those of the corresponding period in 2007 is discussed below.

The main items with no comparatives as a result of the consolidation of the Condestable results for the eight month period are as follows: (a) revenue of \$75.47 million; (b) cost of revenues \$47.24 million; (c) finance charges of \$1.67 million; (d) unrealized gain on derivative instruments of \$48.31 million; (e) interest income of \$2.12 million; (f) employee legal profit participation future benefits of \$2.29 million; (g) income tax expenses of \$7.90 million; and (h) future income tax expense of \$21.72 million.

The analysis below relates to comparatives of the operating and corporate expenses for the nine months ended September 30, 2008 and 2007:

- (i) Stock based compensation of \$0.39 million decreased by \$2.12 million in comparison with the corresponding period in 2007. This decrease is due to the timing of the vesting of stock options and their corresponding treatment as an expense for accounting purposes.
- (ii) Administrative costs totalled \$3.55 million for the nine months ended September 30, 2008, compared to \$1.88 million for the corresponding period in 2007. A breakdown of the administrative costs for the nine months is set out below in section 1.15 (d) entitled "Administration and Other Expenses". The increase of \$1.67 million is due to the net impact of the following items:
  - (a) In 2008, accounting and corporate services were \$55 compared to \$68 in 2007.
  - (b) Head office expenses were \$1,176 compared to \$327 in 2007. This increase of \$849 is mainly due to the increase in personnel expenses of approximately \$514 and the setting up of the new Iberian corporate office and its related expenses.
  - (c) Professional and consulting fees for 2008 of \$1,709 increased by \$944 over 2007. Included in this are legal and audit fees of approximately \$836 (2007 - \$409) and consulting fees of approximately \$805 (2007 - \$271). Travel costs for 2008 of \$246 were relatively unchanged in comparison to the same period in 2007 (\$243). The occupancy cost of \$126 in 2008 (2007 - \$77) is as a result of costs relating to the new premises. Director's fees for 2008 were \$77

(2007 - \$42). Capital tax recoveries of \$139 compared with a charge of \$203 for the same period in 2007. In 2008, there is a possibility that new Ontario provincial legislation may be such that the Company will not be subject to capital tax. The Company is seeking a tax ruling in this matter; however, to prevent penalties in the event that Iberian does not receive a favourable ruling, Iberian has prepaid capital taxes in the amount of \$119 which is recorded in the other receivables of the September 30, 2008 unaudited interim consolidated financial statements.

- (iii) The interest on the \$25.00 million, five year, convertible subordinated debenture issued to Dundee Resources Limited is payable semi-annually on July 26<sup>th</sup> and January 26<sup>th</sup> of each year. The interest accrued for the nine months ended September 30, 2008 was \$1,122 (2007 - \$1,122), the accretion attributable for the same period was \$265 (2007 - \$244) for a total interest expense of \$1,387 (2007 - \$1,367). The actual interest from July 26 2007 to January 26, 2008 was \$756 (2007 - \$756) and was repaid by issuing 675,146 common shares (2007 - 463,904 common shares). The actual interest from January 27, 2008 to July 26, 2008 was \$745 (2007 - \$744) and was repaid by issuing 857,358 common shares (2007 - 473,780).
- (iv) The interest on the US\$10.00 million MATSA convertible loan facility for the nine months ended September 30, 2008 was \$93. The accretion attributable to this convertible debenture for the nine months ended September 2008 was \$47 for a total interest expense on the consolidated unaudited interim statements of \$140.
- (v) There was a foreign exchange gain of \$708 in 2008 compared to a loss of \$111 in 2007. This gain arose from the Company's exposure to fluctuations in the value of Euro and United States dollar against the Canadian dollar, offset in part by a loss from the translation of the future tax liability which resulted from the acquisition of Condestable.
- (vi) Interest income decreased to \$798 in 2008 from \$1,927 in 2007 reflecting the lower average level of cash on deposit during 2008 compared with the same period in 2007.

The comprehensive loss for 2008 of \$14,162 is comprised of the unrealized foreign currency translation loss of \$13,592 resulting from the translation of Condestable's United States dollar denominated financial statements using the current rate method and the increase in the unrealized loss on long term investments of \$570. Under new standards issued by the CICA, as set out in Note 2 (b) of the September 30, 2008 unaudited interim consolidated financial statements and effective from January 1, 2007, all financial assets are to be measured at fair value and this loss is required to be presented outside the net income (loss) of the Company within the category "other comprehensive income (loss)". In addition, an amount of \$106,483 was recorded as a gain as result of the unrealized gain on derivative financial instruments.

## Segmented Information

	Canada	Spain	Peru	Consolidated
<b>Three months ended September 30, 2008</b>				
Sales	\$ -	\$ -	\$ 27,501	\$ 27,501
Net income (loss)	\$ (13,229)	\$ 100,518	\$ 107,858	\$ 195,147
<b>Nine months ended September 30, 2008</b>				
Sales	\$ -	\$ -	\$ 75,467	\$ 75,467
Net income (loss)	\$ (18,736)	\$ 33,676	\$ 50,083	\$ 65,023
<b>As at September 30, 2008</b>				
Current assets	\$ 3,191	\$ 57,081	\$ 55,134	\$ 115,406
Long-term assets	306,557	369,072	46,452	722,081
	\$ 309,748	\$ 426,153	\$ 101,586	\$ 837,487
<b>December 31, 2007</b>				
	Canada	Spain	Peru	Consolidated
Current assets	\$ 6,383	\$ 15,701	\$ -	\$ 22,084
Long-term assets	4,815	143,160	-	147,975
	\$ 11,198	\$ 158,861	\$ -	\$ 170,059

### **Cash Flows for the Three Months Ended September 30, 2008 Compared to September 30, 2007**

During the quarter, cash flows from operations before changes in working capital were an inflow of \$12,350 compared to \$68 during the third quarter of 2007. The increase of \$12,282 was primarily due to the acquisition of Condestable with its operating income offset in part by increased administrative expenses.

During the quarter, cash flows from operations after changes in working capital were an outflow of \$2,456 compared to an inflow of \$3,521 during the third quarter of 2007. The \$5,977 decrease is a result of the \$12,350 improvements in cash flows from operating activities before working capital and increase in hedge payable, trade payables and accrued liabilities offset in part by a decrease in trade receivables.

During the quarter, cash used in investing activities was an outflow of \$75,912 compared to \$27,728 in the same quarter in 2007. The cash used was primarily for capital expenditures of \$60,454 and cash deposits held as security for MATSA of \$15,767. In the prior year, \$24,513 was used for capital expenditures, \$1,517 for cash deposits held as security for MATSA and \$1,698 for prepaid acquisition costs relating to Condestable.

Net cash generated from financing activities was \$54,976 compared to \$24,666 in the same quarter in 2007. The majority of the inflow was from the drawdown of the long term loan and Trafigura's loan of \$15,918 for MATSA's social and environmental remediation guarantees. This was offset in part by the repayment of the operating loan. In prior year, the majority of the inflow was from the share issuance.

During the quarter, the Company had a net decrease in cash and cash equivalents of \$23,392 as compared to a net increase of \$459 during the third quarter of 2007. The effect of exchange rate fluctuations on cash held in foreign currencies was an outflow of \$4,028 compared to \$57 in the same quarter in 2007, leaving cash and cash equivalents balance of \$27,639 as at September 30, 2008 as compared to a cash and cash equivalents balance of \$35,215 as at September 30, 2007.

### **Cash Flows for the Nine Months Ended September 30, 2008 Compared to September 30, 2007**

During the nine months ended September 30, 2008, cash flows from operations before changes in working capital was an inflow of \$21,141 compared to \$421 in 2007. The \$20,720 improvement was primarily the result of the acquisition of CMC with operating income offset in part by increased administrative expenses.

For the nine months ended September 30, 2008, cash flow from operations after changes in working capital was an inflow of \$24,261 compared to an inflow of \$12,641 during 2007. The \$11,620 increase is a result of the \$21,141 improvements in cash flows from operating activities before working capital and decrease in hedge payable, trade payables and accrued liabilities offset in part by an increase in trade receivables and other assets.

During the nine months ended September 30, 2008, cash used in investing activities was an outflow of \$195,847 compared to \$65,321 in 2007. The cash used was primarily for capital expenditures of \$178,736 and cash deposits held as security for MATSA of \$16,448. In the prior year, \$62,106 was for capital expenditures, \$1,517 for cash deposits held as security for MATSA and \$1,698 for prepaid acquisition costs relating to CMC.

Net cash generated from financing activities was \$198,249 compared to \$26,752 in the nine months ended September 30, 2007. The majority of the inflow was from the draw down of the long term loan, issuance of convertible debenture and Trafigura's loan of \$15,918 for MATSA's social and environmental remediation guarantees. This was offset in part by the repayment of the short term loan. In the prior year, the majority of the inflow was from the share issuance.

During the nine months ended September 30, 2008, the Company had a net increase in cash and cash equivalents of \$26,663 as compared to a net decrease of \$25,928 during the same period in 2007. The

effect of exchange rate fluctuations on cash held in foreign currencies was an outflow of \$8,796 compared to \$809 in the same period in 2007, leaving cash and cash equivalents balance of \$27,639 as at September 30, 2008 as compared to a cash and cash equivalents balance of \$35,215 as at September 30, 2007.

### **1.3 Selected Annual Information** (not applicable to the quarterly MD&A)

### **1.4 Results of Operations**

#### **Financing Activities**

There was no equity financing activity in the third quarter of 2008.

As part of the acquisition of Condestable, Trafigura had agreed to provide bridge financing until the Company secured the loan facility from Condestable in the amount of US\$ 70.00 million. During the nine month period ended September 30, 2008, Trafigura had advanced approximately \$59.54 million (US\$ 59.97 million) at a rate of Libor plus 1.00%. This loan was exclusively used for funding the construction at Aguas Teñidas. This loan was repaid in May 2008 from the Condestable loan of US\$ 70.00 million and is no longer available. (See Note 9 to the September 30, 2008 unaudited interim consolidated financial statements for more details).

In addition, in the three months ended September 30, 2008, Trafigura advanced a further sum of approximately \$12.40 million (US\$ 12.00 million). This advance was used to fund the construction at Aguas Teñidas while the US\$ 210.00 million facility was being completed. This advance from Trafigura was repaid in early July 2008 after the first drawdown of approximately US\$ 45.30 million was made on the US\$ 210.00 million facility.

#### **Aguas Teñidas Project**

Throughout 2008, the Company continued to focus on the development and construction of Aguas Teñidas. Following the receipt of the building license required for the construction of the mine in January 2007, MATSA was subsequently granted the permit to build its ore processing plant in April 2007 and the permit to build its planned tailings facility in June 2007 by the Junta de Andalucía. Both these permits are subject to conditions typical of a European mining permit including the posting of bonds totalling approximately €7.00 million for the mine closure requirements and €4.70 million for the tailings facility permit.

In February 2008, the mining authority issued a resolution confirming MATSA as the owner of the various mining concessions comprising the Aguas Teñidas project. These resolutions imply the existence of the concessions mentioned therein, their life, and that they fulfil all legal and administrative requirements. According to the Spanish Mining Act, renewal of the mining concessions needs to be applied for no later than three years before their term expires. Since the Aguas Teñidas Deposit Concessions numbered 22 small concessions MATSA has applied under Article 72 of Mining Law and Article 94 of Mining Law General Regulations to amalgamate the 22 concessions. Such amalgamation will make the operations more efficient, as it will lead the operations to be more effectively administered and organized. MATSA has initiated the process of extending the consolidated licence for a further thirty years.

During the third quarter of 2008, development of the underground infrastructure continued. The Santa Barbara ramp progressed 580 meters during the third quarter of 2008 and with 410 meters remaining for the ramp to be completed from the surface down to the 810 meter level. The total meters advanced, since the start of the construction of the Santa Barbara ramp, approximated 3,500. The extension of the Santa Eulalia ramp was completed in 2007 and four new sublevels were connected. On completion of the Santa Barbara ramp, the two ramps will be connected.

Significant progress on the plant and tailings facility continued during this period. Civil works, structural steel and mechanical erection are well underway and the tailings facility, power lines and its applicable

substation and the fresh water facilities are completed. The piping works contract has been awarded and work on this commenced in March 2008 and is progressing rapidly. All mills and flotation cells have been erected as well as their related mechanisms. The concentrate thickening facility is well underway. All site roads are progressing with full completion effected of the internal road from the backfill plant to the concentrator.

MATSA continued to further strengthen its project team during the third quarter of 2008. At the same time Aker Solutions Inc. who is responsible for plant design, continued to augment its construction team on site in Spain.

In the third quarter of 2008 approximately 2,203 meters of geotechnical core drilling were completed to assess rock mechanics in areas of planned underground development and future production areas.

Spending on the Aguas Teñidas project totalled approximately \$53.79 million or the third quarter of 2008. The above expenditures were allocated to mining interest in the amount of \$6.11 million, construction in progress \$47.32 million and equipment \$0.36 million.

As the project continues to develop through 2008, spending levels will continue to increase in response to the demands of the project. The construction of the Santa Barbara ramp, underground development, the advance of the investigation gallery, and the construction of the surface facilities are all capital intensive activities. The Company has focused on funding sources to meet the budgetary demands of development, but if these sources do not deliver the funding required, or if further funding is required, the development plans for the project could be jeopardized. As explained in Note 9 of the September 30, 2008 unaudited interim consolidated financial statements the funding facilities have been completed. As at September 30, 2008 a total of approximately US\$ 179.91 million has been drawdown to fund the construction at MATSA. This funding is US\$ 70.00 million from the Condestable loan facility and US\$ 109.91 million from the MATSA loan facility.

In the nine months period ended September 30, 2008, there was no material spending associated with the Investigation licenses held by the Company. The Company intends to evaluate these various licenses, but at present no immediate material spending is contemplated.

### **Compania Minera Condestable S.A. (“CMC”)**

The Condestable Mine has been in continuous production of copper/gold/silver since 1998. The following is a chart detailing the production at Condestable for the last seven years:

<b>Production</b>	<b>Unit</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Ore treated	MTD	639,871	713,633	867,845	1,006,435	1,319,704	1,500,154	1,558,164
Ore treated (daily average)	MT/D	1,753	1,955	2,378	2,757	3,616	4,110	4,269
Concentrate produced	DMT	33,921	37,306	43,518	48,136	60,912	68,954	76,028
Fine copper produced	FMT	9,101	9,531	11,295	12,590	15,922	18,267	19,204
Fine gold produced	OZ	5,269	7,493	8,263	9,767	11,360	13,501	13,539
Fine silver produced	OZ	79,152	102,631	124,149	130,683	152,550	153,500	206,403

Legend: DMT -- Dry metric tonnes; MT – Metric tonnes; FMT – Fine metric tonnes; OZ- Troy Ounces

The following are the highlights of Condestable for the period February 1, 2008 to September 30, 2008.

- Revenues were approximately \$75.47 million of which \$27.50 million is for the third quarter of 2008.
- Production for the three and eight months ended September 30, 2008 was:

Production	Unit	Three months ended	Eight months ended
		September 30, 2008	
Concentrate	MT	26,210	67,681
Contained copper	MT	6,562	16,837
Fine gold	Oz	4,247	11,298
Fine silver	Oz	75,556	187,664

- The cash cost of production at CMC is estimated at \$24.55 per ton of copper produced. This is computed using all of the cash costs for the Peruvian operations.
- CMC has a recovery rate of 91% and an average copper grade of approximately 1.24%
- Unaudited balance sheet information as at September 30, 2008 in approximate US\$:

	September 30, 2008 (US\$)
Current assets	\$ 51,807
Total assets	169,469
Current liabilities	78,933
Derivative instruments liability	\$ 133,334

## Property Description and Location

The Condestable and Raúl mine deposits are located on the Peruvian coast, in the District of Mala, Province of Cañete, Department of Lima. Access to the mine is 90 km by the highway south from Lima to Mala, the nearest town, and then a dirt road to Raúl mine (5 km). The Condestable mine is located at latitude 8 596 0919.091 N and longitude 327 609.545 E. The Raúl mine is located at latitude 8 595 972.91 N and longitude 329 798.8115 E.

The Condestable and the Raúl properties consist of an aggregate of 63 concessions totalling approximately 13,677 hectares and 32,864.37 hectares of tenement petitioned. The tenements are distributed in two groups named Condestable and Raúl.

The copper mineralization at the Condestable and Raúl mines occurs in stratiform sulphide-rich replacement bodies (mantos) and crosscutting sulphide-bearing quartz veins. The mantos consist of disseminated, semi-massive to massive sulphide-iron-oxide.

Condestable has a lease and royalty contract, with the owner of the Raúl mine concession, *Contrato de Cesión Minera*, for the extraction of minerals in this mine. This contract is in effect until February 2011, with an option to extend it through February 2014. The Company has exercised this option with a back-out right in the event that the mine is not feasible after 2011. This contract establishes a royalty payment according to the following terms expressed in whole dollars:

- A fixed monthly payment of US\$ 30,000;
- If the treated mineral (sulphide and oxide) is more than 70,000 tons per month, an additional monthly payment of US\$ 0.50 per every additional ton over 70,000 tons;
- If the international market price of copper is between US\$ 1.00/lb and US\$ 1.05/lb, an additional monthly payment of US\$ 1,000 per every cent over US\$ 1.00/lb;
- If the international market price of copper is between US\$ 1.05/lb and US\$ 1.10/lb, an additional monthly payment of US\$ 1,500 per every cent over US\$ 1.05/lb; and
- If the international market price of copper is over US\$ 1.10/lb, an additional monthly payment of US\$ 2,000 per every cent over US\$ 1.10/lb.

Condestable is not the owner of the land where the operations are located. The property is the subject of an agreement with the rural community requiring annual payments for the right to use and profit from the land. The annual payment is US\$ 18 while the contract is in effect, and an additional US\$ 54 (plus taxes) during the first three years for developing community projects. Additionally, Condestable has committed a full time engineer with experience in development and promotion of community projects. This contract allows Condestable to build and maintain camps, tunnels, plants, workshops, offices, tailing dams, waste dumps, roads, and any other works to develop and operate mining operations. This contract is in effect for up to thirty years from its signing in 2006.

The property is exposed to environmental liabilities related to the tailings storage area; waste rock storage on surface; and spent ore storage. Condestable's environmental permits and authorizations are valid with exception of the Certificate of Non-Existence of Archaeological remains in the area. It should be noted that the mine operation dates back forty years and according to the data reviewed no archaeological remains have been detected.

The Condestable mine is an active underground mining operation. Condestable has an annual exploration program comprising underground development and diamond drilling. The mine operates its own drilling equipment capable of drilling BQ, NQ and TT46 calibre core. The primary purpose of exploration is to increase the mineral resource available for mining. Much of the exploration drilling is conducted from underground, requiring significant underground development to provide adequate drilling stations. For 2008, 8,400 meters of lateral development is planned.

At September 30, 2008, Condestable had 173 employees, 747 workers and an additional 487 contractors on site.

### 1.5 Summary of Quarterly Results

	Third quarter September 30, 2008	Second quarter June 30, 2008	First quarter March 31, 2008	Fourth quarter December 31, 2007
Revenues	\$ 27,501	\$ 29,234	\$ 18,812	\$ –
Net income (loss)	195,147	(63,499)	(66,625)	(2,008)
Net income (loss) per share basic	\$ 0.76	\$ (0.25)	\$ (0.29)	\$ (0.01)
Net income (loss) per share fully diluted	\$ 0.69	\$ (0.25)	\$ (0.29)	\$ (0.01)
Total assets	837,487	754,990	622,492	170,059
Cash and cash equivalents	27,639	55,059	24,434	9,772
Shareholders' equity	248,462	60,524	121,084	111,214
	Third quarter September 30, 2007	Second quarter June 30, 2007	First quarter March 31, 2007	Fourth quarter December 31, 2006
Revenues	\$ –	\$ –	\$ –	\$ –
Net income (loss)	(1,853)	(1,573)	(508)	(932)
Net income (loss) per share basic	\$ (0.01)	\$ (0.01)	\$ (0.00)	\$ (0.00)
Net income (loss) per share fully diluted	\$ (0.01)	\$ (0.01)	\$ (0.00)	\$ (0.00)
Total assets	162,335	150,674	139,006	135,206
Cash and cash equivalents	35,215	34,813	51,793	61,952
Shareholders' equity	111,114	109,724	107,174	105,950

As seen above, the results in the first three quarters of 2008 are significantly different from that of the prior five quarters. The first quarter of 2008 reflects the operating results of Condestable for the two month period from February 1, 2008 to March 31, 2008 (The acquisition of Condestable was completed effective January 31, 2008), the second and third quarters include the operating results of Condestable for the three months period ended June 30, 2008 and September 30, 2008 respectively.

The following is an explanation of the third quarter of 2008:

- The revenue for the three months ended September 30, 2008 was \$27.50 million; this represents the revenue from Condestable.
- The increase in total assets was \$82.50 million. The major increase was the net increase in fixed assets at MATSA of \$ 53.79 million, \$58.17 million pertaining to the unrealized gain from the MATSA derivatives, offset by the decrease in working capital and the amortization of the mining interest gross up.
- The increase in shareholder's equity is as a result of the third quarter 2008 income, the main component of which is the unrealized gain on derivative financial instruments. Condestable recorded an operating profit of \$8.46 million and gain of \$117.80 million with respect to the derivative financial instruments. MATSA recorded an unrealized gain of \$108.13 million on their derivative instruments. Total foreign exchange gain of \$5.76 million were offset by \$12.24 million related to amortization of the mining interest gross up resulting from the Condestable acquisition, administrative expenses of \$1.05 million and net other of \$1.26 million.

In the five quarters set out above for 2007 and 2006, the Company recorded a net loss in each quarter. There have been increased losses by quarter in 2007 resulting mainly from a decrease in interest income, increase in stock option compensation expenses and general and administration expenses.

Total assets have demonstrated a consistent and sustainable growth over the four quarters of 2007 and the fourth quarter of 2006 reflecting the level of activity at the Aguas Teñidas mine site. The first three quarters of 2008 reflects the acquisition of Condestable and to a lesser extent the level of activity at the Aguas Teñidas mine site.

## 1.6 Liquidity

Iberian reported a working capital deficiency of \$59.51 million at September 30, 2008 compared with working capital deficiency of \$9.50 million at December 31, 2007. The reasons for this deficiency is the current portion of the Condestable derivative instruments of approximately \$53.02 million, offset by the current receivable portion of the MATSA derivative instruments for approximately \$18.38 million, the current portion of long term debt of \$35.97 million, payables \$85.93 million off set by available cash \$50.18 million, receivables of \$39.43 and other of \$7.42 million

The Company had cash and cash equivalents of \$27.64 million at September 30, 2008 compared to \$9.77 million at December 31, 2007. Of this, approximately \$18.93 million is held in banks in Spain, approximately \$5.87 million is held in banks in Peru and \$2.84 on deposit with a major bank in Canada.

The loan facilities at MATSA and Condestable totalling of approximately US\$ 280.00 million are available for funding the completion of the Aguas Teñidas project. To September 30, 2008, US\$ 179.91 million was drawn down. The Company's undrawn facilities at September 30, 2008 are a term facility of US\$ 70.09 million and a cost overrun facility of US\$ 30.00 million.

The Company will continue its efforts to raise funds for future developments and operations and to meet its ongoing financial obligations as they arise. There is however, no assurance that the Company will be successful in its efforts to raise additional funds, in which case, the Company may not be able to meet its financial and other obligations. The September 30, 2008 unaudited interim consolidated financial statements have been prepared on a going concern basis, as discussed in Note 1 of the September 30, 2008 unaudited interim consolidated financial statements.

Should the Company be unable to realize on its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded in the consolidated balance sheet.

As of September 30, 2008, the Company's total net debt (excluding cash and cash equivalents) is as follows:

	September 30, 2008	December 31, 2007
Trade payables and accrued liabilities	\$ 62,954	\$ 30,046
Convertible debenture	33,657	23,592
Current portion of long term debt	35,968	1,535
Asset retirement obligation	6,153	2,309
Long-term debt	157,727	1,363
<b>Total</b>	<b>\$ 296,459</b>	<b>\$ 58,845</b>

The above excludes the liability on the derivative financial instruments. As at September 30, 2008, the current portion of this liability amounted to \$53.02 million and the long-term portion amounted to \$88.87 million, for a total exposure of \$141.89 million. The current portion of derivative receivable is \$18.38 million and the long-term portion amounted to \$39.80 million, for a total receivable of \$58.18 million. This results in a net exposure of \$34.64 million for the current portion and \$49.07 million for long-term portion, for a total net exposure of \$83.71 million.

In common with many junior public companies, the Company raises capital for its activities and projects as and when required. In the nine month period ended September 30, 2008, there were no equity fundraising activities.

### **Cash Generating Potential**

The Company's subsidiary CMC has adequate revenue to be self sustaining. CMC has partially hedged its production so it is not fully exposed to changes in metal prices.

MATSA has an undrawn facility of US\$ 100.09 million. To drawdown on this facility, MATSA has to comply with the terms and conditions of the facility. It is estimated that this undrawn facility is sufficient to complete the MATSA project and take it into production, if the production ramp-up goes according to schedule. Current fluctuations in metal prices are partially covered by the MATSA hedges.

Iberian has sufficient funds for its current short term needs.

### **1.7 Capital Resources**

At September 30, 2008, the Company had the following capital requirements under existing agreements.

- (i) Accounts payable in the normal course of business.
- (ii) Convertible debenture, refer to Note 10 of the September 30, 2008 unaudited interim consolidated financial statements.
- (iii) Funds for MATSA to continue the construction phase of the Aguas Teñidas project, the sources of these funds are further discussed above in section 1.6 entitled "Liquidity".
- (iv) MATSA's capital commitments totalling approximately €34.9 million (\$52.08 million).
- (v) The Company is committed to future minimum lease payments as follows:
  - 2008 - \$1,379; 2009 - \$4,456; 2010 - \$1,127; 2011 - \$630; 2012 - \$423; and 2013 - \$431 for a total of \$8,446. See Note 21 to the September 30, 2008 unaudited interim consolidated financial statements for detail of these commitments by country.

### **1.8 Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

## 1.9 Transactions with Related Parties

The Company had the following transactions with related parties:

The Company had management agreements with Peter Miller and Norman Brewster for their services as President and CEO, and Executive Chairman and Vice President respectively, whereby each receives annual fees of \$240 (2007 - \$240). For the three and nine months ended September 30, 2008, one of the directors received \$120 and \$240 respectively (three and nine months ended September 30, 2007 - \$60 and \$180 respectively). The other director received \$60 and \$180 respectively (three and nine months ended September 30, 2007 - \$60 and \$180 respectively). In addition, for the three and nine months ended September 30, 2008, consulting fees were paid to another officer, Peter Gleeson, \$70 and \$130 respectively (three and nine months ended September 30, 2007 - \$30 and \$90 respectively). During the three and nine months ended September 30, 2008, a total of \$86 and \$182 (three and nine months ended September 30, 2007 - \$48 and \$144 respectively) was expensed as professional and consulting fees and \$164 and \$368 (three and nine months ended September 30, 2007 - \$117 and \$351 respectively) was included in property, plant and equipment. In addition, \$8 and \$17 (three and nine months ended September 30, 2007 - \$5 and \$14 respectively) were paid to an arm's length party on behalf of the above directors and the officer for travel related expenses.

The management agreement with Peter Miller is no longer in place as Mr. Miller stepped down as President and CEO, but continues to serve as a director of MATSA. Mr. Miller will continue to receive his fees as noted above until January 31, 2009.

For the period ended September 30, 2008, no director's fees were paid, however the Company has accrued \$77 (2007 - \$42) for directors' fees relating to the first three quarters of 2008. In connection with the acquisition of Condestable effective January 31, 2008, Thomas Savage Aguilar and Jesus Fernandez Lopez (Trafigura nominees) were elected to the board of directors of Iberian and the following directors resigned: Maurice Stekel; Jose Gomez-Arnau; Michael Newbury; and Peter Gleeson. On August 14, 2008 Mr. Aguilar resigned as a director and was subsequently replaced by Mr. Philippe Blavier on September 8, 2008.

The Company pays funds to related parties in the course of carrying out the Company's business, in exchange for services rendered to the Company. If the Company were not paying these related parties for these services the Company would still have to pay individuals or entities in order to obtain these services and to carry out the business of the Company. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the Company and the related parties.

The Company completed the acquisition of Condestable effective January 31, 2008. The consideration for the acquisition was satisfied by the Company issuing 65,990,833 shares valued at \$87.73 million to Trafigura, which previously held approximately 21% of the issued share capital of Iberian. As a result of this, Trafigura controls approximately 42% of the issued and outstanding capital of Iberian.

The Trafigura group provides management, operational, mining and administrative services to Condestable. The amount charged for the period February 1, 2008 to September 30, 2008 is US\$ 608.

For the nine months period ended September 30, 2008, Trafigura lent the Company a bridge loan totalling \$71.80 million (US\$ 70.97 million) at an interest rate of Libor plus 1.00%. All of these proceeds were used to fund the construction at the facilities at MATSA. Of this amount \$59.54 million (US\$ 58.97 million) was repaid on May 23, 2008 from the proceeds of the Condestable loan. The remaining loan was repaid in July 2008 from the proceeds of the first drawdown of the US\$ 210.00 million facility. In the first quarter of 2008, the Company's subsidiary Condestable entered into hedge forward contracts with Natixis Commodity Markets Limited to satisfy the finalization of the loan facility as explained in Note 13 of the September 30, 2008 unaudited interim consolidated financial statements. To September 30, 2008, the cumulative interest on the bridge loan, the interest on the hedge margins during the negotiation (prior to June 24, 2008) and fees associated with these transactions, amounted to \$1.27 million.

As at September 30, 2008, Trafigura has lent MATSA €10.67 million (\$15.92 million) to cover for various social and environmental remediation guarantees. For more details see Note 6 of the September 30, 2008 unaudited interim consolidated financial statements.

### **1.10 Fourth Quarter (Not applicable)**

### **1.11 Proposed Transactions**

The Company completed the acquisition of approximately 92% of the issued and outstanding shares of Compania Minera Condestable with an effective date of January 31, 2008.

On August 14, 2008, the Company filed an offer of purchase in Perú to acquire the remaining 3,474,288 shares of Condestable it did not own, at a price of New soles 9.67, in accordance with the requirements of the Lima Stock Exchange and the Peruvian securities authorities. The offer price was determined by an independent valuator appointed in Perú as required by applicable Peruvian regulatory requirements. The offer to purchase the Condestable shares will take place through the Lima Stock Exchange over a period of 40 days commencing August 14, 2008 and ending October 30, 2008. All Condestable shares tendered under this offer will be purchased by the Company at a closing scheduled for November 5, 2008. Upon closing of the offer, the shares of Condestable will be delisted from the Lima Stock exchange, taking Condestable private.

Effective November 5, 2008, the Company acquired a total of 2,927,723 shares of Condestable, tendered under the offer, for a total consideration of New soles 28,415,521, (approximately US\$ 9.19 million). This amount includes costs and commissions associated with this transaction. Trafigura provided a bridge loan for the funds used to complete this transaction. As a result of the completion of the tender process, Condestable is now a private company.

### **1.12 Critical Accounting Estimates**

The preparation of the September 30, 2008 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 and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

### **1.13 Changes in Accounting Policies and new Accounting Pronouncements**

On December 1, 2006, the CICA issued three new accounting standards: Capital Disclosures (Handbook Section 1535), Financial Instruments – Disclosures (Handbook Section 3862), and Financial Instruments – Presentation (Handbook Section 3863). These new standards became effective for the Company on January 1, 2008.

#### *Capital Disclosures*

Handbook Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The Company has included disclosures recommended by the new Handbook Section in Note 3 to the September 30, 2008 unaudited interim consolidated financial statements.

#### *Financial Instruments*

Handbook Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

The Company has included disclosures recommended by the new Handbook sections in Note 4 of the September 30, 2008 unaudited interim consolidated financial statements.

#### *Goodwill*

In October 2007, the CICA approved Handbook Section 3064, "Goodwill and Intangible Assets" which replaces the existing Handbook Sections 3062, "Goodwill and Other Intangible Assets" and 3450 "Research and Development Costs". This new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008, with earlier application encouraged. The Company is currently assessing the impact of this new accounting standard on its financial statements.

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

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian enterprises with public accountability. The current conversion timetable calls for financial reporting under IFRS for interim and annual financial statements relating to accounting periods commencing on or after January 1, 2011. The transition 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. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

On June 1, 2007, the Emerging Issues Committee of the CICA issued Abstract No. 166, Accounting Policy Choice for Transaction Costs (EIC-166). This EIC addresses the accounting policy choice of expensing or adding transaction costs related to the acquisition of financial assets and financial liabilities that are classified as other than held-for-trading. Specifically, it requires that the same accounting policy choice be applied to all similar financial instruments classified as other than held-for-trading, but permits a different policy choice for financial instruments that are not similar. The Company has adopted EIC-166 effective September 30, 2007 and requires retroactive application to all transaction costs accounted for in accordance with CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement. The Company's current recognition policy of expensing transaction costs is consistent with this guidance.

As a result of the acquisition of Condestable, the Company has adopted some new accounting policies. These policies are further described in Note 2 (c) of the September 30, 2008 unaudited interim consolidated financial statements. These new policies include the following: inventories; property, plant and equipment, mine development costs, determination of copper reserves and resources, revenue recognition, workers' profit sharing and other employee benefits and hedges.

### **1.14 Financial Instruments and Other Instruments**

The Company's financial instruments consisted of cash and cash equivalents, funds held in trust, restricted cash, receivables, payables and accruals and long term debt. Unless otherwise noted, it is management's opinion that the Company is currently not exposed to significant interest or credit risks arising from these financial instruments. Some of the above noted items are denominated in United States dollars, Euros and Peruvian New soles. Balances are translated at the period end, based on the Company's policy as set out in Note 2 in the September 30, 2008 unaudited interim consolidated financial statements.

The Company estimates that the fair value of its cash and cash equivalents, funds held in trust, restricted cash, receivables, payables and accruals and long term debt approximate the carrying value of the assets and liabilities.

The long-term investment consists of shares of Richview Resources Inc. which the Company is holding for the long term, as available for sale. The fair value at September 30, 2008 has been written down to \$542 which is in compliance with the new standards issued by the CICA as set out in Note 2 in the September, 30 2008 unaudited interim consolidated financial statements and effective from January 1, 2007 whereby all financial assets (except "held to maturity" and "loans and receivables") are to be measured at fair value. Regardless of these fluctuations in value, the Company considers this to be a long term investment.

The long term debt is mainly that of MATSA and the loan facility at Condestable. The fair value of these long-term debts is not readily determinable.

## 1.15 Other MD&A Requirements

### Additional Disclosure for Venture Issuers

#### 1.15 (a) Property, Plant and Equipment

	December 31, 2007	Additions 2008	Accumulated amortization	September 30, 2008
<b>Spain</b>				
Mining interest	\$ 19,018	\$ 25,567	\$ –	\$ 44,585
Construction in progress	121,572	141,293	–	262,865
Equipment	2,708	961	–	3,669
	143,298	167,821	–	311,119
<b>Canada</b>				
Office furniture, fixtures and equipment	110	26	(15)	121
Mining interests	–	338,650	(32,641)	306,009
	110	338,676	(32,656)	306,130
<b>Peru</b>				
Land	–	89	–	89
Building and other constructions	–	5,923	(503)	5,420
Machinery and equipment	–	27,103	(4,588)	22,515
Vehicles	–	580	(29)	551
Office furniture, fixtures and equipment	–	478	(70)	408
Asset retirement obligation	–	2,441	(357)	2,084
Construction in progress	–	4,887	–	4,887
Development costs	–	726	–	726
	110	42,227	(5,547)	36,680
	\$ 143,408	\$ 548,724	\$ (38,203)	\$ 653,929

	December 31, 2006	Additions 2007	Accumulated amortization	December 31, 2007
<b>Spain</b>				
Mining interest	\$ 14,711	\$ 4,307	\$ –	\$ 19,018
Construction in progress	32,304	89,268	–	121,572
Equipment	1,034	1,674	–	2,708
	48,049	95,249	–	143,298
<b>Canada</b>				
Office furniture, fixtures and equipment	–	114	(4)	110
	\$ 48,049	\$ 95,363	\$ (4)	\$ 143,408

The major increase in fixed assets was due to the acquisition of Condestable and the increased construction of the mine and plant in MATSA. The mining interests in Canada represent the gross up resulting from the purchase price allocation with respect to the acquisition of Condestable. Note 5 of the September 30, 2008 unaudited interim consolidated financial statements highlights the details of this increase.

#### 1.15 (b) Expensed Research and Development Costs (Not applicable)

#### 1.15 (c) Deferred Development Costs (Not applicable)

#### 1.15 (d) Administration and Other Expenses

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Accounting and corporate services	\$ 5	\$ 24	\$ 55	\$ 68
Head office expenses	530	259	1,176	327
Professional and consulting fees	458	244	1,709	765
Transfer agent, listing and filing fees	9	–	87	53
Shareholders' information	16	13	91	32
Travel	29	114	246	243
Advertising, promotion and public relations	53	50	102	65
Occupancy costs	73	35	126	77
Directors' fees	60	18	77	42
Capital tax	(190)	53	(139)	203
Amortization	6	4	15	4
<b>Total Company</b>	<b>\$ 1,049</b>	<b>\$ 814</b>	<b>\$ 3,545</b>	<b>\$ 1,879</b>

The table above includes the administrative expenses for the Company. In comparison with the equivalent numbers for the third quarter of 2007, the major increases are in office expense and professional and consulting fees, this is described above in section 1.2 entitled "Overall Performance".

#### 1.15 (e) Material Costs, Whether Capitalized, Deferred or Expensed, not Referred to in paragraphs (a) through (d) (Not applicable)

#### Disclosure of Outstanding Share Data

	November 14, 2008
Common shares issued and outstanding	255,608,763
Exercisable stock options	12,902,665
Warrants	16,022,479
Potential dilution of convertible debenture	30,000,000
<b>Total fully diluted shares at November 14, 2008</b>	<b>314,533,907</b>

Iberian's common shares are traded on the Toronto Stock Venture Exchange under the symbol "IZN". On November 14, 2008 there were 255,608,763 issued and outstanding common shares, 12,902,667 stock options exercisable and expiring from November, 2008 to September 2013, 16,022,479 warrants outstanding and expiring in August 2009 and June 2013 and a convertible debenture expiring in July 2011. This convertible debenture, if converted, would result in 20,000,000 shares and 10,000,000 warrants being issued. The number of fully diluted shares at November 14, 2008 is 314,533,907.

## **Risks and Uncertainties**

As a result of the acquisition of Condestable, Iberian has progressed from being a development stage company to being an operating company. The business of Iberian is subject to a number of risks and uncertainties commensurate with its status as an operating company, still involved in exploration and development. The reader should carefully consider the following risk factors set forth below as any of these risk elements could have a material adverse effect on the business, operations and future performance of the Company. In addition to the risk factors set forth below, the reader should consider the information disclosed in the September 30, 2008 unaudited interim consolidated financial statements and in the other publicly filed documentation regarding the Company which is available at [www.sedar.com](http://www.sedar.com).

### **Limited Operating History**

The Company has a limited operating history and there can be no assurance of its ability to operate at a profit. While the Company has recently begun to generate revenues following the acquisition of CMC and may in the future generate revenues through the operation, development, sale or possible joint venture of its other properties, there is no assurance that these revenues will materialize, or if they do, that they will be available for exploration or development programs.

### **Limited Revenue History**

The Company has recently started to record revenues from its recently acquired CMC operations. The Company has not commenced commercial production on any other property. There can be no assurance that significant losses will not occur in the near future or that the Company will be or remain profitable in the future. The Company's operating expenses and capital expenditures may increase in subsequent years as consultants, personnel and equipment associated with advancing exploration, development and commercial production of other properties in which the Company has an interest are acquired or retained. The amounts and timing of expenditures will depend on revenue generation, the progress of ongoing exploration and development, the results of consultants' analysis and recommendations, the rate at which operating losses are incurred, the execution of any joint venture agreements with strategic partners, the Company's acquisition of mineral properties and other factors, many of which are beyond the Company's control. The future development of the Company's properties will require the commitment of substantial resources to conduct the time-consuming exploration and development. There can be no assurance that the Company will generate sufficient revenues or maintain profitability.

### **Permitting Requirements**

The Company is required to obtain certain permits for the construction and operation of the Aguas Teñidas project. The first permit to recommence commercial production at the mine was received in May 23, 2006 and was press released. This was required in lieu of an initial production permit due to the previous operations carried out on the property by its predecessor in interest. The Company received, in January 2007, the construction licence required in order to build the processing plant, tailings facility and surface infrastructure. In April 2007, the Company received the operating permit for the ore processing plant and in June 2007, the Company received the operating permit for the tailings facility. The Company has now obtained all the required permits to construct the Aguas Teñidas mine in Spain.

In 2007, MATSA aggressively pursued obtaining a water permit. This permit was eventually granted on February 14, 2008 for a period of 15 years, 30 l/sec and a max annual volume of 762,500 m<sup>3</sup>. This permit is subject to conditions typical of a Spanish water permit.

In July 2007, the relevant authorities authorized the construction of the 66 Kv line and substation after a favourable environmental report dated February 2007. In April 2008, the authorities also authorized the transfer of ownership of both Calañas power substation and 15 Kv line.

MATSA is currently expecting the final operating authorizations for tailings facility, processing plant and the mine, which are all expected to be granted in the fourth quarter of 2008.

While the Company currently holds the required permits in order to move the Aguas Teñidas project to the next stage, there is no guarantee that these permits, if and when required, will be renewed, or renewed on terms acceptable to the Company. Furthermore, the Company may be required to obtain additional licenses and permits from various governmental authorities to continue and expand its development and production activities. There can be no guarantee that the Company will be able to maintain or obtain all necessary licences, permits and approvals that may be required to develop and operate the Aguas Teñidas mine and the Condestable Mine.

The Company's activities are also subject to a wide variety of laws and regulations governing health and worker safety, employment standards, waste disposal, protection of the environment, protection of historic and archaeological sites, mine development and protection of endangered and protected species and other matters. The Company is required to have a wide variety of permits from governmental and regulatory authorities to carry out its activities. These permits relate to virtually every aspect of the Company's exploration and exploitation activities. Changes in these laws and regulations or changes in their enforcement or interpretation could result in changes in legal requirements or in the terms of the Company's permits that could have a significant adverse impact on the Company's existing or future operations or projects. Obtaining permits can be a complex, time-consuming process. There can be no assurance that the Company will be able to obtain the necessary permits on acceptable terms, in a timely manner or at all. The costs and delays associated with obtaining permits and complying with these permits and applicable laws and regulations could stop or materially delay or restrict the Company from continuing or proceeding with existing or future operations or projects. Any failure to comply with permits and applicable laws and regulations, even if inadvertent, could result in the interruption or closure of operations or material fines, penalties or other liabilities.

## **Risks and Hazards Relating to Mineral Exploration and Operations**

Mineral exploration and operation involves a high degree of risk and few properties that are explored are ultimately developed into producing mines. Operations in which the Company currently has an interest and those in which the Company may have an interest, in the future, will be subject to all of the hazards and risks normally incidental to exploring, developing and exploiting natural resources. These risks and hazards include, but are not limited to, environmental hazards, industrial accidents, labour disputes, encountering unusual or unexpected geologic formations or other geological or grade problems, unanticipated changes in metallurgical characteristics and copper recovery, encountering unanticipated ground or water conditions, cave-ins, pit wall failures, flooding, rock bursts, periodic interruptions due to inclement or hazardous weather conditions, and other acts of God or unfavourable operating conditions and losses. Should any of these risks and hazards affect the Company's mining operations or its exploration activities, it may cause the cost of production to increase to a point where it would no longer be economic to produce mineral resources from the Company's reserves, it may require the Company to write-down the carrying value of one or more mines or a property which is material to it, it may cause delays or a complete stoppage in the production of copper, it may result in damage to or destruction of mineral properties or processing facilities, it may result in personal injury or death or legal liability, all of which may have a material and adverse effect on the financial condition, results of operation, and cash flows of the Company.

Substantial expenditures are required to establish mineral reserves and resources through drilling, to develop metallurgical processes to extract the metal from the ore and, in the case of some properties, to

develop the mining and processing facilities and infrastructure at any site chosen for mining, or to upgrade existing infrastructure. There can be no assurance that the funds required to exploit any mineral reserves and resources discovered by the Company will be obtained on a timely basis or at all. The economics of exploiting mineral reserves and resources discovered by the Company are affected by many factors, many outside the control of the Company, including the cost of operations, variations in the grade of ore mined and metals recovered, price fluctuations in the metal markets, costs of processing equipment, and other factors such as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection. There can be no assurance that the Company's mineral exploration and exploitation activities will be successful.

### **Risks Relating to Government Regulation**

The Company's operations and properties are subject to laws and regulations governing mineral concession acquisition, mine development and prospecting, mining, production, occupational health and safety, labour standards, employment, waste disposal, toxic substances, land use, environmental protection, use of water, exports, taxes, royalties and other matters. It is possible that the Company may not be able to comply with existing and future laws and regulations. In addition, future changes in applicable laws, regulations, agreements or changes in their enforcement or regulatory interpretation could result in changes to the terms of the Company's permits and agreements, which could have a material adverse impact on the Company's current operations and future development projects. The Company may experience increased costs and delays in production as a result of the need to comply with applicable laws, regulations and permits. Permits are subject to the discretion of government authorities and there is no assurance that the Company will be able to obtain all required permits on reasonable terms or on a timely basis.

Any failure to comply with applicable laws and regulations or permits, even if inadvertent, could result in enforcement actions thereunder including the loss of the Company's mining concessions, orders issued by regulatory or judicial authorities requiring operations to cease or be curtailed, fines, penalties or other liabilities. The Company may be required to compensate those suffering loss or damage by reason of its mining operations and may have civil or criminal fines or penalties imposed for violations of such laws, regulations and permits.

### **Environmental Regulation and Liability**

The Company's activities are subject to laws and regulations controlling not only mineral exploration and exploitation activities themselves but also the possible effects of such activities upon the environment. Environmental permitting, including for the approval of closure and reclamation plans, requires the Company to comply with standards, laws and regulations which may entail costs and delays depending on the nature of the activity to be permitted and how stringently the regulations are implemented by the permitting authority. Environmental legislation imposes restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mineral exploitation activities, such as seepage from tailings disposal areas that could result in environmental pollution. To the extent the Company is subject to environmental liabilities, the payment of such liabilities or the costs that it may incur to remedy environmental pollution would reduce the funds otherwise available to it and could have a material adverse effect on the Company. A breach of environmental legislation may result in the imposition of fines and penalties or the suspension or closure of operations, particularly if the Company is unable to fully remedy an environmental problem. The potential exposure may be significant and could have a material adverse effect on the Company. In addition, certain types of operations require the submission of environmental impact statements and approval thereof by government authorities.

Environmental legislation may change and make the mining and processing of ore uneconomic or result in significant environmental or reclamation costs. Environmental legislation is evolving in a manner which may mean stricter standards and enforcement, increased fines and penalties for non-compliance,

more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their directors, officers and employees. The costs of compliance with changes in government regulations have the potential to reduce the profitability of operations. Future changes to environmental legislation could cause additional expense, capital expenditures, restrictions, liabilities and delays in the development of the Company's properties, the extent of which cannot be predicted. The Company does not maintain environmental liability insurance – see "Risk and Uncertainties – Uninsurable Risks" section below.

### **Title to Mineral Properties**

Acquisition of title to mineral properties is a very detailed and time-consuming process. Title to, and the area of, mineral properties may be disputed or impugned. Although the Company has investigated its title to the Aguas Teñidas Project, the Condestable Mine and other mineral properties for which it holds concessions, mineral leases or licenses, there can be no assurance that the Company has valid title to such mineral properties or that its title thereto will not be challenged or impugned. Mineral properties sometimes contain claims or transfer histories that examiners cannot verify and transfers under foreign law are often complex. The Company does not carry title insurance with respect to the Aguas Teñidas Project, the Condestable Mine or other mineral properties. A successful claim that the Company does not have title to a mineral property could cause the Company to lose its rights to mine that property, likely without compensation for its prior expenditures relating to the property.

### **Political and Economic Instability**

The Company's mineral exploration and operation activities may be adversely affected by political instability and legal and economic uncertainty in the countries where the Company has operations. The risks associated with the Company's foreign operations may include: political unrest, labour disputes, invalidation of governmental orders and permits, corruption, war, civil disturbances and terrorist activities, arbitrary changes in laws, regulations, policies, taxation, price controls, exchange controls, delays in obtaining or the inability to obtain necessary permits, opposition to mining from environmental or other non-governmental organizations, limitations on foreign ownership, limitations on the repatriation of earnings, limitations on mineral exports and increased financing costs. These risks may limit or disrupt the Company's projects or operations, restrict the movement of funds or result in the deprivation of contractual rights.

The Company presently holds one of its major assets, the Condestable Mine, in central Perú which is a developing country that has experienced political and economic difficulties in the past. Peruvian administrations have intervened in the national economy and social structure, including periodically imposing various controls, the effects of which have been to restrict the ability of foreign companies to freely operate. The Company believes that the current conditions in Perú are relatively stable. The Company presently holds its other major asset, the Aguas Teñidas Project, in Spain, in which the Company does not currently foresee the aforementioned risks as being problematic, and also holds assets in Ontario, which it considers to be extremely low risk with reference to the above stipulated potential risks. However, country risks are out of the control of the Company, and should any of the above mentioned risks occur, the business and operations of the Company could be adversely affected.

### **Commodity Price Volatility**

The price of various commodities which the Company intends to exploit and subsequently market can fluctuate drastically, and is beyond the Company's control. The Company's future profitability and long-term viability will depend, in large part, on the market price of copper which can fluctuate drastically, and is beyond the Company's control. Market prices for copper are volatile and are affected by numerous factors beyond the Company's control, including expectations regarding inflation, global and regional demand, speculative activities, political and economic conditions and production costs in major copper-producing regions. The aggregate effect of these factors on copper prices is impossible for the Company

to predict. While the Company would benefit from an increase in the value of copper and zinc, the Company could be adversely affected by a decrease in the value of these metals. An increase in copper and zinc supply from other projects that reach production stage without a concurrent increase in copper and zinc demand will drive the price of these metals down, which would adversely impact the business of Iberian. In the event that copper and zinc prices were to descend below the prices used for the determination of the positive feasibility study on the Aguas Teñidas Project authored by SRK Consulting ("SRK"), the economic viability of the project could be materially adversely affected.

Estimated mineral resources may have to be recalculated based on changes in mineral resource prices, further exploration or development activity, or actual production experience. This could materially and adversely affect estimates of the volume or grade of mineralisation, estimated recovery rates or other important factors that influence reserve or resource estimates.

Market price fluctuations for mineral resources, increased production costs or reduced recovery rates, or other factors can render proven and probable mineral reserves uneconomical or unprofitable to develop at a particular site or sites. A reduction in estimated mineral reserves could require a material write-down in investment in the affected mining property and increased amortization, reclamation and closure charges.

### Interest Rate Risk

The Company is exposed to interest rate risk with regard to the operating loan from CMC, Perú, the credit facility at MATSA, Spain and the bridge financing loan from Trafigura (See Note 11 of the September 30, 2008 unaudited interim consolidated financial statements). The bridge loan bears interest at a rate of Libor plus 1.00%; the CMC loan with an interest rate of Libor plus 2.25% and the MATSA credit facility based on Libor plus varying percentages from 1.90% to 3.00% (See Note 9 of the September 30, 2008 unaudited interim consolidated financial statements). If Libor increased/decreased by 10% in basis points, the post-tax income for the nine months ended would increase or decrease by approximately \$343. See Note 4 (a) (iii) of the September 30, 2008 unaudited interim financial statements for details of the interest rate risk.

### Commodity Price and Forward Contract Risk

As part of the US \$210.00 million Project Finance Facility for Iberian's Aguas Teñidas Project (the "Facility") provided by Investec Bank (UK) PLC, BNP Paribas and Societe Generale, MATSA is required to hedge the forecasted future metals production until the facility matures in June 2013. The Facility requires Iberian to hedge 70% of the hedgable copper production and 65% of the hedgable zinc and silver production for a period of time as stated in the table below.

As of September 30, 2008, the forward contracts in force at MATSA were as follows:

#### (a) Copper

Period	FMT (Fine metric tons)	Fixed price US\$/FMT
January 2009 – June 2009	5,150	6,968
July 2009 – December 2009	6,625	6,784
January 2010 – June 2010	5,600	6,581
July 2010 – December 2010	5,600	6,390
January 2011 – June 2011	7,800	6,208
July 2011 – December 2011	7,625	6,208
January 2012 – June 2012	7,775	6,058
July 2012 – December 2012	7,950	6,058
January 2013 – June 2013	7,500	6,058

(b) **Zinc**

<b>Period</b>	<b>FMT (Fine metric tons)</b>	<b>Fixed price US\$/FMT</b>
January 2009 – June 2009	9,175	2,474
July 2009 – December 2009	9,600	2,463
January 2010 – June 2010	10,050	2,433
July 2010 – December 2010	10,050	2,433
January 2011 – June 2011	10,200	2,244
July 2011 – December 2011	10,200	2,244

(c) **Silver**

<b>Period</b>	<b>FOZ (Fine ounces)</b>	<b>Fixed price US\$/FOZ</b>
January 2009 – June 2009	278,646	18.10
July 2009 – December 2009	358,956	18.00
January 2010 – June 2010	313,056	18.10
July 2010 – December 2010	313,056	18.00
January 2011 – June 2011	573,696	18.10
July 2011 – December 2011	573,696	18.00
January 2012 – June 2012	523,368	17.90
July 2012 – December 2012	523,368	17.80
January 2013 – June 2013	556,908	17.80

For MATSA at September 30, 2008, 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 for the nine months would increase or decrease by \$52.70 million as a result of the changes in the fair values of the derivative instruments.

The Peruvian subsidiary of the Company, Condestable has hedged a substantial portion of its copper production until 2011.

As at September 30, 2008 the following table summarizes the forward contracts in force with regards to the Company's Peruvian operations:

(a) **Copper**

<b>Period</b>	<b>FMT (Fine metric tons)</b>	<b>Fixed price US\$/FMT</b>
October 2008 – December 2008	11,225	4,320.17
January 2009 – December 2009	19,900	4,410.00
January 2010 – December 2010	20,525	4,410.00
January 2011 – December 2011	20,625	3,400.00

(b) **Gold**

<b>Period</b>	<b>FOZ (Fine ounces)</b>	<b>Fixed price US\$/FOZ</b>
October 2008 – December 2008	600	741.40
January 2009 – December 2009	2,400	741.50
January 2010 – December 2010	2,400	741.50
January 2011 – December 2011	2,400	741.50

(c) **Silver**

<b>Period</b>	<b>FOZ (Fine ounces)</b>	<b>Fixed price US\$/FOZ</b>
October 2008 – December 2008	115,000	13.41

For Condestable, at September 30, 2008, 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 for the nine months would increase or decrease by \$41.74 million as a result of the changes in the fair values of the derivative instruments.

## Currency Fluctuations

Currency fluctuations may affect the Company's operations, financial position and results. The Company's financial results are reported and funds are held in Canadian dollars, while costs are primarily incurred in United States ("US") dollars, Euros and Peruvian new soles. The effects on operating cost and cash flows, of the foreign exchange rate and the escalation of the Peruvian new soles are significant to the Company's results. The appreciation of the Peruvian new soles against the US dollar would increase the cost of operations of the Condestable Mine, which could materially and adversely affect the Company's profitability, results of operation and financial condition. The appreciation of the US dollar or Euro against the Canadian dollar could also increase the actual capital and operating costs of the Company and materially adversely affect the results presented in the Company's financial statements. Currency rate fluctuations may also materially adversely affect the Company's future cash flow from operations, its results of operations, financial condition and prospects. The Canadian dollar carrying amount of the Company's foreign currency denominated monetary assets and liabilities as at September 30, 2008 are as follows:

	<b>Assets</b>	<b>Liabilities</b>
Euros	\$ 38,240	\$ 38,590
US dollars	212,343	193,302
New soles	577	19,372

Based on the financial instruments held at September 30, 2008, had the US dollar, Euro and Peruvian new sole weakened or strengthened by 10% against the Canadian dollar with all other variables held constant, the Company's post-tax income for the nine months would have been \$7 higher or lower as a result of foreign exchange gains or losses on translation of non-Canadian dollar denominated financial instruments.

## Uncertainty of Mineral Resource and Mineral Reserve Estimates

The estimates for mineral resources and mineral reserves are determined in accordance with NI 43-101 and the Canadian Securities Administrators and the Council of the Canadian Institute of Mining, Metallurgy and Petroleum ("CIM") Standards on Mineral Resources and Reserves, Definitions and Guidelines prepared by the CIM Standing Committee on Reserve definitions, adopted by the CIM Council on August 20, 2000 and modified on December 11, 2005 ("CIM Standards"). There are numerous uncertainties inherent in estimating mineral resources and mineral reserves, including many factors beyond the Company's control. Such estimation is a subjective process, and the accuracy of any mineral resources and mineral reserves estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. These amounts are estimates only and the actual level of recovery of metals from such resources may not be realized. Differences between management's assumptions, including economic assumptions such as metal prices and market conditions, could have a material adverse effect in the future on the Company's financial position and results of operations.

Estimated mineral resources may have to be recalculated based on changes in mineral resource prices, further exploration or development activity, or actual production experience. This could materially and adversely affect estimates of the volume or grade of mineralisation, estimated recovery rates or other important factors that influence reserve or resource estimates. Market price fluctuations for mineral

resources, increased production costs or reduced recovery rates, or other factors can render proven and probable mineral reserves uneconomical or unprofitable to develop at a particular site or sites. A reduction in estimated mineral reserves could require material write-downs in investment in the affected mining property and increased amortization, reclamation and closure charges.

Inferred mineral resources that are not mineral reserves do not have demonstrated economic viability and are considered too speculative geologically to have economic considerations applied to them to enable them to be categorized as mineral reserves. The estimates of mineral resources contained in the Company's technical reports for the Aguas Teñidas project and the Condestable Mine details estimates of inferred mineral resources. Due to the uncertainty which may attach to inferred mineral resources, there is no assurance that the estimated tonnage and grades as stated will be achieved or that they will be upgraded to measured and indicated mineral resources or proven and probable mineral reserves as a result of continued exploration.

### **Uninsurable Risks**

Mineral exploration and exploitation activities involve numerous risks, including unexpected or unusual geological operating conditions, rock bursts, cave-ins, fires, floods, earthquakes and other environmental occurrences and political and social instability. It is not always possible to obtain insurance against all such risks and the Company may decide not to insure against certain risks as a result of high premiums or other reasons. Should such liabilities arise, they could negatively affect the Company's profitability and financial position and the value of the common shares of the Company. The Company does not maintain insurance against environmental risks.

### **Dependence on Key Employees and Skilled Personnel**

The Company's business and operations are dependent on recruiting and retaining the services of a small number of key employees and qualified personnel. To a significant extent, the success of the Company is, and will continue to be, dependent on the expertise and experience of these employees. As the Company develops the Aguas Teñidas Project, the need for skilled personnel will also increase. The number of persons skilled in the development and production of mining properties is limited and competition for this workforce is intense. Although the Company believes that it will be successful in attracting and retaining qualified personnel, there can be no assurance of such success. The loss of one or more of the Company's key employees could have a materially adverse effect on the Company. The Company does not maintain insurance on any of its key employees.

### **Dependence on Outside Parties**

The Company has relied upon consultants, engineers and others and intends to rely on these parties for development, construction and operating expertise. Substantial expenditures are required to construct mines, to establish mineral reserves through drilling, to carry out environmental and social impact assessments, to develop metallurgical processes to extract the metal from the ore and, in the case of new properties, to develop the exploration and plant infrastructure at any particular site. If such parties' work is deficient or negligent or is not completed in a timely manner, it could have a material adverse effect on the Company.

### **Additional Funding Requirements**

As a result of the recent completion of the loan facility with a syndicate of banks headed up by Investec and the loan negotiated by the recently acquired Condestable, approximately US\$ 280.00 million is available for funding of the construction of the MATSA facilities. To September 30, 2008 US\$ 179.91 million has been drawn down on the available facilities. In the event that the Company needs additional funding, there is no assurance that the Company will be successful in obtaining additional financing as

and when needed. Volatile markets may make it difficult or impossible for the Company to obtain sufficient debt or equity financing on acceptable terms, or at all.

## **Competition**

Iberian competes with many other mining companies that have substantially greater financial and technical resources for the acquisition of mineral concessions as well as for the recruitment and retention of qualified employees. Such competition may result in the Company being unable to acquire desired properties, recruit or retain qualified employees or acquire the capital necessary to fund its operations and develop its properties. The Company's inability to compete with other mining companies for these resources would have a material adverse effect on the Company's results of operation and business.

## **Availability of Reasonably Priced Materials and Mining Equipment**

The Company requires a variety of materials and mining equipment for its operations. To the extent such materials or equipment are unavailable or available only at significantly increased prices, the Company's production and financial performance could be adversely impacted.

## **Failure to Meet Production and Cost Estimates**

The technical reports for the Aguas Teñidas Project and the Condestable Mine contain future production and capital cost estimates. Actual production and costs may vary from the estimates for a variety of reasons such as estimates of grade, tonnage, dilution and metallurgical and other characteristics of the metal ore varying in the actual ore mined, revisions to mine plans, risks and hazards associated with mining, adverse weather conditions, unexpected labour shortages or strikes, equipment failures and other interruptions in production capabilities. Production costs may also be affected by increased stripping costs, increases in level of ore impurities, labour costs, raw material costs, inflation and fluctuations in currency exchange rates. Failure to achieve production or cost estimates could have a material adverse impact on the Company's sales, profitability, cash flow and overall financial performance.

## **Current economic conditions**

In light of the current economic conditions metal prices have decreased. The Company's subsidiaries are protected to the extent that they have hedged a portion of their forecasted production, this should mitigate the impact of the decrease in metal prices. These hedges are described in the section "Commodity price and forward contract risk" above. It is expected that MATSA shall start production later this year.

## **Share Price Fluctuations**

In recent years, the securities markets in Canada have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly development stage companies, have experienced wide fluctuations in price that have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that fluctuations in the Company's share price will not occur.

## **Inability to Enforce Legal Rights in Certain Circumstances**

In the event a dispute arises in Spain, Perú or in another foreign jurisdiction, the Company may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdictions of courts in Canada. Similarly to the extent that the Company's assets are

located outside of Canada, investors may have difficulty collecting from the Company any judgments obtained in the Canadian courts and predicated on the civil liability provisions of securities legislation.

### **Tax Treatment of CMC Hedge Accounting**

Fiscal periods remain open to review by the tax authorities in respect of taxes for four years in Perú preceding the year of review during which time the authorities have the right to raise additional tax assessments including penalties and interest. Under certain circumstances, reviews may cover longer periods. Notwithstanding this risk, management believes that it is probable that CMC's tax and customs positions will be sustained in the event of a challenge by the tax authorities. Consequently, management believes that they have made adequate provision for any future outflow of resources and no additional provision is required in respect of these claims or risks.

In July 2007, the Peruvian tax authority requested tax related supporting documentation for the years 2004 and 2005 from CMC regarding its income tax filings. This information was provided to them and CMC has not been further contacted. In the event that the Peruvian tax authorities reassess the deductibility of CMC's hedge losses, CMC will have an opportunity to present a claim before "SUNAT" (Peruvian tax authority), and in the event SUNAT denies the claim, CMC would appeal to the Tax Court. The settlement of this eventual claim could take approximately six years.

Management has estimated the potential risk to be approximately US\$ 78.00 million, including penalties and interest. Management does not believe this would result in an unfavourable ruling and therefore no provision has been made in CMC's financial statements.

### **Conflicts Of Interest**

Certain of the Company's directors and officers serve or may agree to serve as directors or officers of other reporting companies or have significant shareholdings in other reporting companies and, to the extent that such other companies may participate in ventures in which the Company may participate, the directors of the Company may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. In the event that such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. From time to time several companies may participate in the acquisition, exploration and development of natural resource properties thereby allowing for their participation in larger programs, permitting involvement in a greater number of programs and reducing financial exposure in respect of any one program. It may also occur that a particular Company will assign all or a portion of its interest in a particular program to another of these companies due to the financial position of the Company making the assignment. In determining whether or not the Company will participate in a particular program and the interest therein to be acquired by it, the directors will primarily consider the degree of risk to which the Company may be exposed and its financial position at that time.

### **Dividends Unlikely**

The Company has not declared or paid any dividends since the date of its incorporation and does not currently anticipate that dividends will be declared in the short or medium term.

### **Potential Dilution**

The issue of common shares of the Company upon the exercise of outstanding options and warrants will dilute the ownership interest of the Company's current shareholders. The Company may also issue additional options and warrants or additional common shares from time to time in the future. If it does so, the ownership interest of the Company's then current shareholders could also be diluted.

## **Outlook**

On November 5, 2008, pursuant to a tender offer made to the minority shareholders of CMC, the Company paid approximately US\$9.19 million for 2,927,723 shares of CMC at a price of New soles 9.67 (approximately US\$ 3.13) per share, This price was established in accordance with the requirements of the Lima Stock Exchange and the Peruvian securities authorities. Trafigura provided a bridge loan to facilitate the completion of this transaction. As a result of this acquisition, the Company now owns 42,404,752 shares of CMC (98.73%) with 546,565 outstanding as minority shares. On November 6, 2008, the shares of CMC were delisted from the Lima Stock exchange, resulting in CMC becoming a private company.

## **Other Information**

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