

Management Discussion and Analysis

Introduction

This management Discussion and Analysis (“MD&A”) for Malaga Inc. (“Malaga” or the “Company”) focuses on the major activities of the Company which occurred during the three and nine month periods ended September 30, 2011, as well as the subsequent period up to November 11, 2011.

The Company’s financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards (“IFRS”) and in accordance with International Accounting Standards 34 (“IAS 34”) – Interim Financial Reporting. Previously, the Corporation prepared its interim and annual consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles (“Canadian GAAP”). The Company’s 2010 comparatives in this MD&A have been presented in accordance with IFRS. As the Company’s IFRS transition date was January 1, 2010, 2009 comparative information included in this MD&A has not been restated. This MD&A must be read in conjunction with the consolidated financial statements for the year ended December 31, 2010, and the unaudited interim financial statements for the three and nine month period ended September 30, 2011 including the accompanying notes, as well as the unaudited interim financial statements for the three month period ended March 31, 2011 and June 30, 2011, respectively. These documents have been filed electronically on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com. All currency figures are stated in United States Dollars unless otherwise specified. This MD&A as well as the unaudited interim consolidated financial statements have been prepared by management, and were not audited by the Company’s external auditors.

The Company’s management is responsible for the preparation of the consolidated financial statements as well as other information contained in this report.

The Board of Directors is required to ensure that management assumes their responsibility with regards to the preparation of the Company’s financial statements. To assist management, the Board has created an Audit Committee. The Audit Committee meets with members of the management team to discuss the operating results and the financial situation of the Company. It then makes its recommendation and submits the financial statements to the Board of Directors for their examination and approval. Following the recommendation of the Audit Committee, the Board of Directors have approved these consolidated financial statements.

For all purposes below, the “Company” refers to Malaga and its wholly-owned subsidiaries Dynacor Exploraciones del Peru SAC, Minera Malaga Santolalla SAC., and Minera Pasto Bueno SAC. The Company also holds 49% of Hidroelectrica Pelagatos S.A.C. (Hidropesac). The information provided herein, effective as of November 11, 2011, is based on assumptions related to future events and results, which may vary. Further information on the Company and its operations has been filed electronically on SEDAR in Canada at www.sedar.com.

Overview

Malaga is a publicly traded company listed on the Toronto Stock Exchange (TSX) under the symbol “MLG.” Malaga is a mining company with acquisition, exploration, development and mining concession operations in Peru.

1-Q3 FINANCIAL HIGHLIGHTS

Third Quarter Information

(in \$'000)	For the three-month periods ended September 30,		For the nine-month periods ended September 30,	
	2011	2010	2011	2010
Sales	4,644	3,791	15,230	10,848
Cost of sales (including depreciation and depletion)	(3,058)	(3,383)	(9,784)	(9,864)
Depreciation and depletion	(562)	(717)	(1,837)	(2,208)
Income from mining activities	1,586	408	5,446	984
General and administrative expenses	(853)	(715)	(2,998)	(2,301)
Operating income (loss)	733	(307)	2,448	(1,317)
Net income (loss)	1,980	(928)	4,423	(1,643)
Adjusted Net income ⁽¹⁾	632	(611)	1,907	(2,130)
Adjusted EBITDA ⁽²⁾	1,344	383	4,183	1,039
Earnings (loss) per share basic and diluted	\$0.01	(\$0.01)	\$0.02	(\$0.01)
Average cash cost of production ⁽³⁾ (\$/MTU)	178	131	163	129
MTU = metric tonne unit = 10 kg				
Cash flow from operating activities before changes in non-cash working capital items	1,154	172	4,136	848
Cash flow from (used for) operating activities	1,758	702	4,442	(934)
Acquisitions of property, plant and equipment	(1,611)	(1,112)	(5,165)	(2,264)
Additions to deferred development and exploration costs	(720)	(366)	(1,574)	(685)
Reconciliation of Net income to Adjusted net income ⁽¹⁾				
Net income (loss)	1,980	(928)	4,423	(1,643)
Change in fair value of promissory note receivable	-	(188)	-	(992)
(Gain) loss on revaluation of warrants	(1,348)	505	(2,516)	505
Adjusted net income	632	(611)	1,907	(2,130)
Reconciliation of Net income to Adjusted EBITDA ⁽²⁾				
Net income (loss)	1,980	(928)	4,423	(1,643)
Financial expenses	150	277	439	961
Amortization and depletion	562	717	1,837	2,208
Change in fair value of promissory note receivable	-	(188)	-	(992)
(Gain) loss on revaluation of warrants	(1,348)	505	(2,516)	505
Adjusted EBITDA	1,344	383	4,183	1,039

⁽¹⁾ Adjusted net income: is a non-GAAP financial performance measure with no standard definition under IFRS and Canadian GAAP. See the 'Non-GAAP Measures' section of this MDA.

⁽²⁾ Adjusted EBITDA: "Adjusted Earnings before interest, taxes, depreciation and amortization" is a non-GAAP financial performance measure with no standard definition under IFRS and Canadian GAAP. See the 'Non-GAAP Measures' section of this MDA.

⁽³⁾ Average cash cost of production is calculated by dividing the direct mine and milling operating costs by the production volume in MTU's and is a non-GAAP financial performance measure with no standard definition under IFRS and Canadian GAAP. See the 'Non-GAAP Measures' section of this MDA.

	As at September 30 2011	As at December 31 2010
Cash	480	2,841
Total assets	29,966	30,675
Long term debts	4,048	4,565
Obligations under finance leases	294	199
Shareholders' equity	20,208	17,322
Other		
Outstanding shares ('000)	183,675	183,550
Weighted average outstanding shares ('000)		
Basic	183,603	168,813
Diluted	204,947	193,953
Closing share price	\$0.140	\$0.275

Q3-2011 Highlights

- Net income for Q3-2011 of \$2.0M compared to a net loss of \$0.9M in Q3-2010, and \$4.4M compared to a net loss of \$1.6M for the nine-month period ended September 30, 2011
- Income from mining activities for the quarter of \$1.6M compared to \$0.4M in Q3-2010, and \$5.4M compared to \$1.0M for the nine-month period ended September 30, 2011
- Adjusted EBITDA of \$1.3M in Q3-2011 compared to \$0.4M in Q3-2010, and \$4.2M for the nine-month period ended September 30, 2011 compared to \$1.0M in 2010.
- Cash flow from operations before changes in non-cash working capital items of \$1.2M an improvement of \$1.0M over Q3-2010, and \$4.1M for the nine-month period ended September 30, 2011 compared to \$0.8M in 2010.
- Sales revenue for the quarter of \$4.6M compared to \$3.8M in Q3-2010, an increase of 18% and a 29% increase on sales for the nine-month period ended September 30, 2011 amounting to \$15.2M
- APT average reference selling price increased from \$240 in Q3-2010 to \$454 in Q3-2011, an increase of 89%. On November 11, 2011 the APT price was at \$445.
- The mine development program is underway and 1,250 meters of advances were completed in Q3-2011.
- Exploration on the southern part of the property is ongoing with a total of 1,988 meters of diamond drill holes completed

Status of 2011 Objectives

Accelerate the development and exploration of the mine in order to sustain the increased production output and to increase the reserves as well as all mineral resources.

In the current year, the Company had initially planned an extensive development and exploration program in the amount of \$3 to \$4 million whereby 7,300 meters of underground advances were forecasted. The development program was revised in Q2 to 4,400 meters. In Q3-2011, 1,250 meters of underground development work was performed resulting in a total of 3,711 meters completed to date.

In addition, the Company announced a \$1.5M exploration program for 2011. The drilling campaign began in Q2 2011 and Malaga intends to drill 12 short and long range holes for a total of 6,300 meters during the year. The two main objectives are:

- 1) to explore the deeper extensions of the Loreto vein; and
- 2) to explore in depth for the first time the four Manto structures in the southern part of the property.

In 2011, two out of three diamond drill holes, totalling 1,462 meters intercepted the Loreto vein below the old operations and above the drill hole.

During Q3, the Company started exploring the mantos structures in the southern portion of the property. To access the mantos the construction of 8 km of roads was required to allow the exploration drill rigs to be hoisted up the mountain in order to begin exploration. The program is targeting a previously unexplored area of the Malaga property.

The exploration team drilled more than 290 m with its first drill hole (HDD-05-11) to reach Manto Gossan where the drill core (5.60 m long) reported 2.36 m in length of 4.04% WO_3 (tungsten in the form of scheelite), 0.61 g/t Au (gold) and 0.42% Cu (copper) (HDD-05-11). The samples also identified molybdenum, zinc, antimony and bismuth. Malaga is currently awaiting lab results from four more drill holes.

Increase plant's production capacity to 600 tpd by the end of 2011 and produce 80,000 MTU (Metric Tonne Unit) in 2011

The Company produced 13,302 MTU's in the current quarter. The plant has a production capacity of 500 tpd but the mine has been bottleneck producing up to 350 tpd. Actual production amounts to 43,868 MTU for the nine-month period ended September 30, 2011. The annual production estimate will remain between 60,000 and 65,000 MTU's.

Generate net income for the entire 2011 fiscal year

Net income amounted to \$4.4M for the nine-month period ended September 30, 2011. The Company expects to maintain profitability for the remainder of the year.

Reduce average cash cost of production ⁽³⁾ to US\$115 per MTU

Average cash cost of production was \$178 per MTU in Q3-2011 compared to \$131 in Q3-2010. This increase stemmed mainly from the lower production volume caused by lower quantity of mineral processed in the plant coupled by a lower grade. In addition, inflationary pressure on wages and electricity costs along with a weakening of the US dollar further exacerbated the cost increase. As was previously indicated, the Company does not expect to meet this target at current production levels. Though, the average cost of production has decreased from \$189 per MTU in Q2-2011 to \$178 in the current quarter representing a 6% decrease. The Company believes that it will be able to continue to control the average cost of production for the fourth quarter.

2-KEY ECONOMIC TRENDS

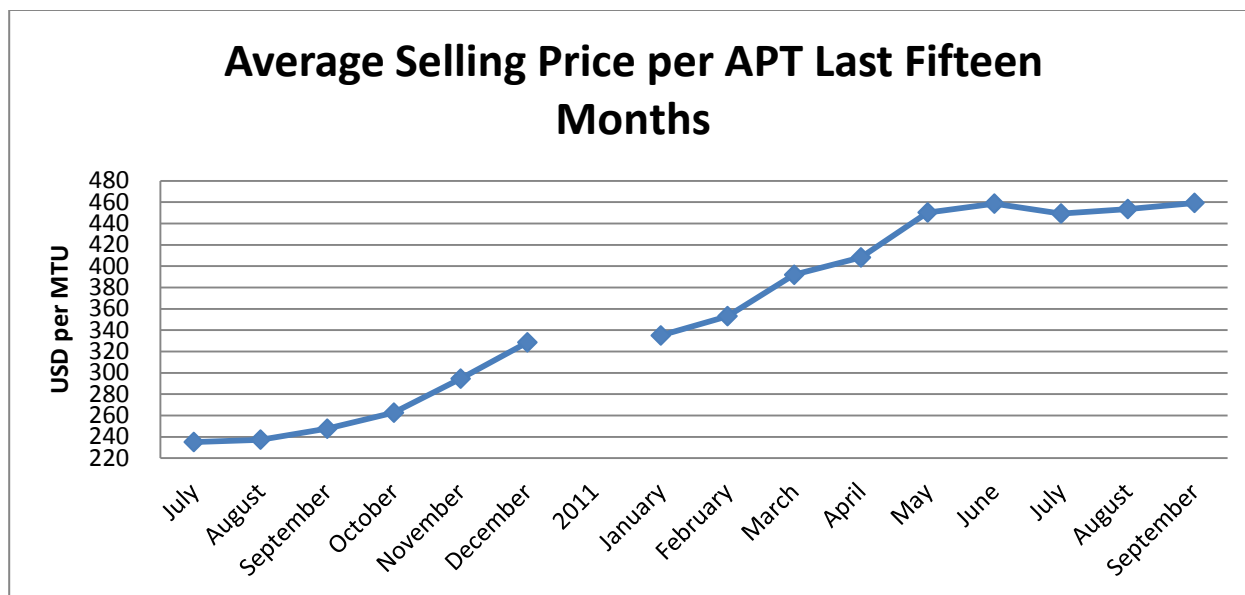
Tungsten Market

The Company's selling price of tungsten is based on the sale price of APT (ammonium paratungstate). The APT selling price ranged from \$445/MTU to \$460/MTU, with an average at \$454/MTU for Q3-2011, compared \$240/MTU in Q3-2010. As at November 11, 2011, the APT selling price per MTU was US\$445.

In Q1-2011, China's Ministry of Land and Resources announced that authorities in the country have ordered the clean-up of more than 280 illegal mines in an effort to regulate the exploration of valuable minerals. The number of explorations for minerals such as rare earth, tungsten, tin, and antimony were reduced to 116 from 400 in 11 provinces and regions in the country in spot checks led by teams dispatched by the ministry, according to a statement on its website. The campaign, initiated last June by the ministry, has aimed to end the illegal and sometimes widespread excavation of valuable minerals. The ministry earlier ordered that the clean-up of illegal mines should be completed before the end of November. In addition, in an effort to conserve resources, the Ministry of Land and Resources extended a suspension on approving new-mine applications for tungsten, rare earths and antimony through June 30, 2012. Furthermore, China has slashed its export quotas for antimony, indium, tungsten, molybdenum and tin by up to 5% for 2012 as China continues to protect its metal resources. The commerce ministry said that the export quota for tungsten and tungsten products is expected to fall to 15,700 tonnes, down 2% from this year..

In Q3, the British Geological Survey published its 2011 risk list and tungsten is one of the four elements that has the highest relative supply risk index.

⁽³⁾ Average cash cost of production is calculated by dividing the direct mine and milling operating costs by the production volume in MTU's and is a non-GAAP financial performance measure with no standard definition under IFRS and Canadian GAAP. See the 'Non-GAAP Measures' section of this MDA.



Exchange Rate

The exchange rates are as follows:

	\$US/\$CA		\$US/Sol	
	2011	2010	2011	2010
March 31 (closing rate)	0.970	1.023	2.802	2.795
June 30 (closing rate)	0.965	1.065	2.749	2.825
September 30 (closing rate)	1.048	1.029	2.773	2.787
1 st Quarter (average rate)	0.986	1.040	2.782	2.815
2 nd Quarter (average rate)	0.968	1.028	2.784	2.850
3 rd Quarter (average rate)	0.980	1.098	2.749	2.806

The Company has not entered into any hedging contracts.

3-CONSOLIDATED RESULTS AND MINING OPERATIONS

Metal sales and production

Metal sales and production is as follows:

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2011	2010	2011	2010
Sales (in MTU)	12,697	18,619	46,394	55,528
Production:				
Tonnes extracted	27,057	34,281	87,865	93,794
Head Grade	0.66%	0.80%	0.68%	0.85%
Recovery Rate	75%	68%	73%	70%
Production Output (MTU)	13,302	18,724	43,868	55,655

Total sales for the current quarter amounted to \$4.6M (\$3.8M in Q3-2010). Tungsten sales increased by \$1.1M (or 25%) to \$4.5M in the current quarter compared to Q3-2010 of \$3.4M. The increase in tungsten revenues is a result of a 49% increase in average APT selling price. In addition, the Company was able to generate sales revenue of \$0.1M from copper (\$0.4M in Q3-2010) in the current quarter.

In Q3-2011, less tonnes were extracted from the mine as one of the stopes that was temporarily closed in Q2-2011 was not re-opened until recently and due to a reduction in the number of miners resulting from competition for manpower in Peru. The mining subcontractors have not been able to replace all of the lost miners thus far. Malaga has undertaken measures to improve wages, camp conditions in order to attract and retain miners which have stopped the decrease. In addition, the yield has decreased due to the lower head grade of the mineral ore extracted in Q3-2011 compared to Q3-2010. Historical average of head grade has been 0.70% while it was 0.80% in Q3-2010.

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2011	2010	2011	2010
Sales	\$	\$	\$	\$
In \$'000				
Tungsten	4,514	3,370	13,884	9,274
Copper	130	421	1,346	1,574
	<u>4,644</u>	<u>3,791</u>	<u>15,230</u>	<u>10,848</u>

The copper sales decreased in Q3-2011 compared to the same period last year because the custom milling subcontractor was operating at full capacity and was not able to process the Company's material.

The cost of production is as follows:

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2011	2010	2011	2010
Operating costs (000\$)	\$	\$	\$	\$
Mining	1,059	1,334	3,368	3,956
Milling	378	333	1,123	989
Plant and site services	930	769	2,614	2,248
Operating costs	<u>2,367</u>	<u>2,436</u>	<u>7,105</u>	<u>7,193</u>
Inventory change	37	(3)	252	(399)
Inventory Write-down	-	-	-	109
Cost of sales Tungsten	<u>2,404</u>	<u>2,433</u>	<u>7,357</u>	<u>6,903</u>
Cost of sales Copper	<u>92</u>	<u>233</u>	<u>591</u>	<u>753</u>
Cash cost of Sales	<u>2,496</u>	<u>2,666</u>	<u>7,948</u>	<u>7,656</u>
Depreciation and depletion	562	717	1,836	2,208
Total Cost of Sales	<u>3,058</u>	<u>3,383</u>	<u>9,784</u>	<u>9,864</u>

	Three-months period ended June 30,		Nine-months period ended June 30,	
	2011	2010	2011	2010
In \$US per MTU				
Mining	80	72	77	71
Milling	28	18	26	18
Plant and site services	70	41	60	40
Average cash cost of production ⁽³⁾	<u>178</u>	<u>131</u>	<u>163</u>	<u>129</u>

As explained above, the average cash cost of production ⁽³⁾ in the current quarter was \$178 per MTU (\$131 per MTU in Q3-2010), an increase of 36% and a decrease of \$11 compared to Q2-2011.

⁽³⁾ Average cash cost of production is calculated by dividing the direct mine and milling operating costs by the production volume in MTU's and is a non-GAAP financial performance measure with no standard definition under IFRS and Canadian GAAP. See the 'Non-GAAP Measures' section of this MDA.

The mining cost per MTU has increased in Q3-2011 due to the lower volume, grade and recovery rate in the current quarter, which resulted in 13,302 MTUs produced, or a 40% decrease compared to the three-month period ended September 30, 2010. The increase is explained as follows:

	In \$/MTU	
2010		131
Increase in cost due to the decrease in production volume		
Mining	10	
Milling	7	
Plant services	<u>17</u>	34
Salaries		2
Increase in electricity rate		4
Additional maintenance in plant and site services		4
Foreign exchange		<u>3</u>
2011		<u><u>178</u></u>

The decrease of \$11 compared to Q2-2011 is due to the improved head grade and recovery rate realized in Q3-2011.

During the nine-month period ended September 30, 2011 the average cash cost of production was 26% higher compared to Q3-2010 with 43,868 MTUs produced. On a year-to-date basis, MTUs produced were 27% lower compared to same period in 2010.

The amortization and depletion per MTU increased from \$38 in Q3-2010 to \$44 in Q3-2011. On year-to-date basis amortization and depletion per MTU remained unchanged at \$40.

Operating Activities

The Company generated a net income of \$1.9M for the three-month period ended September 30, 2011 (net loss of \$0.9M in Q3-2010) for an earnings per share of \$0.01 (loss per share of \$0.01 in Q3-2010) and a net income for the nine-month period ended September 30, 2011 of \$4.4M (net loss of \$1.6M in 2010) for an earnings per share of \$0.02 (loss per share of \$0.01 in 2010). The increase in the net income is explained in the table below.

	Three-month period ended	Nine-month period ended
	September 30, 2011	
	<u>In \$M</u>	<u>In \$M</u>
Increase in income from mining activities	1.2	4.4
Increase in general and administrative expenses	(0.1)	(0.7)
Decrease in financial expenses	0.1	0.5
Increase in foreign exchange gain/loss	-	(0.3)
Increase in gains related to warrants	1.8	3.0
Decrease in gain related to promissory note	(0.2)	(1.0)
Other	<u>0.1</u>	<u>0.1</u>
Total increase	<u><u>2.9</u></u>	<u><u>6.0</u></u>

The increase in income from mining activities is a result of the increase in the APT selling price of 49% in Q3-2011 compared to Q3-2010 (an 56% increase in 2011 compared to the nine-month period ending September 30, 2010) partially offset by decrease in sales volume for the comparative three and nine-month period of 47% and 19%, respectively.

With the transition to IFRS, the Company recorded a gain in the amount of \$1.3M on the re-evaluation of the outstanding warrants in Q3-2011. The warrants are classified as a liability and are a level 3 financial instrument that are carried at fair value. This liability is calculated in relation to the quoted stock price of the Company which varied from \$0.245 at June 30, 2011 to \$0.14 at September 30, 2011 and is calculated at each reporting date.

The increase in the general and administrative expenses for the nine months ended September 30, 2011 is a result more activities in investor relations including the listing on the OTC-QX market, higher wages as well as an increase in professional fees related to the final phases of the transition to IFRS.

The financial expenses for the nine months ended September 30, 2011 have decreased compared to the same period in 2010, because in Q3-2010 the Company recorded a non-recurring interest expense of \$0.3M to the workers of Peru as part of the settlement of the outstanding debt.

4-CASH FLOW AND LIQUIDITY

Operating Activities

In Q3-2011, the cash flow generated from operating activities before changes in non-cash working capital items amounted to \$1.2M (\$0.2M in Q3-2010). The improvement comes from the increase of income from mining operations driven by the increase in tungsten sales. The changes in the non-cash working capital item amounted to \$0.6M (\$0.5M in Q3-2010) resulting in cash flow from operating activities in the amount of \$1.8M in Q3-2011 (\$0.7M in Q3-2010).

Investing Activities

In Q3-2011, the Company invested another \$1.6M for the acquisition of property, plant and equipment (\$1.1M in Q3-2010). Of the \$1.6M, \$1.0M was invested in the tailings ponds and \$0.5M in 1,250 meters of underground development with the objective of accessing new reserves and replenishing the reserves that were extracted.

Malaga reinforced and stabilized the current tailing pond extending its life until Q2-2012. The work has been completed in Q3-2011. The Company also undertook the construction of a new tailing pond. The pond should be completed by year-end. It is currently 75% completed and at 500 tpd it would have a life of 5 to 6 years.

The Company also invested \$0.7M (\$0.3M in Q3-2010) in exploration and development work in order to develop new sources of ore to support the increase in production capacity and start defining the potential of the southern part of the property.

Financing Activities

During the quarter, the cash flow used for financing activities amounted to \$0.3M for the reimbursement of the long-term debt and re-payment of the obligation under capital leases. In Q3-2010, cash flow from financing activities was \$0.4M coming mainly from the repayment of long-term debt of \$0.3M.

Liquidity

As at September 30, 2011, cash amounted to \$0.5M. The Company continues to sell its free trading shares of Dynacor. The market value of these shares amounted to \$1.9 million as at September 30, 2011 and on November 11, 2011, the market value was \$2.7 million. Malaga intends to continue selling them over the remainder of 2011. Management believes that the current cash position coupled with the proceeds from the monetization of the Dynacor shares and the cash flow from operations will be sufficient to meet the Company's obligations and budgeted capital expenditures. Furthermore, the Company concluded an agreement with its customer to receive an advance payment in the amount of \$800,000 to be received on November 15. As at September 30, 2011, the Company had no material financial commitments besides those disclosed in the section Long-term Liabilities and Contractual Obligations.

Government

During Q3-2011, Standard & Poor's increased the credit rating of Peru from BBB- to BBB.

5-STATEMENTS OF FINANCIAL POSITION

Assets

As at September 30, 2011, total assets amounted to \$29.9M (\$30.7M as at December 31, 2010).

Long-Term Liabilities and Contractual Obligations

Payment due by (in \$'000)	2011	2012 to 2014	2015	Beyond 2015	Total
Contractual commitments					
Long term debts	334	3,792	254	-	4,380
Operating leases	31	42	-	-	73
Capital leases	42	265	-	-	307
Purchase commitments	35	-	-	-	35
Asset retirement obligation for property, plant and equipment	-	-	-	717	717
	442	4,099	254	717	5,512

The Company's operations are governed by regulations regarding the protection of the environment. Subject to these regulations, the Company must implement progressive measures for rehabilitation work as part of its operations. The Company recorded asset retirement obligations for the property, plant and equipment in the amount of \$0.6M at September 30, 2011 and December 31, 2010. Disbursements are expected to be made in the years 2027 and 2028. This estimate is subject to change following modifications to laws and regulations. The Company expects to update this estimate in Q1 2012 with the completion of the new tailings pond.

Contingencies and Events after the Reporting Period

The Company's operations are subject to governmental laws on the protection of the environment. The environmental consequences are difficult to identify, whether in terms of their outcomes, their dates or their impacts. To the best of knowledge of management, the Company is presently operating in compliance, in all material respects, with the laws and regulations already in place. Commitments are presented in the section Long-term Liabilities and Contractual Obligations.

The Company has subsequently entered into an agreement whereby its customer has agreed to make an advance payment of \$800,000, repayable on or before February 28, 2012.

In addition, on November 11, 2011, the Company agreed to terms on a bridge financing loan in the amount of CA \$1,000,000 (USD \$982,500) bearing a 12% annual rate of interest payable quarterly and a premium of CA\$ 60,000 (USD \$ \$59,000) payable November 30, 2012, which is contingent on EBITDA (earnings before interest, taxes, depreciation and amortization) exceeding USD \$5,400,000 for a 12 month period beginning October 1, 2011 through September 30, 2012. The issuance of the loan is expected to close by the end of November with a maturity date of November 30, 2012. The loan will be secured by 1,000, 000 common shares of the Company's available for sale investment of Dynacor.

Off-Balance Sheet Transactions

As at September 30, 2011, the Company had not entered into any significant off-balance sheet transactions.

6-QUARTERLY REVIEW

(unaudited in accordance with IFRS (Canadian GAAP Canadian dollar for 2009))

(in \$'000)	2011			2010				2009
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Financial								
Revenues	4,644	5,329	5,257	3,337	3,791	3,463	3,594	2,470
Cost of sales	3,058	3,192	3,534	2,582	3,383	3,049	3,432	2,698
Amortization and depletion	562	560	714	618	717	705	786	1,071
General and administrative expenses	853	1,276	868	695	715	792	794	523
Net (loss) income	1,980	1,629	813	2,880	(928)	257	(973)	(3,776)
Cash and cash equivalents	480	1,199	1,635	2,841	922	2,112	386	1,149
Working capital	(520)	791	1,688	2,268	230	1,569	(2,091)	(1,367)
Total assets	29,966	30,477	32,463	30,675	27,126	27,825	23,346	21,902
Shareholders' equity	20,208	19,287	20,209	17,322	14,486	15,377	10,950	10,507
Acquisition of property, plant and equipment	1,611	2,103	1,451	1,095	1,112	793	359	819
Development and deferred exploration costs	720	683	172	301	366	148	171	351
Per Share								
Earnings (loss) per share basic and diluted	0.01	0.01	0.00	0.01	(0.00)	0.00	(0.01)	(0.02)
Weighted average shares outstanding ('000)								
Basic	183,675	183,582	183,550	183,550	183,550	160,110	147,687	140,770
Diluted	205,020	237,059	235,500	224,289	185,115	160,110	147,687	140,770

7-INFORMATION ON OUTSTANDING SHARES

Data on Available Outstanding Shares (as at November 11, 2011)

	Number
Common shares	183,675,176
Ordinary Warrants	35,863,333
Broker Warrants	1,405,933
Options	7,520,000

8-RESERVES AND EXPLORATION AND DEVELOPMENT ACTIVITIES**Pasto Bueno Property**

Pursuant to the press release issued March 12, 2010, the Company obtained an independent technical report as required under standard 43-101. The report was performed by Vector Engineering Inc., and the Pasto Bueno property contains the following reserves and resources as at January 1, 2010:

Category	Metric Tonnes	WO3 Grade
Reserves		
Proven	81,696	0.71%
Probable	87,731	0.68%
	<u>169,427</u>	<u>0.70%</u>
Resources		
Measured	64,757	0.91%
Indicated	334,088	0.73%
Measured & indicated	<u>398,845</u>	
Inferred	<u>1,820,641</u>	0.70%

The reserves are included in the measured and indicated resources. The economic viability of the mineral resources that are not mineral reserves has not been demonstrated. A new technical report is expected to be issued in Q1-2012.

Development Program

The objective of the underground development in the Huaura and Huayllapon sectors is to replace the mined reserves and define new additional reserves and resources. During the quarter, 1,250 meters of underground development work was completed. The current production is being extracted from four veins (Consuelo, Candela, Alonso Fenix, and Chabuca).

2011 Drilling Campaign

The Company has previously announced the commencement of a \$1.5M exploration campaign to drill 12 holes in the southern part of the property totaling 6,300 meters. The focal point of the exploration program is to explore the outcropped mantos in the southern part of the property. The Manto Santa is particularly interesting since it is the thickest manto structure and a channel sample taken in 2010 reported a grade of 1.17% WO₃ over 6.8 meters.

In 2010, Malaga partially reopened the old mine at the Consuzo zone and extracted more than 1,000 tonnes at an average grade of 1.5% WO₃. Malaga also drilled an exploratory hole HDD 02 10 in this zone which was 390.8 meters long and intersected the northern extension of the Loreto vein, 250 meters below the level corresponding to the Pelagatos river which runs alongside the old Consuzo mine and plant. This hole intersected a section containing 1.83% WO₃ over a width of 1.03 meter. The company thus decided to further explore this old mine at the Consuzo zone and has drilled an additional three holes.

Malaga's expanded exploration in the Consuzo Zone started during the second quarter of 2011 with the objective of exploring the Loreto vein in the area of the zone between a hole drilled in 2010 (HDD- 02-10) and old production areas used by former mine owners in the 1980's. Two out of three diamond drill holes, totaling 1,462 meters intercepted the vein below the old operations and above the drill hole HDD-02-10(2).

The findings of the latest exploration support the Company's inferred resource calculation. In fact, the three most recent instances where exploratory drilling holes intercepted the Loreto vein in the deepest part of the ore deposit show mineralization 184 meters below the old operations (at 3,314 meters above sea level). These results suggest that the deposit may be even deeper and requires further exploration in the near future.

In addition, the Company constructed 8 km of roads which was a key element for allowing the exploration drill rigs to be hoisted up the mountain and begin exploration in a completely unexplored area of the Malaga property. The access roads will allow Malaga to continue its broader plans to drill a total of ten holes and explore four mantos (Maciste, Candelaria, Gossan and Santa). The manto structures on the Pasto Bueno property are flat-lying, bedded, strata-bound ore deposits hosted by sedimentary and metamorphic rocks such as limestone, slate and quartzite. The results of the first drill hole was published and more than 290 meters was performed with its first drill hole to reach Manto Gossan where the drill core (5.60 meters long) reported 2.36 meters in length of 4.04% WO₃ (tungsten in the form of scheelite), 0.61 g/t Au (gold) and 0.42% Cu (copper) (HDD-05-11).

Pasto Bueno 2011 Drilling Summary

Drills Id	Length Done	Intersection Depth (m)	True Thickness		Mineralization						
			Structure (m)	Mineralization (m)	WO3 (%)	Cu (%)	Pb (%)	Zn (%)	Ag (oz/t)	Mo (ppm)	
HDD-01-11	673.05	340.95 - 347.70	6.75								
HDD-02-11-2	425.00	202.60 - 203.80	6.40	1.32	1.05	0.17	0.11	0.09	0.70	20	
		203.80 - 206.40		2.26	0.03	0.03	0.02	0.03	0.13	10	
		206.40 - 209.40		2.82	1.06	0.72	0.14	0.24	1.87	5	
HDD-03-11-3	364.60	317.30 - 327.10	6.90	6.90	0.01	0.04	0.13	0.20	0.65	87	

Drills Id	Length Done	Intersection Depth (m)	True Thickness		Mineralization					
			Structure (m)	Mineralization (m)	WO3 (%)	Cu (%)	Pb (%)	Zn (%)	Ag (oz/t)	Mo (ppm)
HDD-02-11-5	215.40	43.20 - 45.40	5.60	2.16	0.08	0.01	0.00	0.02	<0.02	0
		45.40 - 47.80		2.36	4.04	0.61	0.00	0.01	<0.02	2
		47.80 - 48.90		1.08	0.04	0.02	<0	0.01	<0.02	<2

This mineralized zone is very different from the Northern part of Pasto Bueno property where tungsten is currently extracted and milled.

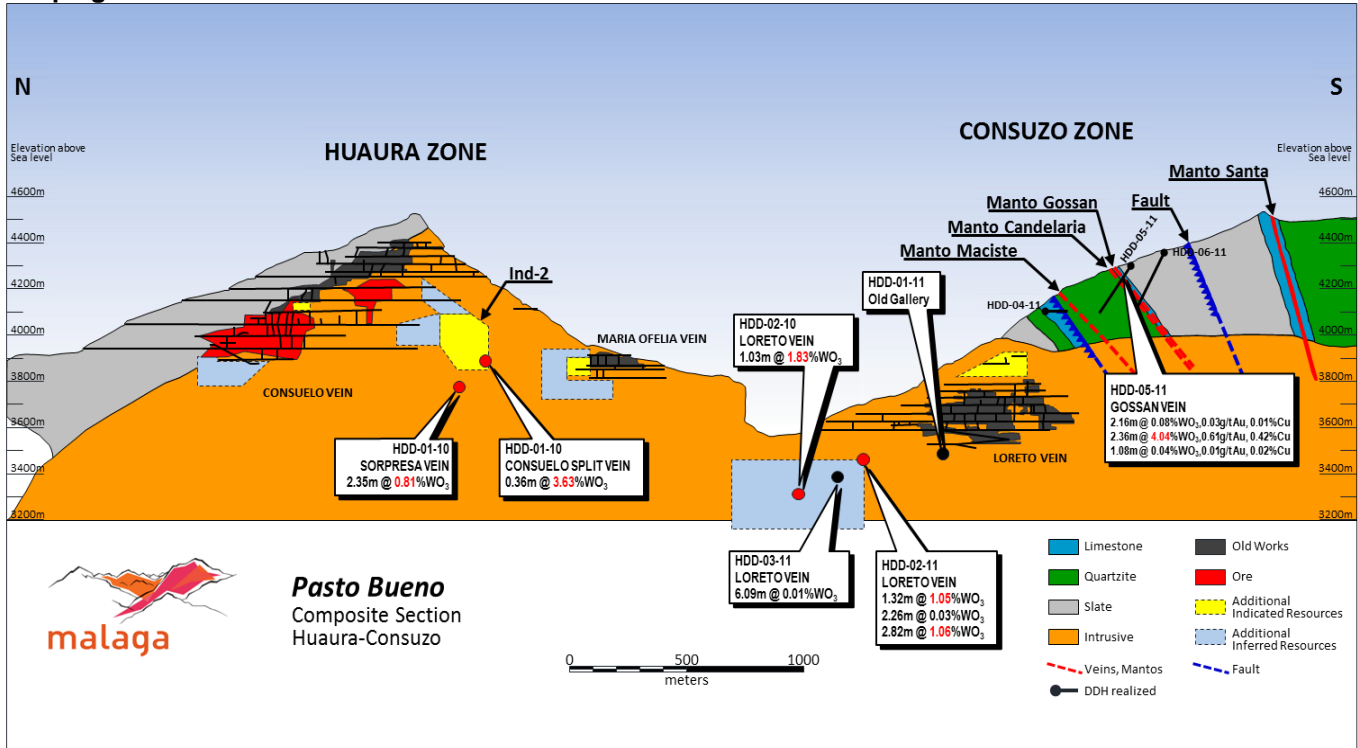
The grab samples from the four manto structures are as follows:

Grab Samples

Structure Name	Grab Sample	WO3 (%)	Au (g/t)	Cu (%)	Ag (oz/t)
Manto Candelaria	15912	0.01	0.039	0.00	0.10
	15913	<0.01	0.023	0.00	0.04
	15924	<0.01	<0.01	0.01	0.25
	15925	<0.01	<0.01	0.00	0.05
Manto Gossan	14914	1.92	0.448	0.23	0.05
	14915	0.19	0.029	0.13	0.08
	14916	5.80	2.205	0.16	0.07
	15910	0.15	0.038	0.50	0.06
	15911	0.20	0.010	0.50	0.06
	15930	<0.01	0.09	0.01	0.19
	15931	0.01	0.09	0.05	0.21
	15932	0.04	0.13	0.07	0.14
	15938	1.25	0.41	0.26	0.12
	15963	1.30	0.40	0.27	0.14
Manto Maciste	15308	0.13	0.028	0.01	0.85
	15915	0.32	0.801	0.01	0.49
	15916	0.28	0.058	0.01	1.41
	15917	0.21	0.031	0.01	0.27
	15918	0.73	0.018	0.01	0.26
	15919	0.23	0.070	0.02	1.75
Manto Santa	14893	0.11	0.013	0.38	0.03
	14894	0.11	<0.005	0.47	0.02
	14895	<0.01	0.006	0.37	<0.02
	14896	0.05	<0.005	0.50	<0.02
	14897	0.18	0.006	0.70	0.03
	14905	0.20	0.006	0.92	0.08
	14906	0.13	0.008	0.31	0.02
	14907	0.18	0.010	0.18	0.05
	15902	0.62	<0.005	0.80	0.05
	15904	0.42	<0.005	1.73	0.09
15905	0.93	<0.005	0.69	0.03	
15906	0.42	<0.005	0.37	0.02	
15907	0.25	0.006	0.54	0.02	
15908	0.04	0.006	0.15	<0.02	
15909	0.14	0.005	0.48	0.02	

Given the interesting level of gold in the drill hole, the grab samples from the manto structure will be assayed for gold. These samples also identified molybdenum, zinc, antimony and bismuth.

Map showing the Consuzo zone and the 4 Manto structures that are the targets of the 2011 drilling campaign



M. Alonso Sanchez, Chief Geologist of the Company, is Malaga's "Qualified Person" for all matters related to sampling procedures, technical information and the supervision of ongoing development work through his regular visits to the site. Thus, he can confirm the precision and accuracy of the data and the mining and geological data and knowledge of the property, as required by National Instrument 43-101 and its annexes.

9-MILLING OPERATIONS

Plant

Current operation permit allows Malaga to process 350 tpd. The Company applied a while ago for a medium-producer permit which would allow it to produce 500 tpd. This permit, which is contingent on the approval from the Peruvian authorities, cannot be delivered before completion of the new tailings pond. After its construction, the Company believes that the Peruvian authorities should deliver the operating permits. Management expects to get approval during Q1-2012. The Company is also currently evaluating different projects which would improve the recovery rate. These are evaluated based on their internal rate of return and payback. The Company will resume selling its by-product of copper in the fourth quarter as custom milling capacity becomes available.

Hydro-electricity

In light of building a new 19 to 35 MW hydro power plant, Hidropesac is carrying out environmental and archaeological studies required by the Peruvian authorities in order to obtain the permanent hydro-electrical concession. Agreements with regional governmental bodies and local communities will be concluded with the objective to start construction in late 2012. This major project would give Malaga complete autonomy in terms of power generation, would sustain its planned production growth, permanently decrease its production costs and eventually generate important value. In Q3-2011, energy cost accounted for 8% of Malaga's cash cost.

Environment

The Company recorded an asset retirement obligations for the mine in the amount of \$0.6M. This liability is related to the Company's obligation to conform to the Peruvian governmental regulations and Company policy concerning environmental protection.

Malaga reinforced and stabilized the current tailing pond extending its life until Q2-2012. The work was completed in Q3-2011. The Company also undertook the construction of a new tailing facility. The facility should be completed by year-end. It is currently 75% completed and at 500 tpd it would have a life of 5 to 6 years.

10-OUTLOOK FOR 2011

The Company has an installed capacity of 500 tpd at the plant. Currently the mine is unable to support the plant at that rate. However, the Company has commenced an extensive capital expenditure program to bring the mine capacity up to 500 tpd. It is not expected that the mine will produce more than 350 tpd for the remaining of the year. The annual production forecast is expected to be between 60,000 and 65,000 MTUs for 2011.

The Company will continue in Q4 its development program in order to increase the reserves and resources to support the increasing production capacity at the plant and demonstrate the potential of the property. It will also continue its exploration campaign in the mantos. A third drilling rig is expected to be in operations by the end of Q4-2011.

Current market conditions, show continued growth for the demand of tungsten and there is no new significant production capacity increases outside of China envisioned before at least 2014. As such, APT price increased 78% in 2010 and for the first eleven months of 2011 APT price has increased by 38%. The Company believes that market prices will remain strong based on the fact that the market demand exceeds the current production capacity and the current demand of tungsten is growing as there is no replacement product for tungsten in the market currently. The tight supply of tungsten is not expected to be alleviated in the short term. New mining operations are not likely to come online and supply the market with the needed tonnage. This factor, as well as increasing demand for the metal, should support prices going forward. In addition, in June 2010, the European Commission published a report identifying 14 critical minerals for Europe which includes tungsten. Tungsten is also considered a critical mineral by the United States.

Peru's government has approved a new mining royalty consisting of a sliding scale of royalty rates to fund anti-poverty initiatives and infrastructure projects. The new system based on operating profits will replace the previous 1-3 percent royalty miners pay on sales. This is not expected to have a significant impact on the Company.

11-CRITICAL ACCOUNTING ESTIMATES

The critical accounting estimates are those that require assumptions on matters that are substantially uncertain at the time of the estimate, that should the assumptions be modified, it would have a material impact on the reported earnings or the financial position of the Company. The principle accounting estimates relate to the value of mining properties and deferred exploration costs, among other things. A description of the Company's main accounting policies can be found in the Company's audited consolidated financial statements filed electronically on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

Mineral reserves and resources

Mineral reserves and resources are estimates of the quantity of ore that could be economically and legally extracted from a mine. The Company estimates its reserves using information compiled by qualified persons in accordance with the definitions and guidelines adopted by the Canadian Institutes of Mining, Metallurgy and Petroleum. This information relates to geological data on the size, depth and shape of the deposit and requires geological assessments to interpret the data. The assessment of recoverable reserves is based on factors such as the estimated exchange rate, price of metals, capital investments required and production costs stemming from geological assumptions based on the size and grade of the deposit. The Company's mineral reserve estimates are calculated by qualified persons in accordance with National Policy 43-101. At January 1, 2010, the Company's measured and indicated mineral resources amounted to 398,845 tonnes which include the proven and probable mineral reserves of 169,427 tonnes. The impact of new exploration on the Company's inferred resource calculations will be included in an updated NI 43-101 report in early 2012.

Our reserve estimates may have a significant impact on the information contained in our consolidated financial statements. A number of accounting estimates, as described below, are formulated from the reserve estimate.

Impairment of non-financial assets

The company's fair value measurement with respect to the carrying amount of non-financial assets are based on numerous assumptions and may differ significantly from actual fair values.

The fair values are based, in part, on certain factors that may be partially or totally outside of the company's control. This evaluation involves a comparison of the estimated fair values of non-financial assets to their carrying values. The Company's fair value estimates are based on numerous assumptions such as but not limited to estimated realized tungsten prices, operating costs, ore recovery, mineral reserves, capital and site restoration expenditures and estimated future foreign exchanges rates, and may differ from actual fair values and these differences may be significant and could have a material impact on the Company's financial position and result of operations. Mineral reserve estimates are the most important variable in the Company's fair value estimates. A decrease in our reserves may result in an impairment charge, which could reduce the Company's earnings.

Management's estimate of future cash flows is subject to risk and uncertainties. Therefore, it is reasonably possible that changes could occur with evolving economic conditions, which may affect recoverability of the company's non-financial assets.

Assets are reviewed for an indication of impairment at each consolidated balance sheet or consolidated statement of financial position date. This determination requires significant judgment. Factors which could trigger an impairment review include, but are not limited to, significant negative industry or economic trends, and current, historical or projected losses that demonstrate continuing losses.

Depreciation of property, plant and equipment

A large portion of our property, plant and equipment is depreciated using the units of production method over the expected operating life of the mine based on estimated recoverable reserves and resources, which are the prime determinants of the life of a mine. Estimated recoverable reserves include proven and probable reserves and non-reserved material when sufficient objective evidence exists that it is probable the non-reserve material will be produced. Changes in mineral reserve estimates will result in changes to the depreciation charges over the remaining life of the operation. A decrease in our mineral reserves would increase depreciation expense, and this could have a material impact on our operating results.

Investments

The Company monitors the events or changes in circumstances that would require the evaluation of a possible impairment in the value of its investment in Dynacor. As at September 30, 2011, the total market value of its investment in Dynacor amounted to \$1.9M.

Asset retirement obligations

Asset retirement obligations arise from the development, construction and normal operation of mining property, plant and equipment as mining activities are subject to various laws and regulations governing the protection of the environment. In general, these laws and regulations are continually changing, and we have made, and intend to make in the future, expenditures to comply with such laws and regulations.

The Company records the estimated present value of reclamation liabilities in the year in which they are incurred. A corresponding increase to the carrying amount of the related asset is recorded and depreciated over the life of the asset. The liability will be increased each year to reflect the interest element and will also be adjusted for changes in the discount rates and in the estimate of the amount, timing and cost of the work to be carried out.

Future remediation costs are accrued based on management's best estimate at the end of each year of the undiscounted cash costs expected to be incurred at each site. Changes in estimates are reflected in earnings in the year during which an estimate is revised. Accounting for reclamation and remediation obligations requires management to make estimates of the future costs they will incur to complete the reclamation and remediation work required to comply with existing laws and regulations. The estimates are dependent on labor costs, known environmental impacts, the effectiveness of remedial and restoration measures, inflation rates and pre-tax interest rates that reflect current market assessment of time value for money and the risk specific to the obligation. The company also estimates the timing of the outlays, which is subject to change depending on continued exploitation and newly discovered mineral reserves.

Actual costs incurred may differ from those estimated amounts. Also, future changes to environmental laws and regulations could increase the extent of reclamation and remediation work required to be performed by the company. Increases in future costs could materially impact the amounts charged to the profit and loss statement for reclamation and remediation.

Share-based remuneration expense

The estimation of share-based payment costs requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Company has made estimates as to the volatility of its own shares, the probable life of options, the time of exercise of those options and expected extinguishments. The model used by the Company is the Black-Scholes model.

Provisions and contingent liabilities

Judgments are made as to whether a past event has led to a liability that should be recognized in the consolidated financial statements or disclosed as a contingent liability. These judgments are based on a number of factors including the nature of the claims or dispute, the legal process and potential amount payable, legal advice received, past experience and the probability of a loss being realized. Several of these factors are sources of estimation uncertainty.

Income taxes

The company is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain. The company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the year in which such determination is made.

Periodically, judgment is required in determining whether deferred tax assets are recognized on the consolidated statement of financial position. Deferred tax assets, including those arising from unused tax losses, require management to assess the probability that the Company will generate taxable profits in future periods, in order to utilize deferred tax assets. Once the evaluation is completed, if we believe that it is probable that some portion our deferred tax assets will fail to be realized, deferred tax asset is derecognized. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit its ability to obtain tax deductions in future periods.

12- ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED

The IASB issued the following standards which are relevant but have not yet been adopted by the Company: IFRS 9, *Financial Instruments*, IFRS 10, *Consolidated Financial Statements*, IFRS 12, *Disclosure of Interests in Other Entities*, IFRS 13, *Fair Value Measurement* and amended IAS 27, *Consolidated and Separate Financial Statements*. Each of the new standards and the amendments to IAS 27 and 28 are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The amendment to IAS 1, *Presentation of Financial Statements* is however, to be applied to accounting periods beginning on or after July 1, 2012. The Company has not yet begun the process of assessing the impact that the new and amended standards/amendments will have on its financial statements or whether to early adopt any of the new requirements.

The following is a brief summary of the new standards:

IFRS 9 - Financial Instruments - classification and measurement

IFRS 9 was issued in November 2009. It addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39, *Financial Instruments – Recognition and Measurement*, for debt instruments with a new mixed measurement model with only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends, to the extent not clearly representing a return of investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

IFRS 9 required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted.

IFRS 10 – Consolidated Financial Statements

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, and special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13 - Fair Value Measurement

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

Amendments to Other Standards

An amendment to IAS 1, Presentation of Financial Statements was issued in June 2011 and will require Companies to group together items within OCI that may be reclassified to profit and loss.

In addition, there have been amendments to existing standards, including IAS 27, Separate Financial Statements (IAS 27), and IAS 28, Investments in Associates and Joint Ventures (IAS 28). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13.

13-INTERNATIONAL FINANCIAL REPORTING STANDARDS

Effective January 1, 2011, International Financial Reporting Standards (“IFRS”) became Canadian GAAP (“CDN GAAP”) for publicly accountable enterprises. As a result, our interim condensed consolidated have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting and IFRS 1 First Time Adoption of International Financial Reporting Standards (“IFRS 1”) using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). As the transition date to IFRS was January 1, 2010, the Company prepared the opening IFRS consolidated statement of financial position at that date.

The Company has developed and executed a changeover plan in order to begin reporting in accordance with IFRS from January 1, 2011. The changeover plan included an scoping and diagnostic phase, a impact analysis, evaluation and design phase, and the implementation and review phase, each of which set out activities to be performed over the life of the project, resulting in the Corporation's first interim reporting under IFRS for the first quarter of 2011. The implementation phase will continue to culminate in the preparation of our financial reporting under IFRS in 2011.

Throughout 2011, we will continue to execute the final phase of our changeover plan. Activities in this respect include continuing to execute business process and internal control changes, testing internal controls impacted by our IFRS changeover in connection with our 2011 annual internal controls program, monitoring accounting and regulatory developments and evaluating impacts on our financial reporting, and continuing to fulfill presentation and reporting requirements.

The Company's consolidated financial statements for the year ending December 31, 2011 will be the first consolidated annual financial statements that comply with IFRS. These condensed interim consolidated financial statements were prepared as described above, including the application of IFRS 1. The effect of the transition to IFRS on equity, comprehensive income and the cash flows is presented and described in this note, and is explained in greater detail in the notes associated with the tables.

The Company has previously disclosed in its first and second quarter reports for the three months ended March 31, 2011 and six months ended June 30, 2011, reconciliations of the Company's condensed IFRS balance sheet as at January 1, 2010, March 31, 2010, June 30, 2010 and December 31, 2010 and condensed comparative interim consolidated IFRS statements of earnings and comprehensive income for the three months ended March 31, 2010, six months ended June 30, 2010 and the year ended December 31, 2010.

IFRS 1 also requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was January 1, 2010 (the "transition date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Company will be December 31, 2011. However, it also provides for certain optional exemptions and certain mandatory exceptions for first-time IFRS adopters.

Exceptions and exemptions from full retrospective application elected by the Company

In preparing these consolidated financial statements in accordance with IFRS 1, the Company has applied mandatory transition exceptions and the following exemptions from full retrospective application of IFRS:

- Fair value as deemed cost : The Company elected to apply the exemption to measure an item of property, plant and equipment at its fair value and use that fair value as its deemed cost going forward as allowed under IFRS 1. As such, the Company re-measured its property, plant and equipment other than mining properties and deferred development cost and exploration and evaluation cost at January 1st, 2010.
- IFRS 3(R) *Business Combinations* election: This election allows the Company to adopt IFRS 3(R) prospectively from the date of transition. In accordance with IFRS 1, the Company elected not to apply IFRS 3, *Business Combinations*, (as revised in 2008) to business combinations occurring before January 1, 2010. As such, Canadian GAAP balances relating to business combinations entered into before that date have been carried forward without adjustment.
- Leases election: In accordance with IFRS 1, the Company has elected to apply the transitional provisions in IFRIC 4, *Determining whether an Arrangement contains a Lease*, at the date of transition to all arrangements other than those entered into or modified since January 1, 2005, as such arrangements have already been assessed under requirements similar to those of IFRIC 4. No impact resulted from the review of arrangements.
- The Company has elected to apply the exemption from full retrospective application of decommissioning provisions as allowed under IFRS 1. As such, the Company has re-measured the provisions as at January 1, 2010 under IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, and estimated the amount to be included in the cost of the related asset by discounting the liability to the date at which the liability first arose. The Company did this using best estimate of the historical risk-adjusted discount rates, and recalculated the accumulated depreciation, depletion and depreciation under IFRS up to the transition date. No transition adjustment was recorded.
- The Company elected under IFRS 1 to apply IFRS 2, *Share-based Payment*, to all equity instruments granted since January 1st, 2003.
- The Company elected to apply IAS 23, *Borrowing Costs* prospectively from the date of transition, therefore the accounting of borrowing costs prior to the transition date was not reassessed in the opening IFRS consolidated statement of financial position.
- Reclassification of financial instruments: the Company elected to apply the exemption allowing a change in classification of financial assets/liabilities on first time adoption as allowed under IFRS 1. As such, cash and cash equivalents have been designated as loan and receivable instead as being held-for-trading and the note receivable from Dynacor has been classified as at fair value through profit and loss in accordance with IAS 39. At the date of transition the carrying value under Canadian GAAP approximates the fair value.

- The Company elected under IFRS 1 to reset the cumulative translation gains and losses to zero at the transition date.
- Estimates: Hindsight is not used to create or revise estimates. The estimates previously made by the management of the Company under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.

Reconciliation of IFRS and Canadian GAAP

IFRS employs a conceptual framework that is similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement and disclosure. While adoption of IFRS has not changed the Company's actual cash flows, it has resulted in changes to the Company's reported financial position and income statement. In order to allow the users of the condensed interim consolidated financial statements to better understand these changes, the Company's Canadian GAAP consolidated statements of operations and comprehensive loss for the six and nine-month periods ended September 30, 2010 as well as the statements of financial position as at September 30, 2010 have been reconciled to IFRS, with the resulting differences explained.

The September 30, 2010 Canadian GAAP consolidated statement of financial position has been reconciled to IFRS as follows:

	CDN GAAP (CA\$)	CDN GAAP (US\$) (a)	Functional Currency Adjustment (b)	IFRS Adjustments	IFRS (US\$)
Assets					
Current assets					
Cash	948,325	921,599	-	-	921,599
Trade and other receivables	2,660,615	2,585,632	-	-	2,585,632
Income tax installments receivable	805,386	782,688	-	-	782,688
Inventories	1,864,440	1,811,895	(8,064)	-	1,803,831
Prepaid expenses	328,566	319,306	-	-	319,306
	6,607,332	6,421,120	(8,064)	-	6,413,056
Non-current assets					
Investment in associates	2,799,708	2,720,805	25,004	(1,664,261)	1,081,548
Other long-term investments	-	-	-	2,513,522	2,513,522
Property, plant and equipment	10,274,369	9,984,810	(419,420)	3,081,223	12,646,613
Mining properties and deferred development and exploration costs	4,846,425	4,709,840	(238,112)	-	4,471,728
	17,920,502	17,415,455	(632,528)	3,930,484	20,713,411
Total assets	24,527,834	23,836,575	(640,592)	3,930,484	27,126,467
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities	4,052,478	3,938,268	-	-	3,938,268
Income tax payable	80,108	77,850	-	-	77,850
Unearned revenues	723,364	702,978	-	-	702,978
Current portion of long-term debt	1,337,085	1,299,402	-	-	1,299,402
Current portion of finance lease liabilities	169,493	164,716	-	-	164,716
	6,362,528	6,183,214	-	-	6,183,214
Non-current liabilities					
Long-term debt	3,000,399	2,915,840	-	647,720	3,563,560
Finance lease liabilities	88,338	85,848	-	-	85,848
Warrants liability	-	-	-	1,201,733	1,201,733
Deferred revenues	1,392,454	1,353,211	-	(312,006)	1,041,205
Asset retirement obligation	594,013	577,272	(11,870)	(988)	564,414
	5,075,204	4,932,171	(11,870)	1,536,459	6,456,760
Shareholders' equity					
Share capital	43,740,344	39,202,796	-	-	39,202,796
Warrants	748,888	719,531	-	(689,150)	30,381
Contributed surplus	3,881,725	3,507,692	-	-	3,507,692
Conversion option	319,903	270,050	-	(270,050)	-
Cumulative Translation Adjustment	-	1,104,182	(628,722)	(475,460)	-
Deficit	(35,600,758)	(32,083,061)	-	3,828,685	(28,254,376)
Total equity	13,090,102	12,721,190	(628,722)	2,394,025	14,486,493
Total liabilities and equity	24,527,834	23,836,575	(640,592)	3,930,484	27,126,467

Explanatory notes of material adjustments arising from the adoption of IFRS and significant differences in accounting policy between Canadian GAAP and IFRS applicable to the Company:**a) Presentation currency**

In conjunction to the transition to IFRS, the Company elected to change its presentation currency from Canadian to United States dollar in order that the financial statements more accurately reflect the Company's true operating results and financial position since a majority of the Company's business is conducted in US dollar. Accordingly, the Canadian GAAP financial information previously expressed in Canadian dollars has been presented in U.S. dollars for all periods shown, using the exchange rate applicable at the balance sheet date for assets and liabilities, and the average exchange rate of the corresponding periods for the consolidated statements of income and consolidated statements of cash flows items. Equity transactions have been translated at historical rates for the last three fiscal years with opening equity on April 1, 2007, translated at the exchange rate on that date. The net adjustment arising from the effect of the translation was included in the cumulative translation adjustment account in shareholders' equity.

b) Functional currency

Under IFRS, the framework used to determine the functional currency is similar to that used to determine the currency of measurement under Canadian GAAP; however, under IAS 21, *The Effects of Changes in Foreign Exchange Rates*, the indicators for determining the functional currency are broken down into primary and secondary indicators when determining the functional currency. Primary indicators are closely linked to the primary economic environment in which the entity operates and are given more weight. Secondary indicators provide supporting evidence to determine an entity's functional currency. Primary indicators receive more weight under IFRS than Canadian GAAP. As a result of this difference, management has concluded that the most appropriate functional currency of the parent company and substantially all of its subsidiaries and associates is the US dollar. Historically, the currency of measurement of the company was the Canadian dollar and all subsidiaries and the most significant associates were considered integrated and accordingly, their currency of measurement was the Canadian dollar.

Accordingly, all non-monetary assets and liabilities have been converted at their respective historical dates. In addition, in accordance with IFRS 1, the company has elected to reset the cumulative translation adjustment account, which includes gains and losses arising from the translation of foreign operations and the effects of the different functional currency described above, to zero at the date of transition to IFRS.

c) Property, plant and equipment

	As at September 30, 2010
Canadian GAAP CA\$	10,274,369
Effect of change in Presentation Currency	(289,559)
Canadian GAAP US\$	9,984,810
Impact of Measuring opening balance at Fair Value	2,483,882
Cumulative Effect of Depreciation and Depletion	597,341
Effect of Change in Functional Currency	(419,420)
IFRS US\$	12,646,613

c) Property, plant and equipment (cont'd)

The Company elected to apply the exemption to measure an item of property, plant and equipment at its fair value and use that fair value as its deemed cost going forward as allowed under IFRS 1. As such, the Company re-measured its property, plant and equipment other than mining properties and deferred development cost and exploration and evaluation cost. In conjunction with the re-measurement of the property, plant and equipment at fair value, the component parts of these assets have also been reassessed, having a direct impact on the depreciation expense.

The adjustment at the transition date, amounts to \$2,483,882, has been recognized in property, plant and equipment with the corresponding adjustment in opening deficit. The aggregate fair value of those re-valued items amounts to \$7,737,920 as at January 1st 2010.

d) Investments

1) Promissory note

	As at September 30, 2010
Canadian GAAP CA\$	1,519,518
Effect of Change in Presentation Currency	(42,824)
Canadian GAAP US\$	1,476,694
Impact of Measuring at Fair Value	992,412
Effect of Change in Functional Currency	44,416
IFRS US\$	2,513,522

Under IFRS, the promissory note is a financial instrument designated as fair value through profit and loss financial asset, which must be measured at fair value due to the significant embedded derivative under the form of a written put option. The fair value of the promissory note is based on the fair value of the underlying common shares of Dynacor. Accordingly, this promissory note is classified as a level 2 financial instrument according to the fair value hierarchy as it is based on observable market data. The promissory note was classified as an investment in associate under CGAAP and as an investment under IFRS.

2) Shares in Dynacor

	As at September 30, 2010¹
Canadian GAAP CA\$	1,074,424
Effect of Change in Presentation Currency	(30,280)
Canadian GAAP US\$	1,044,144
Cumulative Effect of Share in Earnings	(143,151)
Effect of Change in Functional Currency	(19,445)
IFRS US\$	881,548

¹ Investment in associate

d) Investments (cont'd)

Under IFRS, when an investor loses significant influence over an associate, the retained investment shall be measured at its fair value. Any difference between the fair value of the retained investment and the carrying amount of the investment at the date when significant influence is lost shall be recognized in the statement of profit and loss as opposed to other comprehensive income in CGAAP. Accordingly, as at December 31, 2010, this investment is classified as a level 2 financial instrument according to our fair value hierarchy as it is based on observable market data.

Consequently, the Company is exposed to equity price risk because of its investment held and classified on the consolidated statement of financial position as available-for-sale. Equity price risk is the risk that the fair value of a financial instrument varies due to equity market changes.

e) Warrants

	As at September 30, 2010
Per Canadian GAAP CA\$	717,267
Effect of Change in Presentation Currency	(28,117)
Canadian GAAP US\$	689,150
Effect of measurement at fair value	504,680
Foreign Exchange Impact	7,903
IFRS US\$	1,201,733

The Company has issued warrants that entitle the holder to acquire a fixed number of common shares for a fixed Canadian dollar price per share. In accordance with IFRS, an obligation to issue shares for a price that is not fixed in the Company's functional currency, and that does not qualify as a rights offering to all shareholders of that class, must be classified as a derivative liability and measured at fair value with changes recognized in the consolidated statement of comprehensive income (loss) as they arise. The Company has recorded these charges in 'Gain/loss on revaluation of financial instruments'.

Under Canadian GAAP, the warrants were classified as equity and changes in fair value were not recognized. This change in accounting increased (decreased) liabilities and reduced (increased) "Gain/loss on revaluation of financial instruments". Accordingly, those warrants were classified as a level 3 financial instrument according to our fair value hierarchy as it is based on significant non-observable market data.

Consequently, the Company is exposed to valuation risk because of its warrants held and classified on the consolidated balance sheet as fair value through profit and loss. Equity price risk is the risk that the fair value of a financial instrument varies due to equity market changes.

f) Loan payable to a customer

1) Long term Debt

	As at September 30, 2010
Per Canadian GAAP CA\$	4,337,484
Change in Presentation Currency	(122,242)
Per Canadian GAAP US\$	4,215,242
IFRS Adjustment	732,221
Cumulative effect of accretion under IFRS	(84,501)
IFRS US\$	4,862,962

2) Deferred Revenues

	As at September 30, 2010
Per Canadian GAAP CA\$	1,392,454
Change in Presentation Currency	(39,243)
Per Canadian GAAP US\$	1,353,211
IFRS Adjustment	(378,867)
Cumulative effect of amortization	66,861
IFRS US\$	1,041,205

3) Conversion Option

	As at September 30, 2010
Per Canadian GAAP CA\$	319,903
Change in Presentation Currency	(49,853)
Per Canadian GAAP US\$	270,050
IFRS Adjustment	(270,050)
IFRS US\$	-

This loan is convertible at the option of the holder to a maximum of 19.99% of the Company's total common shares outstanding at the market price less a 15% discount.

In accordance with IAS 32, the convertible debt of the Company is a contract with an obligation to issue either cash or a variable number of shares whose value is also variable. The entire instrument is a liability on the grounds that the 'fixed for fixed' requirement in IAS 32 is not met for the instrument as a whole (that is, the instrument is settled in a variable number of shares).

Accordingly, there is no conversion option recognized in equity under IFRS. Furthermore, the fair value of the debt at initial recognition has been remeasured by assimilating the 15% discount to a premium on debt redemption. The corresponding adjustments have been recorded in deferred revenues and retained earnings.

g) Deficit

	As at September 30, 2010
Per Canadian GAAP CA\$	(35,600,758)
Change in Presentation Currency	4,621,879
Per Canadian GAAP US\$	(30,978,879)
Impact of Measuring property plant and equipment at Fair Value	3,081,223
Impact of Loan From Customer	(65,664)
Impact of measuring Warrants at fair Value	(512,583)
Change in Fair Value Promissory note	992,412
Change in share in earnings	(143,151)
Change in accretion on asset retirement obligation	988
Functional Currency	(628,722)
IFRS US\$	(28,254,376)

IFRS adjustments to the consolidated statement of comprehensive income

h) Comprehensive income for the period

Three months ended September 30, 2010	Net income (loss)	Other comprehensive income (loss)	Comprehensive income (loss)
Per Canadian GAAP CA\$	(619,667)	-	(619,667)
Change in presentation currency	23,547	-	23,547
Per Canadian GAAP US\$	(596,120)	-	(596,120)
Difference in Depletion and Depreciation	210,910	-	210,910
Amortization of deferred revenues	(22,287)	-	(22,287)
Net impact of accretion and gain on settlement of long term debt	48,088	-	48,088
Change in fair value of Promissory note	188,514	-	188,514
Equity pick-up	(151,240)	-	(151,240)
Accretion of asset retirement obligation	(500)	-	(500)
Fair value variation on warrants	(504,680)	-	(504,680)
Foreign exchange gain on warrants	(23,310)	-	(23,310)
	(850,625)	-	(850,625)
Change in functional Currency	(77,073)	-	(77,073)
IFRS US\$	(927,698)	-	(927,698)

i) Comprehensive income for the period

Nine months ended September 30, 2010	Net income (loss)	Other comprehensive income (loss)	Comprehensive income (loss)
Per Canadian GAAP CA\$	(2,712,044)	-	(2,712,044)
Change in presentation currency	88,777	-	88,777
Per Canadian GAAP US\$	(2,623,267)	-	(2,623,267)
Difference in Depletion and Depreciation	597,341	-	597,341
Amortization of deferred revenues	(66,861)	-	(66,861)
Net impact of accretion and gain on settlement of long term debt	84,501	-	84,501
Change in fair value of Promissory note	992,412	-	992,412
Equity pick-up	(143,151)	-	(143,151)
Accretion of asset retirement obligation	988	-	988
Fair value variation on warrants	(504,680)	-	(504,680)
Foreign exchange gain on warrants	(7,903)	-	(7,903)
	(1,670,620)	-	(1,670,620)
Change in functional Currency	27,566	-	27,566
IFRS US\$	(1,643,054)	-	(1,643,054)

j) General and administration expenses

	Three-months ended September 30, 2010	Nine-months ended September 30,2010
Per Canadian GAAP CA\$	695,952	2,040,318
Change in presentation currency	(26,167)	(69,318)
Per Canadian GAAP US\$	669,785	1,971,000
Stock-based compensation	45,177	329,936
IFRS US\$	714,962	2,300,936

For IFRS purposes, stock-based compensation is presented under general and administrative expenses.

k) Finance expense

	Three-months ended September 30, 2010	Nine-months ended September 30,2010
Canadian GAAP, as reported	-	-
Interest and banking fees	178,028	603,789
Accretion expense of long term debt	152,411	460,881
Gain on debt settlement	(58,329)	(117,632)
Accretion expense of asset retirement obligation	4,490	13,658
IFRS basis	276,600	960,696

For IFRS purposes, accretion expenses are combined with interest expense and are presented as Finance expenses on the consolidated statement of comprehensive income.

I) Comparative Figures

Certain Canadian GAAP comparative figures have been reclassified to conform to the financial presentation adopted at December 31, 2010.

Adjustments to the consolidated statement of cash flows

The transition from Canadian GAAP to IFRS had no significant impact on cash flows generated by the Company.

The International Accounting Standards Board (IASB) continues to amend and add to current IFRS standard with several projects underway. The Company's transition plan includes monitoring actual and anticipated changes to IFRS, including interpretations thereof, and related rules and regulations and assessing the impacts of these changes on the Company and its financial statements, including expected dates of when such impacts are effective.

14-NON-GAAP MEASURES

Throughout this document, the Company has provided measures prepared according to IFRS and Canadian GAAP, as well as some non -GAAP financial performance measures. Because the non-GAAP performance measures do not have any standardized definition prescribed by IFRS and Canadian GAAP, they may not be comparable to similar measures presented by other companies. The Company provides these non-GAAP financial performance measures as they may be used by some investors to evaluate our financial performance. Accordingly, they are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS and Canadian GAAP. These non-GAAP financial performance measures not already reconciled within the document, we have defined the non-GAAP financial performance measures were reconciled to reported IFRS and Canadian GAAP measures within the document.

15-RISKS AND UNCERTAINTIES

The exploration for development and mining of mineral deposits involves significant risks, which even a combination of careful evaluation, experience and knowledge may not eliminate. For additional discussion of risk factors, please refer to the Company's Annual Information Form which is available upon request from the Company or on its profile at www.sedar.com.

16-DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") of the Company are responsible for establishing and maintaining the Company's disclosure controls and procedures, including adherence to the Disclosure Policy adopted by the Company. The Disclosure Policy requires all staff to keep senior management fully apprised of all material information affecting the Company so that they may evaluate and discuss this information and determine the appropriateness and timing for public release. The CEO and CFO evaluated the effectiveness of the Company's disclosure controls and procedures as required by Multilateral Instrument 52-109 issued by the Canadian Securities Administrators. They concluded that as of September 30, 2011 the Company's design and operation of its disclosure controls and procedures were effective in providing reasonable assurance that material information regarding this report, and the consolidated financial statements and other disclosures was made known to them on a timely basis.

Management has developed a system for internal controls over financial reporting (ICFR) in order to provide reasonable assurance with regards to the reliability of the financial information published and the preparation of the financial statements in accordance with Generally Accepted Accounting Principles in Canada.

The Chief Executive Officer and the Chief Financial Officer evaluated the design of the ICFR as at September 30, 2011. Pursuant to their evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the internal controls over financial reporting (ICFR) are effective. In addition, the Chief Executive Officer and the Chief Financial Officer of the Company are responsible for developing internal controls over financial reporting or the supervision of their development.

17-CAUTION REGARDING FORWARD LOOKING STATEMENTS

Statements contained in this document that are not historical facts are regarded as forward-looking statements. These statements may involve risk, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. Many factors could cause such differences, including: volatility in market metal prices; changes in foreign currency exchange rates and interest rates; unexpected variations in geological conditions of a property of erroneous geological data; environmental risks including increased regulatory constraints; unexpected adverse mining conditions; adverse political conditions, and changes in government regulations and policies. Although the Company believes that the assumptions inherent in the forward-looking statements are reasonable, undue reliance should not be placed on these statements, which only apply as of the date of this document. The Company has not committed to maintaining this forward-looking information unless so required by law.

(s) Jean Martineau _____

Jean Martineau
Chairman and Chief Executive Officer

(s) Joey Trombino _____

Joey Trombino
Vice-President and Chief Financial Officer