

Management Discussion and Analysis

Introduction

This management Discussion and Analysis (“MD&A”) for Malaga Inc. (“Malaga” or the “Company”) is to comment the major activities of the Company which occurred during the three-month period ended March 31, 2011, as well as the subsequent period up to June 14, 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-month period ended March 31, 2011, as well as the accompanying notes. These documents have been filed electronically on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com. All currency figures appear 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 recommendations 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 June 14, 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-Q1 FINANCIAL HIGHLIGHTS

First Quarter Information

(in \$'000)	Three Month Periods Ended March 31	
	2011	2010
Sales	5,257	3,594
Cost of sales (including depreciation and depletion)	3,534	3,432
Depreciation and depletion	714	786
Income from mining activities	1,722	162
General and administrative expenses	868	794
Net income (loss)	813	(973)
EBITDA ⁽¹⁾	1,314	25
Earnings (loss) per share basic and diluted	\$0.00	(\$0.00)
Average cash cost of production ⁽²⁾ (\$/MTU)	\$129	\$136
MTU = metric tonne unit = 10 kg		
Cash flow from operating activities before changes in non-cash working capital items	1,353	455
Cash flow (used for) operating activities	660	(109)
Acquisitions of property, plant and equipment	1,451	359
Additions to deferred development and exploration costs	172	171
Reconciliation of loss to EBITDA		
Net income (loss)	813	(973)
Recovery of future income taxes	(361)	-
Financial expenses	148	212
Amortization and depletion	714	786
EBITDA	1,314	25
	At	At
	March 31,	December 31,
	2011	2010
Cash	1,635	2,841
Total assets	32,463	30,675
Long term debts	4,478	4,565
Obligations under finance leases	162	199
Shareholders' equity	20,209	17,322
Other		
Outstanding shares ('000)	183,550	183,550
Weighted average outstanding shares ('000)		
Basic	183,550	168,813
Diluted	235,500	193,953
Closing share price	\$0.290	\$0.275

⁽¹⁾ EBITDA: "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.

⁽²⁾ 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.

Q1 2011 Highlights

- Net income of \$0.8M compared to a loss of \$1.0M in Q1-2010
- Income from mining activities of \$1.7M compared to \$0.2M in Q1-2010
- EBITDA of \$1.3M (compared to \$0.0M in Q1-2010).
- Cash flow from operations before changes in non-cash working capital items of \$1.4M an improvement of \$0.9M over Q1-2010.
- Sales revenue for the quarter \$5.3M compared to \$3.6M in Q1-2010, an increase of 46%.
- Sales volume achieved in Q1-2011 was 18,090 MTU's (18,108 MTU's in Q1-2010).
- APT average reference selling price increase from \$201 in Q1-2010 to \$360 in Q1-2011, an increase of 79%. On June 14, 2011 the APT price was at \$460.
- An improvement in average cash cost of production⁽²⁾ of \$7 per MTU (\$129 compared to \$136 in Q1-2010).
- The mine development program is underway and 1,172 meters of advancements were completed in Q1-2011.

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 is planning an extensive development and exploration program in the amount of \$3 to \$4 million whereby 7,300 meters of underground advancements is forecasted. This program has commenced in Q1-2011 and 1,172 meters of underground development work was completed. In addition, the Company has announced a \$1.5M exploration program. The drilling campaign began in early May and Malaga intends to drill 12 short and long range holes adding up to a total of 6,300 meters. 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.

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

The Company has produced 17,493 MTU's in the current quarter. The plant has a production capacity of 500 tpd but the mine has been the bottleneck producing about 400 tpd. An accelerated development program has been undertaken at the mine.

Generate net income for the entire 2011 fiscal year

The Company generated a net income of \$0.8M in Q1-2011 and it believes that it will continue to be profitable in each of the next three quarters.

Reduce average cash cost of production⁽²⁾ to US\$115 per MTU

Average cash cost of production was \$129 per MTU in Q1-2011 compared to \$137 in 2010. The Company believes that by increasing its production capacity, improving its recovery rate by implementing certain process changes, the average cash cost of production⁽²⁾ should be reduced to approximately US\$115 by the end of the year.

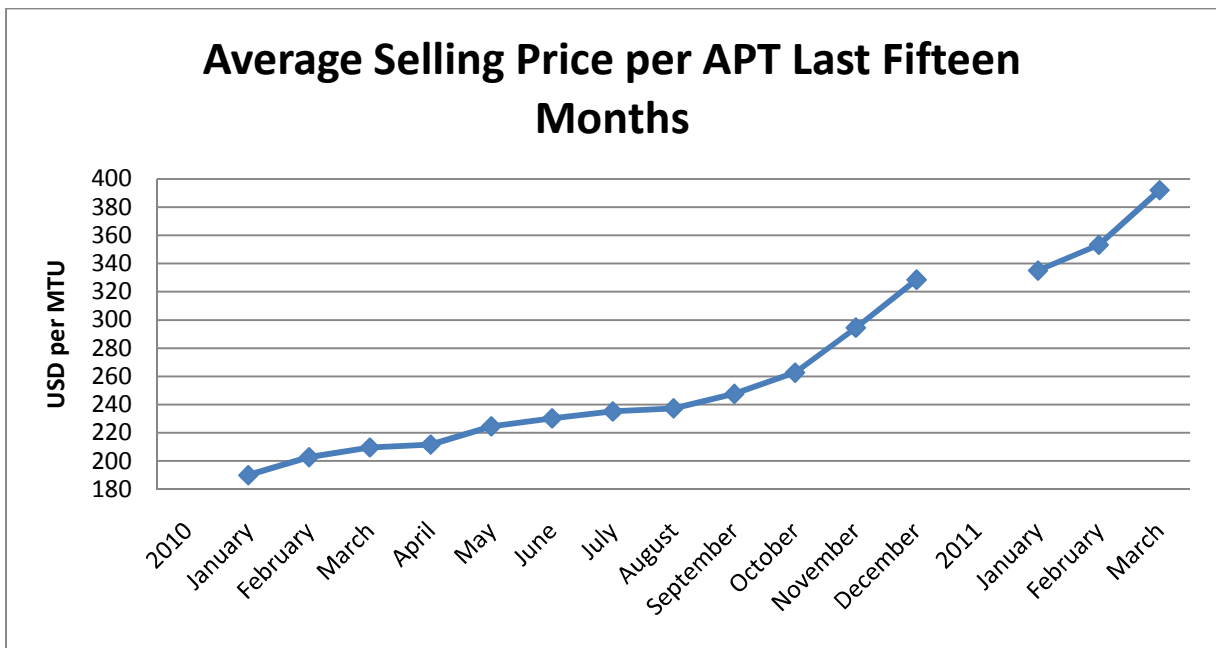
2-KEY ECONOMIC TRENDS

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 \$330/MTU to \$400/MTU, with an average at \$360/MTU for Q1-2011, compared \$201/MTU in Q1-2010. As at June 14, 2011, the APT selling price per MTU was US\$460.

In Q1-2011, China's Ministry of Land and Resources announced that authorities in the country have found and 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, 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 to June 30, 2012 from this month.



Exchange Rate

The exchange rates are as follows:

	\$US/\$CA		\$US/Sol	
	2011	2010	2011	2010
March 31 (closing rate)	0.9696	1.0233	2.802	2.795
1 st Quarter (average rate)	0.9856	1.0401	2.784	2.815

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 March 31	
	2011	2010
Sales (in MTU)	18,090	18,108
Production:		
Tonnes extracted	31,388	28,190
Yield (%)	56%	62%
Production Output (MTU)	17,493	17,611

Total sales for the current quarter amounted to \$5.3M (\$3.6M in Q1-2010). Tungsten sales increased by \$2.0M (71%) in the current quarter compared to Q1-2010 from \$2.7M to \$4.7M. The increase in tungsten revenues is a result of a 79% increase in average APT selling price. In addition, the Company was able to generate sales revenue of \$0.6M from copper (\$0.9M in Q1-2010).

The yield has decreased in the current quarter due to the lower head grade of the mineral ore extracted in Q1-2011 compared to Q1-2010 but better than Q4-2010. Historical average of head grade has been 0.70% while it was 0.86% in Q1-2010.

	Three month periods ended March 31	
	2011	2010
	\$	\$
Sales		
In \$'000		
Tungsten	4,668	2,726
Copper	589	868
	5,257	3,594

The cost of sales is as follows:

	Three month periods ended March 31	
	2011	2010
Operating costs (000\$)		
Mining	1,092	1,316
Milling	370	326
Plant and site services	811	750
Operating costs	2,273	2,392
Inventory change	267	(135)
Inventory Write-down	-	109
Cost of sales Tungsten	2,540	2,366
Cost of sales Copper	280	280
Cash cost of Sales	2,820	2,646
Depreciation and depletion	714	786
Total Cost of Sales	3,534	3,432

	Three month periods ended March 31	
In \$US per MTU	2011	2010
Mining	62	74
Milling	21	19
Plant and site services	46	43
Average cash cost of production ⁽²⁾	129	136

The average cash cost of production⁽²⁾ in the current quarter was \$129 per MTU (\$136 per MTU in Q1-2010), a decrease of 5%.

The mining cost per MTU has decreased in Q1-2011 as part of a right sizing of the mining operation as well as an efficiency program with the mining contractors. The cost of milling has increased due to the lower grade and recovery rate in the current quarter.

The amortization and depletion per MTU decreased from \$45 in Q1-2010 to \$41 in Q1-2011.

Operating Activities

The Company recorded a net income of \$0.8M (net loss of \$1.0M in Q1-2010) for an earnings per share of \$0.00 (loss per share \$0.00 in 2010). The increase in the net income for the current quarter is explained in the table below.

	in \$M
Increase in income from mining activities	1.5
Increase in general and administrative expenses	(0.1)
Decrease in financial expenses	0.1
Increase in foreign exchange loss	(0.5)
Increase in gains related to the investment in Dynacor	0.3
Recovery of income taxes	0.4
Other	0.1
Total increase	1.8

The increase in income from mining activities is a result of the increase in the APT selling price of 79% in Q1-2011 compared to Q1-2010 as well as the fact that the Company has been able to reduce its production costs.

The increase in general and administrative expenses is a result of the increase in wages as well as the increase in professional fees related to the transition to IFRS. These increases were partially offset by the decrease of \$0.2M in the stock based compensation expense as there were no stock options granted in Q1-2011 (2,990,000 in Q1-2010).

The increase in the foreign exchange loss is a result of the weakening of the United States dollar compared to the Canadian dollar and the Peruvian nuevo sol. With the transition to IFRS the financial statements have a functional and reporting currency which is the United States dollar.

In Q1-2011, a recovery of future income taxes in the amount of \$0.4M was recorded (nil in Q1-2010) related to the re-measurement of the available-for-sale investment. The investment in Dynacor is classified as "available-for-sale" and measured at fair value, with unrealized gains and losses recognized in other comprehensive income net of taxes. The Company is unable to realize all of its tax benefit from the tax loss to recover income taxes paid in previous years in Peru and Canada.

⁽²⁾ 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.

4-CASH FLOW AND LIQUIDITY

Operating Activities

In Q1-2011, the cash flow generated from operating activities before changes in non-cash working capital items amounted to \$1.4M (\$0.5M in Q1-2010). The improvement comes from the increase of income from mining operations explained previously. The changes in the non-cash working capital item amounted to a use \$0.7M (\$0.6M in Q1-2010) resulting in cash flow from operating activities in the amount of \$0.7M in Q1-2011 compared to a use of \$0.1M in Q1-2010. With the positive cash flow from operations, the Company was able to bring supplier accounts current.

Investing Activities

The capital expenditures to bring the installed capacity of the plant to 500 tpd were completed in 2010. In Q1-2011, the Company invested \$1.5M for the acquisition of property, plant and equipment (\$0.4M in Q1-2010). Of the \$1.5M, \$0.5M related to the development program whereby the Company achieved 1,172 meters of advancements with the objective of replenishing the reserves that were extracted. The balance was invested in the mine to increase its capacity.

The Company also invested \$0.2M (\$0.2M in Q1-2010) in exploration and development work in order to develop new sources of ore to support the increase in production capacity.

Financing Activities

During the quarter, the cash flow used for financing activities amounted to \$0.3M (\$0.1M in Q1-2010) for the reimbursement of the long-term debt.

Liquidity

As at March 31, 2011, cash amounted to \$1.6M and the working capital to \$1.7M. The Company also intends to sell 2 million shares of Dynacor during 2011. The market value of these shares amounted to \$3.9 million as at March 29, 2011. As at March 31, 2011, the Company had no financial commitments besides those disclosed in the section Long-term Liabilities and Contractual Obligations.

5-BALANCE SHEETS

Assets

As at March 31, 2011, total assets amounted to \$32.5M (\$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	1,075	3,729	292	-	5,096
Operating leases	81	18	-	-	99
Capital leases	110	60	-	-	170
Asset retirement obligation for property, plant and equipment	-	-	-	717	717
	<u>1,266</u>	<u>3,807</u>	<u>292</u>	<u>717</u>	<u>6,082</u>

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 March 31, 2011 and December 31, 2010. These disbursements are expected to be made in the years 2027 and 2028. This estimate is subject to change following modifications to laws and regulations, or as new information becomes available.

Contingencies and subsequent events

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 with the laws and regulations already in place. Commitments for the purchase of property, plant and equipment are presented in the section Long-term Liabilities and Contractual Obligations.

Off-Balance Sheet Transactions

As at March 31, 2011, the Company had not entered into any off-balance sheet transactions.

6-QUARTERLY REVIEW

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

	2011	2010				2009		
(in \$'000)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Financial								
Revenues	5,257	3,337	3,791	3,463	3,594	2,470	2,780	2,489
Cost of sales	3,534	2,582	3,383	3,049	3,432	2,698	2,534	1,960
Amortization and depletion	714	618	717	705	786	1,071	993	1,146
General and administrative expenses	868	695	715	792	794	523	666	683
Net (loss) income	813	3,025	(928)	112	(973)	(3,776)	(1,977)	(1,328)
Cash and cash equivalents	1,635	2,841	922	2,112	386	1,149	1,939	1,584
Working capital	1,688	2,268	230	1,569	(2091)	(1,367)	167	192
Total assets	32,463	30,675	27,126	27,825	23,346	21,902	26,767	25,684
Shareholders' equity	20,209	17,322	14,486	15,377	10,950	10,507	13,997	14,915
Acquisition of property, plant and equipment	1,451	1,098	1,087	793	359	819	1,277	373
Development and deferred exploration costs	172	301	366	148	171	351	470	687
Per Share								
Earnings (loss) per share basic and diluted	0.00	0.01	(0.00)	0.00	(0.01)	(0.02)	(0.02)	(0.01)
Weighted average shares outstanding ('000)								
Basic	183,550	183,550	183,550	160,110	147,687	140,770	139,000	137,117
Diluted	235,500	224,289	185,115	160,110	147,687	140,770	139,000	137,117

7-INFORMATION ON OUTSTANDING SHARES

Data on Available Outstanding Shares (as at June 14, 2011)

	Number
Common shares	183,650,176
Ordinary Warrants	35,863,333
Broker Warrants	1,405,933
Options	9,200,000

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>	0.70%
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.

An updated technical report for reserves and resource is currently undertaken and should be completed and released early in Q3-2011.

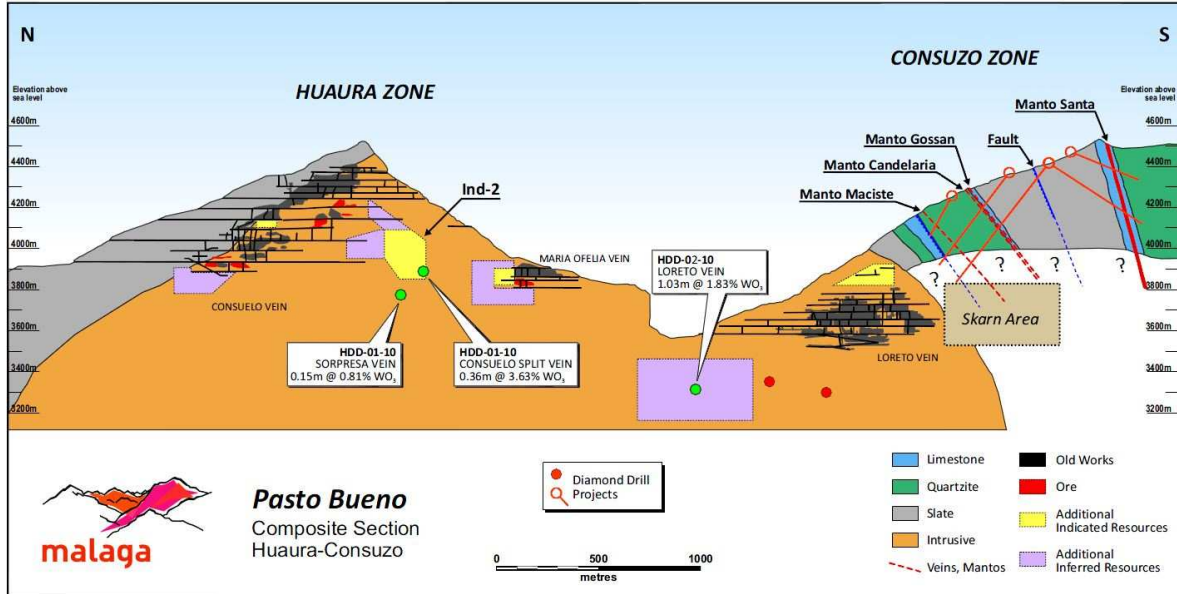
Development Program

In the current year, the Company is planning an extensive development in the amount of \$3M to \$4M in ongoing underground development work in the Huaura and Huayllapon sectors that are currently being mined. The objective of this underground development is to replace the mined reserves and define new additional reserves and resources. 7,300 meters of underground advancements is forecasted. During the quarter, 1,172 meters of underground development work was completed, in line with the program that was set out at the beginning of the year. The current production is being extracted from four veins (Consuelo, Candela, Alonso Fenix, and Chabuca).

2011 Drilling Campaign

In addition, the Company has announced the commencement of an exploration campaign. 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 area and is currently drilling two long range drill holes. Immediately after drilling these two holes the company will start drilling the four manto structures: Maciste, Gossan, Candelaria and Santa. Malaga plans to drill 10 holes adding up to a total of 4,900 meters in these very promising structures. The Manto Santa is particularly interesting since it is the thickest manto structure and a channel sample taken in 2010 found a grade of 1.17% WO₃ over 6.8 meters. It will be one of the focal exploration points during the 2011 drilling campaign that should be completed by the end of the year.

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

A project consisting in adding screens is expected to be initiated in Q3. This would increase the recovery rate. Other projects that would provide yield and recovery improvements will also be evaluated based on their internal rate of return and payback.

Hydro-electricity

In light of building of new 19 to 35 MW hydro power plant, Hidropesac is carrying out environmental and archeological 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 early 2012. This major project would give Malaga complete autonomy in terms of power generation, would sustain its planned production growth, decrease its production costs permanently and eventually generate important value. In 2010, energy cost accounted for approximately 6% 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 concerning environmental protection.

The construction of the new tailings pond is on-going. It is scheduled to be completed by Q3-2011 in order to support the installed capacity of 500 tpd. Its expected life is two years at 600 tpd. After its construction, the Peruvian authorities should deliver the operating permits.

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. Hence the Company has commenced an extensive capital expenditure program to bring the mine capacity to 500 tpd.

In the current year, the Company is planning an extensive development program in the amount of \$3.0M to \$4.0M. This investment will be to increase the reserves and resources to support the increasing production capacity at the plant and demonstrate the potential of the property. In addition the Company has announced a \$1.5M exploration campaign which will have the mantos as its main focus. The exploration program should be completed by year-end.

Current market conditions have demand for tungsten growing and there is no new significant production capacity increases outside of China envisioned before at least 2014. As such, APT price has increased 78% in 2010 and for the first five months of 2011 APT price has increased by 39%. 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.

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 4, 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.

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 March 31, 2011, the total market value of its investment in Dynacor amounted to \$7.0M.

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-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.

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 (Note c).
- *IFRS 3 Business combination* 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 payments, 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 CGAAP approximates the fair value (Note d).
- 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 financial statements to better understand these changes, the Company's Canadian GAAP consolidated statements of operations and comprehensive loss for the year ended December 31, 2010 and the three-month period ended March 31, 2010 as well as the statements of financial position as at January 1, 2010, March 31, 2010 and December 31, 2010 have been reconciled to IFRS, with the resulting differences explained.

The January 1, 2010 Canadian GAAP consolidated balance sheet has been reconciled to IFRS as follows:

	Note	CDN GAAP (CA\$)	CDN GAAP (US\$) (a)	Functional Currency Adjustment (b)	IFRS Adjustments	IFRS (US\$)
Assets						
Current assets						
Cash		1,149,101	1,093,341	-	-	1,093,341
Trade and other receivables		1,198,625	1,140,461	-	-	1,140,461
Income tax installments receivable		695,432	661,686	-	-	661,686
Inventories		1,369,423	1,302,971	(6,169)	-	1,296,802
Prepaid expenses		182,204	173,363	-	-	173,363
		4,594,785	4,371,822	(6,169)	-	4,365,653
Non-current assets						
Investment in associates	(d2)	2,471,942	2,352,115	-	(1,445,783)	906,332
Other long-term investments	(d1)	-	-	-	1,445,783	1,445,783
Property, plant and equipment	(c)	8,801,346	8,374,259	(144,885)	2,483,882	10,713,256
Mining properties and deferred development and exploration costs		6,034,270	5,741,456	(206,346)	-	5,535,110
		17,307,558	16,467,830	(351,231)	2,483,882	18,600,481
Total assets		21,902,343	20,839,652	(357,400)	2,483,882	22,966,134
Liabilities						
Current liabilities						
Accounts payable and accrued liabilities		4,126,056	3,925,838	-	-	3,925,838
Income tax payable		45,996	43,764	-	-	43,764
Unearned revenues		199,065	189,406	-	-	189,406
Current portion of long-term debt		1,077,887	1,025,582	-	-	1,025,582
Current portion of finance lease liabilities		264,030	251,218	-	-	251,218
		5,713,034	5,435,808	-	-	5,435,808
Non-current liabilities						
Long-term debt	(f1)	3,169,889	3,053,938	-	732,221	3,786,159
Finance lease liabilities		206,744	196,712	-	-	196,712
Deferred revenues	(f2)	1,726,994	1,643,191	-	(378,867)	1,264,324
Asset retirement obligations		578,845	550,756	-	-	550,756
		5,682,472	5,444,597	-	353,354	5,797,951
Shareholders' equity						
Share capital		39,536,003	35,165,941	-	-	35,165,941
Contributed surplus		3,539,644	3,177,756	-	-	3,177,756
Conversion option	(f3)	319,903	270,050	-	(270,050)	-
Cumulative translation adjustment		-	805,294	(357,400)	(447,894)	-
Deficit	(g)	(32,888,713)	(29,459,794)	-	2,848,472	(26,611,322)
Total equity		10,506,837	9,959,247	(357,400)	2,130,528	11,732,375
Total liabilities and equity		21,902,343	20,839,652	(357,400)	2,483,882	22,966,134

The March 31, 2010 Canadian GAAP consolidated balance sheet has been reconciled to IFRS as follows:

	Note	CDN GAAP (CA\$)	CDN GAAP (US\$) (a)	Functional Currency Adjustment (b)	IFRS Adjustments	IFRS (US\$)
Assets						
Current assets						
Cash		391,921	385,825	-	-	385,825
Trade and other receivables		1,824,002	1,795,631	-	-	1,795,631
Income tax installments receivable		722,042	710,811	-	-	710,811
Inventories		1,465,481	1,442,687	(10,574)	-	1,432,113
Prepaid expenses		843,958	830,831	-	-	830,831
		5,247,404	5,165,785	(10,574)	-	5,155,211
Non-current assets						
Investment in associates	(d2)	2,471,942	2,433,493	(31,278)	(1,475,521)	926,694
Other long-term investments	(d1)	-	-	-	1,145,783	1,145,783
Property, plant and equipment	(c)	10,198,579	10,039,948	(543,578)	2,664,602	12,160,972
Mining properties and deferred development and exploration costs		4,313,837	4,246,738	(288,953)	-	3,957,785
		16,984,358	16,720,179	(863,809)	2,334,864	18,191,234
Total assets		22,231,762	21,885,964	(874,383)	2,334,864	23,346,445
Liabilities						
Current liabilities						
Accounts payable and accrued liabilities		5,033,974	4,955,674	-	-	4,955,674
Income tax payable		74,061	72,909	-	-	72,909
Unearned revenues		205,205	202,013	-	-	202,013
Current portion of long-term debt		1,294,607	1,274,473	-	-	1,274,473
Current portion of finance lease liabilities		208,244	205,005	-	-	205,005
		6,816,091	6,710,074	-	-	6,710,074
Non-current liabilities						
Long-term debt	(f1)	3,071,147	3,023,375	-	743,862	3,767,237
Finance lease liabilities		176,581	173,834	-	-	173,834
Deferred revenues	(f2)	1,570,966	1,546,531	-	(356,580)	1,189,951
Asset retirement obligations		584,356	575,267	(19,215)	(711)	555,341
		5,403,050	5,319,007	(19,215)	386,571	5,686,363
Shareholders' equity						
Share capital		39,536,003	35,165,941	-	-	35,165,941
Contributed surplus		3,738,400	3,368,734	-	-	3,368,734
Conversion option	(f3)	319,903	270,050	-	(270,050)	-
Cumulative Translation Adjustment		-	1,178,207	(855,168)	(323,039)	-
Deficit	(g)	(33,581,685)	(30,126,049)	-	2,541,382	(27,584,667)
Total equity		10,012,621	9,856,883	(855,168)	1,948,293	10,950,008
Total liabilities and equity		22,231,762	21,885,964	(874,383)	2,334,864	23,346,445

The December 31, 2010 Canadian GAAP consolidated balance sheet has been reconciled to IFRS as follows:

	Note	CDN GAAP (CA\$)	CDN GAAP (US\$) (a)	Functional Currency Adjustment (b)	IFRS Adjustments	IFRS (US\$)
Assets						
Current assets						
Cash		2,825,256	2,840,595	-	-	2,840,595
Trade and other receivables		2,002,896	2,013,770	-	-	2,013,770
Income tax installments receivable		819,748	824,199	-	-	824,199
Inventories		2,116,901	2,128,394	(28,294)	-	2,100,100
Prepaid expenses		201,981	203,078	-	-	203,078
		<u>7,966,782</u>	<u>8,010,036</u>	<u>(28,294)</u>	<u>-</u>	<u>7,981,742</u>
Non-current assets						
Investment in associates		205,766	206,883	(6,883)	-	200,000
Other long-term investments		4,619,454	4,644,534	-	-	4,644,534
Property, plant and equipment	(c)	10,448,476	10,505,204	(751,185)	3,322,026	13,076,045
Mining properties and deferred development and exploration costs		5,151,527	5,179,497	(406,612)	-	4,772,885
		<u>20,425,223</u>	<u>20,536,118</u>	<u>(1,164,680)</u>	<u>3,322,026</u>	<u>22,693,464</u>
Total assets		<u>28,392,005</u>	<u>28,546,154</u>	<u>(1,192,974)</u>	<u>3,322,026</u>	<u>30,675,206</u>
Liabilities						
Current liabilities						
Accounts payable and accrued liabilities		3,424,313	3,442,905	-	-	3,442,905
Unearned revenues		891,934	896,777	-	-	896,777
Current portion of long-term debt		1,234,347	1,241,049	-	-	1,241,049
Current portion of finance lease liabilities		132,108	132,825	-	-	132,825
		<u>5,682,702</u>	<u>5,713,556</u>	<u>-</u>	<u>-</u>	<u>5,713,556</u>
Non-current liabilities						
Long-term debt	(f1)	2,709,810	2,724,522	-	599,666	3,324,188
Finance lease liabilities		65,462	65,817	-	-	65,817
Warrants	(e)	-	-	-	2,713,995	2,713,995
Deferred revenues	(f2)	1,249,766	1,256,551	-	(289,719)	966,832
Asset retirement obligations		600,890	604,152	(31,963)	(3,471)	568,718
		<u>4,625,928</u>	<u>4,651,042</u>	<u>(31,963)</u>	<u>3,020,471</u>	<u>7,639,550</u>
Shareholders' equity						
Share capital		43,738,368	39,200,848	-	-	39,200,848
Warrants	(e)	748,888	719,531	-	(689,150)	30,381
Contributed surplus		3,838,464	3,466,211	-	-	3,466,211
Conversion option		319,903	270,050	-	(270,050)	-
Accumulated other comprehensive income		3,222,107	3,239,601	-	(3,239,601)	-
Cumulative Translation Adjustment		-	1,575,461	(1,161,011)	(414,450)	-
Deficit	(g)	(33,784,355)	(30,290,146)	-	4,914,806	(25,375,340)
Total equity		<u>18,083,375</u>	<u>18,181,556</u>	<u>(1,161,011)</u>	<u>301,555</u>	<u>17,322,100</u>
Total liabilities and equity		<u>28,392,005</u>	<u>28,546,154</u>	<u>(1,192,974)</u>	<u>3,322,026</u>	<u>30,675,206</u>

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 December 31, 2010	As at March 31, 2010	As at January 1, 2010
Canadian GAAP CA\$	10,448,476	10,198,579	8,801,346
Effect of change in Presentation Currency	56,728	(158,631)	(427,087)
Canadian GAAP US\$	10,505,204	10,039,948	8,374,259
Impact of Measuring opening balance at Fair Value	2,483,882	2,483,882	2,483,882
Cumulative Effect of Depreciation and Depletion	838,144	180,720	-
Effect of Change in Functional Currency	(751,185)	(543,578)	(144,885)
IFRS US\$	13,076,045	12,160,972	10,713,256

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. 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 December 31, 2010	As at March 31, 2010	As at January 1, 2010
Canadian GAAP CA\$	-	1,519,518	1,519,518
Effect of Change in Presentation Currency	-	(23,635)	(73,735)
Canadian GAAP US\$	-	1,495,883	1,445,783
Impact of Measuring at Fair Value	-	(350,100)	-
IFRS US\$	-	1,145,783	1,445,783

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 our 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 December 31, 2010	As at March 31, 2010	As at January 1, 2010
Canadian GAAP CA\$	4,619,454	952,424	952,424
Effect of Change in Presentation Currency	25,080	(14,814)	(46,092)
Canadian GAAP US\$	4,644,534	937,610	906,332
Cumulative Effect of Share in Earnings	-	20,362	-
Effect of Change in Functional Currency	-	(31,278)	-
IFRS US\$	4,644,534	926,694	906,332

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 December 31, 2010	As at March 31, 2010	As at January 1, 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	1,975,378	-	-
Foreign Exchange Impact	49,467	-	-
IFRS US\$	2,713,995	-	-

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 this statement of income 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 (decrease) 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 December 31, 2010	As at March 31, 2010	As at January 1, 2010
Per Canadian GAAP CA\$	3,944,157	4,365,754	4,247,776
Change in Presentation Currency	21,414	(67,906)	(168,256)
Per Canadian GAAP US\$	3,965,571	4,297,848	4,079,520
IFRS Adjustment	732,221	732,221	732,221
Cumulative effect of accretion Under IFRS	(132,555)	11,641	-
IFRS US\$	4,565,237	5,041,710	4,811,741

2) Deferred Revenues

	As at December 31, 2010	As at March 31, 2010	As at January 1, 2010
Per Canadian GAAP CA\$	1,249,766	1,570,966	1,726,994
Change in Presentation Currency	6,785	(24,435)	(83,803)
Per Canadian GAAP US\$	1,256,551	1,546,531	1,643,191
IFRS Adjustment	(378,867)	(378,867)	(378,867)
Cumulative effect of amortization	89,148	22,287	-
IFRS US\$	966,832	1,189,951	1,264,324

3) Conversion Option

	As at December 31, 2010	As at March 31, 2010	As at January 1, 2010
Per Canadian GAAP CA\$	319,903	319,903	319,903
Change in Presentation Currency	(49,853)	(49,853)	(49,853)
Per Canadian GAAP US\$	270,050	270,050	270,050
IFRS Adjustment	(270,050)	(270,050)	(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 December 31, 2010	As at March 31, 2010	As at January 1, 2010
Per Canadian GAAP CA\$	(33,784,355)	(33,581,685)	(32,888,713)
Change in Presentation Currency	5,069,670	4,633,843	4,234,213
Per Canadian GAAP US\$	(28,714,685)	(28,947,842)	(28,654,500)
			-
Impact of Measuring property plant and equipment at fair value	3,322,026	2,664,602	2,483,882
Impact of Loan From Customer	(39,898)	(117,232)	(83,304)
Impact of measuring Warrants at fair Value	(2,024,845)	-	-
Change in Fair Value Promissory note	-	(350,100)	-
Deemed Disposition of available for sale investment	3,827,924	-	-
Recovery of Income Taxes	(564,087)	-	-
Change in share in earnings	20,139	20,362	-
Change in Accretion on asset retirement obligation	3,471	711	-
Exchange difference on promissory note	(66,016)	-	-
Other	21,642	-	-
Functional Currency	(1,161,011)	(855,168)	(357,400)
			-
IFRS US\$	(25,375,340)	(27,584,667)	(26,611,322)

IFRS adjustments to the consolidated statement of profit and loss

h) Comprehensive income for the period

Twelve-month period ended December 31, 2010

	Net income	Other comprehensive income	Comprehensive income
Net income Canadian GAAP CA\$	(895,642)	3,222,107	2,326,465
Change in presentation currency	65,290	17,494	82,784
Per Canadian GAAP US\$	(830,352)	3,239,601	2,409,249
Difference in Depletion and Depreciation	838,144	-	838,144
Revaluation of warrants liability	(1,975,378)	-	(1,975,378)
Foreign exchange on the warrants liability	(49,467)	-	(49,467)
Amortization of deferred revenues	(89,148)	-	(89,148)
Net impact of accretion and gain on settlement of long term debt	132,555	-	132,555
Change in fair value of promissory note	992,412	-	992,412
Gain on Settlement of promissory note	(1,058,429)	-	(1,058,429)
Equity pick-up	20,139	-	20,139
Deemed Disposition on available for sale investments	3,827,924	(3,827,924)	-
Recovery of Future Income Taxes	(564,087)	564,087	-
Accretion of Asset Retirement Obligation	3,471	-	3,471
	1,247,784	(24,236)	1,223,548
Change in functional Currency	(11,802)	24,236	12,434
Net income IFRS US\$	1,235,982	-	1,235,982

i) Comprehensive income for the period

Three-month period ended March 31, 2010

	Net income	Other comprehensive income	Comprehensive income
Net income Canadian GAAP CA\$	(692,972)	-	(692,972)
Change in presentation currency	26,717	-	26,717
Per Canadian GAAP US\$	(666,255)	-	(666,255)
		-	
Difference in Depletion and Depreciation	180,720	-	180,720
Amortization of deferred revenues	(22,287)	-	(22,287)
Net impact of accretion and gain on settlement of long term debt	(11,640)	-	(11,640)
Change in fair value of promissory note	(350,100)	-	(350,100)
Equity pick-up	20,361	-	20,361
Accretion of asset retirement obligation	711	-	711
	(848,490)	-	(848,490)
Change in functional Currency	(124,855)	-	(124,855)
		-	
Net income IFRS US\$	(973,345)	-	(973,345)

j) General and administration expenses

	Twelve-month period ended December 31, 2010	Three-month period ended March 31, 2010
Per Canadian GAAP CA\$	2,786,192	629,059
Change in presentation currency	(79,118)	(25,844)
Per Canadian GAAP US\$	2,707,074	603,215
Stock-based compensation	288,419	190,978
IFRS US\$	2,995,493	794,193

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

k) Finance expenses

	Twelve-month period ended December 31, 2010	Three-month period ended March 31, 2010
Canadian GAAP, as reported	-	-
Interest on long term debt	333,065	-
Interest and banking fees	398,683	55,169
Accretion expense of long term debt	607,755	151,912
Gain on debt settlement	(174,867)	-
Accretion expense of asset retirement obligation	17,962	4,585
IFRS basis	<u>1,182,598</u>	<u>211,666</u>

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

l) Comparative Figures

Certain Canadian GAAP comparative figures have been reclassified to conform with 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.

13-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.

14-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 March 31, 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 March 31, 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 except for the fact that the Company has not completed the implementation of the control that will permit to ensure that as part of the IFRS transition and the change in functional currency of the Peruvian subsidiaries, the analysis of the potential income tax impact on the financial statement is completed. Management is of the opinion that this will not have a significant impact on the financial statements. The Company is confident to complete the implementation of the above mentioned control by the end of the second quarter 2011. 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.

15-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