

Management Discussion and Analysis

Introduction

This management discussion and analysis (MD&A) for Malaga Inc. ("Malaga" or the "Company") emphasises the major activities of the Company which occurred during the year ended December 31, 2010, as well as the subsequent period up to March 29, 2011.

The financial information presented herein was established according to generally accepted accounting principles (GAAP) in Canada. This management report must be read in conjunction with the consolidated financial statements for the year ended December 31, 2010, 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 Canadian dollars unless otherwise specified. This management report as well as the consolidated financial statements have been prepared by management, and the consolidated financial statements were 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 make sure that management assumes their responsibility in regards to the preparation of the company's financial statements. To facilitate this process the Board has created an Audit Committee. The Audit Committee meets members of the management team to discuss the operating results and the financial situation of the Company, before making their recommendations and submitting the financial statements to the Board of Directors so that it can examine and approve them. Following the recommendation of the Audit Committee, the Board of Directors approved the audited consolidated financial statement.

For all purposes below, the "Company" refers to Malaga and its wholly-owned subsidiaries Dynacor Exploraciones del Peru S.A.C, Minera Malaga Santolalla S.A.C., and Minera Pasto Bueno S.A.C. The Company also holds 49% of Hidroelectrica Pelagatos S.A.C. (Hidropesac) and 10% of Dynacor Gold Mines Inc. (Dynacor). The information provided herein, effective as of March 29, 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.

1-2010 FINANCIAL HIGHLIGHTS

Annual Information

| (in \$'000) | 2010 | 2009 |
|---|-------------|-------------|
| Sales | 14,831 | 11,178 |
| Cost of sales (excluding amortization and depletion) | 9,925 | 9,576 |
| Amortization and depletion | 3,779 | 4,088 |
| Income (loss) from mining activities | 1,106 | (2,541) |
| General and administrative expenses | 2,786 | 2,606 |
| Net loss | (896) | (7,635) |
| EBITDA ⁽¹⁾ | 3,654 | (1,326) |
| Loss per share basic and diluted | (\$0.01) | (\$0.05) |
| Average cash cost of sales ⁽²⁾ (CDN\$/MTU) | 129 | 146 |
| MTU = metric tonne unit = 10 kg | | |
| Cash flow from (used for) operating activities before changes in non-cash working capital items | 1,214 | (1,888) |
| Cash flow (used for) operating activities | (572) | (678) |
| Acquisitions of property, plant and equipment | 3,462 | 2,804 |
| Additions to deferred development and exploration costs | 1,016 | 2,289 |

Reconciliation of loss to EBITDA

| | | |
|-------------------------------------|-------|---------|
| Net loss | (896) | (7,635) |
| Recovery of future income taxes | (569) | - |
| Interest expense | 756 | 396 |
| Accretion expense of long term debt | 584 | 321 |
| Amortization and depletion | 3,779 | 4,088 |
| Impairment in investment value | - | 1,504 |
| EBITDA | 3,654 | (1,326) |

| | At December 31, 2010 | At December 31, 2009 |
|--|-------------------------------------|-------------------------------------|
| Cash | 2,825 | 1,149 |
| Total assets | 28,392 | 21,902 |
| Long term debts | 3,944 | 4,248 |
| Obligations under capital leases | 198 | 471 |
| Shareholders' equity | 18,083 | 10,507 |
| <u>Other</u> | | |
| Outstanding shares ('000) | 183,550 | 147,687 |
| Weighted average outstanding shares ('000) | | |
| Basic | 168,813 | 140,770 |
| Diluted | 193,953 | 140,770 |
| Closing share price | 0.275 | 0.135 |

⁽¹⁾ EBITDA: "Earnings before interest, taxes, depreciation and amortization" is a non-GAAP performance measure. See the 'Non-GAAP Measures' section of this MDA.

⁽²⁾ Average cash cost of sales is calculated by dividing the Cost of Sales (excluding amortization and depletion) by the sales volume in MTU's. See the 'Non-GAAP Measures' section of this MDA.

2010 Highlights

- Sales volume for the year was 70,407 MTU's compared to 62,054 MTU's an increase of 13%.
 - Production capacity of 500 tonnes per day ("tpd") as at year-end compared to 250 tpd in 2009
- Positive cash flow from operations before changes in non-cash working capital items of \$1.2M an improvement of \$3.1M over 2009.
- An improvement of \$3.6M in income from mining activities (\$1.1M compared to a loss of \$2.5M in 2009).
- A reduction of \$6.7M in the net loss (\$0.9M compared to \$7.6M in 2009)
- APT average reference selling price increase from US\$190 in 2009 to \$240 in 2010, an increase of 26%. On March 29, 2011 the APT price was at US\$398. It is a new record level.
- An improvement in average cash cost of sales⁽²⁾ of \$17 per MTU (\$129 compared to \$146 in 2009).
- Completed a private placement with gross proceeds received of \$5.4M from the issuance of 35.9 million units at \$0.15 whereby each unit comprised of one common share and one warrant.
- Receipt of \$2.6M promissory note from Dynacor.
- Sale of copper by-product of \$2.0M resulted in \$1.1M in income from mining activities in the current year.
- Appointment of Pierre Monet as President and of Joey Trombino as Vice-president and CFO. Jean Martineau remains Chairman of the Board and CEO

Status of 2010 Objectives

Increase Production Capacity to 500 tpd During the Second Quarter of 2010 and then 600 tpd by the end of the Year 2010

The Company achieved an installed plant capacity of 500 tpd in the fourth quarter.

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.

The Company obtained an independent technical report as required by the standard 43-101. Pursuant to this report completed by Vector Engineering Inc., the Pasto Bueno property has the following reserves and resources as at January 4, 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.

Reduce its Average Cash Cost of Sales⁽²⁾ from US\$135 to US\$105 per MTU

The average cash cost of sales⁽²⁾ achieved in the current year was US\$127 per MTU. Delays in the receipt of certain process equipment contributed to the partial achievement of this objective.

Generate a Positive Cash Flow from Operations Before Changes in Non Cash Working Capital Items in the Second Quarter of 2010.

The Company has surpassed this objective since it generated a positive cash flow from operation before changes in non cash working capital items for the entire 2010 year.

Generate Net Income by the Fourth Quarter

The Company achieved a net income in the fourth quarter 2010.

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 in order to be able to sustain a mine output of 500 tpd in Q3 and Q4 to match the plant capacity. Afterwards, the objective will be to increase the installed capacity to 600 tpd by year-end.

In addition, the Company intends to commence exploration on the four main mantos of sedimentary rocks located in the southern part of the property and the high potential skarn type mineralization (especially at the contact zone between the batholith intrusive body and the limestone formations). A road is in construction and will be completed after the termination of the rainy season and the drilling campaign should commence in Q3-2011. Meanwhile, a technical report for reserves and resource as at January 1, 2011 will be completed in Q2-2011.

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

Add some equipment (special screens, vibrating tables, separation magnets etc.) will allow the increase of the plant capacity to 600 tpd by the end of 2011.

Generate net income for the entire 2011 fiscal year

As a result of the anticipated increase in the price of tungsten, the reduction in the cash cost of sales and the increase in production capacity, the Company estimates that it will generate a net income for the 2011 fiscal year and every quarter.

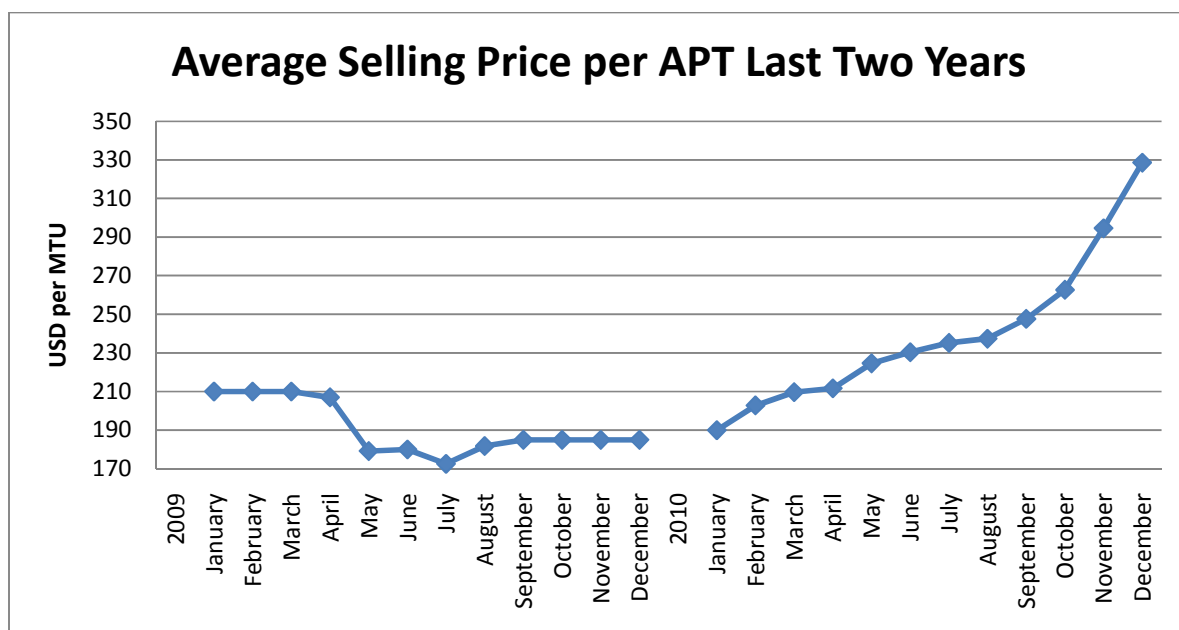
Reduce average cash cost of sales⁽²⁾ from US\$127 to US\$115 per MTU

In 2010, the cash cost of sales was US\$127 per MTU. In the current year, the Company believes that by increasing its production capacity, improving its recovery rate due to the new magnets and by implementing certain process changes, the average cash cost of sales⁽²⁾ should reduce 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 US\$185/MTU to US\$330/MTU in 2010, with an average at US\$240/MTU, compared US\$190/MTU in 2009. As at March 29, 2011, the APT selling price per MTU was US\$398.



Exchange Rate

The exchange rates are as follows:

| | \$CA/\$US | | \$CA/sol | |
|-----------------------------|-----------|------|----------|------|
| | 2010 | 2009 | 2010 | 2009 |
| March 31 (closing rate) | 1.02 | 1.25 | 2.80 | 2.54 |
| June 30 (closing rate) | 1.06 | 1.16 | 2.67 | 2.59 |
| September 30 (closing rate) | 1.03 | 1.07 | 2.71 | 2.69 |
| December 31 (closing rate) | 0.99 | 1.05 | 2.82 | 2.76 |
| Q-1 (average rate) | 1.04 | 1.24 | 2.74 | 2.60 |
| Q-2 (average rate) | 1.03 | 1.17 | 2.76 | 2.59 |
| Q-3 (average rate) | 1.04 | 1.10 | 2.70 | 2.69 |
| Q-4 (average rate) | 1.01 | 1.06 | 2.77 | 2.72 |
| Year (average rate) | 1.03 | 1.14 | 2.74 | 2.64 |

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:

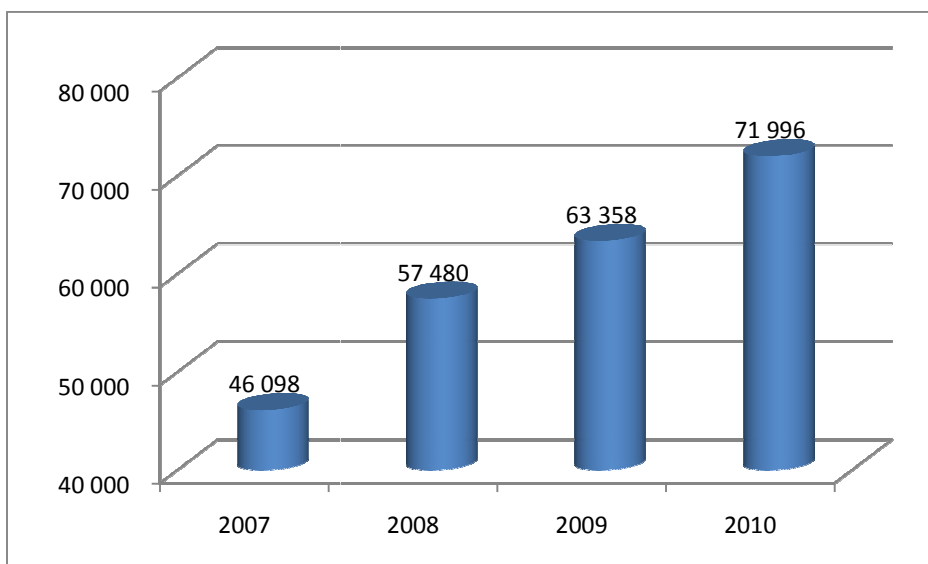
| | 2010 | 2009 |
|-------------------------|-------------|-------------|
| Sales (in MTU) | 70,407 | 62,054 |
| Production: | | |
| Tonnes extracted | 125,515 | 88,336 |
| Yield (%) | 57% | 72% |
| Production Output (MTU) | 71,996 | 63,358 |

Total sales for the current year amounted to \$14.8M (\$11.2M in 2009). Tungsten sales increased by \$1.6M (14%) in the current year from \$11.2M to \$12.8M. The increase in tungsten sales is a result of a 13% increase in sales volume, from 62,054 in 2009 to 70,407 in 2010, and a 26% increase in average APT selling price. In addition, the Company was able to generate sales revenue of \$2.0M from copper (nil in 2009).

The yield has decreased in the current year due to the inefficiencies caused by the aging electro magnets which were replaced in Q4 by the new magnets made of rare earth materials and yield improvements have commenced to be realized.

Production has been continuously increasing every year since 2007.

Production in MTU:



| Sales | 2010 | 2009 |
|-----------|---------------|---------------|
| | \$ | \$ |
| In \$'000 | | |
| Tungsten | 12,824 | 11,178 |
| Copper | 2,007 | - |
| | <u>14,831</u> | <u>11,178</u> |

The cost of sales is as follows:

| Operating costs (000\$) | 2010 | 2009 |
|-------------------------|--------------|--------------|
| Mining | 5,421 | 5,082 |
| Milling | 1,491 | 1,307 |
| Plant and site services | 2,978 | 2,788 |
| Operating costs | <u>9,890</u> | <u>9,177</u> |
| Inventory change | (830) | 399 |
| Cost of sales Tungsten | 9,060 | 9,576 |
| Cost of sales Copper | 865 | - |
| Cost of Sales | <u>9,925</u> | <u>9,576</u> |

| In \$US per MTU | 2010 | 2009 |
|---|------------|------------|
| Average cash cost of sales ⁽²⁾ | 127 | 128 |
| Write-down of inventory to net realizable value | - | 7 |
| Amortization and depletion | <u>52</u> | <u>58</u> |
| Total cost | <u>179</u> | <u>193</u> |

| In \$CA per MTU | 2010 | 2009 |
|---|------------|------------|
| Average cash cost of sales ⁽²⁾ | 129 | 146 |
| Write-down of inventory to net realizable value | - | 8 |
| Amortization and depletion | <u>54</u> | <u>66</u> |
| Total cost | <u>183</u> | <u>220</u> |

The average cash cost of sales⁽²⁾ in the current year was \$129 per MTU (\$146 per MTU in 2009), a decrease of 12%.

The average cash cost of sales⁽²⁾ has been decreasing every year since 2008.

| | 2010 | 2009 | 2008 |
|---|------|--------|------|
| | | \$/MTU | |
| Average cash cost of sales ⁽²⁾ | 129 | 146 | 154 |

⁽²⁾ Average cash cost of sales is calculated by dividing the Cost of Sales (excluding amortization and depletion) by the sales volume in MTU's. See the 'Non-GAAP Measures' section of this MDA.

The variations in the average cash cost of sales⁽²⁾ from 2009 to 2010 are detailed as follows:

| | In \$CDN/MTU | In \$US/MTU |
|--|--------------|-------------|
| 2009 | 146 | 128 |
| Increase in cost due to the decrease in head grade and recovery rate in 2010 | 12 | 11 |
| Decrease due to the increase in sales volume, due to the increase in installed capacity, resulting in an improvement of the fixed cost absorption rate | (11) | (10) |
| Efficiency in electricity | (3) | (3) |
| Other | (7) | (6) |
| Foreign exchange | (8) | 7 |
| 2010 | <u>129</u> | <u>127</u> |

The amortization and depletion per MTU decreased from \$66 to \$54 in the current year. The decrease is due to the fact that the development costs are being amortized over a larger quantity of reserves and resources as a result of the new technical report.

Operating Activities

The Company recorded a net loss of \$0.9M (\$7.6M in 2009) for a loss per share of \$0.01 (\$0.05 in 2009). The decrease in the net loss for the year is explained in the table below.

| | in \$M |
|--|------------|
| Increase in income from mining activities | 3.6 |
| Increase in stock-based compensation | (0.1) |
| Increase in general and administrative expenses | (0.2) |
| Increase in accretion expense of long-term debt | (0.3) |
| Increase in interest expense | (0.4) |
| Decrease in foreign exchange gain | (0.6) |
| Increase in gains related to the investment in Dynacor | 4.1 |
| Recovery of income taxes | 0.6 |
| Total decrease | <u>6.7</u> |

In 2010, the Company recorded a non-recurring interest expense of \$0.3M with respect to an agreement concluded with the former workers of a subsidiary in Peru relative to a long-term debt that was assumed in the acquisition of the Peruvian subsidiary in 2006.

General and administrative expenses remain under control. They have been below \$2.8M for a third year in a row. The stock-based compensation expense of \$0.3M (\$0.2M in 2009) is calculated over the vesting period of the outstanding share options. There were 3.6M stock options granted in 2010 (nil in 2009).

During the year, the Company sold 500,000 shares of Dynacor and generated proceeds of \$0.7M and generated a pre-tax gain on disposition of \$0.6M. In addition, the Company received the reimbursement of the promissory note from Dynacor in the amount of \$2.6M which resulted in a gain on the statement of operations of \$1.0M.

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. In the current year, a recovery of future income taxes in the amount of \$0.6M was recorded (nil in 2009) related to the re-measurement of the available-for-sale investment.

4-CASH FLOW AND LIQUIDITY**Operating Activities**

In the current year, the cash flow generated from operating activities before changes in non-cash working capital items amounted to \$1.2M (use of \$1.9M in 2009). 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 \$1.8M (source of \$1.2M in 2009) resulting in cash flow used by operating activities in the amount of \$0.6M in 2010 compared to a use of \$0.7M in 2009. With the positive cash flow from operations, the Company was able to bring supplier accounts current which mainly explains the \$1.8M decrease in non-cash working capital items

Investing Activities

The capital expenditures to bring the installed capacity of the plant to 500 tpd were completed in 2010 and the Company invested \$3.5M for the acquisition of property, plant and equipment (\$2.8M in 2009). Of the \$3.5M, \$1.4M related to the development program whereby the Company achieved 3,648 meters of advancements with the objective of replenishing the reserves that were extracted.

The Company also invested \$1.0M (\$2.3M in 2009) in exploration and development work in order to develop new sources of ore to support the increase in production capacity.

In November, the Company sold 500,000 shares of Dynacor and generated proceeds of \$0.7M. This transaction generated a pre-tax gain on disposition of \$0.6M. The Company still owns 3.5M shares of Dynacor. The Company was able to reduce the guarantee on the long-term debt from GTP by 2.0M shares of Dynacor resulting in only 1.5M shares given as guarantee. Management determined that on December 17, 2010 the status of the investment in Dynacor changed as they lost the ability to exercise significant influence over this investee. Under CICA Section 3855, the investment was classified as "available-for-sale" and measured at fair value on the consolidated balance sheet, with unrealized gains and losses recognized in other comprehensive income. On December 17, 2010, the Company recorded the following transition adjustments in its consolidated financial statements as resulting from the change in status of the investment: a reclassification of the carrying amount of the investment of \$828,747 and a re-measurement at its fair value through other comprehensive income of \$3,790,707 less taxes of \$568,600 giving a net amount 3,222,107. At March 29, 2011, the stock price of Dynacor closed at \$1.90 per share.

In December 2010, the Company received the reimbursement of the promissory note from Dynacor in the amount of \$2.6M which resulted in a gain on the statement of operations of \$1.1M.

Financing Activities

In the current year, the cash flow from financing activities amounted to \$3.6M (\$5.9M in 2009).

During the year, the Company completed a two tranche private placement of 35,863,333 units at a price of \$0.15 per unit for a cash consideration of \$5,379,500. Each unit consists of one common share and one warrant which entitles the holder to purchase one common share at a price of \$0.25 with a two year maturity. From the total proceeds received, \$4,662,233 was assigned to share capital and \$717,267 was assigned to the warrants, according to their respective estimated fair value. Share issuance expenses for this private placement amounted to \$459,868 which includes an amount of \$31,621 as a result of the issuance of 1,405,933 broker warrants.

During the current year, the Company reimbursed net \$1.1M in long-term debt as well as \$0.3M in obligations under capital leases.

Liquidity

As at December 31, 2010, the working capital was \$2.3M compared to a deficit of \$1.1M as at December 31, 2009. The improvement is due to the capital raised in the private placement, the reimbursement of the promissory note and the improved operating results. 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 December 31, 2010, the Company had no financial commitments besides those disclosed in the section Long-term Liabilities and Contractual Obligations.

4-BALANCE SHEETS**Assets**

As at December 31, 2010, total assets amounted to \$28.4M (\$21.9M as at December 31, 2009).

Long-Term Liabilities and Contractual Obligations

Payment due by (in \$'000)

| | 2011 | 2012 to 2014 | 2015 | Beyond 2015 | Total |
|---|--------------|-----------------|------------|----------------|--------------|
| Contractual commitments | | | | | |
| Long term debts | 1,259 | 3,712 | 290 | - | 5,261 |
| Operating leases | 104 | 18 | - | - | 122 |
| Capital leases | 143 | 67 | - | - | 210 |
| Purchase commitments | 292 | - | - | - | 292 |
| Asset retirement obligation for property, plant and equipment | - | - | - | 1,107 | 1,107 |
| | <u>1,798</u> | <u>3,797</u> | <u>290</u> | <u>1,107</u> | <u>6,992</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 December 31, 2010 (\$0.6M in 2009). 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.

Shareholder Equity

In the current year, the Company completed a private placement of 35,863,333 units at a price of \$0.15 per unit for a cash consideration of \$5,379,500. Each unit consists of one common share and one warrant which entitles the holder to purchase one common share at a price of \$0.25 with a two year maturity. In addition, 3.6M stock options were granted in the current year (nil in 2009) and 1,130,000 stock options either expired or were forfeited.

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 December 31, 2010, the Company had not entered into any off-balance sheet transactions.

Related Party Transactions

The Company shares the same senior management as Dynacor. Thus, shared expenses are billed to Dynacor according to their usage. The statement of operations for 2010 includes a chargeback of general and administration expenses totalling \$0.7M (\$0.5M in 2009) to Dynacor. In addition, the Company purchased electricity from Hidropesac, a company which it exercises significant influence, in the amount of \$0.7M (\$0.6M in 2009). These transactions are measured at their fair exchange value, which represents the amount of the consideration established and agreed by the related parties.

5-Q4 FINANCIAL HIGHLIGHTS

4th Quarter Information

| | Three-month periods ended | |
|---|----------------------------------|-------------|
| | December 31, | |
| | 2010 | 2009 |
| Sales (in MTU) | 14,879 | 15,588 |
| Production Output (in MTU) | 17,611 | 15,644 |
| (in \$'000) | | |
| Sales | 3,507 | 2,470 |
| Cost of sales (excluding amortization and depletion) | 1,989 | 2,698 |
| Amortization and depletion | 870 | 1,071 |
| Income (loss) from mining activities | 641 | (1,293) |
| General and administrative expenses | 746 | 523 |
| Net income (loss) | 1,816 | (3,776) |
| EBITDA ⁽¹⁾ | 2,387 | (1,013) |
| Earnings (loss) per share basic and diluted | \$0.01 | (\$0.02) |
| Average cash cost of sales ⁽²⁾ (CDN\$/MTU) | 125 | 133 |
| MTU = metric tonne unit = 10 kg | | |
| Cash flow from (used for) operating activities before changes in non-cash working capital items | 412 | (779) |
| Cash flow (used for) operating activities | 442 | (29) |
| Acquisitions of property, plant and equipment | 1,123 | 819 |
| Additions to deferred development and exploration costs | 305 | 351 |
| Reconciliation of loss to EBITDA | | |
| Net income (loss) | 1,816 | (3,776) |
| Recovery of future income taxes | (569) | - |
| Interest expense | 130 | 64 |
| Accretion expense of long term debt | 140 | 124 |
| Amortization and depletion | 870 | 1,071 |
| Impairment in investment value | - | 1,504 |
| EBITDA | 2,387 | (1,013) |

⁽¹⁾ EBITDA: "Earnings before interest, taxes, depreciation and amortization" is a non-GAAP performance measure. See the 'Non-GAAP Measures' section of this MDA.

⁽²⁾ Average cash cost of sales is calculated by dividing the Cost of Sales (excluding amortization and depletion) by the sales volume in MTU's. See the 'Non-GAAP Measures' section of this MDA.

Q4 2010 Highlights

- Net income of \$1.8M compared to a net loss of \$3.8M in 2009
- Production output for the quarter was 17,611 MTU's compared to 15,644 MTU's an increase of 11%.
- An improvement of \$1.9M in income from mining activities (\$0.6M compared to a loss of \$1.3M in 2009).
- An improvement in average cash cost of sales⁽²⁾ of \$8 per MTU (\$125 compared to \$133 in 2009).
- Positive cash flow from operations before changes in non-cash working capital items of \$0.4M an improvement of \$1.2M over 2009.

Q4-Operating Activities

The net income in the fourth quarter amounted to \$1.8M compared to a net loss of \$3.8M in 2009. The increase in the net income in Q4 is explained in the table below.

| | |
|--|------------|
| Increase in income from mining activities | 1.9 |
| Increase in general and administrative expenses | (0.2) |
| Decrease in stock-based compensation | 0.1 |
| Increase in interest expense | (0.1) |
| Decrease in foreign exchange gain | (0.7) |
| Increase in gains related to the investment in Dynacor | 4.0 |
| Recovery of income taxes | 0.6 |
| Total increase | <u>5.6</u> |

Sales of tungsten in Q4-2010 were \$3.1M and 14,879 MTU; compared to \$2.5M and 15,589 MTU for the corresponding period in 2009. The 4.6% decrease in sales volume was offset by the 59.5% increase in the average APT selling price (US\$295/MTU in Q4-2010 compared to US\$185/MTU in Q4-2009). In addition, the Company generated \$0.4M in sales of copper in Q4-2010 (nil in 2009). There are no seasonal factors.

6-QUARTERLY REVIEW

| | 2010 | | | | 2009 | | | |
|--|---------|---------|---------|---------|---------|---------|---------|---------|
| (in \$'000) | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Financial | | | | | | | | |
| Revenues | 3,507 | 3,975 | 3,571 | 3,778 | 2,470 | 2,780 | 2,489 | 3,439 |
| Cost of sales | 1,989 | 2,773 | 2,411 | 2,752 | 2,698 | 2,534 | 1,960 | 2,384 |
| Amortization and depletion | 870 | 964 | 938 | 1,007 | 1,071 | 993 | 1,146 | 878 |
| General and administrative expenses | 746 | 696 | 715 | 629 | 523 | 666 | 683 | 734 |
| Net (loss) income | 1,816 | (620) | (1,399) | (693) | (3,776) | (1,977) | (1,328) | (554) |
| Cash and cash equivalents and short term investments | 2,825 | 948 | 2,249 | 392 | 1,149 | 1,939 | 1,584 | 668 |
| Working capital | 2,284 | 244 | 1,625 | (2,113) | (1,367) | 167 | 192 | (2,174) |
| Total assets | 28,382 | 24,528 | 25,815 | 22,232 | 21,902 | 26,767 | 25,684 | 24,705 |
| Shareholders' equity | 18,083 | 13,090 | 13,671 | 10,013 | 10,507 | 13,997 | 14,915 | 16,043 |
| Cash flow from (used by) operating activities | 442 | 662 | (1,536) | (140) | (29) | (646) | (942) | 939 |
| Acquisition of property, plant and equipment | 1,123 | 1,140 | 828 | 372 | 819 | 1,277 | 373 | 335 |
| Development and deferred exploration costs | 305 | 381 | 152 | 178 | 351 | 470 | 687 | 781 |
| Per Share | | | | | | | | |
| Earnings (loss) per share basic and diluted | 0.01 | (0.005) | (0.01) | (0.005) | (0.02) | (0.02) | (0.01) | (0.00) |
| Weighted average shares outstanding ('000) | | | | | | | | |
| Basic | 183,550 | 183,550 | 160,110 | 147,689 | 140,770 | 139,000 | 137,117 | 137,117 |
| Diluted | 224,289 | 185,115 | 160,110 | 147,689 | 140,770 | 139,000 | 137,117 | 137,117 |

7-INFORMATION ON OUTSTANDING SHARES

Data on Available Outstanding Shares (as at March 29, 2011)

| | Number |
|---------------|-------------|
| Common shares | 183,550,176 |
| Warrants | 37,269,266 |
| Options | 8,150,000 |

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.

The technical report for reserves and resource as at January 1, 2011 will be completed in the second quarter 2011.

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. In addition, the Company intends to commence exploration of the mantos which are located to the south of Consuzo. The construction of the road will be completed after the termination of the rainy season and drilling should commence in the third quarter of 2011.

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.

Development Program

During the year, 3,648 meters of underground development work was completed and 1,869 meters of diamond drilling was achieved. The current production is being extracted from four veins (Consuelo, Candela, Alonso Fenix, and Chabuca).

In 2010, Malaga successfully reopened a part of the old mine at Consuzo and extracted more than 1,000 tonnes at an average grade of 1.5% WO₃, from this zone. This part of the Pasto Bueno mine was the main mining focal point in the 1970s when a 1,000 tpd plant was operated. The most important mineralized structure in this zone is the Loreto vein. Located in granitic rock, its composition varies from quartz monzonite to granodiorite. Its average thickness varies from 2 to 10 meters and the historic production from this vein has been 1.95 million tonnes of mineral grading 0.95% WO₃. The company will continue to refurbish and explore the old Consuzo zone particularly in view of the new high grade zone that has been discovered which demonstrates that there is still a very high potential for new resources deeper down at Consuzo.

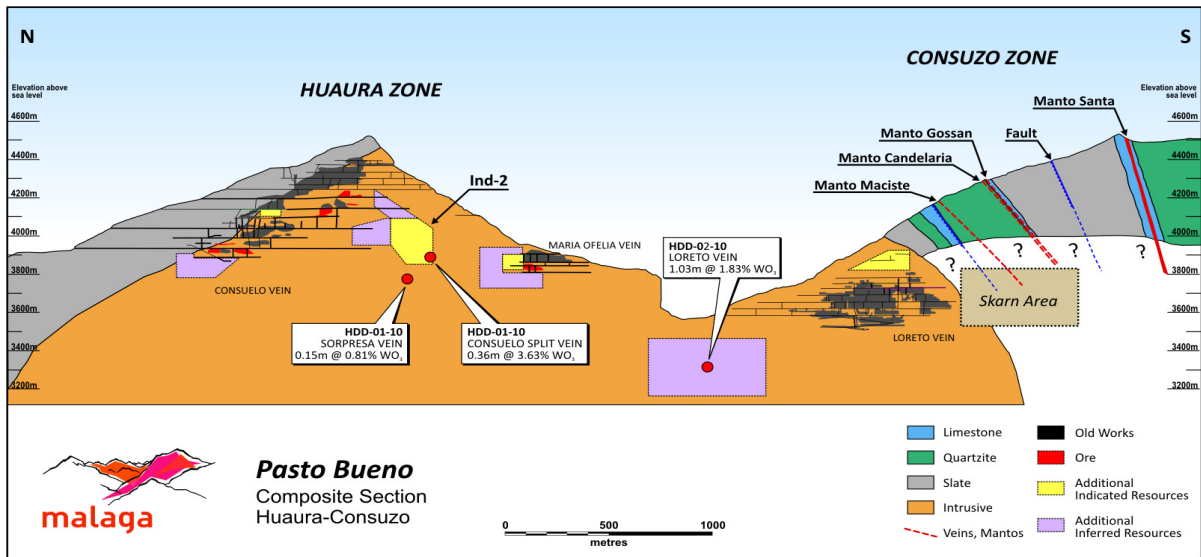
2010 Drilling Results

Consuzo Zone

Drill hole HDD 02 10 was drilled to test whether tungsten mineralization could be found under the old Consuzo mine. The drill hole 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 is 250 meters below the lowest point where the mine is currently in operation. The tungsten content was analysed in Lima by a certified laboratory Acmelabs and an intersect containing 1.83% WO₃ over a width of 1.03 meter was found. This is a very exciting result since it demonstrates that high grade tungsten veins can be found at depth close to the old Consuzo mine.

Huaura & Huayllapon Zones

Three drill holes were analysed, two drill holes in the Huayllapon sector and one in the Huaura zone. In Huayllapon, drill hole HDD 01 10 IM intersected the Santa Isabel vein and found 0.34% WO₃ over a width of 0.42 meters and drill hole HDD 02 10 IM intersected the Chabuca vein at level 12 and found within a 2.39 meter intersect a thinner mineralised part 0.28 meters wide with 0.15% WO₃. These rather low values illustrate one of the difficulties of drilling at the Pasto Bueno mine since values can be erratic and the veins subject to pinch and swell. In the Huaura zone, one drill hole HDD 01 10 confirmed the economic mineralization of the Consuelo Split vein (3.63% WO₃ over a width of 0.36 meters) and also led to the discovery of a new vein at depth named the Sorpresa vein where a 2.35 meter intersect was found to contain 0.81% WO₃ over a 0.15 meter wide segment. Finally, four (4) short range drill holes (less than 50 meters long) were drilled in the Maria Ofelia zone. The most significant result was 0.65% WO₃ over a width of 0.36 meters. These short range drill holes will be used by the Company to further define the pattern of mineralization in this zone.



9-MILLING OPERATIONS***Plant***

The expansion to 500 tpd at the plant was completed in 2010. In 2011, a new tailings pond will be completed in order to support the installed capacity of 500 tpd. In addition, certain projects that provide yield and recovery improvements will be evaluated based on their internal rate of return and payback. Management intends to increase the installed capacity to 600 tpd by year-end. Minor capital expenditures would be required to achieve this objective.

Hydro-electricity

Stucky, a Swiss company that owns 51% of Hidropesac analyzed several options ranging from the installation of 19 MW to 35 MW of a new hydro power plant. The current studies show that all the options combining the hydrological resources from the two rivers are both technically feasible and financially profitable. According to a preliminary report, the installation of a 35 MW hydro power plant is the best option with a power generation potential of between 113 to 141 GWh per year and the highest internal rate of return. This pre-project study (which is a step further than a feasibility study) details the economic parameters and the financial requirements. Hidropesac is currently reviewing it. Concurrently, Hidropesac will carry out the 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 Company is building a new tailings pond and expects obtaining the permit by end of Q2-2011.

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. This program will be executed during the first six months of 2011. Subsequently, the Company intends to increase installed capacity to 600 tpd. This increase would not require significant capital expenditure.

In the current year, the Company is planning an extensive exploration and development program in the amount of \$3.0 to \$4.0 million. 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. The mantos will be the main focus of the exploration program. The exploration program should be announced during Q2-2011.

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 three months of 2011 APT price has increased by 20%. 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. In addition, in June 2010, the European Commission published a report identifying 14 critical minerals for Europe which includes tungsten.

11-RISKS AND UNCERTAINTIES***Risk Factors***

The Company operates in the mining industry which is subject to numerous significant risks that can influence the profitability of a company. The Company has disclosed several risks below which it believes to be the most significant and that could have a material impact on its current operations. There may exist other risks that are not indicated below which may currently exist or can arise in the future regarding the Company's operations. The Company's annual information form provides a more exhaustive list of risk factors.

FINANCIAL RISKS***Price of metals and foreign exchange rates***

The Company's profitability is exposed to commercial risks, notably those linked to the price of tungsten and foreign exchange rates. The price of tungsten varies considerably and is based on factors outside the control of the Company. In addition, tungsten is quoted on the market in United States dollars and the fluctuation of the United States dollar to the Canadian dollar and the Peruvian New Sol will have an impact on the future earnings of the Company.

A significant portion of Malaga's activities takes place outside of Canada. Therefore the Company is subject to the risk of fluctuation in the foreign exchange rate of the Canadian dollar vis-a-vis the other foreign currencies.

Fluctuation in Interest Rates

As a borrower of funds, the Company is subject to risks associated with fluctuations in interest rates. The Company entered into a long term debt agreement that bears interest at the 12 month LIBOR rate. As at December 31, 2010, the outstanding balance of the long term debt that bears interest at the 12 month LIBOR rate is US\$3.0M (\$3.0M CAD).

Access to capital markets

To fund its growth, the Company is often dependent on securing the necessary capital through loans or permanent capital. The availability of this capital is subject to general economic conditions and lender and investor interest in the Company's projects. To ensure the availability of capital, the Company maintains an investor relations program in order to inform all shareholders and potential investors of the Company's developments.

Future Financing

The success of exploration programs and other transactions related to concessions could have a significant impact on the need for capital. If Malaga decides to develop one of its properties, it must ensure that it has access to the required capital. The Company could finance its need of capital by using working capital, by arranging partnerships with other companies, through equity financing, by taking on long-term debt or any combination thereof.

OPERATIONAL RISKS***Exploration and Mining Risks***

The mining industry is faced with significant risks. The exploration, development and acquisition of mineral properties are subject to events which are not predictable and contain high levels of risk. Few properties under exploration become commercial properties. The increase in reserves is attributable to several factors such as the level of technical and geological expertise within the Company, the geological composition of the property under exploration and other factors. Significant expenses are incurred to perform drilling activities in order to establish reserves. As a result of all of these uncertainties, there is no guarantee that the Company's exploration programs will give rise to the creation of new reserves.

The Company is also exposed to the risks associated to the availability of an economic source of energy, the grade and volume of the minerals transformed, unusual, unfavourable and unpredictable operating conditions as well as the availability of skilled labour.

Production

No assurance can be given that the intended or expected production schedules or the estimated direct operating cash costs will be achieved with respect to the tungsten mine in operation. Many factors may cause delays or cost increases, including, without limitation, labour issues, disruptions in power, transportation or supplies, and mechanical failure.

The revenues of the Company from operating the tungsten mine will depend on the extent to which expected operating costs in respect thereof are achieved. In addition, short-term operating factors, such as the need for the orderly development of ore bodies or the processing of new or different ore grades, may cause a mining operation to be unprofitable in any particular accounting period.

Competition

The mining industry is very competitive and the Company has to compete with other companies related to the acquisition of ore, the acquisition of attractive mineral properties and the retention of skilled labour. Sometimes these competitors possess greater financial, technical and other resources. As a result, the Company may be faced with a shortage or no supply of ore as well as not being able to maintain or acquire mineral properties at reasonable conditions.

Risks Related to Property Title

Although the Company has obtained legal opinions on the titles to some of its properties, and that it has taken reasonable measures to ensure that all property titles are valid, there is no certainty that the property titles will not be challenged or questioned. Third parties could have valid claims to lands adjacent to the Company's.

Dependence on Key Personnel

The Company is dependent on a relatively small number of key employees, of which the loss of any could have an adverse effect on its operations.

Credit Risks

Malaga conducts all of its sales of tungsten with one client. Alternatively, Malaga could sell its ore to other clients if the financial situation of the current client was to be restricted and therefore not in a position to meet its financial obligations. This could have an unfavourable impact on Malaga's short term liquidity forcing Malaga to slow down its exploration program, therefore obliging the Company to draw upon its own liquidity.

Laws and Regulations

The Company's exploration and development projects are subject to laws and regulations, including those concerning mining as well as environmental and health and safety matters. The laws and regulations in place are susceptible to change and the impact of any modification is difficult to measure. The Company's policy is to maintain safe working conditions in compliance with health and safety rules.

Licenses and permits

There can be no guarantees that the Company will be able to obtain or maintain all the necessary licenses and permits to explore, develop, or maintain its continued operations, or that the Company will be able to comply with all the conditions imposed. The actual operating permit allows Malaga to produce 375 tpd. Company has applied on a new permit and expects its delivery by end of Q2-2011.

Political Risk

The Peruvian government currently supports the development of their natural resources by foreign companies. However, there is no assurance the government will not adopt different policies regarding foreign ownership of mineral resources, taxation, exchange rates, environmental protection, labour relations, repatriation of income or expropriation.

Litigation

All industries, including the mining industry, are subject to legal claims, with and without merit. The Company may in the future be involved in various legal proceedings. While the Company believes it is unlikely that the final outcome of these legal proceedings will have a material adverse effect on the financial position or results of operations, defense costs will be incurred, even with respect to claims that have no merit. Due to the inherent uncertainty of the litigation process, there can be no assurance that the resolution of any particular legal proceeding will not have a material adverse effect on the Company's future cash flow, results of operations or financial position.

Risks Linked to Common Shares

The price of common shares can fluctuate for several reasons such as exploration results, the exchange rate, financing and several other factors. It is possible that the price of common shares might experience significant fluctuations and that the price might be less than the actual price.

12-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.

Estimation of mineral reserves and resources

The estimation of mineral reserves is a complex process involving variables of very uncertain nature and requiring that important and advisable decisions be taken. This process involves variables such as geological data on the structure of each pit, production cost estimates and future market prices of tungsten. 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. Mineral reserve estimations may vary as a result of changes in selling prices of tungsten and production costs as well with the additional knowledge of the ore deposits and mining conditions. The Company's reserve estimates may have a significant impact on the information contained in the Company's financial statements. The development costs are amortized using the units of production method over the proven and probable reserves and the non-reserve mineral resources when significant objective evidence exists that it is probable that the non-reserve resources will be produced. A decrease in the mineral reserves and the measured and indicated mineral resources would increase the amortization expense, and thus could have a material impact on the Company's operating results. Whenever environmental, political or social events or changes in circumstances indicate that the carrying amount may not be recovered, we perform an impairment test to assess the recoverability of its property, plant and equipment and mining assets. Mineral reserve estimates are the most important variable in the asset impairment evaluation. A decrease in the Company's reserves could jeopardize the net realizable value of the assets and could lead to a significant loss.

Estimated cash flows relating to the asset retirement obligations may also be affected by a modification to the quantity or quality of our mineral reserves and resources, which could lead to an unexpected liability and have a material impact on our operating results.

Evaluation of mining properties and deferred development and exploration expenses

The mining assets are tested for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable, which is determined by comparing the asset's book value with estimated future undiscounted cash flows from expected use and eventual disposal of assets. The impairment loss represents the excess carrying value over the fair value, which is mainly calculated by discounting estimated future cash flows to be derived from the use and eventual disposal of assets. If the Company does not have sufficient information on its mining assets to estimate the estimated cash flows to review the recoverability of capitalized costs, the Company determines impairment by comparing the fair value to book value, without making a recoverability test. The determination of the future cash flows require numerous assumptions and estimates with regards to the future events, including the price of tungsten, the cost of operations, the recovery rates, the level of mineral reserves and resources and the amount of capital expenditures.

An indicator of the loss in value exists when the book value of an asset or group of assets is greater than the sum of undiscounted cash flows that should come from the use and eventual disposal of the asset or group of assets. The loss in value is evaluated as the excess of book value of the asset or group of assets above the fair value.

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 December 31, 2010, the total market value of its investment in Dynacor amounted to \$4,619,454.

Asset retirement obligations

The future costs of the restoration of a mining site are estimated according to the projected cost of labour, the known environmental impact and the effectiveness of measures to repair and restore the site. The time frame for making the expenditures is subject to changes related to the continuity of operations. The actual costs that will be incurred may differ from the estimate. In addition, changes in legislation and environmental regulation can increase the costs to restore the site.

Option-based compensation

The Company grants stock options as part of its compensation program. The prevalent Black-Scholes model is used to evaluate the cost of these options. This model requires management to make a certain number of estimates.

Valuation allowance

Periodically, we evaluate whether it is more likely than not that some portion of our future tax asset will not be realized. Once the evaluation is completed, if we believe that it is more likely than not that some portion our future tax asset will fail to be realized, we record a valuation allowance against the amount we do not expect to realize. Assessing the recoverability of future income tax assets requires management to make significant estimates of future taxable income. To the extent that future cash flows and taxable income differ significantly from estimates, our ability to realize the net future tax assets recorded at the balance sheet date could be impacted. In addition, future changes in tax laws could limit our ability to obtain tax deductions in future periods from future income and tax assets.

13-ACCOUNTING POLICIES AND MODIFICATIONS

Changes in Accounting Policies

There were no changes in accounting policies in the current year.

Future accounting changes

The Company will cease to prepare its consolidated financial statements in accordance with Canadian GAAP as set out in Part V of the CICA Handbook - Accounting ("Canadian GAAP") for the periods beginning on January 1, 2011 when it will start to apply International Financial Reporting Standards as published by the International Accounting Standards Board as set out in Part I of the CICA Handbook – Accounting as its primary basis of accounting. Consequently, future accounting changes to Canadian GAAP are not discussed in this MDA as they will never be applied by Malaga.

14-INTERNATIONAL FINANCIAL REPORTING STANDARDS – CHANGEOVER PLAN

In 2008, the Accounting Standards Board announced the adoption of International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011. The proposed transition date of January 1st will require the restating for comparative purposes of amounts presented by Malaga for its fiscal year ended December 31, 2010 and its opening balance sheet as at January 1, 2010.

Malaga has developed a conversion plan for the adoption of IFRS. An implementation team has been established to ensure a smooth transition into IFRS whereby external resources have been retained to assist, under the direction of Malaga's management team, with certain aspects of the project in order to complete the transition plan on a timely basis. The external auditors are also involved in the conversion process of the project. Quarterly status reports are issued to the Audit Committee.

Malaga's proposed conversion to IFRS has three phases;

Phase 1 – Preliminary Study

This phase involves performing a high-level assessment to identify areas of accounting differences and their impact that may arise from the transition to IFRS. We established project strategy, infrastructure and timeframe and trained core internal resources to be involved in the conversion project. This phase has been completed in Q2-2009.

Phase 2 – Evaluation of Project Components

During this phase which began in Q2-2009, the Company prioritizes the areas identified in phase 1 and performs an evaluation of the key areas that may be impacted by the transition to IFRS. The following summarizes the key elements of Malaga's changeover plan for transitioning to IFRS, including impacts on accounting policies and procedures, financial statement preparation, training and communications, business impacts and IT systems:

First-Time Adoption of IFRS

IFRS 1, First-Time Adoption of International Financial Reporting Standards ("IFRS 1"), provides entities adopting IFRSs for the first time with a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRSs. We have completed our analysis of the various accounting policy choices available and presented them to the members of the Audit Committee of the Board of Directors. Upon approval, we will implement those that were determined to be most appropriate in the circumstances. Certain adjustments required on transition to IFRSs will be made, retrospectively, against opening deficit as of the date of the first comparative statement of financial position presented, based on standards that will be applicable as at December 31, 2011. Transitional adjustments relating to those standards where comparative figures are not required to be restated will only be made as of the first day of the year of adoption.

The following paragraphs outline the significant optional IFRS 1 exemptions we will apply in our first IFRS financial statements.

- Business combination election: This election allows the Company to adopt IFRS 3(R) prospectively from the date of transition. The impact of this exemption is that all prior business combinations will continue to be accounted for as they were under Canadian GAAP.
- Share-based payments election: IFRS 2's requirements apply to all grants of shares, share options or other equity instruments made after November 7, 2002, that have not yet vested by the date of transition to IFRS. Malaga elected not to apply IFRS 2's requirements to other grants of equity instruments.
- Decommissioning liabilities election: IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities" requirements, with respect to changes in such liabilities that occurred before January 1, 2010, will not be applied. This election enables the Company to apply a simplified approach for the determination of the provision and the corresponding asset balance on the date of transition and is not expected to have any material impact for Malaga.
- Borrowing costs election: IFRS 1 permits the Company to apply IAS 23 Borrowing Costs ("IAS 23") prospectively from the transition date; therefore the accounting of borrowing costs prior to the transition date does not have to be reassessed in the opening IFRS Statement of financial position.
- Leases election: Since the Company made the same determination of whether an arrangement contained a lease in accordance with previous GAAP as that required by IFRIC 4 but at a date other than that required by IFRIC 4, Malaga need not to reassess that determination when it adopts IFRSs.
- Property, plant and equipment: A first-time adopter may elect to measure an item of property, plant and equipment at the date of transition to IFRS at its fair value and use that fair value as its deemed cost at that date. A first-time adopter may elect to use a previous GAAP revaluation of an item of property, plant and equipment at, or before, the date of transition to IFRS as deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluation, broadly comparable to:
 - fair value; or
 - cost or depreciated cost in accordance with IFRS, adjusted to reflect, for example, changes in general or specific price index.

The Company has elected to measure its mining properties and property, plant and equipment at deem cost on January 1, 2010, being the related assets' fair value on that date.

- The remaining optional exemptions are not expected to be applicable to the Company's adoption of IFRS.

Accounting policies changes and expected areas of significance

The Company completed its technical analysis in each of the key areas, identified during the initial assessment completed in Phase 1, where IFRSs differed from Canadian GAAP. As a result, we have established a number of IFRS accounting policies, subject to future changes or revisions that may be needed as a result of conversion to the IFRS standards. These IFRS accounting policies were presented and discussed with the members of the Audit Committee of the Board of Directors for their review during the fourth quarter of 2010. Set out below are the main key areas, where changes in accounting policies are expected, and that may impact our financial statements, including presentation and disclosure.

1) Impairment of assets

Canadian GAAP generally uses a two-step approach to impairment testing: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists; and then measuring any impairment by comparing asset carrying values with fair values. *IAS 36 Impairment of Assets*, uses a one-step approach for both testing for and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which uses discounted future cash flows). This may potentially result in more write-downs where carrying values of assets were previously supported under Canadian GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis. However, the extent of any new write-downs may be partially offset by the requirement under IAS 36 to reverse any previous impairment losses where circumstances have changed such that the impairments have been reduced. Canadian GAAP prohibits reversal of impairment losses. We have identified the IFRS impairment indicators that trigger the need for the calculations of an impairment and it was determined that no impairment test was required at the transition date as none of the indicators existed. Therefore, no asset impairment is expected upon transition to IFRS.

2) Property, plant and equipment

IAS 16 Property, Plant and Equipment requires a componentization approach, separately identifying and measuring significant individual components of assets which have different useful lives. Significant components will be depreciated based on their individual useful lives. IAS 16 requires the depreciable amount to be the asset cost less its residual value, rather than using the greater of the asset cost less its residual value or asset cost less its salvage value. Under IAS 16, an entity shall choose either the cost model or the revaluation model as its accounting policy and shall apply that policy to an entire class of property, plant and equipment. The cost model will be retained at the date of transition and subsequently.

3) Assets retirement obligations

IAS 37 Provisions, Contingent Liabilities and Contingent Assets define site restoration and environmental provisions as legal or constructive obligations; Canadian GAAP limits the definition to legal obligations. IAS 37 requires the use of management's best estimate of the Company's cash outflows, rather than fair value measurement on initial recognition under Canadian GAAP, and requires provisions to be updated at each balance sheet date using a current pre-tax discount rate (which reflects current market assessment of the time value of money and the risk specific to the liability). Canadian GAAP requires the use of a current credit-adjusted, risk-free rate for upward adjustments, and the original credit-adjusted, risk-free rate for downward revisions. As presented in the IFRS 1 section above, the election of the exemption for the determination of the provision at the transition date will be retained and is not expected to have any material impact for Malaga.

4) Extractive Activities

"Extractive Activities" discussion paper was published in April 2010 and was open for comments until July 30, 2010. This project was discussed by the IASB Board members at their October 2010 meeting. As current IFRS 6 allows mining entities to retain their existing policies for the capitalization of exploration and evaluation costs until more definitive guidance is developed, we concluded that, until the publication of the final standard, the better option would be to retain the existing policy.

5) Cumulated amount of exchange differences

The resulting cumulative amount of exchange differences that will be generated from the change to the United States dollars as the functional currency will be eliminated through deficit on the transition date as governed by IFRS 1.

6) Currency of measurement

Under IFRS, the indicators for determining functional currency are broken down into primary and secondary indicators. Primary indicators receive more weight under IFRS than Canadian GAAP. As a result of this difference the Company and its subsidiaries are expected to change to the U.S. dollar as their functional currency. Given this change the Company also expects to elect the U.S. dollar as its reporting currency. Work on determining the impact of this change is ongoing.

7) Income taxes

IAS 12, Taxes contains different guidance related to the recognition and measurement of future income taxes. It requires the recognition of future taxes in situations not required under Canadian GAAP. Specifically, a future tax liability (asset) is recognized for exchange gains and losses relating to foreign non-monetary assets and liabilities that are re-measured into the functional currency using historical exchange rates. Furthermore, Canadian GAAP requires that the current and long term portions of future income tax assets, and future income tax liabilities, be shown separately on the financial statements, whereas IFRS does not.

The differences identified above are those existing based on Canadian GAAP and IFRS as of today. This list should not be regarded as a complete list of changes that will result from transition to IFRS. It is intended to highlight those areas we believe to be most significant; however, our analysis of possible changes is still in process and not all decisions have been made where choices of accounting policies are available. Until our adoption date is finalized, financial impacts could differ from those quantitative disclosures presented in this MD&A and other changes might be expected on our consolidated financial statements. We would also note that the IASB that promulgate IFRS continue to have significant ongoing projects that could affect the ultimate differences between Canadian GAAP and IFRS and their impact on Malaga's consolidated financial statements in future years. Many of these projects may become required after 2011. However, it may be possible to early-adopt them to reduce the number of accounting policy changes in the future. Such projects and interpretations that may be relevant for Malaga include Liabilities, Financial instruments and Financial Statements presentation.

Financial statements preparation

IFRS will require more in depth disclosure. Malaga is already taking the necessary steps to develop a model for IFRS financial statements, identify information gaps and necessary changes in reporting, processes, systems and controls, and design a process to prepare the IFRS comparative information. Management will continue to adjust Malaga's IFRS financial statements model throughout the year 2011 so it will be in compliance with IFRS for the quarters and at year-end.

Training and communication

Malaga has also started training of the key internal resources. IFRS training will continue as IFRS accounting policies are developed and the implementation process begins. Malaga's communications and investor relations team will be involved in the conversion project to ensure that the stakeholder queries during the time leading up to the conversion are addressed. During 2011, Malaga will continue to provide updates on the project progress throughout the conversion period to allow stakeholders to assess the impact of the conversion on Malaga's financial performance.

Business impacts

Malaga assessed impacts on all areas of the business, including contractual arrangements, financial covenant calculations, incentive plans, budgeting, etc. The effects on Malaga's commercial activities in terms of financial covenants, contractual agreements, incentive plans, budgeting and financial risk management strategies, for example, have been assessed as minor.

IT systems

Malaga is determining the change necessary to information technology and data systems, including how to accumulate the data necessary for the fiscal 2010 comparatives. The additional financial information that will need to be presented and disclosed in the financial statements should not lead to significant presentation and process changes to report more detailed information in the notes of the financial statements.

Control environment

Malaga has been reviewing its existing internal controls over financial reporting and disclosure controls and procedures to address significant changes to the existing accounting policies and practices. Some modifications or additions to internal controls over financial reporting will be required due to the fact that IFRS requires more judgment with respect to various accounting treatments.

Phase 3 – Implementation and review

During the first quarter of 2011, the Company is in the process of our preliminary opening statement of financial position as of January 1, 2010 under IFRS, applying the IFRS1 elections/exemptions and accounting policies that were approved during the development work performed earlier in the changeover plan. Accordingly, the transition status is currently on track with our implementation schedule which calls for initial reporting under IFRS starting for the forthcoming interim periods ending March 31, 2011 and the year ending December 31, 2011.

Quantitative disclosures

Since the Company has not completed all of the component adjustments, it is not in a position to provide the expected quantitative impacts of differences between Canadian GAAP and IFRS in our opening statement of financial position as of January 1, 2010:

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.

15-NON-GAAP MEASURES

Throughout this document, we have provided measures prepared according to Canadian GAAP, as well as some non-GAAP performance measures. Because the non-GAAP performance measures do not have any standardized meaning prescribed by GAAP, they may not be comparable to similar measures presented by other companies. We provide these non-GAAP measures as they may be used by some investors to evaluate our 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 Canadian GAAP. These non-GAAP measures were reconciled to reported GAAP measures within the document.

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 December 31, 2010 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 December 31, 2010. 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