Management Report

Introduction

This management report for Malaga Inc. (“Malaga” or the “Company”), formerly known as Dynacor Mines Inc., emphasises the major activities of the Company which occurred during the year ended December 31, 2008, as well as the subsequent period up to March 27, 2009.

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 audited consolidated financial statements for the year ended December 31, 2008, 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 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 regards the preparation of the company’s financial returns. To facilitate this process the Board has created an Audit Committee. The Audit Committee meets members of the management team and the external auditors 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 before sending them to the shareholders. 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 subsidiaries Dynacor Exploraciones del Peru S.A. (100%), Minera Malaga Santolalla S.A.C. (100%), Minera Pasto Bueno S.A.C. (100%) and Dynacor Gold Mines Inc. (100% and 13.3 % since October 24, 2007) and Minera Dynacor del Peru, S.A.C. (80% before May 1, 2007 and 100% up to October 24, 2007). The Company also holds 44% of Hidroelectrica Pelagatos S.A.C. (Hidropesac). The information provided herein, effective as of March 27, 2009, is based on assumptions related to future events and results, which may vary.

Overview

Malaga is a publicly traded company listed on the Toronto Stock Exchange (TSX) under the symbol “MLG” and was incorporated in accordance with part 1A of the Companies Act (Quebec). Malaga is a mining company with acquisition, exploration, development and mining concession operations in Peru.

On May 1, 2007, the Company changed its corporate name from Dynacor Mines Inc. (“Dynacor”) to Malaga Inc. On October 24, 2007, 16,000,000 common shares (80%) of Dynacor held by the Company were redistributed to its shareholders. The creation of this new company underlines the importance that Malaga’s management attributed to maximizing value for its shareholders and implementing strategies that lead to increased profits. Indeed, two distinct companies can better focus their individual efforts on increasing the value of their shares.

Subsequent to this transaction, the earnings from gold activities that were transferred to Dynacor are presented as discontinued operations. The Company began commercial production of tungsten concentrate in April 2007.

Highlights

- A new independent technical report in conformity with standard 43-101, indicates that the Company has the following reserves and resources;

Category	Metric Tonnes	WO3 Grade
Reserves		
Proven	28,234	1.21%
Probable	70,214	0.85%
	98,448	0.95%
Resources		
Measured	35,646	1.28%
Indicated	106,844	0.98%
Measured & indicated	142,490	
Imputed	1,204,000	0.82%

- Sales of 55,173 MTU's totalling $10.6M (45,338 MTU's totalling $8.0M in 2007).
- Cash, cash equivalents and short-term investments totalling $0.8M on December 31, 2008.
- Negative working capital of $1.4M.
- Investment in the development of the mining properties in the amount of $3.3M and $1.3M for the purchase of property, plant and equipment.
- The development of the different mining zones continued in 2008. Since the re-opening of the mine, approximately 3,000 meters of gallery was drilled, giving access to new sectors such as the Chabuca vein of the Huayllapon, the Level 13 (inclinado) of the Consuelo vein as well as the Sagustin, Sauco and Violetta veins (Level 10, cross-section). The Levels 7, 8 and 12 of the Consuelo vein were also advanced. All of the work mentioned above provided basis for evaluating the reserves and resources of the mine.
- Net loss of $3.1M or $0.02 per share compared to $2.7M or $0.02 per share in 2007.

Tungsten Market

The Company's sale price of tungsten is based on the sale price of APT (ammonium paratungstate). The tungsten market was relatively stable in 2008 with prices ranging from US$232/MTU to US$257/MTU, whereas the average market price of the APT increase by 4.6% in 2008 over 2007 (US$248/MTU compared to US$237/MTU) At December 31, 2008, the price per metric tonne unit (MTU) was between US$232 and US$242.

There are no new major mines that are expected to begin operations in the short-term and since the demand side remains strong in spite of economic situation in the United States this indicates that the sale price could remain stable through-out 2009. The decrease in the selling price of tungsten has been less than most other commodities. At the date of this report, the price of APT ranged between US$210 and US$230/MTU.

Exchange Rate

The exchange rates for the fiscal years are as follows:

	$CA/$US			$CA/sol	
	2008	2007		2008	2007
March 31 (closing rate)	1.03	1.15		2.75	2.76
June 30 (closing rate)	1.02	1.06		2.78	2.98
September 30 (closing rate)	1.06	1.00		2.88	3.10
December 31 (closing rate)	1.22	1.01		2.56	3.03
Year (average rate)	1.07	1.08		2.75	2.91

Annual information

Financial (in $'000)	**2008**	**2007**	**2006**
Sales	10,622	8,033	-
Cost of sales	8,535	5,356	-
Gross margin	108	1,961	-
General and administrative expenses	2,784	2,956	1,955
Net loss	(3,129)	(2,748)	(2,978)
Cash flow generated from operating activities before changes in non-cash working capital items	(543)	(1,588)	(1,950)
Cash flow generated (used for) continuing operating activities	840	(1,828)	(4,841)
Acquisitions of property, plant and equipment	1,312	1,003	1,812
Additions to deferred development and exploration expenses	3,302	2,140	1,580
Cash and cash equivalents	(44)	380	-
Short-term investments	800	3,563	1,260
Total assets	24,025	24,820	26,476
Long term liabilities	920	1,398	388
Shareholders'equity	16,578	19,436	22,364
Per share			
Loss per share basic and diluted-continuing operations	$ 0.02	$ 0.03	$ 0.03
Loss per share basic and diluted	$ 0.02	$ 0.02	$ 0.03
Weighted average outstanding shares ('000)			
Basic and diluted	137,117	123,391	108,969
Share price at December 31	$ 0.15	$ 0.34	$ 0.62

Metal sales and production (Continued activities)

Metal sales and production is as follows:

	2008		2007
Sales (in MTU)	55,173		45,338
Production is as follows:			
in MTU			
Tonnes extracted	88,763		61,928
Recovery (%)	81.22		79.46
Grade (%)	0.7973		0.9368

The cost of sales is as follows:

In $US	2008	2007
Average cash cost of sales	144	109
Amortization and depletion	33	13
Total cost	177	122

In $CA	2008	2007
Average cash cost of sales	154	118
Amortization and depletion	35	14
Total cost	189	132

The sales for the year amounted to $10.6M, 32% higher compared to the same period in 2007. However, the Pasto Bueno plant achieved commercial operations during the second quarter of 2007, and therefore there are only 9 months of sales for the 2007 year. The lower grade in the current year compared to 2007 (0.797% in comparison to 0.937%) had a negative impact on the sales volume. In 2009, the grade should be similar to that in 2008. The recovery rate in 2008 was slightly higher than in 2007 (81% versus 79%). In addition, the increase in selling price had a favourable impact on sales.

The average cash cost of sales increased due to the decrease of 0.14% of the WO3 grade from the extracted ore. This reduction had a negative impact of approximately $16/MTU. Moreover, the cost of sales incurred a general increase of approximately 11% due to the increase in Peruvian salaries, the cost of sub-contractors and other components. These increases contributed to an increase of $13/MTU on the cost of sales. The Company also incurred additional costs to construct a by-pass due to a fault that was discovered in 2007. This by-pass increased the cost of sales by $3/MTU in the current year. Lastly, the variation in the exchange rate resulted in the cost of sales increasing by $3/MTU.

In 2008, the Company anticipated to reduce its energy costs by connecting itself to the national electric grid. The connection was completed and resulted in an energy cost savings of approximately $5/MTU.

The two hydro-electric groups (totalling a capacity of 600Kw/h) which were to be out into operation by Hidropesac were installed in June 2008. Though, during testing in the start-up phase, a major break-down occurred in one of the water conduits to the power station. The evaluation of the damages and the repairs commenced in July and were supervised by EDP, the Swiss company who is the partner in Hidropesac. The broken water conduit was repaired and tested in the beginning of December 2008. The power station started to produce electricity in January 2009.

Operating Activities from continuing operations

The Company recorded a net loss of $3.1M ($2.7M in 2007) and a loss per share of $0.02. The increase in the net loss is explained by the decrease of $1.9M in the gross margin described above. General and administrative expense amounted to $2.8M in 2008 compared to $3.0M in 2007. The Company shares the same senior management with Dynacor and common expenses are charged-back to Dynacor according to their use without surcharge. Dynacor commenced it operations in May 2007 and there were no charge-backs prior to September 30, 2007. The stock-based compensation was $0.3M in 2008 ($0.8M in 2007). During the year, 2.1M stock options were granted (1.3M in 2007).

The Company is unable to realize a tax benefit from the tax loss to recover income taxes paid in previous years in Peru. Therefore, there is no income tax expense or recovery in 2008. In 2007, the effective tax rate was different than the statutory rate of 30% because the Canadian parent company recorded a tax loss and cannot realize the related tax benefit.

Net earnings from discontinued operations amounted to $0.7M in 2007.

Cash Flow

Operating Activities from continuing operations

The cash generated from continuing operating activities amounted to $0.8M compared to a use of $1.8M in 2007. The improvement is mainly due to the positive impact of working capital

Investing Activities

In 2008, the Company disbursed a total of $3.3M and $1.3M ($2.1M and $1.0M in 2007) in exploration and development work and property, plant and equipment respectively. The exploration and development work was performed in the Consuzo, Huayllapon sectors and the new zones of the Huaura sector in order to develop new sources of ore that would be available for use in 2009. The investment in property plant and equipment consists of mainly the replacement of older plant equipment with new one to increase the efficiency of the plant. The Company sold $2.8M in short-term investments (invested $2.3M in 2007).

Financing Activities

During the year, the Company made payments to its long term debts and obligations under capital leases in the amount of $0.2M. In 2007, the principal source of financing was a shares issuance that generated net proceeds in the amount of $7.2M pursuant the exercise of warrants and stock options and proceeds of bank loans in the amount of $0.6M.

Liquidity

As at December 31, 2008, the working capital was in a deficit position of $1.4M compared to a positive $4.4M on December 31, 2007. This decrease is due to the cash that was disbursed in order to, perform the exploration and development work, acquire property, plant and equipment and reimbursed the obligation under capital leases.

The Company has incurred operating losses over the past couple of fiscal years, has limited financial resources and source of operating cash flow, and no assurances that sufficient funding, including adequate financing, will be available to satisfy working capital requirements. The Company's cash flow has been adversely affected by the higher cost of production and lower grade in WO3 and it is expected that cash on hand at December 31, 2008, will not be sufficient to fund the Company's needs for ongoing activities. Although there is no assurance the Company will be successful in securing sufficient financing, the Company will strive to do so through various means including but not limited to debt financing and selling a part of its investment in Dynacor Gold Mines Inc. and is in active discussions with a potential lender. The Company could consider selling a portion of its investment in Dynacor to generate cash.

On February 27, 2009, the Company entered into an agreement in principle on a Supply Agreement for the sale of tungsten for a period from March 2009 to February 2014. The Company also entered into an agreement in principle on a financing arrangement whereby the Company would receive an advance of US$1.2M bearing no interest, repayable on the last deliveries on the Supply Agreement and a promissory note payable in the amount of US$3.8M which will be received in the following manner; US$1.3M 5 days after closing, US$0.9M 30 days after closing, US$0.8M 90 days after closing and US$0.8M 120 days after closing. The promissory note will be interest free for the first 12 months and will then bear interest at the 12 month LIBOR rate. The promissory note will be repayable in equal monthly installments starting on the 13th month after closing. The US$3.8M promissory note will be convertible at the option of the holder commencing on the 12th month after closing, and to a maximum of 19.99% of the total shares outstanding of the Company, at market price less a 15% discount. The promissory note will be secured by 3.5M shares of Dynacor which the Company owns. These funds will be used to accelerate the development of the mining properties and purchase new equipment, so that the production capacity can be increased from 250 to 500 tons per day by the beginning of 2010. There are no financial commitments in 2009 other than those disclosed in the section “Long-Term Liabilities and Contractual Obligations”.

If the Company continues to incur operating losses, it will have to consider the possibility of reducing or even terminating all work on the new sectors under development as well as its exploration and reducing all other costs. The development, exploration and complete commercialization of certain mining properties may require additional financial resources. The Company is also affected by the instability of the market price of metal and the fluctuation of foreign exchange rates.

Assets

Total assets amount to $24.0M ($24.8M in 2007), hence a decrease of $0.8M. The short-term assets decreased by $3.2M which was offset by the acquisition of property, plant and equipment and the increase in exploration and development work. Property, plant and equipment amounts to $8.8M in 2008 ($9.8M in 2007) and are mainly comprised of the production plant and mining equipment. Mining properties and deferred exploration costs amount to $5.3M ($2.0M in 2007) and are mainly made up of work performed in the Huayllapon and Consuelo sectors, as well as the new zones of the Huaura sector.

Long-Term Liabilities and Contractual Obligations

Payment due by (in $)					
Contractual commitments	2009	2010 to 2012	2013	Beyond 2013	Total
Long term debts	13,899	27,799	-	135,670	177,368
Operating leases	316,680	279,801	-	-	596,481
Capital leases	104,456	226,322	-	-	330,778
Purchase commitments	-	-	-	-	-
Asset retirement obligation for property, plant and equipment	-	-	-	498,845	498,845
	435,035	533,922	-	634,515	1,603,472

The Company’s operations are governed by regulations regarding the protection of the environment. Subject to theses regulations, the Company must implement progressive measures for rehabilitation work as part of its operations. As such, the Company presented to the Peruvian authorities a program and an evaluation of the costs to restore the site. Consequently, the Company recorded an asset retirement obligations for the property, plant and equipment in the amount of $0.5M at December 31, 2008. A 9% discount rate was used to evaluate these obligations. These disbursements are expected to be made in the years 2027 and 2028. The asset retirement was recorded on the balance sheet using cost estimates. These estimates are subject to change following modifications to laws and regulations or as new information becomes available.

Shareholder Equity
The stock based compensation expenses increased the contributed surplus by $270,975 as a result of 2,075,000 stock options granted at exercise prices varying between $0.29 and $0.325 per share and the cancellation of stock options.

In 2007, the Company issued common shares pursuant to the exercise of 20,052,349 warrants and 2,575,010 stock options which generated net proceeds of $8,790,323 and $1,212,403 respectively. The Company also issued 2,200,000 shares for the acquisition of the equity of 20% of the shares belonging to non-controlling interest in Minera Dynacor del Peru in return for $1,430,000. Following the exercise of warrants, the reduction in contributed surplus of $2,335,427 also impacted share capital. Subsequent to the issuance and exercise of options, the stock-based compensation increased the contributed surplus by $759,952.

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. During the year, the Company has obtained it operation permit. The Company does not have any commitments to purchase property, plant and equipment.

Off-Balance Sheet Transactions
The Company did not enter into any off-balance sheet transactions in the current year nor in 2007.

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 earnings includes a chargeback of general and administration expenses totalling $0.5M ($0.1M in 2007) to Dynacor. The Company sold property, plant and equipment to Dynacor with a value of $0.2M. The sale transaction resulted in a gain on disposal of $0.1M. In 2007, the company sold off all outstanding shares in Minera Dynacor del Peru S.A.C., the gold mining properties and related deferred exploration costs to Dynacor for $13.8M. These transactions are in the normal course of operations and are measured at their fair exchange value, which represents the amount of the consideration established and agreed by the related parties.

Quarterly review

	2008				2007			
(in $'000)	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Financial								
Revenus	3,065	3,157	2,465	1,935	2,176	2,810	3,047	-
Cash cost of sales	2,418	2,334	2,215	1,568	1,437	1,815	2,104	-
General and administrative expenses	782	664	757	581	1 007	576	709	664
Amortization and depletion	506	506	344	548	(17)	454	196	14
Earnings (loss) from continuing operations	(961)	(414)	(955)	(799)	(1,494)	(91)	(782)	(1,050)
Net earnings (net loss)	(961)	(414)	(955)	(799)	(1,457)	101	(459)	(933)
Cash flow from (used by) continuing operating activities	1,041	(885)	(522)	1,206	750	(1,638)	68	(1,008)
Acquistion of property, plant and equipment	199	232	257	624	45	393	258	307
Development and deferred exploration expenses	857	626	778	1,041	387	1,459	997	(703)
Per Share								
Earnings per share from continuing operations, basic and diluted	-	-	-	-	(0.01)	-	-	(0.01)
Earnings (loss) per share basic and diluted	(0,007)	(0,003)	(0,007)	(0.006)	(0.01)	-	-	(0.01)
Weighted average shares outstanding ('000), basic and diluted	137,117	137,117	137,117	137,117	122,391	118,679	118,425	112,823

The variation in the net loss is due to the fluctuation of grade of ore sold as well as the changes in prices for tungsten. There are no seasonal factors.

Summary of fourth quarter

The sales of tungsten for Q4 were $3.0M, 13,117 MTU, compared to $2.2M in 2007, 13,542 MTU. The decrease in volume is due to the sales cut-off in 2008, whereby certain deliveries were shipped in December but the revenue will only be realized in January 2009. The gross loss amounted to $0.1M compared to a gross margin of $0.8M for the corresponding period in 2007. This was caused by an adjustment in amortization in the fourth quarter of 2007 that resulted in an increase in amortization of $0.5M in 2008.

The net loss amounted to $1.0M compared to $1.5M in 2007. The general and administrative expenses were $0.2M less than in 2007 due to a reduction in office expenses and professional fees.

Data on Available Outstanding Shares (March 27, 2009)

	Amount
Common shares	137,117,367
Options	6,045,000

Pasto Bueno Property
Pursuant to the press release issued March 3, 2009, the Company obtained a new independent technical report in conformity with standard 43-101. The report was performed by Vector Engineering Inc., and the Pasto Bueno property contains the following reserves and resources at December 31, 2008:

Category	Metric Tonnes	WO3 Grade
Reserves		
Proven	28,234	1.21%
Probable	70,214	0.85%
	98,448	0.95%
Resources		
Measured	35,646	1.28%
Indicated	106,844	0.98%
Measured & indicated	142,490	
Inferred	1,204,000	0.82%

The Company's management believes that the potential of the mine is greater than that indicated in the report because the study covered only a portion of the mining property.

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

Development Program
Underground development work is currently underway in several different sectors of the mining property to in order to prepare new zones and gradually increase production.

Huayllapon
Development work was performed in the Huayllapon sector in order to prepare the production site in the Chabuca vein. This new sector stated production during January 2009.

Huaura
Development work is ongoing in levels 8, 10, 12 and 13 in order to prepare new zones and gradually increase production. Production in these sectors is expected to commence during the first quarter of 2009.

Development work continued on the lateral access tunnel at level 10 with the goal to arrive at the Santa Marta vein which was uncovered by drill holes HDD8, 10, 11, 12 and 14 and is located 450 meters west of the Consuelo vein. This work will continue throughout the first quarter of 2009.

Outlook
As indicated in the "Liquidity" Section, the Company has entered into an agreement in principle on a financing arrangement whereby the Company would receive an advance of US$1.2M bearing no interest, repayable on the last deliveries on the Supply Agreement and a promissory note payable in the amount of US$3.8M which will be received in the following manner; US$1.3M 5 days after closing, US$0.9M 30 days after closing, US$0.8M 90 days after closing and US$0.8M 120 days after closing. The promissory note will be interest free for the first 12 months and will then bear interest at the 12 month LIBOR rate. These funds will be used for the development of the mining properties and purchase new equipment, so that the production capacity can be increased to 500 tonnes per day allowing the Company to improve its profitability. The estimated cost of this project is approximately

$2.0M and is expected to be completed by the first quarter of 2010. Upon maturity of the financing, the Company will commence work to increase the production capacity beyond 500 tonnes per day, and as such the Company could start ordering the necessary equipment. The estimated cost of this project is approximately $3.0M.

Environment

In 2008, Malaga, the following projects or studies began or were completed in 2008:

- A preliminary Environmental Impact Assessment (EIA) for a new tailings pond as well a technical feasibility study including hydrological and hydro geological data on 3 possible sites.
- A technical and environmental study regards increasing the capacity of the Huaura Plant.
- Site closure and rehabilitation plan– finished and submitted to the Peruvian regulatory authorities in September 2008.
- A monthly water quality monitoring project that samples both natural waters and waste waters from the mine and the Huaura plant.

In 2008, the Board of Directors created an Environmental Committee that oversees the Company's environmental performance in Peru.

The Company recorded an accrual of $498,845 for the asset retirement obligations of the mine. This accrual is related to the Company's obligation to conform in 2009 to Peruvian governmental regulations concerning environmental protection.

Finally, the Company pursued with diligence and responsibility its goal to reduce its carbon footprint by phasing out the use of diesel generated electric power at Pasto Bueno. The company now generates on site most of its power requirements for the mine and the plant thanks to two hydroelectric generators. This important goal was achieved in December 2008.

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 have a material impact on its current operations. There may exist other risks that are not indicated below which may currently exist or can material in the future regarding the Company's operations.

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 gold that is transformed, unusual, unfavourable and unpredictable operating conditions as well as the availability of skilled labor.

Risks Related to Property Title

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

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. However, nothing guarantees that the Company will succeed in getting the necessary financing with reasonable terms.

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.

Competition
The mining industry is very competitive and the Company has to compete with other companies relate to the acquisition of ore, the acquisition of attractive mineral properties and the retention of skilled labor. These competitors are often companies that 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.

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 although 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.

Political Risk
The Peruvian government currently supports the development of their natural resources by foreign companies. However, there is no assurance the government will adopt different politics regarding foreign ownership of mineral resources, taxation, exchange rates, environmental protection, labor relations, repatriation of income or expropriation.

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.

Principal Accounting Estimates

The critical accounting estimates are those which management indentified as requiring assumption 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. A description of the Company's main accounting policies can be found in the Company's consolidated financial statements filed electronically on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com. The principle accounting estimates relate to the value of mining properties and deferred exploration costs.

Changes in Accounting Policies

On January 1, 2008, the Company adopted the accounting standards issued by the Canadian Institute of Chartered Accountants. These new accounting standards were applied prospectively with the exception of Section 3064 which was applied anticipatively and retroactively.

(a) General Standards of Financial Statement Presentation – Section 1400

The CICA amended this section to include requirements to assess and disclose an entity's ability to continue as a going concern and to disclose any material uncertainties that may cast doubt upon its ability to continue as a going concern. The Company adequately presents information concerning such assessment

(b) Capital Disclosures – Section 1535

This section establishes an entity's disclosure requirements regarding its objectives, policies and processes for managing capital, as well as quantitative data about what it regards as capital, and whether it has complied with capital requirements and, if not, the consequences of such non-compliance. The disclosure requirements are described in note 16.

(c) Goodwill and Intangible Assets – Section 3064

The CICA issued a new section which reinforces an approach based on recognition principles and criteria to record costs as assets and to clarify the application of the concept of matching revenues and expenses in order to eliminate the practice of recognizing as assets items that do not meet the definition of an asset nor the criteria for asset recognition. There is no impact on the consolidated financial statements of the Company.

(d) Financial Instruments – Disclosures and Presentation - Sections 3862 and 3863

These sections replace the Section 3861 "Financial Instruments – Disclosures and Presentation" and expand on the disclosures currently required to enable users to evaluate the extent to which financial instruments affect an entity's financial position and performance, including the disclosures to be provided regarding fair value. The disclosure requirements are described in Note 21.

(e) Inventories – Section 3031

This section provides guidance on determining costs as well as on other matters concerning the recognition, measurement, disclosure and presentation of inventories. The standard includes guidance on the treatment of excess capacity, measurement of inventories, depreciation and amortization, and supplementary items that must be considered in measuring the costs of inventories.

There is no impact on the consolidated financial statements of the Company, other than the additional disclosure included in Note 7.

New accounting policies
On February 2008, Canada's Accounting Standards Board announced that the Canadian accounting policies will converge to the International Financial Reporting Standards (IFRS) and that all public companies will have to present its information under these policies for years beginning on or after January 1st, 2011. The January 1 transition date will require a restatement, for comparative purposes, of the December 31, 2010 consolidated financial statements and an opening balance sheet at January 1, 2010.

The Company commenced its IFRS conversion project in 2008 and has established a formal project governance structure. Regular reporting to the Audit Committee will occur where appropriate. The Company is continuing to assess the financial reporting impacts of the adoption of IFRS and, at this time, the impact on future financial position and results of operations is not reasonably determinable or estimable. Further, the Company anticipates a significant increase in disclosures resulting from the adoption of IFRS and is continuing to assess the level of disclosure required and any system changes necessary to gather and process the information.

The Company's IFRS transition project consists of three phases: scoping and diagnostic, analysis and development, and implementation and review. Phase 1 involving project planning and identification of differences between current Canadian GAAP and IFRS is currently in process. Preliminary results identified areas of accounting difference of highest potential impact to Malaga to be, impairment of long-lived the asset retirement obligation, translation of foreign currency transactions, property, plant and equipment, share-based payments, and initial adoption of IFRS under the provisions of IFRS 1.

Phase 2 involves completion of detailed diagnostics and evaluation of the financial impacts of various options and alternative methodologies provided for under IFRS, identification and design of operational and financial business processes, and development of required solutions to address identified issues.

It is anticipated that the adoption of IFRS will have an impact on current and future system requirements. The degree of this impact is not reasonably determinable at this stage of the project.

Disclosure Controls
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. The CEO and CFO have identified a weakness in the design of the internal control for the segregation of duties. This weakness increases the likelihood that an incorrect statement could go unnoticed and unprevented. Therefore, additional controls for the segregation of duties will be implemented. The parent company has hired a chief accountant and is currently in the process of recruiting an additional resource person. Additionally, some duties will be performed by the subsidiaries and reviewed by the corporate controller and the chief accountant of the parent company upon consolidation. They have concluded that the design and application of the controls and procedures for information disclosure are effective.

As at December 31, 2008, management developed a system for internal control over financial reporting (ICFR) which provides reasonable assurance of the reliability of the financial information published and the preparation of the financial statements in accordance with Canadian generally accepted accounting principles. The CEO and CFO reviewed the design of the ICFR as at December 31, 2008. Following this review, the CEO and CFO identified a weakness in the design of the internal control for the segregation of duties. This weakness in the ICFR increases the likelihood that an incorrect statement could go unnoticed and unprevented. This makes the ICFR ineffective. Therefore, additional controls dealing with the segregation of duties will be implemented.

In addition, the CEO and the CFO of the Company are responsible to develop internal controls over financial reporting or supervise their development.

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. Factors that could cause such differences, without being limited to the following, include: volatility and sensitivity to market metal prices; impact of change 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.

(s) Jean Martineau
Jean Martineau
President and Chief Executive Officer

(s) Pierre Monet
Pierre Monet
Vice-President and Chief Financial Officer