

Management Report

Introduction

This management report for Malaga Inc. ("Malaga" or the "Company") emphasises the major activities of the Company which occurred during the year ended December 31, 2009, as well as the subsequent period up to March 30, 2010.

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, 2009, 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 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 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 44% of Hidroelectrica Pelagatos S.A.C. (Hidropesac) and 13.5% of Dynacor Gold Mines Inc. The information provided herein, effective as of March 30, 2010, 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.

Annual information

Financial (in \$'000)	2009	2008
Sales	11,178	10,622
Cost of sales	9,576	8,535
Gross margin	(2,566)	108
General and administrative expenses	2,606	2,784
Net loss	(7,635)	(3,129)
Cash flow used by operating activities before changes in non-cash working capital items	(1,888)	(543)
Cash flow generated (used for) continuing operating activities	(678)	840
Acquisitions of property, plant and equipment	2,804	1,312
Additions to deferred development and exploration expenses	2,289	3,302
Cash and cash equivalents and short-term investments	1,149	756
Total assets	22,216	24,026
Long term debts (excluding current portion)	2,675	163
Obligations under capital leases (excluding current portion)	207	257
Shareholders'equity	10,507	16,578
Loss per share basic and diluted	\$ 0.05	\$ 0.02
Cash cost of sales (US\$/MTU)	\$ 135	\$ 144
<u>Other</u>		
Outstanding shares ('000)	147,687	137,117
Weighted average outstanding shares ('000)	140,770	137,117
Closing share price at December 31	\$ 0.135	\$ 0.15

Highlights

- A new independent technical report in conformity with the standard 43-101, indicating that the Company holds the following reserves and resources resulting in an increase of 72% in reserves compared to last year and 180% increase in measured and indicated resources.
- The Company entered into a new 5 year supply agreement whereby it received an advance in the amount of \$1.2M US, bearing no interest and reimbursable on the final shipments of the supply agreement, and a financing agreement in the amount of US\$3.8M, bearing no interest until March 31, 2010 and bearing the 12 month LIBOR rate for the remaining term.
- Gross proceeds of \$1.2M received from the issuance of 9,006,976 common shares pursuant to the rights offering and 1,562,500 common shares pursuant to a private placement.
- Investment of \$2.8M for the purchase of property, plant and equipment to increase the production capacity by 250 to 500 tonnes per day (tpd) in 2010 (current capacity 375 tpd).
- Investment in deferred exploration and development expenses in the amount of \$2.3M.

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

A new rod mill will be installed during the second quarter in order to increase the installed capacity to 500 tpd during the second quarter of 2010. Thereafter, the installation of another rod mill and the addition of vibration tables will increase the installed capacity to 600 tpd.

Accelerate the development and exploration of the mine in order to sustain the increased production output and to increase the reserves as well as the measured and indicated 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	81,686	0.71%
Probable	87,731	0.68%
	<u>169,417</u>	<u>0.70%</u>
Resources		
Measured	64,757	0.81%
Indicated	334,088	0.73%
Measured & indicated	<u>398,845</u>	
Imputed	1,820,641	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.

These results are excellent in that the reserves have increase by 72% over last year and the measured and indicated resources have increased by 180%, an increase of more than 250,000 tonnes in comparison to last year, while still supporting the production output in 2009. The results are very encouraging because the development and exploration work was undertaken to support the production output and not to increase the volume of reserves and resources.

With such success, the Company has the intention to accelerate its development and exploration work in 2010 in order to replace the reserves extracted for the production output, but as well to increase its measured and indicated resources.

Reduce its cash cost of sales from US\$135 to US\$105 per MTU

In 2009, the cash cost of sales was US\$135 per MTU. In the current year, the Company believes that by increasing its production capacity, improving its recovery rate as a result of the increased capacity, and implementing certain operational procedures, the cash cost of sales should reduce to approximately US\$105 by the end of the year.

Generate a positive cash flow from operations before change in non cash working capital items in the second quarter of 2010.

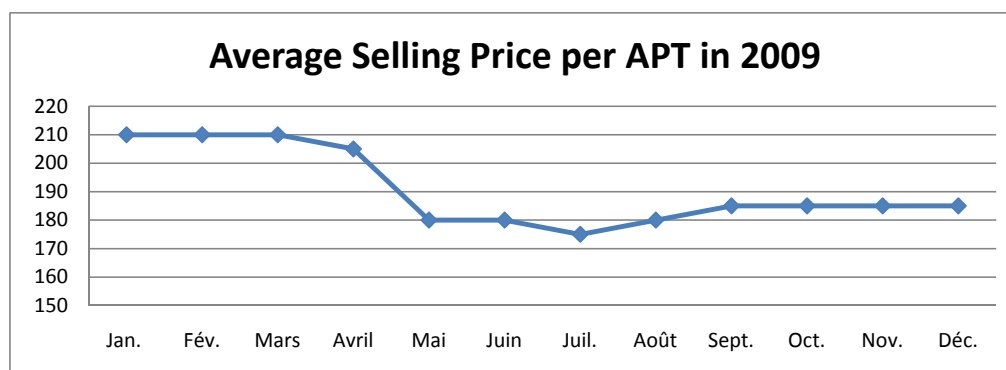
In addition to the anticipated increase in the price of tungsten, the reduction in the cash cost of sales and the increase in production capacity, the Company has concluded an agreement whereby it will sell copper and silver by-product currently in its tailings park. The Company estimates that it will generate approximately \$2.5M during the first 6 months of 2010 from this agreement.

Generate net income by the forth quarter

The achievement of the objectives will result in the Company attaining profitability in the 2010 fiscal year.

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\$170/MTU to US\$210/MTU, with an average at US\$190/MTU, compared US\$248/MTU in 2008. As at March 30, 2009, the price per metric tonne unit (MTU) was at approximately US\$210.



On March 12, 2010, the China Ministry of Land and Resources announced on its Web site that it had stopped accepting applications for new mines to produce tungsten.

Exchange Rate

The exchange rates for the fiscal years are as follows:

	\$CA/\$US		\$CA/sol	
	2009	2008	2009	2008
March 31 (closing rate)	1.25	1.03	2.54	2.75
June 30 (closing rate)	1.16	1.02	2.59	2.78
September 30 (closing rate)	1.07	1.06	2.69	2.88
December 31 (closing rate)	1.05	1.22	2.76	2.56
1st Quarter (average rate)	1.24	1.00	2.60	2.88
2nd Quarter (average rate)	1.17	1.01	2.59	2.78
3rd Quarter (average rate)	1.10	1.04	2.69	2.79
4th Quarter (average rate)	1.06	1.21	2.72	2.55
Year (average rate)	1.14	1.07	2.64	2.75

The Company has not entered into any hedging contracts.

Metal sales and production

Metal sales and production is as follows:

	2009	2008
Sales (in MTU)	62,054	55,173

Production is as follows:

in MTU

Tonnes extracted	88,336	88,763
Head Grade (%)	0.86	0.80
Production Output (MTU)	63,358	57,480

The cost of sales is as follows:

In \$US per MTU	2009	2008
Average cash cost of sales	135	144
Amortization and depletion	58	33
Total cost	<u>193</u>	<u>177</u>

In \$CA per MTU	2009	2008
Average cash cost of sales	154	154
Amortization and depletion	66	35
Total cost	<u>220</u>	<u>189</u>

The sales for the year amounted to \$11.2M \$ (\$10.6M in 2008). The sharp decrease in the average selling price (23%) was compensated by a higher head grade of the mineral ore compared to 2008 (0.86% compared to 0.80%, which explains the increase in the tonnes produced and sold.

The average cash cost of sales in the current year was \$154 per MTU, equal to that of 2008. It includes an amount of \$8 for the inventory write-down to net realizable value as a result of the decrease in the price of tungsten and the variation in the foreign exchange rate from 2008 resulted in an increase in the cash cost of sales of \$6 per MTU. Without these two factors, the average cash cost of sales for 2009 would have been \$140 per MTU. Hence, the average cash cost of sales would have decreased by \$14 per MTU in the current year. This decrease is due principally to the increase production output as result of the economies of scale realized from economies of scale and the decrease in the energy cost due to the commissioning of the hydro-electric power plant in January 2009.

The amortization and depletion per MTU increased from \$35 to \$66 because of the publication of the technical report on the status of the Company's reserves at December 31, 2008. The number of MTUs used in the calculation of the amortization and depletion decreased compared to the volume used in the 2008 calculation.

Operating Activities

The Company recorded a net loss of \$7.6M (\$3.1M in 2008) for a loss per share of \$0.05 (\$0.02 in 2008). The increase in the net loss is explained mainly by the decrease of \$2.5M in the gross margin which was principally caused by the increase of \$2.2M in the amortization and depletion as compared to 2008 and described above. The Company also recorded a \$1.5M reduction in the value of its investment in Dynacor in as well as a \$0.9M share of the net loss. These factors were offset by the increase in the foreign exchange gain of \$0.9M compared to 2008.

The general and administrative expenses decreased slightly by \$0.2M compared to 2008. Lastly, the stock-based compensation expense of \$0.2M is was expensed to earnings over the vesting period of outstanding share options. There were no stock options granted during the year.

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 2009 (same as 2008).

Cash Flow

Operating Activities

In the current year, the cash used from operating activities amounted to \$0.7M compared to a positive cash of \$0.8M in 2008. The use of cash is mainly due to the increase in the negative gross margin.

Investing Activities

The work relative to the expansion project to increase capacity from 250 to 500 tons per day continued as planned. At this writing, the production capacity is slightly lower, at 375 tons per day. During the year, the Company invested \$2.8M for the acquisition of property, plant and equipment (\$1.3M for the corresponding period in 2008). The Company also invested \$2.3M (\$3.3M for the corresponding period in 2008) in exploration and development work in order to develop new sources of ore to support the increase in production capacity. The Company also sold \$800,000 in short-term investments in the current year.

Financing Activities

In the current year, the cash flow from financing activities amounted to \$5.9M (\$0.5M in 2008).

On April 1, 2009, the Company entered into a financing agreement in the amount of US\$3.8M (\$4.5M CAN). The loan will be interest free until March 31, 2010 and will then bear interest at the 12 month LIBOR rate (the rate is currently at approximately 0.87%). It will be repayable in equal monthly instalments starting on May 1, 2010. It 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 on the conversion date less a 15% discount. This loan will be secured by 3.5M common shares of Dynacor which the Company owns. These funds were 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. Concurrently, the Company entered into a Supply Agreement whereby the Company received an advance of US\$1.2M (\$1.5M CAN) bearing no interest, repayable on the last deliveries on the sales contract.

The assets of the subsidiaries have been pledged as collateral for the loan with the customer. As at December 31, 2009, the book value of assets pledged as security amounted to \$17.6M.

In August 2009, the Company received gross proceeds in the amount of \$0.9M subsequent to the exercise of 9.0M subscription rights issued in June 2009, which resulted in the issuance of 9.0M common shares from treasury at a price of \$0.10 per share. These proceeds were utilized to continue the development of the Pasto Bueno property. In December 2009, the Company received gross proceeds in the amount of \$0.3M subsequent to the issuance of 1.6M common shares from treasury at a price of \$0.16 per share. These proceeds were utilized to continue the development of the Pasto Bueno property.

During the current year, the Company reimbursed net \$0.9M in bank loans as well as \$0.3M in obligations under capital leases.

Liquidity

As at December 31, 2009, the working capital was in a deficit position of \$1.6M compared to a deficit of \$1.4M as at December 31, 2008. This increase in deficit is due to the negative cash flow generated from operations in 2009 resulting from the decrease in selling prices. The decrease was partially offset by the several financing agreement entered during the year.

The Company has incurred operating losses over the past few fiscal years, has limited financial resources and operating cash flow, and there is no assurance that sufficient funding, including adequate financing, will be available to satisfy working capital requirements. The Company's cash on hand at December 31, 2009, will not be sufficient to fund the Company's ongoing activities. On the other hand, the Company has concluded an agreement whereby it will sell copper and silver by-product currently in its tailings park. The Company estimates that it will generate over \$2.5M during the first 6 months of 2010 from this agreement. In addition, the APT market price is currently at US\$210 per MTU compared to US\$185 as at December 31, 2009. Considering the estimated production capacity in 2010 and the current market price, this should increase cash flow from operations by approximately \$1.5M. Malaga has also undertaken steps to execute a private placement through the issuance of common shares. Lastly, the Company could request repayment of a portion of its investment in Dynacor.

As at December 31, 2009, the Company had no financial commitments besides those disclosed in the section Long-term Liabilities and Contractual Obligations.

If the Company continues to incur 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 other costs. The development, exploration and complete commercialization of certain mining properties may require considerably more financial resources. The Company is also affected by the instability of the market prices of metals and the fluctuation of foreign exchange rates.

Assets

As at December 31, 2009, total assets amounted to \$22.2M (\$24.0M as at December 31, 2008).

Long-Term Liabilities and Contractual Obligations

Payment due by (in \$'000)

Contractual commitments	2010	2011 to 2013	2014	Beyond 2014	Total
Long term debts	775	3,010	1,637	-	5,422
Operating leases	264	207	-	-	471
Capital leases	226	-	-	-	226
Purchase commitments	82	-	-	-	82
Asset retirement obligation for property, plant and equipment	-	-	-	1,107	1,107
	<u>1,347</u>	<u>3,217</u>	<u>1,637</u>	<u>1,107</u>	<u>7,308</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, 2009. These disbursements are expected to be made in the years 2027 and 2028. These estimates are subject to change following modifications to laws and regulations, or as new information becomes available.

Shareholder Equity

In the current year, 10.6M common shares were issued, 9.0M at \$0.10 per share generating gross proceeds of \$0.9M and 1.6M common shares at a price of \$0.16 per share generating gross proceeds of \$0.3M. In the current year, no stock options were granted (2,075,000 in 2008) and 480,000 stock options either expired or were cancelled.

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, 2009, the Company had not entered into any off-balance sheet transactions.

Related Party Transactions

The Company shares the same senior management as Dynacor Gold Mines Inc. Thus, shared expenses are billed to Dynacor according to their usage. The statement of earnings for 2009 includes a chargeback of general and administration expenses totalling \$0.5M (\$0.5M in 2008) to Dynacor. These transactions are measured at their fair exchange value, which represents the amount of the consideration established and agreed by the related parties.

Quarterly review

(in \$'000)	2009				2008			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Financial								
Revenues	2,470	2,780	2,489	3,439	3,065	3,157	2,465	1,935
Cash cost of sales	2,698	2,534	1,960	2,384	2,418	2,334	2,215	1,568
Amortization and depletion	1,071	993	1,146	878	506	506	344	548
General and administrative expenses	523	666	683	734	782	664	757	581
Net loss	(3,776)	(1,977)	(1,328)	(554)	(961)	(414)	(955)	(799)
Cash and cash equivalents and short term investments	1,149	1,939	1,584	668	800	1,097	1,990	3,106
Working capital	(1,613)	167	192	(2,174)	(1,396)	286	910	2,484
Total assets	22,216	26,767	25,684	24,705	24,026	25,449	25,398	24,871
Shareholders' equity	10,507	13,997	14,915	16,043	16,578	17,945	18,295	19,143
Cash flow from (used by) operating activities	(29)	(646)	(942)	939	1,041	(885)	(522)	1,206
Acquisition of property, plant and equipment	819	1,277	373	335	199	232	257	624
Development and deferred exploration expenses	351	470	687	781	857	626	778	1,041
Per Share								
Loss per share basic and diluted	(0.02)	(0.02)	(0.01)	0.00	(0.01)	(0.00)	(0.01)	(0.01)
Weighted average shares outstanding ('000), basic and diluted	140,770	139,000	137,117	137,117	137,117	137,117	137,117	137,117

The change in the net loss is due to changes in the grade of ore sold, changes in prices for tungsten, the increase in the amortization and depletion expense, as well as the reduction in the value of the investment in Dynacor and the share of Dynacor's net loss. There are no seasonal factors.

Summary of fourth quarter

The net loss in the fourth quarter amounted to \$3.8M compared to \$1.0M in 2008. This increase is explained by a significant decrease in the APT market price of US\$25, as well as the increase in the amortization and depletion expense of \$0.6M compared to 2008 which resulted in an operating loss from mining activities of \$1.3M compared to an operating income from mining activities of \$0.1M for the corresponding period in 2008. In addition, the reduction in the value of the investment in Dynacor of \$1.5M as well as the share in the net loss of same in the amount of \$0.9M were accounted for in the fourth quarter of 2009. Sales in the fourth quarter were \$2.5M or 15,589 MTU, compared to \$3.0 M or 13,117 MTU for the corresponding period in 2008.

Data on Available Outstanding Shares (as at March 30, 2010)

	Number
Common shares	147,686,843
Options	8,670,000

Pasto Bueno Property

Pursuant to the press release issued March 12, 2010, the Company obtained a new 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	81,686	0.71%
Probable	87,731	0.68%
	169,417	0.70%
Resources		
Measured	64,757	0.81%
Indicated	334,088	0.73%
Measured & indicated	398,845	
Inferred	1,820,641	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.

These results are excellent in that the reserves have increase by 72% over last year and the measured and indicated resources have increased by 180%, an increase of more than 250,000 tonnes in comparison to last year, including the production output in 2009. The results are very encouraging because the development and exploration work was undertaken to support the production output and not to increase the volume of reserves and resources. Considering that only 77 veins were sampled and that 25 were considered significant, management believes that the potential of the mine could be even greater than that indicated in the report as the study covered only a portion of the mining property.

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

The Company has prepared an extensive program of exploration and development for 2009 with the objective of supporting a production output of 500 tons per day in 2010.

During the year, more than 5,086 meters of underground development work was completed and 3,050 meters of diamond drilling was achieved. The current production is being extracted from only four veins (Consuelo, Candela, Alonso Fenix, and Chabuca) and a fifth vein (Violeta) should commence production during the second quarter of 2010.

Plant

The expansion work is progressing as planned. The new crushing section was installed and increased the installed capacity to 375 tons per day. A new rod mill will then be installed in the second quarter of 2010 in order to increase the capacity to over 500 tons per day in 2010.

Hydro-electricity

At the beginning of the current year, the Company put in continuous service the Pasto Bueno hydro-electric power plant with an installed capacity of 600 kWh, as well high voltage transmission line that connects Pasto Bueno to the national grid. The hydro-electric power plant will be able to meet the current as well as future requirements of electricity for the plant and the mine.

In collaboration with its Swiss partner, the Company, through Hidropesac, has commenced a feasibility study with the intent to increase the hydro-electric output of Hidropesac by constructing a new power-plant. This study should be completed by the end of April 2010.

Outlook

The Company expects to increase capacity to 500 tonnes per day during the second quarter of 2010 which will help improve the Company's profitability. In addition, the Company has entered into an agreement to sell its concentrates of copper and silver from its tailings park, estimated at 5,000 tonnes, as well as that produced from its continuing normal operations. This transaction is estimated to generate approximately \$2.5M during the first six months of 2010. Hence, with the events disclosed above, and the new technical report on the company's reserves and resources which will reduce the depletion by \$14 per MTU, it is expected that the Company will generate a positive cash flow from operations in the second quarter of 2010 and will attain a positive net income in the fourth quarter of 2010. This positive cash flow will allow Malaga to continue its production capacity expansion program and accelerate its exploration and development work on its mining properties.

The Company believes that the worst with regards to the market is behind it and believes that market prices will increase at a slow and constant pace based on the fact that the market demand exceeds the current production capacity. In fact, there are no production capacity increases outside of China envisioned between now and the year 2014.

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.

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 notice 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, 2009, the outstanding balance of the long term debt that bears interest at the 12 month LIBOR RATE is US\$3.8M (\$4.5M 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.

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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 the 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.

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.

Principal 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 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 1, 2010, the Company's measured and indicated mineral resources amounted to 398,845 tons which includes the proven and probable mineral reserves of 169,427 tons. 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. Periodically, the Company performs an impairment test to assess the realizable value 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.

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.

Long-Term Depreciation of Assets

We revise the book value of long-term assets by comparing the book value of the asset or group of assets with the forecast undiscounted future monetary cash flows that will be generated by the asset or group of assets when an event indicates that its book value will not be recoverable. The events that could bring about a depreciation test include the asset being out of commission, a reduced price for the asset in the marketplace, and an operating or cash flow loss generated by this asset.

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.

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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, 2009, the total market value of its investment in Dynacor amounted to \$2,471,942. A reduction in value of \$1,504,331 was recorded in the current year to reflect the fair value of the investment.

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.

Changes in Accounting Policies

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

New accounting policies

Effective January 1, 2009, the Company adopted an amendment to an accounting standard related to financial instruments, and two recommendations related to credit risk and the fair value of financial assets and financial liabilities and mining exploration costs that were issued by the Emerging Issues Committee of the Canadian Institute of Chartered Accountants ("CICA"). The CICA adoptions are as follows:

On January 1, 2009, the Company adopted an amendment to Section 3862, Financial Instruments – Disclosures. This new Section establishes a framework consisting of three levels of fair value disclosure based on the data used to assess the Company's investments. Adoption of these amendments did not have a material impact on the Company's consolidated financial statements.

In January 2009, the Emerging Issues Committee ("EIC") of the CICA issued EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities, which requires that entities take into account the credit risk of a counterparty as well as their own credit risk when determining the fair value of financial assets and financial liabilities, including derivative instruments. This Abstract applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2009. Adoption of this Abstract did not have any material impact on the Company's consolidated financial statements.

Effective January 1, 2009, the company adopted the new accounting recommendations contained in EIC-174 "Mining Exploration Costs" published in March 2009 by the Emerging Issues Committee of the CICA. The EIC provides additional guidance to mining exploration companies on the circumstances under which an impairment review is necessary. Management used the methodology recommended by EIC-174 when it reviewed deferred development and exploration costs. Given that 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 first making a recoverability test.

Change in Accounting Estimates

Historically, the basis for calculating the amortization of exploration and development costs that were transferred to property, plant and equipment was using the units of production method over the proven and probable reserves. Since January 1, 2009, the amortization basis of these exploration and development costs is over the proven and probable reserves, as well as the measured and indicated resources. In effect, given the pace of exploration and the structure of the property, proven and probable reserves known today do not reflect adequately the useful life of assets and the life of the mine. Based on the historical conversion of resources into reserves and its exploration strategy, the Company is confident that it will be able to convert the resources into reserves in the near future. Management believes that the amortization expense calculated on this new basis reflects a better use of its assets and their economic value. This is a change in accounting estimate resulting from new information and, therefore, requires prospective application from January 1, 2009. Since the quantities of reserves and resources differ from the previous base used, this resulted in a reduction of the amortization and depletion expense in 2009. The amortization base is updated on an annual basis based on the technical report in compliance with National Instrument 43-101.

New Accounting Standards Issued But Not Yet in Force

In January 2009, the CICA issued Section 1601 "Consolidated Financial Statements" and Section 1602, "Non-controlling Interests," which together replaces Section 1600, "Consolidated Financial Statements." Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are equivalent to the corresponding provisions of IFRS standard, IAS 27 (Revised), "Consolidated and Separate Financial Statements." The sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. The Company is currently evaluating the impact of the adoption of this new Section on these consolidated financial statements.

In January 2009, the CICA issued Section 1582, "Business Combinations" which replaces Section 1581, "Business Combinations." The Section establishes standards for the accounting for a business combination. It provides the Canadian equivalent to the IFRS standard, IFRS 3 (Revised), "Business Combinations". The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier application is permitted. The Company is currently evaluating the impact of the adoption of these new standards on its consolidated financial statements.

Adoption of new conceptual framework

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 ending December 31, 2010 and its opening balance sheet as at January 1, 2010.

Malaga began its project to convert to IFRS in 2008 and has established a governance structure of the project. Regular reports are submitted to the Audit committee. Malaga continues to assess the impact of IFRS adoption on the financial presentation and, at this time, the impact on the financial position and future results of operation that cannot be reasonably determined or estimated.

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.

Phase 2 – Evaluation of project components

During this phase 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. A detailed conversion plan will then be developed. In addition, the Company will design and develop solutions to address the differences identified. The changes required to the existing accounting policies, information systems, business processes and internal controls over financial reporting will be identified in order to perform conversion to IFRS.

Phase 3 – Preparation of financial statements and integration of changes

The objective of this final phase is to enable continued IFRS reporting and to facilitate knowledge sharing. The changes identified in phase 2 will be implemented and tested to ensure that any difference is addressed prior to the changeover date. Implementation also involves further training of staff as revised systems begin to take effect and will continue until completion of the implementation.

The project will culminate in the collection of financial information necessary to compile IFRS-compliant financial statements, embedding IFRS in business processes, eliminating unnecessary data collection processes and submitting IFRS financial statements to the Audit Committee for approval.

Progress reporting to the Audit Committee on the status of the IFRS implementation project has been instituted. The Company completed the Phase 1 in July 2009 and began the Phase 2 in the third quarter of 2009. The IFRS team will now focus on the detailed conversion plan and, concurrently, will start the Phase 3 in the fourth quarter of 2010.

POTENTIAL IMPACT OF IMPLEMENTATION ON MALAGA

The comparisons of IFRS with Canadian GAAP, which are currently reflected in the Company's accounting policies, have helped identify a number of areas of differences.

IFRS 1, First-Time Adoption of International Financial Reporting Standards, provides entities adopting IFRS 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 IFRS. The Company is analyzing the various accounting policy choices available and will implement those determined to be most appropriate in the circumstances.

Most adjustments required on transition to IFRS will be made, retrospectively, against opening retained earnings as of the date of the first comparative balance sheet presented based on standards applicable at that time. 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 are selected key areas of accounting differences where changes in accounting policies in conversion to IFRS may impact the Company's consolidated financial statements. The list highlights those areas of accounting differences that the Company currently believes to be most significant. Notwithstanding, analysis of changes is still in progress and certain decisions remain to be made where choices relating to accounting policies are available. The areas of differences highlighted below are based on existing Canadian GAAP and IFRS effective at December 31, 2009. At this stage, the Company is not able to reliably quantify the full impact of these and other differences on Malaga's consolidated financial statements.

Property, plant and equipment

IAS 16 - Property, plant and equipment requires a more rigorous and broader separation accounting for the asset's components and different useful lives for these components. In addition, on the transition date, fair value can be used as deemed cost under IFRS 1.

Impairment of assets

Mainly IAS 36 - Impairment of Assets. IFRS contains a single comprehensive impairment standard under which assets are tested for impairment either individually or within cash-generating units (CGUs). CGUs will have to be established and are typically identified at a lower level within the Company than an operating unit under Canadian GAAP. Differences also exist in the measurement methods of impairment charges and rules may more frequently conclude to an impairment charge.

Provisions

IAS 37 - Provisions, Contingent Liabilities and Contingent Assets, requires a provision to be recognized when: there is a present obligation as a result of a past transaction or event; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the obligation. "Probable" in this context means more likely than not. Under Canadian GAAP, the criterion for recognition in the financial statements is "likely", which is a higher threshold than "probable". Therefore, it is possible that there may be some provisions or contingent liabilities which would meet the recognition criteria under IFRS that were not recognized under Canadian GAAP. Other differences between IFRS and Canadian GAAP exist in relation to the measurement of provisions, such as the methodology for determining the best estimate where there is a range of equally possible outcomes (IFRS uses the mid-point of the range, whereas Canadian GAAP uses the low-end of the range), and the requirement under IFRS for provisions to be discounted where material.

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, 2008 the Company's design and operation of its disclosure controls and procedures were effective.

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, 2009. 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 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. 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
President and Chief Executive Officer

(s) Pierre Monet _____

Pierre Monet
Vice-President and Chief Financial Officer