Malaga Inc.

Management Discussion and Analysis ("MD&A")

For the three-month period ended March 31, 2012

Management Discussion and Analysis

Introduction

This Management Discussion and Analysis ("MD&A") for Malaga Inc. ("Malaga" or the "Company") focuses on the significant activities of the Company which occurred during the three-month period ended March 31, 2012, as well as the subsequent period to May 8, 2012.

The Company's consolidated interim financial statements are prepared in accordance with IFRS as issued by the IASB. This MD&A should be read in conjunction with both the consolidated annual financial statements for the year ended December 31, 2011 and the consolidated interim financial statements for the three-month period ended, March 31, 2012, including their 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 are stated in United States Dollars unless otherwise specified. This MD&A was not audited by the Company's external auditors.

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

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

For all purposes below, the "Company" refers to Malaga and its wholly-owned subsidiaries Dynacor Exploraciones del Peru SAC, Minera Malaga Santolalla SAC., and Minera Pasto Bueno SAC. The Company also holds 49% of Hidroelectrica Pelagatos S.A.C. (Hidropesac). The information provided herein, effective as of May 8, 2012, 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" and as "MLGAF" on the U.S. Over-the-Counter market (OTCQX). Malaga is a mining company with acquisition, exploration, development and mining concession operations in Peru.

1-FINANCIAL HIGHLIGHTS

First Quarter Information

(in $'000)	For the three-month periods ended March 31, 2012	2011
Sales	3,607	5,257
Cost of sales (including depreciation and depletion)	2,499	3,534
Depreciation and depletion	467	714
Income from mining activities	1,108	1,722
General and administrative expenses	847	868
Operating income	261	854
Net income	131	813
Adjusted Net income (1)	115	768
EBITDA (2)	571	1,269
Earnings per share basic and diluted	$0.00	$0.00
Average cash cost of production(3) ($/MTU)	$197	$129
MTU = metric tonne unit = 10 kg = 22 lbs		
Cash flow from operating activities before changes in non-cash working capital items	603	1,353
Cash flow from operating activities	1,070	660
Acquisitions of property, plant and equipment	1,052	1,451
Additions to mining properties and exploration and evaluation costs	234	172

Reconciliation of Net income to Adjusted net income (1)

	2012	2011
Net income	131	813
Gain on revaluation of warrants	(16)	(45)
Adjusted net income	115	768

Reconciliation of Net income to EBITDA (2)

	2012	2011
Net income	131	813
Deferred income tax recovery	(174)	(361)
Financial expenses	163	148
Amortization and depletion	467	714
Gain on revaluation of warrants	(16)	(45)
EBITDA	571	1,269

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

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

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

	March 31, 2012	December 31, 2011
Cash	593	531
Total assets	34,336	33,299
Long term debts	3,584	3,823
Obligations under finance leases	342	398
Shareholders' equity	22,051	21,758
Other		
Outstanding shares ('000)	183,675	183,675
Weighted average outstanding shares ('000)		
Basic	183,675	183,621
Diluted	200,027	204,939
Closing share price	$0.17	$0.12

2012 Highlights

- Net income of $0.1M, representing 6 consecutive quarters generating positive earnings.
- Cash flow from operating activities of $1.1M.
- Financing from Global Tungsten & Powders Corp ("GTP") to fund the pilot plant in order to monetize the tungsten content from the current tailings pond.
- Repayment of the $0.8M advance on sales.
- APT average reference selling price increased from $360 in Q1-2011 to $430 in Q1-2012, an increase of 19%. On May 8, 2012 the APT price was at $370.
- The mine development program continues with an investment of $0.8M with advances of 1,136 meters completed in Q1-2012.

Status of 2012 Objectives

1. *Increase mine capacity to 400 tpd by year end and produce 60,000 to 65,000 MTU's.*

   The mine continues to be the bottleneck and this was worsened in Q1-2012 as there were less stopes in operation and the rainy season has been severe this year. Fewer tonnes were extracted (300 tpd) though the pace has improved in April at 350 tpd. The increased mine capacity will be achieved by investing in mine equipment and accelerating the development program in order to bring new stopes into production. This extensive underground development program includes approximately 5,000 meters and 4,600 meters of underground diamond drilling, which will require a total investment of approximately $3.5M. In the first quarter, 1,136 meters of advances were performed and total production was 11,943 MTU's. Management still believes the production objective will be met as the tailings recovery project is expected come on line in Q3-2012, the termination of the rainy season, and the receipt of a 500 tpd operating permit in the second half of the year are the factors to support the guidance.

2. *Continue to be the lowest cash cost producer of all publicly traded tungsten companies.*

   Average cash cost of production [3] was $197 per MTU in Q1-2012. With production level going back to normal in Q2-2012, Malaga expects the cash cost to be back to about $170/MTU. The Company will continue to focus on reducing its cash cost of production per MTU in order to remain competitive in the market.

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

3. *Continue to delineate inferred resources in the mantos structure.*

   The first exploration campaign should be completed during Q2-2012. Once the results of this first campaign are known, the Company will fully analyse the results and will determine the scope of the second campaign.

4. *Increase the reserves as well as all mineral resources*.

   The Company's objective is to continue to replenish the reserves and maintain it between 18 to 36 months of production. In addition, the Company plans to increase its base of measured, indicated and inferred resources. Over the last five years, the Company has been successful in replenishing and increasing its reserves and resources without significant investments in exploration and development. A 43-101 report will be published on an annual basis.

5. *Make a decision on the construction of a 20 megawatt (MW) hydro-power plant by Q4-2012*

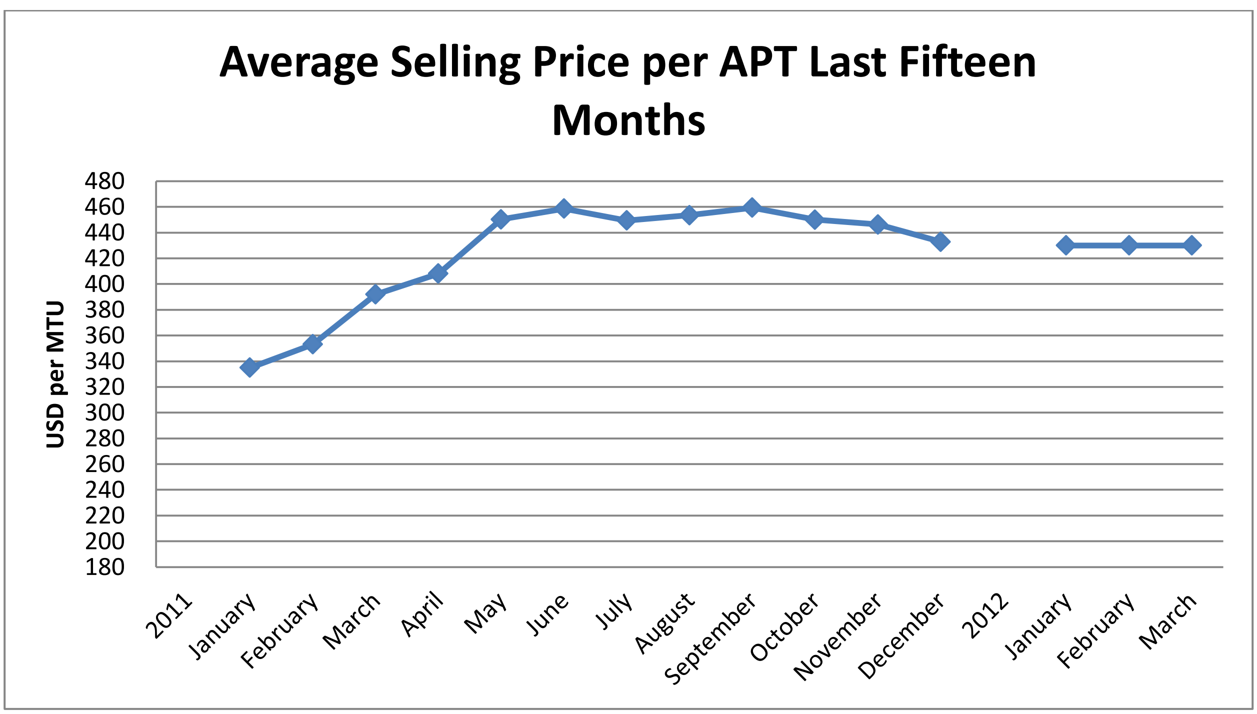
   This project is still on track. Hidropesac continues to update the environmental assessment and archeological artifacts study. When those studies are finished, it will then complete the generation and transmission technical specification, a feasibility study for the electromechanical equipment, engineering for the civil and electromechanical works, and engineering for the substations and transmission line in order to obtain the permanent concession. Hidropesac expects to obtain final approval early in the fourth quarter of 2012, which would allow building to begin the following quarter. Construction will commence once the commercial agreements and financing is secured and time to build out the project is expected to take 18 to 24 months, followed by a six-month commissioning period.

2-KEY ECONOMIC TRENDS

Tungsten Market

The Company's selling price of tungsten is based on the sale price of APT (ammonium paratungstate). The APT selling price and the average was $430/MTU for Q1-2012, compared $360/MTU in 2011. As at May 8, 2012, the APT selling price per MTU was US$370.

The following graph shows the historical pricing of the Tungsten APT European free market ($ per mtu):



Tungsten prices according to the Metal Bulletin European quotation for APT continue to remain strong despite the decrease in the reference price in late April. It is expected the APT reference selling price will remain strong for the remainder of the year as the Chinese APT selling price is currently in the $385-405 range and the Company continues to believe that long-term market fundamentals remain robust with limited availability of product in the market and strong demand for tungsten concentrate.

According to a recent article published by Barron's, "Miners are clamoring to take advantage of the market and are ramping up plans for extraction. But opening a new mine can take three to five years, and restarting an old one can be onerous, as well. However, companies that produced and continued to produce tungsten are now poised to profit." (Source: Barron's, February 2012)

In February 2012, Warren Buffett and Berkshire Hathaway unit IMC International Metalworking announced they will invest $80 million in a tungsten mine, one of the largest mining projects in South Korea indicating that Tungsten is positioned as a virtually irreplaceable material used for tools and technologies and is seen as an important commodity to own. Supply is very limited and the article points out that according to a recent British Geological Survey report on metals of economic value on the "endangered list," tungsten was at the very top. (Source: Forbes online March 2012).

Lastly, the United States passed the Dodd-Frank regulation which is aimed at cutting off the mining and sale of so-called conflict minerals to finance their military arms.

Exchange Rate

The exchange rates are as follows:

	$US/$CA		$US/Sol	
	2012	**2011**	**2012**	**2011**
March 31 (closing rate)	1.003	0.970	2.666	2.802
1st Quarter (average rate)	0.999	0.986	2.683	2.782

The Company has not entered into any hedging contracts.

3-CONSOLIDATED RESULTS AND MINING OPERATIONS

Net Income

The Company generated a net income of $0.1M for the period ended March 31, 2012 (net income of $0.8M in Q1-2011) for earnings per share of $0.00 ($0.00 in Q1-2011). The decrease in the net income is explained in the table below.

	2012 In $M
Decrease in income from mining activities	(0.6)
Decrease in foreign exchange loss	0.2
Increase in loss from sale of Dynacor investment	(0.2)
Increase in gain from equity investment	0.1
Decrease in income tax recovery	(0.2)
Total decrease	(0.7)

The decrease in income from mining activities is mainly a result of the Company selling $0.5M less copper and a 43% decrease in sales volume of tungsten for the comparative period that was only partially offset by a 19% increase in the APT selling price in Q1-2012 compared to Q1-2011. The rainy season in Q1-2012 has been particularly strong with heavy rainfall causing the erosion of certain roads and the destruction of overpasses making the transportation of the copper mineral more difficult. The heavy rain falls are expected to extend to the end of May in the current year. This coupled with lower tungsten sales (10,331 MTU compared to 18,090 in Q1-2011) due to lower mine production and grade (0.62% compared to 0.75%) had a negative impact in Q1-2012. The shortfall in copper sales will be recovered in Q2 and Q3 of 2012.

The income tax recovery in Q1-2012 of $0.2M is caused by the recognition of the deferred tax asset related to the tax losses carried forward not previously recognized. The Q1-2011 recovery in the amount of $0.4M related to the common shares of Dynacor Gold Mines Inc., which the Company has classified as an available-for-sale investment, whereby it is re-evaluated every quarter and is measured at fair value, with unrealized gains and losses recognized in other comprehensive income net of taxes.

The increase in loss from the sale of Dynacor shares is a result the decrease in the quoted market price on the disposition of the Dynacor shares in Q1-2012 compared to Q1-2011.

Selling, general and administrative expenses amounted to $0.8M, the same amount as Q1-2011. The costs included in general and administrative expenses include employee salaries and employment related expenses of all non-mining/processing personnel as well as corporate overhead costs, listing and transfer agent fees, accounting, legal and other professional fees and travel.

Metal sales and production

Metal sales and production is as follows:

	Three-month periods ended March 31,	
	2012	**2011**
Sales (in MTU)	10,331	18,090
Production:		
Tonnes extracted	26,182	31,388
Head Grade	0.62%	0.75%
Recovery Rate	73%	74%
Production Output (MTU)	11,943	17,493

For the quarter ended March 31, 2012, fewer tonnes were extracted from the mine due to less stopes in operation and the rainy season being severe this year, which impacted transportation to and from the mine. Average head grade in Q1-2012 was 0.62% while it was 0.75% in 2011. The head grade decreased as there were zones of very rich material that were extracted in Q1-2011 that did not repeat in Q1-2012 coupled with the fact that the dilution factor increased as well.

	Three-month periods ended March 31,	
Sales	**2012**	**2011**
	$	**$**
In $'000		
Tungsten	3,513	4,668
Copper	94	589
	3,607	5,257

Total sales for the current quarter amounted to $3.6M ($5.3M in Q1-2011). The 25% decrease in tungsten revenues is as a result of a 43% decrease in volume partially offset by a 19% increase in the average APT selling price. In addition, the Company generated sales revenue of $0.1M from copper, an 84% decrease from $0.6M in Q1-2011. The rainy season, which was unusually severe and prolonged played a significant role in the decrease in sales, once the rainy season is over, the Company expects revenue from copper to increase in Q2 and Q3 2012.

The cost of production is as follows:

Operating costs (000$)	Three-month periods ended March 31, 2012 $	2011 $
Mining	1,107	1,092
Milling	329	361
Plant and site services	919	811
Operating costs	2,355	2,264
Inventory change	(376)	276
Cost of sales Tungsten	1,979	2,540
Cost of sales Copper	53	280
Cash cost of Sales	2,032	2,820
Depreciation and depletion	467	714
Total Cost of Sales	2,499	3,534
In $US per MTU		
Mining	93	62
Milling	27	21
Plant and site services	77	46
Average cash cost of production [3]	197	129
In $US per tonne extracted		
Mining	42	35
Milling	13	12
Plant and site services	35	26
Average cash cost of production [3]	90	73

As explained above, the average cash cost of production [3] in Q1-2012 was $197 per MTU ($129 per MTU in 2011), an increase of 53% compared to Q1-2011. The cash cost of production remains higher than usual due to production shortfalls. In Q1-2012 11,943 MTUs were produced, with a 32% decrease compared to Q1-2011. The factors discussed that caused the decrease in production are the key drivers for the increase in cash cost per MTU in Q1-2012 compared to Q1-2011.

The increase is explained as follows:

		In $/MTU
Q1-2011		129
Increase in cost due to the decrease in production volume		
Mining	25	
Milling	5	
Plant services	22	52
Salaries		3
Energy		3
Additional maintenance in plant and site services		4
Foreign exchange		6
Q1-2012		197

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

During the quarter, the Company paid a “motivation bonus” to its employees at Pasto Bueno in order to remain competitive and continue to monitor retention of skilled employees.

On year-to-date basis, the amortization and depletion expense decreased from $0.7M in 2011 to $0.5M in 2012 though on per MTU basis, the rate increased from $41 per MTU in Q1-2011 to $45 in Q1-2012. The increase in the rate is due to the depreciation expense being allocated over a lower sales volume. However the depletion rate has decreased from $28 per MTU in 2011 to $23 in 2012.

4-CASH FLOW AND LIQUIDITY

Operating Activities
In Q1-2012, the cash flow generated from operating activities before changes in non-cash working capital items amounted to $0.6M ($1.3M in Q1-2011). The decrease comes from income from mining operations, driven by the decrease in tungsten and copper sales of $1.6M, which had an impact on net income of approximately $0.5M. The changes in the non-cash working capital items amounted to $0.5M (deficiency of $0.7M in 2011) resulting in cash flow from operating activities in the amount of $1.1M in Q1-2012 ($0.7M in Q1-2011).

Investing Activities
In Q1-2012, the Company invested $1.0M for the acquisition of property, plant and equipment ($1.5M in Q1-2011). Of the $1.0M, $0.2M was invested in the tailings ponds and $0.8M in underground development with the objective of accessing new reserves and replenishing the reserves that were extracted.

The Company plans to complete the tailings pond in Q2-2012. It is currently 90% completed. The Company expects that the tailings pond will have a 5 to 6-year life at 500 tpd.

The Company also invested $0.2M ($0.2M in Q1-2011) in exploration and evaluation work in order to develop new sources of ore to support the increase in production capacity and start defining the potential of the southern part of the property referred to as the mantos.

Financing Activities
During Q1-2012, the cash flow used for financing activities amounted to $0.0M ($0.3M Q1-2011) for the reimbursement of the long-term debt ($0.3M) and re-payment of the obligations under finance leases ($0.1M) offset by the issuance of a new credit facility of $0.4M.

Liquidity
As at March 31, 2012, cash amounted to $0.6M. The market value of the Company’s 2,500,000 Dynacor shares, all of which are restricted shares amounted to $1.8M as at March 31, 2012. On May 8, 2012, the market value of these shares was $1.6M. Malaga will continue to sell the shares after November 30, 2012 when 1,000,000 shares become unrestricted with the maturity of the Company’s CA $1,000,000 Note payable (USD $ 1,002,500).

On February 23, 2012, the Company entered into a $400,000 credit facility with a Peruvian bank. The facility was fully drawn at March 31, 2012 and bears interest at 7.4% annually. The facility is being reviewed for terms of renewal and enhancement.

During the quarter, the Company repaid the advance on sales of $800,000 received during Q4-2011.

On April 17, 2012, the Company received financing from its customer to undertake the construction of a pilot plant to validate the proof-of-concept studies for recovering and reprocessing tungsten from its existing tailings pond. Construction will begin in Q2 with first delivery expected in Q3-2012 and assuming a 50% recovery rate, Malaga would produce an additional 31,500 MTU over the next few years from the current tailings pond, which is the equivalent value of $9-million (U.S.) in revenues at current market prices ($370 per MTU at May 8, 2012).

In addition, the Company received another advance on sales in the amount of $0.8M to explore other programs that would increase the tungsten output.

In the current quarter the Company obtained an unsecured guarantee from Export and Development Canada that will be used to setup a stand-by letter credit facility in Peru for the amount of $0.8M.

Through the use of revenue earned as well as cash flows from operations and the Company's ability to raise capital, management believes and asserts that the financial statements are prepared on the assumption that the Company is a going concern, meaning it will continue its operations for the foreseeable future and will be able to realize its assets and discharge liabilities in the normal course of operations.

As at March 31, 2012, the Company had no material financial commitments besides those disclosed below in the section Long-term Liabilities and Contractual Obligations. The Company has not entered into any hedging contracts.

5-STATEMENTS OF FINANCIAL POSITION

Assets

As at March 31, 2012, total assets amounted to $34.3M ($33.3M as at December 31, 2011).

Long-Term Liabilities and Contractual and Constructive Obligations

	March 31, 2012			
	Less than 3 months	3 months to 1 year	2-5 years	Over 5 years
Trade and taxes payable and accrued liabilities	3,667,426	-	-	-
Note payable		1,062,650	-	-
Long term debt	292,307	876,922	2,712,534	-
Obligations under finance leases	44,406	133,217	210,247	-
Community relationships	18,539	55,617	296,626	203,930
Operating lease commitments	11,894	35,683	213,697	-
Asset retirement obligations	-	-	-	2,760,423
	4,034,572	2,164,089	3,433,104	2,964,353

Contingencies and Events after the Reporting Period

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

Off-Balance Sheet Transactions

As at March 31, 2012, the Company had not entered into any significant off-balance sheet transactions.

6-QUARTERLY REVIEW

(quarters were not audited)

	2012	2011				2010		
(in $'000)	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**
Financial								
Revenues	3,607	5,647	4,644	5,329	5,257	3,336	3,791	3,463
Cost of sales	2,499	3,271	3,058	3,192	3,534	2,582	3,383	3,049
Amortization and depletion	467	600	562	560	714	618	717	705
General and administrative expenses	847	971	853	1,276	868	694	715	792
Net income (loss)	131	1,198	1,980	1,629	813	2,879	(928)	257
Cash and cash equivalents	593	531	480	1,199	1,635	2,841	922	2,112
Working capital	(2,304)	(1,545)	(520)	791	1,688	2,268	230	1,569
Total assets	34,336	33,299	29,966	30,477	32,463	30,675	27,126	27,825
Shareholders' equity	22,051	21,758	20,208	19,287	20,209	17,322	14,486	15,377
Cash flow from operating activities	1,070	1,875	1,758	2,024	660	480	701	(1,526)
Acquisition of property, plant and equipment	1,052	1,953	1,611	2,103	1,451	1,112	1,112	793
Additions to mining properties and exploration and evaluation costs	234	613	720	683	172	301	366	148
Per Share								
Earnings (loss) per share basic and diluted	0.00	0.01	0.01	0.01	0.00	0.02	(0.00)	0.00
Weighted average shares outstanding ('000)								
Basic	183,675	183,675	183,675	183,582	183,550	183,550	183,550	160,110
Diluted	200,027	205,012	205,020	237,059	235,500	199,066	185,115	160,110

7-INFORMATION ON OUTSTANDING SHARES

Data on Available Outstanding Shares (as at May 8, 2012)

	Number
Common shares	183,675,176
Ordinary Warrants	875,000
Options	7,720,000

8-RESERVES AND EXPLORATION AND DEVELOPMENT ACTIVITIES

Pasto Bueno Property

Pursuant to the press release issued February 27, 2012, the Company obtained an independent technical report as required under standard 43-101. The report was performed by Pincock, Allen and Holt, and the Pasto Bueno property contains the following reserves and resources as at November 25, 2011:

	November 25, 2011	
Category	**Tonnes**	**WO3 Grade**
Reserves		
Proven	86,605	0.66%
Probable	109,275	0.66%
	195,880	**0.66%**
Resources		
Measured	79,715	0.76%
Indicated	734,382	0.78%
Measured & indicated	**814,097**	**0.78%**
Inferred	3,718,216	0.83%
Tailings pond	450,000	0.14%
Total inferred	**4,168,216**	**0.76%**

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.

As previously announced one of the Company's objectives in 2012 is to continue to replenish the reserves and maintain it between 18 to 36 months of production. In addition, the Company plans to increase its base of measured, indicated and inferred resources. Going forward, the Company plans to update its technical report on an annual basis.

Development Program

The objective of the underground development in the Huaura and Huayllapon sectors is to replace the mined reserves and define new additional reserves and resources. During Q1-2012, 1,136 meters of underground development work was completed. The current production is being extracted from five veins (Consuelo, Candela, Alonso Fenix, and Chabuca and Maria Ofelia).

Exploration campaign

The Company began an exploration campaign in 2011 on the southern part of the property (mainly in the mantos). It should be completed during Q2-2012. Once the results will be known, the Company will fully analyze the results and will determine the scope of the second campaign.

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

9-MILLING OPERATIONS

Plant

The current operation permit allows Malaga to process 350 tpd. The Company has applied for a medium-producer permit which would allow it to produce 500 tpd up to a maximum capacity of 750 tpd. This new permit, which is contingent on the approval from the Peruvian authorities, cannot be delivered before the completion of the new tailings pond for which Malaga has a construction permit. After its construction, the Company is confident that the Peruvian authorities should approve the new operating permits. Management expects to get approval during Q4-2012. The mining industry has been impacted by increasing cost pressures on operating costs with respect to labour. Personnel turnover/retention continues to be and may remain to be an issue going forward. Malaga is addressing this issue but expects it will continue to present challenges going forward.

The Company is also currently evaluating different projects which would improve the recovery rate. These projects are evaluated based on their feasibility and return to our stakeholders. Metrics such as internal rate of return and payback are used in the assessment of a project prior to their approval. On April 17, 2012, the Company announced that it will undertake the construction of a pilot plant to validate the feasibility studies for recovering and reprocessing tungsten from its existing tailings pond. In March 2012 the company's NI 43-101 reported that the pond contains 450,000 tonnes @ 0.14% WO3 of inferred resources. Financed by an advance on sales from Malaga's current customer, construction will begin in Q2-2012 with first delivery expected in Q3-2012. Assuming a 50% recovery rate, Malaga would produce an additional 31,500 metric tonne units (MTU's) over the next few years from the current tailings pond, which is the equivalent value of $9M USD in revenues at current market prices. To help increase the current plant recovery rate, the intent is to add screens that will capture the very fine particles which the current production line is unable to process. The project consists of pumping the tailings from the current pond to the pilot plant; sorting the material through a series of different screens, and then processing it through magnets to obtain a final concentrate. It's expected that the pilot plant will have a capacity of 300 tonnes per day. Upon success of the recovery project, Malaga will install additional recovery capacity and add new screens to the current production line in an effort to continue to improve the recovery rate as well as reduce future closure costs.

Hydro-electricity

Hidropesac, which is owed 49% by Malaga and 51% by its Swiss partner, Emerging Power Developers announced that they intend to build a new 20 MW hydroelectric power plant on Malaga’s Pasto Bueno property in Peru. Given the area’s watershed and water flow characteristics, as well as enhanced dam retention capacity, potential capacity could subsequently be increased up to 38 MW.

In light of building a hydro power plant, Hidropesac has a temporary concession permit and is updating the feasibility study as well as carrying out environmental and archaeological studies required by the Peruvian authorities in order to obtain the permanent hydro-electrical concession. Agreements with regional governmental bodies and local communities will be concluded with the objective to start construction in late 2012 or early 2013. Construction will only commence when commercial agreements and financing of the project is fully secured. This major project would give Malaga complete autonomy in terms of power generation, would sustain its planned production growth, permanently decrease its production costs and eventually generate significant value through the sale of energy. In Q1-2012, energy cost accounted for approximately 9% of Malaga’s cash cost.

Environment

The Company recorded an asset retirement obligations for the mine in the amount of $1.8M. This liability is related to the Company’s obligation to conform in the future to the Peruvian governmental regulations and Company policy concerning environmental protection.

As part of ongoing operations, the Company must comply with observations provided by the Peruvian Ministry of the Environment and is currently undertaking all necessary actions to ensure compliance with regulations.

10-OUTLOOK FOR 2012

Current market conditions support continued growth in the demand for tungsten as supply will remain limited in the near-term. During the first quarter, APT price increased 19% over Q1-2011. The Company believes that market prices will remain strong, despite the decrease in the APT price in late April; based on the fact that market demand exceeds the current production capacity and that there is currently no replacement product for tungsten in the market. The tight supply of tungsten is not expected to be alleviated in the short term. This factor, as well as increasing demand for the metal, should support prices going forward. The British Geological Survey (BGS) compiled a risk list that outlined the relative risk of certain elements and element groups in 2011. It ranked them according to a risk index, ranging from one (very low risk) to ten (very high risk). The highest ranking awarded was an 8.5, and tungsten was one of only four elements to receive it. In addition, in June 2010, the European Commission published a report identifying 14 critical minerals for Europe which includes tungsten. Tungsten is also considered a critical mineral by the United States and one of the three in China.

The mine production at Pasto Bueno is approximately 350 tpd with a mill capacity of 500 tpd. The processing is carried out by gravity and the final product is a premium concentrate containing at least 70% WO3. The Company will continue its development program in order to increase the reserves to support the current plant capacity by developing more production stopes. The Company is considering hiring more contractors to increase the pace of development. Annual production is forecasted at 60,000 to 65,000 MTUs in 2012. At 500 tpd, at current grade and recovery rate, Malaga would produce between 90,000 to 100,000 MTUs per year.

The Company and its Swiss partners, Emerging Power Developers and Stucky S.A, intend to build a new hydroelectric plant in Peru. While initial capacity is expected to be 20 MW, given the area's watershed and water flow characteristics, as well as enhanced dam retention capacity, potential capacity could subsequently be increased up to 38 MW. The decision to build a new power source was based on Hidropesac's updated feasibility study on the construction of a hydroelectric power plant using the water resources of the Pelagatos and Plata rivers. Hidropesac has a temporary concession permit and is presently updating the environmental assessment and archeological artefacts study. When those studies are finished, it will then complete the generation and transmission technical specification, a feasibility study for the electromechanical equipment, engineering for the civil and electromechanical works, and engineering for the substations and transmission line in order to obtain the permanent concession. The Company expects to obtain final approval early in the fourth quarter of 2012, which would allow building to begin the following quarter. Construction is expected to take 18 to 24 months, followed by a six-month commissioning period.

11-NON-GAAP MEASURES

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

12-RISKS AND UNCERTAINTIES

The exploration for development and mining of mineral deposits involves significant risks, which even a combination of careful evaluation, experience and knowledge may not eliminate. For additional discussion of risk factors, please refer to the Company's 2011 Annual Information Form which is available upon request from the Company or on its profile at www.sedar.com.

13-DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") of the Company are responsible for establishing and maintaining the Company's disclosure controls and procedures, including adherence to the Disclosure Policy adopted by the Company. The Disclosure Policy requires all staff to keep senior management fully apprised of all material information affecting the Company so that they may evaluate and discuss this information and determine the appropriateness and timing for public release. The CEO and CFO evaluated the effectiveness of the Company's disclosure controls and procedures as required by Multilateral Instrument 52-109 issued by the Canadian Securities Administrators. They concluded that as of March 31, 2012 the Company's design and operation of its disclosure controls and procedures were effective in providing reasonable assurance that material information regarding this report, and the consolidated financial statements and other disclosures was made known to them on a timely basis.

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

The Chief Executive Officer and the Chief Financial Officer evaluated the design of the ICFR as at March 31, 2012. Pursuant to their evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the internal controls over financial reporting (ICFR) are effective. In addition, the Chief Executive Officer and the Chief Financial Officer of the Company are responsible for developing internal controls over financial reporting or the supervision of their development.

14-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) Pierre Monet
Pierre Monet
President Chief Executive Officer

(s) Joey Trombino
Joey Trombino
Vice-President and Chief Financial Officer