

MALAGA INC.

ANNUAL INFORMATION FORM

RELATING TO THE YEAR ENDED DECEMBER 31, 2011

March 27, 2012

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Except as otherwise indicated, the information contained in this Annual Information Form ("**AIF**") is up-to-date as at December 31, 2011. This AIF sets forth the results for the fiscal years ended December 31, 2011, December 31, 2010 and December 31, 2009. All financial information, unless specified, is expressed in United States dollars, which is the functional and presentation currency of the Company.

TERMINOLOGY

APT	Ammonium paratungstate is an intermediate product which is one of principal chemical for in which tungsten is traded.
Concentrates	Valuable fraction of an ore that is left after worthless material is removed by processing.
Inferred mineral resources	part of a mineral resource for which quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity. The estimate is based on limited information and sampling gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes.
Measured mineral resource	part of a mineral resource for which quantity, grade or quality, densities, shape and physical characteristics can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parameters, to support mine planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough for geological and grade continuity to be reasonably assumed.
Mineral resources	mineral resources are subdivided, in order of increasing geological confidence, into inferred, indicated and measured categories. An inferred mineral resource has a lower level of confidence than that applied to an indicated mineral resource. An indicated mineral resource has a higher level of confidence than an inferred mineral resource but has a lower level of confidence than a measured mineral resource.
MTU	Metric Tonne Unit, equals 1% of a tonne or 10 kilograms.
Probable mineral reserve	economically mineable part of an Indicated and, in some circumstances, a Measured Mineral Resource demonstrated by at least a Preliminary Feasibility Study. This Study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified.
Proven mineral reserve	economically mineable part of a measured mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction is justified.
W	Elemental symbol for tungsten.
WO ₃	Tungsten tri-oxide (containing 79.33% W) a compound of tungsten and oxygen.

FORWARD-LOOKING STATEMENTS

Certain statements contained in sections "General Development of the Business" and "Description of the Business" of this AIF and the documents incorporated by reference contain certain forward-looking statement information and forward-looking statements (collectively referred to herein as ("**forward-looking statements**"). Statements related to the Company's projected revenues, earnings, growth rates, revenue and expansion plans are forward looking statements as are any statements relating to future events, conditions or circumstances. The use of terms such as "believes", "expects", "will", "intends", "projects", "anticipates", "estimates", "aims", "targets", "would", "could", "may", "likely", "plans", "forecasts", "continues" or similar terms or the negative thereof are intended to assist in identification of these forward-looking statements. By its nature, forward-looking information involves numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur and may cause actual results to differ materially from those anticipated in such forward-looking statements. Readers are cautioned not to place undue reliance upon any such forward-looking statements.

Many factors could cause the actual results of the Company to differ materially from the results, performance, achievements or developments expressed or implied by such forward-looking statements. Please refer to the section in this AIF titled "Risk Factors," beginning on page 22 for a detailed discussion.

The Company has included geological summaries, projections and reserves estimates in the AIF, which are based primarily on management's assessment and opinion of the Company's properties and results of operations, discussions, and negotiations with third parties, and management's experience. Investors are cautioned against attributing undue certainty to management's projections.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement.

CAUTIONARY NOTE TO U.S. INVESTORS CONCERNING RESOURCE ESTIMATES

The resource estimates were prepared in accordance with National Instrument 43-101 – Standards of Disclosure for Mineral Projects ("NI-43-101") adopted by the Canadian Securities Administrators. The requirements of NI 43-101 differ significantly from the requirements in the United States Securities and Exchange Commission (the "SEC"). This AIF uses the terms "measured", "indicated" and "inferred" resources. Although these terms are recognized and required in Canada, the SEC does not recognize them. The SEC permits US mining companies, in their filings with the SEC, to disclose only those mineral deposits that constitute "reserves". Under United States standards, mineralization may not be classified as a reserve unless the determination has been made. United States investors should not assume that all or any portion of measured or indicated resources will ever be converted into "reserves". Further "inferred resources" have a great amount of uncertainty as to their existence and whether they can be mined economically or legally and United States investors should not assume that "inferred resources" exist or can be legally or economically mined, or that they will ever be upgraded to a more certain category.

CORPORATE STRUCTURE

NAME, ADDRESS AND INCORPORATION

Malaga Inc. (the "**Company**" or "**Malaga**") is an exploration and mining company incorporated pursuant to Part IA of the Companies Act (Québec) on November 14, 1983 under the name "Ressources Maufart Inc." and since February 14, 2011 is governed under the Business Corporations Act (Québec). The Company amended its articles on November 22, 1983 to change its corporate name to "Ressources Maufort Inc.". On June 7, 1984, the Company amended its articles in order to add the English version of its corporate name "Maufort Resources Inc." and to abolish the restriction on the transfer of its shares. On September 17, 1986, the Company amended its articles to set the number of directors to a minimum of 4 and maximum of 10. On November 30, 1993, the Company proceeded with the following amendments to its articles:

- the consolidation of its share capital on the basis of 10 common shares for one new common share;
- the Company's corporate name was changed to "Mines Dynacor Inc.";
- the judiciary district of the head office of the Company was changed to Montréal; and
- the number of directors was set to a minimum of 3 and maximum of 10.

On May 17, 2007, the Company amended its articles in order to change its corporate name to "Malaga Inc.". The trading symbol of the Company's common shares on the Toronto Stock Exchange (the "TSX") was consequently changed from "DYN" to "MLG". On October 5, 2011, The Company became listed on the U.S. Over-the-Counter market ("OTCQX") under the symbol "MLGAF". The Company is a reporting issuer under the *Securities Act* (Alberta), the *Securities Act* (British Columbia), the *Securities Act* (Ontario) and the *Securities Act* (Québec).

The Company's head office is located in Canada at 2000 McGill College Avenue, suite 510, Montréal, Québec, H3A 3H3.

INTER-CORPORATE RELATIONSHIPS

The following chart shows the inter-corporate relationships among Malaga and its subsidiaries:

Corporate name	% of ownership	
Dynacor Exploraciones del Peru S.A.C.	100	
Minera Pasto Bueno S.A.C.	100	
Minera Malaga Santolalla S.A.C.	100	by Minera Pasto Bueno
Hidroelectrica Pelagatos S.A.C.	49	by Minera Malaga Santolalla

Dynacor Exploraciones Del Peru, S.A., ("**Exploraciones**") a 100 % owned subsidiary of the Company, was incorporated on January 4, 2005, pursuant to the Peruvian Business Corporation Law. Exploraciones holds mining rights and assets comprising the Pasto Bueno tungsten mine (the "**Pasto Bueno Mine**") and the Pasto Bueno Property (collectively referred to as the "**Pasto Bueno Property**"). The registered office of Exploraciones is located at Calle Luis Pasteur 1297, Lince, Lima, Peru.

Minera Pasto Bueno S.A.C., ("**Minera Pasto Bueno**") a 100 % owned subsidiary of the Company, was incorporated on October 27, 2005, pursuant to the Peruvian Business Corporation Law. Minera Pasto Bueno holds 100% of Minera Malaga Santolalla S.A.C. The registered office of Minera Pasto Bueno is located at Calle Luis Pasteur 1297, Lince, Lima, Peru.

Minera Malaga Santolalla S.A.C., ("**Santolalla**") a 100 % owned subsidiary of the Minera Pasto Bueno, was incorporated on November 25, 1945 (as "*Fermin Malaga Santolalla e Hijos Negociation Minera y Agricola S.A.*") pursuant to the Peruvian Business Corporation Law. Santolalla holds mining rights and assets comprising the Pasto Bueno Mine. The registered office of Santolalla is located at Calle Luis Pasteur 1297, Lince, Lima, Peru.

Exploraciones, Minera Pasto Bueno, and Santolalla are collectively referred to as the "**Peruvian Subsidiaries**".

Hidroelectrica Pelagatos S.A.C. ("**Hidropesac**"), an affiliate is a 49% owned equity investment of the Company, and was incorporated on March 13, 2007 pursuant to the Peruvian Business Corporation Law. Hidropesac operates a hydro-electric power plant located in the vicinity of Pasto Bueno property in Peru.

GENERAL DEVELOPMENT OF THE BUSINESS

The business of the Company consists of developing the Pasto Bueno Property, carrying exploration work on adjacent properties and operating the Pasto Bueno Mine.

THREE-YEAR HISTORY

2009

Malaga hired Vector Engineering, Inc. ("Vector") to prepare a NI 43-101 compliant technical updated report on the reserves and resources of the Pasto Bueno Mine. Vector issued a technical report dated February 15, 2010 (the "**2010 Pasto Bueno Technical Report**") that confirmed Malaga's calculations of ore reserves:

Category	Metric Tonnes	WO3 Grade
Reserves		
Proven	81,696	0.71%
Probable	87,731	0.68%
	<u>169,427</u>	<u>0.70%</u>
Resources		
Measured	64,757	0.91%
Indicated	334,088	0.73%
Measured & indicated	<u>398,845</u>	<u>0.76%</u>
Inferred	<u>1,820,641</u>	<u>0.70%</u>

The reserves are included in the measured and indicated resources. The economic viability of the mineral resources that are not mineral reserves has not been demonstrated.

The Company's management had stated it believed that the potential of the mine is greater than that indicated in the report referred to above as the study covered only a portion of the mining property.

Alonso Sanchez, Chief Geologist, collaborates through his regular visits on site, for all matters related to sampling procedures, technical information and the supervision of ongoing development work. Thus, he attested to the precision and exactitude of the data, and the mining and geological knowledge of the property as required by National Instrument 43-101 and its annexes.

Supply Agreement with Global Tungsten and Powders Inc. ("GTP")

On February 27, 2009, the Company entered into a five year agreement for the sale of tungsten whereby the Company obtained an advance of \$1.2M bearing no interest, repayable on the last deliveries on the Supply Agreement.

Financing Agreement

On April 1, 2009, the Company entered into a financing agreement with GTP in the amount of \$3.8M. The promissory note did not bear interest until March 31, 2010 and bears interest since then at the 12 month LIBOR rate. The promissory note is repayable in equal monthly installments beginning April 1, 2010. The promissory note will be convertible at the option of the holder commencing on April 1, 2010, and to a maximum of 19.99% of the total shares outstanding, on December 14, 2010, of the Company, at market price less a 15% discount. The promissory note was secured by 3,500,000 shares, reduced to 1,500,000 shares in 2010, of Dynacor Gold Mines Inc. (Dynacor), owned by the Company, payable in 48 equal monthly installments, of \$79,167, from the thirteenth month after closing the agreement. These funds were used to accelerate the development of the mining properties and purchase new equipment, so that the processing capacity could be increased from 250 to 500 tonnes per day ("tpd").

Rights Offering

In August 2009, 9,000,000 common shares were issued pursuant to a rights offering, at a price of CA\$0.10 per share, generating proceeds in the amount of \$0.9M (\$CA0.9M).

Capacity Increase

The expansion project was initiated in the 2009 in order to achieve a production capacity goal of 500 tpd. The crushing section was completed in the fourth quarter of 2009, increasing the capacity from 250 tonnes to 350 tpd. Additional downstream production equipment was installed as part of the Company's goal to achieve the capacity objective in the second quarter of 2010.

2010

Development Program

During 2010, 3,648 meters of underground development work were completed and 1,869 meters of diamond drilling were achieved. At the time, production was being extracted from only four veins (Consuelo, Candela, Alonso Fenix, and Chabuca).

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

Drilling Results

Consuzo Zone

Drill hole HDD 02 10 was drilled to test whether tungsten mineralization could be found under the old Consuzo mine. The drill hole was 390.8 meters long and intersected the northern extension of the Loreto vein 250 meters below the level corresponding to the Pelagatos river which runs alongside the old Consuzo mine and plant. The tungsten content was analysed in Lima by a certified laboratory, Acmelabs, and an intersect containing 1.83% WO₃ over a width of 1.03 meter was found demonstrating that high grade tungsten veins could be found at depth close to the old Consuzo mine.

Huaura & Huayllapon Zones

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

Plant

The expansion of the plant to a capacity of 500 tpd was completed in 2010 but the mine proved to have constraints limiting production to 350 tpd.

Private Placement

During 2010, the Company completed a two tranche private placement of 35,863,333 units at a price of CA\$0.15 per unit for a cash consideration of \$5,198,903. Each warrant consisted of one common share and one warrant entitling the holder to purchase one common share at a price of CA\$0.25 with a two year maturity. Share issuance expenses for this private placement amounted to \$444,465 which includes an amount of \$30,381 as a result of the issuance of 1,405,933 broker warrants

Financing Agreement

The long-term debt with GTP was secured, in 2009, by 3,500,000 shares of Dynacor which the Company owns. GTP agreed in December 2010 to release 2,000,000 shares, reducing the security to 1,500,000 common shares as at December 31, 2010.

Investment in Dynacor

In November of 2010, the Company sold 500,000 shares of Dynacor and generated proceeds of \$0.7M. This transaction generated a pre-tax gain on disposition of \$0.6M. In 2010, the Company received the reimbursement of the entire promissory note for proceeds of \$2.5M from Dynacor.

2011

As disclosed in a 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 ("PAH"), for the Pasto Bueno property and contained the following reserves and resources as at November 25, 2011 as they compare to our previous technical report:

Category	November 25, 2011		January 1, 2010		% increase in tonnage
	Tonnes	WO3 Grade	Tonnes	WO3 Grade	
Reserves					
Proven	86,605	0.66%	81,696	0.71%	6%
Probable	109,275	0.66%	87,731	0.68%	25%
	195,880	0.66%	169,427	0.70%	16%
Resources					
Measured	79,715	0.76%	64,757	0.91%	23%
Indicated	734,382	0.78%	334,088	0.73%	120%
Measured & indicated	814,097	0.78%	398,845	0.76%	104%
Inferred	3,718,216	0.83%	1,820,641	0.70%	104%
Tailings pond	450,000	0.14%	-	-	-
Total inferred	4,168,216	0.76%	1,820,641	0.70%	129%

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. Going forward, the Company plans to update its technical report on an annual basis.

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 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 2011, 4,827 meters of underground development work was completed. Ore is currently being mined from five veins (Consuelo, Candela, Alonso Fenix, and Chabuca and Maria Ofelia).

2011 Drilling Campaign

The Company has previously announced the commencement of a \$1.5M exploration campaign to drill 12 holes in the southern part of the property totaling 6,300 meters. The focal point of the exploration program is to explore the outcropped mantos in the southern part of the property. The Manto Santa is particularly interesting as it is the thickest manto structure and a channel sample taken in 2010 reported a grade of 1.17% WO₃ over 6.8 meters.

As a result of drilling and exploration, that began in 2010, of the Consuzo Zone, the Company decided to further explore this old mine at the Consuzo zone with an additional three holes.

Malaga's expanded exploration in the Consuzo Zone started during the second quarter of 2011 with the objective of exploring the Loreto vein in the area of the zone between a hole drilled in 2010 (HDD- 02-10) and old production areas used by former mine owners in the 1980's. Two out of three diamond drill holes, totaling 1,462 meters intercepted the vein below the old operations and above the drill hole HDD-02-10(2).

The findings of the latest exploration support the Company's inferred resource calculation. In fact, the three most recent instances where exploratory drilling holes intercepted the Loreto vein in the deepest part of the ore deposit show mineralization 184 meters below the old operations (at 3,314 meters above sea level). These results suggest that the deposit may be even deeper and requires further exploration in the near future.

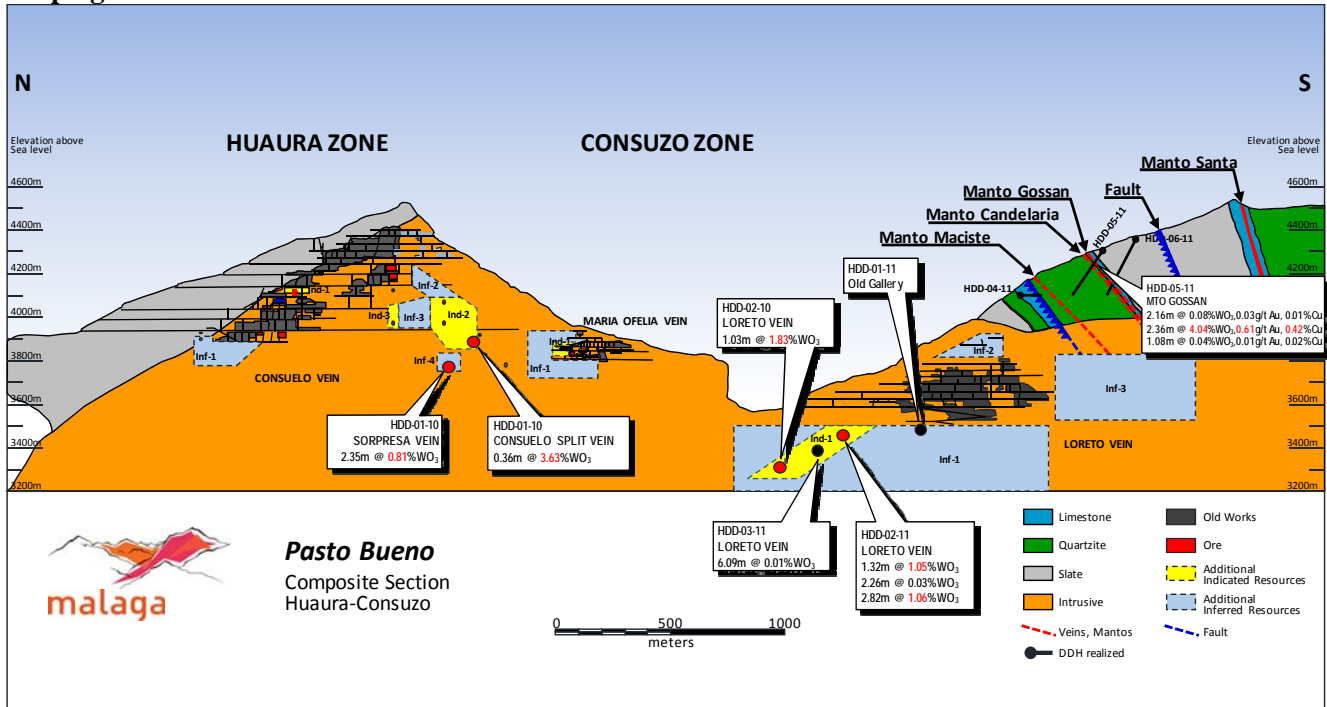
In addition, the Company constructed 8 km of roads which was a key element for allowing the exploration drill rigs to be hoisted up the mountain and begin exploration in a completely unexplored area of the Malaga property. The access roads will allow Malaga to continue its broader plans to drill a total of ten holes and explore four mantos (Maciste, Candelaria, Gossan and Santa). The manto structures on the Pasto Bueno property are flat-lying, bedded, strata-bound ore deposits hosted by sedimentary and metamorphic rocks such as limestone, slate and quartzite. The results of the first drill hole was published and more than 290 meters was performed with its first drill hole to reach Manto Gossan where the drill core (5.60 meters long) reported 2.36 meters in length of 4.04% WO₃ (tungsten in the form of scheelite), 0.61 g/t Au (gold) and 0.42% Cu (copper) (HDD-05-11).

Pasto Bueno 2011 Drilling Summary

Drills Id	Length (m)	Intersection		True Thickness		Mineralization					
		Depth (m)		Structure (m)	Mineralization (m)	WO3 (%)	Cu (%)	Pb (%)	Zn (%)	Ag (oz/t)	Mo (ppm)
HDD-01-11	673.05	340.95	- 347.70	6.75							
HDD-02-11-2	425.00	202.60	- 203.80	6.40	1.32	1.05	0.17	0.11	0.09	0.70	20
		203.80	- 206.40		2.26	0.03	0.03	0.02	0.03	0.13	10
		206.40	- 209.40		2.82	1.06	0.72	0.14	0.24	1.87	5
HDD-03-11-3	364.60	317.30	- 327.10	6.90	6.90	0.01	0.04	0.13	0.20	0.65	87
HDD-05-11-5	215.40	43.20	- 45.40	5.60	2.16	0.08	0.01	0.00	0.02	<0.02	0
		45.40	- 47.80		2.36	4.04	0.42	0.00	0.01	<0.02	2
		47.80	- 48.90		1.08	0.04	0.02	<0	0.01	<0.02	<2

This mineralized zone in the mantos is very different from the Northern part of Pasto Bueno property where tungsten is currently extracted and milled.

Map showing the Consuzo zone and the 4 Manto structures that are the targets of the 2011 drilling campaign



Financing Arrangements

In November 2011, the Company amended its supply agreement with GTP whereby it received a cash advance of \$0.8M. The Company re-paid the \$0.8M on February 28, 2012. Additionally, in November of 2011, the Company received a bridge financing loan in the amount of \$1M (CA\$1M), which is due November 30, 2012. The loan is secured by 1,000,000 common shares of the Company’s Dynacor common shares. As explained earlier, 1,500,000 shares of Dynacor remain as pledged security against our long term debt with GTP, therefore a total of 2,500,000 shares of Dynacor are now pledged as security. The advance and bridge financing were for working capital, exploration and the construction of our new tailings pond.

Investment in Dynacor

During 2011, the Company sold 774,200 shares of Dynacor and generated proceeds of \$1M.

Shareholders’ Rights plan

On May 5, 2011, the Board of Directors of the Company approved the adoption of a Shareholders’ Rights Plan (“Rights Plan”) for which shareholders’ approval was obtained at the Corporation’s annual and special meeting of shareholders held on June 16, 2011. The Rights Plan is designed to give the Board of Directors and the shareholders sufficient time to adequately consider any bid that could be presented to the Company and sufficient time to third parties to submit competing bids or proposals. The Rights Plan is also designed to ensure that all shareholders will be treated fairly for operations resulting in a change of control of the Company and benefit equally from the benefits of a public offer to purchase. The Rights Plan encourages potential purchasers to negotiate the terms of a possible offer for the shares with the Board of Directors, or to submit offers permitted (within the meaning of the Rights Plan) without the approval of the Board of Directors.

The Rights Plan has been accepted by the Toronto Stock Exchange and was effective as of May 24, 2011 (the “Effective Date”). At the close of business on the Effective Date (as defined in the Rights Plan), one right (a “Right”) was issued and attached to each of the Corporation’s common shares that were outstanding at that time. A Right has also been attached to each common share issued after the Effective Date.

The Rights Plan is not triggered if an offer to acquire the Corporation's common shares is made through a "Permitted Bid" thereby allowing sufficient time for shareholders to consider and react to the offer. A "Permitted Bid" is a take-over bid made by way of a take-over bid circular that, among other things, remains open for a minimum of 60 days and requires the acceptance by more than 50% of the common shares held by independent shareholders. The Rights Plan will be triggered by an acquisition, other than pursuant to a Permitted Bid, of 20% or more of the Corporation's outstanding common shares or the commencement of a take-over bid that is not a Permitted Bid.

Outlook 2012

Current market conditions support continued growth in the demand for tungsten as supply will remain limited in near-term. As such, APT price increased 78% in 2010 and 77% in 2011. The Company believes that market prices will remain strong 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 uniquely 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. A new general manager, a mining engineer with extensive experience in underground mining, was appointed in December 2011 and a new mine manager will be hired. The Company will also hire more contractors to increase the pace of development. Annual production is forecasted at 60,000 to 65,000 MTUs for 2012. At 500 tpd, at current grade and recovery rate, Malaga would produce between 90,000 to 100,000 MTUs per year. The recently upgraded tailings pond will have, at 500 tpd, a life of 5 to 6 years. The dyke will be completed after the rainy season in April 2012.

The Company's objective is to continue to replenish the reserves and maintain sufficient quantities to support 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. Therefore, in addition to its development and underground diamond drilling programs, when the first exploration campaign in the southern part of the property will be completed during Q2-2012, the results will be fully analyzed and the Company will determine the objectives and the scope of the second campaign.

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.

DESCRIPTION OF THE BUSINESS

GENERAL

The Company's activities consist of carrying exploration work on mining properties, developing and mining and milling of minerals. The Company's business is focused in Peru. The operations, exploration and development activities on the Pasto Bueno Property are located in the Ancash Department, Central Peru.

MINING PROPERTIES

PASTO BUENO PROPERTY

The Company retained PAH, to prepare a technical report on the Pasto Bueno Property in accordance with NI 43-101. Mr. Richard J. Kehmeier, C.P.G., M.Sc. the Chief Geologist for PAH is the certifying Geologist for the 2011 Technical Report. This Technical Report conforms to form 43-101F1 for technical reports according to the June 30, 2011, guidelines and regulations.

The summary from the 2011 Pasto Bueno Technical Report is reproduced herein, a complete copy of which is available on SEDAR at www.sedar.com.

Project Description and Location

The Pasto Bueno mine is in the Pasto Bueno district in the Pallasca province in the Ancash department of Peru. The Pasto Bueno district is in the northernmost extension of the Cordillera Blanca in the north-central Andes just west of the continental divide, approximately 90 km east of the Pacific Coast.

The property comprises 33 concessions with a total area of 688.22 hectares. Twenty-four of these concessions were purchased from Minera Malaga and nine were already owned or were purchased from other owners by the Company.

The Company owns 100% of the property, including all surface rights. The Company pays annual fees which are due July 1st of each year to maintain the rights to the concessions. It is the responsibility of Malaga to pay these fees annually to the Ministry of Energy and Mines. The fee is equivalent to \$1/hectare, so the total is \$688.22.

The Company is not subject to any royalties, back-in-rights, payments or other agreements or encumbrances other than taxes and royalties imposed by the Peruvian government and a 1% net smelter royalty on claim NUMERO SIETE (31.68 hectares) once in production. The taxes and royalties imposed by the Peruvian government include an income tax, a tax on mining, and sales tax on production. The government annual income tax is 30% of the net profit. The tax is collected monthly at a rate of 2.0% of the monthly sales revenue. The general sales tax is equivalent to 18% effective April 1, 2011 and prior to that was 19% of the cost of all necessary goods and services used in the production of the product. The amount to be paid by way of the Impuesto General de Ventas ("IGV"), or general sales tax, is recovered when the product is produced for export.

In August 2011, Peru passed a new mining tax law. The previous tax law required mining companies to pay a sliding scale royalty of 1% to 3% on the net concentrate revenue. The new law has two provisions. They are:

- Companies without a tax stability agreement pay
 - 1) a royalty of 1% to 12% of operating profits, and
 - 2) a windfall tax of 2% to 8.4% on operating profits;
- Companies with a tax stability agreement pay
 - 1) a "special contribution" tax of 4% to 13.12% of operating profits.

The mining tax is deductible for the purposes of calculating the income tax. In addition to the mining tax, there is an 8% workers participation tax that is based on taxable net income.

The topography is mountainous and rugged, typical of the Peruvian Cordillera. The mine is located at the very north end of the Cordillera Blanca mountain range, which contains the highest mountains in Peru. The climate of the region is typical of the high Andes of Peru. There is a dry season with little precipitation from May through September and the wet season with the wettest months from January through the end of March and sometimes into April. The access to the mine is a 204-kilometer ("km")-long road that leaves the Pan American Highway 20 km north of the city of Chimbote. Of the 204 km, approximately 100 km of the road is paved; the remainder is gravel and dirt. The access road travels along the Rio Santa, then along the Rio Tabachuca and finally along the Rio Pelagatos. Driving from Trujillo to the mine, a 360km journey, takes 7 to 8 hours.

Many of the workers from the 1990s, when the mine was previously in operation, still reside in Consuzo and the surrounding area providing a source of skilled and unskilled labour. The local resources are very good for mining.

Prior to December 2008, power to the processing plant and the mine facilities were, in part, supplied by Hidrandina, a regional electricity provider. A new hydroelectric plant, owned by Hidropesac, was commissioned in December 2008. The hydroelectric plant has a current capacity of 600 kW. The remaining power continues to be provided by the Hidrandina grid.

The long history of Pasto Bueno can be divided into three different periods of mining operations. The first, 1910 to the early 1990s, was operated by Minera Malaga. The second operator in the late 1990s was Avocet Resources from about 1995 to 1998. The property was generally idle from 1998 until 2005 when it was purchase by Malaga. The Pasto Bueno deposit was discovered in the early 1900s and brought into production in 1910. It has been active, more or less continuously, for the past nearly 70years, producing a reported six million tonnes of ore and 42,000 tonnes of concentrate containing an average grade of 75% WO₃. Beginning around about 1995, Avocet Mining invested time and money to try to restart the operation. They completed the development of the No. 12 level along the Consuelo vein and built the new Huaura mill near the No. 12 level adit (the horizontal entrance to the mine). In 2005, Malaga purchased the majority of the property (24 concessions) from Minera Malaga. Malaga refurbished the Huaura mill, built by Avocet, and began producing mill feed from several of the veins. The initial pre-production operations goal was 250tpd which was achieved at the beginning of 2007.

The Pasto Bueno deposit is in the northernmost extension of the Cordillera Blanca batholith. The oldest rocks in the area are parts of the Jurassic and Cretaceous sequences of the Chicama Formation shale and the Goyllarisquizga Group of shale, quartzite, and limestone of northern and central Peru. The Chicama Formation is described as forming in the Western Peru Trough, a depositional basin trending northwest-southeast and existing from about the Middle Triassic to the Late Cretaceous periods. This trough was likely the inner-arc basin of a Jurassic island arc system. Igneous rocks observed in the area consist of lower Tertiary volcanic dikes and sills, the Consuzo quartz monzonite stock, and upper Tertiary hypabyssal rocks that are probably co-magmatic with the stock. The sediments were intruded by several different intrusive events but the Consuzo stock is the primary event that is associated with the mineralization. The Consuzo stock is a biotite-bearing porphyritic quartz monzonite cropping out over an area of nearly 40 km² and a maximum vertical exposure in the Rio Pelagatos Canyon of 1,100 meters. The structure in the Pasto Bueno area is dominated by faulting. A series of thrust faults or decollements separate the Chicama Formation from the overlying members of the Goyllarisquizga Group. A major east-west fault is shown along the Pelagatos River and a second parallel fault occurs about 750 meters to the south. Another shorter east-west fault occurs about halfway in between and forms a contact between the sediments and intrusive. Secondary faults between the major east-west faults strike northwest while faults north of the Pelagatos River strike northeast. South of the southernmost east-west fault the secondary faults strike more northerly. The map patterns suggest a component of strike-slip movement in the east-west faults. Recently, as a result of additional mining, the Company has found that mineralization is much more extensive in the intrusive.

Studies of sequential, zonal, and crosscutting relations showing alteration of the Consuzo stock can be documented as a single dynamic episode producing an alteration collectively referred to as greisenization. A greisen is a pneumatolytically-altered granite rock comprised largely of quartz, mica, and topaz. The ore mineralization occurs within steeply dipping vein systems. The principal minerals of economic interest in the veins are wolframite, tetrahedrite/tennantite, sphalerite, and galena. The gangue minerals are quartz, fluorite,

sericite, pyrite, and carbonate. Molybdenite, chalcopyrite, bornite, arsenopyrite, enargite (luzonite), stolzite, scheelite, zinnwaldite, topaz, tungstite, and native arsenic are present in minor amounts.

Mapping, sampling, and exploration have defined multiple vein types based on geometry and alteration. These types include:

- High-angle quartz veins that cut both the intrusive rocks and the quartzites showing classic greisen alteration. These have been the source of the past production and provide the bulk of the potential of the area.
- Manto-type hübnerite mineralization confined to slates in the Huaura area confined to slates. The mantos form likely as quartz-filled expansions along bedding planes in the slates. These deposits are also typified by greisen alteration.
- Manto mineralization in limestone along the southern edge of the Consuzo Stock characterized by high sulfide replacements containing chalcopyrite and scheelite. These are currently the focus of exploration mapping, sampling and drilling by the exploration staff of the Company.
- Gold values up to 2 gm Au/t in quartzites of the Maciste Manto located south of the Rio Pelagatos. Gold is produced from these same quartzites at the Santa Rosa mine and the San Simon mine of Compania Minera San Simon approximately 10 km west-northwest and 15 km northwest of the Pasto Bueno mine, respectively.
- Recent drilling and underground exploratory drifting has shown the tungsten mineralization is deeper into the intrusive than previously thought. In addition, some quartz veins that are narrow on the surface or show little or no mineralization increase in size and/or contain mineralization at depth.

The Company began an exploration effort in late 2006 that included mapping and sampling of veins on the surface, drifting along and raising on known veins, and driving cross cuts to explore for the presence of new veins at depth. The surface mapping and sampling was successful in identifying over 70 quartz veins and identifying new types of mineralization. The potential for the additional veins and the new styles of mineralization form the basis of the ongoing exploration program. The property, for the purposes of exploration and exploitation, is broken into three areas: the Huayllapón area, the Huaura area, and the Consuzo area. Veins currently being explored or exploited in each area include the:

- Huayllapón area: Chabuca veins
- Huaura area: Alonso-Fenix; Candela; Consuelo; Limbo; Luz Elena; Paraiso; San Augustin; Saucó; Santa Maria; St. Augustin and Violeta veins
- Consuzo area: Loreto and María Ofelia veins and the mantos (exploration) as described above

The drilling program was designed to test deeper areas of veins currently being mined, test new veins at depth that had been identified in the surface mapping, and test for veins that were not exposed at the surface. When logging the core, the geologists noted rock type, alteration, quartz veins, and mineralization within the veins. Three types of quartz veins were noted. They were:

- Barren white opaque quartz veins
- Barren white translucent quartz veins
- Mineralized quartz veins with light gray translucent quartz accompanied by pyrite, hübnerite, and tetrahedrite.

Coarse-grained pyrite extended for up to several meters on either side of the mineralized veins. Only those quartz veins with visible tungsten mineralization were sampled and assayed. The drilling program was very successful in that it had 24 mineralized vein intersections in the 16 holes. Twelve, or half, of the intersections assayed greater than 0.25% WO₃. In addition, several veins not known to have significant grade, contained ore-grade tungsten.

The primary exploration method on this property is direct underground sampling of the vein. A drift is driven along a vein and samples are collected every two meters across the vein exposed in the back of the drift to evaluate the tungsten content.

Raises are also driven into the vein and the vein is sampled along the sides of the raise to evaluate the tungsten content of the veins. The results of this sampling provide the data for the calculation of resources and reserves. This sampling has evolved and been improved since 2005 when Malaga acquired the property. This evolution has resulted in three sets of data that have been accumulated from this sampling work. They are:

- 1- Sampling completed by Malaga prior to April 2006 and assayed by SGS laboratories in Peru. The sampling layout and security of this sampling is in part unknown. The assay technique was fusion with sodium peroxide and analysis by ICPMS. Results of this sampling were reported in the report "Report on the Reserves of the Pasto Bueno Mine Project," dated April 24th 2006, by Marc Leduc and Gary Parkinson, both QP's, of Vector. This report was not filed on SEDAR or utilized by Malaga for any activities. All the vein areas sampled by this program were mined in prior years.
- 2- Sampling completed by Malaga after August 2006 and assayed by the laboratory at the mine in support of development and production. The assay technique is sodium peroxide fusion with colorimetric analysis for the tungsten content. This work is ongoing as production continues. There is a QA/QC protocol in place for these samples that is compliant with NI 43-101 requirements. This protocol was established by Alain Beauregard, a QP. The sampling was supervised by the Chief Geologist, Alonso Sanchez, C.P.G., for Malaga.
3. Sampling completed by Malaga after August 2006 and assayed by ALS Chemex using either a metaborate fusion or a pressed pellet preparation with XRF analyses. The metaborate fusion is used on those samples with WO₃ contents greater than 1%. There was a QA/QC protocol in place for these samples that is compliant with NI 43-101 requirements. This protocol was established by Alain Beauregard, a QP. The sampling was supervised by the Chief Geologist, Alonso Sanchez, C.P.G., for Malaga.
- 4- The sampling technique and the QA/QC procedures are expected to yield representative samples of the in-place mineralization. The sampling procedures as described by the Company's geologists do not appear to introduce any significant biases in the results. The sampling method is compatible with the mining method being used. Producing accurate assays for tungsten can be difficult using traditional methods of various gravimetric techniques or colorimetric techniques because of the difficulty of taking the tungsten oxides into solution. The assay techniques of fusion or pressed pellet with XRF or ICPMS analysis used today are the preferred methods of assay as they are much more effective in dealing with the resistate nature of tungsten oxides.

The quality of the sample preparation, security and integrity, and analysis of the samples by ALS Chemex, Acme labs and SGS laboratories and the Pasto Bueno labs meets or exceeds those of the industry and of NI 43-101.

The primary lab for assaying mine samples is the Pasto Bueno lab. ALS Chemex, Acmelabs, and SGS laboratories are the labs used for exploration samplings and for QA/QC for both the mine and exploration. However in 2011, Malaga decided to make SGS the primary lab.

Tungsten assay results can vary considerably between labs. At Pasto Bueno there appears to be excellent agreement between the assays of the Pasto Bueno lab and the ALS Chemex labs even given the two different assay methods. Vector performed two separate verification sampling studies, in 2005 and again in 2009. In 2011, further assaying was performed by the Pasto Bueno lab and verified by both ALS Chemex and SGS laboratories. The results of the assaying in 2011 showed that there was no significant bias.

There are currently no active adjacent mineral properties. The Company's operating mineral processing plant is currently processing 375 tpd. The mill produces a concentrate averaging 75% WO₃. The mill is currently reporting recoveries between 71% and 74% WO₃, and does not recover additional base or precious metals.

The Pasto Bueno Mine has had historical production spanning the past nearly 100 years. Much of this production, which totals 6,000,000 tonnes, produced 42,000 tonnes of concentrate containing 75% WO₃.

A mineral resource has been estimated for the Pasto Bueno property using the mineral resource categories of inferred resources, indicated resources, and measured resources as defined by NI 43-101. This mineral resource estimate is current as of November 25, 2011.

The sampling that supports this resource estimate was assayed by the Mine lab. The sampling and QA/QC procedures at the mine are well documented, consistent with industry standards and NI 43-101 requirements and are considered to be representative of the tungsten content of the veins. The resources were estimated using a cutoff of 0.36 % WO₃. The following table shows the four categories and associated cost categories used to calculate cutoff grades.

Breakeven GradeWO₃%	Ore Type	Cost Basis
0.53%	Ore	All Operating and Administrative Costs and Depreciation and Amortization
0.44%	Marginal Ore	Costs without Depreciation and Amortization (Reserve Cutoff)
0.37%	Sub-marginal Ore	Costs without Depreciation, Amortization, Administration and Sales Expense
0.36%	Low Grade	Operating Costs Only (Resource cutoff)

The inferred resource does not include the indicated and measured resources. The following table is a summary of the results of the resource estimation:

Categories	Metric tonnes	Grade (WO₃)
Inferred	3,718,216	0.83
Indicated	734,382	0.78
Measured	79,715	0.76
Indicated + Measured	814,097	0.78

The method of estimation is a modified polygonal method. The blocks (polygons) were drawn by the mine geology staff based on the following criteria:

- A block is a maximum of 50 meters high or 50% of the drift length if less than 100 meters, provided only one face has been sampled.
- If a second face has been sampled in the block then the block height is increased by a maximum of 50% of the height of the second face beyond the limits of the sampling.
- The width of the block is the average width of all the samples taken from that block.
- Blocks adjacent to measured resources that are defined as indicated resources but without sampled workings are drawn to reflect the size of the adjacent measured blocks but do not exceed 50 meters in height.
- Boundaries of blocks defined as inferred resources are drawn to reflect both a generalized mining plan and geology.

The resource categories for the various mineralized blocks defined by the mine were classified according to the following criteria:

- Blocks defined on at least two sides with workings were classified as measured resources.
- Blocks defined on at least one side but with internal workings were classified as measured resources.
- Blocks defined on one side by a drift or raise were classified as indicated resources.
- Blocks with more than one drill intercept above ore grade and of minable width are classified as indicated resources.
- Blocks adjacent to measured resources but without sampling are classified as indicated resources.
- Blocks that were along projections of structures or trends known to contain ore grade mineralization from mining, underground sampling, or surface sampling was classified as inferred resources.

- Those blocks with a grade of at least 0.36% WO₃ were included in the indicated and measured categories.
- The grade of the inferred blocks was estimated from limited sampling within the block or from the grade of adjacent blocks for which the grade was known. If no other data were available for inferred blocks, the average mine grade was assigned to an inferred block.

Reserves with the effective date of November 25, 2011, for the Pasto Bueno Mine are based on the economic criteria based on the 2011 costs and projections of 2012 costs and revenue. The summary results are shown in the following table:

PASTO BUENO RESERVES

Pursuant to the independent technical report as required under standard 43-101 and performed by PAH, the Pasto Bueno property contains the following reserves as at November 25, 2011:

Categories	Metric tonnes	Grade (WO₃)
Proven	86,605	0.66%
Probable	109,275	0.66%
Proven & probable	195,880	0.66%

The following are a list of the assumptions used to delineate block volume:

- Minimum mining width is 0.75 meters. The mine has purchased equipment to mine to the minimum width. The Violeta vein is about 0.5 meters thick but carries sufficient grade to carry a mining width of 0.75 meters. The other veins average closer to one meter in thickness before mining dilution.
- The cutoff grade of 0.53% WO₃ has been set as the minimum grade for ore and a grade of 0.44% WO₃ for marginal ore. Marginal ore is hauled to the mill and processed when it is present but is not used to establish mining blocks.

The reserve categories for the various mineralized blocks defined by the mine were classified according to the following criteria:

- All measured resources are classified as proven reserves except those not meeting the ore cut-off criteria.
- Blocks defined on one side by a drift or raise which were classified as indicated resources are classified as a probable reserve.
- Only those resources classified as measured and indicated resources are included in the reserve base provided the diluted grade is greater than the mining cut-off.

Other than the risks disclosed in this AIF and the Management Discussion and Analysis (MDA) about the environment, there are no known environmental, permitting, legal, title, taxation, socioeconomic, marketing, political or other relevant factors that the Company is aware of that could materially affect the resource and reserve estimates at Pasto Bueno. The Company stated that there are no adverse legal matters, title issues or tax issues that could materially affect resources. Tungsten is not traded on an exchange, such as the London Metal Exchange (LME), and the only price information that is available globally is published by the London Metal Bulletin and is based on information elicited from producers, consumers and traders.

SALES

As discussed above, on April 1, 2009, the Company signed a 5 year Supply Agreement with GTP for up to a monthly minimum up to 12,500 MTU per month. The pricing for this agreement is based on the quoted price of APT less a discount.

The Company chooses to sell all of its tungsten produced exclusively to one customer (GTP) in the United States of America. If, for any reason, GTP would not take the production, the tungsten could be sold to other customers.

Therefore, the Company is not dependent upon its customer. This is addressed in more detail in section below titled "Risk Factors".

APT prices are determined by producers, consumers and traders in the world market over which the Company has no significant control or influence. Prices are also affected by other factors including but not limited to, inflation rate, exchange rates, and interest rates. The Company does not enter into any sales derivatives contracts.

The tungsten concentrates are shipped from the Pasto Bueno plant to the Callao port where they are bagged and shipped to the customer.

Sales amounted to \$20.8M, \$14.1M, and \$9.3M (CAD\$10.6M) for the years ended December 31, 2011, 2010 and 2009 respectively. In 2011, 9.1% or \$1.9M in sales revenue was generated by the sale of copper by-product.

PRODUCTION

The Company processes the ore from its own mine. The costs are a function of the grade of the tungsten as well as labour, power, supplies and other.

Peru's extractive sector accounts for more than 60% of total Peruvian exports. Therefore, there are skilled labour and mining supplies available.

COMPETITION

The world largest producers of tungsten are in China. However, China is a net importer of tungsten. There are only a limited number of competitors in the Western World, mainly in Russia, Canada, Portugal, Spain and Austria.

ECONOMIC DEPENDENCE

Exploration and production activities on its properties require permits from local authorities. Such activities are subject to local laws and regulations governing exploration activities, mining activities, exports, taxation, labour standards, health and safety, land use and environmental protection. Failure to comply with applicable laws and regulations and permit requirements or amendments to them could have a harmful effect on the Company and could cause an increase of capital expenditures, exploration costs or production costs, or a decrease in the levels of production. Such amendments or the implementation of such laws and regulations could further cause the abandonment or delay the development of certain properties of the Company.

In order for the Company to commence mining activities on its various properties, the Company must obtain all the required approvals and permits. Additional permits or studies, which may include environmental impact studies, are usually necessary prior to launching the mining phase on properties in which the Company has exploration rights. To that effect, no assurance can be provided or obtained that the Company will be able to obtain or maintain all required permits to commence the construction development or operation of mining facilities on these properties on terms which enable operations to be conducted at economically justifiable costs.

ENVIRONMENT

Malaga continued improving environmental management of its operations at the Pasto Bueno Property. An environmental engineer has been working in close collaboration with the mining and plant engineers with respect to handling and storage of solid tailings and the recycling of mine waste waters.

In December 2011, the Company performed a detailed revision of the carrying value of its obligation to close the mine for financial statement purposes. These rehabilitation provisions represent the present value of the rehabilitation costs relating to the mine sites, which are expected to be incurred around 2027. To revise the estimate, the Company included the element of risk in the adjusted cash flows and discounted them using a risk-free rate of 2.6%.

The provision was increased by \$1.2M and now has a carrying value of \$1.8M and has been recorded in the Company's Statement of Financial Position. The increase in the provision due to passage of time will be recognized as interest expense in the consolidated statement of comprehensive income.

These estimates are reviewed on a periodic basis, as was the case in December 2011, to account for material changes to the assumptions and estimated future cash flows. However, it is important to note that actual rehabilitation costs ultimately depend on future market prices for the necessary decommissioning works required which will reflect market conditions at the relevant time. This means that actual eventual cost can be significantly different than estimated costs.

The Company will prepare and file its updated Environmental Impact Study which will include the plant closure study when required by the Peruvian governmental authorities.

Malaga is in communication with the Peruvian Ministry of Environment as well as other governmental agencies in order to ensure that it respects all the environmental legislation in force and that its operations at the Pasto Bueno Property are in full compliance with the requirements of all local and national regulatory authorities. Finally, Malaga has also reduced its carbon footprint (amount of CO₂ released into the atmosphere) by reducing and ultimately replacing the use of diesel generated power by hydroelectric power in December 2008.

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.

HUMAN RESOURCES

As at December 31, 2011, the Company had 263 full-time employees and 366 sub-contractors. Of the 263 full-time employees, 38 were working at its office located in Lima Peru and 5 were working at its head office located in Montreal.

FOREIGN OPERATIONS

All mining properties and equipment are located in central Peru.

RISK FACTORS

An investment in the common shares of the Company involves a high degree of risk and must be considered highly speculative due to the financial and operational risks inherent in the nature of the Company's business. These risks may affect the Company's profitability and level of operating cash flow. Prospective buyers of the common shares of the Company should give careful consideration to all information contained or incorporated by reference in this AIF and, in particular, the following risk factors:

FINANCIAL RISKS

Tungsten Price Volatility

The price of the common shares and the Company's financial results may be significantly adversely affected by a decline in the price of tungsten. The price of tungsten can fluctuate significantly and is affected by several factors beyond the Company's control including but not limited to: industrial demand; inflation and expectations with respect to the rate of inflation; international economic and political trends; currency exchange fluctuations between the Peruvian Nuevo Soles and the United States dollar; fluctuations in pricing and demand; the proximity and capacity of natural resource markets and processing equipment; governmental regulations; land tenure; land use, regulation concerning the importing and exporting of minerals; environmental protection regulations; increased competitive production from new mine developments; and the adoption of efficient mining and production methods. Tungsten prices may also be affected by potential re-engineering and substitution for tungsten as a key component in manufacturing and increase in any recycling initiative.

The price of tungsten could also be affected by other factors beyond the Company's control such as the production and demand created by the Chinese and European markets, interest rates, exchange rates, inflation or deflation, fluctuation in the value of the United States dollar and foreign currencies and the political and economic conditions of major tungsten producing countries throughout the world.

Capitalization of the Company

Future Financing

The success of exploration programs and other transactions related to concessions held by the Company could have a significant impact on the Company's need for capital. Malaga must ensure that it has access to the required capital if it decides to develop more areas on its property. The Company may look to finance its capital requirements through anyone of the following: reallocation of working capital; new and existing partnership arrangements; utilization of unexpired non capital losses; the monetization of certain financial instruments; private and public equity offerings; and the issuance of short and or long-term debt. However, nothing guarantees that the Company will succeed in getting the necessary financing with terms that are reasonable.

Access to Capital Markets

To fund its growth, the Company is often dependent on securing the necessary capital through loans or permanent capital. Access to capital markets is subject to general economic conditions and interest by prospective investors in the Company's projects. To ensure the availability and access to capital, the Company maintains an investor relations program that focuses on informing shareholders and potential investors of the Company's developments and potential. However, there is no guarantee that our efforts will result in greater liquidity through access to capital markets.

Interest Rate Volatility

As an issuer of debt, the Company is exposed to risks associated with interest rate volatility. For example, the Company current has a long term debt bearing interest at the 12 month LIBOR rate (currently set at 0.782%). As at December 31, 2011, the outstanding balance of the long term debt that bears interest at the 12 month LIBOR rate is \$2.1M. A significant increase in the 12 month LIBOR rate could have an adverse impact on the Company's cash flow.

The majority of the Company's debt bears interest at variable rates; therefore the Company is exposed to interest rate fluctuations and volatility. The Company does not utilize hedging programs to any degree to mitigate the effect of any movement in interest rates.

Foreign Exchange Rate Fluctuations

The Company's functional currency is the U.S. dollar and except for our corporate head office located in Montreal, Canada all of Malaga's operating activities takes place in Peru. As a result, the Company is subject to the risk of fluctuation in the foreign exchange rate of the Peruvian Nuevo Soles versus the United Statesdollar. To the extent that the Company requires Canadian currency to pay for head office salaries and operating costs we are also exposed to fluctuations in the Canadian dollar versus the United Statesdollar. The Company does not utilize hedging programs to any degree to mitigate the effect of currency movement.

OPERATIONAL RISKS

Mineral Reserve and Resource Estimates

The proven and probable reserve figures set forth in this AIF and in the Pasto Bueno Report are estimates, and there is no certainty that the indicated levels of tungsten production will be realized. Reserve estimates may require revision based on various factors such as actual production experience, market price fluctuation of tungsten, results of drilling, metallurgical testing, and production costs or recovery rates. For example, cut-off grades for the Company's deposit estimates are based on certain assumptions for planned recovery, tungsten value, mining dilution, and recovery, along with operating and capital costs projections that are based on historical production figures. Estimated reserves and resources may have to be recalculated based on actual production or exploration results. Market price fluctuation of tungsten, as well as increased production costs or alteration in recovery rate may render the proven and probable reserves unprofitable to develop a particular property or for a specific mine. Any material reduction in estimates of the Company's reserves or its ability to extract these reserves could have a material adverse effect on the Company's future cash flow, results of operations and financial condition. There are numerous uncertainties inherent in estimating proven and probable reserves and measured, indicated and inferred mineral resources, including many factors beyond the Company's control. The quantification of reserves and resources is an estimate and therefore has an inherent degree of uncertainty. The accuracy of these estimates is a function of the sample size of the data and whether it is believed those samples contain a significant bias due to factors discussed earlier in this report. There can be no assurance that these estimates will be accurate, that reserve and resource figures will be accurate, or that reserves or resources can be mined or processed profitably. Mineral resources, which are not mineral reserves, do not have demonstrated economic viability.

Depletion of Mineral Reserves

The Company must continually replace mining reserves depleted by production to maintain production levels over the long term. This is done by expanding known mineral reserves or by locating or acquiring new mineral deposits. There is, however, a risk that depletion of reserves will not be offset by future discoveries of mineral reserves. Significant costs are incurred to establish mineral reserves, and construct mining and processing facilities. Exploration for minerals is inherently risky and as a result, for many companies, projects are unsuccessful. Therefore, there is no assurance on the current or future success of our exploration programs or the expansion of current reserves and or replacement depleted reserves with new deposits.

Production Estimates

Estimates of current and planned production of the Company's mining operations are derived from the estimated mine life of the Pasto Bueno Mine as well as other important factors including but not limited to access to qualified miners, renewal of permits. These assumptions can change and therefore the Company cannot give assurance that it will meet its production objectives.

The Company's failure to achieve its production forecasts could have a material and adverse effect on any or all of its future cash flows, results of operation and financial condition. For the Pasto Bueno Mine, mine life is developed based on, among other things, mining experience, reserve estimates, assumptions regarding ground conditions and physical characteristics of ores (such as hardness and presence or absence of certain metallurgical characteristics) and estimated rates and costs of production of the Company.

The actual production at the Pasto Bueno Mine may also vary from the Company's forecasts for a variety of other reasons:

- shortage of qualified manpower
- fatal accidents
- equipment failures;
- mining dilution and recovery;
- restrictions imposed by governmental authorities;
- dangerous road conditions, rock falls or cave ins;
- natural disasters;
- changes in electricity costs, potential electricity shortages and or electricity generating equipment failure; and
- shortages of supplies.

Such occurrences could result in damage to the Pasto Bueno Property, interruptions in production, injury, or death to persons, damage to the Company's property or property of others, monetary losses and legal liabilities. These factors may cause a mineral deposit that has been mined profitably in the past to be unprofitable.

Mining Industry and Mining Projects

Exploration and development projects have no operating history upon which to base estimates of future operating costs and capital requirements. Mining projects frequently require a number of years and significant expenditures during the mine development phase before production is possible. Development projects are subject to the completion of successful feasibility studies, obtaining the necessary governmental permits and securing necessary financing. The economic feasibility of such development projects is based on many factors such as estimation of reserves, metallurgical recoveries, future metal prices, and capital and operating costs of such projects. Exploration and development of mineral deposits thus involve significant financial risks which even a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of an ore body may result in substantial rewards, few properties which are explored are ultimately developed into producing mines. In fact, a mine must generate sufficient revenues to offset operating and development costs such as the costs required to establish reserves by drilling, to develop metallurgical processes, to construct facilities and to extract and process metals from the ore. Once in production, it is impossible to determine whether current exploration and development programs at any given mine will result in the replacement of current reserves with new reserves.

There are certain risks and hazards, which are inherent to the mining industry of the Company such as:

- decrease in the price of tungsten;
- inflation that affects the costs of constructing and operating a mine as well as processing and refining facilities in a specific environment;
- the accessibility of energy and water;
- increased costs of transportation;
- delays and repair costs resulting from equipment failure;
- changes in the regulatory environment (including regulations relating to prices, royalties, duties, taxes, restrictions on production, quotas on exportation of minerals;
- costs of protection of the environment and agricultural lands;
- industrial accidents; and
- political risk both at the macro and micro levels

Some of the risks mentioned are discussed in more detail below.

The occurrence of any of these factors could materially and adversely affect the development of a project and as a result materially and adversely affect the Company's business, financial condition, results of operations and cash flow. The Company is also subject, through its activities, to risks normally encountered in mining operations. Blasting, drilling, mining and processing of ore comprise risks and hazards such as environmental hazards, including discharge of pollutants or hazardous chemicals, unanticipated grade and tonnage of ore to be

mined and processed, unusual or unexpected adverse geological or geotechnical formation, or unusual or unexpected adverse operating conditions, slope failure, rock bursts, cave-ins, failure of pit walls or dams, fire, and natural phenomena and "acts of God" such as inclement weather conditions, floods, earthquakes and other hazards. These occurrences could result in damage to, or destruction of, mineral properties or production facilities, personal injury or death, environmental damage, delays in mining, monetary losses and possible legal liability. The Company may incur liability as a result of pollution and other casualties, and may not be able to insure fully or at all against such risks, due to political reasons, unavailability of coverage in the market place or other reasons, or may decide not to insure against such risks as a result of high premiums or for other reasons.

This can result in delayed production, increase in production costs or liability. Paying compensation for obligations resulting from such liability may be very costly and could have an adverse effect on the Company's financial position.

Licences, Permits and Title Risk

Licenses and Permits

The current operating permit in place allows Malaga to produce up to 350 tpd but the Company has applied for a new permit to increase production at 500 tpd and expects its delivery by end of Q2-2012, which coincides with the completion of our new tailings pond. There is also no guarantee that the Company will be awarded this new permit. Furthermore, there can be no guarantee that the Company will be able to obtain or maintain all the necessary licenses and permits to explore, develop, or maintain its continued operations.

The operations of the Company require licenses and permits from the Peruvian authorities. The Company believes that it holds all necessary licenses and permits to carry on its activities. However, there is no guarantee that the Company will be able to maintain the necessary licenses or permits or obtain new ones to conduct mining operations on the properties.

Title Risks

Although title to its properties has been reviewed by or on behalf of the Company, no assurances can be given that there are no title defects affecting the properties. Title insurance generally is not available for mining claims in Peru, and the Company's ability to ensure that it has obtained secure claim to individual mineral properties may be severely constrained. The Company has not conducted surveys of all of the claims in which it holds direct or indirect interests; therefore, the precise area and location of such claims may be in doubt. Accordingly, the properties may be subject to prior unregistered liens, agreements, transfers or claims, and title may be affected by, among other things, undetected defects. In addition, the Company may be unable to conduct work on the properties as permitted or to enforce its rights with respect to its properties.

Political Risk

The principal mineral property interests of the Company are located in Peru. The Company believes that government of Peru supports the development of its natural resources by foreign companies. However, there is no assurance that future political and economic conditions in Peru will not result in the government adopting different policies regarding foreign ownership of mineral resources, taxation, exchange rates, environmental protection, labour relations, and the repatriation of funds. The possibility that a future government may adopt substantially different policies, which might extend to the expropriation of assets, cannot be ruled out. The Company's current and future mineral exploration and mining activities could be impacted by widespread civil unrest and rebellion.

Macro risk

The Peruvian government has effective stabilization policies in place and over the last 10 years has demonstrated support for the development of their natural resources by foreign companies. However, political risk is a structural issue in Peru and there is no assurance the government will not adopt different policies on resource nationalism that negatively impact foreign ownership of mineral resources, the taxation mining revenues, volatility of their exchange rates, environmental protection, labor relations, repatriation of income or expropriation.

Micro Risk

Social protest at the local community level is risk for Company's operating in Peru. The Pasto Bueno mine has been operating for about 70 years. With the exception of the early to mid-1990s community relations have been excellent. Malaga acquired the mine in 2005 and immediately began a campaign to enlist the cooperation of the communities in the region, especially those in the immediate vicinity of the mine and mill facilities. However, there is no guarantee the Company will avoid exposure to future political unrest at the local level. These types of conflicts can delay planned investment and put Companies at risk of isolation.

Competition

The Company is one of the few producers of tungsten outside of China. It competes on a worldwide basis against the world's major producer of tungsten, China. The dominance of Chinese production means they can directly influence the price of tungsten ore, metal and, to a lesser extent, ferro-tungsten alloy by controlling production and supply. As a whole, the mining industry is very competitive and the Company has to compete with other companies related to the acquisition of ore, and the acquisition of attractive mineral properties. 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 under reasonable conditions.

Dependence on Management

The success of the operations and activities of the Company is dependent to a significant extent on the efforts and abilities of its management team. See "Directors and Officers" for details of the Company's current management. Investors must be willing to rely to a significant extent on their discretion and judgment. The Company does not maintain key employee insurance on any of its employees. 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.

Qualified skill labour

The lack of qualified skilled labour is a global risk for all mining companies including Malaga that can threaten to reduce productivity, increase operating costs, cause project delays and safety issues.

Conflict of Interests

The Company's directors and officers may serve as directors or officers of other resource companies or have significant shareholdings in other resource companies and, to the extent that such other companies may participate in ventures in which the Company may participate, the directors of the Company may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. In the event that such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will disclose its interests and abstain from voting for or against the approval of such participation or such terms. From time to time, several companies may participate in the acquisition, exploration and development of natural resource properties thereby allowing for their participation in larger programs, permitting involvement in a greater number of programs and reducing financial exposure in respect of any one program. It may also occur that a particular company will assign all or a portion of its interest in a particular program to another of these companies due to the financial position of the company making the assignment. The directors of the Company are required to act honestly, in good faith and in the best interests of the Company. In determining whether or not the Company will participate in a particular program and the interest therein to be acquired by it, the directors will primarily consider the degree of risk to which the Company may be exposed and its financial position at that time. See "Directors and Officers".

Risks Relating to Statutory and Regulatory Compliance

The current and future operations of the Company, from exploration through development activities and commercial production, are and will be governed by applicable laws and regulations governing mineral claims acquisition, prospecting, development, mining, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters. Companies engaged in exploration activities and in the development and operation of mines and related facilities generally experience increased costs and delays in production and other schedules as a result of the need to comply with applicable laws, regulations and permits. The Company has received all necessary permits for the exploration

work and operations it is presently conducting; however, there can be no assurance that all permits which the Company may require for future exploration, construction of mining facilities and conduct of mining operations, if any, will be obtainable on reasonable terms or on a timely basis, or that such laws and regulations would not have an adverse effect on any project which the Company may undertake.

Failure to comply with applicable laws, regulations and permits may result in enforcement actions thereunder, including the forfeiture of claims, orders issued by regulatory or judicial authorities requiring operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or costly remedial actions. The Company may be required to compensate those suffering loss or damage by reason of its mineral exploration activities and may have civil or criminal fines or penalties imposed for violations of such laws, regulations and permits. The Company is not currently covered by any form of environmental liability insurance. See "Insurance Risk" below.

Existing and possible future laws, regulations and permits governing operations and activities of exploration companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or require abandonment or delays in exploration.

Insurance Risk

The mining industry is subject to significant risks that could result in damage to or destruction of property and facilities, personal injury or death, environmental damage and pollution, delays in production, expropriation of assets and loss of title to mining claims. No assurance can be given that insurance to cover the risks to which the Company's activities are subject will be available at all or at commercially reasonable premiums. The Company currently maintains insurance within ranges of coverage that it believes to be consistent with industry practice for companies of a similar stage of development. The Company carries liability insurance with respect to its mineral exploration operations, but it not currently covered by any form of environmental liability insurance, since insurance against environmental risks (including liability for pollution) or other hazards resulting from exploration and development activities is prohibitively expensive. The payment of any such liabilities would reduce the funds available to the Company. If the Company is unable to fully fund the costs of remedying an environmental problem, it might be required to suspend operations or enter into costly interim compliance measures pending completion of a permanent remedy.

Outside Contractor Risk

A significant portion of Company's operations in Pasto Bueno are conducted by outside contractors. As a result, Company's operations at this site will be subject to a number of risks, some of which will be outside Company's control, including:

- negotiating agreements with contractors on acceptable terms;
- the inability to replace a contractor and its operating equipment in the event that either party terminates the agreement;
- reduced control over such aspects of operations that are the responsibility of the contractor;
- failure of a contractor to perform under its agreement with the Company;
- interruption of operations in the event that a contractor ceases its business due to insolvency or other unforeseen events;
- failure of a contractor to comply with applicable legal and regulatory requirements, to the extent that it is responsible for such compliance; and
- problems of a contractor with managing its workforce, labour unrest or other employment issues.

In addition, the Company may incur liability to third parties as a result of the actions of a contractor. The occurrence of one or more of these risks could have a material adverse effect on Company's business, results of operations and financial condition.

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.

Share Price Volatility

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 volatility that has a negative impact on the market capitalization of the Company.

In recent years, the securities markets in Canada have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly those considered development stage companies, including the Company, have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur.

Increased Costs and Compliance Risks as a Result of being a Public Company

Legal, accounting and other expenses associated with public company reporting requirements have increased significantly in the past few years. The Company anticipates that costs may continue to increase with recently adopted or proposed corporate governance related requirements, including, without limitation, requirements under Multilateral Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings* (for the purposes of the Province of Quebec, Regulation 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*), Multilateral Instrument 52-110 – *Audit Committees* (for the purposes of the Province of Quebec, Regulation 52-110 – *Audit Committees*) and National Instrument 58-101 – *Disclosure of Corporate Governance Practices* (for the purposes of the Province of Quebec, Regulation 58-101 – *Disclosure of Corporate Governance Practices*) and the ongoing cost to comply with International Financial Reporting Standards (“IFRS”), which became effective January 1, 2011 Canadian publicly accountable entities.

The Company also expects these new rules and regulations may make it more difficult and more expensive for it to obtain director and officer liability insurance, and it may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for the Company to attract and retain qualified individuals to serve on its board of directors or as executive officers.

DIVIDENDS

The Company has not declared or paid any cash dividends on any of its issued shares since its inception. The Company's dividend policy will be reviewed from time to time by the board of directors of the Company in the context of the Company's earnings, financial condition, capital requirements and other relevant factors. The Company currently intends to retain all available funds and any future earnings to fund the development and growth of its business and the Company does not anticipate declaring or paying any cash dividends in the foreseeable future.

CAPITAL STRUCTURE

The Company is authorized to issue an unlimited number of common shares without par value. There were 183,675,176 common shares issued and outstanding as at December 31, 2011.

Each common share is entitled to one vote. The holders of common shares have the right to receive dividends if, as and when declared by the board of directors. In the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or any other distribution of its assets among its shareholders for the purpose of winding-up its affairs, the holders of the common shares are entitled to receive the remaining property and assets of the Company pro rata according to the number of common shares held.

MARKET FOR SECURITIES

TRADING PRICE AND VOLUME

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).

The following table shows the price ranges and volume of common shares traded on the TSX during 2011¹:

Month	Price ranges (\$)		Volume traded
	High	Low	Volume
January	0.35	0.26	5,204,700
February	0.34	0.24	4,665,500
March	0.32	0.26	2,083,000
April	0.29	0.22	2,769,900
May	0.32	0.20	6,331,200
June	0.34	0.24	3,312,500
July	0.28	0.24	3,720,700
August	0.27	0.17	3,651,800
September	0.22	0.13	1,709,500
October	0.16	0.11	1,314,100
November	0.15	0.11	2,903,800
December	0.14	0.11	3,359,600

¹ Prices are shown in Canadian dollars and sourced from the Toronto Stock Exchange

DIRECTORS AND OFFICERS

DIRECTORS

The Board of Directors is currently comprised of nine directors each of whom is elected annually at each annual meeting of shareholders to hold office for one year or until his successor is elected or appointed, unless he resigns or his office becomes vacant.

The following table sets forth, as at December 31, 2011, for each director and officer, his name, place of residence, his principal occupation during the past five years, as well as the year during of his election or nomination as director or officer of the Company, along with the number of common shares owned by them:

The Directors and Officers have provided their respective information.

Name and Municipality of Residence	Positions held in the Company	Principal Occupation during the five preceding years	Number and Percentage of Common Shares Beneficially Owned or over which Control or Direction was Exercised as at March 27, 2012
Jean Martineau Québec, Canada	President & Chief Executive Officer until November 2011 and Chairman of the Board and Director since 1996	Chairman of the Board of the Company and President and CEO of Dynacor; President and CEO of the Company before 2010	1,815,000 (1.0%)
Pierre Monet, Québec, Canada	President & Chief Executive Officer since December 2011 and President since 2010	President & CEO; prior to current position was Vice-President and Chief Financial Officer of Malaga Inc. and Dynacor. since 2007	714,000 (0.4%)
René Branchaud Québec, Canada	Secretary and Director since 1997	Lawyer, partner at Lavery, de Billy, L.L.P.	318,000 (0.2%)
Daniel Danis ⁽²⁾ Québec, Canada	Director since 2010	Mining consultant	140,000 (0.1%)
Réjean Gourde ⁽³⁾ Québec, Canada	Director since 2010	Mining consultant since 2007. Previously, he was the Senior Vice President of Cambior Inc., in South America. Prior to that he was Vice President Operations of Aiguebelle Resources Inc.	100,000 (0.1%)
Gilles Masson ⁽¹⁾ Québec, Canada	Director since 2009	Corporate director of several public companies. Prior to 2006, partner for the firm PricewaterhouseCoopers (PwC).	250,000 (0.1%)
Quinn Roussel ⁽³⁾ Colorado, U.S.A	Director since 2011	Principal with Resource Capital Fund (RCF)	- (0.0%)
Anne-Marie Sheahan ⁽¹⁾⁽³⁾ Québec, Canada	Director since 2011	Senior partner of Sheahan and Partners, G.P.	- (0.0%)
Joey Trombino Québec, Canada	Vice president and CFO since 2010	Vice-president and Chief financial officer; Director, Finance of Malaga until November 2010. Previously, Vice-president and CFO of Positron Technologies Inc. from 2006 to 2008	240,000 (0.1%)
Martin Wong ⁽¹⁾⁽²⁾ Québec, Canada	Director since 2009	Financial Advisor and Consultant. Partner with Milton Capital Partner's Limited.	670,000 (0.4%)

(1) Member of the audit committee

(2) Member of the compensation committee

(3) Member of the safety and sustainability committee

As of the date hereof, the directors and officers of the Company as a group own beneficially, directly or indirectly, or exercise control or direction over 4,247,000 Common Shares of the Company, or 2.3% of the outstanding Common Shares.

CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES OR SANCTIONS

To the Company's knowledge, no director or executive officer of the Company is, at the date of this AIF, or has been, within 10 years before the date of the AIF, a director, chief executive officer or chief financial officer of any company that, while that person was acting in that capacity, (i) was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days, or (ii) was subject to an event that resulted, after the director, chief executive officer or chief financial officer ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days. To the Company's knowledge, no director or executive officer of the Company or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company is, at the date of this AIF, or has been, within 10 years before the date of the AIF, a director or executive officer of any company that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

In addition, to the knowledge of the Company, no director or executive officer of the Company or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company has, within the 10 years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

Furthermore, to the knowledge of the Company, no director or executive officer of the Company or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, or has been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Conflicts of Interest

There are potential conflicts of interest to which the directors and officers of the Company or its subsidiaries may be subject in connection with the operations of the Company or its subsidiaries. Some of the directors and officers are engaged and will continue to be engaged, directly or indirectly, in other businesses and situations may arise where some of the directors and officers will be in direct competition with the Company or its subsidiaries. Conflicts, if any, will be subject to the procedures and remedies under the *Companies Act* (Québec). No conflicts of interest currently exist between the Company or its subsidiaries and a director or officer of the Company or its subsidiaries.

AUDIT COMMITTEE INFORMATION

The Audit Committee Charter

A copy of the audit committee charter is attached to this AIF as Schedule "A".

Composition of the Audit Committee

The following directors are members of the audit committee:

- Gilles Masson
- Martin Wong; and
- Anne-Marie Sheahan

All the members of the audit committee are financially literate and independent.

Relevant Education and Experience

The education and experience of each audit committee member that is relevant to the performance of his responsibilities are as follows:

Gilles Masson was appointed Chairman of the Audit Committee in 2009. Mr. Masson is a member of the Ordre des comptables agréés du Québec and he is a member of the Institute of Corporate Directors. He worked for 36 years for the firm PricewaterhouseCoopers LLP, Chartered Accountants, including 25 years as a partner. His clientele included, amongst others, large national and international companies doing business in the mining sector. He retired on December 31, 2005. Since then, he is acting as director for three (3) public companies. During his career, Mr. Masson gained a great deal of experience in auditing public companies operating in the mining, manufacturing and distribution sectors. He understands Canadian and US generally accepted accounting principles (GAAP) and generally accepted auditing standards (GAAS), as well as regulations for presenting financial information for public companies listed in Canada and the United States. He further developed a relevant experience in dealing with audit committee requirements, including recent changes brought by new regulations. Mr. Masson understands the accounting principles used by the Company to prepare its financial statements and the general application of such accounting principles in connection with the accounting for estimates, accruals and reserves.

Mr. Martin Wong is an experienced corporate financial executive, investment banker and chartered accountant accomplished in investments, capital markets, investment banking, relation management, and loan restructuring. He holds Bachelor of Business Administration from Bishop's University and is a member of the Ordre des comptables agréés du Québec. During the past 5 years, he has been acting as Vice President –Investment Banking of Dundee Securities Corporation where he structured, developed and completed several capital market transactions, including initial public offering transactions, capital market equity issues, private placements, and merger and acquisition transactions in the real estate, resource and industrial sectors. Mr. Wong is a managing partner of Milton Capital Partners Limited, an investment banking and brokerage firm in Canada.

Anne-Marie Sheahan is the senior partner of Sheahan and Partners, G.P. a law firm specializing in environmental counselling, new regulation analysis, and environmental issues arising in commercial transactions. She is as a member of the Permanent Committee on the Environment of the Quebec Bar. Ms. Sheahan received BCL and LLB degrees from McGill University in 1989 and was admitted to the Quebec Bar in 1991

The members of the Company's audit committee have provided the information disclosed hereinabove.

RELIANCE ON CERTAIN EXEMPTIONS

The Company confirms that it has not relied on any exemptions identified in Section 4 or 5 of NI 52-110F1 during its most recently completed financial year. The Company further confirms that it has not relied on section 3.8 of NI 52-110 during the most recently completed financial year.

External Auditor Service Fees

		2011		2010	
		CAD	USD	CAD	USD
Audit fees	a	\$86,105	\$84,667	\$106,521	\$107,099
Audit-related fees	b			-	-
Taxation	c			-	-
All other fees	d	229,953	228,322	\$160,633	161,505
		<u>\$316,058</u>	<u>\$312,989</u>	<u>\$267,154</u>	<u>\$268,604</u>

- a) Includes the aggregate fees billed by the Malaga's external auditor for audit fees.
- b) Includes the aggregate fees billed by the Company's external auditors for services related to the audit services, including namely, consultations regarding taxation.
- c) Includes the aggregate fees billed by the Company's external auditors for tax compliance, advice, planning and advisory services relating to the preparation of corporate tax, capital tax and sales tax returns.
- d) Includes the aggregate fees billed by the Company's external auditors for all other services other than those presented in the categories of audit fees, audit-related fees and tax fees, including namely consultation services for the Company's prospectus filing, compliance with NI 52-109 and IFRS conversion and fees incurred by our foreign subsidiaries.

LEGAL PROCEEDINGS

The Company is not party to any legal proceedings as of the date of the AIF. The Company is not aware of any contemplated legal proceedings involving it.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

No director, executive officer or principal shareholder of the Company, or associate or affiliate of any of the foregoing, has had any material interest, direct or indirect, in any transaction within the preceding three years or in any proposed transaction that has materially affected or will materially affect the Company or any subsidiary of the Company.

Related party transactions occurred in the normal course of business and were considered non material by the Company.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar of the Company is Canadian Stock Transfer Company, Inc., having offices in Montréal and Toronto.

MATERIAL CONTRACTS

Other than in the ordinary course of the Company's business, there are no material contracts that have been entered into by the Company since the beginning of the Company's most recently completed financial year or that are still in effect.

INTERESTS OF EXPERTS

Name of Experts

The following are the names of persons or companies (a) that have prepared or certified a statement, report or valuation described or included in a filing, or referred to in a filing made under National Instrument 51-102 – *Continuous Disclosure Obligations* (for the purposes of Québec, Regulation 51-102 – *Continuous Disclosure Obligations*) by the Company, during, or relating to, the Company's most recently completed financial year; and (b) whose profession or business gives authority to the statement, report or valuation made by the person or the company:

- (i) PricewaterhouseCoopers LLP, Chartered Accountants, provided an auditor's report dated March 27, 2012, in respect of the Company's financial statements for the year ended December 31, 2011,
- (ii) Dr. John P. Tinucci P.E., Ph.D. of Vector Engineering, Inc., was a co-author of the "2009 Pasto Bueno Technical Report" prepared in accordance with NI 43-101, dated February 17, 2009;
- (iii) Mr. Richard J. Kehmeier, C.P.G., M.Sc. of Vector Engineering, Inc., was a co-author of the "2009 Pasto Bueno Technical Report" prepared in accordance with NI 43-101, dated February 17, 2009;
- (iv) Mr. Richard J. Kehmeier, C.P.G., M.Sc. of Vector Engineering, Inc., was the author of the "2010 Pasto Bueno Technical Report" prepared in accordance with NI 43-101, dated February 15, 2010;
- (v) Mr. Richard J. Kehmeier, C.P.G., M.Sc. and Mr. Richard Addison, P.E., C.Eng. of Pincock, Allen & Holt, were the authors of the "2011 Pasto Bueno Technical Report" prepared in accordance with NI 43-101, dated March 16, 2012.

To the best of the Company's knowledge, the experts named hereinabove did not have any registered or beneficial interest, direct or indirect, in any securities or the property of the Company or of one of its subsidiaries, when the experts prepared their respective reports, and no securities or other property of the Company or one of its subsidiaries was subsequently received or to be received by such experts.

ADDITIONAL INFORMATION

Additional information relating to the Company can be found on SEDAR web site at www.sedar.com. Additional information including directors' and officers' remuneration and indebtedness, options to purchase securities, interests of insiders in material transactions and principal holders of the Company's securities, where applicable will be contained in the Company's management information circular in respect of its next annual meeting of shareholders involving the election of directors.

Additional financial information is provided in the annual audited financial statements of the Company for 2011 and the notes thereto and also in management's discussion and analysis for the same period.

This AIF is dated March 27, 2012.

SCHEDULE «A»

CHARTER FOR THE AUDIT COMMITTEE

The audit committee (the “Committee”) is responsible for monitoring and overseeing; (i) the accounting policies and the financial reporting process of Malaga Inc. (the “Company”), (ii) its internal accounting and financial control systems, (iii) the management of financial risks; and (iv) its external audit process, including the appointment of the auditor, its monitoring, and the compensation of the Company’s external auditors.

The Committee also assists the Board of Directors in fulfilling its continued examination of the Company’s systems of internal controls, to ensure their compliance with laws, regulations and with the Company’s own code of business ethics and conduct.

To perform its role effectively, the Committee is authorized to obtain any information it requires from the officers of the Company, from its employees or from external parties; to retain, if needed and at the expense of the Company, outside legal or professional counsel and other experts and to ensure the attendance of Company’s officers at meetings as appropriate.

More specifically:

- The Committee is comprised of at least three (3) directors and the quorum is set at two (2) members;
- The members of the Committee must be financially literate and must be independent directors, in compliance with the Multilateral Instrument 52-110;
- The Board of Directors shall designate a director as the chairman of the Committee. If the chairman cannot attend a meeting, a meeting president will be appointed by the attending members;
- The members of the Committee are appointed by the Board of Directors and their mandate shall extend to the Annual meeting of shareholders or until a successor is duly appointed. Any vacancy shall be filled by the Board of Directors; though in the interim period when a vacancy exists, the Committee shall consist of the remaining members as long as there are at least two (2) members;
- Any member of the Committee may be removed or replaced at any time by the Board of Directors and shall automatically cease to be a member of the Committee upon ceasing to be a director;
- The chairman of the Committee, a member of the Committee, the external auditor or an officer of the Company can convene a meeting of the Committee;
- Any member of the Committee can require the presence of the external auditor for a meeting of the Committee;
- Locations and dates of meetings, their agenda and the procedures of the meetings are at the discretion of the Committee;
- As long as a meeting is duly called, a member is expected to attend each meeting either in person or via tele-conference or video-conference;
- The remuneration of the chairman and of the members of the Committee is set by the Board of Directors;

- The external auditor or the chief financial officer can require to be heard by the Committee without the presence of any other officer of the Company;
- Notwithstanding the preceding, the Committee can require that all non-members be excluded from all or a specific portion of the Committee's discussions;
- The Committee can convene a special meeting of the Board of Directors, as circumstances require;
- As required by Regulation 52-110, the Committee has the duty and responsibility to:
 - Recommend the appointment of an external auditor and its remuneration to the Board of Directors of the Company;
 - Oversee the work and review the performance of the external auditors and resolve any disagreement between management of the Company and the external auditors;
 - Pre-approve all permitted non-audit related services to be performed by the external auditors;
 - Review the financial statements, the management's discussions and analysis (MD&A), and the annual and quarterly earnings press releases prior to the Company publicly releasing this information;
 - Ensure that adequate procedures are in place for the review of the Company's public disclosure of financial information extracted or derived from the Company's financial statements;
 - Ensure that procedures are established, with regards to:
 - the receipt, the retention and the treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters;
 - the confidential or anonymous submission, by the employees of the Company, of concerns regarding questionable or auditing matters;
 - Approve the Company's hiring policies of employees or former employees of the present or former external auditors.
- Regarding the examination of the financial statements, the Committee is responsible for:
 - reviewing the financial statements and the accompanying notes to the financial statements and obtaining explanations from the officers regarding:
 - Any significant variances in the current reporting period;
 - Any complex or unusual transactions;
 - Any related party transactions
 - reviewing the accounting principles used by the Company to ensure that they are in accordance with general accepted accounting principles (International Financial Reporting Standards) regarding the presentation of financial information, and resolving any potential disagreement between management and the external auditors regarding the presentation of financial information;
 - reviewing and recommending the approval by the Board of Directors all financial statements, annual information form, prospectus, MD&A and all other documents of a related;
- Review and discuss the proposed annual audit plan of the external auditors, including the proposed budget, approve the plan, and recommend to the Board of Directors, the approval of the external auditor's compensation;
- Ensure the independence of the external auditor;

- In order to encourage the management to implement and to monitor adequate internal control mechanisms, the Committee shall review the external auditor's report and recommendations on the internal controls together with management's responses and action plans to be deployed;
- The chairman of the Committee shall on a regular and punctual basis, report to the Board of Directors on the Committee's discussions and activities;
- The Committee shall name a secretary for its meetings, whom need not be a member of the Committee, to take the minutes of the meetings, then get them approved, prior to submitting them to the Board of Directors;
- The Committee shall conduct an evaluation of its mandate and recommend to the Board of Directors any changes it seems appropriate.