

# **Malaga Inc.**

## Consolidated Financial Statements

For the Three-month and Nine-month Periods Ended September 30, 2008

The attached consolidated financial statements have been prepared by the Management of Malaga Inc. and have not been reviewed by the Company's External Auditor.

For additional information, please contact:

Jean Martineau  
President and Chief Executive Officer

Pierre Monet  
Vice-president and Chief Financial Officer

Tel.: (514) 288-3224

Please refer to our Web Site ([www.malaga.ca](http://www.malaga.ca)) where complete details on the Company are available.

# Malaga inc.

## Consolidated Balance Sheets as of

	September 30 2008 (unaudited)	December 31 2007 (audited)
	\$	\$
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	46,733	380,300
Short-term investments (Note 4)	1,050,000	3,563,053
Accounts receivable	3,922,901	3,241,973
Inventories	1,171,346	998,687
Prepaid expenses	176,705	168,807
	<u>6,367,685</u>	<u>8,352,820</u>
Investments	5,068,910	5,027,453
Property, plant and equipment	9,575,864	9,837,064
Mining properties and deferred development and exploration expenses (Note 5)	4,436,932	1,992,332
	<u>25,449,391</u>	<u>25,209,669</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Bank loans (Note 6)	1,598,868	366,973
Accounts payable and accrued liabilities (Note 7)	4,185,814	2,981,939
Income tax payable	52,873	491,486
Current portion of long-term debt	11,498	9,834
Current portion of obligations under capital leases	232,943	135,535
	<u>6,081,996</u>	<u>3,985,767</u>
Long-term debt	148,285	144,761
Obligations under capital leases	113,215	165,182
Asset retirement obligations	1,161,355	1,087,920
	<u>7,504,851</u>	<u>5,383,630</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 8)	39,047,973	39,047,973
Contributed surplus (Note 9)	2,799,319	2,512,890
Deficit	(23,902,752)	(21,734,824)
	<u>17,944,540</u>	<u>19,826,039</u>
	<u>25,449,391</u>	<u>25,209,669</u>

The accompanying notes are an integral part of the consolidated financial statements.

# Malaga inc.

## Consolidated Statements of Earnings, Comprehensive Income and Deficit (unaudited)

	Three-month periods ended September 30		Nine-month periods ended September 30	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>Sales (note 10)</b>	3,157,577	2,809,936	7,556,807	5,857,330
Operating costs (note 10)	2,333,964	1,874,057	6,117,099	4,043,205
Amortization and depletion	506,112	454,277	1,398,116	664,351
Total cost of sales	<u>2,840,076</u>	<u>2,328,334</u>	<u>7,515,215</u>	<u>4,707,556</u>
	<u>317,501</u>	<u>481,602</u>	<u>41,592</u>	<u>1,149,774</u>
<b>Expenses</b>				
General and administrative (Note 11)	664,494	576,267	2,002,475	1,949,214
Charge related to the asset retirement obligations	24,478	-	73,435	-
Stock-based compensation	63,224	82,142	286,429	463,362
Interest	92,933	41,256	181,781	52,893
Gain on sale of property, plant and equipment	(115,165)	-	(115,165)	-
Foreign exchange loss (gain)	6,214	(335,783)	(177,978)	(43,864)
	<u>736,178</u>	<u>363,882</u>	<u>2,250,977</u>	<u>2,421,605</u>
Share of earnings in investments using equity method	<u>(5,000)</u>	<u>-</u>	<u>(41,457)</u>	<u>-</u>
	<u>731,178</u>	<u>363,882</u>	<u>2,209,520</u>	<u>2,421,605</u>
Gain (loss) before the following	(413,677)	117,720	(2,167,928)	(1,271,831)
Income tax expense	-	(208,856)	-	(650,907)
Loss from continuing operations	<u>(413,677)</u>	<u>(91,136)</u>	<u>(2,167,928)</u>	<u>(1,922,738)</u>
Net earnings from discontinued operations (Note 3)	-	192,485	-	632,022
<b>Net earnings (loss) and comprehensive income (loss) for the period</b>	<u>(413,677)</u>	<u>101,349</u>	<u>(2,167,928)</u>	<u>(1,290,716)</u>
Loss from continuing operations per share, basic and diluted	0.00	0.00	0.02	0.01
Earnings from discontinued operations per share, basic and diluted	0.00	0.00	0.00	0.01
Net loss per share, basic and diluted	<u>0.00</u>	<u>0.00</u>	<u>0.02</u>	<u>0.02</u>
Weighted average number of outstanding common shares, basic and diluted	<u>137,117,367</u>	<u>118,678,653</u>	<u>137,117,367</u>	<u>118,664,419</u>
<b>Deficit, beginning of period</b>	(23,489,075)	(11,171,175)	(21,734,824)	(9,779,110)
Net earnings (loss) for the period	<u>(413,677)</u>	<u>101,349</u>	<u>(2,167,928)</u>	<u>(1,290,716)</u>
<b>Deficit, end of period</b>	<u>(23,902,752)</u>	<u>(11,069,826)</u>	<u>(23,902,752)</u>	<u>(11,069,826)</u>

The accompanying notes are an integral part of the consolidated financial statements.

# Malaga inc.

## Consolidated Statements of Cash Flows (unaudited)

	Three-month periods ended September 30		Nine-month periods ended September 30	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>Operating activities</b>				
Loss from continuing operations	(413,677)	(91,136)	(2,167,928)	(1,922,738)
Elements not affecting cash and cash equivalents				
Amortization and depletion	506,112	454,277	1,398,116	664,351
Charge related to the asset retirement obligation	24,478	-	73,435	-
Stock-based compensation	63,224	82,142	286,429	463,362
Gain on sale of property, plant and equipment	(115,165)		(115,165)	
Share of earnings in investments using equity method	(5,000)	-	(41,457)	-
Unrealized foreign exchange gain (loss)	(4,303)	-	28,569	-
	<u>55,669</u>	<u>445,283</u>	<u>(538,001)</u>	<u>(795,025)</u>
Change in non-cash working capital items (Note 12)	<u>(940,454)</u>	<u>(2,083,053)</u>	<u>(111,585)</u>	<u>(1,783,164)</u>
Cash flow from (used by) continuing operating activities	<u>(884,785)</u>	<u>(1,637,770)</u>	<u>(649,586)</u>	<u>(2,578,189)</u>
<b>Investing activities</b>				
Sale of short-term investments	940,000	1,151,114	2,513,053	1,016,026
Acquisition of property, plant and equipment	(232,233)	(392,913)	(1,113,550)	(957,978)
Addition to mining properties and deferred development and exploration expenses	(625,945)	(1,459,346)	(2,444,600)	(1,753,403)
Cash flow from (used by) investing activities	<u>81,822</u>	<u>(701,145)</u>	<u>(1,045,097)</u>	<u>(1,695,355)</u>
<b>Financing activities</b>				
Proceeds of bank loan	1,598,868	-	1,598,868	-
Repayments of bank loan	(368,319)	(83,635)	(366,973)	(5,208)
Advances to an affiliated company	(234,012)	-	216,901	-
Long-term debt	(2,673)	(5,497)	(8,019)	(20,896)
Obligations under capital lease	(41,029)	(29,374)	(79,661)	(62,116)
Share capital to issue	-	523,150	-	653,150
Issuance of share capital	-	729,401	-	4,147,929
Share issuance expenses	-	(3,545)	-	(23,106)
Deferred share issuance expenses	-	100,163	-	-
Cash flow from financing activities	<u>952,835</u>	<u>1,230,663</u>	<u>1,361,116</u>	<u>4,689,753</u>
Cash flow from (used) by discontinued operations	<u>-</u>	<u>312,979</u>	<u>-</u>	<u>(193,622)</u>
Net increase (decrease) in cash and cash equivalents	149,872	(795,273)	(333,567)	222,587
Cash and cash equivalents, beginning of period	(103,139)	1,017,860	380,300	-
<b>Cash and cash equivalents, end of period</b>	<u>46,733</u>	<u>222,587</u>	<u>46,733</u>	<u>222,587</u>
Comprised of:				
Cash	<u>46,733</u>	<u>222,587</u>	<u>46,733</u>	<u>222,587</u>

Additional information on the statements of cash flows (Note 12)

The accompanying notes are an integral part of the consolidated financial statements.

# Malaga Inc.

## Notes to consolidated financial statements

For the three-month and nine-month periods ended September 30, 2008

(unaudited)

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### 1. Statute of incorporation, nature of activities and going concern

Malaga Inc. ("Malaga" or the "Company"), known before July 17, 2007 as Dynacor Mines Inc. is incorporated under Part 1A of the Companies Act (Québec), as a mining company having its activities in Peru. The Company operates mainly in the northern part of Peru at its tungsten mine in Pasto Bueno. In October 2007, the Company completed the spin-off of all its gold assets, including the Casaden and Tumipampa projects, and its wholly-owned subsidiary, Minera Dynacor Del Perú, S.A.C., into Dynacor Gold Mines Inc., thus permitting Malaga to focus its mining efforts on its tungsten properties. The Company attained commercial production of its tungsten mine in April 2007.

These consolidated financial statements have been prepared in accordance with generally accounting principles on a going concern basis which assumes that the company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the company are dependent upon its ability to obtain shareholder and creditor support, continue to raise adequate financing and to attain and maintain profitable operations.

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles of Canada, with the exception that they do not include all the information required for annual audited financial statements. These consolidated financial statements have been prepared with are the same accounting principles as those used in the presentation of the financial statements for the year ended December 31, 2007 excepted for the changes as stated below. Therefore, they must be read taking into account the notes of the annual consolidated financial statements for the year ended December 31, 2007. In the opinion of management, all adjustments necessary for a fair presentation of the results for the periods presented have been reflected in these financial statements.

### 2. Change in accounting policies

On January 1, 2008, the company prospectively adopted the following sections of CICA Handbook.

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

In June 2007, the CICA amended this section to include requirements to assess and disclose an entity's ability to continue as a going concern and to disclose any material uncertainties that may cast doubt upon its ability to continue as a going concern. The Company adequately presents information concerning such assessment.

(b) *Capital Disclosures – Section 1535*

This section establishes an entity's disclosure requirements regarding its objectives, policies and processes for managing capital, as well as quantitative data about what it regards as capital, and whether it has complied with capital requirements and, if not, the consequences of such non-compliance. The disclosure requirements are described in note 8.

(c) *Goodwill and Intangible Assets – Section 3064*

In January 2008, the CICA issued a new section which reinforces an approach based on recognition principles and criteria to record costs as assets and to clarify the application of the concept of matching revenues and expenses in order to eliminate the practice of recognizing as assets items that do not meet the definition of an asset nor the criteria for asset recognition. There is no impact on the financial statements of the Company.

# Malaga Inc.

## Notes to consolidated financial statements

For the three-month and nine-month periods ended September 30, 2008

(unaudited)

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### 2. Change in accounting policies (cont'd)

(d) *New Accounting Rules: Financial Instruments – Disclosures and Financial Instruments – Presentation (Sections 3862 and 3863)*

These sections expand on the disclosures currently required to enable users to evaluate the extent to which financial instruments affect an entity's financial position and performance, including the disclosures to be provided regarding fair value. The disclosure requirements are described in note 13.

(e) *Inventories – Section 3031*

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

There is no impact on the financial statements of the Company.

### 3. Discontinued Operations

On October 26, 2007, the Company redistributed by way of a spin-off to its shareholders, 16,000,000 common shares of its subsidiary, Dynacor Gold Mines inc. ("Dynacor") whose business consisted of the exploration of mining properties with potential for the finding of gold, with a view to commercial operation. Dynacor also produces gold from mineral purchased from local miners through custom milling. The carrying value of this spin-off was established at \$9,598,143. The Company retained 20% of Dynacor at the date of the transaction. Following Dynacor's issuance of additional common shares, this reduced the percentage of ownership by the Company to 13.3%.

The results of the disposed business were reclassified and disclosed, net of income taxes, in the Consolidated Statements of Earnings as "Net earnings from discontinued operations". The following table provides additional information related to the operations of the discontinued operations for the three-month and nine-month periods ended September 30, 2007.

## Malaga Inc.

Notes to consolidated financial statements  
For the three-month and nine-month periods ended September 30, 2008  
(unaudited)

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### 3. Discontinued Operations (cont'd)

	<b>Three-month period ended September 30, 2007</b>	<b>Nine-month period ended September 30, 2007</b>
	<b>\$</b>	<b>\$</b>
Revenues	5,237,366	12,206,831
Operating costs	4,786,940	11,009,758
Amortization	67,226	177,027
General and administration expenses	70,571	285,023
Interest and financing	24,976	65,345
Foreign exchange gain	(9,665)	(242,602)
Earnings before minority interest and income tax	<u>297,318</u>	<u>912,280</u>
Income tax expense	104,833	280,258
Net earnings from discontinued operations	<u>192,485</u>	<u>632,022</u>

### 4. Short-term investments

	<b>September 30, 2008 (unaudited)</b>	<b>December 31, 2007 (audited)</b>
	<b>\$</b>	<b>\$</b>
Guaranteed term deposits Canadian bank prime rate		
less 2.0 %, maturing November 3, 2008	1,050,000	2,057,289
less 2.5 %, maturing December 1, 2008	-	1,505,764
	<u>1,050,000</u>	<u>3,563,053</u>

# Malaga Inc.

Notes to consolidated financial statements  
For the three-month and nine-month periods ended September 30, 2008  
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## 5. Mining properties and deferred development and exploration expenses

	Huayllapon	Brownsfield	Derechos- Consuelo	Other	September 30, 2008 (unaudited) Total	December 31, 2007 (audited) Total
<b>Mining Properties</b>	\$	\$	\$	\$	\$	\$
Balance, beginning of period			1,491	53,432	54,923	6,002,871
Acquisitions				1,622	1,622	60,346
Disposals					-	(2,000,100)
Transferred to property, plant and equipment					-	(4,008,194)
Balance, end of period	-	-	1,491	55,054	56,545	54,923
<b>Development and exploration expenses</b>						
Balance, beginning of period	766,200	718,420	452,789		1,937,409	11,331,060
Surface and underground exploration and development	583,700	1,403,722	455,556		2,442,978	3,020,433
Discontinued operations					-	(9,380,565)
Sales of Concentrated Tungsten					-	(1,116,204)
Transferred to property, plant and equipment					-	(1,917,315)
Balance, end of period	1,349,900	2,122,142	908,345	-	4,380,387	1,937,409
<b>TOTAL</b>	<b>1,349,900</b>	<b>2,122,142</b>	<b>909,836</b>	<b>55,054</b>	<b>4,436,932</b>	<b>1,992,332</b>

The Company owns the Pasto Bueno tungsten mine. The Pasto Bueno mine is located in northern Peru, 830 km from the City of Lima. The property consists of 24 concessions for a total of 627 hectares. The concession of Huaura of Pasto Bueno has started its commercial operations during the year and the expenses have been reclassified under Mining properties and deferred development and exploration expenses.

Projects in development:

Exploration work has started on the sectors of Huayllapon, Brownsfield and Consuelo.

## 6. Bank loans

	September 30, 2008 (unaudited) \$	December 31, 2007 (audited) \$
12% unsecured promissory note payable in US dollars, for an original amount of US\$700,000, payable in December 2008 (2007 - US\$360,000 matured in January 2008)	724,406	366,973
11% unsecured promissory note payable in US dollars, for an original amount of US\$845,000, payable in January 2009 (2007- US\$0)	874,462	-
	<u>1,598,868</u>	<u>366,973</u>

# Malaga Inc.

Notes to consolidated financial statements  
For the three-month and nine-month periods ended September 30, 2008  
(unaudited)

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## 7. Accounts payable and accrued liabilities

	<b>September 30, 2008 (unaudited)</b>	<b>December 31, 2007 (audited)</b>
	<b>\$</b>	<b>\$</b>
Accounts payable	3,976,192	2,774,784
Accrued liabilities	138,679	80,000
Salaries and sale taxes payable	70,943	127,155
	<u>4,185,814</u>	<u>2,981,939</u>

## 8. Share capital

The Company's objectives when managing capital are:

- a) To safeguard the Company's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders.
- b) Ensure that the Company holds sufficient capital to respond to its short-term needs and ensure the development of its projects and mining activities.
- c) To satisfy the external requirements as regards capital related to the loans.
- d) Maintain an optimal capital structure and reduce liability costs.

The Company objectives did not change since 2007.

The capital structure of the Company currently consists of common shares, warrants and stock options. The Company manages the capital structure and makes adjustments to it according to the economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements, or sell assets to fund the operations.

The Company is not currently subject to externally imposed capital requirements.

### Stock options

	<b>September 30, 2008 (unaudited)</b>	
	<b>Number of options</b>	<b>Weighted average price</b>
		<b>\$</b>
Balance, beginning of period	4,400,000	0.45
Stock options issued	2,075,000	0.29
Stock options canceled	(315,000)	0.45
Balance, end of period	<u>6,160,000</u>	<u>0.40</u>

## Malaga Inc.

Notes to consolidated financial statements  
For the three-month and nine-month periods ended September 30, 2008  
(unaudited)

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### 8. Share capital (cont'd)

Stock options outstanding are as follows:

<b>Exercise price bracket \$</b>	<b>Weighted average number of years before expiry date</b>	<b>September 30, 2008 (unaudited)</b>	<b>December 31, 2007 (audited)</b>
0,18 to 0,30	7.69	2,115,000	440,000
0,31 to 0,51	3.48	2,975,000	2,875,000
0,52 to 0,77	5.23	1,070,000	1,085,000
<u>0,18 to 0,77</u>		<u>6,160,000</u>	<u>4,400,000</u>

The fair market value of 2,075,000 stock options issued during the nine-month period ended September 30, 2008 at \$286,429 (2007 - \$463,362) using the Black-Scholes option pricing model using the following average assumptions:

Number of options	2,075,000
Interest rate	3.90 %
Expected life	84 months
Expected volatility	113 %
Dividend yield	0 %

### 9. Contributed Surplus

Net change in contributed surplus is as follows:

	<b>September 30, 2008 (unaudited)</b>	<b>December 31, 2007 (audited)</b>
	<b>\$</b>	<b>\$</b>
Balance, beginning of period	2,512,890	1,752,938
Stock-based compensation		
Stock options issued	289,035	759,952
Stock options canceled	(2,606)	-
<b>Balance, end of period</b>	<u>2,799,319</u>	<u>2,512,890</u>

## Malaga Inc.

Notes to consolidated financial statements

For the three-month and nine-month periods ended September 30, 2008

(unaudited)

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### 10. Operating costs

	Three-month periods ended on September 30		Nine-month period ended on September 30	
	2008	2007	2008	2007
	\$	\$	\$	\$
Raw materials and consumables used	743,612	375,573	1,528,007	1,629,404
Other transformation costs	1,499,797	1,629,657	4,133,327	2,494,507
Inventories net variation	90,555	(131,173)	455,765	(80,706)
	<u>2,333,964</u>	<u>1,874,057</u>	<u>6,117,099</u>	<u>4,043,205</u>

The sales are made to a sole client.

### 11. General and administrative expenses

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2008	2007	2008	2007
	\$	\$	\$	\$
Peru	395,987	117,761	1,009,818	665,671
Salaries and remuneration	108,443	183,886	350,327	402,650
Professional fees	48,053	113,139	256,971	320,164
Investor relations	50,802	101,879	267,063	252,200
Office expenses – Canada	46,001	25,311	43,697	140,032
Travel expenses	15,208	34,291	74,599	168,497
	<u>664,494</u>	<u>576,267</u>	<u>2,002,475</u>	<u>1,949,214</u>

# Malaga Inc.

Notes to consolidated financial statements  
For the three-month and nine-month periods ended September 30, 2008  
(unaudited)

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## 12. Information included in the statements of cash flows

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2008	2007	2008	2007
Changes in non-cash working capital items	\$	\$	\$	\$
Accounts receivable	(793,133)	(3,068,743)	(546,342)	(2,888,943)
Inventories	(12,362)	(107,343)	(172,659)	(3,837)
Prepaid expenses	71,857	(22,260)	138,225	(22,260)
Accounts payable and accrued liabilities	(198,803)	965,586	907,804	693,301
Income tax payable	(8,013)	149,707	(438,613)	438,575
	<u>(940,454)</u>	<u>(2,083,053)</u>	<u>(111,585)</u>	<u>(1,783,164)</u>
<b>Additional information:</b>				
Interest paid	103,229	47,946	239,075	75,372
Interest received	24,258	12,612	71,256	13,972
Income taxes paid	152,413	52,839	775,350	507,556
Non-cash working capital transactions:				
Assets acquired through capital leases	-	-	125,102	-

## 13. Financial instruments

### Financial instrument fair values

The carrying amounts of financial instruments are presented in the consolidated balance sheet at fair value or amortized cost according to the Company's accounting policies. Short term financial assets and liabilities, which includes short-term investments, accounts receivable, bank loans and accounts payable approximate fair values due to the immediate or short-term maturities of these financial instruments. In addition, the fair value of long term debt and obligations under capital lease approximate their carrying value.

### Risk exposure and management

The Company is exposed to a certain amount of risks at different levels. The type of risk and the way the exposure is managed is described here after.

#### a) Market risk

##### i. Interest rate risk

The Company manages its portfolio of short-term investments based on its cash flow needs and with a view to optimizing its interest income.

The effective interest rate on the short-term investments during the period varies between 2.5% and 3.25% (2007, 2.0% to 4.25%). The average interest rate at the end of the period is 2.75% (2007, 2.25%) with investments maturing in 62 days, cashable at anytime without penalties.

## Malaga Inc.

### Notes to consolidated financial statements

For the three-month and nine-month periods ended September 30, 2008  
(unaudited)

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#### 13. Financial instruments (cont'd)

##### *ii. Foreign exchange risk*

The functional currency of the company is the Canadian dollar. The Company is subject to foreign exchange risk as a significant portion of its operating costs and revenues is denominated in United States dollars and in Peruvian new soles. The Company is therefore subject to gains and losses due to fluctuations in the United States dollars and the Peruvian new soles relative to the Canadian dollar.

The Company carries commercial activities in other currencies than Canadian dollar. Therefore, the Company owns balances in cash and cash equivalents, receivables as well as payables in currencies and is exposed the foreign exchange risk regarding these amounts. The balances in currencies as at September 30, 2008 are as follows:

	<b>Canadian Dollars</b>	<b>American Dollars</b>	<b>New Soles</b>
Cash and cash equivalents	1,141,096	(7,095)	(106,429)
Accounts receivable	103,184	2,564,945	3,327,740
Accounts payable	(211,967)	(2,072,996)	(5,240,378)
Income tax payable	-	-	(152,099)
Net balance	<u>1,032,313</u>	<u>484,854</u>	<u>(2,171,166)</u>
Equivalent in Canadian \$	<u>1,032,313</u>	<u>503,375</u>	<u>(754,742)</u>

For the three-month period ended September 30, 2008, if the American dollar would have lost \$0.01 compared to the new sol on average during the period, all things being equal, the operating loss would not have had a notable impact with regards to the net exposure of sales in US currency, excluding the impact on the working capital.

For the three-month period ended September 30, 2008, if the Canadian dollar would have gained \$0.01 compared to the Nuevo sol on average during the period, all things being equal, the operating loss would not have had a notable impact, excluding the impact of the working capital.

##### *iii. Price risk*

The Company's profitability is exposed to commercial risks, notably those linked to the price of tungsten and the foreign exchange rate. The Company does not have hedges covering these risks.

The profitability of the Company is highly linked to the price of tungsten. If the price of tungsten would be lower than the operating cost for a prolonged period, it might not be economically viable to continue operations.

##### *b) Liquidity risk*

The liquidity risk is the risk that the Company has difficulties to honour its commitments when they come to maturity. The contractual commitments for liabilities as at September 30, 2008 are as follows:

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### Financial instruments (cont'd)

	Total	Less than 1 year	Between 1-2 years	Between 2-4 years	5 years and more
	\$				
Bank loans	1,598,868	1,598,868			
Accounts payable	4,185,814	4,185,814			
Income tax payable	52,873	52,873			
Long-term debt	159,783	11,498	11,498	22,996	113,791
Obligations under capital leases	346,158	232,943	113,215		
Asset retirement obligations	1,161,355				1,161,355
	<u>7,504,851</u>	<u>6,081,996</u>	<u>124,713</u>	<u>22,996</u>	<u>1,275,146</u>

As at September 30, 2008 the Company had \$1,050,000 in short-term investments, \$3,922,901 in accounts receivable and \$1,171,346 in inventories.

#### c) *Credit risk*

The Company provides is exposed to a significant concentration of customers in regards of its trade accounts receivable since it does business with one customer. It carries out, on a continuing basis, credit checks on its customers and maintains provisions for contingent credit losses which, once they materialize, are consistent with management's forecasts.

### 14. Related party transactions

The following summarizes the Company's related party transactions with its affiliated company Dynacor Gold Mines Inc., on which it exercises significant influence, that have not been previously disclosed:

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2008	2007	2008	2007
	\$	\$	\$	\$
General and administrative expenses	<u>115,831</u>	<u>-</u>	<u>406,296</u>	<u>-</u>

The Company has sold property, plant and equipment for \$ 216,901 to Dynacor Gold Mines Inc as a partial repayment of advances payable. The balance of the advance payable as of September 30, 2008 is 0.

These transactions are in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties).

The accounts receivable include advances to a related company, Hidroelectrica Pelagatos SAC, in the amount of \$120,223, on demand, that bear no interest.

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### **15. Comparative figures**

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current period.