

Management Report

Introduction

This management report for Malaga Inc. ("Malaga" or the "Company"), formerly known as Dynacor Mines Inc., emphasises the major activities of the Company which occurred during the three-month and nine-month period ended September 30, 2008, as well as the subsequent period up to November 10, 2008.

The financial information presented herein was established according to generally accepted accounting principles (GAAP) in Canada which are identical to those used for the preparation of the December 31, 2007 Annual Financial Statement. This management report must be read in conjunction with Malaga's 2007 Annual Report, the unaudited consolidated financial statements for the period ended September 30, 2008, as well as the accompanying notes. These documents have been filed electronically on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com. All currency figures appear in Canadian dollars unless otherwise specified. This management report as well as the unaudited consolidated financial statements for the period ended September 30, 2008, have been prepared by management, and were not reviewed the Company's external auditors.

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

The Board of Directors is required to make sure that management assumes their responsibility regards the preparation of the company's financial returns. To facilitate this process the Board has created an Audit Committee. The Audit Committee meets members of the management team and the external auditors to discuss the operating results and the financial situation of the Company, before making their recommendations and submitting the financial statements to the Board of Directors so that it can examine and approve them before sending them to the shareholders. Following the recommendation of the Audit Committee, the Board of Directors has approved the three-month and the nine-month interim unaudited consolidated financial statements dated the September 30, 2008.

For all purposes below, the "Company" refers to Malaga and its subsidiaries Dynacor Exploraciones del Peru S.A. (100%), Minera Malaga Santolalla S.A.C (100%), Minera Pasto Bueno S.A.C (100%) and Dynacor Gold Mines Inc. (100% and 13.3 % since October 24, 2007) and Minera Dynacor del Peru, S.A.C. (80% before May 1, 2007 and 100% up to October 24, 2007), The Company also holds 44% of Hidroelectrica Pelagatos S.A.C. (Hidropesac).

The information provided herein, effective as of November 10, 2008, is based on assumptions related to future events and results, which may vary.

Further information on the Company and its operations has been filed electronically on SEDAR in Canada at www.sedar.com.

Overview

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

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

Following this transaction, the earnings from gold activities that were transferred to Dynacor are presented as discontinued operations.

The Company began commercial production of tungsten concentrate in April 2007.

Highlights

- Sales of 15,795 MTU's totalling \$3.2M (16,044 MTU's totalling \$2.8M in 2007).
- Cash, cash equivalents and short-term investments totalling \$1.1M on September 30, 2008.
- Net loss of \$0.4M or \$(0.00) per share compared to net profit of \$0.1M or \$(0.00) per share for the comparative period in 2007.
- Investment in mine development of \$0.6M and \$0.2M for the purchase of fixed assets for Q3 and adding up to a total of \$2.4M and \$1.1M, respectively for the nine-month period.
- Development of new mining zones has continued: Huayllapon and Level 13 of Consuelo should be in operation during Q4 2008 whereas the Santa Marta vein of Brownsfield will be ready at the end of Q2 2009.

Tungsten Market

The Company's sale price of tungsten is based on the sale price of APT (ammonium paratungstate). The average monthly market price of APT for the period fluctuated between US\$250 and US\$257 compared to US\$239 and US\$245 in the third quarter of 2007.

There are no new major mines that are expected to begin operations in the short-term and since the demand side remains strong in spite of economic situation in the United States this indicates that the sale price could remain stable until the end of 2008. As of November 10, 2008, the price of APT is US\$252.

Exchange Rate

The average value Canadian dollar compared to the US dollar was US\$0.96 (US\$0.96 for the corresponding quarter of 2007) and 2.83 Nuevo soles (3.06 in 2007). The average exchange rate of the US\$ compared to the Nuevo sol was 2.94 Nuevo soles (3.20 in 2007). On September 30, 2008, the exchange rate of the Canadian dollar was 2.88 Nuevo soles (3.16 in 2007) and US\$0.96 (US\$1.01 in 2007). The Company does not have any hedging contracts.

Metal sales and production (Continued activities)

Metal sales are as follows:

	Three-month period ended September 30,		Nine-month period ended September 30,	
	2008	2007	2008	2007
In MTU	15,975	16,044	42,056	31,795
Production :				
Extracted tonnage	23,176	21,867	65,240	40,305
Recovery (%)	81.6	81.9	80.6	82.5
Grade (%)	0.783	0.927	0.802	1.025
Production (MTU)	14,805	16,593	42,196	34,114
\$US/MTU				
Cash cost	139	116	144	119
Amortization and depreciation	31	27	32	20
Total operating cost	<u>170</u>	<u>143</u>	<u>176</u>	<u>139</u>
\$CA/MTU				
Cash cost	146	117	145	127
Amortization and depreciation	32	28	33	21
Total operating cost	<u>178</u>	<u>145</u>	<u>178</u>	<u>148</u>

Operating results of continued activities

Three-month period ended September 30, 2008

The Company recorded a net loss of \$0.4M compared to a net earnings of \$0.1M for the corresponding period in 2007.

The tungsten sales have increased by \$348,000 compared to the corresponding period in 2007. The sales volume has been relatively stable. The average sale price is 9% higher compared to 2007. The Company recorded a sale price adjustment of 1% (total of \$223,000) for the sales made from January to August 2008. The sale increase was reduced by a fluctuation in the total operating cost that was negatively impacted by the low average grade of 0.783% compared to 0.927% in 2007. This factor lead to an increase in the total operating cost per MTU of \$33.

Administrative expenses are detailed below:

	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	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>

The increase in administrative expenses is explained by an increase of \$278,000 in Peru in comparison to the corresponding period in 2007. This increase is related to new environmental studies as well as salary adjustments. Travel expenses are comprised of different trips to Peru by management.

The discounted accretion of the asset retirement obligation was \$24,478 (nil in 2007). The Company recorded a gain of \$115,185 as a result of disposition of capital assets to Dynacor. This transaction was recorded at its fair exchange value. The Company recorded a loss on foreign exchange of \$6,214 (gain of \$335,783 for the corresponding period in 2007). Stock based compensation amounts to \$63,224 (\$82,142 for the corresponding quarter in 2007).

The Company cannot apply a tax recovery which would be generated by a loss against income taxes paid in previous years in Peru. Therefore, there is no income tax expense or recovery in 2008. In 2007, the effective tax rate is different than the statutory rate of 30% because the Canadian parent company recorded a tax loss and cannot record this tax benefit.

Net earnings from discontinued operations amounted to \$192,485 in 2007.

Nine-month period ended September 30, 2008

The Company has recorded a net loss of \$2.2M compared to \$1.3M in 2007. Since the Pasto Bueno plant attained commercial production in the second quarter 2007, there are only sales for six months in the nine-month period ended September 30, 2007. The total sales increased by 29% as a result of higher volume and higher average price. The lower WO₃ grade produced (0.802% in 2008 compared to 1.073% for the corresponding period in 2007) explains higher cost of sales (\$178/MTU compared to \$148/MTU).

The charge to the asset retirement obligation was \$73,435 (nil in 2007). The Company recorded a gain of \$115,165 as a result of disposition of capital assets to Dynacor. This transaction was recorded at its fair exchange value.

Stock based compensation amounted to \$286,429 in 2008 (\$463,362 for the corresponding period in 2007). The Company recorded a gain on foreign exchange of \$177,978 compared to \$43,864 for the corresponding period in 2007.

The Company cannot apply a tax recovery which would be generated by a loss against income taxes paid in previous years in Peru. Therefore, there is no income tax expense or recovery in 2008. (expense of \$650,907 in 2007).

Net earnings from discontinued operations amounted to \$632,022 in 2007.

Long-Term Liabilities and Contractual Obligations

Long-term debt repayment and payment on obligations in accordance with capital asset leases over the next five years are itemized as follows:

In \$	2008	2009	2010	2011	2012	Total
Long-term debt	2,875	11,498	11,498	11,498	1,548	38,917
Obligations under capital leases	82,579	183,748	79,831			346,158
	<u>85,454</u>	<u>195,246</u>	<u>91,329</u>	<u>11,498</u>	<u>1,548</u>	<u>385,075</u>

Shareholder Equity

The stock based compensation expenses increased the contributed surplus by \$286,429 as a result 2,075,000 stock options granted during the nine-month period ended September 30, 2008. Stock options were granted at exercise prices varying between \$0.29 and \$0.325 per share.

Cash Flow

On September 30, 2008, the working capital was \$0.3M compared to \$4.4M on December 31, 2007. The decrease comes from the cash flow used for the operating activities for \$0.9M, from the exploration and development costs of \$2.4M, from property, plant and equipment investments of \$1.1M and from repayment of obligations under the capital lease for \$0.1M.

The management of Malaga considers that the present cash situation is sufficient to meet its current obligations and to maintain mining properties in due form over the next twelve months. However, if the Company continues to record losses it might have to reduce or even cease its work on new sectors in development as well as the exploration and decrease its costs. The work in the new sectors, exploration and full valuation of certain mining properties could require considerably more funds. The Company has, in the past, successfully obtained additional funding by way of private placements or public issue. The Company could also sell a portion of or the totality of its investment in Dynacor or other assets.

Related Party Transactions

The Company shares the same senior management as Dynacor. Thus, shared expenses are billed to Dynacor according to their usage. The general and administrative expenses include revenues for inter-company services of \$115,831 (nil in 2007) from an affiliated company for the three-month period ended September 30, 2008.

The Company has reimbursed an advance to an affiliated company by \$234,012 and sold capital assets for the amount of \$216,901 to Dynacor. This transaction generated a gain of \$115,165.

These transactions were recorded at its fair exchange value and accepted by both parties.

Quarterly review

(000\$)	2008			2007				2006
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Financial data								
Sales	3,157	2,465	1,935	2,176	2,810	3,047	-	-
Net income (net loss)	(414)	(955)	(799)	(1,067)	101	(459)	(933)	(1,120)
Cash and cash equivalents and short-term investments								
	1,097	1,887	3 106	3,943	467	2,413	863	1,260
Working capital	286	910	2,484	4,367	3,707	4,323	2,687	3,004
Total assets	25,449	25,398	24,871	25,210	33,475	29,731	26,273	26,476
Shareholder equity	17,945	18,295	19,143	19,826	27,615	26,182	21,840	22,364
Per share								
Earnings (loss) per share, basic and diluted	0.00	(0.01)	(0.01)	(0.03)	0.01	0.00	0.00	0.00
Weighted average number of outstanding common shares (000), basic and diluted	137,117	137,117	137,117	122,391	118,679	118,425	112,823	108,969

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

Contingencies

The Company's operations are subject to Peruvian laws on the protection of the environment. The environmental consequences are difficult to identify, whether in terms of their outcomes, their possible timelines and their impacts. Management considers that to the best of its knowledge, the Company is presently operating in compliance with the laws and regulations already in place.

Off-Balance Sheet Transactions

The Company did not enter into any off-balance sheet transactions during the period.

Pasto Bueno Property

The technical report on Pasto Bueno property dated 2006 is deficient with respect to economic viability, as it was not based on a resource calculation in compliance with NI 43-101. Malaga intends to rectify this situation as soon as possible by preparing a new resource calculation for its property. This new calculation will attest to the Company's current resources at Pasto Bueno and will be computed using methods that are approved by the Canadian regulatory authorities and will be as such fully NI 43-101 compliant. Vector Engineering, a well known mining engineering firm, has been hired by Malaga to produce the new report.

Vector Engineering is currently working on the report and the Company will publish the report on its website (www.malaga.ca) and on SEDAR (www.sedar.com) as soon as it has been completed and officially approved as being 43-101 compliant. Although the old report was not NI 43-101-compliant, the resource calculation has in fact allowed Malaga to maintain a constant level of tungsten production since April 2007.

Malaga has begun a significant drilling program of 10,650 meters as well as an underground exploration program in the Huaura and Huayllapon sectors. As of today, approximately 73% of the program has been completed. 7,752 meters have been drilled for a total of 16 bore holes.

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

Underground Development Program

Underground work is currently underway in several different sectors of the Pasto Bueno property to prepare a new technical report and to prepare new sectors. More than 505 meters of access tunnels were excavated during Q3 adding up to a total of 2,364 meters during the nine-month period ended September 30, 2008.

Huayllapon

Work continues in the Huayllapon sector. The Chabuca vein has been intercepted during the third quarter and significant development work is currently underway in this sector.

Brownsfield

Excavation of a lateral access tunnel at level 10 began in early 2008 continues towards the Santa Marta vein which was recently uncovered by drill holes HDD8, 10, 11, 12 and 14 and which is located 450 meters west of the Consuelo vein. This work will continue throughout 2008 and Q1 2009.

During this work, the Sauco vein, intersected during the drilling campaign, was intercepted and development work is ongoing in this vein.

Hydro-electricity

Hidropesac had initially planned to have two hydroelectric generators with a rated capacity of 600 KW/h online during the Q2 2008. All the necessary equipment and infrastructure was installed at the end of June 2008, however during the testing phase at the end of June, a major problem occurred which led to significant damage in the water conduit that feeds the plant. Damage evaluation and repairs have been made and supervised by EDP, the Swiss partner in Hidropesac. The water conduit has been repaired and tested under pressure in October.

As all the tests were conclusive, the Swiss company EDP will proceed in November with a series of audits and will power up certain electrical components of the plant. Following these tests, the plant will begin the power production, which will decrease the fuel consumption of the mine.

Final commissioning of the power plant is planned for December 2008.

Outlook

Vector Engineering has begun its analysis in order to issue a new report on actual resources of the Pasto Bueno property based on NI 43-101. This report should be completed by the end of this year.

Data on Available Outstanding Shares (November 10, 2008)

	Amount
Common shares	137,117,367
Options	6,160,000

Changes in Accounting Policies

The Canadian Institute of Chartered Accountants (CICA) issued Sections 1400, 1535, 3064, 3862, 3863 and 3031, which apply to interim and annual financial statements for periods beginning on or after January 1, 2008. These new standards were adopted prospectively.

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. This section includes requirements regarding the assessment and disclosure of an entity's ability to continue as a going concern.

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.

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.

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.

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.

New accounting policies

In February 2008, Canada's Accounting Standards Board announced that the Canadian accounting policies will converge to the International Financial Reporting Standards (IFRS) and that all public companies will have to present its information under these policies, with comparative figures for years beginning on or after January 1st, 2011.

The Company started to perform a diagnostic to reveal differences between existing GAAP reporting standards and IFRS and what changes should be made to the existing reporting. Next, a transition plan will be developed to determine the implementation calendar and which resources will be needed. The Company will also determine the implementation date.

Disclosure Controls

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") of the Company are responsible for establishing and maintaining the Company's disclosure controls and procedures, including adherence to the Disclosure Policy adopted by the Company. The Disclosure Policy requires all staff to keep senior management fully apprised of all material information affecting the Company so that they may evaluate and discuss this information and determine the appropriateness and timing for public release. The CEO and

CFO evaluated the effectiveness of the Company's disclosure controls and procedures as required by Multilateral Instrument 52-109 issued by the Canadian Securities Administrators.

They concluded that as of September 30, 2008 the Company's design and operation of its disclosure controls and procedures were effective in providing reasonable assurance that material information regarding this report, and the interim consolidated financial statements and other disclosures was made known to them on a timely basis, except for typical weaknesses related to the relatively small size of the company, for instance a lack of segregation of duties due to a limited number of employees handling accounting and financial transactions.

Internal Controls over Financial Reporting

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") are also responsible for the design of internal controls over financial reporting ("ICFR"). The fundamental issue is ensuring all transactions are properly authorized and identified and entered into a well designed, robust and clearly understood accounting system on a timely basis to minimize risk of inaccuracy, failure to fairly reflect transactions, failure to fairly record transactions necessary to present financial statements in accordance with generally Canadian accepted accounting principles, unauthorized receipts and expenditures, or the inability to provide assurance that unauthorized acquisitions or dispositions of assets can be detected.

The relatively small size of the company makes the identification and authorization process relatively efficient and a process for reviewing ICFR has been developed.

Whenever it is feasible, given the Company's small size, the internal control procedures provide for separation of duties for receiving, approving, coding and handling of invoices, entering transactions into the accounts, writing checks and wire requests.

Furthermore, the Chief Executive Officer and the Chief Financial Officer are required to develop or supervise the development of internal controls relative to ICFR. The CEO and the CFO have examined whether the modifications to the company's internal controls during the last 3-month period ending on the 30th of September 2008, had significantly affected or were likely to affect in a significant manner the company's ICFR internal control procedures. No such changes were identified following this evaluation. As of September 30, 2008, the CEO and CFO concluded that no material weaknesses existed in the design of the ICFR.

Caution Regarding Forward Looking Statements

Statements contained in this document that are not historical facts are regarded as forward-looking statements. These statements may involve risk, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. Factors that could cause such differences, without being limited to the following, include: volatility and sensitivity to market metal prices; impact of change in foreign currency exchange rates and interest rates; unexpected variations in the geology of a property or erroneous geological data; environmental risks including increased regulatory constraints; unexpected adverse mining conditions; adverse political conditions, and changes in government regulations and policies. Although the Company believes that the assumptions inherent in the forward-looking statements are reasonable, undue reliance should not be placed on these statements, which only apply at the time of publication of this report.

Jean Martineau

Jean Martineau

President and Chief Executive Officer

Pierre Monet

Pierre Monet

Vice-President and Chief Financial Officer