

Management Report

Introduction

This management report for Malaga Inc. ("Malaga" or the "Company"), comments the major activities of the Company which occurred during the three and nine-month period ended September 30, 2009, as well as the subsequent period up to November 11, 2009.

The financial information presented herein was established according to generally accepted accounting principles (GAAP) in Canada, which are identical to those used in the year ended December 31, 2008. This management report must be read in conjunction with Malaga's 2008 annual report and the unaudited interim consolidated financial statements for the period ended September 30, 2009 as well as the accompanying notes. These documents have been filed electronically on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com. All currency figures appear in Canadian dollars unless otherwise specified. This management report as well as the unaudited interim consolidated financial statements for the period ended September 30, 2009, have been prepared by management, and were not audited by the Company's external auditors.

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

The Board of Directors is required to make sure that management assumes their responsibility with regards to the preparation of the Company's financial reporting. To assist management the Board has created an Audit Committee. The Audit Committee meets with the members of the management team to discuss the operating results and the financial situation of the Company, before making their recommendations and submitting the financial statements to the Board of Directors so that it can examine and approve them before sending them to the shareholders. Following the recommendation of the Audit Committee, the Board of Directors approved the consolidated financial statements of the Company.

For all purposes below, the "Company" refers to Malaga and its subsidiaries all held at 100%, Dynacor Exploraciones del Peru S.A., Minera Malaga Santolalla S.A.C., Minera Pasto Bueno S.A.C. The Company also holds 44% of Hidroelectrica Pelagatos S.A.C. The information provided herein, effective as of November 11, 2009, is based on assumptions related to future events and results, which may vary. Further information on the Company and its operations has been filed electronically on SEDAR in Canada at www.sedar.com.

Overview

Malaga is a publicly traded company listed on the Toronto Stock Exchange (TSX) under the symbol "MLG". Malaga is a mining company with acquisition, exploration, development and mining concession operations in Peru.

Highlights for the Quarter

- Sales revenue of \$2.8M (\$3.2M in 2008) a decrease of 12%
- Sales volume of 15,529 metric tonne unit (MTU) (15,795 MTU in 2008)
- Net loss of \$2.0M or \$(0.01) per share compared to a net loss of \$0.4M or \$(0.00) per share in Q3-2008
- WO₃ grade of 0.84% of MTU produced (0.78% Q3-2008)
- Gross proceeds of \$0.9M received from the issuance of 9,006 976 common shares pursuant to the rights offering

Quarterly Information

Financial (in \$'000)	Three-month periods ended September 30,	
	2009	2008
Sales	2,780	3,158
Net loss	1,977	414
Cash flow from (used by) operating activities before non-cash working capital items	(1,401)	56
Acquisitions of property, plant and equipment	1,277	232
Additions to deferred development and exploration expenses	470	626
Loss per share, basic and diluted (\$)	0.01	-
	At	At
	September 30,	December,
Financial (in \$'000)	2009	2008
Cash, cash equivalents and short term investments	1,939	800
Total assets	26,767	24,026
Long -term debt (less current portion)	3,147	163
Obligations under capital lease (less current portion)	247	257
Shareholder's Equity	13,997	16,578
Other		
Outstanding shares (000)	146,124	137,117
Weighted average outstanding shares ('000)	139,000	137,117
Share price at closing	0.10	0.15

Tungsten Market

The Company's sale price of tungsten is based on the sale price of APT (ammonium paratungstate). The price of tungsten increased from US\$170 at the beginning of the quarter to US\$185 (the price of tungsten was US\$252 during the corresponding quarter in 2008). At November 11, 2009 the price was at US\$185.

Exchange Rate

The exchange rates for the period are as follows:

	\$CA/\$US		\$CA/sol	
	2009	2008	2009	2008
March 31 (closing rate)	1.25	1.00	2.54	2.75
June 30 (closing rate)	1.16	1.01	2.59	2.92
September 30 (closing rate)	1.07	1.06	2.69	2.81
Q-1 (average rate)	1.24	1.00	2.60	2.88
Q-2 (average rate)	1.17	1.01	2.59	2.78
Q-3 (average rate)	1.10	1.04	2.69	2.79

The Company has not entered into any hedging contracts.

Metal Sales and Production

Metal sales is as follows:

	Three month periods ended September 30,		Nine month periods ended September 30,	
	2009	2008	2009	2008
(in MTU)	15,529	15,795	46,466	42,055

Production is as follows:

in MTU

Tons extracted	24,111	23,176	66,831	65,297
Grade (%)	0.84	0.78	0.85	0.80
Production (MTU)	17,177	14,975	47,713	42,288

The cost of sales is as follows:

In \$US/MTU

Average cash cost of sales	148	142	127	143
Amortization and depletion	58	31	56	32
Total cost	<u>206</u>	<u>173</u>	<u>183</u>	<u>175</u>

In \$CA/MTU

Average cash cost of sales	163	148	148	145
Amortization and depletion	64	32	65	33
Total cost	<u>227</u>	<u>180</u>	<u>213</u>	<u>178</u>

The sales for the three-month period ended September 30, 2009, amounted to \$2.8M (\$3.2M for the corresponding period in 2008). The significant decrease in the selling price and the weakening of the United States dollar (6%), were offset by the increase in the grade of ore produced compared to 2008 (0.84% in comparison to 0.72%) as well as the amortization of the deferred revenues which were recorded in sales proportionate to the deliveries for the period.

The sales for the nine-month period ended September 30, 2009, increased by \$1.1M. This is explained by an increase in sales volume caused by the increase in grade, the increase in production volume, as well as the amortization of the deferred revenues which were recorded in sales proportionate to the deliveries for the period. This increase was offset by a decrease in the selling price in 2009 and the variation in foreign exchange.

The average cash cost of sales for the three-month period ended September 30, 2009 was \$163 compared to \$148 for the corresponding period in 2008. This increase is due to the variation in the exchange rate between the Canadian Dollar and the United States Dollar as well as the increase in the development work required to replenish and maintain the level of resources.

For the nine-month period ended September 30, 2009, the average cash cost of sales decreased by US\$16. This decrease is due to the increase in grade (0.85% in comparison to 0.80%) resulting in an increase in volume of ore processed and sales volume, hence producing certain economies of scale.

Following the publication of the report on the reserves, the volume of MTU which is used to calculate depletion decreased in comparison to preceding volume. This resulted in an increase in amortization and depletion of \$32 per MTU sold.

Operating Activities from Continuing Operations**Three-Month Period Ended September 30, 2009**

The Company recorded a net loss of \$2.0M compared to \$0.4M in 2008. The increase in net loss is due to an increase in the gross loss of \$1.0M, which was explained above, as well as the increase in the foreign exchange loss of \$0.2M and the accretion expense on the long term debt. The administrative expenses remained stable in the current period compared to Q3-2008. The stock-based compensation is lower in 2009 as there were no stock options issued in the period.

Nine-Month Period Ended September 30, 2009

The Company recorded a net loss of \$3.9M compared to \$2.2M in 2008. The explanations are similar to those for the three-month period ended September 30, 2009.

Cash Flow***Operating Activities***

For the quarter, the operating activities used cash flow in the amount of \$0.6M (\$0.9M in 2008). The cash usage was caused in part by the gross loss though compensated by the increase in accounts payable and accrued expenses.

For the nine-month period ended September 30, 2009, the operating activities used cash flow in the amount of \$0.6M which is comparable to the cash used for operating activities in the comparable period of 2008, \$0.6M. The cash flow used from operating activities before the change in non cash working capital in the amount of \$1.1M was reduced as a result of the increase in accounts payable and accrued expenses.

Investing Activities

The work relative to the expansion project to increase capacity from 250 to 500 tons per day continued in the current quarter. For the current period, the Company invested \$1.3M for the acquisition of property, plant and equipment (\$0.2M for the corresponding period in 2008). The Company also invested \$0.5M (\$0.6M for the corresponding period in 2008) in exploration and development work in order to develop new sources of ore.

For the nine-month period ended September 30, 2009; the Company invested \$1.9M in exploration and development work (\$2.4M in 2008) whereas \$2.0M was invested in property, plant and equipment (\$1.1M in 2008).

Financing Activities

In August, the Company deposited the proceeds in the amount of \$0.9M subsequent to the exercise of 9.0M subscription rights issued in June 2009, which resulted in the issuance of 9.0M common shares from treasury at a price of \$0.10 per share. These proceeds will be utilized to continue the development of the Pasto Bueno property. The Company also received the balance of US\$1.6M pursuant to the financing agreement concluded on April 1, 2009. During the period, the Company reimbursed \$0.4M of its bank loans as well as \$0.1M in obligations under capital leases.

For the nine-month period ended September 30, 2009, the Company generated a cash flow from financing activities of \$5.8M (\$1.4M in 2008). This cash flow comes from the US\$5M financing agreement and \$0.9 from the issuance of common shares.

Liquidity

At September 30, 2009, the working capital was \$0.2M compared to a deficit of \$1.4M on December 31, 2008. This improvement is due to the US\$5M financing agreement and \$0.9 from the issuance of common shares.

The Company has incurred operating losses over the past fiscal years and its sources of funding and cash flows from operation are limited. In addition, there is no guarantee that the Company has adequate financial resources, including adequate funding to meet its working capital requirements. It is expected that the cash at September 30, 2009 will not be sufficient to fund ongoing activities of the Company.

There is no financial commitment in 2009, other than disclosed in «Long term liabilities and contractual obligations».

If the Company continues to incur operating losses, it will have to consider the possibility of reducing or even terminating all work on the new sectors under development as well as its exploration and reducing all other costs. The development, exploration and complete commercialization of certain mining properties may require additional financial resources. The Company is also affected by the instability of the market price of metal and the fluctuation of foreign exchange rates.

Assets

Total assets amount to \$26.8M (\$24.0M at December 31, 2008).

Long-Term Liabilities and Contractual Obligations

Payment due by period (in `000\$)

	2009	2010 to 2012	2013	Beyond 2013	Total
Contractual commitments					
Long term debts	12	2,826	1,017	1,414	5,269
Operating leases	80	544	-	-	624
Capital leases	26	226	-	-	252
Purchase commitments	727	-	-	-	727
Asset retirement obligation for property, plant and equipment	-	-	-	559	559
	845	3,596	1,017	1,973	7,431

The Company's operations are governed by regulations regarding the protection of the environment. Subject to these regulations, the Company must implement progressive measures for rehabilitation work as part of its operations. Consequently, the Company recorded an asset retirement obligations for the property, plant and equipment of mining sites in the amount of \$0.6M at September 30, 2009. These disbursements are expected to be made in the years 2027 and 2028. These estimates are subject to change following modifications to laws and regulations or as new information becomes available.

Shareholder Equity

In the current quarter, 9.0M common shares were issued at a price of \$0.10 per share, generating proceeds in the amount of \$0.9M. In 2009, no stock options were issued (no stock options were issued in the corresponding quarter of 2008) and 345,000 stock options expired during the nine-month period ended September 30, 2009.

Contingencies and Subsequent Events

The Company's operations are subject to governmental laws on the protection of the environment. The environmental consequences are difficult to identify, whether in terms of their outcomes, their dates or their impacts. To the best knowledge of management, the Company is presently operating in compliance with the laws and regulations already in place. The commitments to purchase property, plant and equipment are shown under long term liabilities and contractual obligations.

Off-Balance Sheet Transactions

The Company did not enter into any off-balance sheet transactions at September 30, 2009.

Related Party Transactions

The Company shares the same senior management as Dynacor Gold Mines Inc. Thus, shared expenses are billed to Dynacor according to their usage. In 2009 the general and administrative expenses were reduced by inter-group services chargeback of \$0.1M (\$0.1M for the corresponding period of 2008). These transactions are in the normal course of operations and are measured at their fair exchange value, which represents the amount of the consideration established and agreed by the related parties.

Quarterly Review

(in \$'000)	2009			2008				2007
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Financial								
Revenues	2,780	2,489	3,439	3,065	3,158	2,465	1,935	2,176
Net loss	(1,977)	(1,328)	(554)	(878)	(424)	(964)	(863)	(1,067)
Cash, Cash equivalents and short term investments	1,939	1,584	668	800	1,097	1,990	3,106	3,943
Cash flow	167	192	(2,174)	(1,396)	286	910	2,484	4,367
Total assets	26,767	25,684	24,705	24,026	25,449	25,398	24,871	25,210
Shareholder's Equity	13,997	14,915	16,043	16,578	17,945	18,696	19,143	19,826
Per Share								
Loss per share basic and diluted	(0.01)	(0.01)	0.00	(0.01)	0.00	(0.01)	(0.01)	(0.03)
Weighted average shares outstanding ('000), basic and diluted	139,000	137,117	137,117	137,117	137,117	137,117	137,117	122,391

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.

Data on Available Outstanding Shares (November 11, 2009)

	Amount
Common shares	146,124,343
Options	5,815,000

Pasto Bueno Property

Pursuant to the press release issued March 3, 2009, the Company obtained a new independent technical report in conformity with standard 43-101. The report was performed by Vector Engineering Inc. The Pasto Bueno property contains the following reserves and resources in December 2008.

Category	Metric Tonnes	WO3 Grade
Reserves		
Proven	28,234	1.21%
Probable	70,214	0.85%
	<u>98,448</u>	<u>0.95%</u>
Resources		
Measured	35,646	1.28%
Indicated	106,844	0.98%
Measured & indicated	<u>142,490</u>	
Inferred	<u>1,204,000</u>	0.82%

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 believes that the potential of the mine is greater than that indicated in the report as the study covered only a portion of the mining property.

M. Alonso Sanchez, Chief Geologist of the Company, is Malaga's "Qualified Person" («QP»). 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 attest 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.

Development Program

The Company has prepared an extensive program of exploration and development for 2009 with the objective of increasing the reserves at Pasto Bueno mine to support production of 500 tons per day in 2010. For the nine-month period ended September 30, 2009, 3,393 meters of underground development work was completed of which 1,400 meters was completed in the third quarter and 2,267 meters of diamond drilling were achieved of which 687 meters was completed in the third quarter. The current production is being extracted from only four veins (Consuelo, Candela, Alonso Fenix, and Chabuca) and a fifth vein (Violeta) should commence production in early 2010.

Plant

The expansion work is progressing as planned and the new crushing section, which will gradually increase the capacity to 400 tons per day, should be in operation during the third week of November. A rod mill will then be installed in order to increase the capacity to 500 tons per day.

Outlook

The Company expects to increase production to 500 tons during the first quarter of 2010 in order to improve profitability.

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

Environment

The Company recorded an accrual of \$0.6M for the asset retirement obligations of the mine. This accrual is related to the Company's obligation to conform to Peruvian governmental regulations concerning environmental protection.

Risk Factors

The mining industry faces a number of risks inherent to the nature of its activities that can influence the profitability of a company. The 2009 Management Information Circular of the Company includes a complete list of risk factors.

Principal Accounting Estimates

The critical accounting estimates are those which management identified as requiring assumption on matters that are substantially uncertain at the time of the estimate, that should the assumptions be modified, it would have a material impact on the reported earnings or the financial position of the Company. A description of the Company's main accounting policies can be found in the Company's consolidated financial statements filed electronically on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com. The principle accounting estimates relate to the value of mining properties and deferred exploration costs.

The estimation of mineral reserves is a complex process involving variables of very uncertain nature and requiring that important and advisable decisions be taken. This process involves variables such as geological data on the structure of each pit, production cost estimates and future market prices of tungsten. The Company's mineral reserve estimates are calculated by qualified persons in accordance with the definitions and guidelines adopted National Policy 43-101. At December 1, 2008, the Company's measured and indicated mineral resources amounted to 142,490 tons which includes the proven and probable mineral reserves of 98,448 tons. Mineral reserve estimations may vary as a result of changes in selling prices of tungsten and production costs as well with the additional knowledge of the ore deposits and mining conditions. The Company's reserve estimates may have a significant impact on the information contained in the Company's financial statements. The development costs are amortized using the units of production method over the proven and probable reserves and the non-reserve mineral resources when significant objective evidence exists that it is probable that the non-reserve resources will be produced. A decrease in the mineral reserves and the measured and indicated mineral resources would increase the amortization expense, thus could have a material impact on the Company's operating results. Periodically, the Company performs an impairment test to assess the realizable value of its property, plant and equipment and mining assets. Mineral reserve estimates are the most important variable in the asset impairment evaluation. A decrease in the Company's reserves could jeopardize the net realizable value of the assets and could lead to a significant loss.

Changes in Accounting Policies and their Implementation

There have been no changes in accounting policies during the period.

New Accounting Policies

On January 1, 2009, the Company adopted the following recommendations issued by the Emerging Issues Committee of the Canadian Institute of Chartered Accountants («CICA»):

In January 2009, the Emerging Issues Committee («EIC») of the CICA issued EIC-173, «Credit risk and fair value of financial assets and financial liabilities», which requires that entities take into account the credit risk of the counterparty and their own credit risk in determining the fair value of financial assets and financial liabilities, including derivatives. EIC-173 applies to interim and annual financial statements of the Company for fiscal years beginning on or after January 1, 2009. The adoption of this EIC did not have a significant impact on these consolidated financial statements.

At January 1, 2009, the Company adopted the EIC-174 «exploration expenses» which was issued in March 2009 by the Emerging Issues Committee of the CICA. This EIC provides additional guidance to mining exploration companies in circumstances where it is necessary to perform an impairment test. The adoption of this EIC did not have a significant impact on these consolidated financial statements.

Change in Accounting Estimates

The development costs are amortized using the units of production method over the proven and probable reserves and the non-reserve mineral resources when significant objective evidence exists that it is probable that the non-reserve resources will be produced. In December 2008, the Company received a technical report in compliance with National Policy 43-101. The reserves and resources amount used in the amortization calculation differ from the previous therefore resulting in an increase in the amortization expense of the current quarters as well as the upcoming ones.

New Accounting Standards Issued Not Yet In Force

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

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

In 2008, the Accounting Standards Board announced the adoption of International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. The proposed transition date of January 1st will require the reprocessing for comparative purposes, amounts presented by Malaga for its year ending December 31, 2010 and its opening balance sheet at January 1, 2010.

Malaga began its project to convert to IFRS in 2008 and has established a governance structure of the project. Regular reports are submitted to the Audit committee. Malaga continues to assess the impact of IFRS on the financial presentation and, at this time, the impact on the financial situation and future results of operation that cannot be reasonably determined or estimated. Moreover, Malaga provides a significant increase of the information presented because of the adoption of IFRS and continues to assess the amount of information required and the changes to be made to the systems of gathering and processing information.

Malaga proposed conversion to IFRS has three phases: preliminary study, implementation of project components, assessment of financial reporting and integration of changes. The first phase is completed and included project planning and the establishment of differences between Canadian GAAP and actual IFRS. The sectors identified with accounting differences that could have a greater impact to Malaga are the impairment of long-term liabilities, existing liabilities related to decommissioning and rehabilitation, conversion of foreign currency transactions, capital assets, share-based payments as well as the initial adoption of IFRS under the provisions of IFRS 1, IFRS first time adoption.

Phase two includes finalization of detailed diagnoses (this step has been completed), assessing the financial impact of various options and alternatives under IFRS, identification and design of operational business processes as well as financial and development solutions necessary for each of the issues raised.

It is anticipated that the adoption of IFRS will affect current and future needs in relation to systems. The importance of this impact cannot be reasonably determined at this stage of the project.

Disclosure Controls and Procedures

The Chief Executive Officer and the Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures for communicating information as well as compliance of the information communication policy adopted by the Company. The information communication policy requires all employees to inform a member of the senior management of any information that could affect the Company so that they can evaluate the information and discuss ways to determine if a public disclosure is required. The Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of controls and procedures for communicating information in accordance with multilateral instrument 52-109 issued by the Canadian Securities Administrators. At September 30, 2009, Chief Executive Officer and the Chief Financial Officer identified a significant weakness in the conception of the internal control related to segregation of duties. This weakness can increase the probability that erroneous information will not be detected and avoided. Consequently, additional controls related to segregation have been implemented. The parent company has hired a chief accountant and financial analyst. In addition, certain functions are now executed by the subsidiaries and will be reviewed as part of the consolidation process by the corporate controller and the chief accountant of the parent company. The Chief Executive Officer and the Chief Financial Officer also conclude that the design and implementation of controls and procedures for communication of financial information are effective.

Management implemented a system for internal controls over financial reporting (ICFR) in order to provide reasonable assurance with regards to the reliability of the financial information published and the preparation of the financial statements in accordance with Generally Accepted Accounting Principles in Canada. The Chief Executive Officer and the Chief Financial Officer evaluated the conception of the ICFR as at December 31, 2008. Pursuant to their evaluation, the Chief Executive Officer and the Chief Financial Officer identified a significant weakness in the conception of the internal control related to segregation of duties. This weakness in the ICFR can increase the probability that erroneous information will not be detected and avoided.

In addition, the Chief Executive Officer and the Chief Financial Officer of the Company are responsible in developing internal controls over financial reporting or supervising their development.

Caution Regarding Forward Looking Statements

Statements contained in this document that are not historical facts are regarded as forward-looking statements. These statements may involve risk, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. 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 geological conditions 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 as of the date of this document.

(s) Jean Martineau

Jean Martineau
President and Chief Executive Officer

(s) Pierre Monet

Pierre Monet
Vice-President and Chief Financial Officer