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 six-month period ended June 30, 2008, as well as the subsequent period up to August 5, 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 31 December 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 June 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 dollar amounts are in Canadian dollars unless otherwise indicated. This management report as well as the unaudited consolidated financial statements for the period ended June 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 six-month unaudited consolidated financial statements dated the 30 June 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 August 5, 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 14,411 MTU's totalling $2.5M.
- Cash, cash equivalents and short-term investments totalling $1.9M on June 30, 2008.
- Net loss of $1.0M or $(0.01) per share compared to $0.5M or $(0.01) per share for the comparative period in 2007.
- Investment in mine development of $0.8M and $0.3M for the purchase of fixed assets for Q2 and adding up to a total of $1.8M and $0.9M, respectively for the six-month period.
- Development of new mining zones: Huayllapon and level 13 of Consuelo should begin production during Q4 2008 whereas the Santa Marta vein of Brownsfield will be ready at the end of Q2 2009.
- Working capital of $0.9M on June 30, 2008.
- Appointment of new board members: A. Michel Lavigne, Jean C. Lavoie, Luc Filiatreault and Paul Cregheur.

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 fluctuated between US$250 and US$255 compared to US$246 and US$262 in the first 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, this indicates that the sale price could remain stable or might increase by the end of 2008.

Exchange Rate

The average value Canadian dollar compared to the US dollar was US$0.99 (US$0.91 for the corresponding quarter of 2007) and 2.78 Nuevo soles (2.89 in 2007). The average exchange rate of the US$ compared to the Nuevo sol was 2.96 Nuevo soles. On June 30, 2008, the exchange rate of the Canadian dollar was 2.92 Nuevo soles and US$0.98. The Company does not have any hedging contracts.

Metal sales and production (Continued activities)

Metal sales are as follows:

	Three-month period ended June 30		Six-month period ended June 30	
	2008	**2007**	**2008**	**2007**
In MTU	14,411	15,044	26,260	15,750
Production :				
Extracted tonnage	21,811	18,438	42,064	18,438
Recovery (%)	81.6	74.9	80.4	74.9
Grade (%)	0.79	1.14	0.81	1.14
Production (MTU)	14,068	15,762	27,391	15,762
$US/MTU				
Cash cost	152	125	144	125
Amortization and depreciation	24	11	34	11
Total operating cost	176	136	178	136

Operating results of continued activities

Three-month period ended June 30, 2008
The Company recorded a net loss of $1M compared to a net loss of $0.5M for the corresponding period in 2007.

The Company recorded gross loss of $0.1M for the three-month period ended June 30, 2008. This loss comes from the low grade WO_3 ore (0.68%) produced in Huaura sector of Pasto Bueno and consequently the necessary additional mine development work done and finally special ore mining done in order to increase the overall processed grade. These factors increased the cash cost per MTU by $17 compared to the cost in Q1 2008. Other items increased the cost by $2/MTU.

Three-month period ended June 30, 2008 (cont'd)

Administrative expenses are detailed below:

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2008	2007	2008	2007
	$	$	$	$
Peru	358,798	261,418	613,831	561,993
Salaries and remuneration	126,811	111,208	241,884	218,764
Professional fees	136,822	136,806	208,918	207,025
Investor relations	141,432	62,135	216,261	136,238
Office expenses – Canada	(41,687)	64,130	(2,304)	114,721
Travel expenses	34,730	73,544	59,391	134,206
	756,906	709,241	1,337,981	1,372,947

The increase in administrative expenses is explained by an increase of $98,360 in Peru in comparison to the corresponding period in 2007. This increase is related to new environmental studies, mine development work as well as salary increases. The Company shares the same senior management with Dynacor Gold Mines Inc. Common expenses are billed to the Dynacor Gold Mines Inc. according to their use. Costs related to investor relations increased by more than $80,000 due to a higher level of activities. Travel expenses are comprised of different trips to Peru by management. Travel expenses have decreased by $38,000 in comparison to the corresponding period in 2007. The Canadian office expenses are in a credit position pursuant to a reimbursement of capital taxes for previous years.

The Company recorded a gain on foreign exchange of $17,084 (loss of $120,154 for the corresponding period in 2007) arising from the increase in value of the Nuevo sol compared to the Canadian dollar. Stock based compensation amounts to $107,510 ($381,220 for the corresponding quarter in 2007) following the issuance of options to members of the Board pursuant to the company's policy on remuneration.

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.

Six-month period ended June 30, 2008

The Company has recorded a net loss of $1.8M compared to $1.4M in 2007. Since the Pasto Bueno Plant attained commercial production status in April 2007, there are only sales for three months in the six-month period ended June 30, 2007. The Company has a gross loss of $0.3M for the six-month period ended June 30, 2008 (gross profit of $0.7M for comparative period in 2007). This change is due to the lower WO_3 ore grade produced (0.70% in 2008 compared to 1.14% for the corresponding period in 2007) and consequently the additional mine development work necessary as well as the structural consolidation of the new mining galleries.

The gross loss was reduced by the lower amount of stock-based compensation ($223,205 in 2008 compared to $381,220 in 2007). The Company recorded a gain on foreign exchange of $184,192 (compared to a loss of $291,919 in 2007). There was no income tax payable in the current year as the Company has an operating loss (income tax expense of $0.40M in 2007). Profits derived from abandoned activities was 439,537$ 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	8,325	11,094	11,094	11,094	3,699	45,306
Obligations under capital leases	147,201	189,943	59,584			396,728
	155,526	201,037	70,678	11,094	3,699	442,034

Shareholder Equity

The stock based compensation expense increased the contributed surplus by $223,205 as a result 2,075,000 stock options granted during the six-month period ended June 30, 2008. Stock options were granted at exercise prices varying between $0.29 and $0.325 per share.

Cash Flow Used for Continuing Operating Activities

For the three-month period ended June 30, 2008, the cash flow used for continuing operating activities before the change in non-cash working capital was $528,637 compared to cash flow used of $204,853 for the corresponding 2007 period. The deterioration is due to the increase in the cost of goods sold resulting from the decrease in the WO3 grade in the ore processed during the period.

For the six-month period ended June 30, 2008, the cash flow used for continuing operating activities before the change in non-cash working capital was $480,833 compared to cash flow used of $1,240,308 for the corresponding 2007 period. The variation is a result of six months of commercial production of the Pasto Bueno plant in 2008 compared to only 3 months in 2007.

Cash Flow Used for Investment Activities

For the three-month period ended June 30, 2008, the cash flow used for investing activities was $0.6M compared to $2.2M for the corresponding 2007 period. Investments were mainly mine development and exploration and the purchase of fixed assets totalling $0.8M and $0.3M respectively in 2008 compared to $1.0M and 0.2M in 2007. The sale of short-term investments generated $0.4M for the second quarter of 2008 compared to the purchase of $1.0M for the same period in 2007.

For the six-month period ended June 30, 2008, the cash flow used for investing activities was $1.1M compared to $1.0M for the corresponding period in 2007. For the first three months of 2007, since the Pasto Bueno plant had not yet attained commercial production, revenues from the sale of tungsten were recorded in reduction of the deferred development and exploration expenses. The sale of short-term investments generated $1.6M for the six-month period ended June 30, 2008 compared to the purchase of $0.1M for the same period in 2007.

Cash Flow from Financing Activities

For the three-month period ended June 30, 2008, the cash flow generated from financing activities totalled $0.3M compared to $3.1M for the same period in 2007. The main source of financing in 2008 was $0.4M resulting from bank loans whereas the Company obtained $3.0M through the issuance of common shares in 2007.

For the six-month period ended June 30, 2008, the cash flow generated from financing activities totalled $0.04M compared to $3.5M for the same period in 2007. The main source of financing in 2007 was from the issuance of common shares amounting to $3.4M.

Working Capital

On June 30, 2008, working capital totalled $0.9M compared to $4,4M on December 31, 2007. The management of Malaga considers that the present cash situation is sufficient to meets its current obligations and to maintain mining properties in due form over the next twelve months. The development, exploration and full valuation of certain mining properties could require considerably more funds in the future. 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 Gold Mines Inc. Operating activities also are a source of cash flow.

Related Party Transactions

The Company shares the same senior management as Dynacor Gold Mines Inc. Thus, shared expenses are billed to Dynacor Gold Mines Inc. according to their usage. The general and administrative expenses include revenues for inter-company services of $130,445 (nil in 2007) from an affiliated company for the three-month period ended June 30, 2008.

The Company has received an advance in the amount $450,913 from a related party. This advance, repayable on demand, has an interest rate of 10%.

These transactions are in the normal course of operation are measured at their fair exchange value, which represents the amount of the consideration established and agreed by the related parties.

Quarterly review

	2008		2007				2006	
(000$)	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Financial data								
Sales	2,465	1,935	2,176	2,810	3,047	-	-	-
Net income (net loss)	(955)	(799)	(1,067)	101	(459)	(933)	(1,120)	(537)
Cash and cash equivalents and short-term investments	1,887	3 106	3,943	467	2,413	863	1,260	1,107
Working capital	910	2,484	4,367	3,707	4,323	2,687	3,004	1,047
Total assets	25,398	24,871	25,210	33,475	29,731	26,273	26,476	23,682
Shareholder equity	18,295	19,143	19,826	27,615	26,182	21,840	22,364	19,672
Per share								
Earnings (loss) per share, basic and diluted	(0.01)	(0.01)	(0.03)	0.01	0.00	0.00	0.00	0.00
Weighted average number of outstanding common shares (000), basic and diluted	137,117	137,117	122,391	118,679	118,425	112,823	108,969	103,744

Contingencies
Management considers that to the best of its knowledge, the Company is presently operating in compliance with the laws and regulations already in place.

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.

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

Pasto Bueno Property

As stated by way of press release on May 5, 2006, the Company received an independent technical report as required by Norm 43-101. According to this report written by Vector Engineering Inc. in California, the Pasto Bueno property had the following reserves:

Proven	49,620	tons at an average grade of 1.83 % WO_3
Probable	173,950	tons at an average grade of 2.09 % WO_3
Total reserves	223,570	tons at an average grade of 2.04 % WO_3

Including 15 % dilution

Management believes this does not reflect the real potential of the mine since several million tons of ore have been processed at Pasto Bueno since the early 1900's and considering the recently reported preliminary positive drilling results. No update on the overall resource estimate has been published. As of June 30, 2008 current reserves should insure the mine's operation for approximately one year. As mining proceeds forward however these reserves are maintained by the discovery of new mineralized zones. Underground development work is underway in order to increase the mine's current level of reserves.

Malaga has begun a significant drilling program of 10,650 meters as well as an underground exploration program in the Huaura and Huayllapon sectors. The Company is confident that it will renew and increase its reserves while insuring long-term production targets. As of today, approximately 73% of the program has been completed. 20 bore holes have been drilled adding up to a total of 7,752 meters.

Other work
Other exploration and development work is underway. More than 1,070 m of access tunnels were excavated during Q2 (789 m during Q1 2008) adding up to a total of 1,859 m during the first six months of 2008.

Underground Development Program

Underground development work is currently underway in several different sectors of the Pasto Bueno mine. The objective is to gain access and to prepare newly discovered mineralized zones in order to increase the mine's production as these new zones are brought into production.

Consuelo
Development work is underway extending inwards from levels 8, 10, 12 and 13 in order to prepare new production zones and bring them online as soon as possible. These new areas will begin producing tungsten ore in the autumn of 2008.

Huayllapon
Development work continues in the Huallapon sector in order to prepare new mining zones in the Chabuca vein. These zones will be put into production in Q4 2008.

Brownsfield
Excavation of a lateral access tunnel began in early 2008 continues forward towards the reach 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 rather important underground development will continue throughout 2008 and should be completed by the end of Q1 2009.

Hydro-electricity
Hydropesac 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 by 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. Reparations to the conduit will take about two months and will be supervised by Emerging Power Developers (Malaga's Swiss partner in Hydropesac). Power production is now expected to begin towards the end of Q3 or the beginning of Q4 2008.

Outlook
Mine development work continues at Pasto Bueno with the stated objective of increasing the daily processing capacity to 350 tons by Q1 2009 (an increase of 40%). Further work on both the Plant and the mine during 2009 should enable the company to further increase its daily production capacity by the end of 2009. Malaga also intends to publish a new resource estimation that is National Instrument 43-101 compliant on part of its mining concessions before the end of 2008.

Data on Available Outstanding Shares (August 5, 2008)

	Amount
Common shares	137,117,367
Options	6,475,000

The Company issued 150 000 options to Board's members at a strike price of $0.325.

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.

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 June 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 June 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 June 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
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President and Chief Executive Officer

Pierre Monet
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Vice-President and Chief Financial Officer