

Malaga Inc.

Consolidated Financial Statements

For the Three-month Periods Ended March 31, 2008 and 2007

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:

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President and Chief Executive Officer

Pierre Monet
Vice-president and Chief Financial Officer

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

Malaga inc.

Consolidated Balance Sheets as of

	March 31 2008 (unaudited) \$	December 31 2007 (audited) \$
ASSETS		
CURRENT ASSETS		
Cash	713,566	380,300
Short-term investments (Note 4)	2,392,780	3,563,053
Accounts receivable (Note 5)	2,400,825	3,388,096
Inventories	1,190,741	998,687
Prepaid expenses	42,953	22,684
	<u>6,740,865</u>	<u>8,352,820</u>
Investments	5,059,481	5,027,453
Property, plant and equipment	10,037,679	9,837,064
Mining properties and deferred development and exploration expenses (Note 6)	3,033,287	1,992,332
	<u>24,871,312</u>	<u>25,209,669</u>
LIABILITIES		
CURRENT LIABILITIES		
Bank loan (Note 7)	-	366,973
Accounts payable and accrued liabilities	4,047,907	3,473,425
Current portion of long-term debts (Note 8)	11,094	9,834
Current portion of obligations under capital leases	197,724	135,535
	<u>4,256,725</u>	<u>3,985,767</u>
Long-term debts (Note 8)	160,563	144,761
Obligations under capital leases	199,004	165,182
Asset retirement obligations	1,112,398	1,087,920
	<u>5,728,690</u>	<u>5,383,630</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	39,047,973	39,047,973
Contributed surplus (Note 10)	2,628,585	2,512,890
Deficit	(22,533,936)	(21,734,824)
	<u>19,142,622</u>	<u>19,826,039</u>
	<u>24,871,312</u>	<u>25,209,669</u>

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

On behalf of the Board of Directors,

(s) Jean Martineau
Jean Martineau

(s) Rénauld Marchand
Rénauld Marchand

Malaga inc.

Consolidated Statements of Earnings, comprehensive loss and deficit for the three-month periods ended March 31
(unaudited)

	2008	2007
	\$	\$
Revenues	1,934,601	-
Operating costs	1,568,089	-
Amortization and depletion	548,003	-
Total cost of sales	<u>2,116,092</u>	<u>-</u>
	<u>(181,491)</u>	<u>-</u>
Expenses		
General and administrative (Note 11)	581,075	677,789
Discounted accretion of asset retirement obligations	24,478	-
Stock-based compensation	115,695	-
Interest and financing (income)	32,406	(1,360)
Foreign exchange loss (gain)	<u>(167,108)</u>	<u>171,765</u>
	586,546	848,194
Share of earnings in investments using equity method	<u>(32,028)</u>	<u>-</u>
	<u>554,518</u>	<u>848,194</u>
Loss before the following	(736,009)	(848,194)
Income tax expense	<u>(63,103)</u>	<u>(201,344)</u>
Net loss from continuing operations	(799,112)	(1,049,538)
Net earnings from discontinued operations (Note 3)	-	116,618
Net loss and comprehensive loss for the period	<u>(799,112)</u>	<u>(932,920)</u>
Loss from continuing operations per share, basic and diluted	(0.01)	(0.01)
Earnings from discontinued operations per share, basic and diluted	-	-
Net loss per share, basic and diluted	<u>(0.01)</u>	<u>(0.01)</u>
Weighted average number of outstanding common shares, basic and diluted	<u>137,117,367</u>	<u>112,823,307</u>
	2008	2007
	\$	\$
Deficit, beginning of period	(21,734,824)	(9,779,107)
Net loss for the period	<u>(799,112)</u>	<u>(932,920)</u>
Deficit, end of period	<u>(22,533,936)</u>	<u>(10,712,027)</u>

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

Malaga inc.

Consolidated Statements of Cash Flow for the three-month periods ended March 31
(unaudited)

	2008	2007
	\$	\$
Operating activities		
Net loss from continuing operations	(799,112)	(1,049,538)
Elements not affecting cash and cash equivalents		
Amortization and depletion	548,003	14,083
Discounted accretion of the asset retirement obligation	24,478	-
Stock-based compensation	115,695	-
Share of earnings in investments using equity method	(32,028)	-
	<u>(142,964)</u>	<u>(1,035,455)</u>
Change in non-cash working capital items (Note 12)	1,158,662	27,457
Cash flow from (used by) continuing operating activities	<u>1,015,698</u>	<u>(1,007,998)</u>
Investing activities		
Sale of short-term investments	1,170,273	870,400
Acquisition of property, plant and equipment	(623,516)	(401,718)
Addition to mining properties and deferred development and exploration expenses, net	(1,040,955)	702,533
	<u>(494,198)</u>	<u>1,171,215</u>
Financing activities		
Bank loans	-	(21,713)
Repayment of the bank loan	(366,973)	-
Long-term debts	17,062	(6,065)
Obligations under capital lease	(29,091)	(2,641)
Share issuance expenses	-	(15,570)
	<u>(379,002)</u>	<u>(45,989)</u>
Unrealized foreign exchange gain	190,768	-
Cash flow used by discontinued operations	<u>-</u>	<u>(67,714)</u>
Net increase in cash and cash equivalents	333,266	473,712
Cash and cash equivalents, beginning of period	380,300	-
Cash and cash equivalents, end of period	<u>713,566</u>	<u>473,712</u>

Additional information on cash flow (Note 12)

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

Malaga Inc.

Notes to consolidated financial statements
March 31, 2008 and 2007
(unaudited)

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, without restatement of prior periods, 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 9.

(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.

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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 and base metals deposits, with a view to commercial operation. Dynacor also produces gold 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 "Gain (loss) from discontinued operations". The following table provides additional information related to the operations of the discontinued operations for the periods ended March 31.

	2008	2007
	\$	\$
Revenues	-	3,267,427
Operating costs	-	2,888,844
Amortization	-	51,344
General and administration expenses	-	47,826
Interest and financing	-	15,634
Foreign exchange gain	-	(33,998)
Earnings before minority interest and income taxes	-	297,777
Minority interest	-	28,720
Income taxes	-	152,439
Net earnings from discontinued operations	-	116,618

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4. Short-term investments

	March 31, 2008 (unaudited)	December 31, 2007 (audited)
	\$	\$
Guaranteed term deposits		
4.25 %, maturing November 3, 2008	1,642,780	2,057,289
4.25 %, maturing December 1, 2008	750,000	1,505,764
	<u>2,392,780</u>	<u>3,563,053</u>

5. Accounts receivable

	March 31, 2008 (unaudited)	December 31, 2007 (audited)
	\$	\$
Trade accounts receivable	2,210,324	2,871,792
Sales taxes receivable	181,931	509,446
Others	8,570	6,858
	<u>2,400,825</u>	<u>3,388,096</u>

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6. Property, plant and equipment

	Huayllapon	Brownsfield	Derechos- Consuelo	Other	3-month period ended March 31, 2008 (unaudited) Total	12-month period ended December 31, 2007 (audited) Total
	\$	\$	\$	\$	\$	\$
Mining Properties						
Balance, beginning of period			1,491	53,432	54,923	6,002,871
Acquisitions		117,313			117,313	60,346
Disposals					-	(2,000,100)
Transferred to property, plant and equipment					-	(4,008,194)
Balance, end of period	-	117,313	1,491	53,432	172,236	54,923
Development and exploration expenses						
Balance, beginning of period	766,200	718,420	452,789		1,937,409	11,331,060
Surface and underground exploration and development	297,717	618,765	7,160		923,642	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	1,063,917	1,337,185	459,949	-	2,861,051	1,937,409
TOTAL - Projects in development	1,063,917	1,454,498	461,440	53,432	3,033,287	1,992,332

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 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 concessions of Huayllapon, Brownsfield and Derechos-Consuelos.

7. Bank loan

	March 31, 2008 (unaudited)	December 31, 2007 (audited)
	\$	\$
12% unsecured promissory note payable in US dollars, for an original amount of US\$360,000 and matured in February 2008	-	366,973

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8. Long-term debts

	March 31, 2008 (unaudited)	December 31, 2007 (audited)
	\$	\$
7.6% unsecured loan payable to the Peru tax authorities in 120 instalments of \$925 maturing in April 2012	45,306	42,612
Interest due to the workers of Peru, without interest and repayable on the basis of profits earned in the subsidiary, unsecured	126,351	111,983
	<u>171,657</u>	<u>154,595</u>
Less: current portion	<u>(11,094)</u>	<u>(9,834)</u>
	<u>160,563</u>	<u>144,761</u>

9. Share capital

The Company's objectives when managing capital are 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

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 in the light of changes in 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.

a) Stock-options

	March 31, 2008 (unaudited)	
	Number of warrants	Weighted average exercise price
		\$
Balance, beginning of period	4,400,000	0.45
Issued	1,775,000	0.29
Balance, end of period	<u>6,175,000</u>	<u>0.40</u>

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9. Share capital (cont'd)

Stock-options outstanding are as follows:

Expiry date	Exercise price \$	March 31, 2008 (unaudited)	December 31, 2007 (audited)
January 2009	0.47	130,000	130,000
September 2009	0.22	215,000	215,000
October 2009	0.28	60,000	60,000
November 2009	0.22	25,000	25,000
May 2010	0.20	50,000	50,000
June 2010	0.61	400,000	400,000
June 2011	0.18	90,000	90,000
June 2011	0.32	1,800,000	1,800,000
December 2011	0.50	945,000	945,000
August 2012	0.69	200,000	200,000
June 2017	0.75	485,000	485,000
January 2018	0.29	1,775,000	-
		<u>6,175,000</u>	<u>4,400,000</u>

The fair value of the stock-options issued during the period was estimated at \$115,695 using the Black-Scholes option pricing model using the following assumptions:

Number of options	1,775,000
Interest rate	4.04 %
Expected life	84 months
Expected volatility	119 %
Dividend yield	0 %

10. Contributed Surplus

Net change in contributed surplus is as follows:

	March 31, 2008 (unaudited)
	\$
Balance, beginning of period	2,512,890
Stock-based compensation	
Stock-options issued	115,695
Balance, end of period	<u>2,628,585</u>

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11. General and administrative expenses

	2008	2007
	\$	\$
Peru	255,033	300,575
Salaries and remuneration	115,073	107,556
Professional fees	72,096	70,219
Investors relation	74,829	88,186
Office expenses – Canada	39,383	50,591
Travel and representation expenses	24,661	60,662
	<u>581,075</u>	<u>677,789</u>

12. Information included in the statements of cash flows

	2008	2007
	\$	\$
Changes in non-cash working capital items		
Accounts receivable	1,234,096	(496,135)
Inventories	(192,054)	(6,664)
Prepaid expenses	(20,269)	-
Accounts payable and accrued liabilities	136,889	530,256
	<u>1,158,662</u>	<u>27,457</u>
Additional information:		
Interest paid	65,399	15,634
Interest received	32,993	1,360
Income taxes paid	53,854	353,783
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.

Malaga Inc.

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13. Financial instruments (suite)

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 exposition 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 is 4.25% (2007, 2.8% to 4.25%). The average interest rate at the end of the period is 4.25% (2007, 4.25%) with investments maturing from between 217 to 245 days, cashable at anytime without penalties.

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 March 31, 2008 are as follows:

	Canadian Dollars	American Dollars	New Soles
Cash and cash equivalents	2,443,291	667,498	(7,979)
Accounts receivable	174,557	1,533,628	1,959,034
Accounts payable	(183,458)	(1,502,132)	(6,505,647)
Net balance	<u>2,434,390</u>	<u>698,994</u>	<u>(4,554,592)</u>
Equivalent in Canadian \$	<u>2,434,390</u>	<u>700,392</u>	<u>(1,675,518)</u>

For the three-month period ended March 31, 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 March 31, 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.

