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Malaga sees opportunity for W

With low cash costs and high grades of wolframite at its Pasto Bueno tungsten mine in Peru, Malaga reported a profit in the first quarter of 2011. Speaking at the *Ryan's Notes*June Forum in New York City last week, Pierre Monet, President of Malaga, said that the company plans to take advantage of a "window of opportunity" to increase mine capacity, to invest $3- to $4-million in exploration and development and to still make money.

Monet said that Pasto Bueno has several cost advantages because its wolframite ore is recovered by gravity and magnetic separation in above ground mining in contrast to scheelite mines that require chemical processing and are often underground.

In addition, there is an existing power grid at Pasto Bueno. Malaga is involved in a joint venture with Emerging Power Development of Switzerland to build a second hydroelectric plant with 35 MW capacity that will cover all of Malaga's power needs of 3-4 MW and also generate additional electricity for sale. Finally, mining at Pasto Bueno began in the 1940s and there is well-developed infrastructure despite its location high in the Andes.

Malaga bought Pasto Bueno in 2005 for $1.25-million and debt assumption of $2.6-million and resumed production in 2007. In 2008, the mine operated at a rate of 250 mtpd and produced 57,500 mtu at a cash cost of $144 per mtu. In each subsequent year operating rates have risen and in 2010, the mine operated at a rate of 370 mtpd and produced 71,997 mtu at a cash cost of $127 per mtu.

Malaga's current plant capacity is 500 mtpd, and it isextracting from only 4 to 7 of 79 known veins. Monet said that if the mine were to operate at capacity, it could produce over 100,000 mtu annually. For 2011, however, Monet expects production to hit 80,000 mtu with cash costs of $125 per mtu.

In February 2009, Malaga entered into a five-year agreement to sell all of its output to Global Tungsten Powders (GTP). Under the agreement, the selling price is tied to the APT spot price. GTP has the right of first refusal for excess capacity above 700 mtpd.

Malaga's financial results for the last three years reveal the difficulties of making money on tungsten mining even when all the production has been pre-sold. While sales rose from $10.6-million in 2008 to $11.2-million in 2009 and $14.8-million in 2010 and while cash costs declined during the three years, the company reported a net loss of $3.1-million in 2008, $7.6-million in 2009 and $900,000 in 2010.

Monet is confident that Malaga will be profitable in 2011. Also, the company is in a position to increase capacity from 500 mtpd to 1,000 mtpd with minimal investment, he said, and this is the right time to look to expansion because there are some tungsten projects in the exploration stage, but no mine is expected to be producing before 2014.