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Malaga makes headway in Peru

BY TRISH SAYWELL

Before Montreal-based **Malaga** (MLG-T) took over the Pasto Bueno mine in 2005, private owners in Peru had turned out nearly 6 million tonnes of tungsten ore — or 42,000 tonnes of tungsten concentrate — from just five veins they had identified on the property.

Malaga has identified 79 veins at Pasto Bueno, six of which are in production in the mine's Huaura and Huayllapon zones on the northern part of the property, which make up nearly 15% of all the tungsten produced outside of China, the company says. In other words, explains Pierre Monet, Malaga's president, Pasto Bueno has a lot of exploration upside, particularly in the Consuzo zone and in four prospective manto orebodies on the southern part of the property.

Last year Malaga partially reopened the old mine at Consuzo, and since then has extracted more than 1,000 tonnes from the zone at an average grade of 1.5% tungsten trioxide, or WO_3 . It was this part of the mine that had been the focal point of the previous owners, who operated a 907-tonne-per-day plant in the 1970s. The most important mineralized structure in the zone was the Loreto vein, with an average thickness varying from 2 metres to 10 metres, and historic production of 1.95 million tonnes grading 0.95% WO_3 .

Malaga stepped up exploration in the Consuzo zone in the second quarter of this year in an effort to further explore the Loreto vein between a hole it drilled in the zone last year that returned 1.03 metres of 1.83% WO_3 , and old production areas used by the former mine owners.

In late September Malaga announced that the drilling at Consuzo had confirmed the presence of economic mineralization under the Pelagatos River, which runs alongside the old Consuzo mine and plant. Two out of the three



PHOTO BY GÉRARD TOURNEBIZE

A wolframite sample from Malaga's Pasto Bueno tungsten mine in Peru.

diamond drill holes, or 1,462 metres, intercepted the Loreto vein below the old operations and above the hole the company drilled last year. Highlights include drill hole 02-11, which intersected the Loreto vein and returned 1 metre of 1.05% WO_3 ; 2 metres of 0.03% WO_3 ; and 3 metres of 1.06% WO_3 . The findings demonstrate that tungsten mineralization exists 184 metres below the old operations at 3,314 metres above sea level, and suggest that the deposit may be even deeper, the company says.

On Oct. 18, Malaga reported assay results from manto structures in the Consuzo zone that identified high-quality tungsten associated with gold and copper. Going from the bottom of the mountain to the top, the exploration team drilled more than 290 metres to reach

Manto Gossan, where economic lengths of drill core 6 metres thick returned 2 metres of 1.19% WO_3 tungsten in the form of scheelite, 0.77 gram gold per tonne and 0.46% copper in hole 05-11. Given the interesting level of gold in that drill hole, the company says, grab samples from the manto will be assayed for the precious metal. The grab samples also identified molybdenum, zinc, antimony and bismuth.

Monet believes Malaga may be able to find enough tungsten mineralization at Pasto Bueno to eventually support a second mine. "These mantos could have the potential of anywhere between 10 million tonnes and 15 million tonnes at a grade that is higher than what we have had in the past," Monet says. "We believe the mantos could have grades above one

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PHOTO BY GÉRARD TOURNEBIZE

A conveyor moves ore at Malaga's Pasto Bueno tungsten mine in Peru.

percent tungsten trioxide. They also contain a number of other minerals. In the grab samples we had pretty good grades of copper . . . in a few years we could build a new plant that would handle the minerals from the mantos." Malaga has completed two drill holes so far this year and aims to complete another

eight in the coming months.

The Pasto Bueno property sits at an elevation reaching 4,200 metres above sea level and lies within a 600-km-long mineral belt that winds its way along the northern half of Peru's coastline.

Malaga bought the mine in November 2005 and put it back into production in

2007 after upgrading the mill with new equipment.

"Our short-term objective is to increase mine output, because the plant can handle more than the mine supplies," Monet explains. The plant has the capacity to produce 500 tonnes per day and is producing at a rate of about 375 tonnes per day. Monet anticipates full capacity before 2013.

Last year Malaga produced 72,000 MTU (metric tonne units is the standard unit of the tungsten trade, or 10 kg of WO_3 per tonne) but labour shortages this year could mean production slips to between 60,000 to 65,000 MTU, Monet says in a telephone interview from Montreal.

He expects production in 2012 to return to 2010 levels following improvements to the camp and increased wages to retain staff. He forecasts production of 100,000 MTU starting in 2013.

The company has completed a new tailings pond and expects to increase recovery rates from the current 75% to 80% by the first half of 2012. It also benefits from cheap electricity. Malaga built a 600-kilovolt hydroelectric generating plant that provides 70% to 80% of the mine and mill's power needs, with the balance coming from the national grid. Energy bills account for just 8% of the mine's cash costs.

Meanwhile, demand for Malaga's tungsten remains unmet, Monet says. "We are producing one container a week for our customer. But if we were able to ship one container a day, they would take it," he says. "We still get calls from people who are wondering if we have any tungsten left over after we fill our contract order, and asking us what we plan to do with our tungsten after our current contract expires."

In 2009, Malaga signed a US\$5-million agreement with Pennsylvania-based Global Tungsten & Powders for all of Pasto Bueno's forward production until

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2014. Under the arrangement Global Tungsten also has the right of first refusal for excess capacity above 7,500 MTU per month, up to 12,500 MTU per month.

Monet notes that there is no significant new tungsten production coming on stream for the next three or four years, and even when new producers start mining the mineral, he argues it will stabilize the market, rather than oversupply it. He forecasts that China will reduce its export quota on tungsten again next year.

“They reduce their quota every year,” he says, noting that China’s export quotas for tungsten have fallen from 16,595 MTU

in 2008 to 16,289 MTU in 2009, 15,990 MTU in 2010 and 15,691 MTU in 2011. And according to the British Geological Survey, tungsten — along with mercury, platinum group elements and antimony — topped this year’s risk list of the most supply-challenged metals.

In this year’s second quarter, Malaga generated a US\$1.6-million net income, up from US\$300,000 in the year-earlier quarter. The increase was caused by the rising price of ammonium paratungstate, or APT, the most sought-after and widely traded intermediate tungsten product. The price of APT soared from US\$222 per tonne in 2010’s second quarter to

US\$439 per tonne in this year’s second quarter. Second-quarter sales increased to US\$5.3 million, up 54% from the US\$3.5 million in the second quarter of 2010.

Lower head grades at the mill and heated competition for skilled labour pushed up production cash costs to US\$189 per tonne from US\$122 per tonne for the same quarter in 2010, with more than 70% of the cash cost increase owing to volume reductions.

At presstime the junior producer traded at 14¢ per share within a 52-week range of 11¢–40¢. The junior has 183.7 million shares outstanding.