



Northwest

# QUARTERLY REPORT

For the period ending 30 September 2012

## Highlights

- Key milestone achieved in relation to the Company's flagship Blue Spec Shear Gold-Antimony Project with the release of a detailed scoping study and positive preliminary economic assessment.
- Scoping study indicates the strong potential for the project to be a low cap-ex, low cost and high margin start-up gold operation.
- Diamond drilling at Blue Spec and Gold Spec to commence in the current quarter.
- Share placement provides the Company with solid working capital base to continue development of the Blue Spec Shear Gold-Antimony Project.



## DEVELOPMENT

During the quarter, a key milestone was achieved in relation to the Company's flagship Blue Spec Shear Gold-Antimony Project with the release of a detailed scoping study and positive preliminary economic assessment.

Based on the scoping study outcomes the Company is now committed to:

- carrying out an infill diamond drilling programme from surface at the Blue Spec & Gold Spec deposits directed at increasing the geological confidence level of the current Inferred Mineral Resources to Indicated to enable a maiden Ore Reserve estimate for the project to be prepared;
- commencing the recruitment of the senior operational team for the project;
- appointing an underground mining contractor,

during the next quarter with the aim of completing the definitive feasibility study for the project in the first quarter of 2013.

### Scoping Study

The scoping study brought together the mining study and metallurgical testwork results reported in the last quarter with up-to-date capital and operating cost estimates and the Company's analysis of current pricing and payment terms in the antimony concentrate market.

The scoping study was based on a proposed standalone operation under which:

- the high-grade Blue Spec and Golden Spec deposits would be developed concurrently by way of industry standard 5.0m x 5.5m, 1 in 7 declines;
- mechanised narrow vein mining adopting a modified cut and fill method would be utilised;
- a conservative percentage of the estimated recoverable remnant mineralisation left in the historical levels

of Blue Spec (surface to 320m VD) (the Blue Spec Remnants) would be mined before the Blue Spec Mineral Resources are developed; and

- ore mined from Blue Spec and Gold Spec would be processed on site to produce a gold enriched antimony concentrate for direct sale as well as gold dore.

The scoping study used the current Mineral Resource estimates for Blue Spec and Gold Spec and the low range tonnage and grade estimate for the Blue Spec Remnants Exploration Target as the base case scenario. The study did not rely upon further increases to the resource base at Blue Spec and Gold Spec through depth extensions to the current Mineral Resources which are open at depth or new discoveries between Blue Spec and Gold Spec and along the 14kms of the shear zone within the project tenement package.

### Production targets used in the scoping study

The production targets for mining and processing set out in Tables 1 & 2 below were drawn from an optimisation of Northwest's mining study and the second phase of metallurgical testwork on samples from Blue Spec, Gold Spec and Blue Spec Remnants.

**Table 1: Mining physicals - Production targets**

Total ore mined:	986,500t
Average mined grade (diluted):	11.8g/t gold (Au) 1.02% antimony (Sb)
Total contained metal mined:	374,000oz Au 10,000t Sb
Initial life of mine:	5 years

The scoping study production targets are based on Indicated Mineral Resources (12%), Inferred Mineral Resources (75%) and an Exploration Target (Blue Spec Remnants) (13%).

Table 2: Processing - Production targets

Total ore processed:	986,500t
Average milled head grade:	11.8g/t Au 1.02% Sb
Nominal mill capacity:	250,000 tpa
Average metallurgical recovery:	92% Au 95% Sb
Total Sb concentrate production:	25,000t
Sb concentrate average grade:	337g/t Au 38% Sb
Total metal production (in Sb concentrate):	274,500oz Au 9,500t Sb
Total metal production (Dore):	69,500oz Au
Average annualised metal production:	68,500oz Au p.a. 1,900t Sb p.a.

## Preliminary economic assessment

The scoping study and preliminary economic assessment results are set out in Table 3. The scoping study relied on certain key assumptions appropriate for the level of study. In addition the risks inherent in a project at this stage of development and study and economic sensitivities were also identified. Shareholders and potential investors are cautioned to place the outcomes of the scoping study in the context of these assumptions, sensitivities and risks.

The maximum negative cash exposure reflects the aggregate of the capital plant & equipment cost estimate and the net cash operating costs during the first year ramp-up phase until the project become cash flow positive in month 12.

Table 3: Preliminary economic assessment - Forecast

	AUD
C1 Cash Costs per oz sold <sup>(1)</sup> :	\$400 (incl. Sb credits)
Total Cash Costs per oz sold <sup>(2)</sup> :	\$833 (incl. Sb credits)
Cumulative cash:	\$220 million (pre-tax)
NPV (@ 12%):	\$137 million
IRR:	62%
Maximum negative cash exposure:	\$57 million
Cash break-even:	Month 25 months (cash flow positive in Month 12)
Metal prices:	USD \$1,650 per oz gold USD \$12,500 per tonne antimony
Exchange rate:	1 AUD = 1.03 USD

- (1) C1 Cash Costs represent costs for mining, processing, site administration and Sb concentrate freight & selling costs. It includes the net proceeds of Sb by-product credits. It does not include capital costs for underground development or the cost of royalties.
- (2) Total Cash Costs reflect C1 Cash Costs plus all capital development costs and royalties.

It is important to note that the preliminary economic assessment reported above was based on production targets which comprise Inferred Mineral Resource estimates and an estimate of recoverable mineralisation in the Blue Spec Remnants which is an Exploration Target and not a Mineral Resource as defined under the JORC Code.

Inferred Mineral Resources have a low level of geological confidence and it is uncertain whether further exploration will result in the determination of Indicated or Measured Mineral Resources and the realisation of Northwest's production targets based on the Inferred Mineral Resources. The Blue Spec Remnants is an Exploration Target which is conceptual in nature. There has been insufficient exploration to determine a Mineral Resource for the Blue Spec Remnants and it is uncertain if further exploration will result in the determination of a Mineral Resource and the realisation of the production targets based on the Blue Spec Remnants.

Accordingly, the preliminary economic assessment should not be construed as confirming the economic viability of the project at this stage. Economic viability will only be conclusively demonstrated after the preparation of a maiden Ore Reserve estimate for the project. Shareholders and potential investors are cautioned that the forecast financial results are not guarantees of future economic performance.

## Key assumptions used in the scoping study

- The current Mineral Resource estimates for Blue Spec and Gold Spec and the low range tonnage and grade estimate for the Blue Spec Remnants Exploration Target used as the base case scenario for mine planning and production scheduling are realised in a mining scenario.
- A life of mine gold price of USD\$1,650 per oz and an antimony price of USD\$12,500 per tonne. Both prices reflect current market prices for the metals.
- Capital plant & equipment costs of \$34.0 million and total cash operating costs of \$289/t. The capital cost and processing cost estimates are based on estimates prepared by Como Engineers Pty Limited for a 250,000 tpa plant and associated infrastructure. Other operating costs are based on current industry averages for comparable projects.
- Average metallurgical recovery of 92% for gold (73% recovery of gold to Sb concentrate with an additional 19% of gold to Dore) and 95.0% for antimony to Sb concentrate. These recovery levels are based on flotation testwork results conducted by Amdel Laboratories.
- An average off-take Sb concentrate price of \$17,530 per tonne (after all selling costs). This price is based on analysis of the antimony concentrate market.

## Sensitivity analysis on the preliminary economic assessment

Northwest has undertaken sensitivity analysis on the forecast financial results which are graphically represented below. The sensitivity analysis indicates that the project NPV and IRR are most sensitive to variations in the gold price. The project NPV and IRR are relatively insensitive to metallurgical recovery, antimony revenue and capital and operating costs which is consistent with expectations for a project of the size and nature of the Blue Spec Shear Gold-Antimony Project.

## Key risks for realising the scoping study results

- The scoping study and preliminary economic assessment relies on production targets that are based not on Ore Reserve estimates but largely on Inferred Mineral Resources and an estimate of recoverable mineralisation in the Blue Spec Remnants which is an Exploration Target and not a Mineral Resource as defined under the JORC Code. Inferred Mineral Resources have a low level of geological confidence and Exploration Targets are conceptual in nature.
- The gold price and antimony price fall significantly below the current market levels assumed in the economic analysis.
- Actual capital and operating costs for the project are higher than the estimated costs as a result of continuing cost inflation in the mining sector.
- Metallurgical recoveries assumed in the economic analysis which have been achieved in the testwork programme are not achieved in operation.
- Northwest is unable to secure an off-take contract for the sale of gold-enriched antimony concentrate production from the project on payment terms assumed in the economic analysis.

## CORPORATE

### Share Placement

Shortly following the end of the quarter, Northwest announced the completion of a private placement of 26.3 million fully paid ordinary shares at an issue price of \$0.12 per share to sophisticated and professional investors in Australia to raise approximately \$3.15 million (before costs). Taylor Collison Limited acted as lead manager and underwriter to the placement.

### Cash position

Following the recent share placement, as at the date of this report, Northwest had cash of approximately \$2.8 million.

For further information, please contact:

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### Competent Person Statements

The information in this report relating to Exploration Results and Mineral Resources is based on information compiled by Mr. Charles Gillman (MAIG) who is a full-time employee of Northwest and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" (2004 JORC Code). Mr. Gillman consents to the inclusion in this report of the material based on his information in the form and context in which it appears.

The information in this report relating to production targets is based on information compiled by Mr. Allan King (AusIMM). Mr. King is a full-time employee of the Company and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 JORC Code. Mr. King consents to the inclusion in this report of the material based on his information in the form and context in which it appears.

## ASX Listing Rules Appendix 5B

Mining exploration entity quarterly cash flow report

Name of entity

Northwest Resources Limited

ABN

95 107 337 379

Quarter ended ("current quarter")

30 September 2012

## Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (3 months) \$A'000
<b>Cash flows related to operating activities</b>		
1.1 Receipts from product sales and related debtors	-	250
1.2 Payments for:		
(a) exploration and evaluation	(326)	(326)
(b) development	-	-
(c) production	-	-
(d) administration	(209)	(209)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	3	3
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 GST	36	36
<b>Net Operating Cash Flows</b>	<b>(496)</b>	<b>(496)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchase of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	468	468
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
<b>Net investing cash flows</b>	<b>468</b>	<b>468</b>
1.13 Total operating and investing cash flows (carried forward)	(28)	(28)
1.14 Total operating and investing cash flows (brought forward)	(28)	(28)

<b>Cash flows related to financing activities</b>			
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
<b>Net financing cash flows</b>		-	-
<b>Net increase (decrease) in cash held</b>		(28)	(28)
1.20	Cash at beginning of quarter/year to date	278	278
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	<b>Cash at end of quarter</b>	<b>250</b>	<b>250</b>

## Payments to directors of the entity and associates of the directors

## Payments to related entities of the entity and associates of the related entities

		Current quarter
		\$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	77
1.24	Aggregate amount of loans to the parties included in item 1.10	-
1.25	Explanation necessary for an understanding of the transactions	
Executive directors' salaries and Non-Executive director's fees		

## Non-cash financing and investing activities

- 2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Nil

- 2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Nil

## Financing facilities available

Add notes as necessary for an understanding of the position

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

## Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	750
4.2 Development	-
4.3 Production	-
4.4 Administration	200
<b>Total</b>	<b>950</b>

## Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	250	278
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
<b>Total: Cash at end of quarter (item 1.22)</b>	<b>250</b>	<b>278</b>

## Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed	Nil		
6.2	Interests in mining tenements acquired or increased	Nil		



## Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

		Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	Preference securities	-	-		
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	-	-		
7.3	+Ordinary securities	175,970,418	130,970,418		
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	45,000,000	-		
7.5	+Convertible debt securities	-	-		
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	-	-		
7.7	Options	-	-	<i>Exercise price</i> -	<i>Expiry date</i> -
7.8	Issued during quarter		-		
7.9	Exercised during quarter	-	-	-	-
7.10	Expired during quarter	-	-	-	-
7.11	Debentures (totals only)	-	-		
7.12	Unsecured notes (totals only)	-	-		

## Compliance statement

1. This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX.
2. This statement does give a true and fair view of the matters disclosed.

Date: 31 October 2012



**John J. Merity**  
Managing Director

### Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
2. The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
3. Issued and quoted securities: The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
4. The definitions in, and provisions of, AASB 1022: Accounting for Extractive Industries and AASB 1026: Statement of Cash Flows apply to this report.
5. Accounting Standards: ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.