

# Paulsens Gold Mine Acquisition

## Key Points

- ▶ **Binding agreement to acquire the high grade Paulsens Gold Project**
- ▶ **Established Mine Plan of 45,000 oz (Stage 1) expected to generate \$25 million surplus cash @ A\$1,200/oz**
- ▶ **Anticipated cashflow positive from 1<sup>st</sup> June 2010**
- ▶ **Estimated resource of 314kt @ 12.8g/t Au for 128,700 oz**
- ▶ **Excellent potential to increase and upgrade resource**
- ▶ **Numerous exploration targets in-mine and regionally**
- ▶ **Financier Viridian mandated for \$19M funding package**
- ▶ **NST Managing Director involvement in mine for 4 years**

## Overview

Northern Star Resources Ltd (ASX: **NST** – “NST”) is pleased to announce that it has entered into a legally binding agreement to purchase the Paulsens Gold Mine in Western Australia’s Pilbara from Intrepid Mines Limited (IAU), providing an immediate entry to the Australian gold business. Paulsens is a high grade low cost mine which has yielded more than 370,000 ounces at an average cash operating cost of less than A\$550/oz since commencing production in 2005.

IAU has recently invested \$14 million to extend the mine life for a further 45,000 ounces (Stage 1 mine plan) which NST anticipates will generate surplus cash of \$25 million @ A\$1,200/oz gold price. NST will be the sole financial beneficiary of this surplus cash from 1st June 2010.

Under the terms of the agreement NST will pay \$15 million cash effectively reimbursing IAU for the costs associated with developing the Stage 1 mine plan. NST will also pay a performance based production royalty of \$1 million for every 5,000 ounces of gold sold up to a maximum 60,000 ounces, capping the royalty at \$12 million. NST assumes all environmental liabilities and obligations.

NST has appointed Viridian Equity Group as lead manager in relation to the proposed funding package. The purchase price will be funded solely through a debt instrument and NST will seek to raise up to \$4 million via equity. In addition, NST anticipates raising \$6.3 million as further working capital, as a result of shareholders including InvestMet Limited stating their intention to exercise options as necessary to support the acquisition.

**ASX ANNOUNCEMENT**  
**06 MAY 2010**

Australian Securities Exchange  
Code: NST

### Board of Directors

Mr Chris Rowe  
Non-Executive Chairman

Mr Bill Beament  
Managing Director

Mr Michael Fotios  
Non-Executive Director

Mr Peter Farris  
Non-Executive Director

Ms Karen Brown  
Company Secretary

### Issued Capital

Shares  
169.8 M

Options 113M (\$6.3M Funding)

- 35.8M @ 2.5c, \$0.9M  
- 35.8M @ 5.0c, \$1.8M  
- 35.8M @ 10 c, \$3.6M

Current Share Price  
\$0.045

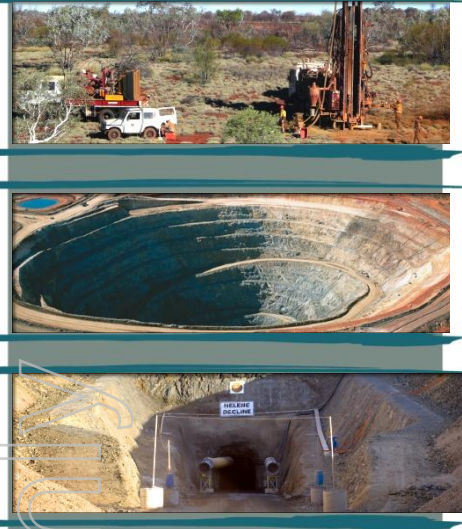
Market Capitalisation  
A\$7.6 million

### Projects

Golden Crown  
Range  
Emull

### Commodities

gold  
gold, silver  
Zn, Cu, gold



**Background / Historical Performance**

Intrepid Mines has decided to divest the Paulsens Project to focus on their Tujuh Bukit copper-gold-silver project in Indonesia. This has given NST the opportunity to purchase the mine as a going concern, with the objective of generating profits immediately from possession and assuming exploration success outlining further reserves and resources to extend the mine life. Adding value to the acquisition is NST's Managing Director's detailed knowledge of the mine acquired over four years of operational experience as a senior executive with the current mining contractor.

Paulsens is an operational gold mine located 190 km west of the mining town of Paraburdoo within the Pilbara region (Figure 1) of Western Australia. It has a Mineral Resource estimate of 314,000 tonnes @ 12.8g/t for 128,700 ounces of gold. The Pilbara region hosts a number of WA's significant resource projects, with a resurgence currently occurring in the region on the back of exploration and development of iron ore, gold and base metals projects.

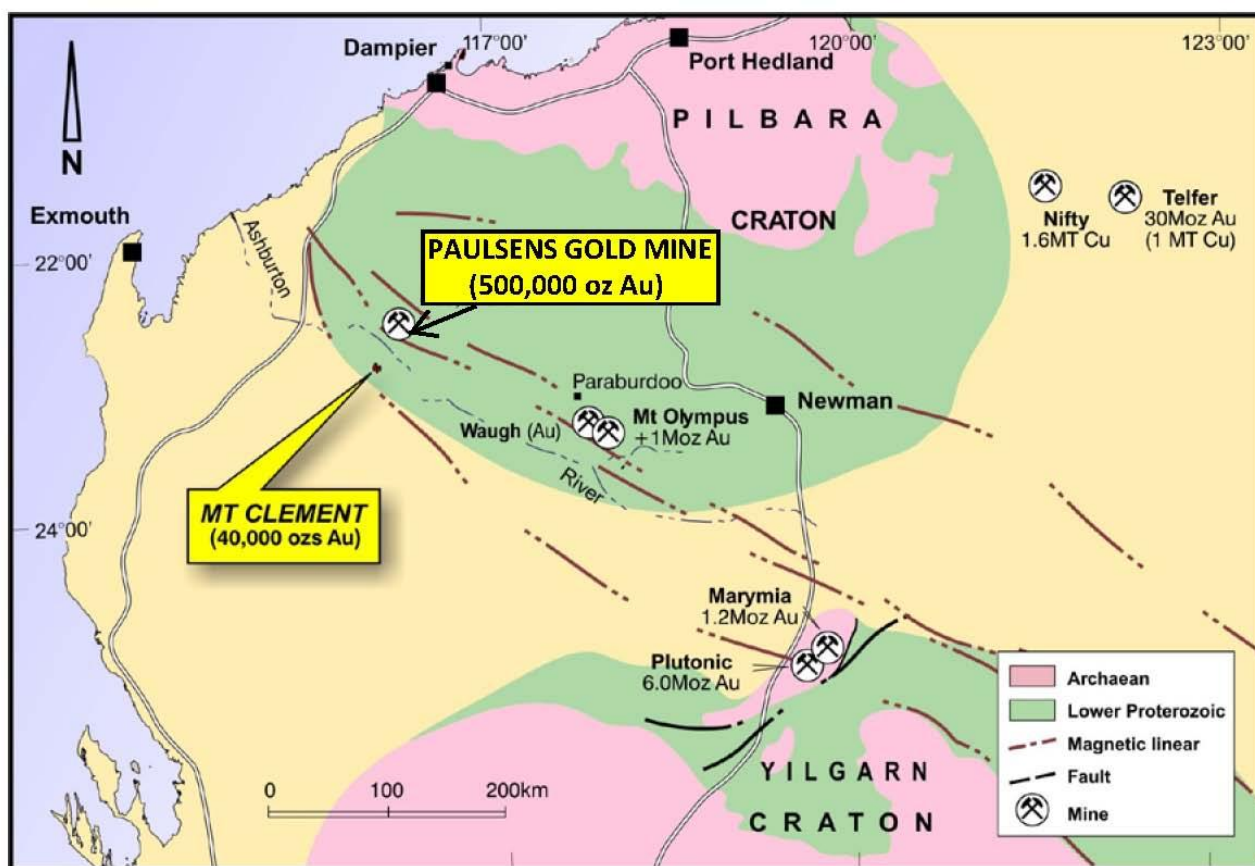


Figure 1 - Paulsens Project Location Map

The Paulsens underground gold mine commenced production in 2005 and has operated for the past 5 years at an average cash cost of A\$538/oz. Total mine production to date is 1.53Mt @ 7.6g/t for 373,000 ounces with the mine consistently producing 70-80,000 ounces per annum (Table 1). Paulsens was established on a nameplate capacity of 240,000 tonnes per annum, however it has for 5 years consistently produced in-excess of 340,000 tonnes per annum. The Project contains a fully operational mine with a decline developed to 475 metres below surface, 340,000 tonnes per annum processing facility that has achieved 95% gold recoveries throughout 2009 and a modern camp/office facility which have a combined replacement value of \$25-30 million. A stage 1 mine plan targeting 45,000 ounces of production is in place. Resource extension drilling is underway and NST intends to accelerate this program.

The Paulsens mine was due to wind down production early this year until the Voyager 1 resource was further defined. From the start of the year the Voyager 1 resource has been under development with IAU investing \$14 million to commence production from this resource. This investment will enable gold production to re-commence from NST's

takeover point on the 1st June 2010. The mine will produce 45,000 ounces by early 2011 and is expected to generate surplus cash of \$25 million based on a gold price of A\$1,200 per ounce.

Year	Production (oz)	Cash Cost US\$	Cash Cost A\$/oz
2005	43,530	343	456
2006	73,736	349	463
2007	71,464	420	501
2008	78,252	478	560
2009	75,089	534	674
<b>342,071</b>		<b>433</b>	<b>538</b>

Table 1 - Historical mine performance on gold sold

The original ore reserve of the mine was modelled on an A\$627 per ounce gold price due to hedging commitments imposed by the financial institution that provided the project finance in 2004. The mine predominantly operated under this hedged gold price until December 2008. Calendar year 2009 was the first full year of production unhedged and the mine generated \$39 million EBITDA.

The Paulsens gold mine main zone has been mined down to a depth of 400 metres below surface (Figure 2). Past production has mainly been sourced from two ore positions (the upper and lower zone) consisting of free milling quartz/sulphide gold mineralisation. The Apollo zone was defined by exploratory development after production had commenced in 2005 and sits outside the main mineralisation corridor highlighting the potential for adjacent mineralisation not related to the Paulsen quartz/gabbro geological model.

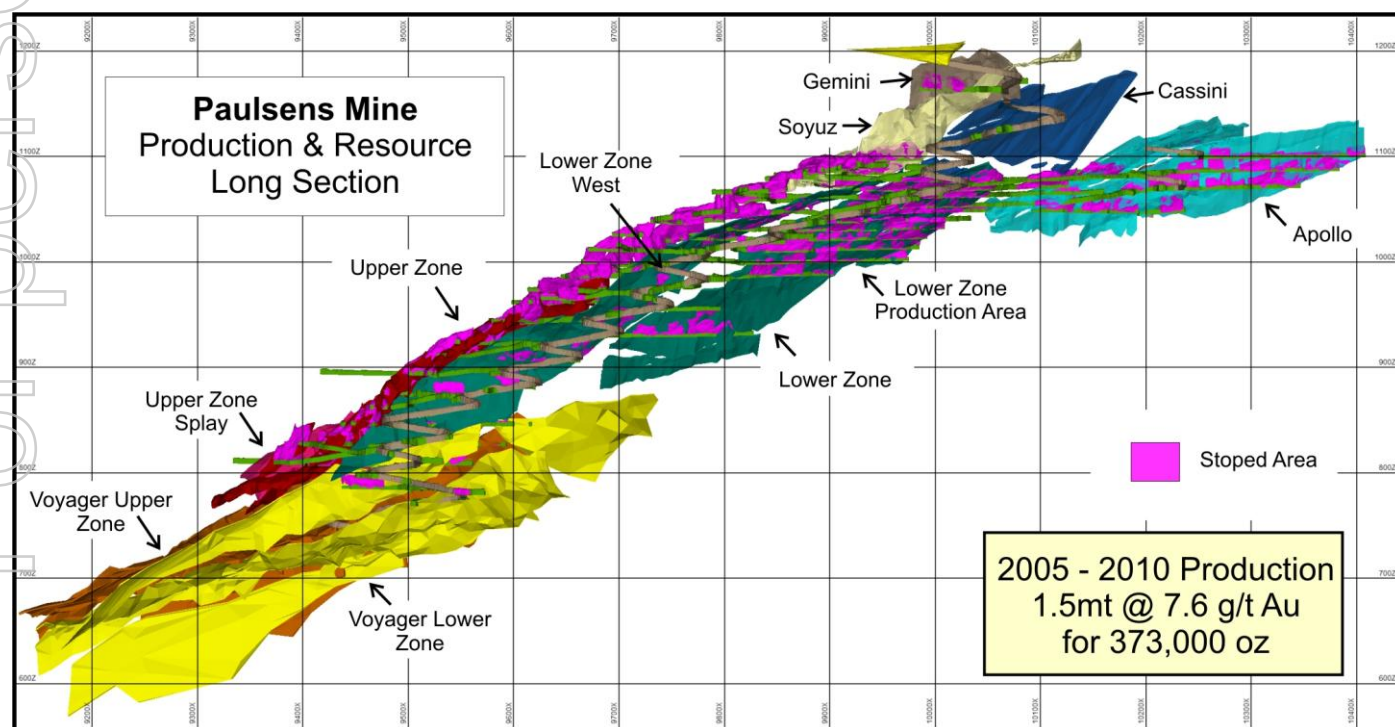


Figure 2 - Production and Resources Long Section



**Gold Resources**

Mineral resources were estimated for Voyager in December 2009 by Hellman and Schofield Pty Ltd (H&S) on the basis of sampling data and mineralisation interpretations provided by Intrepid. The estimates are reported in compliance with the JORC code and total 314,000 tonnes @ 12.8g/t for 128,700 ounces of gold (4.0g/t Au lower cut-off) as per Table 2. The figures in table 2 are rounded to reflect the accuracy of estimates and include rounding errors.

Indicated Resources			Inferred Resources			Totals		
Tonnes kt	Grade Au g/t	Total Au koz	Tonnes kt	Grade Au g/t	Total Au koz	Tonnes kt	Grade Au g/t	Total Au koz
204	13.7	89.7	110	11.0	39	314	12.8	128.7

Table 2 - Paulsens Voyager Resources @ 4.0g/t Au Lower Cut-Off

The estimated Voyager resource extends vertically for 200 metres from the 800 (400m below surface) to the 600 level (Figure 3). Stage 1 mine plan contains the production of 45,000 ounces between the 785 and 705 levels. This mine plan has been derived from the Indicated Resource of 89,700 ounces and takes into account the upper zone and minor lower zone sections of the orebody. NST believes there is upside potential to the mine plan after further infill drilling of the lower zone section of the orebody.

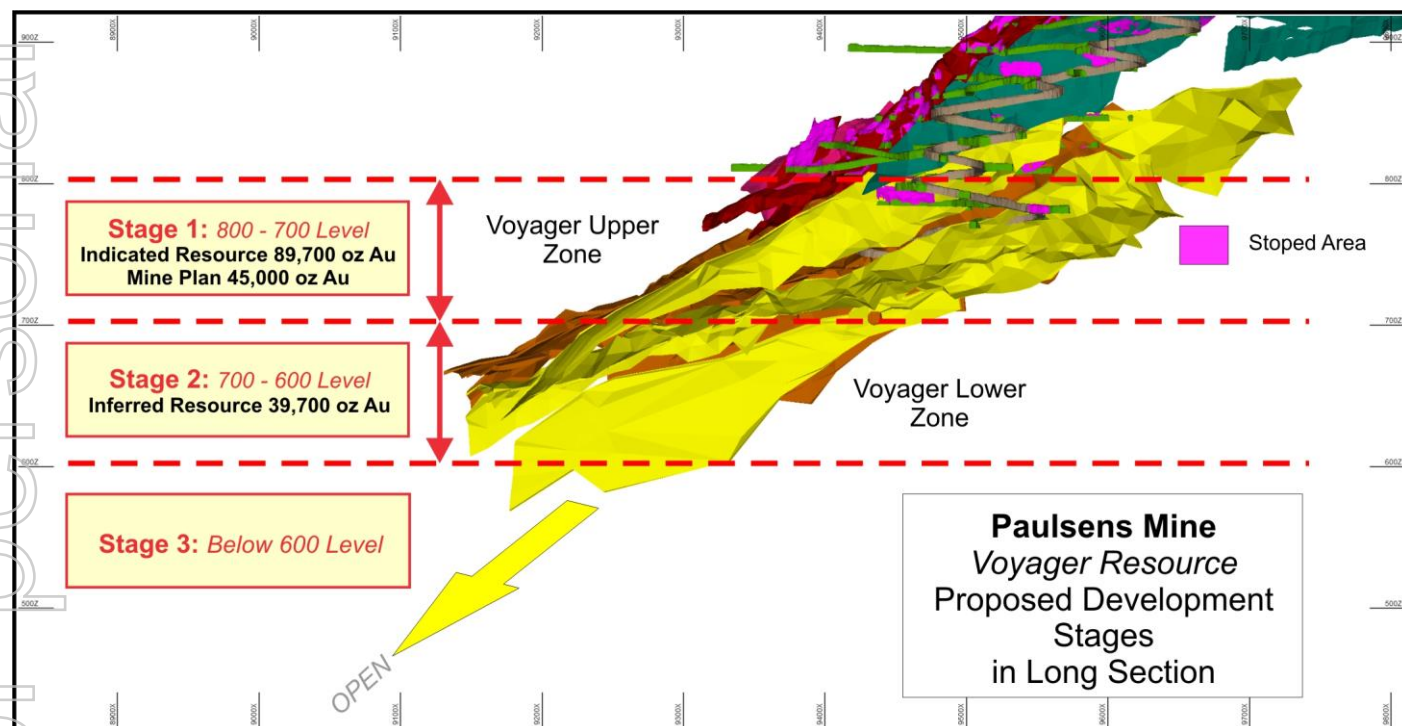


Figure 3 - Voyager Resources

The Voyager 1 resource excludes remnant resources above the 785 level, however NST believes a re-assessment of the global resource of the mine needs to be conducted using a gold price of A\$1,200 per ounce. A preliminary review of historic mining has highlighted remnant areas that have the potential to add further ounces to the stage 1 mine plan. NST plans to fully evaluate the remnant resource potential throughout the mine.

Traditionally the mine has utilised a 4g/t cut off due to processing, mining and administration costs. The stage 1 mine plan should utilise 70% of mill capacity as the grade of the resource is higher than previous mine production. This has created the opportunity for 100,000 tonnes per annum excess capacity, which could make incremental feed sources become viable.

## Project Plan - Staged Approach

### Stage 1 - 45,000 oz Mine Plan "Pay off Acquisition"

Stage 1 mine plan consists of mine production from the Voyager 1 resource of 45,000 ounces. IAU have invested \$14 million to establish the stage 1 production centre which becomes cashflow positive from the 1st June 2010 (NST takeover point). These ounces are expected to be produced from June 2010 to early 2011 generating \$25 million in surplus cash based on a gold price of A\$1,200 per ounce. An additional \$1 million cash surplus is generated for every \$A25/oz increase in the gold price received.

It is NST's objective to generate an Ore Reserve statement by October 2010 or as soon as practicable. NST plans to continue the stage 1 mine plan to produce 45,000 ounces in order to satisfy NST debt and royalty obligations. If successful, this will leave NST debt free, with an operational mine and the potential to extend mine life.

The mine has nearly completed two and is currently developing the third out of the five ore levels in the stage 1 mine plan. The development face grades received to date have come back higher than the predicted block model grades (Refer to Figure 4). In-conjunction with ore development an underground diamond drill rig is infill drilling the Voyager 1 resource. This positive grade reconciliation from ore development and infill drill results are progressively de-risking the stage 1 mine plan.

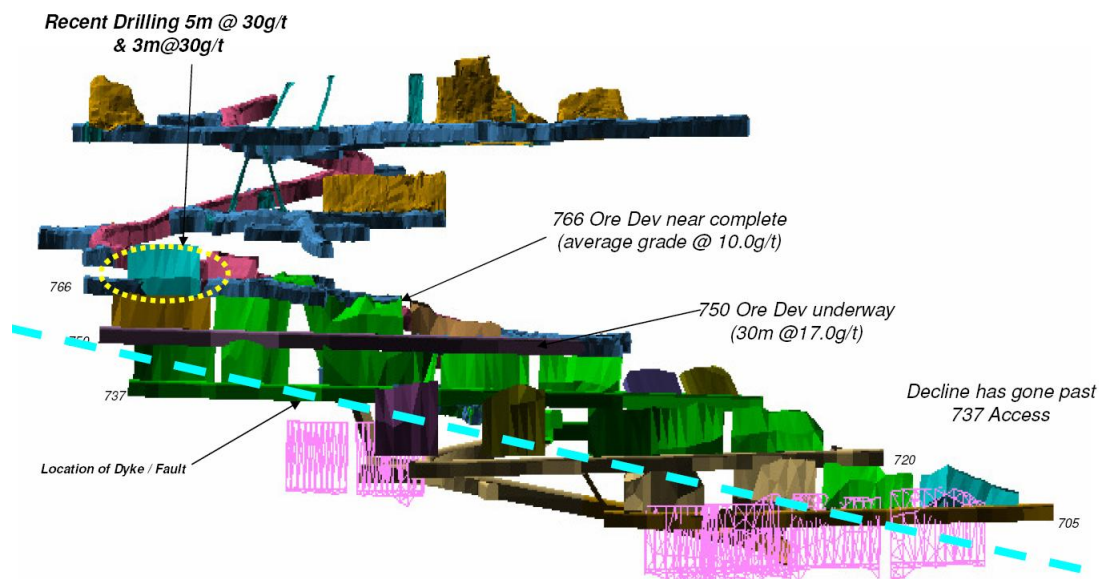


Figure 4 - Stage 1 Mine Layout

This mine plan has only included a small portion of the lower zone resource, and with subsequent successful infill drilling it could have the potential to increase the mine plan for stage 1. In addition to this NST will immediately review remnant resources left behind above the current mining levels due to the hedged gold price of A\$627/oz.

As stated earlier the processing plant capacity is 28,500 tonnes per month and has been running at full capacity for the past 5 years with no surplus capacity to treat material below the 4g/t cut. Stage 1 mine plan processes the high grade ore at a reduced rate of 20,000 tonnes per month leaving excess capacity of approximately 8,500 tonnes per month. This will create the opportunity to review previous areas as incremental feed sources provided they do not displace or delay the stage 1 mine plan. The major contracts associated with the operation such as mining, power generation, crushing and accommodation have a large portion of fixed costs so any additional feed greatly assists the overall cost of production. Early analysis by NST has indicated that incremental material above 3g/t could be economical to mine and process.

## **Stage 2 - "Maintain Profitable Production"**

Stage 2 involves extending the Paulsens mine life so that production can continue past 2011. The Voyager already has an Inferred Resource estimate of 110,000 tonnes @ 11g/t for 39,000oz. This mineralisation has had insufficient drilling to allow estimation of Indicated Resources. Drilling from current underground drill platforms and from the surface has made it difficult to target mineralisation effectively. It is NST's intention to allocate \$5 million for stage 2 exploration. This expenditure will go toward extending capital development for drill platforms, resource expansion and infill drilling.

NST's objective is to complete this exploration so that an updated resource model can be generated by the end of the year. If successful the Company will translate this into the stage 2 mine plan that will continue production throughout 2011.

Stage 2 will also provide the initial platform to test the more substantial upside potential to this transaction being the stage 3, Voyager 2 mineralisation. Voyager 2 is the predicted down-dip extension to the main Paulsens mineralised corridor.

IAU has recently completed four deep wedge holes from surface to confirm the extension of the Paulsens mineralisation, with assay results pending.

## **Stage 3 - "Find and Develop 5 year mine life"**

Stage 3 is a significant factor in NST's decision to acquire the Paulsens gold mine. The Company intends to drill extensively to define the predicted Voyager 2 mineralisation. Initial exploration as stated earlier will occur during stage 2 activities. Stage 3 will involve further capital development extensions to enable effective drill platforms for underground diamond drilling.

The Company's ultimate goal is to prove up enough resources and reserves to generate a five year mine plan that can deliver production levels similar to historical mine performance.

## **Exploration Upside - Mine and Regional**

There are numerous high grade gold drill intercepts located within the Paulsens mine mineralised corridor but outside the existing resource models including the Viking, Block 5, Upper Zone, Lower Zone and Voyager 2 areas, as well as numerous intercepts in the top 100m from surface. NST will evaluate these results to determine if further exploration activities are required.

There are a number of near-mine high priority exploration targets including the Apollo extension, Paulsens East and Camp Vein. Some of these targets show similar characteristics to the Paulsens mine mineralised corridor. An analysis of these will be conducted during stage 1 activities.

Regionally IAU holds 265km<sup>2</sup> of tenements which will transfer to NST upon completion of the sale. Some of the projects that require further evaluation include the Belvedere Project, located 7km SE of Paulsens mine on a granted Mining Lease, which has numerous high grade gold drill intercepts. NST will focus on determining if a resource can be estimated at Belvedere.

The transaction includes NST assuming IAU's joint venture interests in two agreements with other companies across approximately 120km<sup>2</sup> of tenements. The Mt Clement joint venture where IAU is 20% free carried has gold/base metals potential and includes an Indicated resource of 526,000 tonnes @ 2.4g/t for 40,600oz (refer to ASX release by Artemis Resources dated 29th January 2009). Subject to any pre-emptive rights NST will evaluate these in due course.

## Acquisition Terms

NST will acquire the Paulsens Gold Project from IAU on the following terms:

- (a) \$250,000 payable within seven days of signature of the legally binding letter agreement, as a non-refundable deposit;
- (b) \$14,750,000 upon completion of the transaction; and
- (c) A royalty of \$200 per ounce of gold sold subject to a maximum of 60,000 ounces.

## Financing

NST has appointed Viridian Equity Group as lead manager in relation to the proposed funding package. The \$15 million purchase price will be funded solely through a debt instrument and NST will seek to raise up to \$4 million via equity, details to be announced in due course.

NST already has a working capital mechanism in place by way of short dated options with existing shareholders that if exercised would raise up to \$6.3 million. NST's major shareholders including InvestMet Limited have informed the company of their intention to exercise NST options as necessary and support the acquisition

## Summary

The acquisition of the high grade Paulsens Gold Mine with estimated resources of 314,000 @ 12.8g/t for 128,700 ounces from Intrepid Mines has provided the ideal asset that the Company has been seeking since its re-capitalisation late last year. It offers numerous avenues for the Company to add value through stage 1 generating profits for shareholders, extending the current mineralisation at depth, the potential to find other deposits, the conversion of exploration targets to Mineral Resources and the commercial evaluation of continuing profitable mining operations.

NST would like to thank Intrepid Mines for the opportunity to acquire this asset and for the professionalism shown by its executive and operational staff throughout the sale process.

This is the announcement referred to in our prior requests for a trading halt and voluntary suspension.

Yours faithfully,



Bill Beament  
**Managing Director**  
**Northern Star Resources Ltd**

## Competent Persons Statements

*The information in this announcement that relates to exploration results, data quality, geological interpretations and potential for eventual economic extraction, is based on information compiled by or under the supervision of Brook Ekers, (Member AIG), who is a full-time employee of Intrepid Mines Limited. Mr. Ekers 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". Mr. Ekers consents to the inclusion in this announcement of the matters based on his information in the form and context in which it appears.*

*The information in this report that relates mineral resource estimation for Paulsens is based on work completed by Mr Jonathon Abbott who is a full time employee of Hellman and Schofield Pty Ltd and a member of the Australasian Institute of Mining and Metallurgy. Hellman & Schofield were not required to review the quality of the sampling data, or geological interpretation as Intrepid are accepting responsibility for these aspects of the estimates. Mr Abbott 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'. Mr Abbott consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.*

*The information in this announcement that relates to Exploration Potential and comments on the resources estimates are based on information compiled by Mr Jason Boladeras, who is Exploration Manager for Northern Star Resources, a Member of the Australian Institute of Geoscientists and is employed by Geoarc Pty Ltd. Mr Boladeras 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'. Mr Boladeras consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.*

## Forward Looking Statements

*Some of the information contained in this Announcement has been obtained from third parties and has not been independently verified by NST. In particular the financial projections model on which the forward looking statements included in this Announcement has not been prepared by the Company and the Company has not undertaken any verification of the model. The Company takes no responsibility and is not liable for the projections in any way. Given the risks and uncertainties that may cause the Company's actual future results, performance or achievements to be materially different from that expected, expressed or implied by the forward looking statements included in this announcement, undue reliance should not be placed on these statements. Nothing contained in this Announcement is a promise or representation as to the future. No assurance or representation is made by any person that any forecast or projection will be achieved. Accordingly, investors must make their own investigations and inquiries regarding all assumptions, uncertainties and contingencies, which may affect the future operations of the Company."*