

**ANADA**  
Province of Québec  
District of Val-d'Or

**S U P E R I O R C O U R T**  
(Commercial Division)

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N° : 615-11-001228-107  
N° : 615-11-001229-105

**IN THE MATTER OF THE PROPOSALS OF:**

**NORTHERN STAR MINING CORP.**, having a place of business at 153A, Perreault Street, City of Val-d'Or, Province of Québec, J9T 2H1;

-and-

**RESSOURCES JAKE INC./JAKE RESOURCES INC.**, having a place of business at 153A, Perreault Street, City of Val-d'Or, Province of Québec, J9T 2H1;

Debtors/Petitioners

-and-

**SAMSON BÉLAIR/DELOITTE & TOUCHE INC.**

Trustee

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**MOTION TO OBTAIN AN EXTENSION OF TIME FOR FILING A PROPOSAL**  
(Section 50.4 (9) of the *Bankruptcy and Insolvency Act*)

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**TO ONE OF THE HONOURABLE JUDGES OR TO THE REGISTRAR OF THE SUPERIOR COURT, SITTING IN COMMERCIAL DIVISION, IN AND FOR THE DISTRICT OF VAL-D'OR, THE DEBTORS/PETITIONERS SUBMIT AS FOLLOWS:**

**I. Purpose of this motion**

1. On August 18, 2010, Northern Star Mining Corp. ("NSM") filed a notice of intention to submit a proposal to its creditors and, on August 19, 2010, Ressources Jake Inc. ("**Jake**") did the same, as appears from the Court records.
2. Pursuant to the notices of intention, the Debtors/Petitioners had to submit a proposal to their creditors at the latest by August 16, 2010.

3. Pursuant to the present motion, the Debtors/Petitioners seek the authorisation to extend the delay to submit a proposal to their creditors for a period of 45 days, i.e. until October 1, 2010.

## **II. Northern Star Mining Corp.**

### **A. Background**

4. NSM is incorporated pursuant to the *Business Corporations Act* (BC) and is a public company whose shares are listed on the TSX Venture Exchange. The company's primary place of business is located in Val-d'Or in the Province of Quebec. NSM has one wholly-owned subsidiary, Jake.

5. NSM is current with all of its required TSX Venture Exchange filings. On August 30, 2010, NSM filed its unaudited interim financial statements for the quarter ending June 30, 2010 and Management Discussion and Analysis for the quarter ending June 30, 2010. True copies of these documents, as well as a copy of NSM's audited financial statements for 2009, are attached hereto as **Exhibit A**.

6. In the Spring of 2010, there was a change of the core leadership at NSM.

7. On February 23, 2010, Mr. Michel David resigned as Chairman of the Board, President and CEO of NSM. Mr. David continued as a director. Mr. Jonathan Awde, a director and officer of NSM, was appointed as interim President and CEO. On or about April 13, 2010, NSM's board of directors appointed Mr. George Pirie as CEO and director of the company. Mr. Pirie replaced Mr. Jonathan Awde, who resigned as interim CEO, but remained as President of the company and a director. In or about June of 2010, Dr. Lawrence Hoffman resigned as a director of NSM. This was followed in July of 2010 by the resignation of Mr. Awde as a director and officer of NSM. During this period, Mr. Michael Waldkirch became a director of the company.

8. Subsequent to Mr. Pirie joining NSM, the company undertook an analysis of its business. That analysis indicated a number of issues with the feasibility of achieving NSM's business objectives. Those objectives included NSM starting production from its Midway Property and McKenzie Break Property in late 2010. NSM determined, however, that while the Midway Property was an outstanding exploration and development project, the geological models and mining plans were insufficiently developed for a production decision and consequently that

production in 2010 was not a realistic goal. NSM had also accumulated significant debt. Given that it appeared to be the case, based on management's revised business plan, that NSM would not have a producing mine in the near term, the level of debt being carried by NSM was not sustainable because any money raised by NSM would have to be used to service debt rather than to develop the company's mining properties.

9. On June 18, 2010, NSM issued a press release, a true copy of which is attached hereto as **Exhibit B**, stating:

***Production Plan***

*Northern Star had previously set an objective to achieve production from its Midway and Mackenzie Break deposits by late 2010. This is not a credible objective nor realisable goal this year.*

*New geological interpretation of the Mackenzie Break deposit, including the discovery of more gold bearing veins will require that a detailed geological review be made of the deposit.*

*Additionally it is imperative to complete interpretation of all historical and current drilling on the Mackenzie Break and Midway properties to develop current geological models and resources.*

***Revised Resource Calculation***

*The first priority of the Company will be to deliver a revised resource estimate, in 43-101 format, by no later than December 2010, for each of MacKenzie Break, the Callahan and the Midway deposits. It is estimated this will cost \$8,000,000 and will be directed under the leadership of Eddy Canova PGeo. The scope of work is as follows:*

***Midway:*** *This project will require the update of more than 30,000 meters drilled on the Midway project alone. An additional 30,000 meters of drilling from both underground and surface is required to reclassify the historical reserve on the project and follow up on previously released results both historical and current.*

***Callahan:*** *The exploration model being followed here is "Goldex" style mineralisation. The drilling planned here is 14,500 meters to reclassify historical drilling and follow up on targets in eleven separate zones.*

***MacKenzie Break:*** *There is 6,000 meters of diamond drilling planned for this property to update the historical 200,000 ounce resource. Reinterpretation of historical drilling and interpretation of current drilling indicates that an open pit model be investigated on the deposit.*

*The data will be compiled and models created in Gemcom.*

### ***Capital Restructuring and Raising***

*NSM has a current and long term debt balance of over \$43 million, fully secured by the Companies assets and payable within fourteen months. Management believes this is an unsustainable obligation considering the stage the Company is at with respect to its production plans. Accordingly, the Company will seek to restructure and reduce its debt in the near future.*

10. NSM retained Cormark Securities Inc. and Toll Cross Securities Inc. (together, the “**Advisors**”) to assist with a proposal to restructure NSM’s outstanding debt obligations and to attempt to raise equity capital to repay NSM’s debt and finance further engineering and drilling programs on NSM’s key properties.

11. NSM, with the assistance of the Advisors, developed a plan to raise equity by way of private placements. A number of the potential investors expressed interest in the company’s offering, but required, as a condition of making any equity investment in NSM, that, *inter alia*, NSM’s debt obligation be discharged and that a certain gold off take agreement with Red Kite Explorer Trust (“**Red Kite**”) – the Off Take Agreement described further below – be terminated.

12. NSM’s management met with two holders of the Secured Notes, Platinum Partners Value Arbitrage Value Fund L.P. (“**Platinum**”) and Red Kite, to explain NSM’s situation and what NSM was proposing to do to address the situation and allow NSM to move forward – the equity offering. NSM requested that Platinum and Red Kite provide an amount that Platinum and Red Kite would be willing to accept to settle the Secured Notes. Neither Red Kite nor Platinum responded in a substantive way to this request.

13. On August 12, 2010, NSM advised Platinum and Red Kite that it would be able to raise approximately \$44 million and would allocate approximately \$29 million to secure the discharge of the Secured Notes. NSM proposed to use the remaining funds to pay all of NSM’s trade creditors in full, and to fund a drilling program and exploration program at the Midway Property, Callaghan Property and the McKenzie Break Property, which properties are described further below.

14. During a conference call in the afternoon on August 12, 2010, Red Kite rejected NSM’s offer.

15. Platinum contacted NSM after the call with Red Kite and indicated, essentially, that it believed that NSM's offer was not satisfactory because it had allocated certain money from the equity transaction to pay unsecured creditors and they felt they could see better recoveries than were offered by NSM. The Debtors are not aware of Platinum or any counsel representing Platinum contacting NSM subsequent to that telephone call.

16. Although there was a short "off the record" discussion between the Debtors' undersigned counsel and Red Kite's counsel, Ogilvy Renault LLP ("OR"), on August 13, 2010, no proposal to resolve the situation was suggested by OR, but OR did inquire as to whether NSM had ruled out an insolvency proceeding.

#### **B. NSM Proposal Proceedings**

17. Without further funding, NSM was not in a position to pay the interest payments due under the Secured Notes on August 16, 2010 or pay Red Kite certain amounts coming due under the Off Take Agreement on September 2, 2010. This actuality, combined with the fact that Platinum and Red Kite had not offered any alternatives to resolve NSM's financial situation, increased pressure from a supplier asserting a mining lien claim and the threat of shareholder litigation, resulted in NSM's board of directors, after carefully considering the alternatives, determining that a formal reorganization proceeding was required to protect the interests of all of NSM's stakeholders.

18. At the close of business on August 17, 2010 – 5 days after Red Kite had refused NSM's offer and having heard nothing from Red Kite – a meeting of NSM's board of directors was held and the directors resolved to commence proceedings under the BIA by filing a Notice of Intention to Make a Proposal naming Samson Bélair/Deloitte & Touche Inc. (the "Trustee") as proposal trustee.

19. At 9:15 a.m. on August 18, 2010, an e-mail was sent to OR advising that NSM would be commencing proceedings under the BIA and suggesting a meeting the following week. Red Kites' only response was to request a copy of the Notice of Intention to Make Proposal and to ask in which locality NSM would be filing, but there was no substantive response to the suggestion that there be a meeting..

20. Later in the day on August 18, 2010, NSM filed a Notice of Intention to Make a Proposal pursuant to s. 50.4(1) of the BIA. A true copy of the Certificate of Filing in respect of NSM is attached hereto as **Exhibit C**.

21. On August 19, 2010, the undersigned attorneys sent the Notice of Intention and the Certificate of filing to OR. NSM heard nothing from OR or Red Kite until OR requested that copies of NSM's cash flow projection and related documents on August 31, 2010 be sent over.

22. On August 27, 2010, as required by s. 50.4(2) of the BIA, NSM filed cash flow statements and related documents. The cash flow statements were prepared on the basis that NSM would reduce all unnecessary expenditures and would focus on preserving and increasing the value of its assets and properties.

23. A true copy of NSM's cash flow statement and related documents are attached hereto as **Exhibit D**.

24. On September 3, 2010, in response to OR's request, the undersigned attorneys sent the cash flow projection and related documents to OR. NSM heard nothing further from OR or Red Kite until September 7, 2010 when OR wrote a letter, described further below.

25. NSM will, pursuant to the BIA, be able to unilaterally disclaim the Off Take Agreement entered into with Red Kite and which is described further below in Section "F" of the present Motion. NSM's plan is to then locate an equity partner and sell (or joint venture) surplus assets, to raise money to: (a) pay the amount found to be owing outstanding on the Secured Notes; (b) fund a proposal to unsecured creditors; and (c) fund an exploration and drilling program with a view to enhancing the value of the company for all stakeholders.

26. As set forth further below, NSM continues to pursue debt and equity financing alternatives and believes that sufficient working capital will be obtained from either the sale of non-core assets, joint venture agreements or external financing to satisfy the claims of its secured creditors and allow the company to make a proposal or plan to its unsecured creditors.

## C. NSM's Assets and Properties

### i. Mining Properties<sup>1</sup>

27. NSM owns or is a joint venture partner in a number of mining properties in and around Val-d'Or, Quebec.

#### a. Midway Property

28. All of the mineral claims included in the Midway Property are contiguous and are located 16 kilometres west of Val-d'Or, Quebec. NSM acquired the various mining claims that make up the Midway Property in various transactions from 2002 through 2005. NSM believes that the Midway Property has the potential to produce 2-4 million ounces of gold.

29. The Midway Property was mined from 1939 to 1965 and produced approximately 2 million ounces of gold. The property was, however, mined from surface to a depth of only approximately 1,000 meters. Other mines in the area have found significant resources at deeper depths.

30. A June 2008 NI 43-101 Report<sup>2</sup> estimated resources of 525,000 ounces based on 40,341 assays. NSM believes that there is 30,000 meters of diamond drilling required to be completed. This drill campaign, plus the 30,000 meters of drilling completed by NSM since 2008, will be included in an updated NI 43-101 resource estimate to clarify the true potential of the Midway Property. NSM has budgeted \$5 million to prepare an updated NI 43-101 for the Midway Property.

31. The 2007 acquisition of 2 mining concessions and 2 surface leases included in the Midway property from Barrack Gold Corporation ("**Barrack**") was conditional on the delivery by NSM of a Certificate of Liberation from the Quebec Ministry of Natural Resources and Wildlife on or before December 31, 2008, failing which NSM is required to pay \$1,100,000. NSM has paid \$1,100,000 into escrow with respect to this obligation. NSM and Barrack are,

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<sup>1</sup> NSM owns other mining properties as set forth in the company's financials, but these properties have no value and their values have been written down to \$1 for accounting purposes.

<sup>2</sup> NI 43-101 is a mineral resource classification scheme used for the public disclosure of information relating to mineral properties in Canada. It is a codified set of rules and guidelines for reporting and displaying information related to mineral properties owned by, or explored by, companies which report these results on stock exchanges within Canada.

through counsel, in negotiations with respect to finalizing the acquisition of these assets by NSM. Those negotiations include how the \$1,100,000 being held in escrow will be dealt with by the parties. Based on past experience and the nature of the on-going negotiations, NSM expects that Barrack will not seek to have the \$1,100,000 released pending the outcome of the negotiations.

32. On January 16, 2007, NSM entered in an option and joint venture agreement with Niogold Mining Corporation (“**Niogold**”) on 3 mineral claims that are part of the Midway Property. Niogold has completed its obligations and NSM has transferred a 50% interest in the 3 mining claims to Niogold.

33. NSM's ability to physically access this property is dependent on reaching an agreement with Barrick.

**b. Callahan Property**

34. The Callahan Property consists of 79 claims adjacent to the Midway Property. NSM signed an agreement to acquire a 100% interest in those claims on October 23, 2007. The agreement pursuant to which NSM acquired the claims requires that NSM carry out \$2.5 million exploration work on the property over three years. NSM has incurred \$1,468,647 gross expenditures to date, but on April 5, 2010, NSM negotiated a twelve-month extension. There is no fee payable by NSM for this extension.

35. NSM needs to complete 14,500 meters of drilling to produce a NI 43-101 resource estimate for the Callahan Property. NSM will allocate up to \$2.5 million of the refundable tax credits described below to conduct diamond drilling and to produce the NI 43-101.

**c. McKenzie Break Property**

36. On February 26, 2009, NSM entered into an option agreement with Britannica Resources Corp. (“**Britannica**”) whereby NSM could earn a 60% interest in the McKenzie Break Property, consisting of ten (10) mining claims situated in the Fiedmont and Courville Townships in the Province of Quebec. As part of this agreement NSM was to fund the first \$1,500,000 in exploration costs on the property to earn its 60% interest after which NSM and Britannica would split the exploration costs.



37. As of December 31, 2009, NSM had expended \$1,895,681 in exploration costs on the property and had earned its 60% interest in the property. Moreover, as of March 31, 2010, NSM had incurred \$3,995,502 in exploration costs resulting in a receivable from Britannica totalling \$1,839,830, representing Britannica's respective portion of the costs incurred for the property.

38. NSM needs to complete 5,000 meters of drilling to produce a NI 43-101 resource estimate for the McKenzie Property. NSM has budgeted \$900,000 to complete this drilling and to produce the NI 43-101.

**d. Piche-Harvey Option**

39. On March 20, 2007 and September 20, 2007, NSM signed an agreement to purchase a 100% interest in 37 claims adjacent to the Midway Property, for consideration that included the requirement that NSM undertake \$2 million of exploration work on the property over 3 years. NSM has not completed the required exploration work. On February 24, 2010, NSM agreed to pay \$25,000 per month to secure a six-month extension and, on June 22, 2010, NSM negotiated a further extension on the same terms. The payment of the \$25,000 per month is reflected in NSM's cash flow projections.

40. While NSM has negotiated an extension of the time to undertake exploration work, in the event that funds are available, NSM will allocate funds to undertake exploration work to complete the acquisition of the 37 claims comprising the Piche-Harvey Property.

**e. Cadillac Property**

41. By an agreement dated August 7, 2003, NSM acquired a 100% interest in 6 mineral claims that make up the Cadillac Property.

42. On September 5, 2006, NSM entered into an option and joint venture agreement with Britannica Resources Corp. ("**Britannica**") on two properties (Cadillac AWG and Cadillac). Under the terms of the agreement, Britannica agreed to spend \$1,500,000 on exploration expenditures over a four year period to earn a 50% interest in the two groups of claims. As at December 31, 2009, Britannica has yet to carry out any exploration work on Cadillac Property.

43. NSM is not planning on spending any money on this property pending the outcome of the restructuring. NSM will, however, explore the possibility of selling or joint venturing the property, subject to approval of the Court.

**f. Cadillac AWG Property**

44. By an agreement dated February 5, 2004, NSM acquired a 100% interest in the 64 mineral claims comprising the Cadillac AWG Property.

45. On September 5, 2006, NSM entered into an option and joint venture agreement with Britannica on two properties (Cadillac AWG and Cadillac). Under the terms of the agreement, Britannica agreed to spend \$1,500,000 on exploration expenditures over a four year period to earn a 50% interest in the two groups of claims. As at December 31, 2009, Britannica has yet to carry out any exploration work on the Cadillac AWG Property.

46. NSM is not planning on spending any money on this property pending the outcome of the restructuring. NSM will, however, explore the possibility of selling or joint venturing the property, subject to approval of the Court.

**g. Lac Fourniere Property**

47. On June 7, 2006, NSM completed the acquisition of the Lac Fourniere Property. The property consists of 22 claims and is adjacent to the Midway Property.

48. NSM is not planning on spending any money on this property pending the outcome of the restructuring. NSM will, however, explore the possibility of selling or joint venturing the property, subject to approval of the Court.

**h. Malartic Break Project**

49. By an agreement dated March 26, 2003, NSM acquired a 100% interest in the 20 mineral claims making up the Malartic Break Property.

50. On March 17, 2006, NSM entered into an option and joint venture agreement with Britannica on two properties (Malartic Break and Revillard). Under the terms of the agreement, Britannica agreed to spend \$1,500,000 on exploration expenditures over a four year period to

earn a 50% interest in the two claims groups. As at December 31, 2009, Britannica had carried out exploration work totalling \$452,012 on the Malartic Break Project.

51. NSM is not planning on spending any money on this property pending the outcome of the restructuring. NSM will, however, explore the possibility of selling or joint venturing the property, subject to approval of the Court.

**i. Revillard Property**

52. By an agreement dated January 21, 2004, NSM acquired a 100% interest in the 18 mineral claim comprising the Revillard Property.

53. On March 17, 2006, NSM entered into an option and joint venture agreement with Britannica on two properties (Malartic Break and Revillard). Under the terms of the agreement, Britannica agreed to spend \$1,500,000 on exploration expenditures over a four year period to earn a 50% interest in the two claims groups. As at December 31, 2009, Britannica had carried out exploration work totalling \$473,942 on the Revillard Property.

54. NSM is not planning on spending any money on this property pending the outcome of the restructuring. NSM will, however, explore the possibility of selling or joint venturing the property, subject to approval of the Court.

**ii. Tax Creditors/Refunds**

55. NSM is entitled to certain refundable tax credits from the Government of Quebec with respect to certain qualified exploration and development costs incurred in that Province and is entitled to a refund on mining duties on qualified mining exploration expenditures net of the refundable tax credit. NSM anticipates that it will receive approximately \$5 million from the Province of Quebec in September or October<sup>3</sup>. NSM will allocate these funds as set forth above in the description of NSM's mining properties.

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<sup>3</sup> The timing of this payment is not certain and, after consulting with the Trustee, NSM elected to not include it in the cash flow projection.

**iii. Other Property and Equipment**

56. NSM owns other property and equipment with a net book value of approximately \$4 million.

**D. Liabilities**

**i. Secured Notes<sup>4</sup>**

57. NSM's primary liability consists of secured notes issued by NSM in 2008 (the "**Secured Notes**") pursuant to a Senior Secured Note Indenture made as of August 13, 2008, 2009 (as amended by the First Supplemental Senior Secured Note Indenture made as of August 13, 2009 (the "**First Supplemental Note Indenture**"), the "**Note Indenture**") pursuant to which Computershare Trust Company of Canada ("**Computershare**") is named as trustee of the Secured Notes. The details of the relevant transactions are described more fully in NSM's audited financial statements attached as **Exhibit A**, but in general terms:

- (a) On or about November 26 and 27, 2007, NSM issued secured notes to raise gross proceeds of US\$17,920,000 (the "**2007 Notes**"). The 2007 Notes matured in November of 2009 and bore interest at 14% per annum, which interest was prepaid in full at the time the 2007 Notes were issued. The 2007 Notes were secured by a security interest granted in favour of Computershare on all of NSM's assets, property and undertaking.
- (b) On August 13, 15 and September 8, 2008, NSM issued the Secured Notes to raise gross proceeds of US\$42,000,000. The Secured Notes bear interest at 14% per annum payable every six months and matured in August and September of 2010 at 125% of the principal amount of the Secured Notes. NSM also paid a due diligence fee to the holders of the Secured Notes in an amount equal to 5% of the subscription price. The Secured Notes were secured by a security interest granted in favour of Computershare on all of NSM's assets, property and undertaking.

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<sup>4</sup> The holders of the notes issued by NSM also received rights to acquire shares of NSM.

- (c) US\$15,080,000 in Secured Notes was acquired by the holders of the 2007 Notes by exchanging their 2007 Notes for Secured Notes. The remaining US\$2,840,000 in 2007 Notes were redeemed by NSM using the proceeds received from the Secured Notes.
- (d) On August 13, 2009, pursuant to the First Supplemental Note Indenture, NSM restructured the Secured Notes. Under the terms of the restructuring: (i) NSM repaid \$12,000,000 of the Secured Notes one year before they matured by payment of \$15,000,000 – representing 125% of the principal amount of \$12,000,000; (ii) NSM extended the maturity of the remaining Secured Notes to August and September of 2011; (iii) the terms of the Secured Notes were amended such that the remaining Secured Notes will, on maturity, be repayable at 137.5% of the principal amount of the Secured Notes; and (iv) NSM paid restructuring fees of \$2,287,950 to the holders of the Secured Notes.

58. A true copy of the Note Indenture is attached hereto as **Exhibit E**.

59. NSM was required to make an interest payment in respect of the Secured Notes to Computershare on August 16, 2010. NSM did not make this payment and the failure to make the interest payment constituted a default under the Trust Indenture that, with the passage of time, the default becomes an Event of Default under the Trust Indenture.

60. On August 18, 2010, Computershare sent NSM a letter advising of the default that resulted from the failure of NSM to make the interest payment. A true copy of that letter, as well as a letters from Computershare to the holders of the Secured Notes dated August 18, 2010, are attached hereto and marked as **Exhibit F**.

61. The commencement by NSM of proposal proceedings under the BIA by NSM also constitutes an Event of Default under the Trust Indenture.

62. On August 24, 2010, Computershare sent a letter to NSM advising that: (a) the failure of NSM to pay interest had become an Event of Default on August 23, 2010; and (b) the commencement of the proposal proceedings by NSM constituted a second Event of Default under the Trust Indenture. A true copy of this letter, as well as a letters from Computershare to

the holders of the Secured Notes dated August 24, 2010 (without attachments), are attached hereto as **Exhibit G**.

63. On September 3, 2010, Computershare sent the Trustee an e-mail confirming that, pursuant to the Trust Indenture, they represented the holders of the Secured Notes and asking to be reflected in the Trustee's records as a creditor for the amount outstanding under the Secured Notes.

64. As set forth further below, Red Kite has indicated that, in its capacity as a holder of Secured Notes, it will not support the reorganization unless NSM agrees, as part of any proposal filed by the company, to pay the Secured Notes in full. NSM contemplates that any proposal filed by the company will provide that the amount determined to be owing to the holders of the Secured Notes will be paid in full on implementation of the proposal.

**ii. Secured Convertible Debenture**

65. On September 3, 2009, NSM entered into an agreement with Anglo Pacific Group LLC ("**Anglo Pacific**"), under which Anglo Pacific provided financing to NSM through a convertible debenture in the principal amount of \$8.0 million. The principal is to be repaid through a net smelter royalty. The obligations owing to Anglo Pacific are secured by a hypothec, general security agreement and a second ranking charge against all of NSM's assets and property. Anglo Pacific may, at its sole discretion, convert the outstanding principal into common shares of NSM at a price of \$0.70 for a period of 5 years. In the event of such conversion, the net smelter royalty to the lender will cease.

**iii. Mining Lien Claims**

66. Gestion Miniere Cregau Ltee is asserting a mining lien claim in the amount of approximately \$2.5 million and Dumas Contracting Ltd. is asserting a mining lien claim in the amount of approximately \$2 million.

**iv. Unsecured Trade Creditors**

67. NSM owes unsecured trade creditors (mostly in the Val-d'Or area) approximately \$1.3 million.

v. **MineralFields Litigation**

68. On or about July 29, 2010, MineralFields 2010 Super Flow-Through LP and related funds (together, “**MineralFields**”) indicated that they intended to take proceedings against NSM and certain of the company’s current and former directors in relation to misrepresentations that were allegedly made in the course of certain flow-through private placements undertaken by NSM in 2009 and 2010. A statement of claim was issued on August 9, 2010.

69. While the commencement of the proposal proceedings by NSM has resulted in the MineralField’s action being stayed, certain of NSM’s current directors named as defendants are taking steps to defend the action based on the serious allegations being made against them personally and the impact those allegations might have on their professional reputations.

**E. NSM Employees**

70. NSM historically employed approximately 25 employees in Val-d’Or, Quebec. NSM has laid off or terminated most of these employees to conserve cash. NSM has retained a sufficient number of employees to maintain and secure NSM’s assets and property while a solution to the company’s current financial problems is found.

71. NSM anticipates that, assuming the reorganization proceedings are successful, NSM will re-hire the employees that have been laid off or terminated. In the mid- to long-term, NSM anticipates that it could employ 200 to 300 people in Val-d’Or, Quebec.

**F. Red Kite Off Take Agreement**

72. On or about August 12, 2009, NSM modified a prior letter of intent and entered into an Contract for Sale & Purchase of Gold Dore (the “**Off Take Agreement**”) whereby it agreed to sell all of its gold production to Red Kite. A true copy of the Off Take Agreement is attached hereto and marked as **Exhibit H**.

73. NSM pre-sold a total of 6,050 ounces of gold to Red Kite for gross proceeds of \$6,222,924 (the “**Prepayment Amount**”). To repay the Prepayment Amount, NSM was, pursuant to the Off Take Agreement, required to deliver 550 ounces of gold per month for a period of 11 consecutive months commencing on September 2, 2010. NSM had a one-time cash

option to pay cash in lieu of gold on September 2, 2010. NSM had the right to repay the Prepayment Amount, without bonus or penalty on or before October 2, 2010.

74. To secure the payment of the Prepayment Amount, NSM issued US\$9,554,266 in Secured Notes to be held by Kingsdale Shareholders Services Inc. (“**Kingsdale**”). The Off Take Agreement provides that in the event that NSM: (a) defaults on its obligation to deliver the gold (or cash) to repay the Prepayment Amount; or (b) makes an Event of Default under the Note Indenture, Red Kite is entitled to deliver a notice to Kingsdale and NSM requiring the release from escrow of Secured Notes in an amount sufficient to repay the Prepayment Amount calculated in accordance with the Off Take Agreement. Red Kite is, concurrently, required to deliver to NSM a notice setting out the amount of the Secured Notes that is to be released. Secured Notes are required to be released to Red Kite 10 days after the delivery of the notices required by the Off Take Agreement.

75. NSM did not deliver gold (or cash) on September 2, 2010 as required by the Off Take Agreement and Events of Default have occurred under the Trust Indenture. While, as set forth below, Red Kite has purported to have exercised its remedies to have Secured Notes in the amount of \$7,555,450 released to Red Kite on August 23, 2010, Red Kite did not, to the best of NSM’s knowledge, provide NSM with the notices required by the Off Take Agreement or obtain leave from the stay imposed when the proposal proceedings were commenced on August 18, 2010.

76. There was previous correspondence, through counsel, between Red Kite and NSM with respect to the release of Secured Notes to Red Kite, true copies of which are attached hereto and marked as **Exhibit I**, but NSM opposed the release of Secured Notes to Red Kite otherwise than in strict compliance with the Off Take Agreement.

77. While NSM does not dispute that Red Kite would, in the absence of the BIA proposal proceedings, be entitled to exercise its rights to have an amount of Secured Notes released pursuant to the Off Take Agreement, NSM is not sure that the amount of the Secured Notes that Red Kite has caused to be released is the proper amount or that the Secured Notes have been properly released to Red Kite.



78. On September 7, 2010, counsel to Red Kite wrote to NSM's counsel to advise, *inter alia*, that Red Kite was asserting that it is owed a total of US\$23,365,902 of the US\$57,773,922 that it asserts is owing to the holders of the Secured Notes. A true copy of this letter is attached hereto and marked as **Exhibit J**. Based on Schedule A to the September 7, 2010 letter, Red Kite is asserting that it acquired approximately US\$7,555,450 million of its Secured Notes on August 23, 2010.

### **G. Interest Expressed in NSM**

79. NSM has had continued discussions with a number of parties who are interested in NSM, and its assets and properties. These parties have expressed interest in acquiring surplus assets such as the Beacon Hill Mill owned by Jake, entering into joint-venture agreements to complete the development of certain of NSM's properties, equity investments in NSM and outright purchases of NSM's assets and properties.

80. Assuming that the requested extension is granted, over the next 45 days NSM intends to continue these discussions to assess the best option for NSM, Jake and their various stakeholders. NSM and Jake anticipate that they will return to the Court at the end of the 45 day period with a proposal to move the process forward to sell surplus assets, including the Beacon Hill Mill, and raise money to fund a formal proposal to be filed under the BIA or a plan of compromise or arrangement to be filed under the *Companies' Creditors Arrangement Act*.

### **II. Jake Resources Inc.**

81. Jake is incorporated under the *Company Act* (Quebec) and is a wholly-owned subsidiary of NSM.

82. Jake commenced proposal proceedings under the BIA on August 19, 2010, 2010 by filing a Notice of Intention to Make a Proposal pursuant to s. 50.4(1) of the BIA naming the Trustee as proposal trustee.

83. As required by s. 50.4(2) of the BIA, Jake filed cash flow statements and related documents on August 27, 2010.

84. True copies of the Certificate of Filing in respect of Jake and Jake's cash flow statement and related documents are attached hereto and marked as **Exhibit K**.

85. Jake owns a gold milling facility located 15 kilometres East of Val-d'Or, Quebec (the "**Beacon Hill Mill**"). The Beacon Hill Mill was purchased in 2006. The Beacon Hill Mill was acquired along with related mining properties contained on two mining concessions and one mining claim for approximately \$6 million. Jake has spent approximately \$1.5 million to refurbish the Beacon Hill Mill and it is operational.

86. The Beacon Hill Mill is surplus to NSM's current and anticipated needs and it is likely that Jake will engage in a process to locate a buyer for the Beacon Hill Mill and the related mining properties. Jake believes that the best course of action to maximize realizations from the sale of the Beacon Hill Mill is to offer the Beacon Hill Mill for sale in the course of the proposal proceedings.

87. Jake owes unsecured trade creditors approximately \$28,000.

88. Jake has guaranteed the Secured Notes and the Off Take Agreement. Jake has provided security over its assets and property to secure the guarantee of the Secured Notes.

### **III. Requested Extension**

89. NSM and Jake are requesting an extension of the time within which the companies are required to file proposals by 45 days.

90. NSM believes that maximizing the value of NSM's assets and properties for the benefit of the holders of the Secured Notes and other stakeholders is more likely to be achieved by NSM selling surplus assets, entering into joint venture agreements and/or raising equity in the context of reorganization proceedings under the BIA or the CCAA than through a bankruptcy process.

91. NSM requires the requested extension to further discuss with potential purchasers and investors to develop a strategy that will maximize the value of NSM's assets and properties. NSM will, in addition to meeting with potential purchasers and investors, develop a process to offer the Beacon Hill Mill for sale and, to the extent that there is the cash to do so, undertake the work required to prepare 43-101's for the Midway Property, the Callahan Property and the

Mackenzie Break Property with a view to increasing the value of those properties by clarifying the gold resources in the ground. NSM will also proceed with the disclaimer of unfavourable agreements including the Off Take Agreement.

92. On September 7, 2010, Red Kite, through counsel, wrote to NSM and advised that, in its capacity as a holder of Secured Notes, it will not support a proposal by NSM, and will oppose any extension of the time for filing a proposal, unless NSM commits to pay Red Kite in full on terms and conditions satisfactory to Red Kite. Red Kite further advised that other holders of the Secured Notes support Red Kite's position.

93. NSM believes that, in the context of a reorganization proceeding, it will be possible for NSM to raise sufficient funds to pay in full any amount found to be properly owing to the holders of the Secured Notes.

94. NSM intends, in any plan or proposal filed by NSM, to provide for the payment of any amounts determined to be owing to the holders of the Secured Notes in full on implementation of the proposal or plan. NSM does not intend to attempt to compromise the Secured Notes. The continuation of the stay of proceedings that prevents Computershare from exercising its remedies as a secured creditor is essential to permit NSM and Jake the opportunity to maximize the value of NSM and Jake for the benefit of all of the companies' stakeholders.

95. Since the current proceedings were commenced:

- (a) NSM's management has worked with the Trustee to prepare cash flow projections.
- (b) NSM's management reviewed the situation in Val-d'Or and, based on that review, NSM has downsized its staff and consolidated its business operation in one location.
- (c) NSM's management has reviewed the company's material agreement with a view to determining what agreement should be disclaimed, including the Off Take Agreement.

- (d) NSM's management held a preliminary meeting with a two mining companies to discuss potential opportunities. NSM has been contacted by a number of other parties in the industry, both in Canada and internationally, with interest in the opportunities presented by the current situation facing NSM.

96. On August 9, 2010, OR wrote a letter to the Trustee, a true copy of which is attached and, along with the reply, marked as **Exhibit L**, asserting, *inter alia*, that NSM has not acted in good faith and with due diligence. This position is based on the assertion by OR that NSM has not arranged a meeting with Red Kite and not responded to a Red Kite's letter of September 7, 2010. Neither of these assertions is correct:

- (a) As set forth above, on August 18, 2010, an e-mailed was sent to OR to advise that NSM would be commencing proceedings and to suggest a meeting the following week, but NSM received no substantive response to the suggestion for a meeting.
- (b) Less than 1 hour after receiving OR's letter dated September 7, 2010, the undersigned attorneys responded via e-mail to acknowledge the position taken by Red Kite and to advise that the time OR was demanding for a respond to the questions posed in the letter was unreasonable.

97. OR also asserts that there is material prejudice to Red Kite's position based on the projected cash expenditures that will be made by NSM and the fact that these expenditures will reduce the company's cash reserves. When Red Kite acquired its Secured Notes, it must have recognized that NSM would not generate any income until its properties went into production and that the company's cash – essentially the proceeds from the Secured Notes and share transactions – would be used to fund exploration and development activities, and corporate expenditures until NSM reached the point where it would commence production.

98. NSM has evaluated the situation and reduced its operations and expenses wherever possible. The expenditures that NSM is proposing to make as set out in the cash flow projection and this affidavit are aimed at preserving, and in fact increasing, the value of the company's assets and properties. OR also makes the assertion that NSM is not spending enough money to preserve its mining properties and that this is also causing prejudice to Red Kite.

99. As set forth above, NSM acknowledges Red Kite's position *vis a vis* wanting to be paid in full and is working towards that objective. NSM has no reason to believe that it will not be possible for the company to raise sufficient money to discharge the Secured Notes and Red Kite is not presenting any viable alternatives to what is being proposed by NSM.

#### **IV. Charges in Favour of Professionals and Directors**

100. NSM and Jake are, pursuant to s. 64.2 of the BIA, requesting priority charges in the aggregate amount of \$500,000 – \$250,000 each – in favour of the Trustee, the professionals retained to assist NSM, Jake and the Trustee through the reorganization process, and to protect the companies' current directors against any liabilities that may be incurred from and after the commencement of these proceeding.

#### **WHEREFORE, MAY IT PLEASE THIS HONORABLE COURT TO:**

**DECLARE** valid and sufficient the notices given for the presentation of the present Motion;

**GRANT** the Debtors/petitioners an extension until October 1, 2010, to file a proposal with their creditors;

**ORDERS** that, in addition to any existing indemnities, the Debtors/Petitioners shall indemnify each of their directors and officers (the "**Directors**") from and against the following (collectively, "**D&O Claims**"):

- a) all costs (including, without limitation, full defence costs), charges, expenses, claims, liabilities and obligations, of any nature whatsoever, which may arise on or after the date of the notices of intention to file a proposal (including, without limitation, an amount paid to settle an action or a judgment in a civil, criminal, administrative or investigative action or proceeding to which a Director may be made a party), provided that any such liability relates to such Director in that capacity, and, provided that such Director (i) acted honestly and in good faith in the best interests of the Debtors/Petitioners and (ii) in the case of a criminal or administrative action or proceeding in which such Director would be liable to a

monetary penalty, such Director had reasonable grounds for believing his or her conduct was lawful, except if such Director has actively breached any fiduciary duties or has been grossly negligent or guilty of wilful misconduct; and

- b) all costs, charges, expenses, claims, liabilities and obligations relating to the failure of the Debtors/Petitioners to make any payments or to pay amounts in respect of employee or former employee entitlements to wages, vacation pay, termination pay, severance pay, pension or other benefits, or any other amount for services performed prior to or after the date of the notices of intention and that such Directors sustain, by reason of their association with the Debtors/Petitioners as a Director, except to the extent that they have actively breached any fiduciary duties or have been grossly negligent or guilty of willful misconduct.

The foregoing shall not constitute a contract of insurance or other valid and collectible insurance, as such term may be used in any existing policy of insurance issued in favour of the Debtors/Petitioners or any of the Directors.

**DECLARES** that, as security for the obligation of the Debtors/Petitioners to indemnify the Directors of the Debtors/Petitioners with respect to D&O Claims, the Directors of the Debtors/Petitioners are hereby granted a hypothec on, mortgage of, lien on and security interest in all the assets of the Debtors/Petitioners to the extent of the aggregate amount of \$250,000 (“**D&O Charges**”), having the priority established below. Such D&O Charges shall not constitute or form a trust. Such D&O Charge, notwithstanding any language in any applicable policy of insurance to the contrary, shall only apply to the extent that the Directors of the Debtors/Petitioners do not have coverage under any directors’ and officers’ insurance, which shall not be excess insurance to the D&O Charge. In respect of the D&O Claim against any of the Directors of the Debtors/Petitioners (collectively, the “**Respondent Directors**”), if such Respondent Directors do not receive confirmation from the applicable insurer within 21 days of delivery of notice of the D&O Claim to the applicable insurer, confirming that the applicable insurer will provide coverage for and indemnify the Respondent Directors, then, without prejudice to the subrogation rights

hereinafter referred to, the Debtors/Petitioners , if such Respondent Directors do not receive confirmation from the applicable insurer within 21 days of delivery of notice of the D&O Claim to the applicable insurer, confirming that the applicable insurer will provide coverage for and indemnify the Respondent Directors, then, without prejudice to the subrogation rights hereinafter referred to, the Debtors/Petitioners shall pay the amount of the D&O Claim upon expiry. Failing such payment, the Respondent Directors may enforce the D&O Charge provided that the Respondent Directors shall reimburse the Debtors/Petitioners to the extent that they subsequently receive insurance benefits for the D&O Claim paid by the Debtors/Petitioners, and provided further that the Debtors/Petitioners shall, upon payment, be subrogated to the rights of the Respondent Directors to recover payment from the applicable insurer as if no such payment had been made.

**DECLARES** that the Trustee, the Trustee's legal counsel, the Debtors/Petitioners' legal counsel and other advisers, as security for the professional fees and disbursements incurred both before and after the filing of the notices of intention to file a proposal by the Debtors/Petitioners in respect of these proceedings, the proposal to be filed and the restructuring be entitled to the benefit of and are hereby granted a hypothec on, mortgage, of, lien on, and security interest in all the assets of the Debtors/Petitioners to the extent of the aggregate amount of \$250,000 (the "**Administration Charge**"), having the priority established below.

**DECLARES** that the priorities of the Administration Charge and the D&O Charge, as between them with respect to any asset of the Debtors/Petitioners to which they apply, shall be as follows:

- a) first, the Administration Charge;
- b) second, the D&O Charge.

**Declares** that the Administration Charges and the D&O Charges shall rank in priority to any and all other hypothecs, mortgages, liens, trusts, security, priorities, conditional sale

agreements, financial leases, charges, encumbrances or security of whatever nature or kind, affecting the assets of the Debtors/Petitioners.

**THE WHOLE** without costs, save and except in case of contestation and then, **WITH COSTS** against any contesting party, solidarily.

Montréal, September 15, 2010

A handwritten signature in cursive script, reading "Gowling Lafleur Henderson LLP", is written over a horizontal line.

**GOWLING LAFLEUR HENDERSON LLP**  
Attorneys for the Debtors/Petitioners