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ST BARBARA MINES LIMITED



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St Barbara Mines Limited purchased the former gold division of Sons of Gwalia in March 2005, for \$2.3 million cash and \$35.7 million in Environmental Performance Bonds. How does Gwalia's gold portfolio fit into St Barbara's corporate blueprint?

MD & CEO Ed Eshuys

Three key areas at Leonora, Southern Cross and South Laverton in the Eastern Goldfields of Western Australia were acquired. The assets include a large land bank of some 10,000 square kilometres, four processing plants, housing in Southern Cross, Marvel Loch and Leonora, equipment, vehicles and stores. We aim to grow through exploration success and the land holding significantly improves our prospects.

There is significant potential for extensions to existing resources, the discovery of new large gold deposits and the occurrence of nickel sulphide mineralisation at Leonora and Southern Cross. The Leonora land holding also has potential for copper-zinc-sulphide mineralisation as it completely surrounds the Jabiru tenements within which the Jaguar copper zinc deposit was discovered.

Southern Cross and the South Laverton operations are generating positive cash flow, which will assist funding of the future drilling required to re-establish reserves at the assets we acquired.

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What have you identified as the immediate priorities within your portfolio?

MD & CEO Ed Eshuys

It is important to re-establish reserves at Gwalia Deeps, Tarmoola, Yilgarn Star, Marvel Loch and Meekatharra with sufficient size of reserves to allow proper planning.

It is also intended to explore the land for nickel sulphides, particularly in the Leonora and Southern Cross areas. High ranking nickel sulphide targets have been identified in these areas and we expect to start drilling those within the next two months.

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In August 2004, Gwalia management identified a “serious deterioration” in gold reserves and resources. How can you restore asset viability without risking shareholder value?

MD & CEO Ed Eshuys

The acquisition included 8 million ounces in resources. Independent consultants checked the resource statements of the Administrator and were satisfied that the JORC standards were met. Reserves are being depleted to the extent of current scheduled production.

The strategy is to restore viability of the operations through drilling, through better understanding of the geology and gold mineralisation and particularly by extending the resources that exist at Yilgarn Star, Marvel Loch, Gwalia Deeps and Tarmoola. Cash flow from the current operations and the sale of surplus assets, including those acquired, are expected to finance most, if not all, of the drilling activity to re-establish reserves over the next twelve months.

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St Barbara forecast gold production for the June 2005 quarter at 82,000oz at an average cash cost of A\$415/oz. What are your long-term production objectives and cash costs?

MD & CEO Ed Eshuys

The June quarter production goal is on target and we expect an improvement in cash costs. Our immediate objective is to re-establish reserves at Southern Cross to allow production to continue past December 2005. A review of Hercules, which has reserves of 1.8 million tonnes at 2.2 grams for 125,000 ounces is underway, and underground drilling at Marvel Loch has been increased. Exploration has also commenced at Yilgarn Star.

Gold production at Southern Cross could continue for a year to at least June 2006, at approximately 150,000 ounces per annum should Hercules be developed. Successful drilling at Yilgarn Star, and the ongoing drilling of the high grade lodes at Marvel Loch, could result in a 3 to 5 year mine-life at approximately 150,000 ounces per annum. The objective is to establish this scenario over the next 6-12 months.

Drilling at Paddys Flat and Reedys at Meekatharra is continuing with the clear objective to re-establish reserves there. Should exploration success continue, then re-commencement of gold production at the Bluebird plant by September 2006, at the rate of 145,000 ounces per annum, is possible. This would be approximately 3 months later than initially targeted but has been delayed due to the activity associated with the acquisition of the Gwalia assets.

If reserves are re-established the combination of Southern Cross and Meekatharra could result in gold production at the rate of 300,000 ounces per annum, approximately 15 months from now.

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What about longer-term?

MD & CEO Ed Eshuys

One step further, should drilling at Tarmoola and Gwalia Deeps be successful then a production start up target of September quarter 2007, would be targeted. Conceptual studies suggest expanding the Tarmoola plant from its present 3.8 million tonne capacity to 5 million tonnes per annum. Exploration success is required to support production from Gwalia underground and Tarmoola, with both ores being processed at Tarmoola at an annual gold production rate of some 250,000 ounces. A September quarter 2007 start date is possible. The combination of Southern Cross, Meekatharra and Tarmoola could provide 550,000 ounces per annum, which is what the Gwalia assets were producing 1 year ago.

The medium-term objective, which again is dependent on exploration success, is 550,000 ounces per annum within a 2 to 2 ½ year time frame with cash costs of A\$380 to A\$400 an ounce.

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Your annual objective for reserves replacement is 110% of current reserves of 500,000 ounces. With a resource base of 8 million ounces, how much will you need to spend to achieve this outcome? What are your funding options?

MD & CEO Ed Eshuys

The exploration budget for 2005/06 is still to be finalised and approved but is likely to be approximately \$10 million. The initial objective is to re-establish reserves totalling 1 to 1.5 million ounces representing an initial mine life of 3 to 5 years.

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Given your optimism, why was St Barbara the only bidder for the Gwalia assets?

MD & CEO Ed Eshuys

St Barbara was not the only bidder. There were many bidders, especially for components of the business. The Administrator was keen to sell the gold division in one parcel, with as few conditions as possible.

Careful due diligence was conducted with a team of mining engineers, metallurgists, geologists and consultants over a five month period and a clear vision was developed as to what could be achieved, in both the short term with reference to cash flow from operations and the longer term exploration potential. This knowledge enabled us to meet the Administrator's requirements of taking on the Environmental Performance Bonds and retaining operational staff, which may have been a hurdle for others.

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Could you outline the nature of the Environmental Performance Bonds?

MD & CEO Ed Eshuys

Environmental Performance Bonds at time of settlement totalled \$30 million, with the Government proposing an additional \$5.7 million. An agreement has been reached to allow a detailed review of those additional bonds during the next 12 months, prior to them being imposed.

The analysis of the bonds during due diligence gave confidence that the bond requirements could be lowered through mine site rehabilitation and other mechanisms. The aim is to reduce the bonds significantly by March 2006.

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Previously, Sons of Gwalia had forecast capital expenditure of more than A\$200 million for development of Gwalia Deeps. What do you see as the way forward for Gwalia Deeps? What are your capex expectations and funding options?

MD & CEO Ed Eshuys

Gwalia Deeps has an inferred resource of 6.6 million tonnes at 8.4 g/t for a contained 1.8 million ounces. During due diligence, a further 350,000 possible ounces of gold within the mineralised envelope was identified, so Gwalia Deeps may contain as much as 2 million ounces.

Sons of Gwalia's original capital cost estimate of \$200 million was based on the sinking of a blind shaft, underground development to access Gwalia Deeps and underground drilling to establish reserves.

The St Barbara objective is to establish the reserves at Gwalia Deeps by drilling from the surface using existing deep holes. Once reserves are established the funding of the development of the mine can be through debt or equity, remembering that the Tarmoola processing plant and associated infrastructure is already in place, 35 kilometres to the north.

Initial access to Gwalia Deeps could be achieved by extending the decline from its current depth of 375 metres. Decline development rather than a shaft would also allow access to the Intermediate Resources proceeds from which could partially offset the cost of the decline. Detailed costings of the decline will be determined during the feasibility studies, however it is expected that the capital costs would be considerably less initially due to the strategy being adopted.

Drilling from the surface is to start shortly. It is expected that within 6 months a clear view of the reserves will emerge. The entire drilling program is to infill the existing mineralisation. The use of the existing deep holes to drill daughter holes will reduce the cost of drilling out the resource.

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In February 2004, the North Pit wall at Tarmoola failed. Has this affected current resource status? What is proposed to exploit the broader Tarmoola resource?

MD & CEO Ed Eshuys

There is a substantial reported resource at Tarmoola of some 50 million tonnes at 1.2 g/t for 2.2 million ounces and the due diligence which was conducted supports that resource estimate. The focus is on the potential extensions to the west, southwest and south of the Tarmoola pit, where gold mineralisation is contained within granite. By extending the gold mineralisation in granite to the west the pit can migrate to the west so the slip that has occurred should not impact on future plans.

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How will St Barbara generate positive returns from Gwalia's former gold assets when the last reported group total cost (Y/E June 30 2004) was A\$551/oz with current spot prices around A\$560/oz?

MD & CEO Ed Eshuys

St Barbara's current cost structure benefits from previous capital expenditure by Sons of Gwalia. Future viability, and the ability to have reasonable earnings, will be dependent on grade and costs. In that regard, high grade lodes are being targeted at both Marvel Loch, where the average underground grade is 6 g/t and, likewise, Yilgarn Star which had an underground production grade of some 6 g/t.

At Gwalia Deeps, the current resource grade is 8.4 g/t, but historic underground production grades were 11.4 g/t. The viability of Tarmoola is dependent on the relationship between strip-ratio and grade and the cost to mine. Ultimately increasing the scale of Tarmoola to 10 to 12 million tonnes per annum may be the optimum operational level.

Therefore, St Barbara will focus on determining how high grade underground production from Gwalia, Marvel Loch and Yilgarn Star and large scale operations at Tarmoola can generate positive returns.

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Prior to purchasing the Gwalia assets, St Barbara had been primarily an exploration company since Bluebird was placed on care and maintenance in May 2004. With an estimated A\$5m exploration budget to the end of the current calendar year, how do you intend to fund ongoing exploration commitments? What are the primary targets?

MD & CEO Ed Eshuys

Exploration at Meekatharra is continuing, funded by cash flow from the Southern Cross and South Laverton operations and the sale of surplus assets. It's expected

we'll spend approximately \$1.5 million on exploration and, potentially, feasibility studies at Meekatharra in the year ahead. The focus will be at Paddys Flat and Reedys to establish extensions to the existing resources, and re-establishment of reserves.

The advantage of having the Bluebird plant, capable of processing at least 2 million tonnes a year, and all associated infrastructure is that the capital cost of re-developing production at Paddys Flat and Reedys will be limited to the capital cost associated with underground development of Vivians-Consuls and Prohibition at Paddys Flat, limited refurbishment of the plant and capital required to pre-strip open pits or develop underground production at Reedys.

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You recently completed a share buyback and recapitalisation. What has been the impact?

MD & CEO Ed Eshuys

The share buyback was tied in with St Barbara's divestment of its then 55% interest in NuStar. Effectively, 212 million NuStar shares (22%) were swapped for 170 million St Barbara shares which were then cancelled. As a result, capital was reduced and the share register was cleaned up. The early partial divestment of NuStar and the buyback helped to put St Barbara back on its feet.

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Thank you Ed.

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