

1 December 2014

TO THE CREDITORS

**RE: MORNING STAR GOLD N.L.
(ADMINISTRATORS APPOINTED)
A.B.N.: 34 003 312 721
("THE COMPANY")**

Level 4, 55 Hunter St
Sydney NSW 2000

GPO Box 4256
Sydney NSW 2001

Tel 02 9236 8333
Fax 02 9236 8334

ABN 57 045 615 571

NOTICE OF SECOND MEETING OF CREDITORS

APPOINTMENT PARTICULARS

We, Sule Arnautovic and Glenn Anthony Crisp, advise that we were appointed as Joint & Several Administrators of the Company on 9 November 2014.

Our appointment as Administrators was confirmed at the meeting of creditors held on 18 November 2014.

MEETING OF CREDITORS

Formal notice is hereby given to creditors that the second meeting of the creditors of the Company will be held pursuant to Section 439A of the *Corporations Act 2001* ("the Act"). The details of the meeting are as follows: -

MEETING DATE:	TUESDAY, 9 DECEMBER 2014
MEETING TIME:	10:00 AM
MEETING LOCATIONS:	THE SECOND MEETING OF THE CREDITORS OF THE COMPANY IS TO BE HELD, PURSUANT TO SECTION 439A OF THE ACT, AT THE OFFICES OF JIRSCH SUTHERLAND, LEVEL 4, 55 HUNTER STREET, SYDNEY NSW 2000, ON TUESDAY, 9 DECEMBER 2014 AT 10:00AM (AEDT).
	WE WILL ALSO HAVE AN ALTERNATIVE MEETING VENUE AT THE OFFICES OF JIRSCH SUTHERLAND, LEVEL 12, 460 LONSDALE STREET, MELBOURNE VIC 3000. THIS MEETING WILL BE CONNECTED THROUGH TO OUR SYDNEY OFFICE VIA TELEPHONE CONFERENCE, FOR THOSE CREDITORS IN VICTORIA WANTING TO ATTEND THE MEETING.

The purpose of the second meeting of creditors is to explain to creditors the financial position of the Company and its future prospects. Other matters to be discussed at the meeting are disclosed in the attached formal notice of meeting.

ATTACHMENTS TO REPORT

We advise that this report to creditors should be read in conjunction with the following documents, which are attached to the report for your reference: -

1. Form 529 - Formal notice of meeting;
2. Form 532 - Appointment of Proxy form;
3. Form 535 - Formal Proof of Debt/Claim form for all secured and unsecured creditors;
4. The Joint & Several Administrators' Report to Creditors, pursuant to Section 439A of the Act, dated 1 December 2014
5. Remuneration Report - Advice to Creditors dated 1 December 2014.

JIRSCH SUTHERLAND

Jirsch Sutherland is a specialist Insolvency, Turnaround Management and Forensic Accounting services firm with offices located in New South Wales, Victoria, Queensland and Western Australia.

For a detailed firm profile please visit: www.jirschsutherland.com.au.

PROXY FORM INSTRUCTIONS (FORM 532)

We advise that an individual creditor such as a sole trader or employee creditor may vote at the scheduled meeting of creditors either in person or in their absence by appointing a proxy.

Corporations/Companies may only vote by utilising a valid appointment of proxy or have a duly authorised Company representative attend the forthcoming meeting and provide written evidence of their authority to vote on behalf of their Corporation/Company pursuant to Section 250D of the Act.

Proxies used at the forthcoming meeting of creditors will not be valid for future meetings of creditors. Generally, unless otherwise specified, proxies used at meetings of creditors will only be valid for future meetings of creditors in the case that the future meetings of creditors are being held as a result of an adjourned meeting of creditors.

Creditors are formally advised that pursuant to *Corporations Regulation 5.6.36* all Form 532 - Appointment of Proxy (including any appointment of authorised representative documentation) should be returned to our office by no later than 5:00pm (AEST) on Monday, 8 December 2014.

FORMAL PROOF OF DEBT/CLAIM FORM INSTRUCTIONS (FORM 535)

Formal proofs of debt or claim forms lodged by creditors at the forthcoming meeting of creditors will be valid for all future creditors' meetings, that is, creditors need not lodge a further proof of debt or claim form at future creditors' meetings unless their claim has been amended.

Creditors should note that proofs of debt lodged at meetings of creditors are only admitted for voting purposes. Any dividend that is declared will only be paid following a separate formal adjudication of the relevant proofs of debt or claim forms lodged by creditors.

TELECONFERENCE FACILITIES

We advise that arrangements can be made for creditors outside of NSW to attend this meeting via teleconference facilities which are available to creditors at this meeting.

Any creditor wishing to attend the meeting via teleconference must contact our office by no later than 5:00pm (AEST) on Monday, on 8 December 2014.

In addition, creditors intending to use the teleconference facilities will be required to provide the following:

- (a) The name of the creditor (and proxy if applicable);
- (b) The creditor's Postal address
- (c) Email address on which the creditor can be contacted
- (d) Telephone number on which the creditor can be contacted
- (e) Facsimile number (if applicable)

Finally, Creditors should note that any costs incurred in attending the meeting via teleconference are their own to bear and these costs are not able to be reimbursed from the assets of the Company.

DISCLAIMER

This notice and report has been prepared from our investigations to date, which have relied upon the available books and records of the Company, together with the advice and information provided by officers of the Company. Due to the time constraints imposed by the Act, this information has generally been accepted without conducting an independent audit or obtaining independent verification of its accuracy.

Should you require any further information in this regard, please contact Ms Kathryn Gesilva or Ms Amanda Arnautovic of our office on (02) 9236 8333.

Yours faithfully,

MORNING STAR GOLD N.L.

SULE ARNAUTOVIC
Joint & Several Administrator

1 December 2014

FORM 529

Corporations Act 2001
Regulation 5.6.12

**NOTICE OF APPOINTMENT OF JOINT & SEVERAL ADMINISTRATORS
AND FIRST MEETING OF CREDITORS**

**RE: MORNING STAR GOLD N.L.
(ADMINISTRATORS APPOINTED)
A.B.N.: 34 003 312 721
("THE COMPANY")**

Formal notice is hereby given to creditors that the second meeting of the creditors of the Company will be held pursuant to Section 439A of the *Corporations Act 2001* ("the Act"). The details of the meeting are as follows: -

MEETING DATE:	TUESDAY, 9 DECEMBER 2014
MEETING TIME:	10:00 AM
MEETING LOCATION:	<p>THE SECOND MEETING OF THE CREDITORS OF THE COMPANY IS TO BE HELD, PURSUANT TO SECTION 439A OF THE ACT, AT THE OFFICES OF JIRSCH SUTHERLAND, LEVEL 4, 55 HUNTER STREET, SYDNEY NSW 2000, ON TUESDAY, 9 DECEMBER 2014 AT 10:00AM (AEDT).</p> <p>WE WILL ALSO HAVE AN ALTERNATIVE MEETING VENUE AT THE OFFICES OF JIRSCH SUTHERLAND, LEVEL 12, 460 LONSDALE STREET, MELBOURNE VIC 3000. THIS MEETING WILL BE CONNECTED THROUGH TO OUR SYDNEY OFFICE VIA TELEPHONE CONFERENCE, FOR THOSE CREDITORS IN VICTORIA WANTING TO ATTEND THE MEETING.</p>
PROOFS AND PROXIES TO BE SUBMITTED BY	Creditors wishing to attend the meeting are advised that proofs and proxies should be submitted to the Joint & Several Administrators by 5:00 PM (AEST) on Monday, on 8 December 2014.
TELECONFERENCE FACILITIES	<p>We advise that Teleconference facilities will be available at this meeting.</p> <p>Any creditor wishing to attend the meeting via teleconference must provide the following information in writing not later than 5.00 pm (AEST) on Monday, 8 December 2014:</p> <ul style="list-style-type: none">(a) The name of the creditor (and proxy if applicable);(b) The creditor's Postal address(d) The creditor's Email address(e) The creditor's Telephone number(f) The creditor's Facsimile number (if applicable) <p>Creditors should note that any costs incurred in attending the meeting via teleconference are their own to bear and these costs are not able to be reimbursed from the assets of the Company.</p>

The purpose of the meeting is: -

1. For creditors to resolve that:
 - (a) The Administration of the Company should end; or
 - (b) That the Company be wound up; or
 - (c) That the Company execute a Deed of Company Arrangement.
2. To consider the approval of the Joint & Several Administrators' remuneration; In the event the Company is wound up:
3. To consider the nomination of a person(s) to be Liquidator(s);
4. To consider approval of the Liquidator(s) remuneration;
5. To consider the appointment and constitution of a committee of inspection;
6. Pursuant to Section 477(2A) of the Act, to authorise the Liquidator(s) to be able to compromise debts in excess \$100,000;
7. Pursuant to Section 477(2B) of the Act, to authorise the Administrator(s) or Liquidator(s) to enter into litigation funding facilities to pursue any legal actions including voidable and insolvent transactions arising from the liquidation;
8. Pursuant to Section 542 of the Act, to authorise the Liquidator(s) to be able to destroy the books and records of the Company within a period of six (6) months after the dissolution of the Company, subject to obtaining prior approval from the Australian Securities & Investments Commission ("ASIC"); and
9. Any other business.

Should you have any questions in relation to this matter, or require any further information, please contact Ms Kathryn Gesilva or Ms Amanda Arnautovic of our office on (02) 9236 8333.

Yours faithfully,

MORNING STAR GOLD N.L.

SULE ARNAUTOVIC
Joint & Several Administrator

**FORM 532
APPOINTMENT OF PROXY**

*Corporations Act 2001
Regulation 5.6.29*

**RE: MORNING STAR GOLD N.L.
(ADMINISTRATORS APPOINTED)
A.B.N.: 34 003 312 721
("THE COMPANY")**

A. Creditor's Name and Contact Details

Creditor Name: _____

Contact Name: _____

Telephone No: _____

Address: _____

E-mail: _____

B. Appointment of Proxy

I/We, a creditor of the Company hereby appoint _____ or in his/her absence _____ or failing that, the Chairperson, as my/our proxy to vote at the second meeting of the creditors of the Company is to be held, pursuant to section 439A of the Act, at the offices of Jirsch Sutherland, Level 4, 55 Hunter Street, Sydney NSW 2000, on Tuesday, 9 December 2014 at 10:00AM (AEDT). We will also have an alternative meeting venue at the offices of Jirsch Sutherland, Level 12, 460 Lonsdale Street, Melbourne VIC 3000. This meeting will be connected though to our Sydney office via telephone conference, for those creditors in Victoria wanting to attend the meeting.

C. Voting by Proxy (please tick)

- This proxy is to be used as a general proxy to vote on all matters arising at the relevant meeting,
OR
 This proxy is to be used as a special proxy to vote on the following matters as specifically indicated below:

Resolution	For	Against	Abstain
(1) That the outstanding remuneration of the Joint & Several Administrators for the period 9 November 2014 to 1 December 2014 be approved in the sum of \$130,000 plus GST, such amount calculated on a time cost basis using hourly rates adopted by Jirsch Sutherland, and that such remuneration be drawn at the discretion of the Joint & Several Administrators.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(2) That the remuneration of the Joint & Several Administrators for the period post 1 December 2014 to 9 December 2014 be approved to a limit of \$20,000 plus GST, beyond which further approval must be sought from creditors or the Court, such amount to be calculated on a time cost basis using hourly rates adopted by Jirsch Sutherland, and that such remuneration be paid as and when incurred.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(3) a) That the Company be wound up/placed into liquidation; OR	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b) That the administration of the Company should end and control of the Company revert back to the Directors; OR	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c) That the Company execute a Deed of Company Arrangement; OR.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d) That the meeting be adjourned pursuant to Section 439B(2) of the <i>Corporations Act 2001</i> for upto forty-five (45) business days, with the meeting to be reconvened earlier at the discretion of the Joint & Several Administrators.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
In the event that the Company is wound up/placed into liquidation:			
(4) Sule Arnautovic and Glenn Anthony Crisp of Jirsch Sutherland be removed as Liquidators of the Company and that _____ of _____ be appointed as replacement Liquidator of the Company	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

(5)	That the remuneration of the Liquidators for the period post 9 December 2014 be approved to a limit of \$200,000 plus GST, beyond which further approval must be sought from creditors or the Court, such amount to be calculated on a time cost basis using the hourly rates adopted by Jirsch Sutherland, and that such remuneration be drawn as and when incurred.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(6)	That a committee of inspection be appointed consisting of _____ (insert number) members being: _____ _____ _____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(7)	That the Liquidator(s) is/are authorised, pursuant to Section 477(2A) of the <i>Corporations Act 2001</i> , to compromise all debts owed to the Company in excess of \$100,000.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(8)	That the Liquidator(s) is/are authorised, pursuant to Section 477(2B) of the <i>Corporations Act 2001</i> , to enter into any litigation funding facilities to pursue any legal actions including voidable and insolvent transaction actions that arise from the liquidation.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(9)	That Subject to obtaining the approval from the Australian Securities & Investments Commission ("ASIC"), the books and records of the Company may be destroyed by the Liquidator(s) six (6) months after the dissolution/deregistration of the Company	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Note: The Joint & Several Administrators or relevant delegate will act as Chairperson of the meeting.

Creditors wishing to attend the meeting are advised that proofs and proxies should be submitted to the Joint & Several Administrators by 5:00 PM (local time) on 8 December 2014.

D. Execution (in accordance with Sections 127 and 250D of the *Corporations Act 2001*)

Signature of individual creditor or person authorised by corporate resolution to represent corporation

The Common seal (if applicable) was affixed hereto in the presence of:

Insert Signature Above

Print Name Above

Dated this _____ day of _____ 20__

Capacity: Director/Secretary/In person/Other

CERTIFICATE OF WITNESS - COMPLETE BELOW ONLY IF CREDITOR IS BLIND OR INCAPABLE OF WRITING

This certificate is to be completed only where the person giving the proxy is blind or incapable of writing. The person nominated as proxy must not witness the signature of the creditor.

I (Insert Name), _____

Of (Insert Name) _____

certify that the above instrument appointing a proxy was completed by me in the presence of and at the request of the person appointing the proxy and read to him before he attached his signature or mark to the instrument.

Witness Signature: _____

Witness Number: _____

FORM 535

*Corporations Act 2001
Regulation 5.6.49(2)*

**RE: MORNING STAR GOLD N.L.
(ADMINISTRATORS APPOINTED)
A.B.N.: 34 003 312 721
("THE COMPANY")**

FORMAL PROOF OF DEBT/CLAIM FORM AS AT 9 NOVEMBER 2014

CREDITOR'S NAME	
CONTACT PERSON	
CONTACT DETAILS (Address, Phone, Email)	

DATE OF CLAIM	DESCRIPTION/NATURE OF CLAIM (Services, goods, loans, employee claims etc.)	NET DEBT Excl. GST (\$/c)	GST (\$/c)	TOTAL Incl. GST (\$/c)
VALUE OF CREDITOR CLAIMS				
LESS: VALUE OF ASSETS SUBJECT TO SPECIFIC SECURITY				
TOTAL AMOUNT OWED TO CREDITOR (INCLUDE CENTS)				

SUBSTANTIVE EVIDENCE ATTACHED (YES/NO): _____
(Invoices, statements, agreements etc.)

This form is to be executed (below) by the creditor or a person/representative authorised by the creditor.

Signature: _____ **Dated:** _____

Occupation: _____ **Mobile:** _____

1 December 2014

**REPORT BY JOINT AND SEVERAL ADMINISTRATORS
PURSUANT TO SECTION 439A (4)
CORPORATIONS ACT 2001**

**RE: MORNING STAR GOLD N.L.
(ADMINISTRATORS APPOINTED)
ABN: 34 003 312 721
(THE "COMPANY")**

Appointees: Sule Arnautovic
Glenn Anthony Crisp

Appointment Type: Voluntary Administration

Date of Appointment: 9 November 2014

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2.	Introduction
3.	Company's Details
4.	Sale of Business
5.	Historical Financial Information
6.	Assets as at Date of Appointment/RATA
7.	Liabilities as at Date of Appointment/RATA
8.	Administrators' Investigations
9.	Deed of Company Arrangement ("DOCA")
10.	Dividend Outlook and Options Available to Creditors
11.	Remuneration
12.	Finalisation
13.	Conclusion

This report has the following annexures:

ANNEXURE	TITLE
A	Draft Financial Statements for the Company as at 30 June 2012
B.	Company's Financial Statement for the period ending 30 June 2011
C.	List of known creditors
D.	Receipts and Payments
E.	Formal Statement of Administrators' Opinion
F.	Remuneration Report

1. EXECUTIVE SUMMARY

This report to creditors has been prepared, pursuant to Section 439A(4) of the *Corporations Act 2001* (the "Act"), exclusively for creditors of Morning Star Gold N.L. (Administrators Appointed) (referred to herein as the "Company").

1.1 Appointment Particulars

We, Sule Arnautovic and Glenn Anthony Crisp of Jirsch Sutherland, were appointed as the Joint and Several Administrators ("the Administrators") of the Company on 9 November 2014 by a resolution of the board of the Company ("the Board") in accordance with Section 436A of the Act.

1.2 Second Meeting of Creditors

The second meeting of the creditors of the Company is to be held, pursuant to section 439A of the Act, at the offices of Jirsch Sutherland, Level 4, 55 Hunter Street, Sydney NSW 2000, on Tuesday, 9 December 2014 at 10:00AM (AEDT).

We will also have an alternative meeting venue at the offices of Jirsch Sutherland, Level 12, 460 Lonsdale Street, Melbourne VIC 3000. This meeting will be connected though to our Sydney office via telephone conference, for those creditors in Victoria wanting to attend the meeting.

At the forthcoming second meeting, the creditors of the Company will have the opportunity to vote to decide the future of the Company.

1.3 Strategy of Administration

The stated purposes of the provisions of the Act regarding voluntary administrations are for the affairs of a company to be administered in such a way that:

- a) Maximises the chances of a company, or as much as possible of its business continuing in the future; or
- b) Results in a better return for creditors than would be achieved from the immediate winding up of a company.

In the available time, we have undertaken preliminary investigations into the Company's business, property, affairs and financial circumstances which we detail in this Report. These investigations form the basis of our recommendation to creditors about the Company's future.

Although the Company is not currently trading, we are attempting to secure a sale of the Company's business and assets. We are undertaking an extensive sale campaign in this regard.

Given the volume of the information in respect to the Company's business activities, an online Data Room has been established to provide interested parties with timely access to key documentation to assist with their due diligence process.

Initial expressions of interest were required to be submitted by 4pm AEDT on 1 December 2014. Short listed purchasers have been invited to make a final and best offer to purchase the Company's business and/or its assets by no later than 4pm AEDT on 18 December 2014. Creditors should be aware that this sale timetable is subject to change if we feel there is some merit in extending same.

We have received initial contact from twenty six (26) interested parties in relation to the sale of the Company's business and/or assets. We note that the sale of business/assets program has not yet been finalised and accordingly, we cannot disclose sensitive information in this Report without prejudicing any sale in this regard. Therefore, some key information was been withheld in this Report due to commercial sensitivity.

Pursuant to section 438A of the Act, we have reviewed the available books and records of the Company and have commenced preliminary investigations into the Company's business, property, affairs and financial circumstances. Our preliminary investigations have encompassed the recovery of assets, and the identifying of any potential recoveries that can be made from insolvent trading and other voidable transactions, which may be recoverable by a liquidator(s) under Part 5.7B of the Act.

1.4 Investigations

Since the commencement of our appointment, we have undertaken investigations into the affairs of the Company. These have been undertaken in order to formulate an opinion regarding the future of the Company and to consider what is in the best interest of creditors. Whilst we have set out our conclusions in this report arising from the investigations to date, we note that a Liquidator(s) would have more time to undertake more substantive investigations.

As voluntary administrations face strict time constraints, we have noted some of the limitations with respect of the investigations undertaken to date in section 8 of this report.

Details of our initial investigations to date are set out in section 8 of this report.

1.5 Options Available to Creditors and Administrators' Opinion

Pursuant to Section 439A(4)(b) of the Act, we are required to provide creditors with a statement setting out our opinion on whether it is in the creditors' interest for:

- a) The Company to execute a Deed of Company Arrangement ("DOCA"); or
- b) The Company to be wound up; or
- c) The administration of the Company to end.

We note that we have not yet finalized the sale of business/assets of the Company. So that we may achieve an optimal outcome for creditors in this regard, at the upcoming meeting of creditors we will seek the consent of the creditors to adjourn the meeting for up to a maximum of 45 business days (with discretion in our favour to convene the adjourned second meeting earlier), so as not to jeopardize the sale of business/assets if the Company is placed into Liquidation at the forthcoming meeting.

Our recommendation to creditors at this time is to place the Company into liquidation, however, we believe it is in creditors' interests that this decision be deferred to allow the sale of the Company's business/assets to be better explored and hopefully concluded.

The reasons for our recommendation are outlined in Section 10 and **Annexure "E"** of this Report.

If new and further material information becomes available after the issue of this report, we shall advise creditors of same at the forthcoming second meeting of creditors.

2. INTRODUCTION

2.1 Introduction and Reasons for Appointment

We were appointed as Administrators of the Company on 9 November 2014 by resolution of the Board in accordance with Section 436A of the Act.

Our appointment was the result of the Company experiencing ongoing cash-flow difficulties which culminated upon the demand for repayment of their loan in full by one of the Company's major creditors, Chillee Limited ("Chillee"), on 7 November 2014. Chillee had historically provided working capital injections to subsidise the Company's trading and other cash flow requirements. In June 2012, however, Chillee did not fully release envisaged funding in the sum of approximately \$10 million which consequently caused the Company to cease trading. As the Company was not trading, it did not have sufficient funds to repay the existing loans to Chillee.

Pursuant to Section 435A of the Act, the objective of the appointment of administrators to a company is to maximise the chances of the Company, or as much of its business as may be possible, continuing in existence, or if not possible, to seek a better return to creditors than would result from an immediate winding up of the Company.

Creditors should note that creditors' claims and legal actions are subject to a statutory moratorium during the administration period and the administrators are required to provide creditors with information and recommendations to assist creditors to decide upon the Company's future.

2.2 Statement Of Independence And Other Disclosures

2.2.1 Jirsch Sutherland

Jirsch Sutherland is a specialist Insolvency, Turnaround Management and Forensic Accounting services firm with offices located in New South Wales at Sydney, Narellan, Newcastle and Gosford; in Queensland at Brisbane; in Victoria at Geelong and Melbourne; and in Western Australia at Perth.

For a detailed firm profile, please visit www.jirschsutherland.com.au

2.2.2 Declarations of independence, relevant relationships, prior engagements and indemnities

Our Declaration of Independence, Relevant Relationships, Prior Engagements and Indemnities ("DIRRI"), dated 10 November 2014, was previously sent to creditors.

We note that an updated DIRRI dated 18 November 2014 was tabled at the first meeting of creditors held on that date.

Copies of the aforementioned DIRRIs can be obtained from our office upon request.

We have no other matters that require disclosure beyond what is noted in the aforementioned DIRRIs.

2.2.3 Disclaimer

This report has been prepared from our investigations to date, which have relied upon, but were not limited to, the available books and records of the Company and information provided by the Company's Directors. Due to the time constraints imposed by the Act, this

information has generally been accepted without conducting an audit or obtaining independent verification of its accuracy.

In the event the Company is wound up, further investigations in relation to matters including the conduct of the Directors, insolvent trading and antecedent transactions may (or may not) be warranted.

2.3 First Meeting of Creditors

The first meeting of creditors of the Company was held on 18 November 2014. At the meeting, creditors resolved to appoint a creditors' committee consisting of the following members:

- Chillee Limited;
- Yarandi Investments Pty Ltd;
- Edrill Pty Ltd; and
- Mr Nicholas Garling ("Mr Garling").

Creditors should note that the creditors' committee members have been sent an update as to the sale of business process, however no committee meetings have held in relation to the sale of business/assets as offers in this regard are only expected by 18 December 2014.

Additionally, at the first meeting of creditors, creditors did not resolve to appoint an alternative administrator(s).

3. COMPANY'S DETAILS

3.1 Company's Background

The Company was registered on 18 June 1987. The Company is a resources company with gold mining & exploration targets. The Company is a gold mine explorer, mine developer, prospective producer with granted mining licences in a Goldfield in Victoria. The relevant mines and exploration sites include the famous Morning Star Goldmine that was Australia's biggest production mine in the 1940's for WMC Ltd recording gold production of 883,000 ounces at 25 grams per tonne.

The Company is a publicly listed company. Its Australian Securities Exchange (ASX) code is MCO. Due to the appointment of the Administrators, the ASX has initially suspended the trading of the Company's stock for 60 days, expiring on 4 February 2015.

The Company operated from four mine sites located at Woods Point (main site), Matlock, Gaffneys Creek and Lyrebird Creek in Victoria.

The Woods Point – Walhalla gold field sits within the Lachlan Fold Belt 120kms east of Melbourne and has recorded 6-7 Million ounces (150-200 tonnes) gold production at high average grades of up to 40 grams per tonne from three (3) deep mines and a range of shallow lodes. Gold in this area is typically hosted in quartz reefs within mafic/gabbro dykes.

The Morning Star Goldmine with a Joint Ore Reserves Committee ("JORC") Resource (2004) of 910,000ozs Au is located at Woods Point. The underground JORC (2004) Resource is 2MT at 11.2g/t Au for 726Kozs Au. The mine has workings to 840 metres vertical depth and is currently re-accessed and developed for production and exploration to 10 Levels at a depth of 310 metres.

There is a scalable commissioned gravity processing plant at the Morning Star site and significant underground access also at the Rose of Denmark Mine in close proximity. Two production sources have been readied with other exciting exploration prospects nearby. Most of the pre-production Capex has been spent already.

We have been advised that the mine consists of the following:

1. Gravity Processing Plant
2. Tailings Plant
3. Hi-speed winder/winch
4. New man-cage with sophisticated safety systems including 'slack-rope' system
5. New communications systems from surface to 310m underground
6. New water treatment plant
7. New geologists' offices and core farm/ assessment camp
8. Refurbished/re-pinned the each level of the mineshaft from surface to 310 metres depth (10 Levels)
9. Power upgrade to 1,000 volts underground (from 415v)
10. Surface power upgrade including enhanced transformer
11. Refurbished and full engineering check on Morning Star head-frame
12. Chemical bonding area
13. Built offices accommodation and miners camp at 6 Bridge Street Woods Point (on freehold land)
14. Tippler pit (this is an area where ore is dumped once brought up the shaft)
15. Environmental controls of the mine site

We note, however, the Company has not actively traded (produced gold) since 2012.

For further information in relation to the Company, please refer to the Company's website www.msgold.com.au

3.2 Premises and Trading Locations

The Company operated from four mine sites located at Woods Point (main site), Matlock, Gaffneys Creek and Lyrebird Creek in Victoria.

The Company's principal place of business was at 6 Bridge Street, Woods Point VIC.

We were advised that, prior to our appointment as Administrators, the Company ceased to operate its business in mid-2012. However, the Company still occupies the above mine site.

3.3 Management and Staff

We are advised that, prior to our appointment, the Company's operations were primarily managed by its Board. However, Mr Garling was responsible for day to day to day operations of the Company.

As at the date of our appointment, the Company was not employing any staff (besides Mr Garling) as it had ceased trading. There was however one subcontractor, being Mr Reece Collins ("Mr Collins"), who looks after the mine sites and the mine assets of the Company.

As Administrators, we have engaged the services of Mr Collins for the same purpose in the Administration period. Mr Collins has extensive operational knowledge of the Company's mine site and was critical in the preservation of the Company's assets, which is essential to securing any sale of the business/assets.

3.4 Statutory Details

We have obtained a search extract for the Company from records held by the Australian Securities and Investments Commission (ASIC). The results of this search are summarised below for your information.

3.4.1 Registered Office

The ASIC Search revealed that the Company's registered office is at Unit 303, 7 Jeffcott Street, West Melbourne VIC 3003.

However, Mr Garling advised that the above address was previously leased and the Company subsequently vacated the above premises.

3.4.2 Company Officers in the 24 months preceding our appointment

NAME	OFFICE HELD	DATE START	DATE END
Nicholas Garling	Director	20 March 2007	N/A
Noel Robert Laidlaw	Director	1 July 2011	N/A
Peter Gilbert Jackson	Director	10 March 2008	N/A
Zhaoqin ZENG	Director	1 February 2011	N/A
Alexei Motlokhov	Former Director	1 February 2011	7 November 2014

3.4.3 Shareholders

NAME	CLASS	NUMBER OF SHARES ISSUED	PAID ON SHARES ISSUED
Various	ORD	284,318,462	\$32,256,152
Various	PPO	500,000	\$5,000

The Company is publically listed on the ASX. The exact details of the shareholdings of the various shareholders in this regard has been omitted from this Report.

3.4.4 Securities

Our investigations uncovered various securities registered against the Company with the Australian Government Personal Property Securities Register ("PPSR") as at the date of our appointment as Administrators:-

SECURED PARTY	Registration Number	Registration Date	Details
Bluescope Distribution Pty Ltd	201202160098334	16/02/2012	Other Goods
Capital Finance Australia Ltd	201206280002675	28/06/2012	Other Goods
Chillee Limited	201311290019107	29/11/2013	All Pap No Except
Jennmar Australia Pty Ltd	201208010044976	1/08/2012	Other Goods
Metal Manufacturers Limited	201402170017255	17/02/2014	Other Goods
Sandvik Mining & Construction Aust Pty Ltd	201208230018829	23/08/2012	Other Goods
	201208230019247	23/08/2012	Other Goods

We have written to the above security interest holders and note that we have not received a response from Jennmar Australia Pty Ltd and Sandvik Mining & Construction Aust Pty

Ltd. Mr Garling has however advised that there is nothing owed in respect of these security interests.

We advise that Bluescope Distribution Pty Ltd has confirmed that they do not have any interest in the assets of the Company under the above mentioned PPSR Registration. We will look to have this security interest discharged shortly. Further, Metal Manufacturers Limited advised that PPSR Registration number 201402170017255 was previously discharged; hence they have no claim against the Company.

Chillee Limited and Capital Finance Australia Ltd have both lodged a proof of debt in the administration. Please refer to section 7.1 of this report for further information in this regard.

3.4.5 Winding-Up Application(s)

As at the date of our appointment the Company was not subject to any current winding up proceedings.

3.5 Summary of Report as to Affairs

We have not been provided with a Report as to Affairs ("RATA"), also known as an Insolvency Balance Sheet, by the Directors for the Company as at the date of our appointment.

3.6 Reasons for Failure

Some of the Directors assert that, the main reasons for the Company's failure and the appointment of the Administrators were:

- Demand for payment of their loan in full by Chillee on 7 November 2014;
- Non-payment by Chillee of its envisaged investment of some \$10 million in June 2012;
- Refusal of the major shareholders to support the Company with sufficient capital; and
- Overall depressed gold prices and minerals sector.

We concur with the first and last point above, but we are still forming a view as to the other reasons above provided by some of the Directors of the Company as to the failure of the Company.

4. SALE OF BUSINESS

As discussed in Section 1.3 of this report, we formed the view that a sale of the Company's business/assets was in the best interest of creditors.

We commenced a comprehensive marketing campaign throughout Australia.

As a result of our advertising campaign we have received twenty six (26) registered interested parties.

Our office and the Company's executive management team have made contact with all interested parties either via e-mail or telephone and provided parties with an overview of the sale process and also answered any queries raised by the parties.

Interested parties were required to sign a Confidentiality Agreement ("CA") and pay a non-refundable fee of \$440 (GST inclusive) prior to being offered access to the Information Memorandum and other information via an online data room.

Our staff have held frequent meetings/teleconferences with the Company's key management staff tasked with communicating with interested parties in relation to their technical and financial queries. We note that we have also had significant discussions with some of the representatives from the Creditors' Committee, regarding the sale of the business/assets.

We note that we are not able to disclose the finer details of the sale at this stage as these are commercially sensitive. Once the sale is finalised we will report to creditors further.

5. HISTORICAL FINANCIAL INFORMATION

5.1 Financial Statements

We set out below a summary of the Company's draft Financial Statement for the period ending 30 June 2012 and the Company's Financial Statement for the period ending 30 June 2011 extracted from the Australian Securities Exchange ("ASX") website. Copies of these Financial Statements are enclosed with this report at **Annexure "A"** and **Annexure "B"**.

The Company's financial accounts are presented for information purposes only and we advise that the financial information has not been audited, except for the data enclosed in the 2011 financials. As such, the information is not being presented as a statement of fact and no representations are made by us as to the accuracy or reliability of such information. We also advise creditors that whilst the financial information of the Company may be accurate at a certain point in time, insolvency proceedings can often result in a Company's financial position substantially changing.

5.1.1 Balance Sheets

BALANCE SHEET	30 June 2011 (\$)	30 June 2012 (\$)
Assets	20,774,148	14,271,890
Liabilities	(1,111,601)	(4,582,474)
Net Assets(Liabilities)	19,662,547	9,689,416

Assets

- The Company's Property, Plant & Equipment, in the sum of \$12.1 million, form the majority of the Company's asset base (approximately 85% of all assets) as at 30 June 2012. There was a significant increase in the Property Plant & Equipment in the financial year 2012 of approximately \$4 million, which consisted of additions to the Property, Plant & Equipment in the sum of approximately \$5.3 million and accumulated depreciation of approximately \$1.3 million. According to Mr Garling, the increase in the Property, Plant & Equipment was due to capital expenditure associated with exploration as the Company was "gearing up" to commence mining. Subsequently, when Chillee discontinued funding the Company, the Company was not able to proceed.
- At the date of our appointment, however, Mr Garling noted that a valuation of the Company's plant and equipment was conducted in mid-2012 and the Directors were advised that the plant & equipment had a value of approximately \$2.7 million. This

may suggest that the Company's books and records may reflect assets at an overstated amount.

- Although there was a significant increase in the Company's Property, Plant & Equipment, this was offset by a larger decrease in the Company's Cash and Cash Equivalents in the sum of approximately \$10.5 million, causing a decrease of approximately \$6.5 million in the Company's Total Assets.
- The decrease in the Cash and Cash Equivalents of the Company was mainly due to the decrease in the Interest Bearing Deposits, from the sum of \$10.5 million in the 2011 financial year to nil in the 2012 financial year. Mr Garling confirmed that the Company utilised the funds held in these Interest Bearing accounts for the additions to the Company's Property, Plant & Equipment (as noted above) and other exploration costs. Please refer to section 5.1.2 below for further information in respect of the Company's Exploration Expenditure.

Liabilities

- The largest liability account relates to Trade and Other Payables in the sum of approximately \$2.5million in 2012. This account increased from having a balance of \$1.05million in the 2011 financial year. The increase in the Trade and Other Payables account was due to the increase in Trade Creditors in the sum of approximately \$600,000; increase in Sundry Creditors & Accruals in the amount of \$446,000 approximately; and increase in the Employee Benefits Payable in the sum of approximately \$580,000.
- We also note that an unsecured loan was recognised only in the 2012 financial year in the sum of \$2million (not in the previous period). Mr Garling advised that this loan refers to the unsecured funds advanced by Chillee in that period.

Net Asset Deficiencies

- The financial records reveal a decreasing net asset position in the sum of \$19.6million and \$9.7million for the periods ending 30 June 2011 and 30 June 2012, respectively.
- If, however, the abovementioned possible overstatement in the Property, Plant & Equipment is taken in consideration, the assets of the Company will decrease to approximately \$4.9million as at 30 June 2012.
- The above adjustment suggests that the Company's net asset position may possibly decrease to approximately \$290,000 in the 2012 financial year, please refer to the calculation below:

Balance of Total Assets as at 30 June 2012	14,271,890
Less Adjustment to Property Plant & Equipment (\$12.1 million less \$2.7 million)	9,400,000
Adjusted Total Assets	4,871,890
Less Liabilities as at 30 June 2012	(4,582,474)
Adjusted Net Asset / (Liability) Position	289,416

Current Ratio

- The Current Ratio is a liquidity or solvency ratio, which is an indicator of whether the business has enough current assets to cover its current debts. This is calculated by dividing the current assets by the current liabilities. A ratio of less than one suggests that the Company may not have sufficient (liquid) resources to pay for its current debt obligations.
- The current assets and current liabilities of the Company as noted in the balance sheet for the respective periods are as follows:

	30 June 2011 (\$)	30 June 2012 (\$)
Current Assets	11,984,685	1,210,789
Current Liabilities	1,111,601	4,582,474
Current Ratio	10.78	0.26

- In respect of the above, it appears that the Company had insufficient resources to pay for its current debt obligations as at 30 June 2012, which is consistent with the advice from Mr Garling, that there were no further funds advanced by Chillee after this time.

5.1.2 Profit and Loss

PROFIT AND LOSS	30 June 2011 (\$)	30 June 2012 (\$)
Income	2,970,000	1,734,152
Expenses	(7,859,942)	(11,367,486)
Other Income / (Loss)	439,000	(339,797)
Operating Profit/(Loss)	(4,450,942)	(9,973,131)

Income

- The Company's income is derived from several sources being Joint Venture Expenditure Recovered, Joint Venture Management Fees, Interest Received, Equipment Hire Fee and Gold and Silver Sales.
- The significant decrease in the Company's income was caused by the significant decrease in the Joint Venture Expenditure Recovered, having decreased from the sum of \$2.016million in the 2011 financial year to the sum of \$1.043million in the 2012 financial year.
- The Recoupment of exploration and development costs is dependent upon the successful commercial exploitation of each area of interest. In respect of the Joint Venture Agreements, Mr Garling also advised that this income is dependent also on the percentage of development and exploration, which is the basis of their invoicing.
- The above decrease in the Company's income supports the Directors' assertion that the Company was not able to proceed with the mining project as funding was pulled out from the project.
- The Company's other income/(loss) was in respect of a gain on the revaluation of investments in 2011 and a loss on the sale of investments in 2012.

Expenses

- The Company's expenses consist of Exploration Expenses and Administrative Expenses.
- The significant increase in the Company's expenses was mainly due to the increase in the Exploration Expenses of approximately \$4million, from the sum of approximately \$4.8 million in the period ending 30 June 2011 to the sum of approximately \$8.7 million in the period ending 30 June 2012.
- Exploration Expenses are expenditure on prospects at an early/exploratory stage of development. This includes costs of acquisition, exploration, determination of recoverable reserves, feasibility studies, mine refurbishments and all technical and administrative overheads directly associated with the project.
- The increase in the Exploration Expenditure agrees with the increase in the Company's Property, Plant and Equipment noted above and Mr Garling's comments that the Company was "gearing up" to commence mining.

Operating Profit/Loss

- The financial records of the Company indicate that operating losses incurred by the Company have continued to increase in the two financial years noted above.
- A combination of a decrease in the Company's income and increased spending on operational overheads resulted in significant losses.

6. ASSETS AS AT DATE OF APPOINTMENT/RATA

As previously mentioned, the Directors have not provided us with a RATA.

The known assets of the Company as at the date of our appointment are as follows:

ASSETS	NOTE	ADMINISTRATORS' ERV (\$)
Real Property	6.1	Commercially Sensitive
Cash at Bank	6.2	15,500
Trade Debtors	6.3	Unknown
Plant and Equipment	6.4	Commercially Sensitive
Other Assets	6.5	Commercially Sensitive

ERV – Estimated Realisable Value

6.1 Real Property

The Company is the registered owner of Real property situated at 6 Bridge Street, Woods Point VIC.

We have instructed an independent valuer to conduct a valuation of this property as at the date of our appointment as Administrators. At this time we still await the valuation in this regard. We note that this asset has been advertised for sale and accordingly, we cannot provide details of the indicative valuation at this time as the value is commercially sensitive.

6.2 Cash at Bank

As at the date of our appointment, the Company operated three (3) bank accounts, five (5) deposit accounts and two (2) credit card accounts. All of these accounts were held with the National Australia Bank ("NAB").

We advised the NAB to place a debit freeze on all accounts and requested that the credit balances of the below accounts be transferred to the Company's Administration bank account.

We have realised \$15,500 from these pre-appointment bank accounts and these funds have been banked into our administration bank account.

The NAB has informed our office that the balance of the Company's cash at bank on our appointment relates to deposit accounts held in respect of the below bank guarantees:

Minister For Energy And Resources	\$10,000
Minister For Energy And Resources, Victoria	\$20,500
Minister For Agriculture & Resources Vic	\$25,500
Minister For Energy & Resources Victoria	\$132,500
Minister For Energy & Resources, Victoria	\$10,000
Minister For Energy & Resources, Victoria	\$10,000
TOTAL	\$208,500

6.3 Trade Debtors

The Company has one debtor, being Shandong Tianye, who own a 51% share of the mining licenses MIN 5241 and MIN 5299.

Shandong Tianye currently owes the Company an amount of \$242,000. Only an amount of \$151,000 has been invoiced to date. Mr Garling advised that the invoice for the balance of \$91,000 has not been invoiced. Mr Garling has advised that he will assist us in raising this second invoice.

The recoverability of this asset is currently unknown.

6.4 Plant and Equipment

We have instructed Hymans Auctioneers & Valuers ("Hymans") to conduct a valuation of the Company's Plant and Equipment as at the date of our appointment.

We note that these assets have been advertised for sale and accordingly, we cannot provide details of the valuation at this time as the values are deemed commercially sensitive.

6.5 Other Assets

Mr Garling has advised that the Company has other assets, which we set out below:

6.5.1 Mining/exploration Licences

The following Licences are believed to be held by the Company and the Company has been granted certificates of title by the DSDBI.

Licence No.	Location	Project Name(s)	Ownership
MIN 5009	1 Mine Road, Woods Point	Morning Star, Waverly, Tingha	100%
MIN 5560	Lyrebird Creek	Wallaby	100%
** MIN 5299	Gaffneys Creek	Rose of Denmark, Hunts	49%
EL 4320	Woods Point, Matlock, Gaffneys Creek	Reliance, Shamrock, Alhambra	100%

** Subject to a Joint Venture Agreement with Shandong Tianye

The Department of State Development, Business and Innovation ("DSDBI") has advised that the above mining licenses are current; however, mining licence EL 4320 is pending review by the Mining Warden of Victoria. We note that we have engaged a solicitor to assist us in this review being undertaken by the Mining Warden (Victoria). We are hoping that we can preserve this licence for any sale of business/assets.

The value of these licenses is currently unknown.

6.5.2 Publicly Listed Shell of the Company

As previously mentioned, the Company is listed on the ASX. This is an asset that has been included in the sale of business information memorandum; further as the Company has some significant tax losses, this may be of interest to a purchaser.

The value of the shell is currently unknown.

6.5.3 Mining/Exploration Drilling Data

The Company has various mining and drilling data which is being offered for sale

The value of this data is currently unknown.

6.5.4 Interests in NSW Joint Ventures

The Company has a 2% interest in two (2) NSW Joint Ventures, namely in Triako Resources (Boona) and in TriAusMin Limited (Black Range). These are investments that did not cost the Company any funds, per Mr Garling. We are still exploring what this investment fully entails.

These interests are also being offered for sale. The value of this investment is currently unknown.

6.5.5 Goodwill, intangibles and intellectual property

The Company's goodwill and intellectual property (not specifically described by the Directors) may be of value to an interested party.

The Company's goodwill and intellectual property is also being offered for sale. The value of these assets is currently unknown.

7. LIABILITIES AS AT DATE OF APPOINTMENT/RATA

As previously mentioned, the Directors have not provided us with a RATA.

The known liabilities of the Company are summarised below for your information.

Liabilities	NOTE	ADMINISTRATORS' ERV (\$)
Secured/Partly Secured Creditors	7.1	3,225,220
Statutory Creditors	7.2	79,573
Unrelated Unsecured Creditors	7.3	2,283,869
Related Unsecured Creditors	7.4	990,958

7.1 Secured / Partly Secured Creditors

Chillee has lodged a proof of debt in the administration for \$3,219,035.

We have been advised by Capital Finance Australia Ltd ("Capital") that they have a rental agreement with the Company in respect of a telephone system (through Telstra) with a payout value of \$6,185 as at the date of our appointment.

We are still reviewing the validity of the claims of both Chillee and Capital in this regard.

7.2 Statutory Creditors

We are advised by Mr Garling that the Company owes the total sum of \$79,573 to the Australian Taxation Office ("ATO") and NSW Office of State Revenue ("OSR"), as detailed below:

STATUTORY CREDITOR	AMOUNT (\$)
ATO	76,073
OSR	3,500
Total	79,573

We note the OSR has lodged a proof of debt in the amount of \$3,499.68. On the other hand, the ATO has not at this time lodged a proof of debt against the Company.

We are still waiting on the Freedom of Information documents from the ATO and OSR and we will report further in this regard should there be any significant information received which may affect the creditors' decision in respect of the Company's future.

7.3 Unrelated Unsecured Creditors

Attached as **Annexure "C"** is a summary of the Company's known unsecured creditors. Creditors who have not lodged a Proof of Debt form with our office are encouraged to do so prior to the forthcoming second meeting of creditors.

Mr Garling initially advised us that there were unsecured creditors totalling \$765,426, however to date proofs of debt have been received totalling \$2,283,869. The major discrepancy between these two amounts can be attributed to the debt claimed by Edrill Pty Ltd, which Mr Garling has not provided an amount for in his estimates; however, we have received a proof of debt in the sum of \$1,518,835 from Edrill Pty Ltd. The Company disputes the claim made by Edrill Pty Ltd and this claim is subject to formal legal proceedings.

We are still reviewing the validity of claims lodged by all unrelated unsecured creditors.

We note that we have not formally adjudicated on the above claims and do not intend to do so until such time that funds become available for a dividend distribution to creditors.

7.4 Related Party Unsecured Creditors

Mr Garling initially advised us that an amount of \$990,958 was owing to the Company's directors. We set out below a breakdown of this amount:

Name	Advised \$
Mr Garling	921,958
Peter Gilbert Jackson	27,000
Noel Robert Laidlaw	42,000
Total	990,958

We are still reviewing the validity of claims lodged by related party unsecured creditors.

We note that we have not adjudicated on the above claims at this time.

8. ADMINISTRATORS' INVESTIGATIONS

As part of our statutory duties and responsibilities we are required to investigate the circumstances surrounding the inability of a company to meet its debts as well as the conduct of its officers. Please note that our investigations are subject to time constraints imposed by the Act and the information available to us. Accordingly, the investigations are not the same as those conducted by a liquidator. Creditors requiring further information in relation to our investigations should contact our office in writing.

Provided below is our preliminary assessment on the potential recoveries of voidable and other transactions and comments pertaining to any potential insolvent trading action, together with investigations conducted on other relevant matters.

8.1 Searches

The following searches were conducted:

8.1.1 Bank Accounts

We wrote to all major banking institutions operating in Australia to advise them of our appointment and to request a search of their records for any accounts previously operated by the Company.

As at the date of this report, we identified three (3) operating bank accounts held by the Company with the NAB.

To facilitate our investigations, the Company provided us with bank statements for the bank accounts as detailed below:

Account	Period
Business Cash Maximiser	17/06/2010 to 16/06/2014
Business Cash Maximiser	1/10/2010 to 30/09/2014
Business Management Account	30/10/2010 to 31/10/2014

We have reviewed the bank statements available to us and outline our findings with respect to any potentially voidable transactions identified in this report.

8.1.2 Roads and Maritime Services Search

We have submitted a search request to the Roads and Maritime Services ("RMS") in NSW and VicRoads in Victoria, regarding any vehicles registered in the name of the Company. We advise that we have not received a response from RMS to date, however our VicRoads search has identified a 2010 Rapid Trailer.

We note that the trailer and any other assets identified in these searches will be included in any sale of business/assets.

8.1.3 Property/Land Title

We have conducted property title searches on the records of the state governments of New South Wales, Queensland and Victoria. Our searches have identified that the Company is the registered owner of the property at 6 Bridge Street, Woods Point, Victoria.

We have also conducted property title searches in the name of the Directors on the records of the state governments of New South Wales, Queensland and Victoria. We detail below a summary of our findings:

Name	Property identifier
Mr Garling	1/796950 (NSW)
Peter Gilbert Jackson	9275/493 (VIC)
Noel Robert Laidlaw	9975/676 (VIC)
	8936/501 (VIC)
	9908/364 (VIC)
	10797/753 (VIC)
Zhaoqin Zeng	Nil

We are not aware of the equity owned by the directors in respect to the above properties.

Creditors should note that the Directors are not obliged to provide us with any details of their personal financial positions; however, a liquidator may conduct further investigations in this regard if warranted.

8.1.4 Australian Securities and Investment Commission

The statutory details of the Company as recorded with ASIC are disclosed at Section 3.4 of this report.

We have also conducted a search on the Directors within the ASIC database.

The results of said search with respect to the Directors' current corporate roles and shareholdings are summarised below:

Mr Garling

COMPANY NAME	OFFICIAL ROLE(S) HELD	DATE STARTED
Jerrymara Investments Pty Ltd	Director	8 January 2007

Mr Peter Gilbert Jackson

Nil

Mr Noel Robert Laidlaw

COMPANY NAME	OFFICIAL ROLE(S) HELD	DATE STARTED
VDL Gold Pty Ltd	Director	3 May 2013

Zhaogin Zeng

COMPANY NAME	OFFICIAL ROLE(S) HELD	DATE STARTED
Minjar Gold Pty Ltd	Director	30 September 2009
OZCHINA Enterprises Pty Ltd	Director / Shareholder	11 October 2010
Shandong Tianye Group Pty Ltd	Director	5 May 2009

8.2 Books and Records

Creditors should be aware that administrators are required to conduct an investigation into the financial position of the Company.

Section 286(1) of the Act provides that a Company must keep written financial records that:

- (a) Correctly record and explain its transactions and financial position and performance; and
- (b) Could enable true and fair financial statements to be prepared and audited.

Section 286(2) states that financial records must be retained for 7 years after the transactions covered by the records are completed.

Financial records are defined in Section 9 of the Act as including documents of prime entry and working papers and other documents needed to explain the methods by which financial statements are made up and adjustments to be made in preparing financial statements.

Our preliminary review of the Company's books and records has been limited to what has been made available and provided to us prior to issuing this report to creditors.

It is our preliminary opinion that the Company has generally complied with the requirements of Section 286 of the Act, in respect to the adequacy of the records maintained.

8.3 Assets owned by the Directors

In order to ascertain whether a director has any financial capacity to meet any potential claim(s) instigated by a liquidator under Part 5.7B of the Act, the financial/asset position of a director will need to be investigated.

We are not aware of any assets owned by the Directors apart from those identified in section 8.1.3 above. As previously mentioned, directors, however, are not obliged to provide us with any details of their personal financial position.

In the event the Company is placed into liquidation, further investigations into the Directors' personal financial position may be conducted by the liquidator(s) if warranted.

8.4 Solvency/Insolvent Trading

8.4.1 Overview

Section 95A of the Act, provides a definition of solvency and insolvency:

Section 95A(1) - "[Solvent person] A person is insolvent if, and only if, the person is able to pay all the person's debts as and when they become due and payable"

Section 95A(2) - "[Insolvent person] A person who is not solvent is insolvent"

The Act provides that a director of a company has a duty not to incur debts at a time when the Company is insolvent or would become insolvent by incurring the debt (Section 588G of the Act). If there are reasonable grounds for suspecting that the Company would become insolvent, then the director can be held personally liable for any debts incurred after that time.

Pursuant to Sections 588G and 588M of the Act a liquidator can recover compensation from the director of an insolvent company; for such debts incurred by the Company after a time that it is shown that a reasonable person in the Directors' position would have suspected that the Company could not pay its debts as and when they fell due.

In considering pursuing a director for an insolvent trading action it is important to note that an action against a director must be based upon an analysis of the dates on which each individual debt was incurred. The debt must be currently outstanding and the debt must have been incurred at a time when the Company could not pay its debts as and when they fell due.

If a company is placed into liquidation, it may become necessary to establish a specific date that said company became insolvent for the purposes of insolvent transaction recoveries. In addition to the above, a liquidator must show that, whilst the Company was insolvent, a reasonable person in the position of the Directors of the Company should have suspected that the Company was insolvent. As a consequence of this standard of proof, insolvent trading actions are often time consuming and costly.

We note a liquidator(s) would be in a better position to make further enquiries in this regard by procuring a proper and objective insolvency report.

Creditors should note that a director may have statutory defences pursuant to Section 588H of the Act, which may be available to him with respect to an insolvent trading claim.

8.4.2 Indicators of Insolvency

We provide the following indicators regarding the Company's solvency position:

8.4.2.1 Ongoing Losses

The Company has reported losses since 2010. We provide a summary of the Company's trading performance below:

	30 June 10 (\$)	30 June 11 (\$)	30 June 12 (\$)
Operating Loss	(4,223,365)	(4,450,942)	(9,973,131)

8.4.2.2 Liquidity Ratios Below 1

We summarise in the table below our assessment of the Company's current ratios at key dates:

	30 June 2011 (\$)	30 June 2012 (\$)
Current Assets	11,984,685	1,210,789
Current Liabilities	1,111,601	4,582,474
Current Ratio	10.78	0.26

A current ratio below 1.0 suggests difficulty in meeting short term liabilities from immediately realisable assets. This appears to be the consequence of the Company's significant cash flow constraints.

8.4.2.3 Poor Cash Flow

It appears that the Company has been reliant on cash injections from lenders and shareholders since mid-2012; however it has not traded for the last two (2) financial years.

As noted above, the Company had insufficient funds to repay the loan to Chillee on 7 November 2014 (2 days before the appointment of the Administrators) which resulted in the appointment of the Administrators.

8.4.2.4 Unpaid Statutory Liabilities

As noted in section 7.2 of this report, at the date of our appointment the estimated debt to the ATO totalled \$76,073 and the OSR has lodged a proof of debt in the amount of approximately \$3,500. The statutory debts only account for a small percentage of unrelated, unsecured creditors of the Company.

As noted above, we are still waiting on the Freedom of Information documents from the ATO and OSR.

8.4.3 Presumption of Insolvency – Inadequate Books and Records

Failure to keep or retain adequate books and records in accordance with Section 286 of the Act provides a rebuttable presumption of insolvency under Section 588E of the Act.

A liquidator can rely on the presumption of insolvency in litigation including:

- Compensation claims arising from insolvent trading; and
- Recovery of voidable transactions from related entities.

This presumption cannot be relied upon in the recovery of unfair preferences from an unrelated entity.

Our preliminary view is that the Company maintained adequate books and records in accordance with Section 286 of the Act. Accordingly, the presumption of insolvency under Section 588E of the Act does not appear to be available. A liquidator(s) will be better placed to make a final judgement in this matter.

8.4.4 Preliminary Conclusion on Solvency

The following are matters that negatively influence the assessment of Solvency at this time:

- Deficiency to creditors;
- Trading losses;
- Inability to pay Chillee's demand on 7 November 2014;
- Unpaid statutory tax liabilities; and
- Adjusted current ratio of less than 1 on 30 June 2012.

The following are matters that positively influence the assessment of Solvency at this time:

- Financial support from shareholders and other related parties of the Company;
- Financial support from Chillee;
- The fact that the Company has not actively traded since 2012; and
- The value of the sale of the company's business/assets (if this occurred prior to our appointment) versus its current liabilities owed at this time.

Based on our preliminary consideration of the indicative factors of insolvency as set out in this report, it is our view that the Company was likely insolvent at some stage prior to our appointment. However, an exact date of insolvency has not been determined at this time.

8.5 Unregistered Charge

We are not aware of any unregistered charges.

We advise that Yarandi Investments Pty Ltd ("Yarandi") has advised our office that it registered a general security interest against the Company on 14 November 2014 in respect of their Convertible Note Deed with the Company.

We note that we have sought legal advice in this regard and have notified Yarandi that we believe their security interest is not valid as it was registered after our appointment and sometime after the Convertible Note Deed was executed. We note that Yarandi has lodged a proof of debt in the sum of \$738,107, which now ranks as an unsecured creditor (in our view).

8.6 Unfair preferences

In accordance with Section 588FA of Act, a transaction is an unfair preference given by a company to a creditor of the Company if and only if:

- A company and the creditor are parties to the transaction (even if someone else is also a party); and
- The transaction results in the creditor receiving from the company, in respect of an unsecured debt that the Company owes to the creditor, more than the creditor would receive from the Company in respect of the debt if the transactions were set aside and the creditor were to prove for the debt in a winding up of the Company.

There are defences to an unfair preference action under Section 588FG of the Act, these defences are proved that:

- The person received no benefit because of the transaction; or

- The person received the benefit in good faith and at the time when the person received the benefit, the person had no reasonable grounds for suspecting that the Company was insolvent.

Pursuant to Section 588FE(2) of the Act it is possible to recover property or compensation arising from an unfair preference transaction entered into by the Company after a date commencing six (6) months prior to the relation-back day (in this case, the date of our appointment as Administrators).

As noted in section 8.1.1 of this report, the Company has provided us with bank statements for all its known bank accounts. We have reviewed the Company's bank statements for potential preferential payments for the six (6) month period preceding our appointment as Administrators, using the criteria of payments above \$10,000 and conspicuous round sum payments.

Creditors should note that we have not identified payments at this time that may have the characteristics of potentially voidable unfair preferences to the Company's unsecured creditors.

Due to the time constraints of reporting to creditors, these amounts have simply been earmarked for further investigation at this stage.

8.7 Uncommercial transaction(s)

We are not aware of any uncommercial transactions at this time.

8.8 Voidable Related Party Transactions

A liquidator has the power to recover any voidable insolvent transactions entered into by the Company with related parties during the four (4) years ending on the relation-back day.

We are not aware of any voidable related party transactions at this time.

8.9 Transactions to defeat creditors

We are not aware of any transactions entered to defeat creditors at this time.

8.10 Unfair loan

We are not aware of any unfair loans at this time.

8.11 Indirect benefit(s)

We are not aware of any indirect benefits at this time.

8.12 Other recoveries

We are not aware of any other recoveries at this time.

8.13 Australian Securities and Investments Commission reporting of potential offences and contraventions

Pursuant to Section 438D of the Act we are required to report to ASIC as to the:

- Existence of offences committed by any past or present officer(s) or member(s) of the Company; and
- Existence of any misapplication, retention, liabilities, accountability, negligence, default, breach of duty or trust by persons who have taken part in the formation, promotion, administration, management or winding up of the Company.

As at the date of this report, we are not aware of any offences committed by the Directors of the Company. We will further investigate these matters in either the extended administration period or the Liquidation period of the company.

8.14 Limitations and parameters set in respect to investigations

Our investigations into the Company's affairs have primarily been based on the following:

- The available books and records of the Company;
- Advice received from the Company's Directors; and
- Records maintained by various government databases.

Creditors should note that we have not performed an audit of the Company's books and records and accordingly, we do not take responsibility as to their correctness and/or accuracy. At present, we do not however have any reason to believe that such records are false or misleading.

8.15 Funding requirements

At this stage of the administration, we do not require any funding from creditors to carry out our preliminary investigations into the Company's affairs.

Should the Company be placed into liquidation, the liquidator(s) may require funding from creditors to pursue any of the above mentioned recovery actions. Creditors interested in funding any of the actions outlined in this report should forward their written funding proposal to our office as soon as possible.

9. DEED OF COMPANY ARRANGEMENT ("DOCA")

No DOCA has been proposed by any party at this time for the creditors of the Company. We have been advised however that a DOCA proposal may be forthcoming and this is likely to envelope the sale of business/assets process.

10. DIVIDEND OUTLOOK AND OPTIONS AVAILABLE TO CREDITORS

10.1 Dividend Outlook to creditors

We attach a copy of our Receipts and Payments summary as **Annexure "D"**.

A dividend is highly dependent on the sale of the Company's business/assets. As mentioned above, the initial sale of business program does not finish until 18 December 2014 accordingly, we cannot at this time provide creditors with an estimated dividend position. We anticipate that we will be in a better position to be able to provide an estimate in this regard in our next report to creditors.

10.2 Options available to creditors

Pursuant to Section 439A of the Act, we are required to convene a meeting of creditors at which creditors may resolve one of the following options:

- That the administration should end and the Company be returned to the control of the Board; or
- That the Company execute a DOCA; or
- That the Company be wound up or placed into liquidation.

We note that we have not yet finalized the sale of business/assets of the Company. So that we may achieve an optimal outcome for creditors in this regard, at the upcoming meeting of creditors we will seek the consent of the creditors to adjourn the meeting for up to a maximum of 45 business days (with discretion in our favour to convene the adjourned second meeting earlier), so as not to jeopardize the sale of business/assets if the Company is placed into Liquidation at the forthcoming meeting.

Our recommendation to creditors at this time is to place the Company into liquidation, however, we believe it is in creditors' interests that this decision be deferred to allow the sale of the Company's business/assets to be better explored and hopefully concluded.

10.3 Formal statement of Administrators' Opinion

Pursuant to Section 439A (4) (b) of the Act, we have set out in **Annexure "E"**, our recommendation to creditors as to which alternative, in our opinion, is in the best interest of creditors of the Company.

We suggest that the relevant meeting be adjourned for up to a statutory maximum of 45 business days to allow for the Administrators to complete the sale program for the Company, which may allow for a better outcome to the ordinary unsecured creditors. We will seek approval from creditors however that the adjourned meeting can be convened earlier at the discretion of the Administrators.

The reasons for our recommendation are outlined in section 10.4 of this report.

10.4 Reasons for recommendation

We note that we have not yet finalized the sale of business/assets of the Company. So that we may achieve an optimal outcome for creditors through an orderly realization process, we will at the upcoming meeting of creditors seek the consent of the creditors to adjourn the meeting of creditors of the Company for up to a maximum of 45 business days (with discretion to convene earlier), so as not to jeopardize any impact on the sale that may arise if the Company is placed into Liquidation at the forthcoming meeting.

In addition, we have been advised that a DOCA proposal may be forthcoming and the additional time will allow us more time to investigate the affairs of the Company.

11. REMUNERATION

11.1 Remuneration report

We attach to this report our Remuneration Report as **Annexure "F"**.

11.2 Work completed generally

Since the date of our appointment we have taken control of the Company's affairs pursuant to Section 443A of the Act. We have exposed ourselves to personal liabilities for debts which we have incurred in the performance of all of our functions as the Administrators.

We have attended to all statutory obligations prescribed by the Act and have acted at all times in the best of interest of creditors.

To ensure that the work has been completed in the most effective and efficient manner, we have, where appropriate and possible, directed staff to perform certain aspects of the Administration. Details of the work are disclosed in our attached Remuneration Report.

11.3 Summary of remuneration to be approved

We advise that the Administrators' fees we will be seeking approval of at the forthcoming meeting of creditors will be \$150,000 plus GST (comprised of \$130,015 as at 1 December 2014, and a further \$20,000 plus GST as prospective remuneration for the period 1 December 2014 to the forthcoming meeting of creditors)

The particulars of all staff involvement together with the time spent by each staff member will be available for inspection at the forthcoming meeting.

We advise that it will be appropriate to consider and approve the future fees of the Liquidators, depending on the resolution passed by creditors for the Company's future. Should creditors resolve to place the company into liquidation, we anticipate the Liquidators will seek approval of their future fees for the company in the amount of \$200,000 plus GST, beyond which further approval must be sought.

The Jirsch Sutherland schedule of hourly rates, as at 1 July 2014, from which our remuneration is calculated, is included with our Remuneration Report: Approval of Retrospective and Prospective Remuneration, dated 10 November 2014, and attached to this report.

12. FINALISATION

12.1 Administration to End Scenario

The Company is cash flow insolvent, thus this scenario is not applicable.

12.2 Liquidation Scenario

Should the Company be placed into liquidation, we may become the Liquidators and our duties would be as follows:

1. Realise all Company assets including but not limited to the Company's real property, debtor, plant and equipment and other assets;
2. Finalise our statutory investigations and consider any further information provided by the creditors, report to creditors and report to the ASIC pursuant to Section 533 of the Act;
3. Investigate and pursue any potential claims (voidable transactions and insolvent trading) under Part 5.7B of the Act;

4. Pay a dividend to the secured/partly secured creditors, the ATO, OSR and other unsecured creditors (if sufficient funds are available);
5. Attend to all statutory reporting and filing obligations; and
6. Finalise the winding up of the Company.

13. CONCLUSION

The information contained in this report is based upon our preliminary investigations into the affairs of the Company and advice from relevant parties. In these circumstances, creditors must appreciate the limitations of the information provided.

We trust that this report adequately discloses information pertaining to the Company's position and therefore allows creditors to make an informed decision at the upcoming creditors meeting. We welcome further advice or comments from creditors on this report and the affairs of the Company in general.

Please contact Ms Kathryn Gesilva or Ms Amanda Arnautovic of our office, should you wish to discuss the administration of the matter.

Yours faithfully,
MORNING STAR GOLD N.L.

SULE ARNAUTOVIC
Joint and Several Administrator

ANNEXURE "A"

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Corporate Directory

Directors

N M Garling

Executive Director, Chairman,
Acting Chief Financial Officer (CFO)
Non-Executive Director, Independent
Non-Executive Director, Independent
Non-Executive Director
Non-Executive Director

P G Jackson

N R Laidlaw

Z Zeng

A V Motlokhov

Secretary

N Sever

Company Secretary

**Registered &
Business Address**

Suite 303, 7 Jeffcott Street
WEST MELBOURNE VIC 3003
Ph: (03) 8379 2888
Fax: (03) 9329 8912
Web: www.msgold.com.au
Email: info@msgold.com.au

Share Registry

Computershare Investor Services Pty Ltd
Yarra Falls, 452 Johnston Street
Abbotsford Vic 3067
Ph: 1300 137 328
Fax: 61 3 9473 2563
Web: www-au.computershare.com

Auditors

D F Kaye & Co
Chartered Accountants
Level 2, 39 East Esplanade
MANLY NSW 2095
Ph: (02) 8068 8675

Directors' Report

The directors of Morning Star Gold NL present the financial report of the Company for the year ended 30 June 2012.

Directors

The names of the directors of the Company in office during the year and up to the date of printing this report, unless otherwise stated, are:

Mr Nicholas M Garling – Executive Director, (Chairman), Acting CFO – Aged 46 years

Appointed as Director 20 March 2007, Chairman 28 April 2010

Nick Garling has been involved with MCO since 2006. His prior background is in banking and broking for more than 15 years in areas dealing with leveraged (hedge) funds, equity capital raising, asset disposal, structured equity and debt derivatives and listed markets sales trading. Nick worked in a Sydney legal practice for four years and studied a diploma in law without completing it, instead changing direction working variously in the stock, futures and options markets in Sydney for firms including Tullett and Tokyo, Fay Richwhite Merchant Bank and also with FIMAT Societe Generale. Nick was based in Hong Kong and Tokyo between 1996 and 2004 working with Lehman Brothers in HK and Japan and with UBS in Japan where he was a Managing Director of their Equity Markets Group. Prior to UBS, he was a Managing Director in Lehman's Asia-Pacific and Japanese Equities division. Nick is a substantial shareholder of MCO and works full-time in Sydney with regular visits to MCO's operations hubs. He joined the MCO Board in March 2007, becoming Chairman in April 2010. Nick is a member of the Board's remuneration committee.

Dr Peter G Jackson BSc PhD (Geology) – Non-Executive Director (Independent) – Aged 68 years

Appointed as Director 10 March 2008

Peter Jackson has been the Director of Exploration and Geology for Morning Star for six years and a Board participant since early 2008. He has 25 years of extensive practical and technical experience in the Woods Point Dyke Swarm (the local geology surrounding Morning Star's eastern Victorian mining and exploration tenements). Peter lectured at Melbourne's La Trobe University for many years in economic geology, has co-authored scientific texts on the area of MCO's tenements and conducted scores of economic studies into the historic gold mines of eastern Victorian and the Lachlan Fold Belt. Peter has a wealth of experience in the Walthalla-Woods Point Synclinorium, where MCO's tenements lie. Peter lived part time for many years at Australia's Antarctic post and is now based in Melbourne, with regular trips to Woods Point at the Morning Star Goldmine. Peter sits on the Board's remuneration and audit committees.

Mr Alexei V Motlokhov PhD (Eco) – Non-Executive Director – Aged 30 years

Appointed as Director 1 February 2011

Alexei Motlokhov represents the interests of Chillee Ltd a substantial holder of MCO stock, which holds close to fourteen percent of the stock on issue in Morning Star Gold. This holding was initiated via a \$15M investment in 2010 and subsequent on market purchases. Alexei works in London for Latymer Management as their Finance Director. He has extensive experience in strategic and corporate finance consulting. Prior to joining Latymer Management, Alexei worked for Oxera Consulting in various roles for several years. His work included provision of strategic advice on corporate restructuring, valuation of intangible assets and valuation of damages in the context of a commercial litigation. Alexei also advised on asset valuations as part of large commercial equity financing transactions on a global scale. Although based in the UK, Alexei has paid several visits to MCO's Australian operations and is an active Board participant. Alexei sits on the Board's audit committee.

Directors' Report (cont'd)

**Mr Zhaoqin Zeng – Non-Executive Director – Aged 43 years
Appointed as Director 1 February 2011**

Mr Zeng represents the interests of Shandong Tianye (STG), which presently holds 28M shares of MCO (9.9% of the issued capital). Mr Zeng is Chairman at STG, who are also involved in an exploration and development joint venture with Morning Star on two of the company's five tenements in Victoria. Zhaoqin Zeng holds an MBA from Nankai University. He established Shandong Tianye Real Estate Development Ltd in 1997 and was appointed Chairman and General Manager of Shandong Tianye Real Estate Development Ltd at that time. In November 2006, he started what is effectively the 'diversity development' of Shandong Tianye Group growing the corporation's business aggressively in size and scope. His entrepreneurial approach has seen Shandong Tianye Group grow strongly to be one of the largest privately run corporations in Shandong Province, which is China's 2nd ranked province in GDP terms. Mr Zeng has won provincial and countrywide awards for his business exploits in China. Through domestic and now international companies, he has interests in real estate, mining, energy and financial services. He is regularly in Australia and has a close team of Chinese and Australians supporting him in Perth. He is a direct contributor to MCO and STG's joint venture interests and a valued board member bringing great skill to MCO around his experience of growing small business enterprises into substantial entities with his obvious energy, drive and ideas. Mr Zeng controls other mining and property interests both in Australia and in China. In China, Mr Zeng is based in Jinan, a large city in Shandong province and he is a regular visitor to Perth, WA and Victoria.

**Mr Noel R. Laidlaw MSc (Eng) – Non-Executive Director (Independent) – Aged 58 years
Appointed as Director 1 July 2011**

Noel Laidlaw is a mining engineer with over 30 years of experience in narrow vein underground mining and also with relevant experience in gold processing operations and metallurgy. Until recently Noel was the State Mining Warden of Victoria. In this role for many years, Noel was the most senior independent statutory officer appointed by the Victorian Government to oversee mining disputes and regulatory issues in the State of Victoria and to assist the Minister and entities involved in mining in Victoria in administering the Mineral Resources (Sustainable Development) Act, 1990. Noel has significant experience relevant to MCO's growing projects in eastern Victoria in areas including project management and facilitation, stakeholder/tenements negotiation, knowledge of the MR(SD)A 1990 and the accompanying regulatory framework, project compliance, cost estimation of underground and open-cut mining operations and associated treatment plants, mine planning, budget preparation and cost control within mining operations and a very experienced player in occupational health and safety vis a vis mining and exploration projects. Noel is based near Maryborough in Victoria - an area in the fabled "Golden Triangle", which was close to the epicentre of world gold output at one time. He was raised not far from MCO's eastern Victorian operations and is a regular visitor to Melbourne and Woods Point. Noel sits on the Board's audit and remuneration committees.

**Company Secretary – Ms Natasha Sever
Appointed as Company Secretary 14 February 2012 (Resigned 31 October 2012)**

Ms Sever commenced as MCO's accountant in July 2011, becoming company secretary in February 2012. With 10 years accountancy experience, she has worked for mining companies in Western Australia and Vancouver, Canada (where she was also company secretary), specialising in the implementation of new accounting systems and best practise audit preparation processes. Ms Sever is based at MCO's Melbourne office.

**Chief Executive Officer – Michael Botting BSc (Eng)
Appointed as CEO 1 July 2011
Resigned as CEO 20 July 2012**

Directors' Report (cont'd)

DIRECTOR'S SHAREHOLDINGS

Particulars of shares and options over shares of Morning Star Gold NL in which directors have a relevant interest at financial year end are as follows:

Director	July 1 2011	Movement	June 30 2012
N M Garling	20,236,044	728,600	20,964,644
P G Jackson	-	-	-
Z Zeng	28,000,000	-	28,000,000
A V Motlokhov	35,008,696	4,000,000	39,008,696
N R Laidlaw	-	-	-

DIRECTOR'S MEETINGS

During the financial year 15 meetings of directors and 2 audit committee meetings were held. Attendance at these meetings was as detailed below:

Director	Board Meetings		Audit Committee Meetings	
	Eligible to attend	Meetings attended	Eligible to attend	Meetings attended
N M Garling	15	15	-	-
P G Jackson	15	15	2	2
Z Zeng	15	4	-	-
A V Motlokhov	15	13	2	2
N R Laidlaw	15	15	2	2

A remuneration committee was formed during the year but no meetings were held in the period.

PRINCIPAL ACTIVITIES

The principal activity of Morning Star Gold NL in the course of the 2012 financial year was gold exploration across various eastern Victorian mining tenements located in the famous Lachlan Fold Belt. The Company also conducted refurbishment of the Morning Star Goldmine (MIN 5009) to allow for gold production at the historic goldmine located in Woods Point Victoria. Morning Star Gold is focused on exploration opportunities at several historic gold production sites in close proximity (20kms radius) of its base in Woods Point. The Company remains in an exploration and development joint venture with its Chinese partner Shandong Tianye Group (STG). STG are contributing \$4.5M to acquire 51% of regional mining titles held by Morning Star Gold. These are known as MIN 5299 at Gaffneys Creek, the site of prospective ore bodies (all historic mines) named Rose of Denmark, Hunts and Dempsey and as MIN 5241 at Matlock, where the historic mines are known as All Nations and Loch Fyne. These two mines on MIN 5241 have combined historic production of 250,000 ounces of gold. Across the tenements, production of 2 Million ounces of gold was recorded historically. There were no other significant changes in the nature of the activities during the year.

Directors' Report (cont'd)

TRADING RESULTS

The net loss of the Company for the year ended 30 June 2012 was \$9,973,131 (2011: net loss of \$4,450,942).

DIVIDEND

No dividend has been paid during the year nor have the directors recommended that dividends be paid at this stage.

REVIEW OF OPERATIONS

During the 2012 annual reporting period Morning Star Gold NL (ASX: MCO) was predominantly involved with development of a gold production hub based at the Morning Star Goldmine in Woods Point, Victoria.

The first gold production from the Morning Star Goldmine in 50 years was recorded in late 2011 and since that time mining trials have taken place at various parts of the remnant upper levels of the Morning Star Goldmine and at the Rose of Denmark prospect. The overall production tonnes and recovered ounces over the period were less than forecast by mine management. The production trials have not been cash positive to date or effective in building our production profile or cash flow and at the Morning Star Goldmine, this is primarily because of the following factors:

- mining has taken place at predominantly remnant ore targets in upper levels of mine;
- remnant ore parcels not carrying grade commensurate with the mine's production history or what would be expected from fresh ore / un-developed reefs;
- narrow veined reef structures have been encountered to date causing dilution;
- relatively flat laying reef structures have been encountered to date adding cost to ore recovery;
- haulage time was limited due to shaft refurbishment between surface and 310 metres depth;
- a new winder was installed and commissioning ran over time due to statutory engagement;
- the construction and commissioning of a paste and back fill tailings plant at site;
- commissioning delays and gear breakages / replacement at the onsite gravity mill;
- the delay in our preferred drilling contractor supplying specific underground drill equipment to target the 'Gap Zone' beneath Level 10 Morning Star mine.

Preliminary mining trials at the Rose of Denmark mine are considered moderately successful to date in terms of proving there is a mineralised ore body with bulk mining potential. The ultimate potential at the site on MIN 5299 needs to be proven by resource drilling, which has been planned and was commenced late in the period. The ore body has never been drilled and hadn't been accessed since the 1920's.

The Company continued to carry out surface and underground exploration and reconnaissance on its exploration and mining tenements surrounding its Woods Point base. The object of the increased exploration activity via drilling sampling and mine development is to identify additional economic mineral deposits to aid overall production and de-risk the Morning Star mine as a single hub ore source. Such exploration and development was both on wholly owned tenements and as part of the company's Joint Venture with Shandong Tianye Group (STG) on MIN 5299 (Gaffneys Creek) and MIN 5241 (Matlock). Morning Star also added two prospective new mining tenements in the northwest of its current Exploration Licence – at Wallaby and Eldorado mines – both sites with good historic production recorded near surface and some underground development already in place to aid in geological interpretation and access to the ore bodies.

Directors' Report (cont'd)

The Company continued full construction and commissioning of its onsite gravity mill and tailings plant at Woods Point and continued the upgrade of a range of other site-based facilities at the Morning Star Goldmine and at the Rose of Denmark mine. The infrastructure upgrades brought fully online in the period include the repair and refurbishment of the main shaft at Morning Star to 310 metres depth, the construction of a paste and back fill (tailings) plant, new high speed winding facilities at the Morning Star shaft, in mine rail mounted haulage, new separate geology camp and core farm, the new 'Reefers' mining camp and adding mains power supply to the mine underground via a new 1,000v circuit. A water treatment plant for the removal of arsenic from ground water was also established.

Importantly, late in the period, the withdrawal of a line of credit by the Company's leading shareholder Chillee Limited had a profound and immediate effect on operations. Operations have reverted to a 'care and maintain' strategy until sufficient equity capital can be sourced in order to implement our exploration and mining plans. As with most companies of this style, business plans will be optimised around the capital available from time to time. The lack of capital available at the close of the period has been a hindrance in achieving any ramp up in production as was envisaged prior to the period beginning but as discussed above, is not the sole issue at hand. The Company believes with only in the order of 3,000 tonnes of ore brought to surface to date and with less than half of that ore processed – so in other words, with production operations in their infancy - that it's too early to make judgements of any gravity on current operational strategy, however it is clear that gaining greater understanding and confidence in resources, the planning in replenishment of resources, targeted exploration programs and careful cost control will be vital in executing any mining plan and growth at Morning Star. The Company does not feel any assets should be written down at this point especially considering the improving price of gold bullion. The Company's fixed assets are carried in this report at cost minus the applicable depreciation.

Many observers note that the current equity and debt capital markets are the worst in some decades and the small gold and precious metals explorers and miners have been influenced heavily by this outlook and sentiment notwithstanding the buoyant precious metals prices. The Company is cognisant that it is operating in this backdrop but feels the potential of its in ground assets and the consolidation in the small mining market will create a more favourable environment in the coming period.

A full review of the Company's operations during the 2012 financial year and the results of those operations will appear in the Company's Annual Report, which will be released online in coming weeks.

INTEREST IN CONTRACTS

In the period, as has been reported; the Company's largest shareholder Chillee Limited advanced an unsecured loan of A\$2 Million to the Company for working capital requirements. This loan was set to be part of a larger secured advance of A\$10 Million for the same purpose. After the drawdowns of the initial A\$2 Million, the lender advised that the balance of the proposed funding would not go ahead and the Company reported this via ASX on 7 June 2012. Mr Alexei V. Motlokhov is a Non-Executive Director of Morning Star Gold NL and sits on the Company's board of director's at the request of Chillee Limited. Whilst Mr Motlokhov holds no formal role with Chillee Limited, in the interests of best practice in disclosure, the Company discloses the interest in the contract between Mr Motlokhov, Chillee Limited and Morning Star Gold NL.

Since the end of the previous financial year no other director has had any interest in any contract or proposed contract with the Company.

Directors' Report (cont'd)

SIGNIFICANT CHANGES

The accompanying 'Review of Operations' outlines some issues that constitute significant changes for the Company.

Since the end of the previous financial period, there was a significant change to operations when the Company requested the temporary suspension of quotation of its shares on 7 June 2012. This request was due to the Company's major shareholder and lender, Chillee Limited, unilaterally withdrawing the Company's sole line of credit on 6 June 2012. This line of credit was outlined in a commitment letter released via the ASX on 15 March 2012. The withdrawal of the line of credit, which effectively operated as an overdraft on which the Company was wholly reliant at that time, led to the immediate cessation of operations at the Company's tenements and the laying off of all staff. The Company has operated under an effective care and maintain strategy whereby outgoings have been dramatically reduced, fixed and mobile assets secured and maintained and staff contracts reduced to nil. Staff and creditors have been addressed and paid by arrangement and payment plans have been implemented by agreement. Immediate steps have been taken by management to not only reduce outgoings but to court investors and seek to raise equity capital.

During the period of this report and up until the time of temporary suspension, the Company was conducting trial mining with a view to increasing the rate of production over the next few years. In addition the Company had been continuing completion of site infrastructure establishment and also undertaking an extensive amount of mineral and resource exploration by way of diamond drilling and other exploration means across its tenements. As noted above, since this change in the funding situation, a small group of directors and contractors has attended to the Company's immediately urgent and necessary financial and operational needs and liabilities. As also noted above, the Company has been looking for new equity partners to assist in taking the business forward as contemplated variously during the period of this report. The Company does not presently envisage significant changes to its mode of operations but the presence of capital will be the driver for any growth outlined in prior reporting.

Since the period ended on 30 June 2012, the Company's Joint Venture partner Shandong Tianye Group (STG) paid the \$1 Million fifth and final tranche of the exploration joint venture on MIN 5299 and MIN 5241 to the Company.

FINANCIAL POSITION

The Company reported a net loss for the year of \$9,973,131 (2011: loss of \$4,450,942). Revenue from gold and silver sales was \$69,077 (2011: Nil). The net assets of the Company have decreased by \$9,973,131 from 30 June 2011 to \$9,689,416 in 2012 largely as a result of working capital requirements in conducting our exploration and mining activities.

Significant financial activities were as follows:

- An unsecured loan from Chillee Limited of \$2,000,000;
- Exploration and development expenditure of \$8,690,700;
- The construction and commissioning of site based infrastructure such as mill, tailings plant and mine upgrading and refurbishment.

The Company intends to continue implementing a probability weighted exploration plan in order to fulfil its policy of adding to its resource base. This can be achieved as exploration funds become available. The directors believe that once the Company is suitably funded, it will be in a position to continue its exploration, development and mining plans envisaged in the period.

Directors' Report (cont'd)

GOING CONCERN CONSIDERATIONS

As described in the Directors' Report 'Review of Operations' above on page 6-7, the current capital raising environment is certainly challenging and the Company has been unable since balance date to refinance itself in order to position itself to fully capitalise on projects and growth, which was envisaged in the reporting period herein.

The directors consider that the outlook presents significant challenges for small explorers and miners having regard to the equity capital available, market pricing of the Company's peer group and also the costs involved in both exploration and development in underground situations. While the directors have instituted measures to preserve cash, negotiate with counterparties and to secure additional financing, these circumstances combine to create material uncertainties over future operating results and ultimately cash flows.

This financial report and directors' report has been prepared on the basis that the Company continues to operate as a going concern, which contemplates the continuity of business operations, realisations of assets and settlement of liabilities in the ordinary course of business.

The Company is cognizant that ongoing investor support is required to continue to stabilise and enable growth the Company's operations. Whilst discussions and due diligence by investors regarding potential capital raising, restructuring or alternative transaction(s) proceed, the Company will continue to consider non-essential or fairly valued asset sales to meet its operational and working capital requirements in the business overall.

The Company has also continued to engage with its lenders and creditors. The outcome of these discussions remains uncertain and as such the Company is not presently in a position to provide any further details to the market. The directors will continue to pursue alternative sources of funding, but have not yet secured a commitment.

The directors have concluded that the combination of the circumstances noted above represent a material uncertainty that casts significant doubt about the Company's ability to continue as a going concern over the coming period. Nevertheless after making enquiries and considering the uncertainties described above the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future.

For the reasons stated above, the directors continue to adopt the going concern basis in preparing the accompanying annual financial statements.

As advised recently to the ASX, the Company is not aware of any reason why the voluntary suspension should not continue. Until the Company is in a position to provide more specific detail regarding any proposed capital raising, restructuring or alternative form of potential transaction, the Company does not consider it appropriate that the suspension be lifted. It is not feasible to say at this stage when that will be.

LIKELY FUTURE DEVELOPMENTS

As related above in 'Significant Changes' and 'Going Concern Considerations', the Company is presently continuing to look at funding arrangements and subject to the outcome of new funding, continues to contemplate advancing its gold resource prospects through various modes of exploration and also trial mining, both at its regional exploration targets around its Woods Point hub and at the Morning Star Goldmine.

The Company is conducting a review of its operations in the coming period and with the assistance of external evaluation where needed, will look at a range of methods to fund its operations through equity or convertible capital to get back on a path of growth in resources and ultimately production. The Company is of the view that notwithstanding the recent difficult equity capital markets and continuing tough operating environment for small miners in general - due to high labour and operational supply costs particularly - it can find a way to exploit what it believes to be its favourable in-ground assets and move forwards in a more confident light than since June 2012.

The Company's exploration and resource delineation drilling program (including permitting, geology, administration and earthworks) was costed in the period at \$10.3 Million over a 34 month period. However, this program can be altered, deleted or added to easily and there is no current commitment to apply any funding whatsoever.

Any and all relevant and appropriate future developments and results influencing such developments, which are deemed necessary for disclosure will be outlined and discussed in the Company's Annual Report for 2012.

ENVIRONMENTAL REGULATIONS

The Company is subject to environmental regulations in respect to its exploration and mining activities and has fully complied with its obligations. No known rehabilitation commitments exist at the date of preparation of the accounts.

Directors' Report (cont'd)

SINCE BALANCE DATE

Since balance date there has been a significant change to the operations of Morning Star Gold NL. As outlined above, the Company ceased operations and cut staff in early June 2012. Since that time and continuing since balance date, the Company has taken necessary steps to arrange the financing required, in order to accommodate paying staff, creditors and other statutory obligations through various means including;

1. Using available cash reserves;
2. Selling non-essential assets;
3. Arrangements with creditors including agreement of reduced payments and payment plans;
4. Joint Venture receipts;
5. Capital raising: The Company entered an agreement to issue Yarandi Investments Pty Ltd up to \$600,000 worth of redeemable convertible notes to be secured against fixed assets;
6. Testing, processing and sale of site stockpiles and concentrates.

As discussed prior in this report, the Company will continue looking at a range of funding options including asset disposal, joint ventures, divestment and future capital raising to fulfil its financial obligations and to assist in achieving its business plans in order to provide for growth and to benefit its stakeholders.

OPTIONS

At the date of this report there are no unissued ordinary shares of the Company under option. However, 500,000 1 cent partly paid shares (with 9 cents to pay) are held by a former director Mr M H Bird.

REMUNERATION REPORT

The remuneration of directors is by way of a fixed annual fee and is established by the shareholders.

There is no relationship between executive remuneration and the performance of the Company.

Remuneration of key management personnel for the year ended 30 June 2012

Directors	Salary & Fees	Consulting Fees	Superannuation Contribution	Total
	\$	\$	\$	\$
N M Garling	223,500	62,500	25,740	311,740
P G Jackson	36,000	21,709	-	57,709
Z Zeng	-	-	-	-
A V Motlokhov	-	-	-	-
N R Laidlaw	36,000	545	-	36,545
M Botting ¹	350,000	-	31,500	381,500
	645,500	84,754	57,240	787,494

¹Mr Botting was appointed as CEO July 2011 and resigned on 20 July 2012 after balance date.

Directors or their associates were paid consulting fees in the normal course of business in respect to the Company's mining and exploration program as set out in Note 18.

Directors' Report (cont'd)

Remuneration of key management personnel for the year ended 30 June 2012

Directors	Directors' Fees	Consulting Fees	Superannuation Contribution	Total
	\$	\$	\$	\$
N M Garling	20,000	250,028	24,302	294,330
J W Williams	30,000	-	1,800	31,800
P G Jackson	20,900	66,424	-	87,324
P G Hepburn-Brown	10,900	23,100	-	34,000
Z Zeng	-	-	-	-
A V Motlokhov	-	-	-	-
	81,800	339,552	26,102	447,454

NON-AUDIT SERVICES

There were no non-audit services provided to the Company during the year by the independent auditors.

AUDITOR'S INDEPENDENCE DECLARATION

The Company's auditor has provided an independence declaration to the Company for the year ended 30 June 2012. The declaration forms part of this report.

Signed in Melbourne on this 15th day of November 2012 in accordance with a resolution of directors.




N M Garling

N R Laidlaw

Auditor's Independence Declaration

Under Section 307c of the Corporations Act 2001

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2012

		June 2012	June 2011
		\$	\$
Revenue	4	1,734,152	2,970,000
Gain/(Loss) on revaluation of investments		-	439,000
Gain/(Loss) on sale of investments		(339,797)	-
Exploration and development expenses	11	(8,690,700)	(4,776,827)
Administration expenses		(2,676,786)	(3,083,115)
Profit/(Loss) before income tax		(9,973,131)	(4,450,942)
Income tax expense		-	-
Profit/(loss) for the period		(9,973,131)	(4,450,942)
Total comprehensive income for the year		(9,973,131)	(4,450,942)
Basic earnings per share (cents)	16	(3.50)	(1.64)
Diluted earnings per share (cents)		(3.50)	(1.64)

The accompanying condensed notes on pages 17 to 33 form part of these Financial Statements

STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

	Notes	June 2012 \$	June 2011 \$
Current assets			
Cash & cash equivalents	6	14,086	10,549,618
Receivables	7	834,332	446,608
Inventory	8	362,371	254,459
Financial assets	9	-	734,000
Total current assets		1,210,789	11,984,685
Non-current assets			
Property, plant & equipment	10	12,115,325	8,070,605
Mining properties	11	716,858	716,858
Mine security bonds & deposits		228,918	2,000
Total non-current assets		13,061,101	8,789,463
Total assets		14,271,890	20,774,148
Current liabilities			
Trade & other payables	12	2,539,060	1,050,283
Provisions	13	43,414	61,318
Unsecured loan		2,000,000	-
Total current liabilities		4,582,474	1,111,601
Total liabilities		4,582,474	1,111,601
Net assets		9,689,416	19,662,547
Equity			
Issued capital	14	43,771,891	43,771,891
Reserves		664,760	664,760
Retained profits/(Accumulated losses)		(34,747,235)	(24,774,104)
Total equity		9,689,416	19,662,547

*The accompanying condensed notes on pages 17 to 33 form part of these
Financial Statements*

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2012

	Share Capital	Accumulated Losses	General Reserve	Option Reserve	Total Equity
	\$	\$	\$	\$	\$
Balance at 1 July 2010	28,519,395	(20,323,162)	-	1,807,256	10,003,489
Shares Issued	15,000,000	-	-	-	15,000,000
Issue Costs	(900,000)	-	-	-	(900,000)
Transfer to/(from) option reserve	1,152,496	-	-	(1,152,496)	-
Transfer to/(from) general reserve	-	-	654,760	(654,760)	-
Total Comprehensive Income	-	(4,450,942)	10,000	-	(4,440,942)
Balance at 30 June 2011	43,771,891	(24,774,104)	664,760	-	19,662,547

	Share Capital	Accumulated Losses	General Reserve	Option Reserve	Total Equity
	\$	\$	\$	\$	\$
Balance at 1 July 2011	43,771,891	(24,774,104)	664,760	-	19,662,547
Shares Issued	-	-	-	-	-
Options Issued	-	-	-	-	-
Issue Costs	-	-	-	-	-
Transfer to/(from) option reserve	-	-	-	-	-
Transfer to/(from) general reserve	-	-	-	-	-
Total Comprehensive Income	-	(9,973,131)	-	-	(9,973,131)
Balance at 30 June 2012	43,771,891	(34,747,235)	664,760	-	9,689,416

The accompanying condensed notes on pages 17 to 33 form part of these Financial Statements

Statement of Cash Flows

For the year ended 30 June 2012

STATEMENT OF CASH FLOWS

For the year ended 30 June 2012

	Notes	June 2012 \$	June 2011 \$
Cash flows from operating activities			
Proceeds from sale of gold		69,077	-
Interest and fuel tax credits received		263,953	559,793
Payments to suppliers & employees		(7,452,994)	(5,794,921)
Proceeds from funding of joint venture		1,000,000	1,750,000
Expenses of joint venture		(1,235,240)	(2,264,310)
Net increase/(decrease) in cash from operating activities	20	(7,355,203)	(5,749,438)
Cash flows from investing activities			
Payments for property, plant & equipment		(5,334,901)	(4,572,376)
Investments in term deposits		(238,460)	-
Sale/(purchase) of financial assets		392,713	(36,000)
Proceeds from sale of fixed assets		318	25,000
Net increase/(decrease) in cash from investing activities		(5,180,329)	(4,583,376)
Cash flows from financing activities			
Proceeds from issue of shares and options		-	15,000,000
Placement fees & other share issue costs		-	(900,000)
Proceeds from borrowings		2,000,000	-
Net increase/(decrease) in cash from financing activities		2,000,000	14,100,000
Net increase/(decrease) in cash held		(10,535,532)	3,767,186
Cash at the beginning of the period		10,549,618	6,782,432
Cash at the end of the period	6	14,086	10,549,618

The accompanying condensed notes on pages 17 to 33 form part of these Financial Statements

Notes to Financial Statements

For the year ended 30 June 2012

1. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance:

The financial report is a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards, Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board. The financial statements have been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards (IFRS). The financial report was authorised for issue by the directors on 5 November 2012.

Basis of Preparation:

The financial report is presented in Australian dollars and is prepared on the historical cost basis except for financial instruments, which have been stated at their fair value. This financial report has been prepared on the basis that the Company continues to operate as a going concern, which contemplates the continuity of business operations, realisations of assets and settlement of liabilities in the ordinary course of business. The Company is cognizant that ongoing investor support is required to continue to stabilise and enable growth the Company's operations. Whilst discussions and due diligence by investors regarding potential capital raising, restructuring or alternative transaction(s) proceed, the Company will continue to consider non-essential or fairly valued asset sales to meet its operational and working capital requirements in the business overall. The Company has also continued to engage with its lenders and creditors. The outcome of these discussions remains uncertain and as such the Company is not presently in a position to provide any further details in this report. The ability of the Company to continue as a going concern will depend on a successful outcome to the abovementioned process, which is ongoing. Pending the outcome of that process, the Directors consider it appropriate to adopt the going concern basis in preparing this report.

(a) Income Tax

The charge for current income tax expenses is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date. Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised. The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(b) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses.

Buildings, Plant and Equipment

Buildings, plant and equipment are measured on the cost basis less depreciation and impairment losses. The carrying amount of buildings, plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal.

The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Notes to Financial Statements (cont'd)

For the year ended 30 June 2012

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, Plant and Equipment (continued)

Depreciation

The depreciable amount of all fixed assets including buildings, is depreciated over their useful lives to the economic entity commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

<u>Class of Fixed Asset</u>	<u>Depreciation Rate</u>	<u>Method</u>
Buildings	2.5%	Straight Line
Plant and equipment	10% - 50%	Straight Line

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income.

(c) Exploration and Development Expenditure

Exploration and Development Expenditure consists of expenditure on prospects still at an exploratory stage or at an early stage of development. These costs include costs of acquisition, exploration, determination of recoverable reserves, economic feasibility studies, mine refurbishment and all technical and administrative overheads directly associated with those projects. Recoupment of exploration and development costs is dependent upon the successful commercial exploitation of each area of interest. The company adopts the "area of interest" method of accounting whereby all exploration and development costs relating to areas of interest are written off as incurred.

(d) Mining and Development Leases

Mining and Development Leases are carried at cost less, where applicable, impairment losses.

When production commences, the cost of the relevant lease will be amortised over the life of the mine according to the rate of depletion of the economically recoverable reserves. Estimated costs of site restoration, where material, are provided over the life of the mine from when the lease is acquired.

Security deposits and bank guarantees have been lodged with the Department of Primary Industries Victoria, Earth Resources Division (DPIV) in relation to potential site restoration costs.

Notes to Financial Statements (cont'd)

For the year ended 30 June 2012

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial Instruments

Recognition

Financial instruments are initially measured at fair value. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets at fair value through profit and loss

Financial assets in this category are stated at fair value. Realised and unrealised gains and losses arising from changes in fair value are included in the statement of comprehensive income in the period in which they arise.

Fair Value

Fair value is determined based on current bid prices for all quoted investments.

(f) Impairment of Assets

At each reporting date, the Company reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less cost to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of comprehensive income.

(g) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

(h) Inventories

Inventories are measured at the lower of cost and net realisable value.

The cost of mining stocks includes direct materials, direct labour, transportation costs and variable and fixed overhead costs relating to mining activities.

(i) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the assets or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Notes to Financial Statements (cont'd)

For the year ended 30 June 2012

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Share-Based Payments

Equity – settled share – based payment transactions with suppliers are measured at the fair value of the goods and services received. The fair value is measured at the market price for those goods and services.

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Fair value is determined based on current bid prices for all quoted investments.

(k) Interests in Joint Ventures

The Company's share of the assets, liabilities, revenue and expenses of joint venture operations are included in the appropriate items of the statement of comprehensive income and statement of financial position.

(l) Critical Accounting Estimates and Judgments

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgments, estimates and assumptions that effect the application of policies and the reported amounts of assets, liabilities, revenue and expenses.

The estimates and judgments incorporated into the financial report are based on historical experiences and the best available current information on current trends and economic data, obtained both externally and within the company. The estimates and judgements made assume a reasonable expectation of future events but actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision effects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. There were no key adjustments during the year which required accounting estimates and judgments.

(m) Key Estimates

Impairment

The Company assesses impairment at each reporting date by evaluating conditions specific to the Company that may lead to impairment. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value in use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

Rehabilitation

The Company is required to lodge bank guarantees, the quantum of which is governed by the DPIV in order to cater for estimated rehabilitation costs of its operations as described in the accounting policy note in paragraph (d) above.

Notes to Financial Statements (cont'd)

For the year ended 30 June 2012

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Revenue

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument.

Other revenue is recognised when the right to receive the revenue has been established. All revenue is stated net of the amount of goods and services tax (GST).

(o) Employee Benefits

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to the end of the reporting period. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled.

2. INCOME TAX EXPENSE

No Income Tax is payable in respect of either this year or the previous year.

The Company has residual deductible exploration expenditure and losses for Income Tax purposes unrecouped at 30 June 2012 as shown below, subject to confirmation by the Australian Taxation office.

The future Income Tax benefit which may be derived from this expenditure and tax losses has not been carried forward as an asset in the balance sheet and will only be obtained if the Company;

- i) Derives future assessable income of a nature and sufficient amount to enable the benefit to be realised;
- ii) Continues to comply with the legal conditions for deductibility; and
- iii) No changes in legislation adversely affects the ability of the Company to realise the benefit.

Notes to Financial Statements (cont'd)

For the year ended 30 June 2012

2. INCOME TAX EXPENSE (continued)

	30 June 2012	30 June 2011
Exploration & development expenditure & tax losses carried forward	35,192,641	25,438,497
The benefit of these deductions at the income rate of 30%		
Future Income tax benefit not brought to account	10,557,792	7,631,549
Numerical reconciliation of income tax expense to prima facie tax payable is as follows:		
Profit (loss) from operations before income tax expense	(9,973,131)	(4,450,942)
Tax at Australian tax rate of 30% (2011 also at 30%)	(2,991,939)	(1,335,283)
Tax effect of non-temporary differences	2,271	5,927
Tax effect of equity raising costs debited to equity	(97,221)	(102,781)
Tax effect of tax losses and temporary differences not recognised	(3,086,890)	1,432,136
Income tax expense	-	-

3. FRANKING ACCOUNT

Balance of franking account at year end	25,496	25,496
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4. REVENUE

Gold/Silver Sales	69,077	-
Interest Received	263,953	538,258
Fuel Tax Credits	-	21,535
Equipment Hire Fee	175,000	103,310
Joint Venture Management Fee	182,755	290,330
Joint Venture Expenditure Recovered	1,043,367	2,016,567
	1,734,152	2,970,000

5. PROFIT/(LOSS) FOR THE YEAR

The profit/(loss) for the year has been determined after charging:

Depreciation of Property, Plant & Equipment	1,290,399	195,660
Auditors' Remuneration	192,050	92,565
Other Assurance Services	-	24,865

Notes to Financial Statements (cont'd)

For the year ended 30 June 2012

6. CASH AND CASH EQUIVALENTS

	30 June 2012	30 June 2011
Cash at Bank	14,086	283
Interest Bearing Deposits	-	10,554,093
Corporate Credit Card	-	(4,758)
	14,086	10,549,618

7. RECEIVABLES

Due from Joint Venture	416,884	181,644
Indirect Taxes Recoverable	373,057	201,055
Prepaid Expenses	11,672	24,609
Other Receivables	32,719	39,300
	834,332	446,608

8. INVENTORY

Stores	102,340	180,866
Fuel	3,270	13,880
Gold Concentrate & Stockpiled Ore	256,761	59,713
	362,371	254,459

9. FINANCIAL ASSETS: AT FAIR VALUE THROUGH PROFIT AND LOSS

Silver Mines Limited	-	726,000
Central West Gold	-	8,000
At Fair Value	-	734,000

10. PROPERTY, PLANT & EQUIPMENT

Buildings at Cost	429,237	360,475
Less: Accumulated Depreciation	95,178	73,963
	334,059	286,512
Plant & Equipment at Cost	13,990,069	8,723,930
Less: Accumulated Depreciation	2,208,803	939,837
	11,781,266	7,784,093
	12,115,325	8,070,605

Notes to Financial Statements (cont'd)

For the year ended 30 June 2012

10. PROPERTY, PLANT & EQUIPMENT (continued)

Movements in Carrying Amounts

Movement in the carrying amounts for each class of property, plant & equipment between the beginning and the end of the current financial year

	Buildings	Plant & Equipment	Total
	\$	\$	\$
Balance at 30 June 2010	211,220	3,760,346	3,971,566
Additions	146,470	4,216,465	4,362,935
Disposals	-	(68,236)	(68,236)
Depreciation	(71,178)	(124,482)	(195,660)
Balance at 30 June 2011	286,512	7,784,093	8,070,606
Additions	68,762	5,268,182	5,336,944
Disposals	-	(1,826)	(1,826)
Depreciation	(21,215)	(1,269,184)	(1,290,399)
Balance at 30 June 2012	334,059	11,781,266	12,115,325

11. MINING PROPERTIES

	30 June 2012	30 June 2011
	\$	\$
Mining & Development Leases - See A below	716,858	716,858
Mining Exploration & Development Expenditure - See B below	-	-
	716,858	716,858
<i>A. Mining & Development Leases:</i>		
Balance brought forward	716,858	716,858
Balance carried forward	716,858	716,858
<i>B. Mining Exploration & Development Expenditure:</i>		
Balance brought forward	-	-
Expenditure incurred during the year	8,690,700	4,776,827
Expenditure written off during the year	(8,690,700)	(4,776,827)
Balance carried forward	-	-

Ultimate recoupment of mining exploration & development expenditure carried forward is dependent upon successful development and exploitation or sale of the respective areas.

Notes to Financial Statements (cont'd)

For the year ended 30 June 2012

12. TRADE AND OTHER PAYABLES

	30 June 2012	30 June 2011
	\$	\$
Trade Creditors	1,490,728	888,776
Sundry Creditors & Accruals	446,482	-
Employee Benefits Payable	580,413	-
Indirect Taxes Payable	21,437	161,507
	2,539,060	1,050,283

13. PROVISIONS

Provision for Annual Leave	43,414	61,318
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14. ISSUED CAPITAL

Paid Up Capital:

At Beginning Of Financial Year:

284,318,462 Ordinary Shares (2011 251,701,766)	43,766,891	28,514,395
500,000 @ 1c Paid (2011 500,000)	5,000	5,000

Issued During The Year:

NIL Ordinary Shares (2011 32,616,696)	-	15,000,000
Share Issue Costs	-	(900,000)
Transfer From Option Reserve	-	1,152,496
	43,771,891	43,771,891

At End Of Financial Year:

284,318,462 Ordinary Shares (2011 284,318,462)	43,766,891	43,766,891
500,000 @ 1c Paid (2011 500,000)	5,000	5,000
	43,771,891	43,771,891

Notes to Financial Statements (cont'd)

For the year ended 30 June 2012

14. ISSUED CAPITAL (continued)

Partly Paid Shares

As at 30 June 2012, only 500,000 partly paid shares held by Mr Malcolm Bird remained unpaid as to 9c per share. These partly paid shares were issued to Mr Bird in March 2006, while he was a director of the Company. They are at a price of 10c per share, paid to 1c on issue and the unpaid amount is to be called by the Company not later than 10 years after the issue date. Partly paid shares have no voting rights and no rights to dividends or any other distributions while they are partly paid.

Options

As at 30 June 2012, the Company had no share options on issue (2011: no share options on issue).

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Share options carry no rights to dividends and no voting rights.

Capital Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so as to maintain a strong capital base sufficient to maintain future exploration and development of its projects. In order to maintain or adjust the capital structure, the Company may return capital to shareholders, or issue new shares or seek alternative financing means. The Company's focus in the period has been to raise sufficient funds through equity, debt or convertible capital to fund development, exploration and evaluation activities and to implement its corporate goals and business plans. The Board continues to carefully assess and discuss the Company's capital management strategy as outlined in the Director's Report hereto. The Company is not subject to externally imposed capital requirements.

15. SEGMENTS

In the year ended 30 June 2012 the Company operated entirely within Australia and the principal activity was mineral exploration, refurbishment and development of the Morning Star Goldmine, development at the Rose of Denmark mine and mineral exploration in the area of its wider tenements.

Notes to Financial Statements (cont'd)

For the year ended 30 June 2012

16. EARNINGS PER SHARE

	30 June 2012	30 June 2011
	\$	\$
(a) Earnings used in calculation of basic EPS	(9,973,131)	(4,450,942)
(b) Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS.	284,818,462	271,096,306

Diluted Earnings Per Share has the same value as Basic Earnings Per Share for both years.

17. COMMITMENTS FOR EXPENDITURE

Exploration Commitments

In order to maintain current rights of tenure to exploration and mining tenements, the Company is required to meet the minimum expenditure requirements of the Victorian Department of Primary Industries. The payment of these obligations, which are not provided for in the accounts are payable as follows:

	30 June 2012	30 June 2011
	\$	\$
Not later than one year	898,900	959,500
Later than one year but not later than five years	3,595,600	3,626,200
Later than five years	-	-

18. RELATED PARTIES

Details of Key Management Personnel

Nicholas M Garling	Chairman, Executive Director, Acting CFO
Peter G Jackson	Non-executive Director
Zhaoqin Zeng	Non-executive Director
Alexei V Mottokhov	Non-executive Director
Noel R Laidlaw	Non-executive Director
Michael D Botting	Chief Executive Officer

Compensation of Key Management Personnel

	30 June 2012	30 June 2011
	\$	\$
Short Term Employee Benefits	730,254	331,828
Post-Employment Benefits	57,240	27,002
	787,494	357,930

Remuneration received or receivable by the Directors of the Company is disclosed in the Directors' Report.

Notes to Financial Statements (cont'd)

For the year ended 30 June 2012

Movements in Shares

The aggregate number of shares and options for shares of Morning Star Gold NL acquired or disposed of by Key Management Personnel during the year is as follows:

Key Management Personnel	Held at 1 July 2011	Acquisitions	Sales	Held at 30 June 2012
N M Garling	20,236,044	728,600	-	20,964,644
P G Jackson	-	-	-	-
Z Zeng	28,000,000	-	-	28,000,000
A V Motlokhov	35,008,696	4,000,000	-	39,008,696
N R Laidlaw	-	-	-	-
M D Botting	-	-	-	-
	83,244,740	4,728,600	-	87,973,340

Director Related Entities

Transactions entered into during the year with Key Management Personnel are as follows:

1. Mr N M Garling received salary and consulting fees of \$250,000 in the normal course of business in respect of the Company's exploration and development program.
2. Mr P G Jackson received geological fees of \$21,709 in the normal course of business in respect of the Company's exploration and development program.
3. Mr N R Laidlaw received consulting fees of \$545 in the normal course of business in respect of the Company's exploration and development program.
4. Mr Z Zeng is Chairman of Shandong Tianye Real Estate Co Ltd which holds 28,000,000 MCO shares via BBY Nominees Pty Ltd and is a 51% Joint Venture counterparty of MCO on two Victorian Mining Licences (MIN 5299 at Gaffneys Creek and MIN 5241 at Matlock)
5. Mr A V Motlokhov represents the interests of Chillee Limited, which holds 39,008,696 MCO shares and is the lender of \$2 Million to the Company.

19. CONTINGENT LIABILITIES

As a condition for the granting of Exploration and Mining Licences the Company was obliged to lodge with the Victorian Department of Primary Industries Earth Resources division, security deposits in the form of Bankers Certificates in the total sum of \$208,500 (2011 \$208,500), these certificates are backed by deposits amounting to \$208,500 as at 30 June 2012. In the event of the Company failing to fulfil any of its obligations in relation to the grant of the Exploration Licences the security deposits may be applied at the discretion of the Minister for Minerals Resources & Energy towards the costs of fulfilling such obligations.

In the event that the bankers are obliged to pay the Minister under the terms of the Banker's Certificates they would have full recourse to the Company for compensation.

The Directors are not aware of any events that have occurred either before or since 30 June 2012, which may result in the forfeiture of any of the above-mentioned funds.

Notes to Financial Statements (cont'd)

For the year ended 30 June 2012

20. RECONCILIATION OF NET INCREASE (DECREASE) IN CASH FROM OPERATING ACTIVITIES TO OPERATING PROFIT (LOSS) AFTER INCOME TAX

	30 June 2012	30 June 2011
	\$	\$
Operating profit (loss) after income tax	(9,973,131)	(4,450,942)
Depreciation	1,290,399	195,660
Revaluation of Portfolio Investments	-	(439,000)
<i>Change in operation assets & liabilities:</i>		
Decrease (increase) in operating receivables	(387,725)	(144,946)
Decrease (increase) in inventory	(107,912)	(254,459)
Increase (decrease) in operating liabilities	(1,559,213)	(1,215,514)
Net increase (decrease) in cash from operating activities	(7,619,156)	(6,309,231)

21. FINANCIAL INSTRUMENT DISCLOSURES

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise adverse effects on the financial performance of the Company. The Company uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rates and other price risks and aging analysis for credit risk.

Risk management is carried out by the Board of Directors who identifies and evaluates the risks.

(a) Market Risk

(i) Foreign exchange risk

The Company does not have any significant exposure to foreign exchange risk.

(ii) Price Risk

The Company in the current year did not have any significant exposure to investment or commodity price risk. The Company will have exposure to gold price risk when mining operations begin. Directors have not made any determination at this stage as to whether they will consider commodity price hedge arrangements.

(iii) Cash flow and fair value interest rate risk

The Company has exposure to interest rate risk which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on those financial assets and the financial liabilities.

Notes to Financial Statements (cont'd)

For the year ended 30 June 2012

21. FINANCIAL INSTRUMENT DISCLOSURES (continued)

The Company policy is to ensure that the best interest rate is received for the short-term deposits. The Company uses a number of banking institutions, with a mixture of fixed and variable interest rates. Interest rates are reviewed prior to deposits maturing and re-invested at the best rate.

The interest rate risk is detailed in the table below.

	Weighted Average Effective Interest Rate %	Floating Interest Rate \$	Fixed Interest Rate Maturing		Non- interest Bearing \$	Total \$
			Within 1 year \$	Over 1 year \$		
2012						
Financial Assets						
Cash assets	0.01		14,086	-	-	14,086
Receivables					834,333	834,333
Inventory					362,371	362,371
			14,086	-	1,196,704	1,210,790
2011						
Financial Assets						
Cash assets	6.17	284	10,301,874	238,460		10,549,618
Receivables					446,608	446,608
Inventory					254,459	254,459
Financial Assets at Fair Value					734,000	734,000
		284	10,301,874	238,460	1,435,067	11,984,685

(b) Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security in respect of recognised financial assets, is the carrying amount as disclosed in the statements of financial position and notes to the financial statements.

(c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company manages liquidity risk by maintaining adequate cash reserves from funds generated from operations and by continuous monitoring of forecasts and actual cash flows.

Notes to Financial Statements (cont'd)

For the year ended 30 June 2012

21. FINANCIAL INSTRUMENT DISCLOSURES (continued)

Currently, as outlined in Note 1 "Significant Accounting Policies", this financial report has been prepared on the basis that the Company continues to operate as a going concern, which contemplates the continuity of business operations, realisations of assets and settlement of liabilities in the ordinary course of business. The Company is cognizant that ongoing investor support will be required to continue the Company's operations. Whilst discussions and due diligence by investors regarding potential capital raising, restructuring or alternative transaction(s) proceed, the Company will continue to consider non-essential or fairly valued asset sales to meet its operational and working capital requirements in the business overall.

The Company has also continued to engage with its lenders and creditors. The outcome of these discussions remains uncertain presently. The ability of the Company to continue as a going concern will depend on a successful outcome of the abovementioned ongoing process.

The following are the contractual maturities of financial liabilities.

Financial Liabilities Group	Carrying Amount	Contractual cash flows	1 year or less	1-2 years
	\$	\$	\$	\$
2012				
Trade and other payables	2,539,060	2,539,060	2,539,060	-
Borrowings	2,000,000	2,000,000	2,000,000	-
	4,539,060	4,539,060	4,539,060	-
2011				
Trade and other payables	1,050,283	1,050,283	1,050,283	-
	1,050,283	1,050,283	1,050,283	-

(d) Net Fair Values

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The net fair values of the financial assets and financial liabilities approximate their carrying values.

The fair value of financial assets and financial liabilities with standard terms and conditions and traded on organised markets are determined with reference to quoted market prices.

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the statements of financial position and in the notes to the financial statements.

(e) Sensitivity Analysis

The Company has not performed a sensitivity analysis on price risk and its impact on current year results and equity, which could result from a change in this risk as the likely impact is insignificant given that minimal revenue was generated from gold sales during the year.

Notes to Financial Statements (cont'd)

For the year ended 30 June 2012

22. NEW STANDARDS AND INTERPRETATIONS IN ISSUE NOT YET ADOPTED

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2012, and have not been applied in preparing these financial statements:

- AASB 9 Financial Instruments – could change the classification and measurement of financial assets. The Company does not plan to adopt this standard early. The amendments become mandatory for the Company's 30 June 2013 financial statements and the extent of the impact has not been determined.
- AASB 119 Employee Benefits – is amended focussing on, but is not limited to the accounting for defined benefit plans. In addition, it changes the definition of short-term and other long term employee benefits and some disclosure requirements. The amendments, which become mandatory for the Company's 30 June 2013 financial statements, are not expected to have a significant impact on the financial statements.
- AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 2011-4] removes the requirements to include individual key management personnel disclosures in the notes to the financial statements. The Company will still need to provide these disclosures in the Remuneration Report under s.300A of the Corporations Act 2001. The amendments, which will become mandatory for the Company's 30 June 2014 financial statements, are not expected to have any impact on the financial statements, other than disclosures.
- AASB 10 Consolidated Financial Statements – introduces a new approach in determining which investees should be consolidated and whether an investor is exposed, or had the rights, to variable returns from its involvement with the investee.
- AASB 11 Joint Arrangements – is amended to determine the consolidation requirements for joint operations and joint ventures depending on whether or not parties have rights to and obligations for underlying assets and liabilities.
- AASB 20 Stripping Costs in the Production Phase of a Surface Mine – has been issued to account for production stripping costs in a surface mine and clarifies certain criteria that need to be met in order to enable capitalisation of stripping costs.

23. JOINT VENTURE

The Company entered into a Joint Venture Agreement in November 2009 with Ample Rise Investments, a HK domiciled company investing in resources and with a long-term strategic focus. In August 2010 the Company's Joint Venture Agreement was novated and assigned from Ample Rise to Shandong Tianye Real Estate Development Group Co., Ltd (Shandong Tianye Group or STG).

The key commercial terms of the Joint Venture are that STG would expend \$4.5M over a period agreed between the parties to earn a 51% interest in two of Morning Star Gold's Victorian regional mining licences, those being MIN5299 and MIN5241. Morning Star Gold NL was appointed under the agreement to manage and operate the Joint Venture over the farm-in period and in consideration of this, would earn 15% of the amounts expended on the Joint Venture for undertaking and executing that role.

Notes to Financial Statements (cont'd)

For the year ended 30 June 2012

23. JOINT VENTURE (continued)

At the balance date, STG had contributed \$3.5M to the Joint Venture with Morning Star Gold NL. Since balance date, a further \$1M was contributed to the Joint Venture (\$250,000 on 12 July 2012 and \$750,000 on 15 August 2012), which represented payments for amounts owing under the JV and the finalisation of the five agreed tranche contributions.

In the coming period following the successful payment of the tranches, Morning Star Gold NL will by agreement take steps to seek transfer of the 51% ownership of each of MIN5299 and MIN5241 to STG and at that point in the future, Morning Star Gold NL will own 49% and STG will own 51% of the two MINs. Subsequent to this taking place, a joint venture committee would meet and decide upon business planning and operations procedure for the exploration, development and mining prospects in question.

The Company is also a partner in two NSW Joint Ventures each prospective for gold, silver and base metals. Morning Star Gold is in partnership with TriAusMin Limited on EL 5878 at Bobadah in the central west of NSW. At the heart of this JV is the Overflow Mine project located south of Cobar and 180kms west of Dubbo, just 40kms northwest of the Mineral Hill mine. MCO is a 15% partner herein and expended \$12,000 on this JV in the period. The Company's second NSW JV is with Triako Resources (wholly owned subsidiary of CBH Resources Ltd /Toho Zinc Co Ltd) in a similar area north of Condobolin over EL 6437 at Boona Mount. MCO is a 10% partner in the Boona JV and expended \$ 8,709.25 on this JV in the period. Both JV's are long-term exploration prospects where its felt Cobar basin type deposits may exist.

The Company's share of the assets, liabilities, revenue and expenses of joint venture operations are included in the appropriate items of the statement of comprehensive income and statement of financial position.

The Company's share of assets employed in the joint ventures was:

	30 June 2012	30 June 2011
	\$	\$
Mining Properties	264,000	264,000

Notes to Financial Statements (cont'd)

For the year ended 30 June 2012

24. SUBSEQUENT EVENTS

As reported in the accompanying Directors' Report, since the end of the previous financial period, there was a significant change when the Company requested the temporary suspension of quotation of its shares on 7 June 2012 due to the Company's sole lender and major shareholder Chillee Limited, unilaterally withdrawing the Company's line of credit on 6 June 2012. Chillee Limited outlined this line of credit or loan in a commitment letter on 15 March 2012. The withdrawal of the line of credit, which effectively operated as an overdraft on which the Company was wholly reliant upon for operational expenditure at that time, led to the immediate cessation of operations at the Company's tenements and the laying off of all staff.

During the period of this report and up until that time, the Company was conducting limited trial mining and production and had been continuing completion of site infrastructure establishment and also undertaking exploration by way of diamond drilling and other exploration across its tenements. Since this time, skeleton consulting staffs have attended to the Company's financial and operational liabilities. Since the time of this withdrawal, the Company has been looking for new equity partners to take the business forward as contemplated variously during the period of this report.

Subsequent to the period end and as noted in the Directors' Report '*Since Balance Date*', accompanying these notes, the Company executed a capital raising when it entered into an agreement with Yarandi Investments Pty Ltd, ("YIPL") whereby YIPL can subscribe for up to \$600,000 of secured redeemable convertible notes. These notes allow YIPL to convert at 10 cents each into fully paid ordinary shares in the Company up to one year from issue. Approximately \$550,000 in working capital has been provided to date. YIPL is an existing substantial shareholder of Morning Star Gold NL.

The Company is presently continuing to look at funding arrangements and subject to the outcome of new funding, continues to contemplate advancing its gold resource prospects through various means of exploration and also trial mining, both at its regional exploration areas around its Woods Point hub and at the Morning Star Goldmine.

The Company is conducting a review of its operations in the period and with the assistance of external evaluation consultants where needed, will look at a range of methods to fund its operations through equity capital and get back to growing and enhancing the Company's various resource based assets. The Company is of the view that notwithstanding the recent difficult equity capital markets and continuing tough operating environment for small exploration companies and producers in general - due to high labour and operational supply costs particularly - that nonetheless, it can further enhance what it believes to be its favourable in-ground assets and move forwards in a more certain and positive fashion than since June 2012.

Director's Declaration

In accordance with a resolution of directors of Morning Star Gold NL, we state that:

1. In the opinion of the directors:

(a) The financial statements and notes thereto, and the disclosures included in the audited 2012 Remuneration Report, comply with Australian accounting Standards and the Corporations Act 2001;

(b) The financial statements and notes thereto give a true and fair view of the financial position of the Company as at 30 June 2012 and of the performance of the Company for the financial year ended 30 June 2012;

(c) The financial statements and notes thereto also comply with standards set down by the Australian Accounting Standards Board ("AASB") except those as disclosed in note 22;

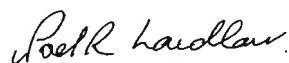
(d) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295a of the Corporations Act 2001 for the year ended 30 June 2012.

For and on behalf of the Board

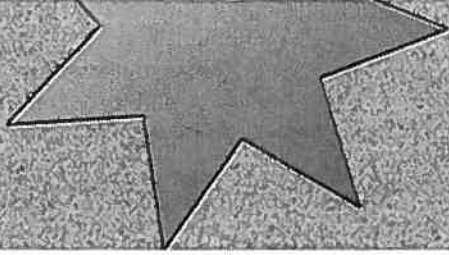


N M GARLING



N R LAIDLAW

Dated this 15th day of November, 2012




morningstar
mining a golden future

Independent Audit Report

Shareholder Information

ISSUED CAPITAL

As at 15 November 2012 the Company had on issue 284,318,462 ordinary shares and 500,000 partly paid shares issued at a price of 10c per share and paid to 1c on issue. The partly paid shares are not quoted on any exchange.

SUBSTANTIAL SHAREHOLDERS

As at 15 November 2012 the Company had the following substantial shareholders:

Chillee Limited (incl. in own name and in nominee holdings)	39,008,696 shares
NM Garling (incl. indirect and direct holdings)	36,200,356 shares
Yarandi Investments Pty Ltd (incl. Dirdot P/L and Rimwage P/L)	31,707,032 shares
BBY Nominees Pty Ltd (as nominee for Shandong Tianye Group)	28,000,000 shares

DISTRIBUTION OF SHAREHOLDERS

As at 15 November 2012 there were 1,800 shareholders. Each shareholder is entitled to one vote for each share held.

The analysis of the number of holders was:

Size of Holding	No. of Holders
1 - 1,000	148
1,001 - 5,000	381
5,001 - 10,000	257
10,001 - 100,000	758
100,001 and over	256

	1,800
	===

There were no shareholders who held less than a marketable parcel. The top twenty holders held 61.73% of the Company's share capital.

Shareholder Information (cont'd)

TOP TWENTY HOLDERS OF ORDINARY SHARES AS AT 15 NOVEMBER 2012

Name	Shares	%
Chillee Limited	39,008,696	13.72
BBY Nominees Pty Ltd	28,000,000	9.85
Yarandi Investments Pty Ltd	22,684,330	7.98
NM Garling	20,964,644	7.37
SJ Graham	15,235,712	5.36
Dirdot Pty Ltd	10,074,112	3.54
JP Morgan Nominees Australia Limited	8,259,216	2.90
Forsyth Barr Custodians Limited	3,164,300	1.11
BD Hunt	3,127,500	1.10
Drexwill Pty Ltd	3,000,000	1.06
EG Enterprises Pty Ltd	2,895,000	1.02
Reynolds (Nominees) Pty Ltd	2,101,669	0.74
P Utiger Pty Ltd	2,080,250	0.73
Jayare Nominees Pty Ltd	2,066,450	0.73
SL Crutchett + AP Crutchett	1,935,370	0.68
G Conlon	1,890,756	0.67
Lugger Bay Pty Ltd <J R Neville Smith A/C>	1,787,395	0.63
M Bloom	1,766,000	0.62
Goldsearch Limited	1,732,108	0.61
B Moran	1,707,812	0.60
Total	173,481,320	61.02

UNQUOTED SECURITIES

As at 15 November 2012 the Company had 500,000 1c partly paid shares on issue to a former director, namely Mr Malcolm H Bird.

Corporate Governance Statement

The Company has made it a priority to adopt best practice systems of control and accountability as the basis for the administration of corporate governance for the entire financial year ended 30 June 2012. Such adoption is set against the backdrop of the size of the Company and the financial and human resources available to it. Some of these policies and procedures are summarised in this statement and further information can be found at the Company's corporate website.

Commensurate with the spirit of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, the Company has followed each recommendation where the Board has considered the recommendation is an appropriate benchmark for its own corporate governance practices. Where the Company's corporate governance practices follow a recommendation, the Board may make appropriate statements reporting on the adoption of the recommendation. Where, after due consideration, the Company's corporate governance practices depart from a recommendation, the Board will endeavour to offer full disclosure and reasoning for the adoption of its own practice, in compliance with the established "if not, why not" regime.

The ASX Corporate Governance Council's established principles are:

1. Lay solid foundations for management and oversight;
2. Structure the Board to add value;
3. Promote ethical and responsible decision making;
4. Safeguard integrity in financial reporting;
5. Make timely and balanced disclosure;
6. Respect the rights of shareholders;
7. Recognise and manage risk, and;
8. Remunerate fairly and responsibly.

THE BOARD OF DIRECTORS

The Board is collectively responsible for promoting and managing the success of the Company through its key functions including providing overall long-term corporate strategy and direction, management oversight, monitoring the financial performance of the Company and approval of half yearly and annual financial statements, engaging management who are appropriate and commensurate with the Company's structure and objectives, oversight in the development of performance objectives and budgets and also reviewing, ratifying and monitoring systems of risk management and internal control, codes of conduct, health and safety policy guidelines and legal and regulatory compliance.

The skills, experience and expertise relevant to the position of each director who is in office, are detailed in the Director's Report accompanying these annual financial statements and also at the Company's corporate website under the heading "About MCO; Our Team; Directors".

The board generally holds between 10 and 15 formal or informal meetings throughout each financial year.

At the present time, the board comprises five (5) directors, which includes one (1) executive director and four (4) non-executive directors and also includes two (2) independent directors.

Corporate Governance Statement (cont'd)

The Board of Morning Star Gold NL is currently made up as follows:

Nicholas Mark Garling – Executive Director, Chairman (appointed as a Director on 20 March 2007). Mr Garling receives a consulting fee for his executive role.

Peter Gilbert Jackson - Non-Executive, Independent Director (appointed as a Director on 10 March 2008). Dr Jackson may also act from time to time as a consultant to MCO and receive consulting fees.

Alexei Vladimir Motlokhov - Non-Executive Director (appointed as a Director on 1 Feb 2011).

Zhaoqin Zeng - Non-Executive Director (appointed as a Director on 1 Feb 2011).

Noel Robert Laidlaw - Non-Executive, Independent Director (appointed as a Director on 1 July 2011). Mr Laidlaw may also act from time to time as a consultant to MCO and receive consulting fees.

MCO Directors Noel Robert Laidlaw & Peter Gilbert Jackson are each considered to be independent directors as they are not substantial shareholders in the company and are non-executive directors.

The company does not comply with best practice recommendations 2.1: "A majority of the board should be independent directors"; 2.2: "The chairperson should be an independent director"; and 2.4: "The board should establish a nomination committee". However, the board believes that for a company of its size and considering the extent of its operations that its present composition provides for efficient decision making required by the company in its current circumstances. Also, the board does not believe that the formal establishment of a nomination committee is warranted by its size, as in effect, the board as a whole acts as the nomination committee. The board's nomination of directors and executive officers and other managers, is dependent on the candidate's range of skills and experience relevant to the business of the company.

PERFORMANCE EVALUATION

The Chairman - in conjunction with external and independent consultants - conducts a performance evaluation of the board and its members and the CEO and other senior managers usually during each annual period using generally accepted and current industry practices.

AUDIT AND REMUNERATION COMMITTEE

To enhance the company's corporate governance regime in accordance with recommendations 4.1 and 8.1, both an audit committee and a remuneration committee were established during the year. The members of the audit committee are Noel Laidlaw, Peter Jackson and Alexei Motlokhov, two of whom are independent. Noel Laidlaw is the independent Chair of the audit committee and is not Chair of the Board. The members of the remuneration committee are Peter Jackson, Noel Laidlaw and Nicholas Garling, two of whom are independent. Peter Jackson is the independent Chair of the remuneration committee and is not Chair of the Board.

The company's remuneration policy is disclosed in the Remuneration Report contained within the Directors' Report. The amount of remuneration for all key management personnel for the company including all monetary and non-monetary components is detailed in the Remuneration Report. An external audit is undertaken by DF Kaye & Co, Chartered Accountant. The external auditor attends the annual general meetings of the company and is available to answer shareholder questions.

The audit committee considers the qualifications and experience of the external auditor when considering potential appointees to the position. The Company's audit committee considers the rotation and appointment of external auditors in the light of relevant legislative and professional standards.

Corporate Governance Statement (cont'd)

INDEPENDENT PROFESSIONAL ADVICE

Each director has the right to seek independent professional advice, in relation to matters arising in the conduct of his duties, at the economic entity's expense, subject to prior approval of the Chairman, which is not to be unreasonably withheld.

ETHICAL STANDARDS

All directors, office holders, employees and consultants are expected to act with the utmost integrity and objectivity and to enhance the reputation and performance of the company at all material times.

In concert with the abovementioned 'spirit of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations', the Company is discussing and setting down a code of conduct requiring directors and employees to:

1. act honestly and in good faith;
2. exercise due care and diligence in fulfilling the functions of their office;
3. avoid conflicts and make full disclosure of any possible conflict(s) of interest;
4. comply with the law;
5. encourage the reporting and investigating of unlawful and unethical behaviour and;
6. comply with the securities trading policy outlined below.

DIVERSITY

The Company recognises the importance and benefits of gender diversity in the workplace and promotes an environment and culture that fosters this. As at June 2012 women made up 23% of the total workforce and 33% of senior management. There are currently no women on the Board of Morning Star however the Company Secretary is a woman as are several key consultants.

CONTINUOUS DISCLOSURE

The company has established policies and procedures to ensure compliance with ASX Listing Rule continuous disclosure requirements. All proposed company announcements are circulated to each director for their input before release to the market.

SHAREHOLDER RIGHTS AND COMMUNICATION

The board aims to ensure that all shareholders are informed of significant developments through regular shareholders communications. These include the Annual Report and distribution of material covering major events when appropriate. Shareholders are entitled to vote on significant matters impacting on the business of the company. Shareholders are strongly encouraged to attend and participate in the Annual General Meetings of the company, to lodge questions to be responded to by the directors and are able to appoint proxies.

Corporate Governance Statement (cont'd)

RISK MANAGEMENT

The directors consider that the identification and management of a range of risks associated with the Company's overall business is vital. Matters of risk are reviewed at board meetings and a risk management and risk reduction culture is encouraged amongst directors and employees. Regular risk mitigation meetings are also held at an operational level. At these meetings, the Company's material operational risks are identified, assessed and analysed with a view to elimination or at very least prudent reduction. Risk categories commonly assessed and discussed by the Board include; operational, financial, political, economy, human resources, technology, legal and regulatory. Other areas of risk that are regularly considered by Board or management include performance of and funding of exploration activities; budgetary control, asset protection, status of mineral exploration licenses, land access and native title considerations, compliance with laws and regulations, occupational health, safety and the environment, and continuous disclosure obligations as discussed elsewhere in this report.

SECURITIES TRADING POLICY

All directors, office holders and employees are bound by the company's official and public securities trading policy which prohibits trading in Morning Star Gold NL's securities while they are in possession of price sensitive information until it has been released to the market and adequate time has been given for this to be reflected in the security's price. The Company's Securities Trading Policy was revised in accordance with ASX guidelines 12.9, 12.10 and 12.12 and publicly filed on 31st Dec 2010. A full copy of the policy document can be found at the corporate website of Morning Star Gold NL www.msgold.com.au

THE ENVIRONMENT

The company also has in place an Environment Policy under which the company, in seeking to locate and develop mineral resources, is committed to achieving a high standard of environmental protection. This will be achieved while ensuring that the needs of the community and the values attached to natural and physical resources are taken into account in company planning and the way in which business is conducted.

OTHER INFORMATION

Further information relating to the company's corporate governance practices and policies has been made publicly available on the company's main corporate website at the URL: www.msgold.com.au

ANNEXURE "B"


morningstar
mining a golden future

annual report 2011

For personal use only

view the full report online at:

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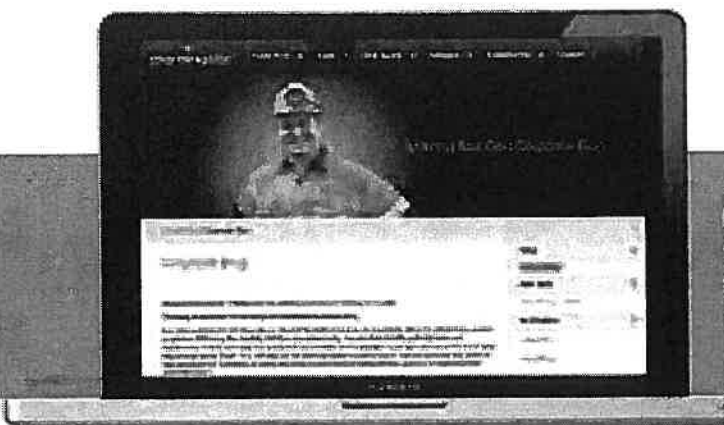
[/progress-reports](https://msgold.com.au/progress-reports)

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executive chairman's message

Dear Fellow Shareholders

Welcome to your company's Annual Report for 2011. You will notice that by far the most effort has been put behind our online annual report, which is a stand-alone web 'microsite' and that the hard copy annual report has been de-emphasised. It contains the same information but won't have the images and plans which help interpret the report. This is the wish of our shareholders and is a far more logical and environmentally sustainable approach. So please enjoy the 2011 Annual Report and take your time in the web version to find your way around what's taken place for Morning Star Gold in the year leading up to 30 June 2011. You can also see a growing web photo gallery of our projects at our Flickr site and keep in touch with web updates over Twitter and Facebook.

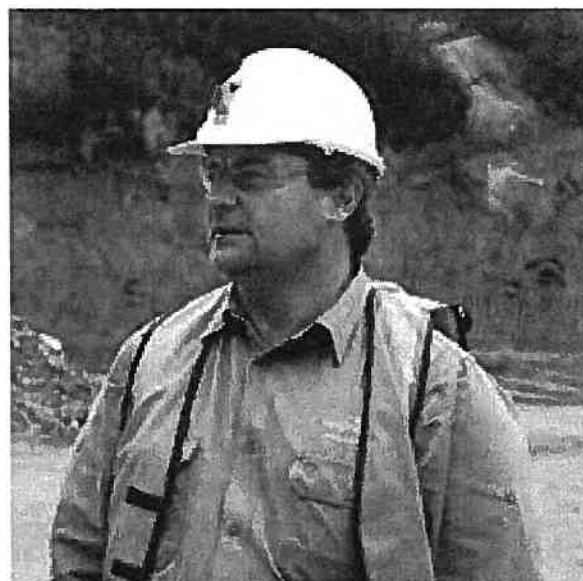
Investing in the Future

The period encompassing the 2011 financial year has seen strong and continuing growth for Morning Star Gold NL (MCO). This has been squarely aimed at setting our business on a solid footing for future years. The share price has been contained in a range for much of the year after a stunning rise in market cap culminating in the 46 cent premium share placement and a stronger balance sheet. Arguably the share price demonstrated the market's view of a maturing company and the stage at which MCO is in the production life cycle. Most of our Capex over the year has been invested in the 'bricks and mortar' of long-term project solidifying and enhancing of assets. This investment will hold us in good stead for production returns benefiting our cash flow for many years to come. The company has made huge strides in preparation for sustained production of gold and consistent economic production will always be the catalyst for a re-rating in the value of the business. In the broader brush, the share price of MCO settled to a more realistic level after a strong and sustained upward valuation over the past two years or so. Let's not forget that not long ago, we were a company valued with a market capitalisation of between \$5 Million (M) and \$8M. We now comfortably hold the \$80M to \$100M range, more commensurate with an emerging gold production house. This valuation and the valuation gap to the peer group we want to mix with – the consistent Australian gold producers – gives great promise for the future of all of our investments.

Morning Star's transition to production has occurred at the right time considering rising gold prices. Notwithstanding a very tight labour market and skills shortage in key areas of the mining game, the global economic outlook appears to be favourable for our business of gold production into 2012-13. This probably couldn't have been said prior to now with any certainty so I believe where we sit today as a company is in a significantly stronger position than at the same time last year and that your investment in MCO is considerably de-risked in relation to past years.

2011 has been a year where we've had to spend an increasing amount of your money on capital expenditure in order to properly position ourselves for strong and sustainable gold production. Primarily this has occurred at the Morning Star Goldmine, which we are setting up as our production and milling hub but increasingly we are turning towards development of regional opportunities as well.

The background to this huge Capex and investment at Morning Star has been a 2011 financial year punctuated by enormous volatility for investors and I think regardless of MCO's operational performance – which has made great progress amidst some real challenges in infrastructure and compliance – investment risk appetite in our small mining sector has also taken a huge beating. At a time where the baby boomer self managed super generation in Australia should be at its most potent investment wise, we've had interest rate rises, a weak property market and very choppy stock markets. We hear daily talk in the media and financial world of GFC mark II, sovereign debt crises and of the dampened investment demand which is an



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obvious corollary of the two new taxes flagged by the Labor government (the 'Carbon Tax' and the 'Mining Super Profits Tax'). No wonder cash is king and most Australian investors have been 'sitting on their hands'.

All year your company and its management have been focused on the fastest pathway to production with the safest most sustainable outcome. In many respects, looking back over what has taken place in FY 2011, we have achieved an awful lot but, disappointingly, we haven't achieved consistent production. But production isn't the only thing upon which I am measuring the success of our year. Let me take you through some of your company's achievements and progress up to the end of the financial year.

Highlights of the Year

First of all we actually produced a small amount of gold – this was the first gold production from the Morning Star Goldmine since 1962. No mean feat at a site that has lain fallow for nearly 50 years... the gold pour was arranged in Melbourne in order to do further metallurgical testing and to cost out future production scenarios. As with historical gold production from the Morning Star, silver metal was also recovered of around 16% of the total recovered metal. None of the gold produced to date has been sold.

We commenced stage one of a drilling program at the Reliance dyke on EL 5079 just north west of Woods Point. The Reliance is a large ore body and plenty more drilling needs to take place for us to understand the dyke better. Given it's a larger dyke bulge than the A1 dyke nearby, our geologists are very keen to continue work at the Reliance. Close to the Reliance, the Wallaby dyke is also very high up our target list and, although access is not as easy, 2012 will see drilling programs take place there also.

We had significant hurdles to overcome in the Morning Star shaft and haulage system, which was primarily set up to cater for shaft refurbishment and had not been overhauled in any significance since 1993. It was clear with our production mindset that the old kit just would not cut the mustard. During the previous period, work was done to refurbish and upgrade some of the old infrastructure at site but increasingly it became apparent that totally new systems for haulage and ore throughput were required. Much of the 2011 financial year was focused on specification, contract management and implementation of these new systems, which limited our access to and work within the Morning Star.

Over the previous period, the purpose built gravity mill was designed and built – in the early part of 2011 MCO ironed out the kinks with trial milling and batching programs. Much of this milling was carried out with development ores (dyke material and siltstones). The mill is designed for more premium grade quartz rich ore (not as hard with higher gold content). The outcome

was low gold output in first pass concentrates and plenty of fine-tuning of gear at the mill. We are confident that the process was worthwhile as it trained up a team on the mill and gave us a clear understanding of the machinations of the gravity plant. It also gave us a much clearer picture of the recovery rates and varying concentrates. It highlights the challenges of narrow vein ore bodies. It's the same issue that WMC successfully addressed in the heady days of the Morning Star between 1934-59. Ensuring a low-dilution feed to the mill however is a key deliverable for MCO's technical management team.

The ongoing joint venture with Shandong Tianye of Jinan, China has allowed MCO to redevelop and prepare the Rose of Denmark's main adit (the Cannon's Creek adit) for important exploration and trial mining programs. There have been multiple findings of coarse visible gold in the adit as the redevelopment has progressed and we are hopeful ore shoots running down through the adit provide good opportunity for proving up mining reserves. One feature of the Rose of Denmark is that we have the benefit of perhaps 200-300 metres of 'backs' above the adit to exploit and also untapped opportunities underfoot.

We completed the first series of diamond drill holes at the All Nations mine and associated reefs. It's a complicated structure of targets-contained reefs in sediment and also narrow mineralised targets along the dyke contact. While the first stage of drilling didn't produce stellar results in terms of assays, it has given MCO invaluable information about the ore bodies, which haven't been mined there since the early 1900's. 132,000ozs historical gold production says there is a still a significant exploration and redevelopment opportunity for us at the All Nations. Its proximity to the Loch Fyne dyke and what lies between the two ore bodies will become an increasing focus over 2012.

Importantly, Morning Star gained a regional base at Woods Point. We purchased and completely renovated the old town general store to provide state of the art offices for our growing technical and executive team at site. We are also adding more accommodation at site, providing a miner's camp in Woods Point for the expanding workforce. We want a residential focus for our mining people and as such will have to keep an open mind about securing other local accommodation either via buying or renting as we grow.

Morning Star Gold did plenty over the year upgrading its online digital presence. We launched a new corporate website and three satellite sites, rich with information about the history of the 'Upper Goulburn Diggings' around Woods Point leading to the present day. MCO has also been very active in the Woods Point community and inaugurated a high-profile award for the community-chosen most effective local participant each year. The gong is called the William Gooley Award – Gooley

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discovered gold in the area in 1861. MCO also helped with small community projects around the district and sponsored local clubs and associations and assisted in rebuilding and maintaining important local infrastructure. MCO has also conceived and will build a 'Woods Point History Walk', where ten etched plaques on mining relic plinths will be placed around Woods Point, in order for visitors and history buffs to interactively engage with the fabric of the famous mining hamlet. I would personally like to acknowledge the support of the Woods Point and Gaffneys Creek communities and thank them for being a part of what we represent locally. Given the town of Woods Point sprang up around the diggings on Morning Star Hill in the early 1860's, it's a nice symbiotic circle which exists between the town and the mine.

2011 also saw a significant tightening in the MCO share register. The share holdings of directors and significant holders were increased significantly as a percentage of all outstanding shares. This shows a real confidence in your company by people with a lot at stake already, and those with a belief in the pathway to production MCO is taking. The 32.6M share placement to the Europe-domiciled Chillee Group at 46 cents (a premium to the stock's 200 day moving average) was another show of confidence from a very sophisticated investment group with deep pockets. Chillee subsequently increased their stake via market purchases to over 36M shares over the year.

New Leadership, More Publicity

Crucially at the close of the period, Morning Star also invested in a vital piece of 'human capital'. MCO hired Mike Botting – a 25 year experienced mining engineer with narrow vein speciality – as our new Chief Executive Officer. It has become clear for a fair period now that MCO needed to grow up and add job specific technical leaders, whereas in the past the company has been run like a friendly, well meaning co-op, with input from some smart mining people on a part-time basis. Mike Botting's appointment as CEO in July 2011 underlines our near term production aspirations and he has added some words in this report by way of introduction to himself and the vision he has for Morning Star's projects. We warmly welcome Mike aboard and trust you our shareholders will see a clearer and more professional approach to what is now a much larger yet more focused and technically challenging business than in past years. Along with the new executive management at MCO and with the expanded projects and cash flows, has come a need for more stringent and structured financial management and we have added an in-house financial officer to this end.

PR, roadshows, conferencing and publicity have been one area where MCO is starting to take tentative steps to become better recognised. It was always my contention that until a solid mining story with a

bright and sustainable future emerged, it was pointless 'flogging' the company to brokers or a wider audience of sophisticated investors and the general investing public. I believe that story can now be told and MCO will consistently be telling the story over the coming period. This will include conferences such as the Mines and Money series (Hong Kong, Sydney and London) and getting out into the broker/roadshow market more aggressively with the story.

Summary

Earlier I touched on the significant Capex investments your company has made in site-based infrastructures over the year. The expansion, upgrades and renewal of the key site-based production-focused infrastructure are a compelling sign that we are set-up and ready to go into 2012. The work has primarily been focused within the Morning Star mine shaft, on the site-based processing (gravity milling) facility, on state of the art brand new haulage processes, on a new geological camp close to site, on power above-ground and in-mine at the Morning Star Goldmine, on a purpose built water treatment (arsenic cleansing) plant, on new machinery and maintenance facilities, on various key items of mobile plant such as a small bogger/loader for hauling ore from various regional adits and a new ore loader for use at the gravity treatment plant.

The close of the 2011 year sees your company in great financial and managerial shape and ready to reap the benefits of a strong gold price as we commence production. The business carries less risk than in prior years. Our goal is to consistently produce gold and make this an economic opportunity, notwithstanding the challenges of tight labour and increased costs across the business.

I am confident we've got a good year ahead of us and look forward to sharing the benefits with all of you.

Sincerely



Nick Garling

Executive Chairman

ceo's message

Dear Shareholder

Having officially joined Morning Star (MCO) just following the close of the 2011 annual term, I feel it is appropriate to introduce myself and comment on the opportunities for MCO.

My first exposure to MCO's operations was as a mining consultant in the second half of the period. My initial impressions were that this is an operation that could, with the right leadership team become a successful gold producer. The exposure I gained to Nick Garling, the MCO team and to the projects proved invaluable in introducing me to Morning Star.

Since accepting the role of CEO I have been spending the majority of my time at the site of operations overseeing our desired outcomes of efficient, profitable, sustained gold production leading to expansion. In the near term MCO's priorities are to:

- Commence safe, environmentally responsible and sustainable production at the Morning Star Goldmine in 2011.
- Increase our confidence in mining reserves and resources.
- Replace what we mine and build our reserve and resource inventory to sustain and increase production rates in the future. To this end an expanded diamond drilling program to test the Gap Zone at Morning Star Goldmine and high priority regional targets has been planned and tendered.
- Continue preparations for trial mining and diamond drilling at the Rose of Denmark Mine and Loch Fyne prospect.
- Achieve efficiency in operating practices and costs of the business.

As has been well documented in this report, the commencement of production at the Morning Star Goldmine has been contingent upon the return and commissioning of the new purpose built single drum high speed winder. The winder is undergoing final commissioning at the time of writing. Mining is expected to resume late in October with milling to resume shortly after this. The installation and subsequent commissioning and testing of the winder have focused on multiple levels of safety outcomes for the new

primary haulage system. MCO has used best practice and now has a faster, safer and more reliable system at site than previously. This is essential for our growth plans to be successful.

While the winder upgrade was being completed, MCO also took the opportunity to carry out significant shaft upgrade works from surface to 9 Level (275m depth). These works will ensure the integrity of the shaft in the longer term and allow for safe operation at a greatly increased hoisting capacity. As the shaft upgrade works progressed, access has been possible back into key areas of the mine, enabling preparatory work for ore production to be completed on several levels.

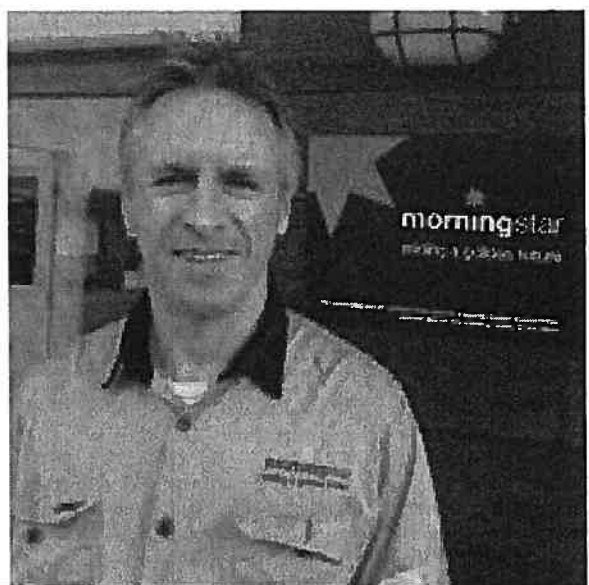
We have also taken a more aggressive approach back into exploration at Morning Star both at surface and underground. MCO has sent out requests for tenders comprising 27,000 metres of diamond drilling. The award of the contract is anticipated in November 2011.

The projects at Morning Star and surrounds are a terrific opportunity to get a company like MCO into sustainable, safe and profitable gold production. I look forward to reporting our progress in coming months.

Sincerely



Mike Botting
CEO



review of operations
year ended 30 june 2011

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review of operations

year ended 30 June 2011

The financial year ended 30 June 2011 has been a challenging one for Morning Star Gold NL (MCO). As we focused on returning one of Australia's famous old gold sites to production at Woods Point, ageing equipment and infrastructure impacted heavily on achieving our core goals. Every mining site needs heavy investments in infrastructure before any prospect of cash flow is possible. This front-loaded spend is required to create consistent production. It's a heavily Capex laden period for any aspiring producer. This is the period through which we've just lived through at Morning Star. Now we can see the light as the bulk of our work in preparation is finalised.

Winder

In the 2010 financial year, MCO committed to purchasing a new custom made single drum hi-speed winder for the Morning Star Goldmine with the expectation that it would be in place and commissioned in early 2011 to coincide with the completion of another large capital investment project – the gravity processing plant. Regulatory issues raised by WorkSafe Victoria meant that the new winder was deemed (in part at least), inappropriate for the higher production speeds and haulage capabilities it was conceived for. Consequently the winder was returned to the manufacturer in Queensland and modified to the higher regulatory standards deemed necessary by the statutory authority. At the turn of the period, the winder was still undergoing modifications and at the time of writing, it is undergoing field commissioning at the Morning Star mine site with haulage due to recommence in late October 2011 and production operations in November 2011.

During the period of this delay, the situation at the main mine shaft was further compounded when MCO deemed that its old winder – which started life in the Snowy River Scheme and had been in use at Morning Star since 1993 – was too unreliable to be safely used with the level of confidence and HSE standards demanded, and therefore not fit for the tasks required so it was decommissioned. Although the timing was bad and MCO management and independent experts deemed that there was only a very low chance of the old winder causing any accident, this risk was too high for MCO to carry and it was taken out of service.

Gravity Processing Plant

The new gravity plant construction was completed by Gekko in December 2010, and commissioning of the

mill began in early 2011. Initially over this period, low-grade ore that had been stockpiled in 2010 following mine development headings towards mineralised ore bodies at Maxwell Reef (9L – 275m) and near Dickenson Reef (4L – 120m), was processed and batch treated. Due to the constriction of access encountered with the winder, MCO has not been able to supply the mill with high grade ore and rather than treat low grade development ore at a loss, MCO decided that once the gravity plant was deemed to be operating at a satisfactory rate the plant would be put into care and maintenance until a suitable ore source could be supplied from the Morning Star Goldmine.

Much was learned about the mill's processing ability and what ores it is most effective in treating. The trial milling has provided MCO with a good preproduction test and enabled invaluable knowledge to be gained by MCO's mill operatives and, importantly, ironed out gear breakages and weak points of the circuit.

The mill is ready to accept high-grade ores for which it was designed to treat as soon as the haulage and stope mining has recommenced, which is expected after the close of the period of this report.

Shaft

Due to the lack of a production winder, MCO was able to rent a low speed construction rated winder (not able to be used to haul ore, only men and equipment) which allowed MCO to commence significant and long overdue rehabilitation work on the shaft infrastructures leading from surface down to 10 Level at 310 metres depth.

MCO retained independent expert structural engineers to assess the entire scope of the shaft upgrades with the background that the new high-speed winder – which is rated to operate at a much faster speed and carry more than double the tonnage of the previous winder – would put increased strain on the shaft steelwork and superstructure, which was largely built in the early to mid 1990's. Rehabilitation work was required before the new 160kW single drum winder could operate at full capacity. The work carried out over the period was extensive and was due to be completed late in Q3 2011. It largely involves adding extra cross bearers to the shaft and replacing any bolts and supports that have deteriorated with age (from surface to 10L). By renting the winder MCO has been able to carry out the rehabilitation work while waiting for the new winder to become operational.

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Staff

During the past year MCO has focussed on building the competency of its senior technical staff and workforce with a number of key personnel being employed.

MCO was delighted to hire a Victorian born and bred mining engineer Alexandera (Alex) Kemp as its new Mine Manager in the period.

Alex, who is also a qualified geologist and surveyor, is highly experienced in a number of mining facets including previously working in the Woods Point area as an exploration geologist. She is expected to bring her vast experience and mine engineering skills to bear on increasing the professionalism of the mining team at MCO.

MCO also increased its geological workforce by employing four new geologists and a highly experienced field technician, which allowed for MCO to increase its regional exploration work on its tenements and importantly its database and modelling programs. The geologists range in experience from graduate to a senior exploration geologist and the hires raise the geological workforce to six at site.

This team is still overseen by Dr Peter Jackson and Greg Curnow, both geologists of considerable exploration geology and also mine geology experience.

CEO

As mentioned in the Chairman's message within this report, in June 2011 MCO was extremely pleased to announce that Mike Botting had agreed to join MCO as its Chief Executive Officer reporting to the Board of Directors. Mike has 25 years, experience as a mining engineer, starting his career with Western Mining in Kambalda as a trainee underground miner and rising through the ranks to mine manager at a number of WMC mines.

Following his time with WMC Mike worked for both Macmahon Contractors and mining consultants Mining One, giving him excellent experience in both mine contracting and the technical issues encountered in varied mining consulting work.

Importantly, Mike has many years of experience in narrow vein ore bodies and understands the challenges at Morning Star and around Woods Point.

MCO Board Changes

As touched on in Nick's report, Jeff Williams resigned as a non-executive director effective 30 June 2011. Jeff has provided solid professional support and been a great sounding board to the company since 2004 and MCO wishes him well in all of his future endeavours.

MCO has recently announced that Noel Laidlaw will be joining the board as a non-executive director effective 1 July 2011. Noel is a mining engineer who is enormously well respected and well known across the Victorian mining industry. He held the important and prestigious post of State Mining Warden for nine years until recently and his knowledge of government, regulatory, DPIV and the mining industry in general will be invaluable for Morning Star. Noel has particular expertise in gold milling operations and metallurgy, which is invaluable for MCO as we build our gold production footprint in eastern Victoria.

The Board changes, senior executive appointments and key technical appointees are all designed to position Morning Star for the first time to professionally engage this vital phase of its growth. The new team has been retained with a clear view to deliver the company to a level commensurate with where it aspires to be amongst its gold production peer group. The team will be responsible for delivering on MCO's considerable promise over the next few years in a methodical and transparent fashion with a clear road map obvious to all stakeholders.

Infrastructure Upgrades

Crucially for Morning Star, several important projects aimed at significant productivity improvements and sustainable gold production were completed or are well advanced at the period end. MCO has used the past year to upgrade, replace and add to its infrastructure at the Morning Star Goldmine with the list including but not limited to:

- A brand new purpose built gravity processing plant (mill)
- New security including fencing, gates, gold room and back to base video cameras
- New administrative offices and accommodation in Woods Point
- New Exploration offices and core shedding and core farm

review of operations (cont'd)

year ended 30 June 2011

- New telecommunications and computer network
- New site amenities such as larger miners change rooms and ablution blocks
- New secure stores facility
- A brand new purpose built water treatment plant (arsenic removal)
- A new 5 tonne 4WD truck and several mine 4WD vehicles
- Purchase of a Toro 150d underground bogger/ore loader
- Purchase of a Caterpillar 924G front end loader for moving ores from shaft to mill
- A new 500kVA electricity sub-station
- Upgrading all mine electrical circuits from 415V to 1,000V
- Installation of a standalone generator to supply backup power to the entire mine site
- Installation of primary exhaust fan on the 2 Level to aid ventilation
- Installation of vent doors on all levels of the mine
- Fabricated 1 tonne ore trucks for underground rail haulage
- Underground rail enhancements for haulage
- Purchased and rebuilt locos for underground haulage
- Rebuild of the main bridge into Paradise Point and the Rose of Denmark mine
- Construction of brand new paste backfill plant (completion due in November 2011)
- Design and construction of significant structural shaft and headframe additions
- Design and construction of new haulage systems including PLC driven safety upgrades
- Construction of a whole of mine site water reticulation and fire fighting system
- Construction of failsafe and emergency tailings storage system

Exploration and Development

With access to mining and development works at the Morning Star underground hindered for prolonged

periods, exploration and development focused on drilling at three locations and further development at the Rose of Denmark mine (RoD) along with mapping and sampling of the main adit accessing the RoD (Cannon's Creek adit).

Rose of Denmark (Mining Licence (MIN) 5299 JV)

Work over the period saw over 500 metres of adit refurbishment at the Rose of Denmark (RoD) completed. The area was made safe to MCO stringent standards in order for future exploration and developments planned at the site. These works involved widening the main access drive into the RoD so an underground drill rig and mining machinery including our new Toro bogger loader could be taken into the mine. The plan is to conduct a significant program of diamond drilling from underground within the dyke bulge as well as making the mine meet the necessary safety standards in order for underground mining and ore haulage to be carried out. Given the site had no access since just after the end of World War I, this has been a significant task. The exploration and resource drilling is scheduled for early 2012.

While carrying out the stripping work at the Cannon's Creek adit, MCO geologists have been sampling and mapping the drive and numerous samples of coarse visible gold have been found in the RoD dyke material up to 2mm in size. Assay results from the sampling have been up to 851g/t Au. MCO policy dictates that samples should be first inspected for visible gold prior to being submitted for assaying. If gold is present, the samples will be replaced with another sample in order not to deliberately sample high grade material, rather the lower grade material of the sample area.

Due to the positive results received at the RoD adit, MCO engineers have been planning to carry out initial trial mining programs on two areas. This will likely occur prior to the diamond drilling commencing, to fully test the area's potential as a second ore source for MCO's Woods Point milling operations.

Gold in the Woods Point Dyke Swarm is most often concentrated in the dyke bulges and MCO is heartened that mapping at the RoD has confirmed that the dyke widens out from its normal width of ~2 metres up to 25 metres wide.

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Up to the end of the 2011 financial year 49 samples had been collected from the RoD adit and the average of the results was 19.9 g/t Au with a highest grade of 851g/t Au with no top cut being applied.

All Nations (MIN 5241 JV)

Six of the eight diamond-drill holes at the All Nations prospect near Matlock some 7kms from Woods Point, were completed in the 2011 annual period with the first two being drilled in the previous year. The first stage drilling being planned to assess the historical data that suggest the bulk of the 132,000 ounces of gold mined at the All Nations came, from 2 dykes and one quartz reef structure outside the dykes in sediments (Prince of Wales Reef).

MCO planned the eight drill holes to intersect these three structures at depths below the known workings to test their potential for future mining. Unfortunately no significant intersections were encountered in the period and MCO will use be doing more interpretive geological modelling to plan its future work at the All Nations. The proximity of the All Nations and the Loch Fyne dyke (107Kozs gold production) on the same mining licence (either side of the dividing range) is too important to ignore and more work is being scheduled over 2012.

Loch Fyne (MIN 5241 JV)

Late in the period, MCO was doing an increasing amount of planning work regards finalising DPIV work plans, in order to re-access the 3 Level of the Loch Fyne Mine near Matlock. The Loch Fyne was a prodigious producer as noted above and is a large dyke with good access over several levels. Although the Loch Fyne is in the Thomson Dam catchment (unlike all of MCO's other key targets), its key portals are more than 15kms from the dam and permits are being sought from various regulators to increase underground exploration and mining at the Loch Fyne site.

Reliance (Exploration Licence (EL) 5079)

The Reliance prospect is a large dyke bulge located on EL 5079 near Gaffneys Creek some 12kms northwest of Woods Point. The Reliance workings contain a number of small shafts and two shallow adits. Mapping and sampling by MCO in 2010 suggested that the dyke bulge – which is the typical and main source of gold mineralisation in the Woods Point area – was at least 35 metres wide, making the Reliance potentially the third

or fourth biggest dyke bulge in the area. Preliminary sampling of the adit indicated that economic levels of gold are present with one sample registering 12g/t Au.

MCO began drilling at the Reliance prospect in Jan 2011, with seven diamond holes being completed in phase one of the program at the dyke. The drilling primarily planned to delineate the size and dimension of the Reliance dyke as well as test its mineralised potential.

Results from the Reliance drilling were varied but not lacking in encouragement considering it's the first site there that's ever been drilled. We have other sites pegged out for drilling at Reliance which will aid the information we have to date. The best assay result returned 4.4g/t Au over 0.7 metres (RLD1002). Importantly though, the geology logged in the holes indicates that the right conditions are present for gold mineralisation and when this is coupled with the fact that visible gold was logged in one of the holes (RLD1006), MCO is encouraged that the Reliance has good potential for the future. Drilling is planned for 2012 at the site.

Morning Star Hill (MIN 5009)

MCO geologists have been keen to prove a theory that predicted a mineralised reef ran from 4 Level (Dickenson zone) up to the old workings located above the level of the Morning Star mine shaft collar. The reef had been likely pierced by drillhole MS357 that had intersected a zone of 2.65 metres width grading 28.17g/t Au.

In March 2011 MCO committed to a surface based diamond-drilling program of six holes to test the theory and to see if the zone of mineralisation in MS357 could be replicated. At the end of the financial year, five of the six holes are completed. Results from four of the five diamond holes indicated that the reef (already mapped underground on Levels 3 and 4) continued up above the shaft collar level. Even more importantly, the drill holes proved that the gold mineralisation in MS357 continued and that another two conjugate reefs were also present.

It should be noted that due to the nuggety nature of the gold mineralisation at the Morning Star dyke, drill intercepts might not always contain high-grade results. However they are still to be considered interesting provided they pierce a structural continuation we are looking for. MCO geologists look at the geology, alteration and mineralisation, along with the length of the

review of operations (cont'd)

year ended 30 June 2011

intercepts and their relationship to the other drillholes before deciding if the drill intersection is significant or not. At the close of the period, more drilling was taking place at the Morning Star Hill from a different site and MCO are very encouraged by results of the drill program to date. A successful drill out of a new reef in this area of the Morning Star Goldmine is important as access is good and the mineralised ore would be shallow at ~100 metres depth and less.

Regional Targets

MCO has plenty of other highly rated geological targets on its eastern Victorian tenements, in close proximity to its Woods Point hub, which will be further explored and developed over 2012-13.

On EL 5079 near Gaffneys Creek lies the Wallaby dyke. Access is currently difficult as a short track needs to be cut to our desired drill site but the sheer size of the Wallaby dyke bulge and the fact our only exploration attempt to date returned a grab sample from next to the main adit mullock dump of 78g/t Au is considered very encouraging. The Wallaby program is being developed for 2012 start-up.

On MIN 5009 not far from the Morning Star Goldmine, the Waverly dyke is still a tantalising prospect with over 4kms of outcropping dyke at surface on our 100% controlled ground and access from several directions. Although the Waverly/Tingha dyke is very narrow in structure at surface – some 3 metres or so in width – the dyke is yet to be tested to depth other than an earlier drill campaign of six diamond holes which intersected visible gold in hole 5 of the program. This was from one small place along the dyke and much more testing of the structure needs to be done. Access to the Waverly dyke from an adit up on the Tingha Track is available, and in late 2011 MCO will commence planning a second drill program from this underground location with direct access to underground exposures of the dyke. The Waverly dyke will certainly come in for more attention in 2012.

Also on MIN 5009 are other aspects of the Morning Star dyke that have had little exploration from surface. There is very little recorded exploration between the Morning Star, Hope and North Morning Star shafts. Underground samples in 2010 of an adit in close proximity to these shafts (Madisons adit) yielded high-grade assays up to 31g/t Au giving strong encouragement for more exploration to take place on this area of Morning Star

Hill, in close proximity to the township of Woods Point.

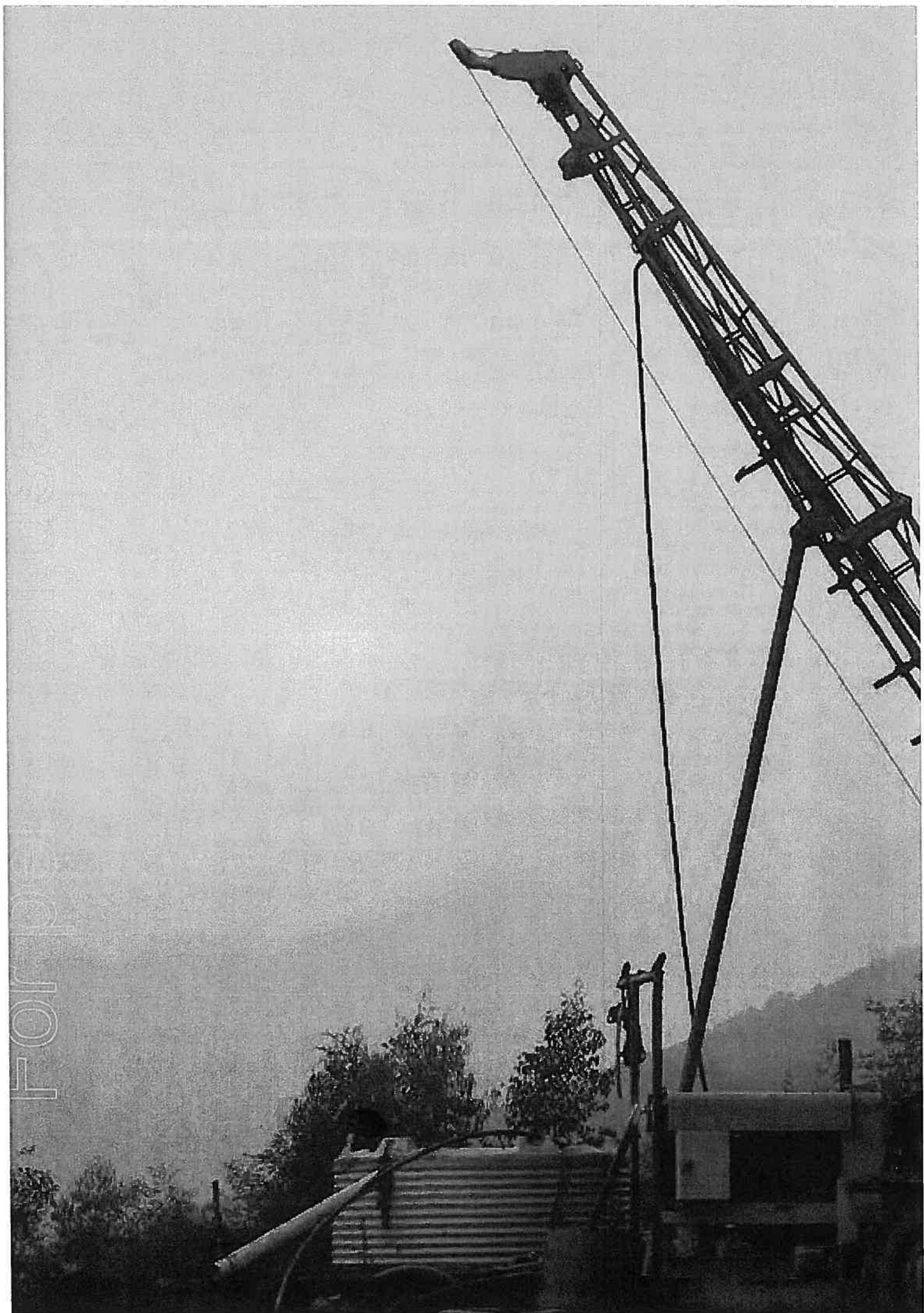
On MIN 5299, the Hunts dyke is also a prime 2012 target. Gaffneys Creek flows alongside the access track to both of the Hunts adits. During the heavy springtime rains in late 2010, the access was severely curtailed but MCO are devising a program of surface drilling from above the dyke situated in an old open cut on top of the Hunts dyke. Hunts has arguably our best drill intersection on record of some 134g/t Au over 1.5 metres at ~105 metres depth.

Community and Sustainability

MCO continued a very proactive approach during the 2011 period to the local community in and around Woods Point (the town built at the Morning Star Goldmine). Morning Star Gold's 'Community Engagement Policy' ensures a proactive approach to the local community and covers meetings and local publications to keep our community informed of progress and developments at the Morning Star project. MCO remains an active community participant and, as mentioned in Nick's report, we have a number of community initiatives happening this year and into 2012. Morning Star is active on a number of local fronts, assisting where possible with the Woods Point Museum and historical society, the Woods Point CFA, the Victorian Police at Woods Point, the Woods Point General Store, the Woods Point Progress Association and at the Woods Point Gun Club.

Morning Star's approach to sustainability is two faceted. Firstly we believe in sustaining our people, our staff, contractors and the people who rely upon them. MCO has policies against discrimination on many grounds but one thing we insist upon is our people take pride in their work, treat each other with respect and operate at work in a safe and sustainable manner. We also believe in sustaining the environments around us - both natural and built. We have taken great strides to ensure our footprint at Woods Point is as neutral as it can be. Our plan to mill ore at a single hub from several ore sources without any chemicals which might ordinarily place the environment at risk is one example of our approach. Our investments in infrastructure which protect the natural environment (such as our arsenic treatment plant) is another. MCO realises safe and sustainable approaches such as these benefit the company and every stakeholder in it.

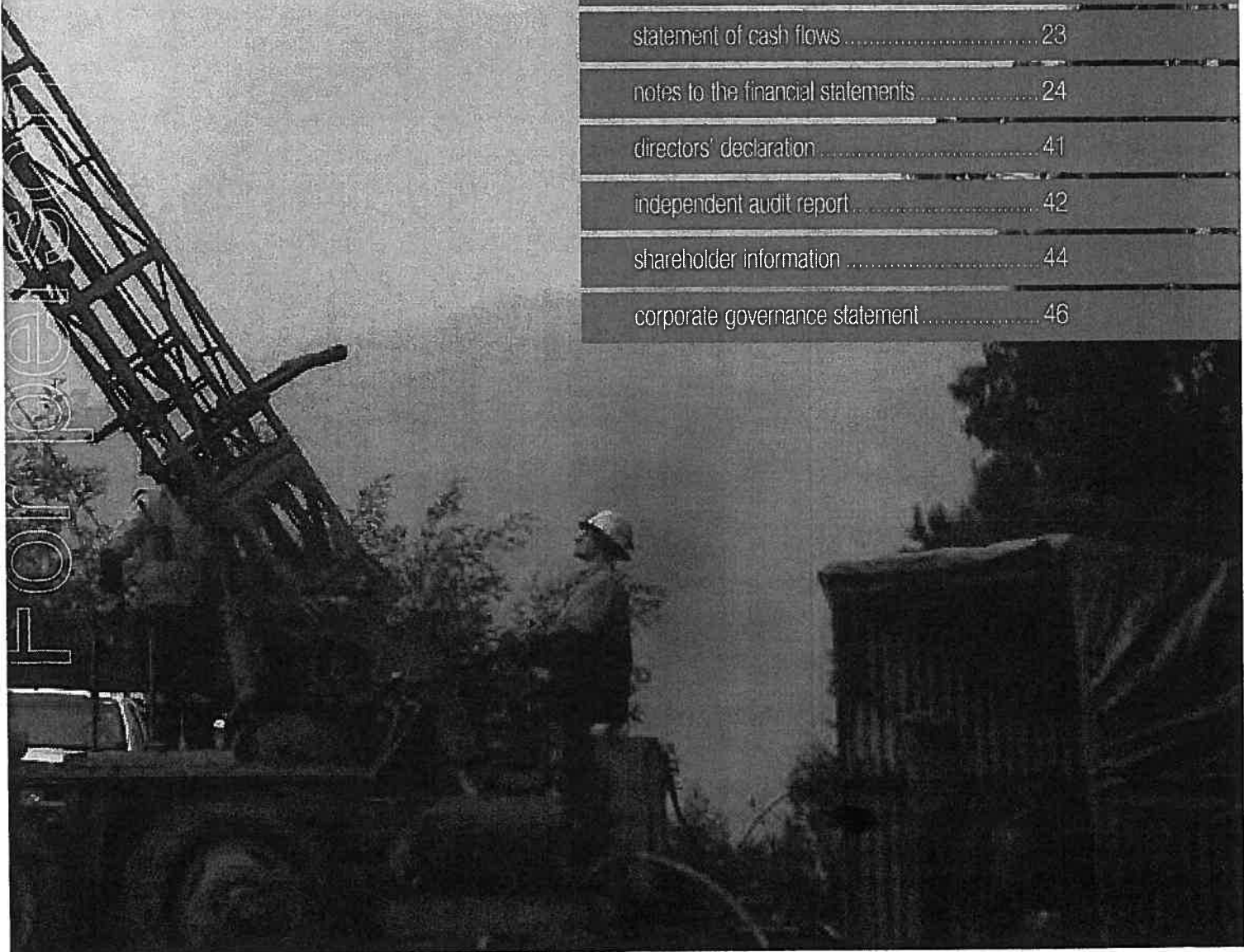
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financials

year ended 30 june 2011

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FOR

directors' report

The directors of Morning Star Gold NL present the financial report of the Company for the year ended 30 June 2011.

Directors

The names of the directors of the Company in office during the year and up to the date of printing this report, unless otherwise stated, are:

Nicholas M Garling – Director (Chairman)

Appointed as Director 20 March 2007, Chairman 28 April 2010

Nick Garling worked in banking and broking for 21 years in areas concerning equity capital raising, asset disposal, structured derivatives and listed markets sales & trading. He worked with a Sydney legal practice Barraket Kemp & Strang for four years and studied law at Sydney Uni part-time. Following this, Nick changed direction and moved into the financial markets field working in Sydney for Fay Richwhite & FIMAT Societe Generale. He spent 10 years in the 90s/00s in Tokyo, Japan and Hong Kong SAR, China with UBS Warburg & Lehman Brothers where he was a Managing Director of UBS's Equity Markets Group and before that a Managing Director of Lehman's Asia-Pacific Equity business. Nick is a substantial shareholder in Morning Star Gold and works in their Sydney office with regular visits to the mining tenements in and around Woods Point.

Dr Peter G Jackson BSc PhD (Geology) – Non-Executive Director (Independent)

Appointed as Director 10 March 2008

Dr Jackson has been the Director of Exploration and Geology for Morning Star for five years and a Board participant since early 2008. He has over 20 years of extensive practical & technical experience in the Woods Point Dyke Swarm (the local geology surrounding Morning Star's eastern Victorian mining & exploration tenements). Peter lectured at Melbourne's La Trobe University for many years in economic geology and has co-authored scientific texts on the area of MCO's tenements, conducted scores of economic studies into the historic gold mines of eastern Victorian. Peter has a wealth of experience in the Walhalla-Woods Point syncline, where MCO's tenements lie. Peter lived for many years on/off at Australia's Antarctic post and is based in Melbourne, spending working weeks in Woods Point at the Morning Star mine site.

Dr Alexei V Motlokhov PhD (Eco) – Director (Non-Executive)

Appointed as Director 1 February 2011

Mr Motlokhov was welcomed to the Board of Morning Star Gold NL on 1 February 2011. He is based in London and represents the interests of substantial shareholder Chillie Ltd which holds a tad more than 35 Million shares in Morning Star Gold common stock or around 12.3% of the issued capital. This holding was initiated via a \$15M investment via placement in late 2010 and has since been added to on market. Alexei Motlokhov works in London for Latymer Management as their Finance Director. He has extensive experience in strategic and corporate finance consulting. Prior to joining Latymer Management, Alexei worked for Oxera Consulting in various roles over a number of years. His work included provision of strategic advice on corporate restructuring, valuation of intangible assets and valuation of damages in the context of commercial litigation. Alexei also has experience in an advisory capacity on asset valuations as part of global commercial equity financing transactions.

Zhaoquin Zeng – Director (Non-Executive)

Appointed as Director 1 February 2011

Mr Zeng is the Chairman of Shandong Tianye Group (a publicly listed company on Shanghai), which presently holds 28M shares of MCO (9.9% of issued capital) and has a \$4.5M regional joint venture with MCO on two of its five mining titles in the Woods Point regional program. Zhaoqin Zeng holds an MBA from Nankai University. He established Shandong Tianye Real Estate Development Ltd in 1997 and was appointed Chairman at that time. In November 2006, he started what is effectively the 'diversity development' of the Shandong Tianye Group, growing the corporation's business aggressively in size and scope. His entrepreneurial approach has seen Shandong Tianye Group grow strongly to be one of the largest privately run corporations in Shandong Province (China's second largest province by GDP). Mr Zeng has won national and provincial awards for his works in China. STG has interests in real estate, mining, energy and financial services. He is regularly in Australia with offices in Perth and Jinan. He will be a direct contributor to MCO and STG's joint venture interests and a valued board member bringing great skill to MCO around his experience of growing small business enterprises into substantial entities with his energy, drive, ideas and his contacts in China. Mr Zeng is based in Jinan, Shandong Province, China.

directors' report *(cont'd)*

Jeffrey W Williams – Director (Resigned)

Ceased as Director 30 June 2011

Peter G Hepburn-Brown – Director (Resigned)

Ceased as Director 31 December 2010

Noel R Laidlaw MSc (Eng) – Non-Executive Director (Independent)

Appointed as Director 1 July 2011

Noel Laidlaw is a mining engineer with over 30 years of experience in narrow vein underground mining and also with relevant experience in gold processing operations and metallurgy. Noel was the State Mining Warden of Victoria for 10 years and in that role was the most senior independent statutory officer appointed by the State Government to oversee mining disputes and regulatory issues in Victoria and to assist the Minister and entities involved in mining in Victoria in administering the Mineral Resources (Sustainable Development) Act, 1990. Noel has significant experience relevant to MCO's growing projects in eastern Victoria in areas including project management and facilitation, stakeholder/tenements negotiation, knowledge of the MR(SD)A 1990 and the accompanying regulatory framework, project compliance, cost estimation of underground and open-cut mining operations and associated treatment plants, mine planning, budget preparation and cost control within mining operations and a very experienced player in occupational health and safety vis a vis mining & exploration projects. Noel is based in Maryborough, Victoria – an area which was at one time the epicentre of world gold output.

Company Secretary – Peter F Harrowsmith

Appointed as Company Secretary 18 February 2011

Peter has been involved in the accountancy industry for nearly 40 years. During that period he has been a director in or a principal of several chartered accounting firms operating in Sydney. He has relevant experience gained from some years as lead auditing partner responsible for half and full year audits of another publicly listed mining company. He is an active advisor to small businesses and is based in Sydney.

Chief Executive Officer – Michael Botting BSc (Eng)

Appointed as CEO in July 2011

Mike Botting has been appointed CEO of Morning Star Gold NL following the end of the 2011 Financial Year. Mike is a mining engineer with over 25 years' relevant experience to the role envisaged at Morning Star. MCO's appointment of Mike as CEO is aimed at the company's transition into gold production. Mike has held senior in-house positions and consulted in senior roles on gold projects in Australia with considerable parallels to the challenges at Morning Star. His work has been for WMC Resources, Bendigo Mining, Central Norseman, Beaconsfield, BHP Billiton, Newmont and Barrick. Mike is based in Melbourne and at the company's eastern Victorian project area.

Directors' Shareholdings

Particulars of shares and options over shares of Morning Star Gold NL in which directors have a relevant interest at financial year end are as follows:

Director	July 1, 2010	Movement	June 30, 2011
N M Garling – Direct	15,541,276	4,659,768	20,201,044
N M Garling – Indirect	15,890,912	433,668	16,324,580
P G Jackson	–	–	–
P G Hepburn-Brown	889,270	(370,000)	519,270
J W Williams	1,150,000	–	1,150,000
Z Zeng	28,000,000	–	28,000,000
A V Motlokhov	–	35,008,696	35,008,696

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directors' report *(cont'd)*

Directors' Meetings

During the financial year six meetings of directors were held. Attendance at these meetings was as detailed below:

Director	No. of meetings held eligible to attend	No. of meetings attended
N M Garling	6	6
J W Williams	4	4
P G Jackson	6	4
P G Hepburn-Brown	4	4
Z Zeng	1	1
A V Motlokhov	1	0

Principal Activities

The principal activity of Morning Star Gold NL in the course of the 2011 financial year was gold exploration across five eastern Victorian mining tenements and also refurbishment of the Morning Star Goldmine (MIN 5009) in preparation for commencement of gold production at the historic gold production centre in calendar 2011. Secondly to looming gold production, the company is focused on surrounding exploration opportunities at several historic gold production sites in close proximity (20kms radius) of its base in Woods Point, Victoria. The Company remains in an exploration and development joint venture with Chinese partners (Shandong Tianye Group), who are spending \$4.5M in five cash tranches over the 2011-12 financial years and will progressively acquire 51% of Regional Mining Titles MIN 5299 (Dempsey/Rose of Denmark) and MIN 5241 (All Nations/Loch Fyne). There were no other significant changes in the nature of the activities during the year.

Trading Results

The net loss of the Company for the year ended 30 June, 2011 was (\$4,450,942) (2010 \$4,223,365).

Dividend

No dividend has been paid during the year nor have the directors recommended that dividends be paid at this stage.

Review of Operations

During the 2011 annual reporting period Morning Star Gold NL (ASX: MCO) was increasingly involved with development of a gold production hub based at the Morning Star Goldmine in Woods Point, Victoria.

The first gold was produced from the Morning Star site in 50 years.

The company also carried out exploration on its surrounding eastern Victorian tenements with the objective of identifying additional economic mineral deposits to aid production. Such exploration and development was both on wholly owned tenements and as part of the company's Joint Venture with Shandong Tianye Group.

The company constructed onsite gravity milling facilities at Morning Star and commenced a significant expansion and renewal of on-site infrastructures within its main shaft at Morning Star, in haulage, in its site geological camp, in power supply both above-ground and in-mine, in water treatment facilities, in mobile plant and staff accommodation at site.

A comprehensive review of the company's operations during the 2011 financial year appears on page 6 in this Annual Report.

directors' report *(cont'd)*

Remuneration Report

The remuneration of directors is established by the shareholders by way of a fixed annual fee.

There is no relationship between executive remuneration and the performance of the Company.

The Company is not of a size to justify a separate remuneration committee; all matters regarding directors' emoluments are subject to scrutiny at board meetings.

Remuneration of Key Management Personnel for the year ended 30.06.11

Directors	Directors' Fees \$	Consulting Fees \$	Superannuation Contribution \$	Cash Bonus \$	Non-Cash Benefits \$	Options \$	Total \$
N M Garling	20,000	250,028	24,302	-	-	-	294,330
J W Williams	30,000	-	1,800	-	-	-	31,800
P G Jackson	20,900	66,424	-	-	-	-	87,324
P G Hepburn-Brown	10,900	23,100	-	-	-	-	34,000
Z Zeng	-	-	-	-	-	-	-
A V Motlokhov	-	-	-	-	-	-	-
	81,800	339,552	26,102	-	-	-	447,454

Remuneration of Key Management Personnel for the year ended 30.06.10

Directors	Directors' Fees \$	Consulting Fees \$	Superannuation Contribution \$	Cash Bonus \$	Non-Cash Benefits \$	Options \$	Total \$
N M Garling	31,800	140,000	-	-	-	-	171,800
J W Williams	31,800	-	-	-	-	-	31,800
P G Jackson	31,800	80,930	-	-	-	-	112,730
P G Hepburn-Brown	7,944	43,477	-	-	-	-	51,421
M H Bird	-	-	33,797	-	-	-	33,797
M M Garling	26,843	94,000	-	-	-	-	120,843
	130,187	358,407	33,797	-	-	-	522,391

Directors or their associates were paid consulting fees in the normal course of business in respect to the Company's mining and exploration program as set out in Note 20.

The Company had up to 29 employees during the year ended 30 June, 2011. Employment and service contracts were instigated in the annual period with staff.

Interest in Contracts

Since the end of the previous financial year no director has had any interest in any contract or proposed contract with the Company.

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directors' report *(cont'd)*

Remuneration Report, continued

Significant Changes

Since the end of the previous financial year there have been no significant changes in the state of affairs of the Company. However the company significantly increased available infrastructure at the Morning Star Goldmine in order to facilitate upcoming gold production, including the establishment of a gravity gold treatment plant. Haulage enhancements at the Morning Star Goldmine were progressing at the close of the period.

Financial Position

Despite an increased expenditure of \$4,776,827 (\$3,151,649 in 2010) on its exploration and development programs, an issue of 32,608,696 shares raised \$15,000,000 before costs of the issue (\$12,359,660 in 2010) and the Company's net assets increased by \$9,659,058 to \$19,662,547 (\$7,623,109 to \$10,003,489 in 2010).

Likely Future Developments

Morning Star continues to plan regional exploration around its Woods Point hub in order to supplement resources available to put through its mill at Woods Point. Several high potential exploration and development sites continue to be advanced.

Environmental Regulations

The Company is subject to environmental regulations in respect to its exploration and mining activities and has fully complied with its obligations. No known rehabilitation commitments exist at the date of preparation of the accounts.

Since Balance Date

There have been no significant changes since balance date.

Options

At the date of this report there are no unissued ordinary shares of the Company under option. However 500,000 1 cent partly paid shares (with 9 cents to pay) are held by a former director Mr Bird.

Non-Audit Services

There were no non-audit services provided to the Company during the year by the independent auditors.

Auditor's Independence Declaration

The Company's auditor has provided an independence declaration to the Company for the year ended 30 June 2011. The declaration forms part of this report.

Signed in Sydney on this 30th day of September, 2011 in accordance with a resolution of directors.



N M Garling
Director



P G Jackson
Director

auditor's independence declaration

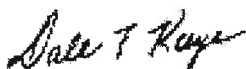
Under Section 307c of the Corporations Act 2001

To the Directors of Morning Star Gold NL

I declare that, to the best of my knowledge and belief, during the year ended June 2011 there have been:

1. no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
2. no contraventions of any applicable code of professional conduct in relation to the audit.

DF Kaye and Co
Chartered Accountants



Dale F Kaye FCA

666B Pittwater Road
Brookvale NSW 2100

Dated this 30th day of September 2011

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statement of comprehensive income

For the year ended 30 June, 2011

	Notes	30 June 2011 \$	30 June 2010 \$
Revenue	4	2,970,000	174,736
Gain/(loss) on revaluation of investments		439,000	138,700
Exploration & development expenses		(4,776,827)	(3,151,649)
Administration expenses		(3,083,116)	(1,385,152)
Profit/(loss) before income tax		(4,450,942)	(4,223,365)
Income tax expense	2	-	-
Profit/(loss) for the year		(4,450,942)	(4,223,365)
Other comprehensive income		-	-
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		(4,450,942)	(4,223,365)
Basic earnings per share	17	(1.64) cents	(2.42) cents
Diluted earnings per share	17	(1.64) cents	(2.42) cents

The accompanying notes form part of these Financial Statements

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statement of financial position

As at 30 June, 2011

	Notes	30 June 2011 \$	30 June 2010 \$
Current Assets			
Cash and Cash Equivalents	6	10,549,618	6,782,432
Receivables	7	446,608	301,662
Inventory	8	254,459	–
Financial Assets	9	734,000	259,000
Total Current Assets		11,984,685	7,343,094
Non-Current Assets			
Property, Plant and Equipment	10	8,070,605	3,971,566
Mining Properties	11	716,858	716,858
Mine Security Bond		2,000	2,000
Total Non-Current Assets		8,789,463	4,690,424
Total Assets		20,774,148	12,033,518
Current Liabilities			
Trade and Other Payables	12	1,050,283	1,466,774
Provisions	13	61,318	46,455
Other Current Liabilities		–	516,800
Total Current Liabilities		1,111,601	2,030,029
Total Liabilities		1,111,601	2,030,029
Net Assets		19,662,547	\$10,003,489
Equity			
Issued Capital	14	43,771,891	28,519,395
Reserves	15	664,760	1,807,256
Retained Profits (Accumulated Losses)		(24,774,104)	(20,323,162)
Total Equity		19,662,547	10,003,489

The accompanying notes form part of these Financial Statements

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statement of changes in equity

For the year ended 30 June, 2011

	Share capital \$	Accumulated losses \$	Expired 1992 option premium reserve \$	Option reserve \$	Employee benefits reserve \$	Total \$
Balance as at 30.06.09	16,670,391	(16,099,797)	54,820	1,753,466	1,500	2,380,380
Shares Issued	12,359,660	-	-	-	-	12,359,660
Options Issued	-	-	-	7,000	-	7,000
Issue costs	(506,745)	-	-	(7,000)	-	(513,745)
Irrecoverable subscriptions	(5,411)	-	-	(1,030)	-	(6,441)
Profit/(loss)	-	(4,223,365)	-	-	-	(4,223,365)
Other comprehensive income	-	-	-	-	-	-
Transfer to option reserve from 1992 option premium reserve	-	-	(54,820)	54,820	-	-
Transfer to share capital from employee benefits reserve	1,500	-	-	-	(1,500)	-
Balance as at 30.06.10	28,519,395	(20,323,162)	-	1,807,256	-	10,003,489

	Share Capital	Accumulated Losses	General Reserve	Option Reserve	Employee Benefits Reserve	Total
Shares Issued	15,000,000	-	-	-	-	15,000,000
Issue costs	(900,000)	-	-	-	-	(900,000)
Profit/(loss)	-	(4,450,942)	10,000	-	-	(4,440,942)
Transfer to/(from) option reserve	1,152,496	-	-	(1,152,496)	-	-
Transfer to/(from) general reserve	-	-	654,760	(654,760)	-	-
Balance as at 30.06.11	43,771,891	(24,774,104)	664,760	-	-	19,662,547

The accompanying notes form part of these Financial Statements

statement of cash flows

For the year ended 30 June, 2011

	Notes	30 June 2011 Inflows (Outflows) \$	30 June 2010 Inflows (Outflows) \$
Cash Flows from Operating Activities			
Fuel tax credits received		21,535	178
Interest received		538,258	136,106
Payments to suppliers & employees		(5,794,921)	(3,925,282)
Interest paid		-	(445)
Net increase/(decrease) in cash from operating activities	24	(5,235,128)	(3,789,443)
Cash Flows from Investing Activities			
Payments for property, plant & equipment		(4,572,376)	(3,100,584)
Purchase of financial assets		(36,000)	-
Proceeds from sale of fixed assets		25,000	
Net increase/(decrease) in cash from investing activities		(4,583,376)	(3,100,584)
Cash Flows from Financing Activities			
Proceeds from issue of shares and options		15,000,000	12,296,660
Placement fees and other share issue costs		(900,000)	(443,745)
Proceeds from funding of joint venture		1,750,000	750,000
Expenses of joint venture		(2,264,310)	(173,548)
Net increase/(decrease) in cash from financing activities		13,585,690	12,429,367
Net increase/(decrease) in cash held		3,767,186	5,539,340
Cash at the beginning of the financial year		6,782,432	1,243,092
Cash at the end of the financial year	23	10,549,618	6,782,432

The accompanying notes form part of these Financial Statements

notes to financial statements

For the year ended 30 June, 2011

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1. Significant accounting policies

Statement of Compliance:

The financial report is a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards, Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial statements have been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards (IFRS).

The financial report was authorised for issue by the Directors on 30 September, 2011.

Basis of Preparation:

The financial report is presented in Australian dollars.

The financial report is prepared on the historical cost basis except for financial instruments which have been stated at their fair value.

(a) Income Tax

The charge for current income tax expenses is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(b) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses.

Buildings, Plant and Equipment

Buildings, plant and equipment are measured on the cost basis less depreciation and impairment losses.

The carrying amount of buildings, plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Depreciation

The depreciable amount of all fixed assets including buildings, is depreciated over their useful lives to the economic entity commencing from the time the asset is held ready for use.

notes to financial statements *(cont'd)*

For the year ended 30 June, 2011

1. Significant accounting policies, continued

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate	Method
Buildings	2.5%	Straight Line
Plant and equipment	10% - 50%	Diminishing Value

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income.

(c) Exploration and Development Expenditure

Exploration and Development Expenditure consists of expenditure on prospects still at an exploratory stage or at an early stage of development. These costs include costs of acquisition, exploration, determination of recoverable reserves, economic feasibility studies, mine refurbishment and all technical and administrative overheads directly associated with those projects. Recoupment of exploration and development costs is dependent upon the successful commercial exploitation of each area of interest. The company adopts the 'area of interest' method of accounting whereby all exploration and development costs relating to areas of interest are written off as incurred.

(d) Mining and Development Leases

Mining and Development leases are carried at cost less, where applicable, impairment losses.

When production commences, the cost of the relevant lease will be amortised over the life of the mine according to the rate of depletion of the economically recoverable reserves. Estimated costs of site restoration, where material, are provided over the life of the mine from when the lease is acquired.

Security deposits have been lodged with the Department of Mineral Resources in relation to potential site restoration costs.

(e) Financial Instruments

Recognition

Financial instruments are initially measured at fair value. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets at fair value through profit and loss

Financial assets in this category are stated at fair value. Realised and unrealised gains and losses arising from changes in fair value are included in the statement of comprehensive income in the period in which they arise.

Fair Value

Fair value is determined based on current bid prices for all quoted investments.

(f) Impairment of Assets

At each reporting date, the company reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of comprehensive income.

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notes to financial statements *(cont'd)*

For the year ended 30 June, 2011

1. Significant accounting policies, continued

(g) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

(h) Inventories

Inventories are measured at the lower of cost and net realisable value.

The cost of mining stocks includes direct materials, direct labour, transportation costs and variable and fixed overhead costs relating to mining activities.

(i) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the assets or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

(j) Share-based Payments

Equity-settled share-based payment transactions with suppliers are measured at the fair value of the goods and services received. The fair value is measured at the market price for those goods and services.

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Fair value is determined based on current bid prices for all quoted investments.

(k) Interests in Joint Ventures

The company's share of the assets, liabilities, revenue and expenses of joint venture operations are included in the appropriate items of the statement of comprehensive income and statement of financial position.

(l) Critical Accounting Estimates and Judgments

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgments, estimates and assumptions that effect the application of policies and the reported amounts of assets, liabilities, revenue and expenses.

The estimates and judgments incorporated into the financial report are based on historical experiences and the best available current information on current trends and economic data, obtained both externally and within the company. The estimates and judgements made assume a reasonable expectation of future events but actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision effects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. There were no key adjustments during the year which required accounting estimates and judgments.

(m) Key Estimates

Impairment

The company assesses impairment at each reporting date by evaluating conditions specific to the company that may lead to impairment. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value in use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

Rehabilitation

The company is required to estimate the rehabilitation costs of its operations as described in the accounting policy note in paragraph (d). The estimate is based on management best estimate of the cost.

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notes to financial statements *(cont'd)*

For the year ended 30 June, 2011

1. Significant accounting policies, continued

(n) Revenue

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument.

Other revenue is recognised when the right to receive the revenue has been established.

All revenue is stated net of the amount of goods and services tax (GST).

(o) Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to the end of the reporting period. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled.

2. Income tax expense

No Income Tax is payable in respect of either this year or the previous year.

The Company has residual deductible exploration expenditure and losses for Income Tax purposes unrecouped at 30 June, 2011 as shown below, subject to confirmation by the Australian Taxation office.

The future Income Tax benefit which may be derived from this expenditure and tax losses has not been carried forward as an asset in the balance sheet and will only be obtained if the Company:

- i) derives future assessable income of a nature and sufficient amount to enable the benefit to be realised;
- ii) continues to comply with the legal conditions for deductibility; and
- iii) no changes in legislation adversely affect the ability of the Company to realise the benefit.

	30 June 2011 \$	30 June 2010 \$
Exploration & development expenditure & tax losses carried forward	25,438,497	20,192,026
The benefit of these deductions at the income rate of 30%		
Future Income tax benefit not brought to account	7,631,549	6,057,608
Numerical reconciliation of income tax expense to prima facie tax payable is as follows:		
Profit (loss) from operations before income tax expense	(4,450,942)	(4,223,365)
Tax at Australian tax rate of 30% (2010 also at 30%)	(1,335,283)	(1,267,010)
Tax effect of non-temporary differences	5,927	400
Tax effect of equity raising costs debited to equity	(102,781)	(52,216)
Tax effect of tax losses and temporary differences not recognised	1,432,136	1,318,826
Income tax expense	-	-

notes to financial statements *(cont'd)*

For the year ended 30 June, 2011

3. Franking account

Balance of franking account at year end	25,496	25,496
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4. Revenue

	30 June 2011 \$	30 June 2010 \$
Interest Received	538,258	136,106
Fuel Tax Credits	21,535	178
Equipment Hire Fee	103,310	10,800
Joint Venture Management Fee	290,330	27,652
Joint Venture Expenditure Recovered	2,016,567	-
	2,970,000	174,736

5. Profit (Loss) for the year

The profit/(loss) for the year has been determined after charging:		-
Auditor's Remuneration: Auditing or Reviewing the Financial Report	92,565	26,167
Other Assurance Services	24,865	-
Depreciation of Property, Plant & Equipment	195,660	297,275

6. Cash and Cash Equivalents

Cash on Hand	-	401
Cash at Bank	283	6,556,207
Interest Bearing Deposits	10,554,093	229,586
Corporate Credit Card	(4,758)	(3,762)
	10,549,618	6,782,432

7. Receivables

Due from Joint Venture	181,644	
Indirect Taxes Recoverable	201,055	297,300
Prepaid Expenses	24,609	-
Other Receivables	39,300	4,362
	446,608	301,662

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notes to financial statements *(cont'd)*

For the year ended 30 June, 2011

8. Inventory

	30 June 2011 \$	30 June 2010 \$
Consumables on hand	180,866	-
Fuel on hand	13,880	-
Gold on hand	59,713	-
	254,459	-

9. Financial assets: At fair value through profit and loss

Silver Mines Limited	726,000	240,000
Central West Gold	8,000	19,000
At fair value	734,000	259,000

10. Property, Plant and Equipment

Buildings at Cost	360,475	274,159
Less: Accumulated Depreciation	73,963	62,939
	286,512	211,220
Plant and Equipment at Cost	8,723,930	4,542,723
Less: Accumulated Depreciation	939,837	782,377
	7,784,093	3,760,346
	8,070,605	3,971,566

Movements in Carrying Amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

	Buildings \$	Plant and Equipment \$	Total \$
Balance at 30 June 2009	-	328,022	328,022
Additions	214,005	3,726,814	3,940,819
Disposals	-	-	-
Depreciation	(2,785)	(294,490)	(297,275)
Balance at 30 June 2010	211,220	3,760,346	3,971,566
Additions	146,470	4,216,465	4,362,935
Disposals	-	(68,236)	(68,236)
Depreciation	(71,178)	(124,482)	(195,660)
Balance at 30 June 2011	286,512	7,784,093	8,070,605

notes to financial statements *(cont'd)*

For the year ended 30 June, 2011

11. Mining Properties

	30 June 2011	30 June 2010
	\$	\$
Mining & Development Leases – See A below	716,858	716,858
Mining Exploration & Development Expenditure – See B below	–	–
	716,858	716,858
<i>A. Mining and Development Leases:</i>		
Balance brought forward	716,858	716,858
Balance carried forward	716,858	716,858
<i>B. Mining Exploration and Development Expenditure:</i>		
Balance brought forward	–	–
Expenditure incurred during the year	4,776,827	3,151,649
Expenditure written off during the year	(4,776,827)	(3,151,649)
Balance carried forward	–	–

Ultimate recoupment of mining exploration & development expenditure carried forward is dependent upon successful development and exploitation or sale of the respective areas.

12. Trade and Other Payables

Trade Creditors	888,776	1,318,766
Sundry Creditors and Accruals	–	99,843
Employee Benefits Payable	–	15,879
Unsecured Loan	161,507	32,286
Indirect Taxes Payable	1,050,283	1,466,774

13. Provisions

Provision for Annual Leave	61,318	46,455
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notes to financial statements *(cont'd)*

For the year ended 30 June, 2011

14. Issued capital

	30 June 2011 \$	30 June 2010 \$
<i>Paid up capital:</i>		
At beginning of financial year:		
251,701,766 Ordinary Shares (2010 127,950,487)	28,514,395	16,665,391
500,000 @ 1c Paid (2009 500,000)	5,000	5,000
<i>Issued during the year:</i>		
32,616,696 Ordinary Shares (2010 123,751,279)	15,000,000	12,359,660
Share Issue Costs	(900,000)	(506,745)
Transfer from Option Reserve	1,152,496	-
Irrecoverable Subscriptions Written Off	-	(5,411)
Transfer from Employee Benefits Reserve	-	1,500
	43,771,891	28,519,395
At end of financial year:		
284,318,462 Ordinary Shares (2010 251,701,766)	43,766,891	28,514,395
500,000 @ 1c Paid (2010 500,000)	5,000	5,000
	43,771,891	28,519,395

During the year the following changes were made to the share capital:

Partly Paid Shares

During March 2006, 2,000,000 shares were issued to MCO's four directors of the time (Messrs Mal Bird, Jeff Williams, Tim Allen & Max Garling) at a price of 10c per share, paid to 1c on issue and the unpaid amount to be called by the Company not later than 10 years after the issue date.

As at 30 June 2011, only 500,000 partly paid shares held by Mr M Bird remained unpaid as to 9c per share.

Options

As at 30 June 2011, the Company had no share options on issue (2010: no share options on issue).

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held.

At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Partly paid shares have no voting rights and no rights to dividends or any other distributions while they are partly paid.

Share options carry no rights to dividends and no voting rights.

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notes to financial statements *(cont'd)*

For the year ended 30 June, 2011

14. Issued capital, continued

Capital Management

The Company's objectives when managing capital are to safeguard the ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Management effectively manages the Company's capital by assessing the Company's financial risks and adjusting its capital structure in response to changes in these risks and in the market. There have been no changes in the strategy adopted by management to control the capital of the Company since the prior year.

There are no externally imposed capital requirements.

15. Reserves

Option Reserve

During the current year, option reserves representing unexercised options were transferred to General Reserve. Exercised options were transferred to share capital.

16. Segments

In the year ended 30 June, 2011 the Company operated entirely within Australia and the principal activity was mineral exploration and refurbishment of the Morning Star Goldmine.

17. Earnings per Share

	30 June 2011	30 June 2010
	\$	\$
(a) Earnings used in calculation of basic EPS.	(4,450,942)	(4,223,365)
(b) Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS.	271,096,306	174,427,236

Diluted Earnings Per Share has the same value as Basic Earnings Per Share for both years.

18. Commitments for Expenditure

Exploration Commitments

In order to maintain current rights of tenure to exploration and mining tenements, the Company is required to meet the minimum expenditure requirements of the Victorian Department of Primary Industries. The payment of these obligations, which are not provided for in the accounts are payable as follows:

	30 June 2011	30 June 2010
	\$	\$
Not later than one year	959,500	936,800
Later than one year but not later than five years	3,626,200	3,747,200
Later than five years	-	-

notes to financial statements *(cont'd)*

For the year ended 30 June, 2011

19. Key Management Personnel

Details of Key Management Personnel – Directors

Nicholas M Garling	Chairman, Executive Director
Jeffrey W Williams	Director (resigned 30 June 2011)
Peter G Jackson	Non-Executive Director
Peter G Hepburn-Brown	Director (resigned 31 December 2010)
Zhaoquin Zeng	Non-Executive Director
Alexei V Motlokhov	Non-Executive Director

Compensation of Key Management Personnel

	30 June 2011 \$	30 June 2010 \$
Short Term Employee Benefits	331,828	486,794
Post-Employment Benefits	27,002	35,597
	357,930	522,391

Remuneration received or receivable by the Directors of the Company is disclosed in the Directors' Report.

20. Related Parties

Key Management Personnel

The aggregate number of shares and options for shares of Morning Star Gold NL acquired or disposed of by Key Management Personnel during the year is as follows:

Key Management Personnel	Balance at 01.07.10 (*or date of appointment)			Net Change Other	Balance at 30.06.11 (*or date of retirement)		
	Ordinary	1c Paid	Options		Ordinary	1c Paid	Options
N M Garling	15,541,276	-	-	4,659,768	20,201,044	-	-
J W Williams	1,150,000	-	-	-	1,150,000	-	-
P G Jackson	-	-	-	-	-	-	-
P G Hepburn-Brown	889,270	-	-	(370,000)	519,270	-	-
Z Zeng	-	-	-	-	-	-	-
A V Motlokhov	-	-	-	-	-	-	-
Total	17,580,546	-	-	4,289,768	21,870,314	-	-

Transactions including GST entered into during the year with Key Management Personnel are as follows:

1. Mr N Garling received a salary of \$250,028 in the normal course of business in respect of the Company's exploration and development program.
2. Mr P Jackson received geological fees of \$66,424 in the normal course of business in respect of the Company's exploration and development program.
3. Mr P Hepburn-Brown received consulting fees of \$23,100 in the normal course of business in respect of the Company's exploration and development program.

notes to financial statements *(cont'd)*

For the year ended 30 June, 2011

21. Share-Based Payments

NIL

22. Contingent Liabilities

As a condition for the granting of Exploration and Mining Licences, the Company was obliged to lodge with the Department of Mineral Resources security deposits in the form of Bankers Certificates in the total sum of \$208,500 (2010 \$208,500). In the event of the Company failing to fulfil any of its obligations in relation to the grant of the Exploration Licences the security deposits may be applied at the discretion of the Minister for Minerals Resources & Energy towards the costs of fulfilling such obligations.

As a condition for the issuing of the Banker's Certificates, the Company was obliged to set aside the total sum of \$208,500 (2010 \$208,500) which was placed on Term Deposit with its bankers as collateral.

In the event that the bankers are obliged to pay the Minister under the terms of the Banker's Certificates they would have full recourse to the Company for compensation.

The Directors are not aware of any events that have occurred either before or since 30 June 2011 which may result in the forfeiture of any of the above-mentioned funds.

23. Reconciliation of Cash

For the purposes of the statement of cash flows, cash includes cash on hand and 'at call' deposits with financial institutions. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	30 June 2011	30 June 2010
	\$	\$
Cash and Cash Equivalents	10,549,618	6,782,432

24. Reconciliation of Net Increase (Decrease) in Cash from Operating Activities to Operating Profit (Loss) after Income Tax

	30 June 2011	30 June 2010
	\$	\$
Operating profit (loss) after income tax	(4,450,942)	(4,223,365)
Depreciation	195,660	297,275
Employee share-based payments	-	-
Revaluation of Portfolio Investments	(439,000)	(138,700)
<i>Change in operation assets and liabilities:</i>		
Decrease (increase) in operating receivables	(141,441)	(286,607)
Decrease (increase) in inventory	(254,459)	
Increase (decrease) in operating liabilities	(146,199)	561,954
Net increase (decrease) in cash from operating activities	(5,235,128)	(3,789,443)

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notes to financial statements *(cont'd)*

For the year ended 30 June, 2011

25. Since Balance Date

No significant changes have occurred since balance date.

26. Financial Instrument Disclosures

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise adverse affects on the financial performance of the Company. The Company uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rates and other price risks and aging analysis for credit risk.

Risk management is carried out by the Chief Financial Officer under policies approved by the Board of Directors. The Chief Financial Officer identifies and evaluates the risks in close cooperation with the Company's management and Board.

(a) Market Risk

(i) Foreign exchange risk

The Company does not have any significant exposure to foreign exchange risk.

(ii) Price Risk

The Company in the current year did not have any significant exposure to investment or commodity price risk. The Company will have exposure to gold price risk when mining operations begin. Directors have not made any determination at this stage as to whether they will consider commodity price hedge arrangements.

(iii) Cash flow and fair value interest rate risk

The Company has exposure to interest rate risk which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on those financial assets and the financial liabilities.

The Company policy is to ensure that the best interest rate is received for the short-term deposits. The Company uses a number of banking institutions, with a mixture of fixed and variable interest rates. Interest rates are reviewed prior to deposits maturing and re-invested at the best rate.

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notes to financial statements *(cont'd)*

For the year ended 30 June, 2011

26. Financial Instrument Disclosures (continued)

The interest rate risk is detailed in the table below.

	Weighted Average Effective Interest Rate %	Floating Interest Rate \$	Fixed Interest Rate Maturing		Non- interest Bearing \$	Total \$
			Within 1 year \$	Over 1 year \$		
2011						
Financial assets						
Cash assets	6.17	284	10,301,874	238,460	–	10,549,618
Receivables					446,608	446,608
Inventory					254,459	254,459
Financial assets at fair value through profit and loss					734,000	734,000
Performance guarantee bonds					2,000	2,000
		284	10,554,093	238,460	1,437,067	11,986,685
Financial liabilities						
Trade and Other Payables					(1,050,283)	(1,050,283)
Net financial assets (liabilities)					386,784	10,936,402
2010						
Financial assets						
Cash assets	3.82	6,454,316	229,586	–	98,530	6,782,432
Receivables					322,862	322,862
Financial assets at fair value through profit and loss					259,000	259,000
Performance guarantee bonds		–	–	–	2,000	2,000
		6,454,316	229,586	–	682,392	7,366,294
Financial liabilities						
Trade and Other Payables		–	–	–	(1,466,774)	(1,466,774)
Net financial assets (liabilities)					(784,382)	5,899,520

(b) Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security in respect of recognised financial assets, is the carrying amount as disclosed in the statements of financial position and notes to the financial statements.

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notes to financial statements *(cont'd)*

For the year ended 30 June, 2011

26. Financial Instrument Disclosures (continued)

(c) Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through adequate amount of committed credit facilities and the ability to close out market positions. The Company manages liquidity risk by continuously monitoring forecast and actual cash flows matching maturity profiles of financial assets and liabilities. Surplus funds are generally only invested in instruments that are tradable in highly liquid markets.

The Company at trading date had deposits which mature within twelve months and cash at bank. Due to the cash available to the Company there is no use of any credit facilities at balance date.

(d) Net Fair Values

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The net fair values of the financial assets and financial liabilities approximate their carrying values.

The fair value of financial assets and financial liabilities with standard terms and conditions and traded on organised markets are determined with reference to quoted market prices.

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the statements of financial position and in the notes to the financial statements.

(e) Sensitivity Analysis

The Company has not performed a sensitivity analysis on price risk and its impact on current year results and equity which could result from a change in this risk as the likely impact is insignificant given that no revenue was generated from gold sales during the year.

27. New Standards and Interpretations In Issue Not Yet Adopted

The AASB has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods and which the Company has decided not to early adopt. A discussion of those future requirements and their impact on the Group is as follows:

Standard/Interpretation and applicable date	Applies to
AASB 9: Financial Instruments (December 2010) (applicable for annual reporting periods commencing on or after 1 January 2013)	<p>This Standard is applicable retrospectively and includes revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments. The Company has not yet determined any potential impact on the financial statements.</p> <p>The key changes made to accounting requirements include:</p> <ul style="list-style-type: none">• simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;• simplifying the requirements for embedded derivatives;• removing the tainting rules associated with held-to-maturity assets;• removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost; allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument;• requiring financial assets to be reclassified where there is a change in an entity's business model as they are initially classified based on: (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows; and• requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

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notes to financial statements *(cont'd)*

For the year ended 30 June, 2011

27. New Standards and Interpretations In Issue Not Yet Adopted, continued

AASB 124: Related Party Disclosures

(applicable for annual reporting periods commencing on or after 1 January 2011).

This Standard removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities and clarifies the definition of a 'related party' to remove inconsistencies and simplify the structure of the Standard. No changes are expected to materially affect the Company.

AASB 1053: Application of Tiers of Australian Accounting Standards and AASB 2010-2: Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements [AASB 1, 2, 3, 5, 7, 8, 101, 102, 107, 108, 110, 111, 112, 116, 117, 119, 121, 123, 124, 127, 128, 131, 133, 134, 136, 137, 138, 140, 141, 1050 & 1052 and Interpretations 2, 4, 5, 15, 17, 127, 129 & 1052]

(applicable for annual reporting periods commencing on or after 1 July 2013)

AASB 1053 establishes a revised differential financial reporting framework consisting of two tiers of financial reporting requirements for those entities preparing general purpose financial statements:

- Tier 1: Australian Accounting Standards; and
- Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 2 of the framework comprises the recognition, measurement and presentation requirements of Tier 1, but contains significantly fewer disclosure requirements.

The following entities are required to apply Tier 1 reporting requirements (ie full IFRS):

- » for-profit private sector entities that have public accountability; and
- » the Australian Government and state, territory and local governments.

Since the Company is a for-profit private sector entity that has public accountability, it does not qualify for the reduced disclosure requirements for Tier 2 entities.

AASB 2010-2

Makes amendments to Australian Accounting Standards and Interpretations to give effect to the reduced disclosure requirements for Tier 2 entities. It achieves this by specifying the disclosure paragraphs that a Tier 2 entity need not comply with as well as adding specific 'RDR' disclosures.

AASB 2009-12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]

(applicable for annual reporting periods commencing on or after 1 January 2011).

This Standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. The Standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. The amendments are not expected to impact the Company.

AASB 2009-14: Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement [AASB Interpretation 14]

(applicable for annual reporting periods commencing on or after 1 January 2011)

This Standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan.

This Standard is not expected to impact the Company.

AASB 2010-4: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13]

(applicable for annual reporting periods commencing on or after 1 January 2011)

This Standard details numerous non-urgent but necessary changes to Accounting Standards arising from the IASB's annual improvements project. Key changes include:

- clarifying the application of AASB 108 prior to an entity's first Australian-Accounting-Standards financial statements;
- adding an explicit statement to AASB 7 that qualitative disclosures should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments;
- amending AASB 101 to the effect that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income is required to be presented, but is permitted to be presented in the statement of changes in equity or in the notes;
- adding a number of examples to the list of events or transactions that require disclosure under AASB 134; and
- making sundry editorial amendments to various Standards and Interpretations.

This Standard is not expected to impact the Company.

AASB 2010-5: Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]

(applicable for annual reporting periods beginning on or after 1 January 2011)

This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. However, these editorial amendments have no major impact on the requirements of the respective amended pronouncements.

notes to financial statements *(cont'd)*

For the year ended 30 June, 2011

27. New Standards and Interpretations in Issue Not Yet Adopted, continued

<p>AASB 2010-6: Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7]</p> <p>(applicable for annual reporting periods beginning on or after 1 July 2011)</p>	<p>This Standard adds and amends disclosure requirements about transfers of financial assets, especially those in respect of the nature of the financial assets involved and the risks associated with them. Accordingly, this Standard makes amendments to AASB 1: First-time Adoption of Australian Accounting Standards, and AASB 7: Financial Instruments: Disclosures, establishing additional disclosure requirements in relation to transfers of financial assets.</p> <p>This Standard is not expected to impact the Company.</p>
<p>AASB 2010-7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127]</p> <p>(applies to periods beginning on or after 1 January 2013)</p>	<p>This Standard makes amendments to a range of Australian Accounting Standards and Interpretations as a consequence of the issuance of AASB 9: Financial Instruments in December 2010. Accordingly, these amendments will only apply when the entity adopts AASB 9.</p> <p>As noted above, the Company has not yet determined any potential impact on the financial statements from adopting AASB 9.</p>
<p>AASB 2010-8: Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112]</p> <p>(applies to periods beginning on or after 1 January 2012).</p>	<p>This Standard makes amendments to AASB 112: Income Taxes.</p> <p>The amendments brought in by this Standard introduce a more practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model under AASB 140: Investment Property.</p> <p>Under the current AASB 112, the measurement of deferred tax liabilities and deferred tax assets depends on whether an entity expects to recover an asset by using it or by selling it. The amendments introduce a presumption that an investment property is recovered entirely through sale.</p> <p>This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.</p> <p>The amendments brought in by this Standard also incorporate Interpretation 121 into AASB 112.</p> <p>The amendments are not expected to impact the Company.</p>
<p>AASB 2010-9: Amendments to Australian Accounting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters [AASB 1]</p> <p>(applies to periods beginning on or after 1 July 2011)</p>	<p>This Standard makes amendments to AASB 1: First-time Adoption of Australian Accounting Standards.</p> <p>The amendments brought in by this Standard provide relief for First-time adopters of Australian Accounting Standards from having to reconstruct transactions that occurred before their date of transition to Australian Accounting Standards.</p> <p>Furthermore, the amendments brought in by this Standard also provide guidance for entities emerging from severe hyperinflation either to resume presenting Australian-Accounting-Standards financial statements or to present Australian-Accounting-Standards financial statements for the first time.</p> <p>This Standard is not expected to impact the Company.</p>
<p>AASB 2010-10: Further Amendments to Australian Accounting Standards – Removal of Fixed Dates for First-time Adopters [AASB 2009-11 & AASB 2010-7]</p> <p>(applies to periods beginning on or after 1 January 2013)</p>	<p>This Standard makes amendments to AASB 2009-11: Amendments to Australian Accounting Standards arising from AASB 9, and AASB 2010-7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010).</p> <p>The amendments brought in by this Standard ultimately affect AASB 1: First-time Adoption of Australian Accounting Standards and provide relief for first-time adopters from having to reconstruct transactions that occurred before their transition date.</p> <p>[The amendments to AASB 2009-11 will only affect early adopters of AASB 2009-11 (and AASB 9: Financial Instruments that was issued in December 2009) as it has been superseded by AASB 2010-7.]</p> <p>This Standard is not expected to impact the Company.</p>

notes to financial statements *(cont'd)*

For the year ended 30 June, 2011

28. Joint Venture

The Company has entered into a Joint Venture with Ample Rise Investments, a Hong Kong based resources investor with a long term strategic focus.

The key commercial terms of the Joint Venture are that Ample Rise Investments will expend \$4.5M over a two year period to earn a 51% interest in MIN5299 and MIN5241. Morning Star Gold NL will manage and operate the Joint Venture over this time earning 15% of the amounts expended on the Joint Venture for undertaking that role.

At the balance date, Ample Rise Investments had contributed \$2,500,000 to the Joint Venture with Morning Star Gold NL.

Once the \$2,500,000 has been expended, 10% ownership of the two MINs will be effectively transferred to Ample Rise Investments and at that point Morning Star Gold NL will own 90% and Ample Rise (Shandong Tianye) will own 10% of the two MINs.

In the next period it is expected that a further tranche will be contributed by Ample Rise Investments as agreed.

The Company's share of the assets, liabilities, revenue and expenses of joint venture operations are included in the appropriate items of the statement of comprehensive income and statement of financial position.

The Company's share of assets employed in the joint venture was:

	30 June 2011	30 June 2010
	\$	\$
Mining Properties	264,000	264,000

directors' declaration

The directors of Morning Star Gold NL declare that:

1. the financial statements and notes are in accordance with the Corporations Act 2001 and;
 - a) comply with Accounting Standards; and
 - b) give a true and fair view of the financial position of the Company as at 30 June 2010 and its performance for the year ended on that date;
2. the Chief Executive Officer of the reporting period herein and the (Acting) Chief Financial Officer has declared that:
 - a) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
 - b) the financial statements and notes for the financial year comply with the Accounting Standards; and
 - c) the financial statements and notes for the financial year give a true and fair view.
3. in the directors' opinions there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the board of directors.



N M Garling
Director



P G Jackson
Director

Dated this 30th day of September 2011

independent audit report

to the members of Morning Star Gold NL

Report on the Financial Report

We have audited the accompanying financial report of Morning Star Gold NL, which comprises the Statement of Financial Position as at 30 June 2011, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date, a summary of significant accounting policies and other explanatory Notes and the Directors' Declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

independent audit report (cont'd)
to the members of Morning Star Gold NL

Auditor's Opinion

In our opinion:

- (a) the financial report of Morning Star Gold NL is in accordance with the Corporations Act 2001, including:
- (1) giving a true and fair view of the company's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
 - (2) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporation Regulations 2001;
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in the report of the directors for the year ended 30 June, 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with s 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Morning Star Gold NL for the year ended 30 June, 2011 complies with s 300A of the Corporations Act 2001.

DF Kaye and Co
Chartered Accountants

Dale F Kaye

Dale F Kaye FCA

666B Pittwater Road
Brookvale, NSW, 2100

Dated this 30th day of September 2011

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shareholder information

Issued Capital

As at 27 September 2011 the Company had on issue 284,318,462 ordinary shares and 500,000 partly paid shares issued at a price of 10c per share and paid to 1c on issue. The partly paid shares are not quoted on any exchange.

Substantial Shareholders

As at 27 September 2011 the Company had the following substantial shareholders:

NM Garling & SJ Graham	36,737,909 shares
Chillee Limited (and nominee accounts)	35,008,696 shares
Yarandi Investments Pty Ltd + Dirdot Pty Ltd	32,119,764 shares
BBY Nominees Pty Ltd	28,000,000 shares

Distribution of Shareholders

There were 1,860 shareholders. Each shareholder is entitled to one vote for each share held.

The analysis of the number of holders was:

Size of Holding	No. of Holders
1 – 1,000	147
1,001 – 5,000	395
5,001 – 10,000	279
10,001 – 100,000	778
100,001 – and over	261
	1,860

There were no shareholders who held less than a marketable parcel. The top twenty holders held 59.32% of the Company's share capital.

shareholder information *(cont'd)*

Top twenty holders of ordinary shares as at 14 September 2010

Name	Shares	%
NM Garling & SJ Graham	36,737,909	12.92
Chillee Limited	32,608,696	11.47
BBY Nominees Pty Ltd	28,000,000	9.85
Yarandi Investments Pty Ltd	22,327,265	7.85
Dirdot Pty Limited	9,792,499	3.44
JP Morgan Nominees Australia Limited	8,350,391	2.94
Goldsearch Limited	3,404,633	1.20
Citicorp Nominees Pty Limited	3,387,045	1.19
Drexwill Pty Limited	3,000,000	1.06
Forsyth Barr Custodians Limited	2,108,845	0.74
Reynolds (Nominees) Pty Ltd	2,104,955	0.74
Jayare Nominees Pty Limited	2,066,450	0.73
Max M Garling	2,050,000	0.72
Lugger Bay Pty Ltd	1,950,000	0.69
Ms Georgina Conlon	1,890,756	0.67
Mr S L Crutchett + Mrs A P Crutchett	1,830,370	0.64
P Utiger Pty Ltd	1,787,250	0.63
Mr Mark Bloom	1,766,000	0.62
EG Enterprises Pty Ltd	1,765,000	0.62
Mr Bruce Donald Hunt	1,700,000	0.60
Total	168,628,064	59.32

Unquoted Securities

As at 27 September 2011 the Company had 500,000 1c partly paid shares on issue to a former director, namely Malcolm H Bird.

corporate governance statement

Unless disclosed below, all the best practice recommendations of the ASX Corporate Governance Council have been applied for the entire financial year ended 30 June, 2011.

Ethical Standards

All directors, office-holders, employees and consultants are expected to act with the utmost integrity and objectivity and to enhance the reputation and performance of the company.

A code of conduct has been established requiring directors and employees to act honestly and in good faith; exercise due care and diligence in fulfilling the functions of office; avoid conflicts and make full disclosure of any possible conflict of interest; comply with the law; encourage the reporting and investigating of unlawful and unethical behaviour; and comply with the securities trading policy outlined below.

The Board of Directors

The skills, experience and expertise relevant to the position of each director who is in office, are detailed elsewhere in the Company's website under the heading 'About MCO; Our Team; Directors & CEO'. The board generally holds six formal or informal meetings throughout each financial year. At the present time, the board comprises five directors; one executive director and four Non-Executive Directors, (incl. two independent directors). A Chief Executive Officer, Michael Botting reports directly to the Board of Directors.

The Board of Morning Star Gold NL is currently as follows:

Nicholas Mark Garling – Chairman/MD (appointed as a Director on 20 March, 2007). Mr Garling receives a salary for his executive role.

Noel Robert Laidlaw – Non-Executive, Independent Director (appointed as a Director on 1 July, 2011). Mr Laidlaw may also act from time to time as a consultant to MCO.

Peter Gilbert Jackson – Non-Executive, Independent Director (appointed as a Director on 10 March, 2008). Dr Jackson may also act from time to time as a consultant to MCO.

Alexei V Motlokhov – Non-Executive Director (appointed as a Director on 1 Feb 2011).

Zhaoqin Zeng – Non-Executive Director (appointed as a Director on 1 Feb 2011).

Noel Robert Laidlaw and Peter Gilbert Jackson are considered to be independent directors as they are not substantial shareholders in the company and are remunerated as Non-Executive Directors.

The board is responsible for the overall Corporate Governance of the company and its primary functions include:

- The strategic direction of the company
- Approval of the long term goals for management and monitoring the achievement of these goals on behalf of the shareholders;
- The approval of the annual and half-yearly financial statements;
- The review and adoption of annual budgets for the financial performance of the company and monitoring the results throughout the year;
- Ensuring the company has implemented adequate systems to monitor compliance activities, risk management and occupational health and safety requirements.

The company does not comply with best practice recommendations 2.1: 'A majority of the board should be independent directors'; 2.2: 'The chairperson should be an independent director'; and 2.4: 'The board should establish a nomination committee'. However, the board believes that for a company of its size and considering the extent of its operations that its present composition provides for efficient decision making required by the company in its current circumstances. Also, the board does not believe that the formal establishment of a nomination committee is warranted by its size, as in effect, the board as a whole acts as the nomination committee. The board's nomination of directors and executive officers and other managers,

corporate governance statement *(cont'd)*

is dependent on the candidate's range of skills and experience relevant to the business of the company. The Chairman – in conjunction with external and independent consultants – conducts a performance evaluation for the board and its members and the CEO and other senior managers during each annual period using generally accepted and current industry practices.

Performance evaluation

The Chairman has conducted a performance evaluation for the board and its members during the financial year using generally accepted industry practices.

Audit and Remuneration Committee

The directors have considered the formation of an audit committee and a remuneration committee in order to enhance the company's corporate governance regime in accordance with recommendations 4.1 and 8.1. However, given the number of directors on the board, exclusion of one or more directors from each committee would detrimentally and unnecessarily limit the available skills. Consequently, it has been determined that the full board will take responsibility for the issues which would be expected to be within the purview of these committees.

The company's remuneration policy is disclosed in the Remuneration Report contained within the Directors' Report.

The amount of remuneration for all key management personnel for the company including all monetary and non-monetary components is detailed in the Remuneration Report.

An external audit is undertaken by Dale F Kaye, Chartered Accountant.

The external auditor attends the annual general meetings of the company and is available to answer shareholder questions.

The full board considers the qualifications and experience of the external auditor when considering potential appointees to the position. The rotation of external audit engagement partners is also considered by the full board in the light of relevant legislative and professional standards.

Risk Management

The directors consider that the identification and management of key risks associated with the business is vital. Matters of risk are regularly reviewed at board meetings and a risk management culture is encouraged amongst directors and employees.

Areas of risk that are regularly considered include performance and funding of exploration activities; budgetary control and asset protection; status of mineral exploration licenses; land access and native title considerations; compliance with laws and regulations; occupational health, safety and the environment; and continuous disclosure obligations.

Independent Professional Advice

Each director has the right to seek independent professional advice, in relation to matters arising in the conduct of his duties, at the economic entity's expense, subject to prior approval of the Chairman which is not to be unreasonably withheld.

Continuous Disclosure

The company has established policies and procedures to ensure compliance with ASX Listing Rule continuous disclosure requirements. All proposed company announcements are circulated to each director for their input before release to the market.

corporate governance statement *(cont'd)*

Securities Trading Policy

All directors, office holders and employees are bound by the company's official and public securities trading policy which prohibits trading in Morning Star Gold NL's securities while they are in possession of price sensitive information until it has been released to the market and adequate time has been given for this to be reflected in the security's price. The Company's Securities Trading Policy was revised in accordance with ASX guidelines 12.9, 12.10 and 12.12 and publicly filed on 31 December 2010 during the reporting period. A full copy of the policy document can be found at the official company website of Morning Star Gold NL www.msgold.com.au

The Environment

The company also has in place an Environment Policy under which the company, in seeking to locate and develop mineral resources, is committed to achieving a high standard of environmental protection. This will be achieved while ensuring that the needs of the community and the values attached to natural and physical resources are taken into account in company planning and the way in which business is conducted.

Shareholder Rights

The board aims to ensure that all shareholders are informed of significant developments through regular shareholder communications. These include the Annual Report and distribution of material covering major events when appropriate. Shareholders are entitled to vote on significant matters impacting on the business of the company. Shareholders are strongly encouraged to attend and participate in the Annual General Meetings of the company, to lodge questions to be responded to by the directors and are able to appoint proxies.

Other Information

Further information relating to the company's corporate governance practices and policies has been made publicly available on the company's website at www.msgold.com.au

company directory

Morning Star Gold NL

Directors

N M Garling	Chairman, Director, Acting CFO
P G Jackson	Non-Executive Director, Independent
N R Laidlaw	Non-Executive Director, Independent
Z Zeng	Non-Executive Director
A V Motlokhov	Non-Executive Director

CEO

M Botting

Secretary

P F Harrowsmith

Stock Exchange listing

Morning Star Gold NL shares are listed on the Australian Stock Exchange Ltd
ASX Code: MCO

Registered Office & Business Address

Suite 56A, Jones Bay Wharf
32 Pirrama Road
Pyrmont NSW 2009

T 02 8569 7488
F 02 8569 7499
E info@msgold.com.au

www.msgold.com.au

Share registry

Computershare Investor Services
Yarra Falls, 452 Johnston Street
Abbotsford Vic 3067

T 1300 137 328
F 03 9473 2563

www-au.computershare.com

Auditors

Dale F Kaye & Co
Chartered Accountant
666B Pittwater Road
Brookvale NSW 2100

T 02 8065 9495

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company directory

Morning Star Gold NL

Directors

N M Garling	Chairman, Director, Acting CFO
P G Jackson	Non-Executive Director, Independent
N R Laidlaw	Non-Executive Director, Independent
Z Zeng	Non-Executive Director
A V Motlokhov	Non-Executive Director

CEO

M Botting

Secretary

P F Harrowsmith

Stock Exchange listing

Morning Star Gold NL shares are listed on the Australian Stock Exchange Ltd
ASX Code: MCO

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Share registry

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Abbotsford Vic 3067

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F 03 9473 2563

www-au.computershare.com

Auditors

Dale F Kaye & Co
Chartered Accountant
666B Pittwater Road
Brookvale NSW 2100

T 02 8065 9495

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view the full report online at:

www.morningstar.online-ar2011.com

ANNEXURE "C"

LIST OF KNOWN CREDITORS

**RE: MORNING STAR GOLD N.L.
(ADMINISTRATORS APPOINTED)
A.B.N.: 34 003 312 721**

STATUTORY CREDITORS

Creditor Name	RATA	Advised	Claimed
Deputy Commissioner of Taxation	76,073.00	76,073.00	0.00
Office of State Revenue (NSW)	3,100.00	3,100.00	3,499.68
State Revenue Office (VIC)	0.00	0.00	0.00
3	79,173.00	79,173.00	3,499.68

UNRELATED UNSECURED CREDITORS

Creditor Name	RATA	Advised	Claimed
Adrian Cummins Surveyors	900.00	900.00	0.00
AIS Delatite Steel & Engineering	7,000.00	7,000.00	0.00
ASX Operations Pty Ltd	5,500.00	5,500.00	5,512.06
B&H Prothero	0.00	774.00	774.00
BOC Gases	159.02	159.02	0.00
Brunner & Lay	8,200.00	8,200.00	8,213.63
Commercial Hotel	0.00	870.00	0.00
Computershare Investor Services	240.00	240.00	0.00
Department of State Development, Business and Innovation	20,059.00	20,059.00	0.00
Ecowise Environmental	2,000.00	2,000.00	0.00
Edrill Pty Ltd	0.00	0.00	1,518,835.01
Energy Australia	55,650.00	55,650.00	0.00
Goulburn Valley Water	141.00	141.00	0.00
Grakenlea Services T/A Mountains of Gold	0.00	807.00	807.00
Lisa Scott	0.00	0.00	0.00
Mansfield Shire	1,900.00	1,900.00	0.00
Media Temple Pty Ltd	71.61	71.61	0.00
NAB	20,034.47	20,034.47	0.00
Reece Collins Security	4,000.00	3,810.00	3,810.00
RSM Bird Cameron Partners	6,820.00	6,820.00	0.00
Telstra	6,158.10	6,158.10	0.00
Thomson Geer Solicitors	0.00	4,355.45	7,309.87
Thomson Lawyers	2,000.00	2,000.00	0.00
Woods Point Gun Club	500.00	500.00	500.00
Workcover Victoria	60,593.00	60,593.00	0.00
Yarandi Investments Pty Limited	563,500.00	563,500.00	738,107.38
26	765,426.20	772,042.65	2,283,868.95

RELATED PARTY UNSECURED CREDITORS

Creditor Name	RATA	Advised	Claimed
Garling, Nicholas Mark (Mr)	921,958.00	921,958.00	0.00
Jackson, Peter Gilbert (Mr)	27,000.00	27,000.00	27,000.00
Laidlaw, Noel Robert (Mr)	42,000.00	42,000.00	42,000.00
Motlokhov, Alexei (Mr)	0.00	0.00	0.00
Zeng, Zhaoqin (Mr)	0.00	0.00	0.00
5	990,958.00	990,958.00	69,000.00
34	1,835,557.20	1,842,173.65	2,356,368.63

ANNEXURE "D"

**MORNING STAR GOLD N.L.
(ADMINISTRATORS APPOINTED)
A.B.N.: 34 003 312 721**

**RECEIPTS AND PAYMENTS
FOR THE PERIOD FROM 9 NOVEMBER 2014 TO 1 DECEMBER 2014**

Receipts

Non Refundable Fee for Sale of Business Information	3,080.00
Memorandum	
Pre-Appointment bank account realised	15,500.00
Interest Income	<u>1.29</u>
Total Receipts	<u>18,581.29</u>

Payments

Nil

Net Receipts (Payments) **18,581.29**

ANNEXURE "E"

**RE: MORNING STAR GOLD NL
(ADMINISTRATORS APPOINTED)
A.B.N.: 34 003 312 721
("THE COMPANY")**

Pursuant to Section 439A(4)(b) of the *Corporations Act 2001*, we are required to make a statement and give reasons for our opinion in relation to the following matters:

1. DEED OF COMPANY ARRANGEMENT

This option is not available to creditors as no Deed of Company Arrangement has been proposed for the Company.

2. ADMINISTRATION TO END

The Company is insolvent and consequently, it is not appropriate for the administration to end and control of the Company to be returned to its directors. We therefore do not recommend that creditors vote for the administration to end.

3. COMPANY TO BE WOUND UP

As the Company is insolvent and no Deed of Company Arrangement proposal has been received from any party, it is our recommendation that the Company be placed into liquidation.

However, we will at the upcoming meeting of creditors seek the consent of the creditors to adjourn the meeting of creditors for up to a statutory maximum of 45 business days (with discretion to convene earlier).

VOIDABLE TRANSACTIONS

Pursuant to the Corporations Regulations 5.3A.02, we must specify whether there are any transactions that appear to be voidable in respect of which money, property or other benefits may be recoverable by the Liquidators under Part 5.7B of the *Corporations Act 2001*.

We hereby refer you to section 10 of our Report to Creditors enclosing this statement for details in this regard.

Dated this 1st day of December 2014

SULE ARNAUTOVIC
Joint and Several Administrator

ANNEXURE "F"

**REMUNERATION REPORT
VOLUNTARY ADMINISTRATION**

APPROVAL OF RESTROSPECTIVE AND PROSPECTIVE REMUNERATION

**RE: MORNING STAR GOLD N.L.
(ADMINISTRATORS APPOINTED)
A.B.N.: 34 003 312 721
("THE COMPANY")**

INTRODUCTION

We, Sule Arnautovic and Glenn Anthony Crisp of Jirsch Sutherland, advise that we were appointed as Joint & Several Administrators of the Company on 9 November 2014.

The purpose of this remuneration report is to provide creditors with details of the current and prospective professional fees and out of pocket expenses to be incurred by us for the Voluntary Administration of the Company.

This remuneration report is a formal requirement under the *Corporations Act 2001* and the ARITA Code of Professional Practice.

DECLARATION

We, Sule Arnautovic and Glenn Anthony Crisp, have undertaken a proper assessment of this remuneration report and we are satisfied that the remuneration claimed is:

- In accordance with the law and applicable professional standards; and
- In respect of necessary work (and properly performed work) in the conduct of the administration.

REMUNERATION REPORT – INITIAL ADVICE

This Remuneration Report should be read in conjunction with our **Remuneration Report – Initial Advice** ("Initial Advice") dated 10 November 2014. A copy of our Initial Advice was mailed to all known creditors of the Company as part of our Notice of Appointment and First Report to Creditors.

Enclosed in our Initial Advice was:-

- The current schedule of remuneration and disbursement rates adopted by Jirsch Sutherland; and
- ASIC's guide for creditors in approving fees.

In our Initial Advice we were unable to provide an estimate of our remuneration for the conduct of the Voluntary Administration as the scope of the matter was uncertain.

If any creditor of the Company has not as yet received our Initial Advice they should make a written request for same with our office.

PAST REMUNERATION APPROVED

To date, no remuneration has been previously approved and/or paid in this administration.

CURRENT REMUNERATION APPROVAL SOUGHT:

This remuneration report details approval sought for the following remuneration:

PERIOD	REPORT SCHEDULE	AMOUNT (\$EX GST)
VOLUNTARY ADMINISTRATION		
Resolution 1 - Date of Appointment to Date of Report (9 November 2014 to 1 December 2014)	1 & 2	130,000.00
Resolution 2 - Post Date of Report to Date of Meeting (Post 1 December 2014 to 9 December 2014)	3 & 4	20,000.00
TOTAL – VOLUNTARY ADMINISTRATION		150,000.00
LIQUIDATION		
Resolution 3 - Liquidation Period	5 & 6	200,000.00
TOTAL – LIQUIDATION		200,000.00

Please refer to the attached schedules, as referenced above, for full details of the calculation and composition of the various remuneration approvals sought.

We note that a Deed of Company Arrangement has not been proposed by any party for the creditors of the Company.

CALCULATION OF RETROSPECTIVE AND PROSPECTIVE REMUNERATION

a) Resolution 1 - Date of Appointment to Date of Report

As at 1 December 2014 we have outstanding remuneration of \$130,000, plus GST.

We attach the following in support of our claim:

- **Schedule "1"** - a summary which sets out the hours charged by staff member and task category; and
- **Schedule "2"** - a summary of tasks undertaken by task category including time and hours charged by task category.

b) Resolution 2 - Post Date of Report to Meeting Date

We estimate that our future remuneration for the period post the date of this Remuneration Report till the date of the forthcoming meeting of creditors will be within the vicinity of \$20,000, plus GST.

Our estimate is based on a number of tasks required to be undertaken by us and employees of Jirsch Sutherland. We attach the following in support of our claim:

- **Schedule "3"** - a summary which sets out an estimate of the hours to be charged by staff member and task category; and
- **Schedule "4"** - a summary of tasks to be undertaken by task category including an estimate of time and hours to be charged by task category.

c) Resolution 3 - Liquidation Period

Should we be appointed as Liquidators of the Company, we estimate that our remuneration for acting as Liquidators of the Company will be within the vicinity of \$200,000, plus GST.

Our estimate is based on a number of tasks required to be undertaken by us and employees of Jirsch Sutherland. We attach the following in support of our claim:

- **Schedule "5"** - a summary which sets out an estimate of the hours to be charged by staff member and task category; and
- **Schedule "6"** - a summary of tasks to be undertaken by task category including an estimate of time and hours to be charged by task category.

STATEMENT OF REMUNERATION CLAIM

a) Resolutions

The following resolutions will be put at the forthcoming meeting of creditors to be held on 9 December 2014: -

Resolution 1 - Date of Appointment to Date of Report

"That the outstanding remuneration of the Administrators for the period 9 November 2014 to 1 December 2014 be approved in the sum of \$130,000, plus GST, such amount calculated on a time cost basis using hourly rates adopted by Jirsch Sutherland, and that such remuneration be drawn at the discretion of the Administrators".

Resolution 2 – Post the Date of Report to Meeting Date

"That the remuneration of the Administrators for the period post 1 December 2014 to 9 December 2014 be approved to a limit of \$20,000, plus GST, beyond which further approval must be sought from creditors or the Court, such amount to be calculated on a time cost basis using hourly rates adopted by Jirsch Sutherland, and that such remuneration be paid as and when incurred."

Resolution No. 3 - Liquidation Period

Should the Company be placed into Liquidation, the following resolution will be put at the forthcoming meeting: -

"That the remuneration of the Liquidators for the period post 9 December 2014 be approved to a limit of \$200,000, plus GST, beyond which further approval must be sought from creditors or the Court, such amount to be calculated on a time cost basis using the hourly rates adopted by Jirsch Sutherland, and that such remuneration be drawn as and when incurred."

b) Future Remuneration and Monetary Cap/Limit

We do not expect to make a further remuneration claim in relation to this matter in addition to the approval sought herein.

Any future remuneration sought is subject to a capped/limited amount which represents our indicative estimate of the highest level of remuneration to be charged to the administration for the particular period identified. This cap/limit has been calculated based on the supporting schedules provided setting out time to be charged to the administration by staff members and task/work category.

However, in the event our remuneration within the administration exceeds the amount we anticipate will be approved by creditors at the upcoming meeting, we may seek approval of this additional remuneration by creditors. Should additional remuneration approval be required, we will provide creditors with a further detailed summary of the additional work undertaken.

c) Drawing of Remuneration

We advise that any remuneration approved by creditors at the forthcoming meeting will be drawn, from time to time, at our discretion from available funds held by us or under our control.

d) Remuneration Recoverable from External Sources

Please refer to our Initial Advice for information in this regard.

DISBURSEMENTS

All disbursements charged to the Company have and will be charged in accordance with the schedule of remuneration and disbursement rates adopted by Jirsch Sutherland from time to time. The current rates in this regard were attached to our Initial Advice.

In summary, as at the date of this Remuneration Report, the following disbursements have been directly incurred and/or paid by Jirsch Sutherland:

DISBURSEMENTS	AMOUNT (EXCL. GST)
Externally Provided Professional Services	
Legal Fees	Unknown
Valuation Fees	Unknown
Search Fees (including ASIC, PPSR and Property)	1,300.00
RTA Search Fees	44.40
Mail Redirection	169.55
Internally Provided Professional Services	
Photocopying	1,176.00
Postage	99.40
Facsimile	162.00
SUB-TOTAL	2,951.35
GST	59.79
TOTAL	3,011.14

*Please refer to the receipts and payment summary attached to the Report to Creditors dated 1 December 2014 that encloses this Remuneration Report for details of other disbursement payments made direct to parties from the relevant administration bank account. Those other payments **are not noted** in the above table as disbursements which have been incurred and/or paid directly by Jirsch Sutherland.*

Creditor approval for the payment of disbursements is not required. Creditors however have the right to question the incurring of disbursements and can challenge disbursements in Court.

REPORT ON PROGRESS OF THE ADMINISTRATION

For a report on the progress of the Voluntary Administration please refer to the attached report to creditors which encloses this Remuneration Report.

GENERAL SUPPORTING INFORMATION

a) Summary of Receipts & Payments

A summary of receipts and payments for the administration for the period 9 November 2014 to 1 December 2014 is attached to the report to creditors dated 1 December 2014.

b) Information Sheet

Included in our Initial Advice was an information sheet produced by the Australian Securities & Investments Commission ("ASIC") titled "*Approving Fees – A Guide for Creditors*". A copy of same is available to creditors upon written request or by visiting www.arita.com.au or www.asic.gov.au

QUERIES

Creditors can request more information in support of our remuneration claims and/or receipts and payments by making a written request on our office in this regard.

Should you require any further information, please contact Ms Kathryn Gesilva of this office on (02) 9236 8333.

Dated this 1st day of December 2014



SULE ARNAUTOVIC
Joint & Several Administrator

CALCULATION OF REMUNERATION FOR THE PERIOD 9 NOVEMBER 2014 TO 1 DECEMBER 2014

Employee Name	Position	Hourly Rate Excl. GST	Total Hours	Total (\$) Excl. GST	Task Area											
					Assets Hours	Assets \$	Creditors Hours	Creditors \$	Employees Hours	Employees \$	Investigations Hours	Investigations \$	Administration Hours	Administration \$		
Sule Arnautovic	Appointee	560	43.0	24,080.00	4.7	2,632.00	5.2	2,912.00	0.0	-	0.0	-	-	33.1	18,536.00	
Glenn Crisp	Appointee	560	23.2	12,992.00	16.1	9,016.00	3.2	1,792.00	-	-	-	-	-	3.9	2,184.00	
Andrew Spring	Partner	560	1.2	672.00	1.2	672.00	-	-	-	-	-	-	-	-	-	
Peter Nean	Partner	560	0.3	168.00	-	-	0.3	168.00	-	-	-	-	-	-	-	
Amanda Arnautovic	Principal	485	94.2	45,687.00	40.9	19,836.50	36.6	17,751.00	-	-	12.3	5,965.50	-	4.4	2,134.00	
Carolyn Docherty	Practice Manager	485	0.6	291.00	-	-	-	-	-	-	-	-	-	0.6	291.00	
Terry Sandy	Snr Manager	485	9.5	4,607.50	9.5	4,607.50	-	-	-	-	-	-	-	-	-	
Kathryn Gesliva	Supervisor 1	380	63.7	24,206.00	20.3	7,714.00	20.9	7,942.00	-	-	8.7	3,306.00	-	13.8	5,244.00	
Timothy Kelly	Senior 2	305	22.1	6,740.50	2.3	701.50	2.7	823.50	0.3	91.50	4.5	1,372.50	-	12.3	3,751.50	
Louise Sutherland	Intermediate 2	255	17.6	4,488.00	-	-	-	-	-	-	-	-	-	17.6	4,488.00	
Deborah Grapsas	Snr Administration Assistant	205	25.3	5,186.50	4.2	861.00	8.1	1,660.50	-	-	5.2	1,066.00	-	7.8	1,599.00	
Jean Fearon	Snr Administration Assistant	205	0.3	61.50	-	-	-	-	-	-	-	-	-	0.3	61.50	
Maria Dal Cin	Receptionist	200	1.3	260.00	-	-	-	-	-	-	-	-	-	1.3	260.00	
Rosemary Cooper	Receptionist	200	1.3	260.00	-	-	-	-	-	-	-	-	-	1.3	260.00	
Caitlin Sutherland	Administration Assistant	150	0.8	120.00	-	-	-	-	-	-	-	-	-	0.8	120.00	
Caitlin Duffy	Administration Assistant	150	0.4	60.00	-	-	-	-	-	-	-	-	-	0.4	60.00	
Natalie Mecna	Administration Assistant	150	0.4	60.00	-	-	-	-	-	-	-	-	-	0.4	60.00	
Natalie Moore	Administration Assistant	150	0.5	75.00	-	-	-	-	-	-	-	-	-	0.5	75.00	
TOTAL (Hours/\$)			305.7	130,015.00	99.2	46,040.50	77.0	33,049.00	0.3	91.50	30.7	11,710.00	98.5	39,124.00		

GST (10%)
13,001.50
143,016.50

GST (10%)
TOTAL (Including GST)

**SUMMARY OF WORK FOR THE VOLUNTARY ADMINISTRATION
REMUNERATION FROM DATE OF APPOINTMENT TO DATE OF REMUNERATION REPORT
(9 NOVEMBER 2014 TO 1 DECEMBER 2014)**

**RE: MORNING STAR GOLD N.L.
(ADMINISTRATORS APPOINTED)
A.B.N.: 34 003 312 721
("THE COMPANY")**

**JIRSCH SUTHERLAND
APPOINTEES: SULE ARNAUTOVIC AND GLENN ANTHONY CRISP**

Major Tasks	Amount (\$ Ex. GST)	General Description	Specific Tasks
Assets (99.2 hours)	46,040.50	Sale of Business	<ul style="list-style-type: none"> - Ascertaining assets for sale - Preparing information for purchasers - Collating information for memorandum - Liaising/corresponding with several interested parties (in respect to acquiring the assets of the Company) - Advertising in the Australian Financial Review - Uploading copy of the advert to Company website and ASX website - Preparing Sale of Business Package/Memorandum - Creating data room, for interest parties to access Company information and annexures - Uploading relevant information to data room - Internal meetings to discuss interested parties - Liaising with lawyers re sale contract matters - Liaising with Directors
		Plant and Equipment	<ul style="list-style-type: none"> - Liaising with valuers/auctioneers and interested parties - Engaging Hymans Auctioneers & Valuers in order to carry out a valuation of the physical assets located at the mine site. - Reviewing asset listings - Reviewing valuation provided by Hymans - Discussing and corresponding with directors/management re plant and equipment items - Assess realisation options for plant and equipment items - Reviewing previous asset valuations
		Sale of Real Property	<ul style="list-style-type: none"> - Reviewing property register - Reviewing photos of property - Conduct property searches - Liaising with valuers/auctioneers and interested parties - Liaising with lawyers
		Assets subject to specific charges	<ul style="list-style-type: none"> - Extraction of relevant documents uploaded to Personal Property Securities Register - Corresponding with Secured Parties - Reviewing correspondence
		Debtors	<ul style="list-style-type: none"> - Reviewing and assessing debtors ledger - Preparing letter to Shandong Tianye Group - Correspondence with debtors - Liaising with Mr Garling - Liaising with solicitors

**SUMMARY OF WORK FOR THE VOLUNTARY ADMINISTRATION
REMUNERATION FROM DATE OF APPOINTMENT TO DATE OF REMUNERATION REPORT
(9 NOVEMBER 2014 TO 1 DECEMBER 2014)**

		Other Assets	<ul style="list-style-type: none"> - All tasks associated with realising other assets - Assessing Joint Ventures
		Mining/Exploration Licences	<ul style="list-style-type: none"> - Reviewing mining licences owned by the Company - Discussing and corresponding with directors/management re licences
		Site Inspection	<ul style="list-style-type: none"> - Melbourne based staff attended the Morning Star Goldmine at Woods Point, Victoria - Site inspection by Hymans Auctioneers & Valuers
		Insurance	<ul style="list-style-type: none"> - Notification to Insurance brokers of appointment and placement of insurance cover note over assets - Correspondence with previous insurance brokers

**SUMMARY OF WORK FOR THE VOLUNTARY ADMINISTRATION
REMUNERATION FROM DATE OF APPOINTMENT TO DATE OF REMUNERATION REPORT
(9 NOVEMBER 2014 TO 1 DECEMBER 2014)**

Major Tasks	Estimate Time excl. GST (\$)	General Description	- Specific Tasks
Creditors (77.0 hours)	33,049.00	Creditor Reports	<ul style="list-style-type: none"> - Preparing appointment and meeting reports to creditors - Preparing Remuneration report for creditors - Preparing a Declaration of Independence, Relevant Relationships and Indemnities for creditors - Preparing investigation report to creditors / - Reports pursuant to Section 436E and 439A of the Corporations Act - Uploading Report to ASX Website
		Creditor Enquiries	<ul style="list-style-type: none"> - Receive and follow up creditor enquiries via telephone and e-mail - Review and prepare correspondence to creditors
		Secured Creditor Reporting	<ul style="list-style-type: none"> - Corresponding with PPSR secured creditors - Responding to PPSR secured creditor's queries - Prepare correspondence, exclusively for Chillee Limited - Responded to Chillee Limited's queries - Met with Chillee Limited's legal counsel
		Retention of Title/PMSI Claims	<ul style="list-style-type: none"> - Liaising with creditor to obtain relevant information and documents - Extraction of relevant documents uploaded to Personal Property Securities Register
		Meeting of Creditors	<ul style="list-style-type: none"> - Preparation of appointment and meeting notices - Forward notice of meeting to all known creditors - Preparation of meeting package, including attendance/proxy register, list of creditors, report of creditors and draft minutes of meeting - Responding to stakeholder queries and questions immediately following meeting - Setup of Conference Facility
		Dealing with Proofs of Debt	<ul style="list-style-type: none"> - Review of proofs of debt received by creditors, entry of proofs of debt received - Maintain MYOB database - Correspondence with OSR and ATO regarding proofs of debt
		Other	<ul style="list-style-type: none"> - Meeting and corresponding with Company Director, Mr Nicholas Garling, to discuss matter - Written to all current Directors of the Company to request a completed director's questionnaire and a Report as to Affairs ("RATA") as at the date of our appointment - Meeting with Director and geologist to collate information for data room

**SUMMARY OF WORK FOR THE VOLUNTARY ADMINISTRATION
REMUNERATION FROM DATE OF APPOINTMENT TO DATE OF REMUNERATION REPORT
(9 NOVEMBER 2014 TO 1 DECEMBER 2014)**

Major Tasks	Estimate Time excl. GST (\$)	General Description:	- Specific Tasks
Employees (0.3 hours)	91.50	Contractor	- We engaged Mr Reece Collins as a contractor to assist us with security and access to the Mine Site

**SUMMARY OF WORK FOR THE VOLUNTARY ADMINISTRATION
REMUNERATION FROM DATE OF APPOINTMENT TO DATE OF REMUNERATION REPORT
(9 NOVEMBER 2014 TO 1 DECEMBER 2014)**

Major Tasks	Estimate Time excl. GST (\$)	General Description	Specific Tasks
Investigation (30.7 hours)	11,710.00	Conducting Investigation	<ul style="list-style-type: none"> - Secure books and records - Obtained historical records from ASX - Obtained various bank statements from National Australia Bank ("NAB") - Review books and records received - Correspondence to banks, utility providers, and government organisations and reviewing any responses received - Corresponding with NAB re term deposits - Planning investigations - Liaising with director(s) regarding history and background of Company and reasons for failure - Review of RATA provided by director/s - Review correspondence to/from creditors and other third parties - Conducting statutory searches on director/s and any related entity/s - Conducting an unclaimed monies search - Conduct Relational Organisation Extract search to determine if Company holds any shareholdings in other entities - Review of financial statements, preparation of comparative financial statements - Review of bank statements and other supporting financial information to consider possible preference payments to creditors or other uncommercial payments - Review of factors and information to support the possible insolvency of the Company - Preparation of investigation program - Preparation and lodgement of report to ASIC pursuant to Section 438D of the Act - Preparation and lodgement of supplementary report if required to ASIC
		Litigation Recoveries /	<ul style="list-style-type: none"> - Internal meetings to discuss status of litigation - Preparing brief to Solicitors - Met and corresponded with Mr Peter Hegarty, the Company's solicitor
		ASIC Reporting	<ul style="list-style-type: none"> - Preparation of statutory investigation reports - Liaising with ASIC if required

**SUMMARY OF WORK FOR THE VOLUNTARY ADMINISTRATION
REMUNERATION FROM DATE OF APPOINTMENT TO DATE OF REMUNERATION REPORT
(9 NOVEMBER 2014 TO 1 DECEMBER 2014)**

Major Tasks	Estimate Time excl. GST (\$)	General Description	Specific Tasks
Administration (98.5 hours)	39,124.00	ATO and other statutory reporting	<ul style="list-style-type: none"> - Notification of appointment - Preparation and lodgement of Business Activity Statements with ATO - Completing PAYG Certificates for former staff - Correspond with ASX
		Correspondence	<ul style="list-style-type: none"> - Attend to day to day mail, telephone calls, facsimiles and e-mails - Notification to Sheriff of appointment - Forward notice of appointment and meeting to all known creditors and stakeholders, including: <ul style="list-style-type: none"> o ASIC o ASX o Department of State Development, Business and Innovation (DSDBI) o ATO o OSR (NSW and VIC) o All PPSR/Secured Creditors o All major Australian banks o All major utility/service providers o Known Company's solicitor and accountant o All known creditors of the Company
		Document Maintenance/File Maintenance	<ul style="list-style-type: none"> - Filing, photocopying and scanning of documents - File Reviews - Updating checklists - Redirect mail
		Insurance	<ul style="list-style-type: none"> - Identification of potential issues requiring attention of insurance specialists - Review of insurance policies with previous brokers - Notification to insurance broker of appointment
		Bank Account Administration	<ul style="list-style-type: none"> - Preparing correspondence opening and closing accounts - Requesting bank statements - Bank account reconciliations - Correspondence with bank regarding specific transfers - Payment and receipt forms
		ASIC Forms and other forms	<ul style="list-style-type: none"> - Preparing and lodging ASIC forms - Correspondence with ASIC regarding statutory forms
		Planning / Review	<ul style="list-style-type: none"> - Discussions regarding status of administration
		Books and records / storage	<ul style="list-style-type: none"> - Dealing with records in storage - Sending job files to storage

MORNING STAR GOLD N.L.
 ABN: 34 003 312 721
 (ADMINISTRATORS APPOINTED)

ESTIMATE OF REMUNERATION FOR THE PERIOD OF 1 DECEMBER 2014 TO 9 DECEMBER 2014

Employee Name	Position	Hourly Rate Excl. GST	Total Hours	Total (\$ Excl. GST)	Task Area									
					Assets Hours	Assets \$	Creditors Hours	Creditors \$	Employees Hours	Employees \$	Investigations Hours	Investigations \$	Administration Hours	Administration \$
Sule Arnautovic	Joint Appointee	560	3.5	1,960.00	1.0	560.00	1.0	560.00	0.0	-	0.5	280.00	1.0	560.00
Glenn Crisp	Joint Appointee	560	1.0	560.00	0.5	280.00	0.0	-	0.0	-	0.0	-	0.5	280.00
Amanda Arnautovic	Principal	485	8.0	3,880.00	4.0	1,940.00	1.0	485.00	0.0	-	1.0	485.00	2.0	970.00
Kathryn Gesilva	Supervisor 1	380	13.0	4,940.00	7.0	2,660.00	2.0	760.00	0.0	-	2.0	760.00	2.0	760.00
Timothy Kelly	Senior 2	305	13.5	4,117.50	5.0	1,525.00	3.0	915.00	0.5	152.50	2.0	610.00	3.0	915.00
Louise Sutherland	Intermediate 2	255	9.5	2,422.50	3.0	765.00	2.0	510.00	0.5	127.50	1.0	255.00	3.0	765.00
Deborah Grapsas	Administration Assistant Snr	205	10.0	2,050.00	2.0	410.00	1.0	205.00	0.0	-	0.0	-	7.0	1,435.00
Various	Administration Assistant Jnr	100	0.7	70.00	0.0	-	0.0	-	0.0	-	0.0	-	0.7	70.00
TOTAL (Hours/\$)			59.2	20,000.00	22.5	8,140.00	10.0	3,435.00	1.0	280.00	6.5	2,390.00	19.2	5,755.00

GST (10%)
 2,000.00
 TOTAL (Including GST)
 22,000.00

**SUMMARY OF WORK FOR THE VOLUNTARY ADMINISTRATION
REMUNERATION POST THE DATE OF THE REMUNERATION REPORT TO DATE OF MEETING
(1 DECEMBER 2014 TO 9 DECEMBER 2014)**

**RE: MORNING STAR GOLD N.L.
(ADMINISTRATORS APPOINTED)
A.B.N.: 34 003 312 721
("THE COMPANY")**

**JIRSCH SUTHERLAND
APPOINTEES: SULE ARNAUTOVIC AND GLENN ANTHONY CRISP**

Major Tasks	Amount (\$ Ex. GST)	General Description	Specific Tasks
Assets (22.5 hours)	8,140.00	Sale of Business	<ul style="list-style-type: none"> - Providing information to potential purchasers - Liaising/corresponding with several interested parties (in respect to acquiring the assets of the Company) - Updating Sale of Business Package/Memorandum - Updating data room - Internal meetings to discuss interested parties - Liaising with lawyers re sale contract matters
		Plant and Equipment	<ul style="list-style-type: none"> - Discussing and corresponding with directors/management re plant and equipment items - Assess realisation options for plant and equipment items
		Sale of Real Property	<ul style="list-style-type: none"> - Liaising with lawyers re sale contract matters
		Assets subject to specific charges	<ul style="list-style-type: none"> - Following up information required from Charge holders
		Debtors	<ul style="list-style-type: none"> - Reviewing and assessing debtors ledger - Correspondence with debtors - Liaising with debt collectors and solicitors
		Other Assets	<ul style="list-style-type: none"> - Steps associated with realising other assets
		Insurance	<ul style="list-style-type: none"> - Correspondence with insurance brokers

**SUMMARY OF WORK FOR THE VOLUNTARY ADMINISTRATION
REMUNERATION POST THE DATE OF THE REMUNERATION REPORT TO DATE OF MEETING
(1 DECEMBER 2014 TO 9 DECEMBER 2014)**

Major Tasks	Estimate Time excl. GST (\$)	General Description	- Specific Tasks
Creditors (10.0 hours)	3,435.00	Creditor Enquiries	<ul style="list-style-type: none"> - Receive and follow up creditor enquiries via telephone and e-mail - Review and prepare correspondence to creditors
		Secured Creditor Reporting	<ul style="list-style-type: none"> - Corresponding with Chillee Pty Ltd - Responding to secured creditor's queries
		Meeting of Creditors	<ul style="list-style-type: none"> - Preparation of meeting package, including attendance/proxy register, list of creditors, report of creditors and draft minutes of meeting - Confirming meeting room availability - Confirming teleconferencing facility
		Dealing with Proofs of Debt	<ul style="list-style-type: none"> - Review of proofs of debt received by creditors, entry of proofs of debt received - Maintain MYOB database - Correspondence with OSR and ATO regarding proofs of debt
		Other	<ul style="list-style-type: none"> - Responding to other queries

**SUMMARY OF WORK FOR THE VOLUNTARY ADMINISTRATION
 REMUNERATION POST THE DATE OF THE REMUNERATION REPORT TO DATE OF MEETING
 (1 DECEMBER 2014 TO 9 DECEMBER 2014)**

Major Tasks	Estimate Time excl. GST (\$)	General Description:	- Specific Tasks
Employees (1.0 hours)	280.00	Contractor	- Corresponding with Contractor

**SUMMARY OF WORK FOR THE VOLUNTARY ADMINISTRATION
REMUNERATION POST THE DATE OF THE REMUNERATION REPORT TO DATE OF MEETING
(1 DECEMBER 2014 TO 9 DECEMBER 2014)**

Major Tasks	Estimate Time excl. GST (\$)	General Description	Specific Tasks
Investigation (6.5 hours)	2,390.00	Conducting Investigation	<ul style="list-style-type: none"> - Further Review of all books and records received - Following up banks, utility providers, and government organisations - Reviewing investigations - Liaising with director/s regarding history and background of Company and reasons for failure - Review of RATA provided by director/s - Review correspondence to/from creditors and other third parties - Review of financial statements - Review of bank statements and other supporting financial information - Preparation and lodgement of report to ASIC pursuant to Section 438D of the Act
		Litigation / Recoveries	<ul style="list-style-type: none"> - Internal meetings to discuss status of litigation - Preparing brief to Solicitors - Liaising with Solicitors regarding recovery action - Attending to negotiations - Attending to settlement matters
		ASIC Reporting	<ul style="list-style-type: none"> - Preparation of statutory investigation reports - Liaising with ASIC if required

**SUMMARY OF WORK FOR THE VOLUNTARY ADMINISTRATION
REMUNERATION POST THE DATE OF THE REMUNERATION REPORT TO DATE OF MEETING
(1 DECEMBER 2014 TO 9 DECEMBER 2014)**

Major Tasks	Estimate Time excl. GST (\$)	General Description	Specific Tasks
Administration (19.2 hours)	5,755.00	ATO and other statutory reporting	- Preparation and lodgement of Business Activity Statements with ATO
		Correspondence	- Attend to day to day mail, telephone calls, facsimiles and e-mails
		Document Maintenance/File Maintenance	- Filing, photocopying and scanning of documents - File Reviews - Updating checklists
		Insurance	- Identification of potential issues requiring attention of insurance specialists - Review of insurance policies with previous brokers
		Bank Account Administration	- Preparing correspondence opening and closing accounts - Requesting additional bank statements - Bank account reconciliations - Correspondence with bank regarding specific transfers - Payment and receipt forms
		ASIC Forms and other forms	- Preparing and lodging ASIC forms - Correspondence with ASIC regarding statutory forms
		Planning Review /	- Discussions regarding status of administration
		Books and records storage /	- Dealing with records in storage - Sending job files to storage

ESTIMATE OF REMUNERATION FOR THE PERIOD OF THE LIQUIDATION

Employee Name	Position	Hourly Rate Excl. GST	Total Hours	Total (\$) Excl. GST	Task Area						Dividend \$					
					Assets \$	Creditors \$	Employees \$	Investigations \$	Administration \$	Dividend \$						
					Hours	Hours	Hours	Hours	Hours	Hours	Hours	Hours				
Sule Arnautovic	Joint Appointee	560	37.0	20,720.00	10.0	5,600.00	5.0	2,800.00	0.0	-	1.0	560.00				
Glenn Crisp	Joint Appointee	560	8.0	4,480.00	2.0	1,120.00	1.0	560.00	0.0	-	0.0	-				
Amanda Arnautovic	Principal	485	83.0	40,255.00	25.0	12,125.00	15.0	7,275.00	1.0	485.00	10.0	4,850.00				
Kathryn Gesliva	Supervisor 1	380	116.0	44,080.00	30.0	11,400.00	25.0	9,500.00	1.0	380.00	20.0	7,600.00				
Timothy Kelly	Senior 2	305	143.0	43,615.00	35.0	10,675.00	35.0	10,675.00	1.0	305.00	25.0	7,625.00				
Louise Sutherland	Intermediate 2	255	123.0	31,365.00	35.0	8,925.00	40.0	10,200.00	2.0	510.00	5.0	1,275.00				
Deborah Grapsas	Administration Assistant Snr	205	72.0	14,760.00	5.0	1,025.00	15.0	3,075.00	0.0	-	1.0	205.00				
Various	Administration Assistant Jnr	100	7.3	725.00	0.0	-	0.0	-	0.0	-	0.0	-				
TOTAL (Hours/\$)			589.3	200,000.00	142.0	50,870.00	136.0	44,085.00	5.0	1,680.00	62.0	22,115.00	221.3	73,445.00	23.0	7,805.00

GST (10%)
 20,000.00
 TOTAL (Including GST)
 220,000.00

GST (10%)
 20,000.00
 TOTAL (Including GST)
 220,000.00

**SUMMARY OF WORK FOR THE VOLUNTARY ADMINISTRATION
REMUNERATION FOR THE LIQUIDATION OF THE COMPANY
(POST 9 DECEMBER 2014)**

**RE: MORNING STAR GOLD N.L.
(ADMINISTRATORS APPOINTED)
A.B.N.: 34 003 312 721
("THE COMPANY")**

**JIRSCH SUTHERLAND
APPOINTEES: SULE ARNAUTOVIC AND GLENN ANTHONY CRISP**

Major Tasks	Amount (\$ Ex. GST)	General Description	Specific Tasks
Assets (142.0 hours)	50,870.00	Sale of Business	<ul style="list-style-type: none"> - Liaising with Purchasers - Internal meetings to discuss and review offers received - Liaising with lawyers re sale contract matters - Finalising Sale - Receipting Funds
		Plant and Equipment	<ul style="list-style-type: none"> - Liaising with valuers/auctioneers and interested parties - Reviewing asset listings - Discussing and corresponding with directors/management re plant and equipment items - Assess realisation options for plant and equipment items - Realising available plant and equipment
		Sale of Real Property	<ul style="list-style-type: none"> - Liaising with valuers/auctioneers and interested parties - Liaising with lawyers re sale contract matters - Finalising Sale of Property
		Assets subject to specific charges	<ul style="list-style-type: none"> - All tasks associated with realising a charged asset
		Debtors	<ul style="list-style-type: none"> - Reviewing and assessing debtors ledger - Correspondence with debtors - Liaising with debt collectors and solicitors
		Other Assets	<ul style="list-style-type: none"> - All tasks associated with realising other assets
		Insurance	<ul style="list-style-type: none"> - Notification to Insurance brokers of appointment of Liquidators - Correspondence with previous insurance brokers

**SUMMARY OF WORK FOR THE VOLUNTARY ADMINISTRATION
REMUNERATION FOR THE LIQUIDATION OF THE COMPANY
(POST 9 DECEMBER 2014)**

Major Tasks	Estimate Time excl. GST (\$)	General Description	- Specific Tasks
Creditors (136.0 hours)	44,085.00	Creditor Reports	<ul style="list-style-type: none"> - Preparing meeting and general reports to creditors - Preparing Remuneration report for creditors - Preparing investigation report to creditors
		Creditor Enquiries	<ul style="list-style-type: none"> - Receive and follow up creditor enquiries via telephone and e-mail - Review and prepare correspondence to creditors
		Secured Creditor Reporting	<ul style="list-style-type: none"> - Corresponding with Chillee Limited - Responding to secured creditor's queries
		Meeting of Creditors	<ul style="list-style-type: none"> - Preparation of future meeting notices - Forward notice of meeting to all known creditors - Preparation of meeting package, including attendance/proxy register, list of creditors, report of creditors and draft minutes of meeting - Responding to stakeholder queries and questions immediately following meeting
		Dealing with Proofs of Debt	<ul style="list-style-type: none"> - Review of proofs of debt received by creditors, entry of proofs of debt received - Maintain MYOB database - Correspondence with OSR and ATO regarding proofs of debt
Other	<ul style="list-style-type: none"> - Other Queries 		

**SUMMARY OF WORK FOR THE VOLUNTARY ADMINISTRATION
REMUNERATION FOR THE LIQUIDATION OF THE COMPANY
(POST 9 DECEMBER 2014)**

Major Tasks	Estimate Time excl. GST (\$)	General Description:	- Specific Tasks
Employees (5.0 hours)	1,680.00	Contractor	<ul style="list-style-type: none">- Corresponding with Contractor- Payment of Contractor

**SUMMARY OF WORK FOR THE VOLUNTARY ADMINISTRATION
REMUNERATION FOR THE LIQUIDATION OF THE COMPANY
(POST 9 DECEMBER 2014)**

Major Tasks	Estimate Time excl. GST (\$)	General Description:	- Specific Tasks
Dividend (23.0 hours)	7,805.00	Processing Proofs of Debt	Preparation of correspondence to potential creditors inviting lodgement of POD Receipt of PODs Maintain POD register Request further information from claimants regarding POD Preparation of correspondence to claimant advising outcome of adjudication
		Dividend Procedures	Preparation of correspondence to creditors advising of intention to declare dividend Online notice of intention to declare dividend Obtain clearance from ATO to allow distribution of Company's assets Preparation of dividend calculation Preparation of correspondence to creditors announcing declaration of dividend Preparation of distribution Preparation of dividend file Preparation of payment forms to pay dividend Preparation of correspondence to creditors enclosing payment of dividend Calculation of increasing/decreasing adjustment re GST Forward of unclaimed monies to ASIC

**SUMMARY OF WORK FOR THE VOLUNTARY ADMINISTRATION
REMUNERATION FOR THE LIQUIDATION OF THE COMPANY
(POST 9 DECEMBER 2014)**

Major Tasks	Estimate Time excl. GST (\$)	General Description	Specific Tasks
Investigation (62.0 hours)	22,115.00	Conducting Investigation	<ul style="list-style-type: none"> - Further review of all books and records received - Reviewing investigations - Liaising with director/s - Review of RATA provided by director/s - Review correspondence to/from creditors and other third parties - Reviewing statutory searches on director/s and any related entity/s - Review of financial statements - Review of bank statements and other supporting financial information to consider possible preference payments to creditors or other uncommercial payments - Review of factors and information to support the possible insolvency of the Company - Preparation and lodgement of report to ASIC pursuant to Section 533 of the Act - Preparation and lodgement of supplementary report if required to ASIC
		Litigation Recoveries /	<ul style="list-style-type: none"> - Internal meetings to discuss status of litigation - Preparing brief to Solicitors - Liaising with Solicitors regarding recovery action - Attending to negotiations - Attending to settlement matters
		ASIC Reporting	<ul style="list-style-type: none"> - Preparation of statutory investigation reports - Liaising with ASIC if required

**SUMMARY OF WORK FOR THE VOLUNTARY ADMINISTRATION
REMUNERATION FOR THE LIQUIDATION OF THE COMPANY
(POST 9 DECEMBER 2014)**

Major Tasks	Estimate Time excl. GST (\$)	General Description	Specific Tasks
Administration (221.3 hours)	73,445.00	ATO and other statutory reporting	<ul style="list-style-type: none"> - Preparation and lodgement of Business Activity Statements with ATO - Completing PAYG Certificates for former staff (if required)
		Correspondence	<ul style="list-style-type: none"> - Attend to day to day mail, telephone calls, facsimiles and e-mails - Notification to Sheriff of appointment of Liquidator
		Document Maintenance/File Maintenance	<ul style="list-style-type: none"> - Filing, photocopying and scanning of documents - File Reviews - Updating checklists
		Insurance	<ul style="list-style-type: none"> - Identification of potential issues requiring attention of insurance specialists - Review of insurance policies with previous brokers - Notification to insurance broker of appointment of Liquidator
		Bank Account Administration	<ul style="list-style-type: none"> - Preparing correspondence opening and closing accounts - Requesting bank statements - Bank account reconciliations - Correspondence with bank regarding specific transfers - Payment and receipt forms
		ASIC Forms and other forms	<ul style="list-style-type: none"> - Preparing and lodging ASIC forms - Correspondence with ASIC regarding statutory forms
		Planning Review /	<ul style="list-style-type: none"> - Discussions regarding status of administration
		Books and records storage /	<ul style="list-style-type: none"> - Dealing with records in storage - Sending job files to storage