

MORNING STAR GOLD NL
ABN 34 003 312 721
Level 4 20 Loftus Street
Sydney NSW 2000
P 02 9291 3888 – F 02 952 3899

30th September 2009

The Manager
Company Announcements Office
ASX
20 Bridge Street
SYDNEY NSW 2001

Dear Sirs,

Following are the Company's Annual Statutory Financial Accounts for the year ended 30th June 2009.

A full written and visual overview of the Company's operations for the period will be available in Morning Star Gold's Online Annual Report which will be posted on the Company's website and on the ASX online portal in due course.

Yours faithfully,

Nick Garling
Managing Director



Morning Star Gold NL
A.B.N. 34 003 312 721

COMPANY DIRECTORY

DIRECTORS:

M. M. Garling (Chairman)
M. H. Bird
J. W. Williams
N. M. Garling (Managing Director)
P.G. Jackson

SECRETARY:

M.J. Davis, FCA

REGISTERED OFFICE:

Davis & Benson, Level 6, 350 Kent Street Sydney NSW 2000

Telephone: (02) 9279 3711 - Facsimile: (02) 9279 4711

SHARE REGISTER:

Computershare Investor Services Pty Ltd
60 Carrington Street Sydney NSW 2000
Telephone: (02) 8234 5000

BUSINESS ADDRESS: 4th Floor, 20 Loftus Street Sydney NSW 2000

Telephone: (02) 9291 3888 - Facsimile: (02) 9291 3899

W: www.morningstargold.com.au E: info@morningstargold.com.au

AUDITORS:

Graham Abbott Associates
Chartered Accountants
10 Crown Street Sydney NSW 2011
Telephone: (02) 9357 1544 - Facsimile: (02) 9358 4046

STOCK EXCHANGE LISTING:

Morning Star Gold N.L. shares & options
are listed on the Australian Stock Exchange Ltd.
ASX Codes: MCO, MCOOB

Morning Star Gold NL
A.B.N. 34 003 312 721

Directors' Report

The directors of Morning Star Gold N.L. present the financial report of the Company for the year ended 30th June 2009.

Directors

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

Chairman – Max M. Garling LLB

Max Garling is a Sydney based mining investor who has been involved with publicly listed mining companies for some 40 years. He is a shareholder in MCO and was heavily involved in bringing the Morning Star Gold mine asset to the public company Mt Conqueror (now Morning Star Gold NL). Mr. Garling was a lawyer for many years who specialised in merging mining properties & listed companies and other forms of mining and companies law. He has been involved in various mining enterprises from vendor stage right through to production, including the A1 Gold Mine in Gaffney's Creek Victoria (Broken Hill Holdings Ltd.) and the Daisy Milano Mine in WA (formerly Perilya Ltd now owned by Silver Lake Resources) and now of course the Morning Star and surrounding tenements in Eastern Victoria. Max was re-appointed as a director of the Company on 19th December, 2003.

Managing Director / Chief Executive – Nicholas M. Garling

Nicholas Garling (Max's son) has worked for Investment Banks for 22 years in areas concerning equity capital raising, asset disposal, structured derivatives and listed markets trading. After studying Law at Sydney University and working in a Sydney legal practice for 4 years, he moved into the financial markets. He worked for around 10 years in Tokyo & Hong Kong, with UBS Warburg & Lehman Brothers where he was Managing Director of Equity Markets Group for UBS and before that, Managing Director of Lehman's Asia-Pacific Equity business. Mr. Garling is a significant shareholder in Morning Star Gold and works full-time between the Company's Sydney office and Woods Point in Victoria. Nicholas was appointed as a director of the Company on 20th March, 2007.

Director – Jeffrey W. Williams BSc (Min Engineer) MBA MAUSIMM AFAIM

Jeff Williams is a mining engineer with over 20 years experience in underground mining operations. He worked with CRA Limited (now RIO) for 12 years mining silver & zinc in their Broken Hill, NSW mine. He also worked with Noeth Ltd for several years as their Senior Project Engineer. Jeff is currently Managing Director of the ASX listed Mineral Deposits Ltd (MDL) (Director since 3rd January, 1997) with extensive gold and mineral sands interests in Senegal, East Africa. Jeff is based in Melbourne Victoria and was appointed as a director of the Company on 26th February, 2004.

Director – Malcolm H. Bird

Mal Bird has been a Director of MCO for 22 years and has over 40 years experience in the stock broking industry with a specialist focus on Australian mining investments. He is also a Director of the ASX listed companies Central West Gold N.L. (ASX: CWG) (Director since 17th April, 1986) and Silver Mines Ltd. (ASX: SVL) (Director since 6th January, 2004). Malcolm is based in Sydney.

Director – Dr. Peter G. Jackson BSc PhD MAIG

Dr. Jackson has been with Morning Star for around three years. He is the company's Director of Geology. He has 25 years of extensive practical & technical experience in the Woods Point Dyke Swarm and extensive economic geological experience across Victoria. He has a particular interest in igneous hosted gold deposits and lectured at Melbourne's La Trobe University for many years in Geology. Dr Jackson has authored and co-authored several geological publications and conducted hundreds of economic studies into Eastern Victorian gold deposits. Peter lived for many years at Australia's Antarctic post in roles with the Bureau of Meteorology and is based in Melbourne, spending his working weeks in Woods Point at the Morning Star mine site and across MCO's tenements. From a practical perspective, Dr Jackson is responsible for liaising and reporting to the board on geological findings and exploration strategy. Morning Star Gold is Dr Jackson's only current public company directorship. Peter was appointed as a director of the Company on 10th March, 2008.

Directors' Report

Directors' Shareholdings

Particulars of shares and options over shares of Morning Star Gold N.L. in which directors have a relevant interest at the date of this report are as follows:

Director	Ordinary Shares	Un Paid	Options
M.H. Bird	1,679,455	500,000	1,764,455
M.M. Garling	8,366,747	-	3,322,681
J.M. Williams	700,000	-	700,000
N.M. Garling	22,011,179	-	11,938,123
P.G. Jackson	-	-	-

Directors' Meetings

During the financial year 4 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
M.H. Bird	4	4
M.M. Garling	4	4
J.W. Williams	4	4
N.M. Garling	4	4
P.G. Jackson	4	4

Company Secretary

The following person held the position of Company Secretary at the end of the financial year:

Maxwell James Davis FCA

Mr. Davis was appointed Secretary of the Company on 18 June 1987. He is a qualified accountant and is a senior partner of Davis & Benson, a Sydney firm of Chartered Accountants which provide services to a wide variety of corporates including listed public companies. Max is also the Company Secretary of Central West Gold N.L., a listed public company.

Principal Activities

The principal activities of the Company in the course of the financial year were mineral exploration, refurbishment and development of the Morning Star mine. There were no significant changes in the nature of the activities during the year.

Trading Results

The net loss of the Company for the year ended 30th June, 2009 was \$2,205,950 (2008 \$3,611,331).

Dividend

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

Review of Operations

During the year the Company carried out exploration on its existing tenements with the object of identifying economic mineral deposits together with refurbishment and development of the Morning Star mine. A review of the operations during the year and the results of those operations appear in the foregoing "Annual Review of Operations".

Directors' Report

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 full board meetings.

Remuneration of Key Management Personnel for the year ended 30 June 2009

Directors	\$ Short Term: Directors' Fees	\$ Short Term: Consulting Fees	\$ Post Employment: Super- annuation Contribution	\$ Cash Bonus	\$ Non-Cash Benefits	\$ Options	\$ Total
M H Bird	-	-	10,000	-	-	-	10,000
M M Garling	-	63,500	10,000	-	-	-	73,500
J W Williams	10,000	-	10,000	-	-	-	20,000
N M Garling	-	128,000	10,000	-	-	-	138,000
P.G. Jackson	16,715	30,130	10,000	-	-	-	56,845
	-----	-----	-----	-----	-----	-----	-----
	26,715	221,630	50,000	-	-	-	298,345
	-----	-----	-----	-----	-----	-----	-----

Remuneration of Key Management Personnel for the year ended 30 June 2008

Directors	\$ Short Term: Directors' Fees	\$ Short Term: Consulting Fees	\$ Post Employment: Super- annuation Contribution	\$ Cash Bonus	\$ Non-Cash Benefits	\$ Options	\$ Total
T R Allen - (retired 26.11.07)	0	0	21,800	0	0	0	21,800
M H Bird	0	19,900	21,800	0	0	0	41,700
M M Garling	0	57,201	21,800	0	0	0	79,001
J W Williams	10,000	0	11,800	0	0	0	21,800
N M Garling	0	36,000	21,800	0	0	0	57,800
P.G. Jackson - (appointed 10.03.08)	0	62,268	0	0	0	0	62,268
	-----	-----	-----	-----	-----	-----	-----
	10,000	175,369	99,000	0	0	0	284,369
	-----	-----	-----	-----	-----	-----	-----

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

The Company had 20 employees during the year ended 30th June, 2009.

There are no service contracts in place.

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.

Directors' Report

Significant Changes

Significant changes in the state of affairs of the Company during the financial year were as follows:

On 31 December 2008 62,881,932 unexercised listed options exercisable at 25 cents expired.

On 2 December 2008 the Company announced a placement which resulted in the issue of 11,232,353 ordinary shares at the issue price of 10 cents per share and 11,232,353 free options raising \$1,123,235 for working capital.

Shortly thereafter, the Company announced its intention to offer a pro-rata rights issue of new options to all eligible shareholders. The rights issue was made on a 1 for 1 basis and resulted in the issue of 111,057,326 options at an issue price of 1 cent per option, exercisable at 10 cents and expiring 31st March, 2010. The issue raised \$1,152,496 for working capital. The options were listed on the ASX (ASX:MCOOB).

Financial Position

Due partly to a decreased expenditure of \$1,379,249 on its exploration and development program and the issue of shares and options raising \$2,275,731 the Company's net assets increased by \$200,121 to \$2,380,380.

Likely Future Developments

The directors intend the Company to continue to explore the Company's mineral tenements and seek new exploration or development projects on current or proximal exploration and mining titles in eastern Victoria. Furthermore, it is planned that gold mining and production will recommence at the Morning Star mine and proximal sources which can be economically proven. Otherwise there are no known likely developments.

Environmental Regulations

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

Since Balance Date

On 3rd September, 2009 it was announced that Goldsearch Limited (ASX: GSE) had made a strategic investment in Morning Star Gold N.L. in that Goldsearch had recently purchased and exercised 5,000,000 listed options exercisable at 10 cents and expiring 31st March, 2010, increasing the Company's cash position by \$500,000.00 as at this date.

On 28th September, 2009 it was announced that Nicholas Garling, a substantial shareholder in and the Managing Director of the Company had exercised 7,186,725 listed options exercisable at 10 cents and expiring 31st March, 2010, increasing the Company's cash position by \$718,672.50 as at this date.

Since Balance Date the Company has issued a total of 13,139,904 shares in relation to the exercise of 13,139,904 options (including the issues detailed above).

No other significant changes have occurred since balance date

Options

At the date of this report the unissued ordinary shares of the Company under option are as follows; 107,751,993 options which may be exercised at any time for 10c each and which expire on 31 March 2010.

Directors' Report


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 30th June 2009. The declaration forms part of this report.

Signed in Sydney on this 30th day of September, 2009 in accordance with a resolution of directors.



M.M. Garling
Director



N. M. Garling
Director

***Auditor's Independence Declaration
Under Section 307c of the Corporations Act 2001
To the Directors of Morning Star Gold N.L.***

I declare that, to the best of my knowledge and belief, during the year ended June 2009 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.

Name of Firm: Graham Abbott Associates
Chartered Accountants

Name of Principal: 
GRAHAM ABBOTT

Address: 10 Crown Street Sydney

Dated this 30th day of September 2009

Income Statement
For the year ended 30th June, 2009

	Notes	30 June 2009	30 June 2008
REVENUE	4	34,064	108,833
GAIN (LOSS) ON REVALUATION OF INVESTMENTS		(192,700)	(308,000)
EXPLORATION AND DEVELOPMENT EXPENSES		(1,379,249)	(2,801,238)
ADMINISTRATION EXPENSES		(668,065)	(610,926)
GAIN ON SALE OF MINING PROPERTIES		-	-
		-----	-----
PROFIT (LOSS) BEFORE INCOME TAX		(2,205,950)	(3,611,331)
INCOME TAX ATTRIBUTABLE THERETO	2	-	-
		-----	-----
PROFIT (LOSS) FOR THE YEAR AFTER INCOME TAX		(2,205,950)	(3,611,331)
		-----	-----
PROFIT (LOSS) ATTRIBUTABLE TO MEMBERS OF THE COMPANY		\$(2,205,950)	\$(3,611,331)
		-----	-----
BASIC EARNINGS PER SHARE	15	(1.83) cents	(3.31) cents
DILUTED EARNINGS PER SHARE	15	(1.83) cents	(3.31) cents

The accompanying notes form part of these Financial Statements

Balance Sheet*As at 30th June, 2009*

	Notes	30 June 2009	30 June 2008
CURRENT ASSETS			
Cash and Cash Equivalents	6	1,243,092	1,242,856
Receivables	7	15,055	38,332
Financial Assets	8	120,300	313,000
		-----	-----
TOTAL CURRENT ASSETS		1,378,447	1,594,188
		-----	-----
NON-CURRENT ASSETS			
Property, Plant & Equipment	9	328,022	404,124
Mining Properties	10	716,858	716,858
Mine Security Bond		2,000	2,000
		-----	-----
TOTAL NON-CURRENT ASSETS		1,046,880	1,122,982
		-----	-----
TOTAL ASSETS		2,425,327	2,717,170
		-----	-----
CURRENT LIABILITIES			
Payables	11	44,947	536,911
		-----	-----
TOTAL CURRENT LIABILITIES		44,947	536,911
		-----	-----
TOTAL LIABILITIES		44,947	536,911
		-----	-----
NET ASSETS		\$2,380,380	\$2,180,259
		-----	-----
EQUITY			
Issued Capital	12	16,670,391	15,418,316
Reserves	13	1,809,786	655,790
Retained Profits (Accumulated Losses)		(16,099,797)	(13,893,847)
		-----	-----
TOTAL EQUITY		\$2,380,380	\$2,180,259
		-----	-----

The accompanying notes form part of these Financial Statements

Statement of Changes in Equity*For the year ended 30th June, 2009*

	Share Capital	Accumulated Losses	Expired 1992 Option Premium Reserve	Option Reserve	Employee Benefits Reserve	Total
BALANCE AS AT 01.07.07	<u>\$13,022,416</u>	<u>\$(10,282,516)</u>	<u>\$54,820</u>	<u>532,493</u>	<u>-</u>	<u>\$3,327,213</u>
SHARES ISSUED	2,395,900	-	-	-	-	2,395,900
CALLS RECEIVED	-	-	-	-	-	0
OPTIONS ISSUED	-	-	-	84,000	-	84,000
REFUNDS	-	-	-	(15,523)	-	(15,523)
PROFIT (LOSS) ATTRIBUTABLE TO MEMBERS	-	(3,611,331)	-	-	-	(3,611,331)
BALANCE AS AT 30.06.08	<u>\$15,418,316</u>	<u>\$(13,893,847)</u>	<u>\$54,820</u>	<u>\$600,970</u>	<u>\$0</u>	<u>\$2,180,259</u>
SHARES ISSUED	1,410,325	-	-	-	-	1,410,325
ISSUE COSTS	(158,250)	-	-	(48,361)	-	(206,611)
OPTIONS ISSUED	-	-	-	1,200,857	1,500	1,202,357
REFUNDS	-	-	-	-	-	-
PROFIT (LOSS) ATTRIBUTABLE TO MEMBERS	-	(2,205,950)	-	-	-	(2,205,950)
BALANCE AS AT 30.06.09	<u>\$16,670,391</u>	<u>\$(16,099,797)</u>	<u>\$54,820</u>	<u>\$1,753,466</u>	<u>\$1,500</u>	<u>\$2,380,380</u>

The accompanying notes form part of these Financial Statements

Cash Flow Statement

For the year ended 30th June, 2009

	Notes	30 June 2009 Inflows (Outflows)	30 June 2008 Inflows (Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest and rent received		34,064	108,833
Payments to suppliers & employees		(2,012,902)	(3,278,869)
Interest paid		(409)	0
Net increase (decrease) in cash from operating activities	22	<u>(1,979,247)</u>	<u>(3,170,036)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for plant and equipment		(15,088)	(416,303)
Net increase (decrease) in cash from investing activities		<u>(15,088)</u>	<u>(416,303)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Monies held for future share issue		0	410,000
Proceeds from issue of shares and options		2,032,932	2,200,127
Placement fees & other share issue costs		(38,361)	0
Net increase (decrease) in cash from financing activities		<u>1,994,571</u>	<u>2,610,127</u>
Net increase (decrease) in cash held		236	(976,212)
Cash at the beginning of the financial year		1,242,856	2,219,068
Cash at the end of the financial year	21	<u>\$1,243,092</u>	<u>\$1,242,856</u>

The accompanying notes form part of these Financial Statements

Notes to Financial Statements

For the year ended 30th June, 2009

1. SIGNIFICANT ACCOUNTING POLICIES

Corporate Information

Morning Star Gold NL is a listed public company domiciled in Australia. The financial report covers Morning Star Gold NL as an individual entity. The financial report was authorised for issue on 29 September 2009 by the Board of Directors.

The Company primarily is involved in the exploration for minerals in Australia.

Statement of Compliance

The financial report of Morning Star Gold NL is a general purpose financial report prepared in accordance with Australian Accounting Standards (AASBs) including Australian Accounting Interpretations, adopted by the Australian Accounting Standards Board (AASB), Urgent Issues Group Interpretations (UIG) and the Corporations Act 2001. International Financial Reporting Standards form the basis of Australian Accounting Standards adopted by the AASB.

Compliance with AIFRS

Australian Accounting Standards include Australian Equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report of Morning Star Gold NL complies with International Financial Reporting Standards (IFRS).

Basis of Preparation

Reporting Basis and Conventions

The financial report is presented in Australian dollars.

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.

Critical Accounting Estimates and Judgments

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 group. The estimates and judgements made assume a reasonable expectation of future events but actual results may differ from these estimates.

Key Estimates

Impairment

The Company assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. 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 in the accounting policy note in paragraph (d). The estimate is based on management best estimate of the cost.

Exploration and evaluation costs

The company applies judgment in determining which exploration costs should be capitalized or expensed as per the accounting policy in paragraph (c).

Notes to Financial Statements

For the year ended 30th June, 2009

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 affects 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.

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Accounting Policies

(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) 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. Recognition 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.

(c) 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.

Notes to Financial Statements

For the year ended 30th June, 2009

I. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) 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.

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

Class of Fixed Asset	Depreciation Rate	Method
Buildings	10%	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 income statement.

(e) Employee Entitlements

Wages, salaries and annual leave

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within 12 months have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than 12 months have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Long Service Leave

A provision for long service leave is taken up where applicable for all employees.

Equity-settled compensation

The Company operates a share-based compensation plan. These include both a share option arrangement and an employee share scheme. The bonus element over the exercise price of the employee services rendered in exchange for the grant of shares and options is recognised as an expense in the income statement. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares of the options granted.

Notes to Financial Statements

For the year ended 30th June, 2009

I. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial Instruments

Recognition and Initial Measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity is no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit and loss.

Classification and Subsequent Measurement

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.

Financial Liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method

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 income statement in the period in which they arise.

Fair Value

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

(g) 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 income statement.

Notes to Financial Statements

For the year ended 30th June, 2009

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) 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 balance sheet.

(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 balance sheet are shown inclusive of GST.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from or payable to the Australian Taxation Office, are classified as operating cash flows

(j) Share-Based Payments

Equity-settled share-based payments with Directors are measured at the fair value of the equity instrument at the grant date. Fair value is measured by use of a trinomial option pricing model.

(k) Acquisitions of Assets

The cost method of accounting is used for all acquisitions of assets regardless of whether shares or other assets are acquired. Cost is determined as the fair value of the assets given up at the date of acquisition plus costs incidental to the acquisition.

(l) Trade creditors

A liability is recorded for goods and services prior to balance date, whether invoiced to the Company or not. Trade creditors are normally settled within 30 days.

(m) Net fair value

The net fair value of cash, investments and trade creditors approximates their carrying value.

(n) Revenue

Interest revenue is recognised on a proportional basis taking in to account the interest rates applicable to the financial assets.

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

Notes to Financial Statements*For the year ended 30th June, 2009***1. SIGNIFICANT ACCOUNTING POLICIES (continued)****(o) Intangible Assets**

Intangible assets acquired in a business are initially measured at cost. Intangible assets with indefinite lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

(p) Issued Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are included in the cost of the acquisition as part of the purchase consideration.

If the Company reacquires its own equity instruments (e.g. as the result of a share buy-back), those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

(q) Earnings per Share*Basic earnings per share*

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the Company by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(r) Comparative Figures

Where required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(s) Going Concern

The financial statements are presented on a going concern basis. The directors have reviewed the Company's future cash requirements. Since 30 June in excess of \$1,300,000 has been raised by the exercise of ASX listed <MCOOB> options and the directors are confident that sufficient options will be exercised to ensure that the Company will be able to continue as a going concern.

Notes to Financial Statements

For the year ended 30th June, 2009

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 30th June, 2009 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.

	30 June 2009	30 June 2008
Exploration & development expenditure & tax losses carried forward	\$15,752,028	\$13,470,922

The benefit of these deductions at the income tax rate of 30% is as follows:-

Future Income tax benefit not brought to account	\$4,725,608	\$4,041,277
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Numerical reconciliation of income tax expense to prima facie tax payable is as follows:

Profit (loss) from operations before income tax expense	(2,205,950)	(3,611,331)
Tax at Australian tax rate of 30% (2008 also at 30%)	(661,785)	(1,083,399)
Tax effect of non-temporary differences	(1,021)	656
Tax effect of equity raising costs debited to equity	(21,795)	(10,225)
Tax effect of temporary differences	270	-
Tax effect of tax losses and temporary differences not recognised	684,331	1,092,968
Income tax expense	0	0

3. Franking Account:

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

Interest Received – Other	34,064	108,833
	\$34,064	\$108,833

Notes to Financial StatementsFor the year ended 30th June, 2009

5. Loss for the year after charging:	30 June 2009	30 June 2008
Auditors Remuneration: Auditing or Reviewing the Financial Report (no other services were performed)	\$ 10,350	\$ 9,880
Depreciation of Property, Plant & Equipment	\$ 91,190	\$ 71,513
	<u> </u>	<u> </u>
6. Cash and Cash Equivalents:		
Cash at Bank	1,049,092	1,181,856
Interest Bearing Deposits	194,000	61,000
	<u> </u>	<u> </u>
	\$1,243,092	\$1,242,856
	<u> </u>	<u> </u>
7. Receivables:		
Other Receivables	15,055	38,332
	<u> </u>	<u> </u>
	\$15,055	\$38,332
	<u> </u>	<u> </u>
8. Financial Assets: at fair value through profit and loss		
Shares in listed corporations: At fair value	\$120,300	\$313,000
	<u> </u>	<u> </u>
9. Property, Plant & Equipment:		
Buildings at Cost	60,154	60,154
Less: Accumulated Depreciation	60,154	60,154
	<u> </u>	<u> </u>
	0	0
	<u> </u>	<u> </u>
Plant & Equipment at Cost	815,909	800,821
Less: Accumulated Depreciation	487,887	396,697
	<u> </u>	<u> </u>
	328,022	404,124
	<u> </u>	<u> </u>
	\$328,022	\$404,124
	<u> </u>	<u> </u>

Movement in Carrying Amounts

Reconciliation of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial year are as follows:

	Plant & Equipment	Buildings	Total
	\$	\$	\$
Carrying value at start of year	404,124	-	404,124
Additions	15,088	-	15,088
Disposals	-	-	-
Depreciation	(91,190)	-	(91,190)
	<u> </u>	<u> </u>	<u> </u>
Carrying value at end of year	328,022	-	328,022
	<u> </u>	<u> </u>	<u> </u>

Notes to Financial Statements

For the year ended 30th June, 2009

10. Mining Properties:	30 June 2009	30 June 2008
Mining & Development Leases - See A below	716,858	716,858
Mining Exploration & Development Expenditure - See B below	0	0
	\$716,858	\$716,858
A. Mining & Development Leases:		
Balance brought forward	716,858	452,858
Mining Title Purchased in Year	0	264,000
	\$716,858	\$716,858
Balance carried forward	\$716,858	\$716,858
B. Mining Exploration & Development Expenditure:		
Balance brought forward	0	0
Expenditure incurred during the year	1,379,249	2,801,238
Expenditure written off during the year	(1,379,249)	(2,801,238)
	\$ 0	\$ 0
Balance carried forward	\$ 0	\$ 0

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

11. Payables:

Sundry Creditors & Accruals	28,974	68,101
Application Monies for Pending Share Issues	0	410,000
Employee Benefits Payable	7,064	58,810
Unsecured Loan	8,909	0
	\$44,947	\$536,911
	\$44,947	\$536,911

Notes to Financial Statements

For the year ended 30th June, 2009

12. Issued capital:	30 June 2009	30 June 2008
<i>Paid up capital:</i>		
<i>At beginning of financial year:</i>		
114,596,734 Ordinary Shares (2008 106,506,071)	15,413,316	13,017,416
500,000 @ 1c Paid (2008 500,000)	5,000	5,000
<i>Issued during the year:</i>		
13,353,753 Ordinary Shares (2008 8,090,663)	1,410,325	2,395,900
Share Issue Costs	(158,250)	0
	\$16,670,391	\$15,418,316
<i>At end of financial year:</i>		
127,950,487 Ordinary Shares (2008 114,596,734)	16,665,391	15,413,316
500,000 @ 1c Paid (2008 500,000)	5,000	5,000
	\$16,670,391	\$15,418,316

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

30.07.2008 Issue of 633,000 shares at 25c in lieu of placement fees

18.07.2008 Issue of 400,000 shares at 30c

18.07.2008 Amended back-issue of 1,000,000 shares at 15c related to under issuance in earlier issue

01.01.2009 Issue of 11,232,353 shares at 10c

29.04.2009 Issue of 68,400 shares at 10c on exercise of options

23.06.2009 Issue of 20,000 shares at 10c on exercise of options

Partly Paid Shares

During a prior year 2,000,000 shares were issued to directors 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 30th June, 2009 500,000 shares remained partly paid to the extent of 9c per share.

Options

As at 30th June, 2009, the Company had 122,351,279 share options on issue (2008: MCOOA series 61,281,932), exercisable at 10 cents and expiring on 31st March, 2010 (2008: MCOOA series: exercisable at 25c and expired on 31 December 2008).

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.

Notes to Financial Statements

For the year ended 30th June, 2009

12. Issued capital (continued):

Capital Management

The Company's objectives when managing capital is 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.

13. Reserves:

Expired 1992 Option Premium Reserve

The Expired 1992 Option Premium Reserve records the total amount received from the issue of options during the financial year ended 30th June, 1992.

Option Reserve

The Option Reserve records the total amount received from the issue of options as at 30th June, 2009.

Employee Benefits Reserve

The Employee Benefits Reserve arises on the grant of share options to employees of the Company working at the Morning Star mine-site. Amounts are transferred out of the reserve and into share capital when the options are exercised.

Movement in Carrying Amounts of Reserves

	30 June 2009	30 June 2008
Balance at the beginning of the year	655,790	587,313
Additions to reserves	1,153,996	68,477
Balance of the end of the year	1,809,786	655,790

14. Segments:

In the year ended 30th June, 2009 the Company operated entirely within Australia and the principal activity was the exploration for minerals.

15. Earnings per Share:

(a) Earnings used in calculation of basic EPS	(\$2,205,950)	(\$3,611,331)
(b) Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS.	120,266,133	109,056,743

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

Notes to Financial StatementsFor the year ended 30th June, 2009**16. Commitments for Expenditure:****Exploration Commitments**

In order to maintain current rights of tenure to exploration tenements, the Company is required to meet the minimum expenditure requirements of the Victorian Mines Department. The payment of these obligations, which are not provided for in the accounts, is dependent upon successful future fund-raising and are payable as follows:

	30 June 2009	30 June 2008
Not later than one year	1,653,380	1,008,730
Later than one year but not later than five years	3,614,902	5,268,282
Later than five years	0	0

17. Key Management Personnel:**Details of Key Management Personnel - Directors**

Max M. Garling	Chairman
Nicholas M. Garling	Managing Director/Chief Executive
Jeffrey W. Williams	Independent Director
Malcolm H. Bird	Director
Peter G. Jackson	Director

Compensation of Key Management Personnel

Short Term Employee Benefits	248,345	185,369
Post Employment Benefits	50,000	99,000
	-----	-----
	\$298,345	\$284,369
	-----	-----

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

18. Related Parties:**Key Management Personnel**

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

Fully Paid Ordinary Shares:

Key Management Personnel	Balance 1 July 2008	Received as Compensation	Options Exercised	Net Change Other*	Balance 30 June 2009
Mr. M. Bird	1,435,080	-	-	244,375	1,679,455
Mr. M. Garling	8,566,747	-	-	(200,000)	8,366,747
Mr. J. Williams	700,000	-	-	-	700,000
Mr. N. Garling	21,621,306	-	-	389,873	22,011,179
Mr. P. Jackson	-	-	-	-	-
	-----	-----	-----	-----	-----
	32,323,133	-	-	434,248	32,757,381
	-----	-----	-----	-----	-----

* Net change other refers to shares purchased or sold during the financial year.

Notes to Financial Statements*For the year ended 30th June, 2009***18. Related Parties (continued):****Partly Paid Ordinary Shares (paid to 1c):**

Key Management Personnel	Balance 1 July 2008	Received as Compensation	Options Exercised	Net Change Other*	Balance 30 June 2009
Mr. M. Bird	500,000	-	-	-	500,000
Mr. M. Garling	-	-	-	-	-
Mr. J. Williams	-	-	-	-	-
Mr. N. Garling	-	-	-	-	-
Mr. P. Jackson	-	-	-	-	-
	<u>500,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>500,000</u>

* Net change other refers to shares purchased or sold during the financial year.

Options: Key Management Personnel	Balance at 30 June 2008	Granted as Compensation	Exercised No.	Net other change	Balance at 30 June 2009
Mr. M. Bird	659,728	-	-	1,104,727	1,764,455
Mr. M. Garling	5,830,930	-	-	(2,508,249)	3,322,681
Mr. J. Williams	350,000	-	-	350,000	700,000
Mr. N. Garling	11,097,779	-	-	840,344	11,938,123
Mr. P. Jackson	-	-	-	-	-
	<u>17,938,437</u>	<u>0</u>	<u>0</u>	<u>(213,178)</u>	<u>17,725,259</u>

* Net change other refers to options expired and purchased during the financial year.

Notes to Financial Statements

For the year ended 30th June, 2009

18. Related Parties (continued):

Number of Options held by Key Management Personnel:

Key Management Personnel	Balance at 30 June 2009	Total Vested 30 June 2009	Total Vested and Exercisable 30 June 2009	Total Vested and Unexercisable 30 June 2009
Mr. M. Bird	1,764,455	1,764,455	1,764,455	-
Mr. M. Garling	3,322,681	3,322,681	3,322,681	-
Mr. J. Williams	700,000	700,000	700,000	-
Mr. N. Garling	11,938,123	11,938,123	11,938,123	-
Mr. P. Jackson	-	-	-	-
Total	17,725,259	17,725,259	17,725,259	-

Transactions including G.S.T. entered into during the year with Key Management Personnel are as follows:-

1. York Place Securities Pty Limited, a company controlled by Mr. M. Garling, received consulting fees of \$63,500 in the normal course of business in respect of the Company's exploration and mining program.
2. Mr. N. Garling received consulting fees of \$128,000 in the normal course of business in respect of the Company's exploration and mining program.
3. Mr. P. Jackson received geological fees of \$30,130 in the normal course of business in respect of the Company's exploration and mining program.

Notes to Financial Statements

For the year ended 30th June, 2009

19. Share – Based Payments:

During the previous year the Company purchased from Dempsey Gold N.L. Mining Licence M.L. 5299 for a consideration of 600,000 ordinary fully paid shares at the issue price of 30 cents per share together with 600,000 options at the issue price of 14 cents each expiring 31 December 2008 exercisable at 25 cents. The options vested on issue and held no voting or dividend rights.

On 3 July 2008 the Company issued 633,000 fully paid ordinary shares at an issue price of 25 cents per share together with 200,000 options at the issue price of 5 cents each expiring 31 December 2008 exercisable at 25 cents to the arrangers and underwriters of a placement made in the prior year in consideration of fees. The issues have no effect on the Income Statement.

The options vested on issue and held no voting or dividend rights.

On 3 March 2009 the Company issued 150,000 options expiring 31 March 2010 exercisable at 10 cents to employees of the Company working at the Morning Star mine-site as a bonus award payment.

Included under employee benefits expense in the Income Statement is \$1,500 in relation to the issue.

The options vested on issue and held no voting or dividend rights.

Options:

	2009		2008		Average
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Exercise Price	
Outstanding at Beginning of Year	600,000	25 cents	0		
Granted	350,000	19 cents	600,000	25 cents	
Forfeited	0		0		
Exercised	0		0		
Expired	(800,000)	25 cents	0		
	-----	-----	-----	-----	
Outstanding at Year End	150,000	10 cents	600,000	25 cents	
	-----	-----	-----	-----	
Exercisable at Year End	150,000	10 cents	600,000	25 cents	
	-----	-----	-----	-----	

The options outstanding at 30th June, 2009 had a weighted average remaining contractual life of 9 months.

Notes to Financial Statements

For the year ended 30th June, 2009

20. Contingent Liabilities:

As a condition for the granting of Exploration 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 \$55,000 (2008 \$55,000). 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 \$55,000 (2008 \$55,000) 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 30th June, 2009 which may result in the forfeiture of any of the above-mentioned funds.

21. Reconciliation of Cash:

For the purposes of the cash flow statement, 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 balance sheet as follows:

	30 June 2009	30 June 2008
Cash and Cash Equivalents	\$1,243,092	\$1,242,856

22. Reconciliation of Net Increase (Decrease) in Cash from Operating Activities to Operating Profit (loss) after Income Tax:

Operating profit (loss) after income tax	(2,205,950)	(3,611,331)
Depreciation	91,190	71,513
Employee share-based payments	1,500	0
Revaluation of Portfolio Investments	192,700	308,000
<i>Change in operation assets & liabilities:</i>		
Decrease (increase) in operating receivables	23,277	57,067
Increase (decrease) in operating liabilities	(81,964)	4,715
Net increase (decrease) in cash from operating activities	\$(1,979,247)	\$(3,170,036)

Notes to Financial Statements

For the year ended 30th June, 2009

23. Since Balance Date

On 3rd September, 2009 it was announced that Goldsearch Limited (ASX: GSE) had made a strategic investment in Morning Star Gold N.L. in that Goldsearch had recently purchased and exercised 5,000,000 listed options exercisable at 10 cents and expiring 31st March, 2010, increasing the Company's cash position by \$500,000.00 as at this date.

On 28th September, 2009 it was announced that Nicholas Garling, a substantial shareholder in and the Managing Director of the Company had exercised 7,186,725 listed options exercisable at 10 cents and expiring 31 March, 2010 increasing the Company's cash position by \$718,672.50 as at this date.

Since Balance Date the Company has issued a total of 13,139,904 shares in relation to the exercise of 13,139,904 options (including those detailed above).

No other significant changes have occurred since balance date.

24. 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.

Notes to Financial Statements

For the year ended 30th June, 2009

24. 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		
			\$	\$		
2009						
FINANCIAL ASSETS						
Cash assets	3.18	1,046,105	194,000	-	2,987	1,243,092
Receivables					15,055	15,055
Financial assets at fair value through profit and loss					120,300	120,300
Performance guarantee bonds		-	-	-	2,000	2,000
	-	-	-	-	-	-
		<u>1,046,105</u>	<u>194,000</u>	<u>-</u>	<u>140,342</u>	<u>1,380,447</u>
FINANCIAL LIABILITIES						
Payables	-	-	-	-	(44,947)	(44,947)
NET FINANCIAL ASSETS (LIABILITIES)		<u>1,046,105</u>	<u>194,000</u>	<u>-</u>	<u>95,395</u>	<u>1,335,500</u>
2008						
FINANCIAL ASSETS						
Cash assets	4.7	768,088	61,000	-	413,768	1,242,856
Receivables					38,332	38,332
Financial assets at fair value through profit and loss					313,000	313,000
Performance guarantee bonds		-	-	-	2,000	2,000
	-	-	-	-	-	-
		<u>768,088</u>	<u>61,000</u>	<u>-</u>	<u>767,100</u>	<u>1,596,188</u>
FINANCIAL LIABILITIES						
Payables	-	-	-	-	(126,911)	(126,911)
NET FINANCIAL ASSETS (LIABILITIES)		<u>768,088</u>	<u>61,000</u>	<u>-</u>	<u>640,189</u>	<u>1,469,277</u>

Notes to Financial Statements

For the year ended 30th June, 2009

24. Financial Instrument Disclosures (continued):

(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.

(d) 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.

(e) 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.

Notes to Financial Statements

For the year ended 30th June, 2009

25. Changes in Accounting Policy:

New standards and interpretations released but not yet adopted

Initial application of the following Standards will not affect any of the amounts recognized in the financial report but will change the disclosures presently made in relation to the Company's financial report.

AASB reference	Title and Affected Standard(s):	Applies to:	Application date:
AASB 101	Presentation of Financial Statements (revised September 2007), AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101, AASB 2007-10 Further Amendments to Australian Accounting Standards arising from AASB 101	Supersedes the previous AASB 101 and redefines the composition of financial statements including the inclusion of a statement of comprehensive income.	Periods commencing on or after 1 January 2009

Initial application of the following Standards/Interpretations is not expected to have any material impact on the financial report of the Company.

AASB reference	Title and Affected Standard(s):	Applies to:	Application date:
AASB 3	AASB 3 Business Combinations (revised), AASB 127 Consolidated and Separate Financial Statements (revised) and AASB 2008-3 Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127.	Introduces greater emphasis on the use of fair value around business combination accounting and also focuses on control as a significant economic event.	Periods commencing on or after 1 July 2009
AASB 8 (issued Feb Restated 2007)	Operating Segments	Disclosure of operating segments – replaces AASB 114: Segment Reporting. Applies to listed entities and similar only. Significantly changes the way segment information is given.	Periods commencing on or after 1 January 2009
AASB Restated 2007-3 (issued Feb Restated 2007)	Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038]	Changes to 10 standards arising from the issue of AASB 8 (see above)	Periods commencing on or after 1 January 2009
AASB 123	AASB 123 Borrowing Costs (revised), AASB 2007-6 Amendments to Australian Accounting Standards arising from AASB 123	Eliminates the option of expensing borrowing costs related to qualifying assets, instead requiring capitalization.	Periods commencing on or after 1 January 2009

Notes to Financial Statements

For the year ended 30th June, 2009

25. Changes in Accounting Policy (continued):

AASB 2008-1	Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations	Clarifies for share-based payments what are vesting conditions and amends the definition of performance conditions.	Periods commencing on or after 1 January 2009
AASB 2008-2	Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation.	Amends the criteria for debt/equity classification by permitting certain puttable financial instruments to be classified as equity.	Periods commencing on or after 1 January 2009
AASB 2008-5	Amendments to Australian Accounting Standards arising from the Annual Improvements Project.	Details numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project.	Periods commencing on or after 1 January 2009
AASB 2008-8	Amendments to Australian Accounting Standards – Eligible Hedged Items.	Amends AASB 139 Financial Instruments: Recognition and Measurement to clarify hedge accounting with respect to inflation.	Periods commencing on or after 1 July 2009
AASB 2008-13	Amendments to Australian Accounting Standards arising from AASB Interpretation 17 – Distributions of Non-cash Assets to Owners (AASB 5 & AASB 110).	Requires that non-cash assets held for distribution to owners be measured at the lower of carrying value and fair value less costs to distribute.	Periods commencing on or after 1 July 2009
AASB Interpretation 15	Agreements for the Construction of Real Estate.	Provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of AASB 111 Construction Contracts or AASB 118 Revenue.	Periods commencing on or after 1 January 2009
AASB Interpretation 16	Hedges of a Net Investment in a Foreign Operation.	Provides clarifying guidance on several issues in accounting for the hedge of a net investment in a foreign operation.	Periods commencing on or after 1 October 2008
AASB Interpretation 17	Distributions of Non-cash Assets to Owners.	Clarifies that non-cash dividends payable should be valued at the fair value of the net assets to be distributed.	Periods commencing on or after 1 July 2009

Directors' Declaration

The directors of Morning Star Gold N.L. 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 30th June 2009 and its performance for the year ended on that date;

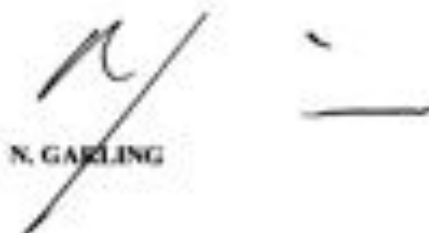
2. the Chief Executive Officer and Chief Financial Officer have each declared that:
 - a) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
 - b) the financial statements and notes for the financial year 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.



M. GARLING



N. GARLING

Dated this 30th day of September, 2009

Independent Audit Report to the Members of Morning Star Gold N.L.

Report on the Financial Report

We have audited the accompanying financial report of Morning Star Gold N.L., which comprises the Balance Sheet as at 30th June, 2009, and the Income Statement, Statement of Changes in Equity and Cash Flow Statement 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 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 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
to the Members of
Morning Star Gold N.L. – (continued)***

Auditor's Opinion

In our opinion:

- (a) the financial report of Morning Star Gold N.L. is in accordance with the Corporations Act 2001, including:
- (1) giving a true and fair view of the company's financial position as at 30th June 2009 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 30th June, 2009. 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 N.L. for the year ended 30th June, 2009 complies with s 300A of the Corporations Act 2001.

Name of Firm: Graham Abbott Associates
Chartered Accountants



Name of Principal: GRAHAM ABBOTT

Address: 10 Crown Street Sydney

Dated this 30th day of September, 2009

Shareholder Information

Issued Capital

As at 17th September, 2009 the Company had on issue 133,903,666 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 17th September, 2009 the Company had the following substantial shareholders:

Mr. Nicholas Garling	22,011,179 shares
Yarandi Investments Pty Ltd <Griffith Family No2 A/c>	11,422,194 shares
Mr. Max Garling	7,966,747 shares
Mr. N. M. Garling <The Nicholas Garling S/F A/c>	7,186,725 shares
Citicorp Nominees Pty Limited	6,707,312 shares

Distribution of Shareholders

There were 1,404 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	33
1,001 - 5,000	330
5,001 - 10,000	226
10,001 - 100,000	669
100,001 and over	146

	1,404

There were 117 shareholders who held less than a marketable parcel. The top twenty holders held 54.53 % of the Company's share capital.

Top twenty holders of ordinary shares as at 17th September, 2009

Name	Shares	%
Yarandi Investments Pty Ltd – Griffith Family No 2 A/c	11,422,194	8.53
Nicholas Mark Garling	10,073,056	7.52
N. Garling – Super Fund A/c	7,186,725	5.37
Citicorp Nominees Pty Limited	6,707,312	5.01
Ridgeview Nominees Pty Ltd	5,166,666	3.86
Goldsearch Limited	5,000,000	3.73
Jerrymara Investments Pty Ltd	4,751,398	3.55
Miss Samantha Graham	4,593,584	3.43
ANZ Nominees Limited – Cash Income A/c	1,934,826	1.44
York Place Securities Pty Ltd	1,900,000	1.42
Miss Sam Graham	1,882,749	1.41
Ms Sarah Louise Genev	1,750,000	1.31
Ms Georgina Conlon	1,600,000	1.19
Lugger Bay Pty Ltd – J R Neville Smith A/c	1,516,666	1.13
Hipete Pty Ltd – PJ Thomson Super Fund A/c	1,500,000	1.12
NSF Group Investments Pty Ltd – NSF Group Investments A/c	1,500,000	1.12
Forbar Custodians Limited – Forsyth Barr Ltd-Nominee A/c	1,330,700	0.99
Reynolds (Nominees) Pty Ltd – Reynolds Super Fund A/c	1,208,000	0.90
Malcolm Harvey Bird	1,004,455	0.75
Mr Robert Knapp	1,000,000	0.75
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Total	73,028,331	54.53
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Shareholder Information (continued)

Quoted Options

As at 17th September, 2009 the Company had 116,398,100 options outstanding over unissued shares exercisable at 10c and expiring 31.03.2010 issued to 583 holders.

Distribution of Optionholders

The analysis of the number of holders was:

Size of Holding	No. of Holders
1 - 1,000	8
1,001 - 5,000	74
5,001 - 10,000	61
10,001 - 100,000	302
100,001 and over	138
	583

The top twenty holders held 56.10 % of the issued options.

Top twenty holders of options as at 17th September, 2009

Name	Options	%
Yarandi Investments Pty Ltd – Griffith Family No. 2 A/c	18,244,547	15.67
Miss Samantha Graham	9,261,966	7.96
N. Garling - Super Fund A/c	7,186,725	6.17
Jerrymara Investments Pty Ltd	4,751,398	4.08
Mr Trevor Harvey	3,310,382	2.84
Hipete Pty Ltd – PJ Thomson Super Fund A/c	3,000,000	2.58
Lugger Bay Pty Ltd – J R Neville Smith A/c	2,957,666	2.54
NSF Group Investments Pty Ltd – NSF Group Investments A/c	2,161,000	1.86
ANZ Nominees Limited – Cash Income A/c	1,881,000	1.62
Miss Sam Graham	1,790,309	1.54
Reynolds (Nominees) Pty Ltd – Reynolds Super Fund A/c	1,508,000	1.30
Drexwill Pty Limited – L Family A/c	1,385,000	1.19
Jayare Nominees Pty Limited	1,233,225	1.06
Mr Robert James Burge	1,000,000	0.86
Mr Steven Harold Koppe	1,000,000	0.86
Nakuru Resources Pty Ltd	1,000,000	0.86
Mr Mark Bloom	933,000	0.80
Max M Garling	922,660	0.79
Ms Deborah Lee West	900,000	0.77
Mr Rodney Darryl Saines	876,171	0.75
Total	65,302,989	56.10

Unquoted Securities

As at 17th September, 2009 the Company had 500,000 1c paid partly paid shares on issue to one director.

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 30th June, 2009.

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 at the date of the annual report are detailed in the Directors' Report.

The names of independent directors of the company are:

Jeffrey Wayne Williams

Jeffrey Wayne Williams is considered to be an independent director as he is neither a substantial shareholder in the company nor receives remuneration from the company other than in relation to his position as a director.

The board held 6 formal meetings throughout the financial year.

At the date of this report the board comprises 5 directors; 3 executive directors, being the Chief Executive Officer, the Director of Geology and the Chairman and 2 non-executive directors, as follows:

Max Michael Garling – executive Chairman (appointed on 19th December, 2003)

Nicholas Mark Garling – Chief Executive Officer (appointed on 20th March, 2007)

Malcolm Harvey Bird – non - executive director (appointed on 18th June, 1987)

Jeffrey Wayne Williams – non – executive, independent director (appointed on 26th February, 2004)

Peter Gilbert Jackson – executive director (appointed on 10th March, 2008)

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 health and safety requirements.

Corporate Governance Statement (continued)

The Board of Directors - continued

The company does not comply with best practice recommendations 2.1: "A majority of the board should be independent directors"; 2.2: "The chair 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 is dependent on the candidate's range of skills and experience relevant to the business of the company.

Performance Evaluation

The Chairman has conducted a performance evaluation for the board and its members during the financial year using generally accepted industry practises.

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 Graham Abbott Associates, Chartered Accountants.

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 licences; land access and native title considerations; compliance with laws and regulations; occupational health, safety and the environment; and continuous disclosure obligations. The board has received assurance from the Chief Executive Officer and the Chief Financial Officer that the s.295A declaration is founded on a sound system of risk management and internal control and that the system is operating effectively in all material aspects in relation to financial reporting risks.

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.

Securities Trading Policy

All directors, office – holders and employees are bound by the company's securities trading policy which prohibits trading in Morning Star Gold N.L.'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 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 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.

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.morningstargold.com.au.