



**150 YEARS AGO THE MINERS OF WOODS POINT KNEW  
THEY'D DISCOVERED A GOLDEN OPPORTUNITY...**

## **MORNING STAR GOLD NL (ASX: MCO)**

*Morning Star Gold is a gold explorer and imminent producer, with 220km<sup>2</sup> in mining and exploration tenements centred upon historic high grade gold production ore bodies in the rich eastern Victorian Goldfields. MCO's Woods Point Gold Project is located 120km northeast of Melbourne, Australia adjacent to the famous gold towns of Woods Point and Gaffney's Creek.*



*Morning Star Gold has invested in an interactive online version of the 2010 Annual Report.*

*This facilitates quick and easy access to information while delivering significant environmental benefits.*

*We encourage you to visit the online report from a link that is available in the Investor section on the company website at [www.msgold.com.au](http://www.msgold.com.au) to view the full colour interactive 2010 Annual Report.*

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**GEKKO**

**... IN 2010 WE'RE PROVING IT.**

  
**morningstar**  
mining a golden future



# MESSAGE FROM THE CHAIRMAN AND MANAGING DIRECTOR

WELCOME TO THE MORNING STAR GOLD NL ANNUAL REPORT FOR 2010



Dear Fellow Shareholder

The 2009-10 financial year was one where Morning Star Gold ('MCO') set goals for itself strongly focused around its pathway to gold production. Your company massively increased the infrastructure and planning and expenditure needed to emerge from many years as a 'penny dreadful' explorer on the road to becoming a fully-fledged gold producer.

The previous annual period had been a very rough ride with many companies falling by the wayside. In a short time over the current year, MCO has come a very long way and at the turn of the financial year was on the cusp of producing gold at the Morning Star Goldmine for the first time since 1962. Along the way we changed our baseline activity from that of mine refurbisher and explorer to gold miner and mine developer.

Morning Star struck an important partnership with the Shandong Tianye Group of Jinan, China, whereby the publicly listed diversified investor Shandong Tianye took a strong equity stake in MCO (11%) and agreed to invest another \$4.5m to fast track exploration and development of two of MCO's regional tenements. That corporate activity along with a very successful \$13m Rights Issue (& Exercise) of Options (MCOOB) strengthened our balance sheet considerably and positioned us for the much needed expansion I alluded to above.

Our stronger balance sheet enabled us to purchase and build – from cash reserves – an onsite gravity gold processing plant (GPP). Morning Star's brand new tailor made GPP was designed and built for us by Gekko Systems of Ballarat and it is specifically developed with our unique high-grade ores in mind and also allows for future expansion in tonnages that it can process. Right now it is calibrated to process up to 80,000 tonnes per annum and we are targeting head grades of between 12 and 15 grams per tonne. Not only is it scaleable but its design footprint should prove easy to replicate in other areas of our tenements should the proving up of gold resources allow for processing at different sites. Surrounding your company's Woods Point base are 200km<sup>2</sup> of relatively rugged regional tenements in a northwest trend approximately 22kms x 12kms from tip to toe. So it's important for MCO to keep a flexible approach to the nature of our future expansion. Our approach right now is to treat the onsite GPP as our processing hub at Woods Point but we do have options to go to a multi-site processing platform in the future.

The stronger gold price and new partnerships (Goldsearch Ltd also becoming a stakeholder via MCOOB), encouraged us to push on and quicken the exploration pace at several sites other than the Morning Star Goldmine. At the period end, MCO had just completed the first series of diamond drill holes at the All Nations prospect in



# MESSAGE FROM THE CHAIRMAN AND MANAGING DIRECTOR (CONTINUED)

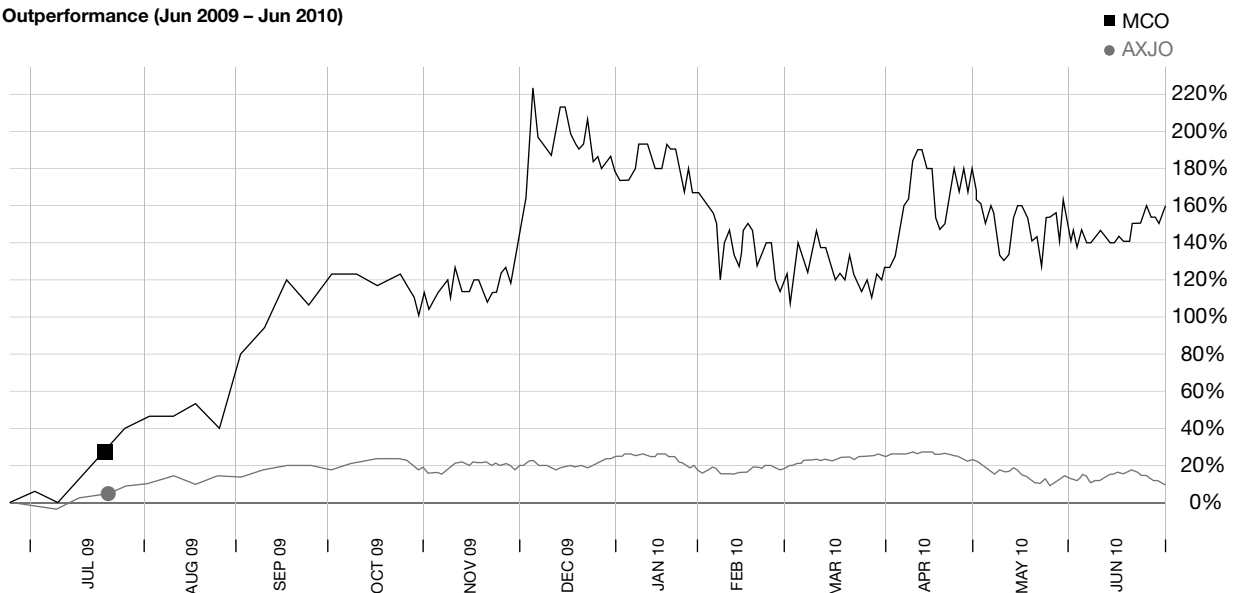
Matlock and was awaiting assays. This is the first in a series of planned drill programs at the All Nations and nearby Loch Fyne sites. We also increased our activity substantially at the Rose of Denmark prospect, where we are buoyed by occurrences of visible gold in development ores at the period close. Good metallurgy is a key component of the Morning Star story to date and in the period, we conducted further independent testing on a range of bulk samples, which indicated – as with previous met testing – very high returns of gold (~92%) just via gravity milling. This is important for us given our geographical position and topography.

The year also saw three seminal MCO Board changes with two long-term directors departing in Mal Bird, Max Garling and Peter Hepburn-Brown accepting a Board seat. It is our wish that the Board will increasingly reflect highly skilled technical mining people as we ply the gold production road. The Board is sincerely grateful to Max and Mal for their time and efforts for MCO over the years. Mal was a founding Board member in the circa October '87 crash period continuing for 23 years until this year and Max had a couple of Board stints – the first in the mid-1990's and the last beginning in 2004 until this year. Peter Hepburn-Brown is a mining engineer with a strong track record in producing gold mines who is also heavily involved with Medusa Mining Ltd and Alloy Resources Ltd. Your company's two other Directors, Dr Peter Jackson an economic geologist, and Jeff Williams a mining engineer, are both very familiar with MCO's assets and current growth pathway. Jeff is better known as MD of ASX listed Mineral Deposits Ltd and Peter is arguably the pre-eminent expert on the 'Woods Point Dyke Swarm' (our eastern Victorian geological belt).

## AT THE COMPLETION OF THE ANNUAL PERIOD MORNING STAR WAS POISED TO HANG OUT A NEW SHINGLE – 'GOLD PRODUCER'...

The period also saw MCO purchase freehold land and buildings in Woods Point to build a proper headquarters off the mine site, designed to be more amenable to investors and visitors and better enable interaction with the local community. The new buildings will also upscale our local accommodation capacity by at least 12 beds as we build our technical mining, exploration and milling teams. Our new HQ at 6 Bridge Street in the centre of Woods Point will also provide our local administration team more comfortable working surroundings.

Outperformance (Jun 2009 – Jun 2010)



# MESSAGE FROM THE CHAIRMAN AND MANAGING DIRECTOR (CONTINUED)

A important point worth mentioning is our plans to expand over the coming years. Many shareholders ask me 'what's next for Morning Star?' And 'how do we grow from here?' The annual period saw more concrete forward planning and infrastructure upgrading than has been done since WMC Ltd ran the Morning Star Goldmine between 1934-59. Our consulting team of engineers, environmentalists, metallurgists and other key technical advisors has increased over the period. It would be remiss of me not to thank the staff of Foresight Engineering and Coffey Mining who have been strong and willing partners this year. Whilst our clear focus at MCO has been a return to gold production at the Morning Star Goldmine – and cashflow – we are cognisant of growth opportunities right in front of us on our wider tenements. Our focus is certainly to grow ounces produced if not necessarily tonnages processed. So we'll concentrate on high-grade historical production mines littered across our mining and exploration titles. The great growth opportunity for MCO's golden ounces comes from these numerous local mafic 'dyke' targets – with historical production approaching 2Mozs – and our opportunity to drill for relatively shallow quartz reef structures which we believe to be in place as mining historically of these dykes was generally only to 50-100 metres below surface and in many cases is well documented. It's also worth remembering that back at the Morning Star Goldmine, the current mining zone above the 9 Level and other near term development targets are only at depths between ~50 – 250 metres underground in an ore body which produced gold down to 940 metres from surface and is partially developed on many levels below our current operational focus. So opportunities to grow our production ounces are right there in front of us.

Our interaction with regulators is omnipresent for MCO. It increased substantially over the period as we try to pave the way for expanding both the capacity and output of our mining and exploration programs. I would like to acknowledge the support of the DPIV, DSE, WorkSafe Victoria, Goulburn-Murray Water, the Mansfield Shire Council and other regulators as we make our inexorable push to establish ourselves as a Victorian goldmining success story. Our engagement with the local community at Woods Point and locally is also crucial to our progress and I'd like to acknowledge the assistance we are given – long may it continue.

Finally I would like to sincerely thank our dedicated and hardworking staff at Morning Star Gold, many of whom have been with the company for years and years. Without the determination and commitment of these people, we wouldn't have a company to be proud of. Likewise, the support from many of our shareholders over the period has been outstanding and I hope the company can start to give back to you this coming year, what you have so patiently contemplated. I enjoy the interaction with many of you so keep it coming. Morning Star exists for you.

The following Review of Operations will acquaint the reader with the finer points of our year at Morning Star but it's worth noting quickly again the strong year we've had attaining and exceeding many of our goals and now placing us at the turn of the period right on the cusp of gold production and importantly close to the cash flow we need to grow our business:

- Assets grew strongly almost 6-fold over the year
- Purchased and built an onsite gravity gold processing plant
- Partnership with Shandong Tianye including strategic regional exploration JV
- Significant site infrastructure upgrades (power, water, waste, haulage and accommodation)
- Renewed key mining titles with DPIV
- Expanded technical mining and exploration team
- Prepared Morning Star Goldmine for return to gold production after 50 year hiatus

I wish our entire loyal band of stakeholders a very healthy and successful 2010-11.

Sincerely



Nick Garling

## HIGHLIGHTS

- STRENGTHENED OUR ASSETS FROM \$2.4m TO \$12m AT YEAR END
- SUCCESSFUL ISSUANCE AND EXERCISE OF MCOOB TRANCHE RAISED \$13m
- PURCHASED & BUILT 80,000 TPA ONSITE GOLD PROCESSING PLANT
- SHANDONG TIANYE GROUP BECAME 11% HOLDER OF MCO EQUITY
- ENTERED STRATEGIC \$4.5m REGIONAL EXPLORATION JV (SHANDONG)
- COMMENCED DRILLING AT ALL NATIONS PROSPECT (SHANDONG JV)
- COMMENCED REDEVELOPMENT ROSE OF DENMARK MINE (SHANDONG JV)
- PREPARED FOUR ORE ZONES FOR 2010-11 MINING AT MORNING STAR
- BULK SAMPLES OF FOUR TARGET PRODUCTION AREAS AVERAGED 42G/T
- HIGH GRADE ASSAYS (UP TO 386G/T) IN MAXWELL ZONE OF MORNING STAR
- COMPLETED OVER ~200M OF AIRLEG DEVELOPMENT UNDERGROUND
- OUTSTANDING METALLURGY TESTS INFER 90% GRAVITY GOLD RECOVERY
- PURCHASE OF WOODS POINT GENERAL STORE FOR NEW HQ
- SIGNIFICANT INFRASTRUCTURE UPGRADES (POWER, HAULAGE, WATER)
- NEW TECHNICAL MANAGEMENT AND MINING MANAGEMENT IN PLACE
- RENEWED REGIONAL MINING TITLE (MIN 5299)
- RECEIVED KEY REGULATORY APPROVALS ENABLING RAPID GROWTH
- COMMENCED FEASIBILITY ON SEVERAL EXPANSION THEMES FOR 2011-14



# REVIEW OF OPERATIONS

YEAR ENDED 30 JUNE 2010

## CORPORATE HIGHLIGHTS

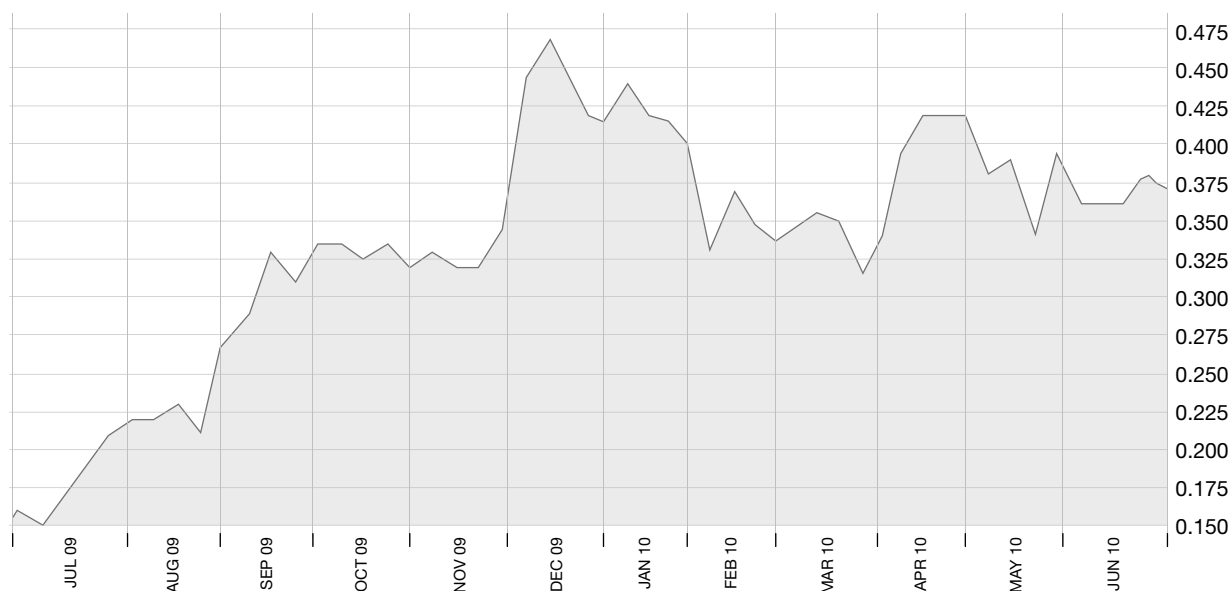
We strengthened our assets to \$12m at period close from \$2.4m at 30 June 2009
We successfully issued & exercised the MCOOB options tranche raising \$13.5m before costs
We introduced strong new equity partners Shandong Tianye with an 11% stake in MCO's register
We grew MCO's market capitalisation substantially from \$19m to \$98m year on year
We entered into a \$4.5m strategic Joint Venture with Shandong Tianye Group
We made Board changes to reflect the changing direction & expertise required in the business

In the annual period, the company embarked on a number of corporate strategies to strengthen the balance sheet and fast track mine development and bring forward gold production timelines. The previous year and the fabled 'GFC' made it obvious that small companies would struggle for survival with the equity capital markets contracting significantly. Whilst debt capital has become more readily available over this year, the structures offered are problematic in many cases and not to our liking.

We felt it was crucial to become a more stable enterprise with a strong production focus in order to not be so reliant on our shareholders as in years past. A well-priced rights issue of options was followed with the institutional investment onto our register by our new Chinese partners, who we believe are long term investors with a strong commitment to expanding their mining ventures offshore. As the company is emerging as a producer, we will further seek to strengthen our Board and key technical team members in order to facilitate that expansion successfully.

Over the year our market cap grew over five times in size and has continued a steady rise since balance date with strong volumes of our stock changing hands.

MCO share price performance (Jun 2009 – Jun 2010)



# REVIEW OF OPERATIONS

YEAR ENDED 30 JUNE 2010

## INFRASTRUCTURE HIGHLIGHTS

We purchased & built an 80,000 TPA gold processing plant onsite at the Morning Star Goldmine

We commissioned a full electrical audit of the Morning Star operations upgrading power supply

We purchased and are building (ongoing 30/6/10) a water treatment plant for arsenic removal

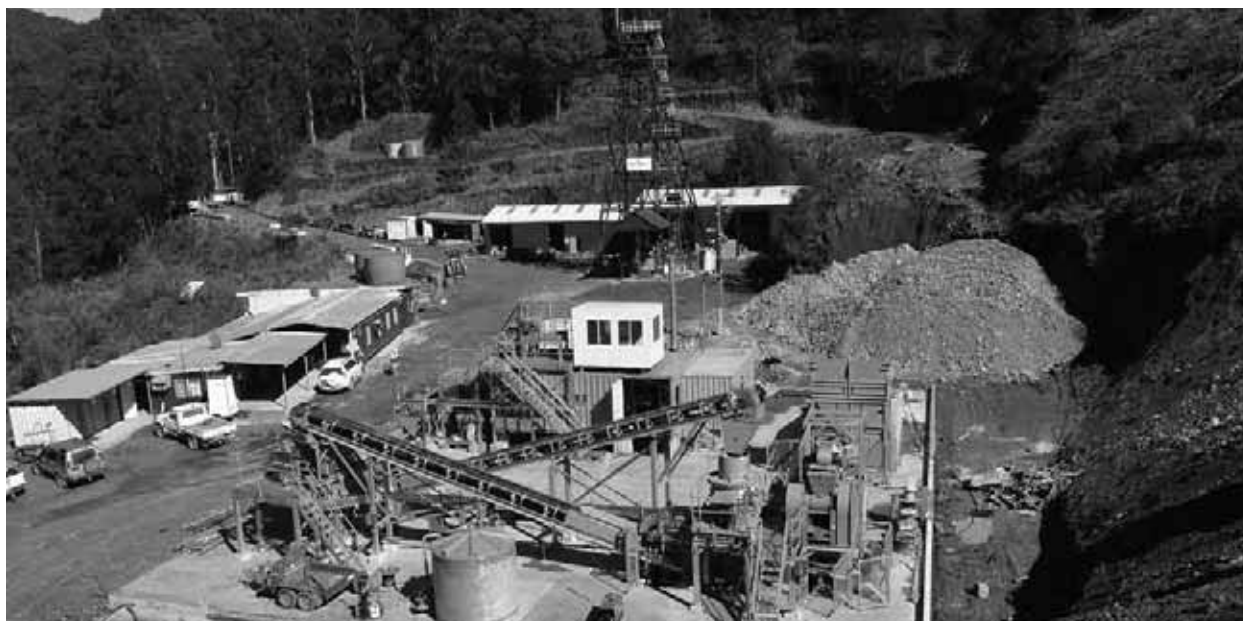
We purchased and are building (ongoing) a 'paste-backfill' plant for tailings storage underground

We purchased and are building new regional corporate headquarters in Woods Point, Victoria

We are conducting a complete overhaul & upgrade of shaft & haulage facilities at site (ongoing)

We appointed new technical expertise to bolster long-term project management structure

No doubt the pièce de résistance for this annual period has been our decision to proceed with onsite gravity milling and the subsequent tender, purchase and construction of a purpose built gold processing plant (GPP). We felt that Gekko Systems of Ballarat has the relevant experience and breadth to design and construct the GPP. This will facilitate gold production in the hills of Woods Point for the first time in around 50 years. At period end, the plant construction was well under way and it was expected to be fully commissioned and operable in late November 2010.



Morning Star's purpose built onsite gold processing plant

Morning Star's GPP has very low visual, noise and other environmental and social impacts on the environment at Woods Point and this was a strong factor in its design. MCO received approval to commence construction and installation of the mill from both Mansfield Shire and the DPIV. Further to these regulatory requirements, MCO's expert consultants conducted background noise assessments to determine site operations would be within permissible noise limits. A predictive noise model was done to further authenticate this compliance. Coffey Mining were commissioned to report on the slope stability issues and their recommendations were carried out to facilitate DPIV and other approvals. Coffey have also designed the paste and backfill element of the GPP. It is anticipated that the tailings element of the milling process will be thickened via a back end centrifuge and the addition of a small amount of cement before being pumped underground for storage and settling. Feasibility studies to date have concluded that although Morning Star has several tailings storage facilities at its disposal, storage underground at

# REVIEW OF OPERATIONS

YEAR ENDED 30 JUNE 2010

the Morning Star mine is significantly cheaper than other present options, however other options will be considered in order to create a longer term balanced tailings plan. A groundwater licence was sought from the catchment authority (Goulburn-Murray Water) in order for MCO to extract groundwater from the mine for use in milling operations. Overall the planning, approvals and installation of the GPP have been carried out very competently notwithstanding lead times which weren't completely foreseen. We have no doubt the installation of the GPP will change the face of what the company can deliver its shareholders in 2011 and beyond. In hindsight we consider the GPP purchase and installation a great achievement for the year.



View of undersize/oversize conveyors on the new GPP's crushing circuit

The mill has been constructed with an initial targeted throughput of 10 tonnes per hour but this can be increased with small modular inclusions on the gravity end.

It is expected three or four staff members will operate the mill and paste fill plant which will be fully automated from an onsite control room.

Metallurgical testing has indicated that between 85% and 92% of gold will be won via gravity methods onsite and be partially refined as dore gold bars. A 'middlings' product will be captured and trucked offsite in order to extract the balance of the gold in sulphides. MCO was in discussions at period close on the ongoing sale of middlings to a third party in Victoria.

## Project Management

MCO has over the year engaged various consulting engineers and other experts to assist in managing the production pathway. These issues included:

- Obtaining regulatory approvals for the GPP;
- Overseeing construction of the GPP;
- Design, management and implementation of slope stability works;



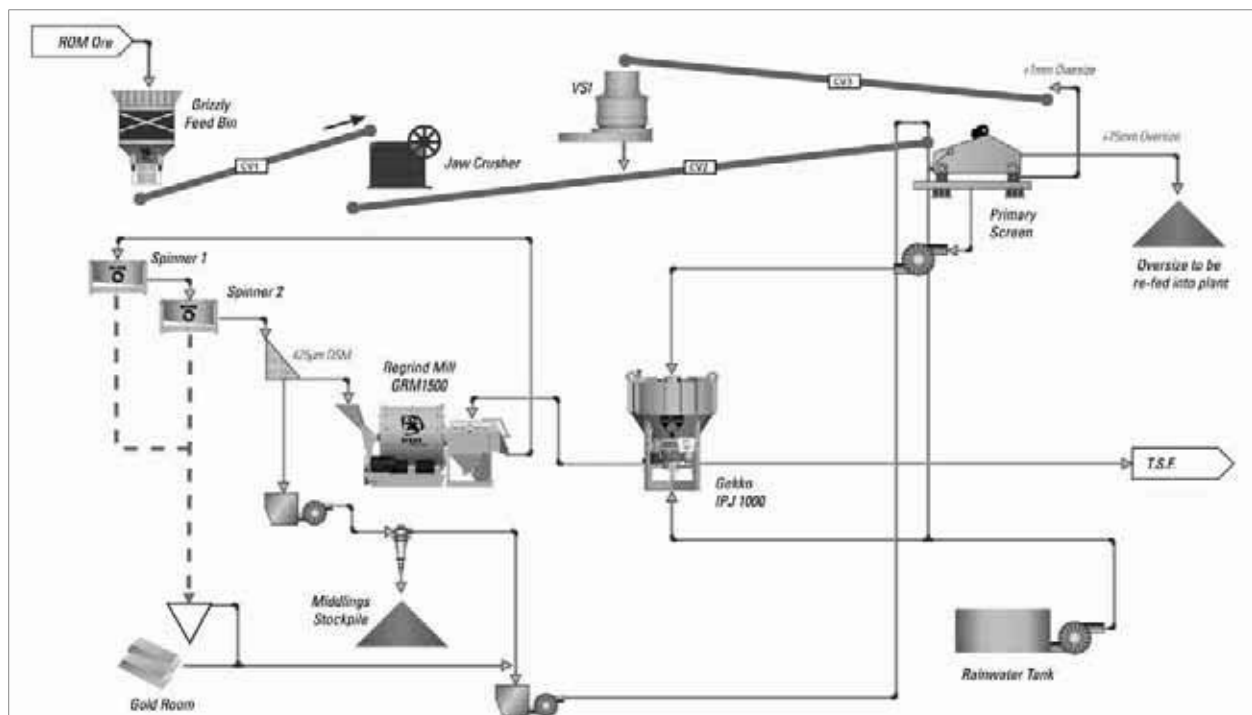
# REVIEW OF OPERATIONS

YEAR ENDED 30 JUNE 2010

- Design & ongoing implementation of tailings disposal infrastructure – Underground & Surface;
- Mine development planning and underground works;
- Approvals for mine waste disposal;
- Electrical supply planning;
- Design and implementation of a mine water treatment system and development of a mine water discharge plan;
- Design and approvals processes for new site amenities, the new administrative office and additional employee/contractor accommodation;
- Planning, approval and implementation for septic disposal systems;
- Management of potable and groundwater licence applications and approvals processes;
- Preparation of budget and cost forecasting management systems;
- Preparation of a 1 – 3 – 5 year project schedule;
- Providing assistance with OHS and Risk Management systems;
- Structural integrity of Morning Star Goldmine head frame;
- Upgrade of winder and haulage and tipping systems in the main shaft.

## Tailings Storage Facilities (TSF)

MCO is considering a range of proposals for TSF in close proximity to the gravity mill site. Overall feasibility was ongoing at period close in order to nominate, cost and rank a range of underground and surface storage options locally. Some of these proposals have already been presented to the relevant statutory authorities as we are keen to engender a consultative approach on such an important issue. The locations selected to date are considered to be the most appropriate for storage of mine waste rock and/or TSF for the following main reasons; location, environmental impact, cost per tonne, past disturbance (if any) and overall capacity. MCO has also engaged environmental consultants to conduct a native vegetation assessment which to date has concluded that there are only low range vegetative issues on sites investigated at period end.



GPP currently designed to process up to 80,000TPA

# REVIEW OF OPERATIONS

YEAR ENDED 30 JUNE 2010

## Mine Planning

Following underground inspection of potential ore sources, further appraisal is scheduled to be carried out to determine the development required prior to production in each zone. A preliminary development and production plan is being reviewed by MCO, with the main aim being the establishment of at least four ore sources available from three separate levels.

An increase in haulage rates is being implemented along with an increase of shaft winder speed, as well as replacing existing trucks with larger side tippers.

Preliminary calculations show that with proper shaft rehabilitation, winder upgrading and use of the second shaft compartment for haulage, production can be significantly upgraded via the main shaft at the Morning Star mine. The haulage review is expected to be completed in (Calendar Q4) 2010.

## Electrical Audit

A mine site wide electrical audit was carried out by consultants over the period. The existing electrical supply to site is adequate to operate the gravity mill and current mining operations. However expert consultants have been retained to upgrade the whole-of-mine supply and circuit for all power and communications. SP Ausnet (our regional power infrastructure owner) has been provided with a 12 month look ahead of site power requirements and will commence design work on this upgrade in the period.

## Mine Ventilation

An independent ventilation audit of the underground workings was carried out by Australian Mining Consultants (AMC) during March 2010. Results of the audit led to a ventilation rethink and MCO established an underground ventilation fan on the 2 Level. The underground ventilation fan will boost the mine's ventilation flow and assist in making the mine a safer place to work. New vent doors on all levels of the MS Mine were being installed at the period end (ongoing).

## Shaft Rehabilitation

The existing ground support in the shaft is set to be rehabilitated to enable safely increasing the rates and tonnages hauled to the surface. A campaign of replacing the ground support has been planned and is continuing at the close of the annual period. In addition, haulage level plats are being upgraded to provide for increased production. It is expected this work will be completed in the 1st Quarter of the new financial year.

## Purchase of New HQ in Woods Point

Morning Star Gold has purchased a landmark building in the centre of Woods Point township. Formerly it was the site of the famous 'Reefers' Hotel', which burnt down in 1939, and since the 1940's it was the Woods Point General Store. It is well suited for our needs and is located right at the base of the access roadway to the Morning Star mine from the township.

This property purchase will give the company a higher profile in the main street of Woods Point and importantly, will free up much needed space on the mining pad for mining activity. In addition to being the company's new HQ in Woods Point, the building and other outbuildings under construction on the large site will provide additional accommodation as MCO expands. It secures strategic access to Telstra's only communications relay tower in Woods Point and affords the company a more visible permanent local base accessible to locals, staff and visitors/ shareholders alike.

# REVIEW OF OPERATIONS

YEAR ENDED 30 JUNE 2010

## MINING & DEVELOPMENT HIGHLIGHTS

We prepared four ore zones for 2010-11 mining at Morning Star

We took bulk samples of ore from four production target areas averaging 42g/t

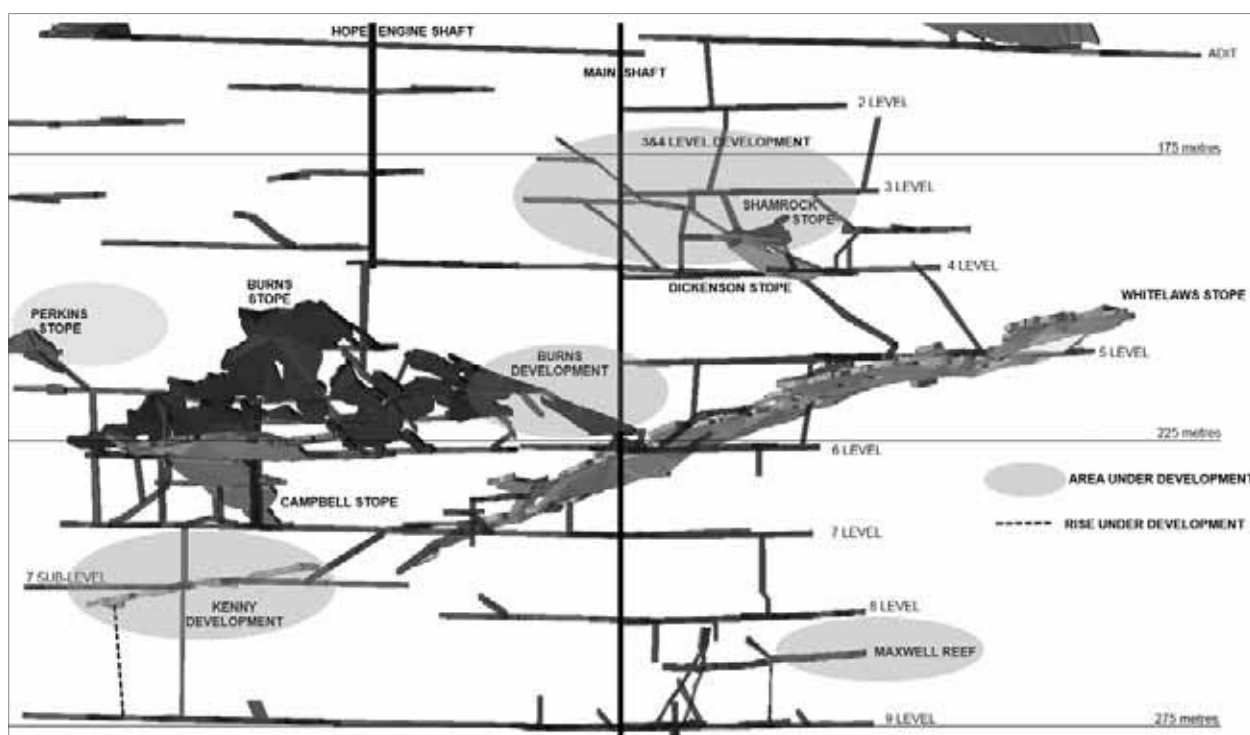
We received high grade assays (up to 386g/t Au.) in Maxwell Zone of Morning Star

We collected 18 samples from the initial Maxwell mining zone averaging 50.63 g/t Au.

We completed close to 200m of airleg development underground

We received outstanding metallurgy test results inferring ~90% gravity gold recovery

We commenced feasibility on several mining expansion themes for 2011-14



Broad Area of Focus for Mining & Development within the Morning Star Mine (Sectional View)

Mine development at the Morning Star mine focused on the development and planning of four initial mining zones between 80-280 metres underground at the Morning Star Goldmine. It is considered from current knowledge that these areas alone have tonnages to feed the onsite GPP for over two years but it is expected, as more development is done in the zones, that known indicated tonnages will increase. A particular focus for this period was developing the Maxwell Reef zone of the mine ready for stoping once the GPP has been commissioned. This is the first zone to be developed and is ~255m below the surface. Development at Maxwell's Reef has availed MCO to an insitu ore stockpile which at period close was in the order of 10,000 Tonnes. This ore will be supplemented initially from the Maxwell Zone of the mine and then the Kenny/7 Sub-Level as it is developed and other zones as they come online. Reporting over the period on Maxwell's included information such that:

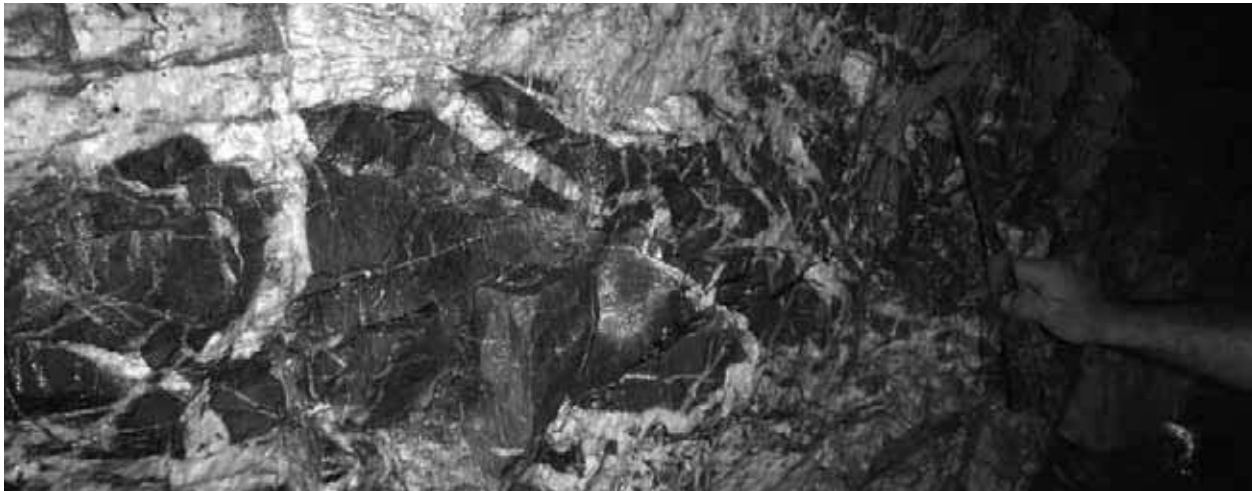
- Maxwell Reef is up 600mm in width and has a consistent laminated appearance akin to the high grade reefs historically mined at the Morning Star goldmine
- 12 new samples average 75.2g/t Au with highest being 386.2 g/t Au
- 26 samples from Maxwell ore zone averaging 44.4 g/t Au (see 'Area Under Development' in above plan)



# REVIEW OF OPERATIONS

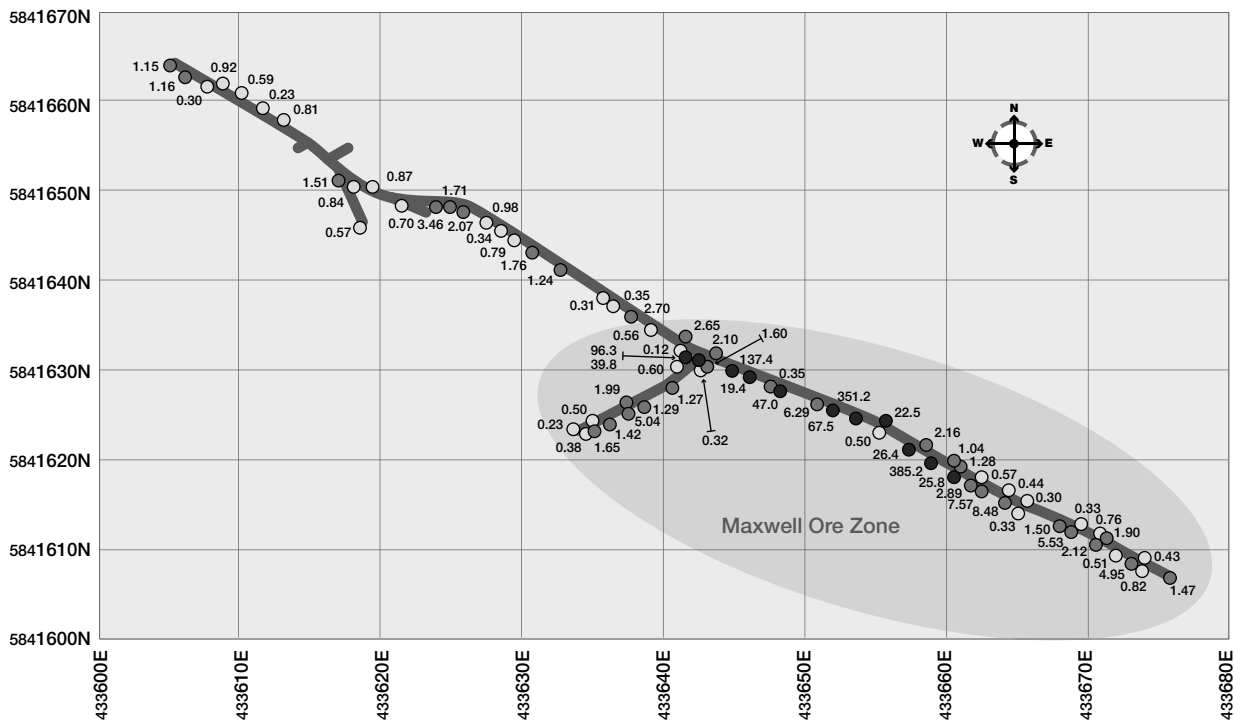
YEAR ENDED 30 JUNE 2010

- Assays validate high grade diamond-drilling results (up to 1,392 g/t) returned in 2008
- The high-grade ore zone extends for at least 41 lineal metres along the Maxwell Reef (still open at strike) and is currently developed upon for over 100 metres in length



View of Maxwell's Reef in the Morning Star Goldmine -270m U/G

Maxwell Reef assays taken in the annual period meant the average of all quartz reef samples taken since the start of the development drive is 25.56 g/t Au, while the reef samples from inside the Maxwell ore zone (as highlighted on the plan below) average 44.40 g/t Au. Encouragingly, both grade averages exclude 2008 drill hole assays, which included some very high grade results up to 1,392 g/t Au.



Plan view of new development along the Maxwell Reef zone with face sampling results

# REVIEW OF OPERATIONS

YEAR ENDED 30 JUNE 2010

Development for the year at Maxwell included:

- 92 metres of drive development
- 99 metres of rise development

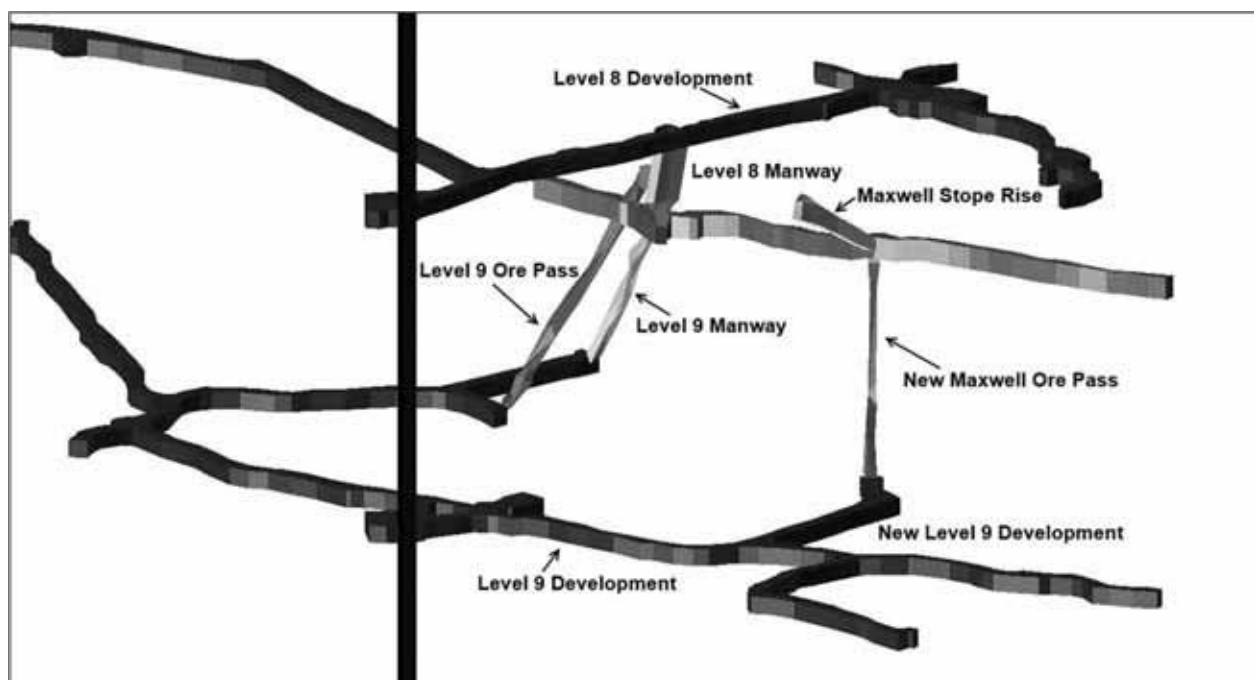
In addition to Maxwell's zone, MCO also started preparations for mining the 7 Sub-level. Including:

- Re-establishment & refurbishment of access from 7 Level
- Re-establishment of ventilation
- Preparations for a new ore pass from 7 Level down to 9 Level (haulage infrastructure exists)
- Ground support on both 7 Sub-level and 9 Level to bring the work areas up to OHS standards
- Laying rail and services

Work was also carried out on 4 Level developing a small stope on the Dickenson reef to supply a bulk sample for metallurgical testwork. An area of 56m<sup>3</sup> was developed with some material being sent for testing and the rest stored for treatment through the gravity plant.

Additional work for the year included:

- Establishment of a primary exhaust fan on 2 Level
- Vent doors on all levels to assist ventilation flows
- General maintenance and ground support on all levels
- Upgrading of ground support for the shaft
- Upgrading of electrical supply to all levels of the mine
- Establishment of air-radio system on all levels of the mine and to the winder room, crib room and workshop



Isoclinical View of Maxwell, Level 8 & 9 development in preparation for mining

# REVIEW OF OPERATIONS

YEAR ENDED 30 JUNE 2010

## Metallurgical Test Work

During the period, it was reported that four bulk samples (15-20kgs each) were collected from Level 4 (Dickenson reef), Level 6 (Burns reef), the Maxwell reef and the Maxwell ore stockpile at surface. The material was sent to Ammtec Laboratories in Perth WA for independent testing of the grinding features as well as the average grade of the bulk samples.

As well as assaying the ores, this testwork was carried out (in addition to prior Ammtec & Gekko Systems testwork) to determine the amount of grinding needed to liberate the gold particles for gravity separation, the amount of wear on the crushing circuit and to determine the amount of power needed to achieve the desired liberation. In other words, to aid in design of the GPP and to learn some more about the in situ gold resources and revalidate prior sampling and testwork.

Final head grades and the recovery rates that were as follows:

SAMPLE	GRAVITY (%)	GRAVITY + CIL (%)	CIL (%)	HEAD GRADE (g/t)
Morning Star 4 Level	92.9	95.3	77.7	1.19
Maxwell's Stockpile	93.7	99.4	98.7	35.63
Maxwell's Reef Insitu	91.2	99.4	97.0	58.14
Burn's Reef	92.3	99.2	95.5	73.74

Three of the four bulk sample results were very encouraging averaging 55.84 g/t Au with a high recovery rate averaging 92.5%. The Dickenson Reef result which came back with a calculated grade of 1.19g/t Au is material that MCO removed from the historic Dickenson stope on Level 4 to allow sampling in order to access to higher grade material known to be located between 4 Level and 3 Level, which was delineated in prior WMC and MCO channel sampling in a zone known in some past reports as the 'AAA Reef'.

In addition to the grade and recovery testwork Ammtec also looked at the abrasive nature of the Morning Star ore to determine the amount of energy needed and the wear and tear that would take place during the crushing and grinding process.

Three separate tests were done and they were

- Bond Abrasion Index (how abrasive the quartz is) – 0.56
- Bond Rod Mill Work Index (the power needed to crush the ore) – 15.5 kWh/t
- Bond Ball Mill Work Index (the power needed to grind the ore) – 18.8 kWh/t

All three tests came back with moderate to high results which is as expected given that the Morning Star ore is predominantly quartz. Gekko has designed the Morning Star gravity plant to counteract the abrasive nature of the ore by only grinding the 'middling' concentrate material which cuts down the amount of material that passes through the ball mill to about 10% of the material crushed.

This allows the size of the mill to be significantly smaller than if all the ore is ground, lowering the amount of power consumed and lowering the maintenance cost of the upkeep of the ball mill.

MCO plans to collect a 'middling' concentrate from the gravity circuit which will contain the gold that is trapped in rock and sulphide particles and can only be released through cyanide leach treatment. This concentrate will contain the small percentage of gold (~7%) that the gravity circuit cannot recover and the material on sold to a third party for cyanide leach treatment offsite.

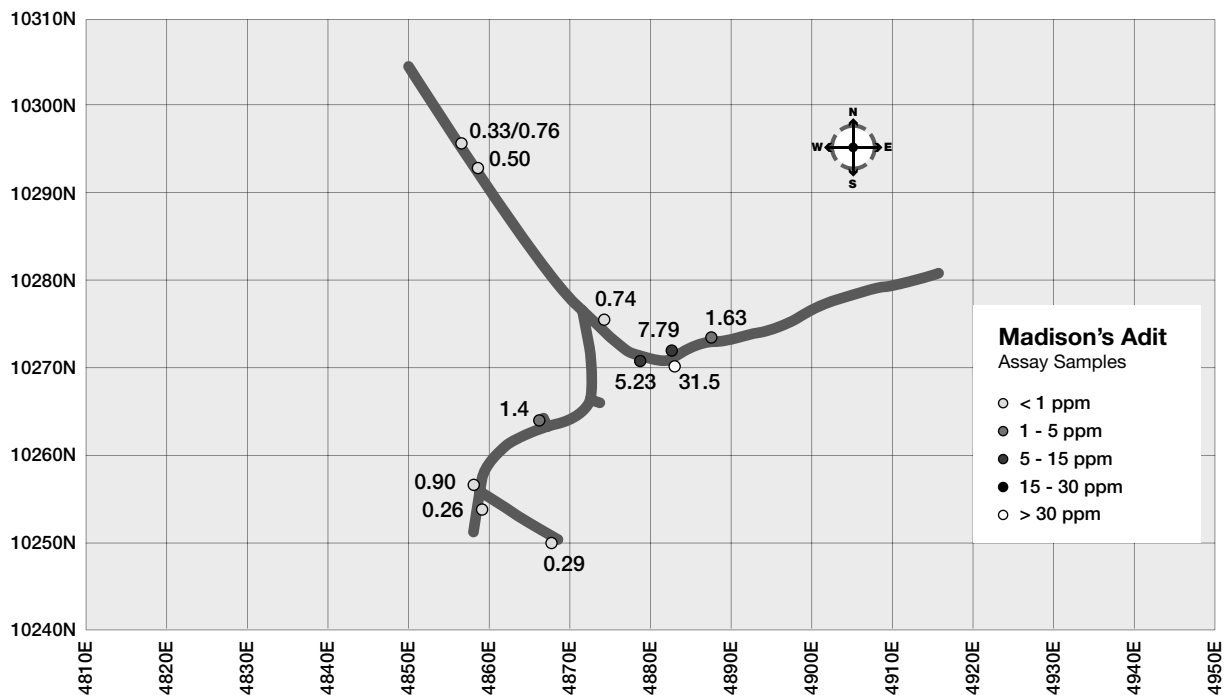
# REVIEW OF OPERATIONS

YEAR ENDED 30 JUNE 2010

## Other MIN 5009 Exploration

Sampling of quartz reef material in the Madison adit 5009 during the year highlighted a potential area of focus in close proximity to the Morning Star Goldmine. Really it only serves to underline that the old timers didn't systematically take all the gold but rather handpicked the extremely high and accessible grades.

At the Madison's adit, very close to the Morning Star mine, 13 grab samples were collected from reef in the easily accessible and exposed adit and the highest grade returned was 31.5 g/t Au from a reef 125mm thick. Other mineralised grab samples along the reef returned grades of 5.23 g/t and 7.79 g/t (samples ranged from 0.2 g/t to 31.5 g/t Au.). Mapping and sampling was also carried out at the Comet Mine not far from the Morning Star and the access track to the Tingha adit (which directly accesses Waverly dyke exposures underground) was upgraded in order for sampling at that site. The Waverly is a narrow but accessible dyke less than 1km from the Morning Star Goldmine at some points. Surface diamond drilling in the previous period was designed to better understand the dyke under the surface and visible gold was encountered. Given the narrow (but long – mapped over 5kms in length) nature of the Waverly, Morning Star is still assessing the next phase of exploration there.



Plan view of the Madison Adit and assays in ppm Au. (mine grid)

## Mining expansion themes for 2011-14

In the annual period a significant amount of planning and feasibility (ongoing at period close) was done on production themes with a desire to expand the overall footprint and scale of the company at the Morning Star mine and surrounding tenements. Taking on a JV partner to fastrack regional exploration and development was one outcome. Moreover it was decided to enlist consultants to put together a roadmap for the next several years production. At the end of the period, the company was also in the process of hiring mining engineers to bolster the insitu mining plans at Morning Star. The geology team had also expended during the year.

A clear production roadmap (beyond the current zones of focus) will be articulated by middle of the next annual period, showing budgeted tonnages, mill throughput, ounces, future milling plans and regional potential. MCO has always aimed to grow organically so growing cash flow before expanding at Morning Star and beyond has been an early feature of the overall plan.

# REVIEW OF OPERATIONS

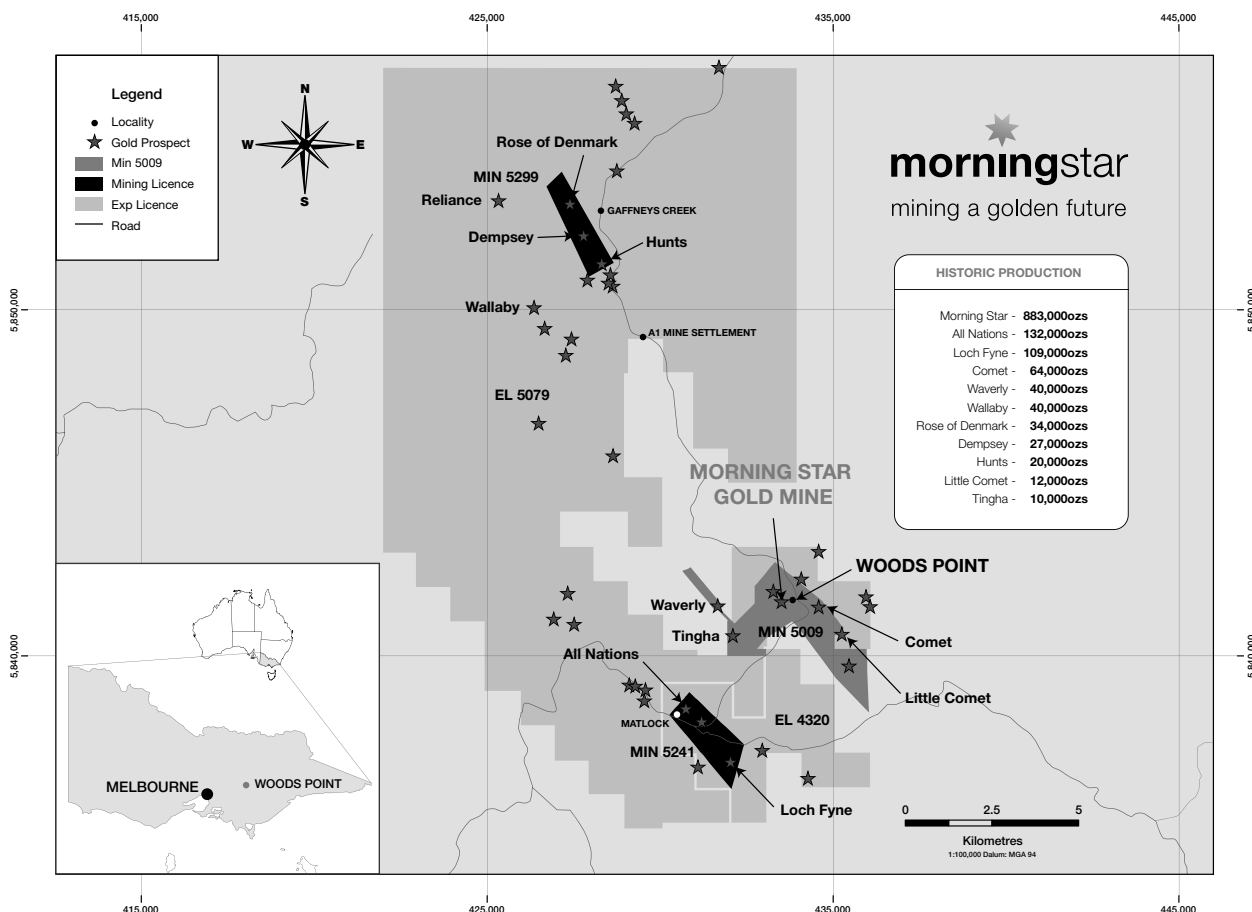
YEAR ENDED 30 JUNE 2010

## REGIONAL EXPLORATION HIGHLIGHTS

- We agreed a strategic \$4.5m JV to fast track exploration & development of key regional targets
- We commenced drilling at the All Nations prospect (MIN 5241, Matlock – Shandong JV)
- We commenced redevelopment on Rose of Denmark (MIN 5299, Gaffney's Creek – Shandong JV)
- We took chip samples at Madisons Adit (MIN 5009) assaying up to 31 g/t Au. (reported above)
- We sampling & mapped an historic drive at the Reliance Mine (EL5079) with face samples returning encouraging assays up to 12 g/t Au.

During the annual period, a key transaction bolstering the company was done with new Chinese investment partners (Ample Rise Ltd), whereby Ample Rise acquired an equity interest ~11.2% of MCO. In addition, they agreed to pay into the Joint Venture account the amount of \$4.5m, over 5 tranches, to ultimately earn a 51% interest in Morning Star's regional Mining Licences MIN5241 and MIN5299 by 2011-12 FY. The payments to the Joint Venture will consist of:

- Tranche 1 \$750,000 earning a 10% JV share
- Tranche 2 \$750,000 earning a further 10% JV share
- Tranche 3 \$1,000,000 earning a further 10% JV share
- Tranche 4 \$1,000,000 earning a further 10% JV share
- Tranche 5 \$1,000,000 taking Ample Rise to a 51% JV share of the two MINs



Map of Tenement Area as at 30 June 2010 with Historic Gold Production

# REVIEW OF OPERATIONS

YEAR ENDED 30 JUNE 2010

Any further funding for work programs or minimum expenditure on work programs on the two regional mining licences will be met by each party in proportion to their interest or by other agreement between the parties. Morning Star agreed to be the manager and operator in respect of undertaking the exploration appraisal development production and exploitation of the two regional mining licences for a 15% overall management fee.

## REGIONAL EXPLORATION

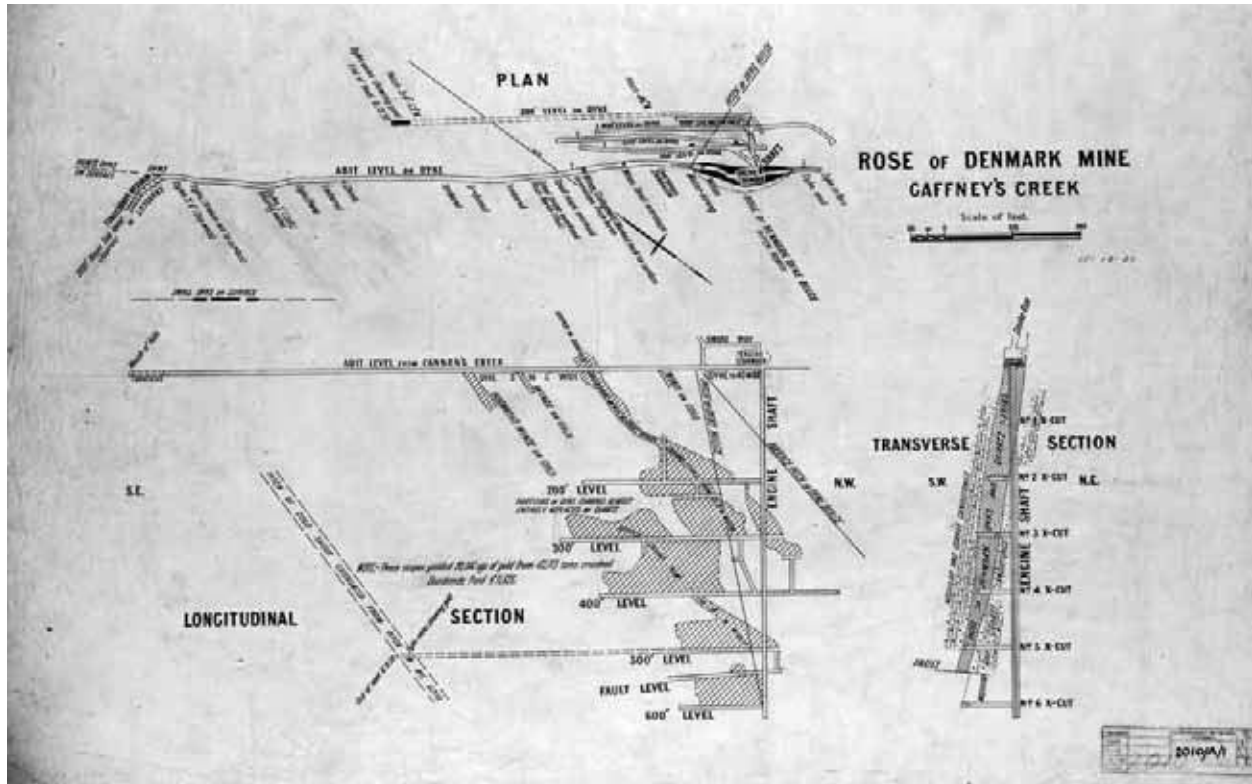
Work for the year concentrated on putting the company in a flexible position in terms of its priority targets in the region in order to get the maximum benefit from the company's new regional JV with Shandong Tianye (on MINs 5241 and 5299) and MCO's 100% owned ELs 5079 and 4320. As a result, it was decided over the period to significantly strengthen our work planning structure (DPiV) and we spent several months developing and submitting work plans for all of the company's Mining & Exploration Licences. Work included:

- Submission of Exploration Work Plans for EL 4320;
  - » Work will focus on mapping and sampling of the extensions of the Morning Star and Waverly dykes where they leave MIN 5009
  - » Drilling and sampling is also being planned at the Little Comet mine
- Submission of Exploration Work Plans for EL 5079;
  - » Work is targeted at mapping and sampling all dyke outcrops in the EL (much of which has never been adequately explored)
  - » Drilling is planned for the Wallaby mine where mullock sampling at the Wallaby returned an outstanding assay of 79g/t Au in the prior period
  - » Targeted sampling and surface diamond drilling is also planned at the Reliance mine which is a significant historic mine where no modern exploration has occurred and the historic records suggest there is a large mineralised dyke bulge.
  - » The Reliance and Wallaby mines are high on the list of targets for summer 2010/11 following this reporting period
- Preparation and submission of a Mining Work Plan for MIN 5241;
  - » Initial work entails mapping and sampling of the dyke outcrop, followed by underground mapping and sampling at the All Nations and Loch Fyne mines.
  - » As reported the diamond drilling program from surface had commenced late in this period. Underground drilling is planned at the Loch Fyne mine and modelling is planned thereafter on a potential relationship between the Loch Fyne and All Nations ore bodies underground.
  - » An underground bulk sampling program will also take place at both prospects dependent on preliminary sampling results.
- Preparation and submission of a Mining Work Plan for MIN 5299;
  - » Work on this MIN will predominantly be centred on the two of the three main historic mines of the MIN. Those are the Rose of Denmark at Cannons Creek (near Gaffney's Creek) and the Hunt's Mine. Work on the Rose of Denmark Mine was reported late in the period (below).
  - » Work at the Rose of Denmark and Hunts is appropriate for the winter months as well as summer (unlike some other targets in the tenement area) with good access and underground exposures. The program at the Rose of Denmark involves underground rehabilitation of a long adit from Cannons Creek, coupled with mapping, sampling (some bulk sampling) and diamond drilling to further delineate the ore body both underfoot and above the adit level. There was also significant upgrading required of the road into the mine from the hamlet of Paradise Point. This was getting underway at the end of the period.



# REVIEW OF OPERATIONS

YEAR ENDED 30 JUNE 2010



Rose of Denmark Mine at Gaffney's Creek historic plan

## Reliance Dyke (EL 5079)

Surface and underground mapping at the Reliance found that the Reliance dyke is at least 80 metres long and more than 35 metres wide (underground cross-cut terminated in dyke). Planning is in hand for drilling the dyke to test for quartz reef mineralisation in the coming year. Mapping of the area of the Reliance mine workings in EL5079 west of Gaffney's Creek, commenced in November 2009 and established that the workings are located in a dilation zone ('bulge') in a gabbroic dyke of the Woods Point dyke swarm.

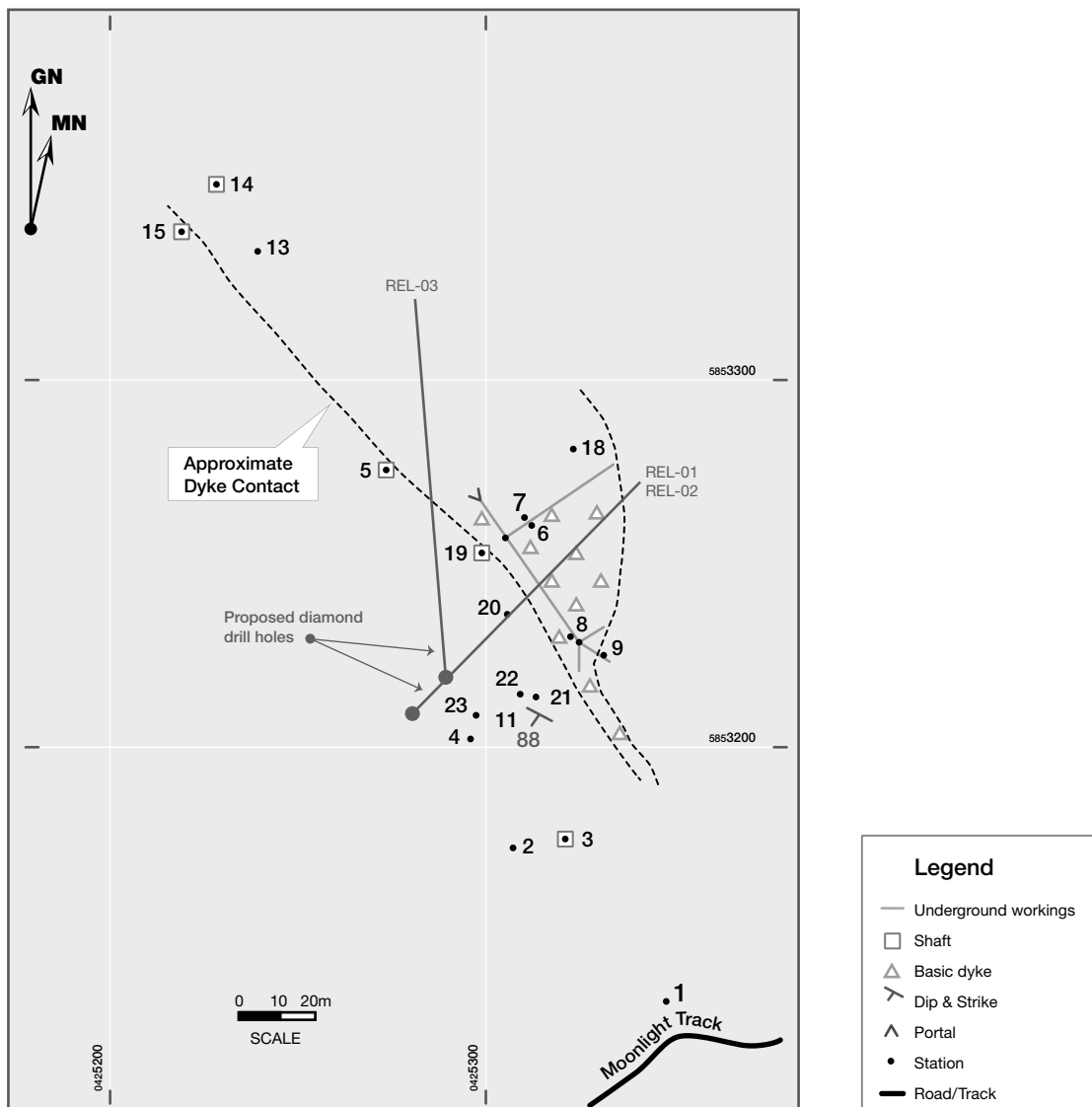
Access to dyke exposure is gained via an adit at a shallow depth below the surface. As reported above, where the Reliance dyke is exposed in a crosscut, its width is greater than 35metres. Four exposed quartz reefs were sampled in the adit and one of those samples returned an assay of 12 g/t Au. This result is considered to be very exciting since there appears to be no downward development in the mine which means that the Reliance dyke bulge is essentially virgin ground. The elevated gold assay recorded in the exposed reef is unlikely to be an isolated occurrence and there is a high potential for economic Au. mineralisation at depth. The dyke bulge would appear to be comparable in size to the A1 dyke and has not been previously drilled. There is no reason to discount the possibility of large auriferous quartz reefs occurring at depth below the adit level. Drilling into the dyke bulge will be a high priority in the summer 2010-11 exploration program. The design of the drilling program is relatively straightforward and work plans have been submitted to the DPIV late in the annual period.

# REVIEW OF OPERATIONS

YEAR ENDED 30 JUNE 2010



Reef at the Reliance Mine where samples were taken in adit



Plan of the Reliance Mine workings showing position of dyke, portal and underground workings

# REVIEW OF OPERATIONS

YEAR ENDED 30 JUNE 2010

## Other Regional Work

Additionally mapping and sampling was conducted at the following prospects:

- Little Comet Mine (EL 4320)
- Alhambra, Magenta and Hibernia Mines (EL 5079)
- Garibaldi Mine (EL 4320)

An extensive clean up and rehabilitation of the Dempsey Mine and Mill site was conducted during the period in line with regulatory expectations following the Christmas 2006 bush fires which ravaged the Gaffney's Creek area and destroyed an old disused mill and outbuildings near the Dempsey Mine shaft.

The rehabilitation included significantly upgrading the access to the Hunts mine, extensive bush regeneration and noxious weed work along Gaffney's Creek and the company also removed fire damaged manmade structures from the Dempsey site, regenerating it returning and preparing to return it to its natural state. Grid power is to the site and it remains a good area for MCO to base its northern exploration works from.

Preparation for significant drilling programs were underway at the close of the period covering Rose of Denmark mine (MIN 5299), Hunts Mine (5299), All Nations mine and related dykes (MIN5241) and Reliance and Wallaby dykes (EI 5079).



Typical Regional Topography near Woods Point

# REVIEW OF OPERATIONS

YEAR ENDED 30 JUNE 2010

## All Nations Prospect (MIN 5241 JV)

MCO reported late in the period that an initial program of diamond drilling from surface commenced at the All Nations prospect near Matlock. The diamond drilling program is located four kilometres south-west of the Morning Star mine on MIN 5241.

All Nations is a historic gold minesite which produced approximately 150,000 ounces of gold from a number of quartz reefs. All the historic production workings at the All Nations are shallow and mostly located above the water table with the deepest workings being 90 metres below the surface and the main workings being only 60 metres deep. MCO plan a 6-8 hole diamond initial program in the coming period to intersect the three main reefs in the All Nations prospect which are the May Moon dyke, Prince of Wales reef and the Lawson reef.

As mentioned above, the first phase is an orientation drill phase as the ore bodies are narrow, historic underground maps and plans are incomplete and closer inspection of the exposed workings via underground access is prevented because of chest deep water in the main adit. Access at this point may be rehabilitated in the coming period to provide better inspection of the workings and dyke exposures.

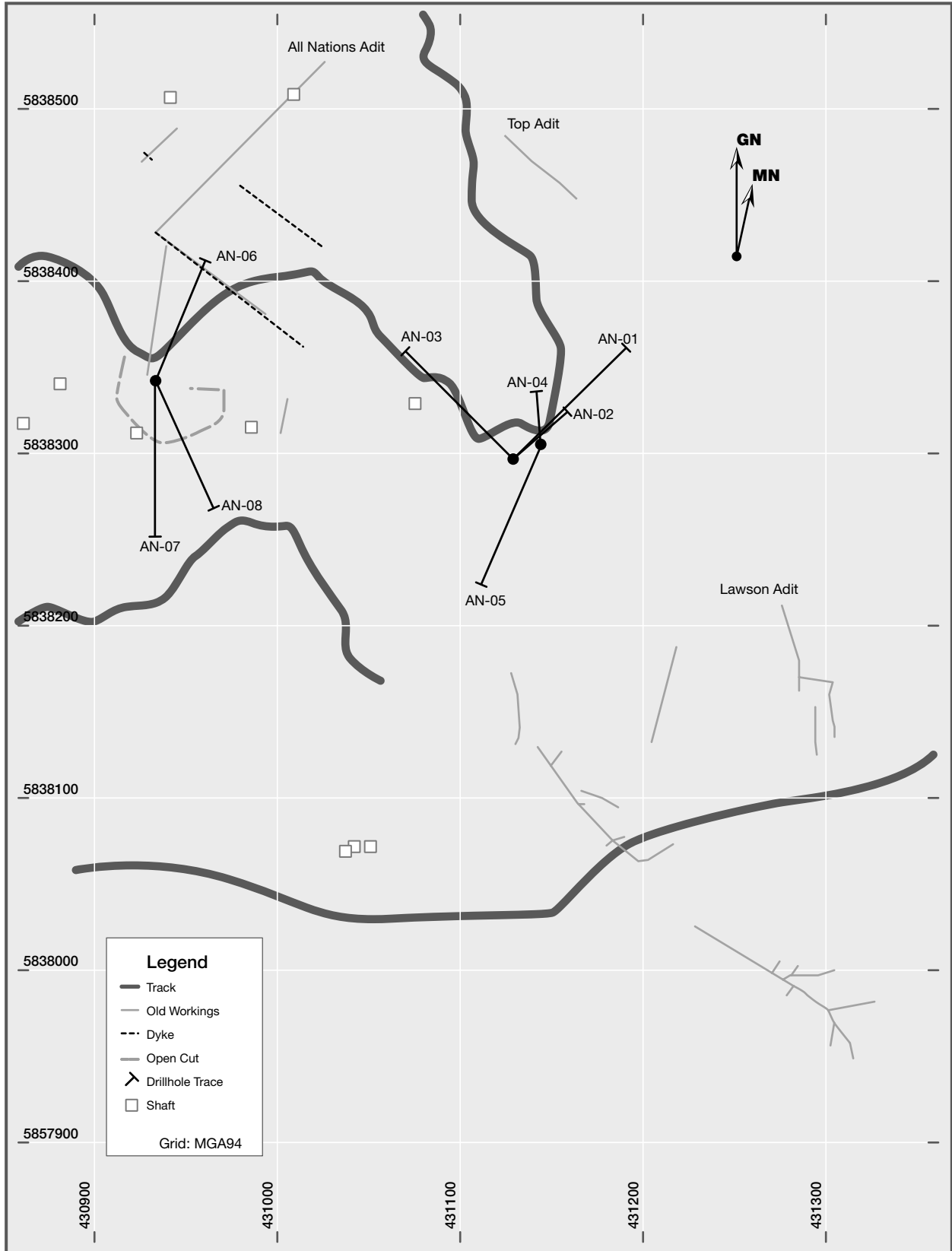
In the current (in progress at period end) drilling program, some of the holes planned to intersect all three reefs and some holes set to test one or two of the reefs (see plan overleaf).



Historic Open Cut at All Nations prospect

# REVIEW OF OPERATIONS

YEAR ENDED 30 JUNE 2010



Plan of All Nations Drill Program (Stage 1)

# REVIEW OF OPERATIONS

YEAR ENDED 30 JUNE 2010

Drill holes in Stage 1 of the All Nations surface program are planned to intersect the three reefs below the historic workings and to test the continuation and depth potential of the reefs below the water table. Two holes were completed late in the annual period for a total of 266 metres drilled. A total of seven or eight holes are planned in the first stage of the exploration program. No assay results had been received by the close of the period however the first four holes in this stage of the plan are merely orientation holes seeking to further MCO's knowledge on the various ore bodies known to be present from historical production records.

HOLE-ID	NORTHING (MGA)	EASTING (MGA)	RL	DEPTH	AZIMUTH (TRUE)	DIP
ALN-01	5,838,323	431,086	1,038	113.9	44°	-41°
ALN-02	5,838,323	431,086	1,038	152.5	48°	-75°



All Nations Drill core with some altered dyke and quartz veins



# REVIEW OF OPERATIONS

YEAR ENDED 30 JUNE 2010

## REGULATORY HIGHLIGHTS

- We received key regulatory approvals enabling rapid growth
- We gained approval for MIN 5009 Work Plan addendum (Gravity Mill)
- We gained approval for MIN 5009 Work Plan addendum (Expanded Mining)
- We submitted for approval MIN 5009 Work Plan addendum (Decline)
- We submitted for approval MIN 5009 Work Plan addendum (Tailings Storage)
- We renewed regional Mining Title (MIN 5299) at Gaffney's Creek
- We applied for renewal and lengthened licence period on MINs 5009 and 5241
- We applied for renewal and lengthened licence period on ELs 5079 and 4320
- We gained approval for groundwater licence from Goulburn-Murray Water Authority

The annual period has been the most intensive period of regulatory planning and implementation work in Morning Star's history. With significantly greater tenements to manage and a raft of work planning and regulatory issues to deal with both at the Morning Star Goldmine and on our regional titles, MCO has used expert consultants to aid in building out its production and exploration plans. We would like to thank all of the consultants we are working closely with including:

- Foresight Engineering of Bright, Victoria
- Baigents (Melbourne)
- Coffey Mining
- Compliance Electrical
- Elletson Mining Consultants
- Gekko Systems Ballarat



Miners outside the Reefers Hotel

# REVIEW OF OPERATIONS

YEAR ENDED 30 JUNE 2010

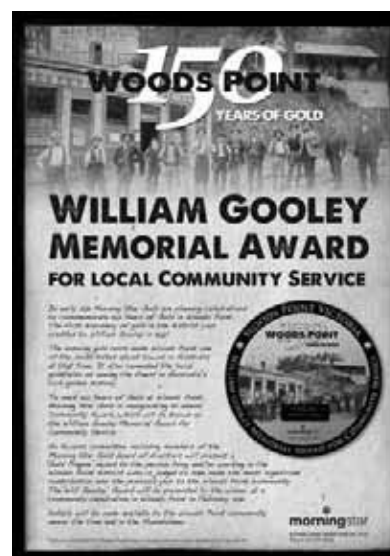
## SUSTAINABILITY, COMMUNITY AND OH&S

We hosted a shareholder site day and evening in late 2009
We were active in a number of local community projects donating labour and equipment
We maintained a strong local flavour in our workforce
We proactively conducted water testing and noise modelling in order to control the effect our operations may have on the local environment
We visited the community and appraised them of operations we felt may affect their amenity
We conducted formal community consultation on a number of occasions
We eradicated noxious weeds and maintained a number of local public tracks
We reconstructed the town's general store as a new HQ and MCO's community reference point
We announced an inaugural Community Achievement recognition 'The William Gooley Award'
We announced celebrations for 2011 to mark 150 Years since gold was first found in Woods Point

### Community Engagement

Morning Star Gold's approach towards engaging the Woods Point and local community is one of proactivity. We understand that we are operating in a beautiful natural environment enjoyed by residents and visitors alike. Morning Star is very visible in the small community around Woods Point as momentum builds towards gold production again after a close to 50 year absence.

With this increased activity in mind, a permanent display of MCO movements and events was created. The community engagement display was permanently mounted at the Woods Point General store and outlines current developments at the mine and in the local area, and advising the community where issues can be raised and concerns aired and addressed. Morning Star is proud to have close ties to the local communities around Woods Point but is extremely mindful that the community must be consulted on all aspects of the mining program and regional exploration. MCO's official Community Engagement Policy was completely re-written, enhanced and updated over the period. It is available on request and elements of MCO's policy are on our public website.



### Occupational Health & Safety

MCO has radically altered its approach to OH&S procedures and rules. In the period, the company appointed a full time OH&S Officer based at the Morning Star minesite, who is responsible for all consultation with both WorkSafe Vic and external OH&S consultants to ensure MCO's operational health compliance and safety. It is the OH&S Officer's role to train site employees and contractors and ensure the company is complying with today's stringent safe working practices. MCO has implemented a set of OH&S policies overall, both from a statutory and inter-company compliance point of view, where safety is the number one focus and we seek to implement and maintain best practice in the field.

There were no incidents or near miss occurrences (MTI) or lost time injuries (LTI) in the annual period.



# FINANCIALS

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# DIRECTORS' REPORT

The directors of Morning Star Gold NL present the financial report of the Company for the year ended 30 June 2010.

## 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:

### **Ex-Chairman – Max M Garling LLB – retired 8 April 2010**

Max Garling collaborated with recently retired MCO director Malcolm Bird in 1993 to place the Morning Star goldmine, a once famous WMC mining asset, into the ownership of Mt Conqueror Minerals NL; now Morning Star Gold NL (MCO). At that time, Max joined Malcolm as an MCO director and helped to arrange the equity capital to buy out local prospectors (the Wright family), who had briefly owned the mine after its sale by Ballarat Goldfields. A four year period of exploration at the site ensued with some mineshaft refurbishment but as gold prices waned and the IT boom gained pace in 1997, Max left the board to pursue other interests. Max rejoined Mal Bird on the MCO board in 2004 and re-development of the mineshaft continued. In March of 2007, Max became non-executive chair of the MCO board at the same time his son Nick Garling joined the board in an executive capacity. In April 2010, Max Garling retired from MCO.

### **Chairman/Managing Director – Nicholas M Garling**

Nick Garling got involved at MCO in 2006 and joined the board on 20 March 2007. Prior to this time, he worked for brokers and investment banks for around 20 years in various fields and capacities such as equity capital raising, asset disposal, structured derivatives, hedge funds and listed markets trading of stocks, options, bonds and futures. Prior to this period, Nick worked for a Sydney legal firm for three years fresh from school. He worked for 10 years in Japan and Hong Kong, with UBS Warburg and Lehman Brothers where he was a managing director of the Equity Markets Group for UBS in Tokyo and before that as a MD of Lehman's Asia-Pacific Equity business, based in HK SAR and Tokyo. Nick spends his time between MCO's Sydney bunker and the company's mining tenements in Woods Point, Victoria in his capacity as executive chairman of MCO.

### **Director – Jeffrey W Williams BSc (Min Engineer) MBA MAusIMM AFAIM**

Jeff Williams has close to 20 years of professional experience as a mining engineer and seven years in the stockbroking industry. His experience ranges from mine planning, underground management and feasibility studies through to mine development. From 1972 to 1984, Jeff held various positions with CRA Limited (now Rio Tinto) at Broken Hill in New South Wales. At their underground silver/lead/zinc mine, he gained his Mine Manager's Certificate and practical experience in mine planning and underground management. Following his Masters of Business Administration (MBA) program in 1987, Jeff was with North Limited in the capacity of Senior Project Engineer. Jeff spent the next seven years in stockbroking as a specialist in researching gold mining companies. Ultimately, Jeff was at James Capel Australia as their head of resources research. After that, Jeff joined ASX and TSX listed gold miner Mineral Deposits Limited (ASX: MDL), where he is Managing Director and he's been a director of MDL since 3 January 1997. Jeff is based in Melbourne, Victoria and is MCO's independent director. Jeff joined the MCO board on 26 February 2004.

### **Director – Malcolm H Bird – resigned 18 February 2010**

Malcolm Bird was a founding director of Mount Conqueror Minerals NL in 1987 (now Morning Star Gold). He was the cornerstone director of the company up until February 2010, holding various roles on the MCO Board. After a career as a stockbroker with Reynolds and Company in Sydney, Mal used his extensive knowledge of Australian mining tenements and companies to broaden Morning Star's focus over the years to various tenements, some of which were since farmed out. Malcolm remains a Board member of two other ASX listed mining companies, Silver Mines Ltd (of which MCO is a large shareholder) and Central West Gold NL.

### **Director – Dr Peter G Jackson BSc PhD MAIG – appointed 10 March 2008**

Dr Jackson is Morning Star's Director Geology and has been involved with the company since 2006. He has over 22 years of extensive practical and technical experience in the Woods Point Dyke Swarm (the local geology where MCO operates in Victoria) and he has other 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 economic geology. Peter has contributed to many geological publications and conducted scores of studies into Victorian gold deposits. Peter also lived for some time at Australia's Antarctic posts in roles with the Bureau of Meteorology and is currently based in Melbourne, Victoria. He spends most of his working weeks in Woods Point at the Morning Star mine site and across MCO's regional tenements in the area. Peter was appointed as a director of the company on 10 March 2008 and it's his only current public company directorship.

### **Director – Peter G Hepburn-Brown – appointed 19 February 2010**

Peter Hepburn-Brown is a highly regarded mining engineer and mining operative who has worked with some of Australasia's best known gold producers including WMC, Niugini Mining, Great Central Mines, Harmony and St Barbara. Peter has been involved at senior management levels in such seminal gold projects as Bronzewing, Jundee and Leonora. He holds First Class Mining Certificates in Western Australia, Victoria and Queensland and has over 28 years of diversified mining industry experience from greenfields situations right through to production. More recently Peter has also operated Alloy Resources Ltd (ASX: AYR) and also sits on the board of Medusa Mining Ltd (ASX: MML). Peter holds a Bachelor of Science in Mining Engineering and a Graduate Diploma in Human Resources.

# DIRECTORS' REPORT (CONTINUED)

## DIRECTORS' SHAREHOLDINGS

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

Director	Ordinary Shares
J W Williams	1,150,000
N M Garling	16,001,276
P G Jackson	–
P G Hepburn-Brown	889,270

## DIRECTORS' MEETINGS

During the financial year 6 meetings of directors were held. Attendance at these meetings were as detailed below:

Director	No. of meetings held eligible to attend	No. of meetings attended
M H Bird	3	3
M M Garling	4	4
J W Williams	6	6
N M Garling	6	6
P G Jackson	6	6
P G Hepburn-Brown	2	2

## 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 and 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 NL, a listed public company.

## PRINCIPAL ACTIVITIES

The principal activity of the Company in the course of the financial year was mineral exploration over its tenements in eastern Victoria and refurbishment of the Morning Star mine in Woods Point. During the year the Company entered into a Joint Venture with new Chinese partners who are spending \$4.5 million in cash over the next two annual periods and will progressively acquire 51% of regional Mining Licences MIN 5299 (Dempsey/Rose of Denmark/Hunts) 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 2010 was \$4,223,365 (2009: \$2,205,950).

## 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 of the Morning Star mine. A review of the operations during the year and the results of those operations will appear in the Company's Annual Review of Operations, which will be in the Company's Annual Report released shortly both online and in hard copy.



# DIRECTORS' REPORT (CONTINUED)

## REMUNERATION REPORT

The remuneration of directors is established by the shareholders by way of a fixed annual fee of \$20,000 each director. 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 30.06.10

Directors	\$ Short Term: Directors' Fees	\$ Short Term: Consulting Fees	\$ Post Employment: Super-annuation Contribution	\$ Cash Bonus	\$ Non-Cash Benefits	\$ Options	\$ Total
M H Bird (resigned 16.02.10)	-	-	33,797	-	-	-	33,797
M M Garling (retired 08.04.10)	26,843	94,000	-	-	-	-	120,843
J W Williams	31,800	-	-	-	-	-	31,800
N M Garling	31,800	140,000	-	-	-	-	171,800
P G Jackson	31,800	80,930	-	-	-	-	112,730
P G Hepburn-Brown (appointed 19.02.10)	7,944	43,477	-	-	-	-	51,421
	<b>128,387</b>	<b>358,407</b>	<b>35,597</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>522,391</b>

### Remuneration of Key Management Personnel for the year ended 30.06.09

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
	<b>26,715</b>	<b>221,630</b>	<b>50,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>298,345</b>

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 20. The Company had 29 employees during the year ended 30 June 2010. 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 (CONTINUED)

## Significant Changes

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

During the year Morning Star Gold NL announced that its MCOOB listed options expiration on 31 March 2010 had been completed with the company successfully raising \$12.3 million from existing share holders and option holders (before costs of the issue). The new capital will be used to expand both the scope and rate of development at MCO's Woods Point Gold Project, 130kms north east of Melbourne. The exercise of MCOOB represented a comprehensive 99.8% take up of available securities by existing option holders and share holders of the company. The total number of options exercised into fully paid ordinary shares of Morning Star Gold NL (ASX listed as MCO), was 123,482,426 leaving a shortfall of 297,308 securities in the issue which were immediately taken up by the underwriter BBY Limited, leaving all options in the MCOOB issue exercised. The \$12.3 million equity injection put Morning Star in its strongest ever financial position, further cementing work done in expanding its eastern Victorian tenements 100-fold over the past couple of years and striking an important and strategic Joint Venture with new Chinese partners, who took a strong equity holding in the company and in addition, are spending \$4.5 million in cash over the following two annual periods to advance regional development and production opportunities proximal to the Morning Star Goldmine (within 20kms of Woods Point).

## Financial Position

Despite an increased expenditure of \$3,151,649 on its exploration and development program, the issue of shares from the exercise of options raised \$12,359,660 (before costs of the issue) and the Company's net assets increased by \$7,623,109 to \$10,003,489.

## Likely Future Developments

Morning Star plans to aggressively pursue its planned expansion of the wider Woods Point Gold Project with several high potential exploration and development sites being advanced at present both by MCO and under the Joint Venture. The planned gravity gold treatment plant being designed and constructed by Gekko Systems of Ballarat was on track to be commissioned for gold production in the final quarter of calendar 2010.

## 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

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.

## 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 2010. The declaration forms part of this report.

Signed in Sydney on this 30th day of September 2010 in accordance with a resolution of directors.



**N M Garling**  
Director



**P G Hepburn-Brown**  
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 2010 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**  
87a Campbell Parade  
Manly Vale NSW 2093

**Dated this 30th day of September 2010**

# STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2010

	Notes	30 June 2010 \$	30 June 2009 \$
Revenue	4	174,736	34,064
Gain (loss) on revaluation of investments		138,700	(192,700)
Exploration and development expenses		(3,151,649)	(1,379,249)
Administration expenses		(1,385,152)	(668,065)
<b>Profit (loss) before income tax</b>		<b>(4,223,365)</b>	<b>(2,205,950)</b>
Income tax expense	2	-	-
<b>Profit (loss) for the year</b>		<b>(4,223,365)</b>	<b>(2,205,950)</b>
Other comprehensive income		-	-
Other comprehensive income for the year, net of tax		-	-
<b>Total comprehensive income for the year</b>		<b>(4,223,365)</b>	<b>(2,205,950)</b>
Basic earnings per share	15	(2.42) cents	(1.83) cents
Diluted earnings per share	15	(2.42) cents	(1.83) cents

*The accompanying notes form part of these Financial Statements*

# STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2010

	Notes	30 June 2010 \$	30 June 2009 \$
<b>Current Assets</b>			
Cash and Cash Equivalents	6	6,782,432	1,243,092
Receivables	7	301,662	15,055
Financial Assets	8	259,000	120,300
<b>Total Current Assets</b>		<b>7,343,094</b>	<b>1,378,447</b>
<b>Non-Current Assets</b>			
Property, Plant and Equipment	9	3,971,566	328,022
Mining Properties	10	716,858	716,858
Mine Security Bond		2,000	2,000
<b>Total Non-Current Assets</b>		<b>4,690,424</b>	<b>1,046,880</b>
<b>Total Assets</b>		<b>12,033,518</b>	<b>2,425,327</b>
<b>Current Liabilities</b>			
Trade and Other Payables	11	1,466,774	44,947
Provisions	12	46,455	-
Other Current Liabilities	13	516,800	-
<b>Total Current Liabilities</b>		<b>2,030,029</b>	<b>44,947</b>
<b>Total Liabilities</b>		<b>2,030,029</b>	<b>44,947</b>
<b>Net Assets</b>		<b>10,003,489</b>	<b>2,380,380</b>
<b>Equity</b>			
Issued Capital	14	28,519,395	16,670,391
Reserves	15	1,807,256	1,809,786
Retained Profits (Accumulated Losses)		(20,323,162)	(16,099,797)
<b>Total Equity</b>		<b>10,003,489</b>	<b>2,380,380</b>

The accompanying notes form part of these Financial Statements

# STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2010

	Share capital \$	Accumulated losses \$	Expired 1992 option premium reserve \$	Option reserve \$	Employee benefits reserve \$	Total \$
<b>Balance as at 01.07.08</b>	15,418,316	(13,893,847)	54,820	600,970	–	2,180,259
Shares issued	1,410,325	–	–	–	–	1,410,325
Issue costsx	(158,250)	–	–	(48,361)	–	(206,611)
Options issued	–	–	–	1,200,857	1,500	1,202,357
Profit (loss)	–	(2,205,950)	–	–	–	(2,205,950)
Other comprehensive income	–	–	–	–	–	–
<b>Balance as at 30.06.09</b>	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)	–
<b>Balance as at 30.06.10</b>	<b>28,519,395</b>	<b>(20,323,162)</b>	–	<b>1,807,256</b>	–	<b>10,003,489</b>

The accompanying notes form part of these Financial Statements



# STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2010

	Notes	30 June 2010 Inflows (Outflows) \$	30 June 2009 Inflows (Outflows) \$
<b>Cash Flows from Operating Activities</b>			
Fuel tax credits received		178	-
Interest received		136,106	34,064
Payments to suppliers and employees		(3,925,282)	(2,012,902)
Interest paid		(445)	(409)
Net increase (decrease) in cash from operating activities	24	(3,789,443)	(1,979,247)
<b>Cash Flows from Investing Activities</b>			
Payments for property, plant and equipment		(3,100,584)	(15,088)
Net increase (decrease) in cash from investing activities		(3,100,584)	(15,088)
<b>Cash Flows from Financing Activities</b>			
Proceeds from issue of shares and options		12,296,660	2,032,932
Placement fees and other share issue costs		(443,745)	(38,361)
Proceeds from funding of joint venture		750,000	-
Expenses of joint venture		(173,548)	-
Net increase (decrease) in cash from financing activities		12,429,367	1,994,571
Net increase (decrease) in cash held		5,539,340	236
Cash at the beginning of the financial year		1,243,092	1,242,856
Cash at the end of the financial year	23	6,782,432	1,243,092

The accompanying notes form part of these Financial Statements

# NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

## 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 2010.

### 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.

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

<i>Class of Fixed Asset</i>	<i>Depreciation Rate</i>	<i>Method</i>
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.

# NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (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.

### (g) Cash and Cash Equivalents

Cash and cash equivalents includes 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) 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.

### (i) 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.

### (j) 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.

# NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (k) 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 judgments 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.

### (l) 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.

### (m) 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).

### Adoption of New and Revised Accounting Standards

During the current year the company adopted all of the new and revised Australian Accounting Standards and Interpretations applicable to its operations which became mandatory.

The following is an explanation of the impact the adoption of these standards and interpretations has had on the financial statements of Morning Star Gold NL.

### AASB 101: Presentation of Financial Statements

In September 2007 the Australian Accounting Standards Board revised AASB 101 and as a result, there have been changes to the presentation and disclosure of certain information within the financial statements. Below is an overview of the key changes and the impact on the company's financial statements.

#### Disclosure impact

Terminology changes – The revised version of AASB 101 contains a number of terminology changes, including the amendment of the names of the primary financial statements.

Reporting changes in equity – The revised AASB 101 requires all changes in equity arising from transactions with owners, in their capacity as owners, to be presented separately from non-owner changes in equity. Owner changes in equity are to be presented in the statement of changes in equity, with non-owner changes in equity presented in the statement of comprehensive income. The previous version of AASB 101 required that owner changes in equity and other comprehensive income be presented in the statement of changes in equity.

Statement of comprehensive income – The revised AASB 101 requires all income and expenses to be presented in either one statement, the statement of comprehensive income, or two statements, a separate income statement and a statement of comprehensive income. The previous version of AASB 101 required only the presentation of a single income statement.

The company's financial statements now contain a statement of comprehensive income.

Other comprehensive income – The revised version of AASB 101 introduces the concept of 'other comprehensive income' which comprises income and expenses that are not recognised in profit or loss as required by other Australian Accounting Standards. Items of other comprehensive income are to be disclosed in the statement of comprehensive income. Entities are required to disclose the income tax relating to each component of other comprehensive income. The previous version of AASB 101 did not contain an equivalent concept.

# NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

### AASB 8: Operating Segments

In February 2007 the Australian Accounting Standards Board issued AASB 8 which replaces AASB 114: Segment Reporting.

Identification and measurement of segments – AASB 8 requires the ‘management approach’ to the identification measurement and disclosure of operating segments. The ‘management approach’ requires that operating segments be identified on the basis of internal reports that are regularly reviewed by the entity’s chief operating decision maker, for the purpose of allocating resources and assessing performance. This could also include the identification of operating segments which sell primarily or exclusively to other internal operating segments. Under AASB 114, segments were identified by business and geographical areas, and only segments deriving revenue from external sources were considered.

The adoption of the ‘management approach’ to segment reporting has resulted in the identification of reportable segments largely consistent with the prior year.

## 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 2010 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 2010 \$	30 June 2009 \$
Exploration and development expenditure and tax losses carried forward	20,192,026	15,752,028
The benefit of these deductions at the income tax rate of 30% is as follows:		
Future Income tax benefit not brought to account	6,057,608	4,725,608
Numerical reconciliation of income tax expense to prima facie tax payable is as follows:		
Profit (loss) from operations before income tax expense	(4,223,365)	(2,205,950)
Tax at Australian tax rate of 30% (2009: also at 30%)	(1,267,010)	(661,785)
Tax effect of non-temporary differences	400	(1,021)
Tax effect of equity raising costs debited to equity	(52,216)	(21,796)
Tax effect of tax losses and temporary differences not recognised	1,318,826	684,602
Income tax expense	–	–

## 3. FRANKING ACCOUNT

Balance of franking account at year end	25,496	25,496
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# NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 4. REVENUE

	30 June 2010 \$	30 June 2009 \$
Interest Received – Other	136,106	34,064
Fuel Tax Credits	178	–
Motor Vehicle Hire Fee	10,800	–
Joint Venture Management Fee	27,652	–
	174,736	34,064

## 5. PROFIT (LOSS) FOR THE YEAR

The profit (loss) for the year has been determined after charging:		
Auditors Remuneration: Auditing or Reviewing the Financial Report (no other services were performed)	29,167	10,350
Depreciation of Property, Plant and Equipment	297,275	91,190

## 6. CASH AND CASH EQUIVALENTS

Cash on Hand	401	–
Cash at Bank	6,556,207	1,049,092
Interest Bearing Deposits	229,586	194,000
Corporate Credit Card	(3,762)	–
	6,782,432	1,243,092

## 7. RECEIVABLES

Indirect Taxes Recoverable	297,300	6,029
Other Receivables	4,362	9,026
	301,662	15,055

## 8. FINANCIAL ASSETS: AT FAIR VALUE THROUGH PROFIT AND LOSS

Shares in listed corporations:		
At fair value	259,000	120,300

# NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 9. PROPERTY, PLANT AND EQUIPMENT

	30 June 2010 \$	30 June 2009 \$
Buildings at Cost	274,159	60,154
Less: Accumulated Depreciation	62,939	60,154
	<b>211,220</b>	–
Plant and Equipment at Cost	4,542,723	815,909
Less: Accumulated Depreciation	782,377	487,887
	<b>3,760,346</b>	328,022
	<b>3,971,566</b>	328,022

### 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 1 July 2008	–	404,124	404,124
Additions	–	15,088	15,088
Disposals	–	–	–
Depreciation	–	(91,190)	(91,190)
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)
<b>Balance at 30 June 2010</b>	<b>211,220</b>	<b>3,760,346</b>	<b>3,971,566</b>

## 10. MINING PROPERTIES

	30 June 2010 \$	30 June 2009 \$
Mining and Development Leases – See A below	716,858	716,858
Mining Exploration and Development Expenditure – See B below	–	–
	<b>716,858</b>	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	3,151,649	1,379,249
Expenditure written off during the year	(3,151,649)	(1,379,249)
Balance carried forward	–	–

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

# NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 11. TRADE AND OTHER PAYABLES

	30 June 2010 \$	30 June 2009 \$
Trade Creditors	1,318,766	–
Sundry Creditors and Accruals	99,843	28,974
Employee Benefits Payable	15,879	7,064
Unsecured Loan	–	8,909
Indirect Taxes Payable	32,286	–
	<b>1,466,774</b>	44,947

## 12. PROVISIONS

Provision for Annual Leave	46,455	–
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## 13. OTHER CURRENT LIABILITIES

Deferred Recoverable Joint Venture Expenditure	516,800	–
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## 14. ISSUED CAPITAL

<i>Paid up capital:</i>		
At beginning of financial year:		
127,950,487 Ordinary Shares (2009: 114,596,734)	16,665,391	15,413,316
500,000 @ 1c Paid (2009: 500,000)	5,000	5,000
Issued during the year:		
123,751,279 Ordinary Shares (2009: 13,353,753)	12,359,660	1,410,325
Share Issue Costs	(506,745)	(158,250)
Irrecoverable Subscriptions Written Off	(5,411)	–
Transfer from Employee Benefits Reserve	1,500	–
	<b>28,519,395</b>	16,670,391
At end of financial year:		
251,701,766 Ordinary Shares (2009: 127,950,487)	28,514,395	16,665,391
500,000 @ 1c Paid (2009: 500,000)	5,000	5,000
	<b>28,519,395</b>	16,670,391

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

Issue of 123,051,279 shares at 10c on exercise of options

Issue of 700,000 shares at 9c in lieu of placement fees



# NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 14. ISSUED CAPITAL (continued)

### *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 30 June 2010 500,000 shares remained partly paid to the extent of 9c per share.

### *Options*

As at 30 June 2010, the Company had no share options on issue (2009: 122,351,279, exercisable at 10 cents and expiring on 31 March 2010).

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.

### *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.

There are no externally imposed capital requirements.

## 15. RESERVES

### **Option Reserve**

The Option Reserve records the total amount received from the issue of options as at 30 June 2010 and includes the amount of \$54,820 formerly disclosed under the heading of 'Expired 1992 Option Premium Reserve'.

### **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.

## 16. SEGMENTS

In the year ended 30 June 2010 the Company operated entirely within Australia and the principal activity was mineral exploration and refurbishment of the Morning Star mine.

## 17. EARNINGS PER SHARE

	30 June 2010 \$	30 June 2009 \$
(a) Earnings used in calculation of basic EPS.	(4,223,365)	(2,205,950)
(b) Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS.	174,427,236	120,266,133

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

# NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 18. 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 2010 \$	30 June 2009 \$
Not later than one year	936,800	1,653,380
Later than one year but not later than five years	3,747,200	3,614,902
Later than five years	-	-

## 19. KEY MANAGEMENT PERSONNEL

### Details of Key Management Personnel – Directors

Max M Garling	(retired 08.04.10)
Nicholas M Garling	Chairman/Managing Director/Chief Executive
Jeffrey W Williams	Director
Malcolm H Bird	Director (retired 16.02.10)
Peter G Jackson	Director
P G Hepburn-Brown	(appointed 19.02.10) Director

### Compensation of Key Management Personnel

	30 June 2010 \$	30 June 2009 \$
Short Term Employee Benefits	486,794	248,345
Post Employment Benefits	35,597	50,000
	522,391	298,345

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

# NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 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 01.07.09 (*or date of appointment)			Shares or Options Granted as Compensation	Options Exercised	Net Change Other	Balance at 30.06.10 (*or date of retirement)		
	Ordinary	1c Paid	Options				Ordinary	1c Paid	Options
Mr M Bird	1,679,455	500,000	1,764,455	–	500,000	(810,000) ord shares 0 options	<b>*1,369,455</b>	<b>*500,000</b>	<b>1,264,455</b>
Mr M Garling	3,200,081	–	3,322,681	–	1,422,681	(1,800,000) ord shares (1,900,000) options	<b>*2,822,762</b>	<b>*–</b>	<b>*–</b>
Mr J Williams	700,000	–	700,000	–	700,000	(250,000) ord shares 0 options	<b>1,150,000</b>	<b>–</b>	<b>–</b>
Mr N Garling	22,011,179	–	11,938,123	–	19,664,744	(26,099,647) ord shares 7,726,621 options	<b>15,576,276</b>	<b>–</b>	<b>–</b>
Mr P Jackson	–	–	–	–	–	–	<b>–</b>	<b>–</b>	<b>–</b>
Mr P Hepburn-Brown	*–	*–	*889,270	–	889,270	–	<b>889,270</b>	<b>–</b>	<b>–</b>
<b>Total</b>	<b>27,590,715</b>	<b>500,000</b>	<b>18,614,529</b>	<b>–</b>	<b>23,176,695</b>	<b>(23,133,026)</b>	<b>21,807,763</b>	<b>500,000</b>	<b>1,264,455</b>

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 \$94,000 in the normal course of business in respect of the Company's exploration and development program.
2. Mr N Garling received consulting fees of \$140,000 in the normal course of business in respect of the Company's executive management, exploration and development programs.
3. Mr P Jackson received geological consulting fees of \$80,930 in the normal course of business in respect of the Company's exploration and development program.
4. Mr P Hepburn-Brown received consulting fees of \$43,477 in the normal course of business in respect of the Company's exploration and development program.

Other transactions entered into in the period included in November 2009, N Garling transferred 15,094,970 shares to Ample Rise Investments at 25.55 cents each for a value of \$3,859,997 and in March 2010, N Garling transferred 10,949,720 shares to Ample Rise Investments at 25.55 cents each for a value of \$2,800,000.

# NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 21. SHARE – BASED PAYMENTS

On 14 December 2009 the Company issued 700,000 fully paid ordinary shares at an issue price of 9 cents per share together with 700,000 options at the issue price of 1 cent each expiring 31 March 2010 exercisable at 10 cents to the arrangers of a placement made in the prior year in consideration of fees. The issues have no effect on the Statement of Comprehensive Income.

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

### Options:

	2010		2009	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding at Beginning of Year	150,000	10 cents	600,000	25 cents
Granted	–	–	350,000	19 cents
Forfeited	–	–	–	–
Exercised	(150,000)	10 cents	–	–
Expired	–	–	(800,000)	25 cents
Outstanding at Year End	–	–	150,000	10 cents
Exercisable at Year End	–	–	150,000	10 cents

## 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 (2009: \$208,500). In the event of the Company failing to fulfill 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 and 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 (2009: \$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 2010 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 2010	30 June 2009
	\$	\$
Cash and Cash Equivalents	6,782,432	1,243,092

# NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

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

	30 June 2010 \$	30 June 2009 \$
Operating profit (loss) after income tax	(4,223,365)	(2,205,950)
Depreciation	297,275	91,190
Employee share-based payments	-	1,500
Revaluation of Portfolio Investments	(138,700)	192,700
<i>Change in operation assets and liabilities:</i>		
Decrease (increase) in operating receivables	(286,607)	23,277
Increase (decrease) in operating liabilities	561,954	(81,964)
Net increase (decrease) in cash from operating activities	(3,789,443)	(1,979,247)

## 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.

# NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 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 \$	Over1 year \$		
<b>2010</b>						
<b>Financial assets</b>						
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
<b>Financial liabilities</b>						
Trade and Other Payables	–	–	–	–	(1,466,774)	(1,466,774)
Net financial assets (liabilities)		6,454,316	229,586	–	(784,382)	5,899,520
<b>2009</b>						
<b>Financial assets</b>						
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
		1,046,105	194,000	–	140,342	1,380,447
<b>Financial liabilities</b>						
Provisions	–	–	–	–	(46,455)	(46,455)
Trade and Other Payables	–	–	–	–	(44,947)	(44,947)
					(91,402)	(91,402)
<b>Net financial assets (liabilities)</b>		1,046,105	194,000	–	48,940	1,289,045

### (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

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.

# NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 26. FINANCIAL INSTRUMENT DISCLOSURES (continued)

### (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

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

The company does not anticipate the early adoption of any of the following Australian Accounting Standards.

Standard/Interpretation	Description	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project	This standard details numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. No changes are expected to materially affect the company	1 January 2010	30 June 2011
• AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-Settled Share-based Payment Transactions	These amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. These amendments are not expected to impact the company	1 January 2010	30 June 2011
• AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issues	These amendments clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. These amendments are not expected to impact the company	1 February 2010	30 June 2011
• AASB 124 Related Party Disclosures (revised December 2009), AASB 2009-12 Amendments to Australian Accounting Standards	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	1 January 2011	30 June 2012
• AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9	These standards are applicable retrospectively and amend the classification and measurement of financial assets. The company has not yet determined the potential impact on the financial statements	1 January 2013	30 June 2014

# NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 27. NEW STANDARDS AND INTERPRETATIONS IN ISSUE NOT YET ADOPTED (continued)

Standard/Interpretation	Description	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• AASB 2009-14 Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement	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	1 January 2011	30 June 2012
• Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	This interpretation deals with how a debtor would account for the extinguishment of a liability through the issue of equity instruments. The interpretation states that the issue of equity should be treated as the consideration paid to extinguish the liability, and the equity instruments issued should be recognised at their fair value unless fair value cannot be measured reliably in which case they shall be measured at the fair value of the liability extinguished. The interpretation deals with situations where either partial or full settlement of the liability has occurred. The interpretation is not expected to impact the company	1 July 2010	30 June 2011

## 28. JOINT VENTURE

The Company entered into a Joint Venture with Ample Rise Investments, an investor based in Hong Kong.

The key commercial terms of the Joint Venture are that Ample Rise Investments or its nominee will expend \$4.5 million 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 \$750,000 to the Joint Venture with Morning Star Gold NL.

Once the \$750,000 has been expended, 10% ownership of the two MINs will be effectively transferred to Ample Rise Investments or its nominee and at that point Morning Star Gold NL will own 90% and Ample Rise Investments or its nominee will own 10% of the two MINs. Any nominee would be agreed by both Ample Rise Investments and Morning Star Gold.

In the next period it is expected that a further tranche will be contributed by Ample Rise Invs or its nominee as agreed in the Joint Venture agreement.

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 were:

	30 June 2010 \$	30 June 2009 \$
Non-current assets		
Mining Properties	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 and (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**



**P G HEPBURN-BROWN**

**Dated this 30th day of September 2010**

# **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 2010, 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 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 (CONTINUED)**

## **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 s300A 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 2010 complies with s300A of the Corporations Act 2001.

#### **DF Kaye and Co**

Chartered Accountants



**Dale F Kaye FCA**  
87a Campbell Parade  
Manly Vale NSW 2093

**Dated this 30th day of September 2010**

# SHAREHOLDER INFORMATION

## ISSUED CAPITAL

As at 14 September 2010 the Company had on issue 251,709,766 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 14 September 2010 the Company had the following substantial shareholders:

BBY Nominees Pty Ltd	28,000,000 shares
Yarandi Investments Pty Ltd <Griffith Family No 2 A/c>	29,686,741 shares

## DISTRIBUTION OF SHAREHOLDERS

There were 1,724 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	100
1,001 – 5,000	342
5,001 – 10,000	251
10,001 – 100,000	773
100,001 – and over	258
	1,724

There were no shareholders who held less than a marketable parcel. The top twenty holders held 47.91% of the Company's share capital.

# SHAREHOLDER INFORMATION (CONTINUED)

## TOP TWENTY HOLDERS OF ORDINARY SHARES AS AT 14 SEPTEMBER 2010

Name	Shares	%
BBY Nominees Pty Ltd	28,000,000	11.12
Yarandi Investments Pty Ltd <Griffith Family No 2 A/C>	20,686,741	8.22
Miss Samantha Graham	9,194,176	3.65
Dirdot Pty Limited <Griffith Super Fund A/C>	9,000,000	3.58
Mr Nicholas Mark Garling	5,790,201	2.30
Goldsearch Limited	5,550,000	2.20
Citicorp Nominees Pty Limited	5,400,882	2.15
Jerrymara Investments Pty Ltd	4,763,398	1.89
Miss Sam Graham	3,453,978	1.37
ANZ Nominees Limited <Cash Income A/C>	3,140,826	1.25
Drexwill Pty Limited <L Family A/C>	2,900,000	1.15
Forbar Custodians Limited <Forsyth Barr Ltd-Nominee A/C>	2,872,700	1.14
Lugger Bay Pty Ltd <J R Neville Smith A/C>	2,812,031	1.12
Max M Garling	2,797,493	1.11
Ridgeview Nominees Pty Ltd	2,568,167	1.02
Mr Trevor Harvey	2,515,596	1.00
Mr Nicholas Mark Garling <The Nicholas Garling S/F A/C>	2,389,874	0.95
NSF Group Investments Pty Ltd <NSF Group Investments A/C>	2,322,600	0.92
Hipete Pty Ltd <PJ Thomson Super Fund A/C>	2,250,000	0.89
Hirosie Pty Limited <RJ Thomson Super Fund A/C>	2,185,000	0.87
Total	120,593,663	47.91

## UNQUOTED SECURITIES

As at 17 September 2010 the Company had 500,000 1c paid 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 2010.

## 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 six meetings throughout the financial year.

At the date of this report the board comprises four directors; one executive director, being the Chief Executive Officer and Chairman and three non-executive directors, as follows:

Nicholas Mark Garling – Chairman, Chief Executive Officer and (acting) Chief Financial Officer (appointed on 20 March 2007)

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

Peter Gilbert Jackson – non-executive director (appointed on 10 March 2008)

Peter Gordon Hepburn-Brown – non-executive director (appointed on 19 February 2010)

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.

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'; 2.3: 'The roles of chair and chief executive officer should not be exercised by the same individual'; 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.

# CORPORATE GOVERNANCE STATEMENT (CONTINUED)

## 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 DF Kaye and Co, 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 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 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 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.msgold.com.au](http://www.msgold.com.au).

Morning Star Gold NL also distributes E-News and updates via email and these can be subscribed to via the company's website. The Company can also be contacted via email at: [info@msgold.com.au](mailto:info@msgold.com.au).

# COMPANY DIRECTORY

## DIRECTORS

N M Garling (Chairman, Managing Director)

J W Williams

P G Jackson

P G Hepburn-Brown

## SECRETARY

M J Davis FCA

## STOCK EXCHANGE LISTING

Morning Star Gold NL shares are listed on the Australian Stock Exchange Ltd  
ASX Code: MCO

## REGISTERED OFFICE

Suite 101, Jones Bay Wharf  
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PYRMONT NSW 2009

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**F** 02 8569 7499

## BUSINESS ADDRESS

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[info@msgold.com.au](mailto:info@msgold.com.au)

[www.msgold.com.au](http://www.msgold.com.au)

## SHARE REGISTER

Computershare Investor Services Pty Ltd  
60 Carrington Street  
SYDNEY NSW 2000

**T** 02 8234 5000

## AUDITORS

Dale F Kaye  
Chartered Accountant  
87a Campbell Parade  
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ning Star Mine Woods Point





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