

MORNING STAR GOLD N.L.

A.B.N. 34 003 312 721

**FINANCIAL REPORT FOR THE
HALF-YEAR ENDED 31ST DECEMBER, 2010**

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly this report is to be read in conjunction with the annual report for the year ended 30th June, 2010 and any public announcements made by Morning Star Gold N.L. during the interim period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

DIRECTORS' REPORT

Your directors present their report on Morning Star Gold N.L. for the half-year ended 31st December, 2010.

This information should be read in conjunction with the 2010 Annual Report.

RESULTS

The net profit (loss) of the Company for the half-year ended 31st December 2010 was \$(3,837,943) after income tax expense/(benefit) of \$NIL.

DIRECTORS

The following persons held office as directors of Morning Star Gold N.L. during or since the end of the half-year and up to the date of this report unless otherwise stated:

N. M. Garling (Chairman and Managing Director)
J. W. Williams
P. G. Jackson
P. G. Hepburn-Brown (Resigned 18th February, 2011)
A. Motlokhov (Appointed 1st February, 2011)
Zhaoqin Zeng (Appointed 1st February, 2011)

REVIEW OF OPERATIONS

During the period under review, the Company's activities were focused wholly on exploration, development and pre-production at its Woods Point Gold Project 120kms northeast of Melbourne. Full operational reviews and reports have been provided to the ASX and public over the period and all updates are also available at the Company's corporate website www.msgold.com.au

AUDITOR'S INDEPENDENCE DECLARATION

We have obtained an independence declaration from our auditor, D F Kaye & Co., as presented on page 2 of this half-year financial report.

Signed in accordance with a resolution of the Board of Directors.



N. M. GARLING
Director



P. G. Jackson
Director

Dated this 16 March 2011

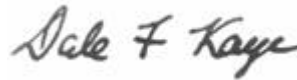
**AUDITOR'S INDEPENDENCE DECLARATION UNDER
SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF MORNING STAR GOLD N.L.**

I declare that, to the best of my knowledge and belief, during the half-year ended 31st December 2010 there have been:

- (a) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

D F KAYE & CO.

Chartered Accountant
87a Campbell Parade,
Manly Vale NSW 2093



D.F. KAYE – Principal

16 March 2011

**INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF
MORNING STAR GOLD N.L.**

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Morning Star Gold N.L. which comprises the Condensed Statement of Financial Position as at 31st December, 2010, the Condensed Statement of Comprehensive Income, the Condensed Statement of Changes in Equity and the Condensed Statement of Cash Flows for the half-year ended on that date, a statement of accounting policies, other selected explanatory Notes and the Directors' Declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation and fair presentation of the half-year 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 half-year 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.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of an Interim Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the Company's financial position as at 31st December, 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Morning Star Gold N.L., ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Matters Relating to the Electronic Presentation of the Audited Financial Report

This review report relates to the financial report of the Company for the half-year ended 31st December, 2010 included on the website of Morning Star Gold N.L. The directors of the Company are responsible for the integrity of the website and we have not been engaged to report on its integrity. This review report refers only to the half-year financial report identified above and it does not provide an opinion on any other information which may have been hyperlinked to or from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications, they are advised to refer to the hard copy of the reviewed financial report to confirm the information included in the reviewed financial report presented on the Company's website.

**INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF
MORNING STAR GOLD N.L.**

Continued...

Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001.

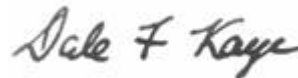
Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Morning Star Gold N.L. is not in accordance with the Corporations Act 2001 including:

- (1) giving a true and fair view of the Company's financial position as at 31st December 2010 and of its performance for the half-year ended on that date; and
- (2) complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001.

D F KAYE & CO.

Chartered Accountant
87a Campbell Parade,
Manly Vale NSW 2093



D.F. KAYE – Principal

16 March 2011

DIRECTOR'S DECLARATION

The directors of the company declare that, in their opinion:

1. the financial statements and notes as set out on pages 6 to 12 are in accordance with the Corporations Act 2001, including:
 - (a) complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations; and
 - (b) give a true and fair view of the Company's financial position as at 31st December 2010 and of its performance for the half-year ended on that date.
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



N. M. GARLING
Director



P. G. Jackson
Director

Dated this 16 March 2011

CONDENSED STATEMENT OF COMPREHENSIVE INCOME
For the Half-Year ended 31st December 2010

	31.12.10	31.12.09
	\$	\$
REVENUE	1,834,264	25,403
GAIN ON REVALUATION OF SHARE INVESTMENTS	528,000	94,500
EXPLORATION AND DEVELOPMENT EXPENSES	(3,122,710)	(1,037,983)
ADMINISTRATION EXPENSES	(3,087,497)	(446.463)
PROFIT (LOSS)		
BEFORE INCOME TAX	(3,837,943)	(1,364,543)
INCOME TAX ATTRIBUTABLE	0	0
PROFIT (LOSS) FOR THE HALF-YEAR AFTER INCOME TAX	(3,837,943)	(1,364.543)
PROFIT (LOSS) ATTRIBUTABLE TO MEMBERS OF THE COMPANY	(3,837,943)	(1,364,543)
OTHER COMPREHENSIVE INCOME	0	0
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE HALF-YEAR	\$ (3,837,943)	\$ (1,364,543)
BASIC & DILUTED EPS FOR HALF-YEAR	Cents per Share (1.00)	Cents per Share (0.99)

The accompanying notes form part of these Financial Statements

CONDENSED STATEMENT OF FINANCIAL POSITION
As at 31st December 2010

	31.12.10	30.06.10
	\$	\$
CURRENT ASSETS		
Cash and Cash Equivalents	14,816,935	6,782,432
Receivables	1,526,722	301,662
Financial Assets	787,000	259,000
TOTAL CURRENT ASSETS	17,130,657	7,343,094
NON-CURRENT ASSETS		
Property, Plant & Equipment	4,708,746	3,971,566
Mining Property	716,858	716,858
Mine Security Bond	2,000	2000
TOTAL NON-CURRENT ASSETS	5,427,604	4,690,424
TOTAL ASSETS	22,558,261	12,033,518
CURRENT LIABILITIES		
Trade and Other Payables	1,484,282	1,466,774
Provisions	46,605	46,455
Other Current Liabilities	101,828	516,800
TOTAL CURRENT LIABILITIES	1,622,715	2,030,029
TOTAL LIABILITIES	1,622,715	2,030,029
NET ASSETS	\$ 20,935,546	\$10,003,489
EQUITY		
Issued Capital	43,289,395	28,519,395
Reserves	1,807,256	1,807,256
Retained Profits (Accumulated Losses)	(24,161,105)	(20,323,162)
TOTAL EQUITY	\$ 20,935,546	\$ 10,003,489

The accompanying notes form part of these Financial Statements

CONDENSED STATEMENT OF CHANGES IN EQUITY
For the Half-Year Ended 31st December 2010

	Share Capital	Accumulated Losses	Expired 1992 Option Premium Reserve	Option Reserve	Employee Benefits Reserve	Total
Balance as at 01.07.09	16,670,391	(16,099,797)	54,820	1,753,466	1,500	2,380,380
Shares Issued	1,919,573					1,919,573
Options Issued				7,000		7,000
Issue Costs	(83,000)			(7,000)		(90,000)
Irrecoverable Subscriptions Written Off	(5,411)			(1,030)		(6,441)
Total Comprehensive Income (Loss) for the Period		(1,364,543)				(1,364,543)
Balance as at 31.12.09	\$18,501,553	\$(17,464,340)	\$54,820	\$1,752,436	\$1,500	\$2,845,969
Balance As At 01.07.10	28,519,395	(20,323,162)	54,820	1,752,436	1,500	10,003,489
Shares Issued	15,000,000					15,000,000
Options Issued						
Issue Costs	(230,000)					(230,000)
Irrecoverable Subscriptions Written Off						
Total Comprehensive Income (Loss) For the Period		(3,837,943)				(3,837,943)
Balance as at 31.12.10	\$43,289,395	\$(24,161,105)	\$54,820	\$1,752,436	\$1,500	\$20,935,546

The accompanying notes form part of these Financial Statements

CONDENSED STATEMENT OF CASH FLOWS
For the Half-Year Ended 31st December 2010

	31.12.10 Inflows (Outflows) \$	31.12.09 Inflows (Outflows) \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest and fuel tax credits received	125,360	25,403
Proceeds from funding of joint venture	750,000	0
GST refunded by ATO	450,579	55,951
Payments to suppliers & employees	(702,402)	(1,437,927)
Expenses of joint venture	(1,194,103)	
Sundry Loans	0	(4,388)
	-----	-----
Net increase (decrease) in cash from operating activities	(570,566)	(1,360,961)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property, plant & equipment	(1,094,370)	(358,638)
	-----	-----
Net increase (decrease) in cash from investing activities	(1,094,370)	(358,638)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares and options	15,000,000	1,856,574
Issue costs	0	(20,000)
Monies held for future share issues	0	121,804
	-----	-----
Net increase (decrease) in cash from financing activities	15,000,000	1,958,378
	-----	-----
Net increase (decrease) in cash held	13,335,064	238,779
Cash as the beginning of the period	1,481,871	1,243,092
	-----	-----
Cash at the end of the period	<u>\$14,816,935</u>	<u>\$1,481,871</u>

The accompanying notes form part of these Financial Statements

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
For the Half-Year Ended 31st December 2010

1. BASIS OF PREPARATION

These general purpose condensed financial statements for the interim half-year reporting period ended 31st December, 2010 have been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards including AASB 134: Interim Financial Reporting. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Morning Star Gold N.L. As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Company. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Company for the year ended 30 June, 2010 together with any public announcements made during the half-year.

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements except for the following new and revised Accounting Standards.

Adoption of New and Revised Accounting Standards

The company has adopted all the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current reporting period. New and revised Standards and amendments thereof and the interpretations effective for the current reporting period that are relevant to the Company include:

- *Amendments to AASB 5, 8, 101, 107, 117, 118, 136 and 139 as a consequence of AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project.*

AASB 2009-5 introduced amendments to Accounting Standards that are equivalent to those made by the IASB under its program of annual improvements to its standards. A number of the amendments are largely technical, clarifying particular terms or eliminating unintended consequences. Other changes are more substantial, such as current / non-current classification of financial assets. The adoption of these amendments has not resulted in any changes to the Company's accounting policies and have no effect on the amounts reported for current or prior periods.

Estimates

The preparation of the interim financial statements requires management to make judgements, estimates and assumptions that effect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these interim financial statements, the significant judgements made by management in applying the company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Company's financial statements as at and for the year ended 30 June 2010.

Going concern

The financial statements have been prepared on the going concern basis, which indicates continuity of business activities and the realisation of assets and settlement of liabilities in the normal course of business.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the Half-Year Ended 31st December 2010

Continued...

2. RECONCILIATION OF CASH	31.12.10	31.12.09
Cash at the end of the period as shown in the Condensed Statement of Cash Flows is reconciled to the related items in the Condensed Statement of Financial Position as follows:		
Cash at Bank and on Term Deposit	14,816,936	1,481,871
	-----	-----
	\$ 14,816,936	\$ 1,481,871
	=====	=====

3. DIVIDENDS

No dividend was declared or recommended during the 6 months ended 31st December, 2010 (6 months ended 31st December, 2009: nil).

4. NON CASH FINANCING AND INVESTING ACTIVITIES

The Company, together with Central West Gold N.L., continues to be the registered holder of E.L. 4067 Bobadah. Through a number of JV agreements the Company's interest in this licence has been diluted to a 15% interest in 18.75% E.L. 5878 being the area of the former E.L. 4067. Pro-rata entitlements to the 18.75% part of the licence may be retained or relinquished by the Company in proportion to its contribution to future expenditure in this area.

5. ISSUED SHARE CAPITAL	31.12.10	30.06.10
Ordinary Shares, Fully Paid	43,284,395	28,514,395
Ordinary Shares, Partly Paid	5,000	5,000
	-----	-----
	\$ 43,289,395	\$ 28,519,395
	=====	=====
<i>Ordinary Shares, Fully Paid:</i>		
<i>At the beginning of half-year to 31.12.10:</i>		
251,701,766 (2010 127,950,487) Ordinary Shares	28,514,395	16,665,391
<i>Shares issued during the half-year:</i>		
18,565,736 @ 10c on exercise of options	0	1,856,573
32,608,696 @ 46c	15,000,000	0
700,000 @ 9c in lieu of fees	0	63,000
Less transaction costs	(230,000)	(83,000)
Irrecoverable subscriptions written off	0	(5,411)
	-----	-----
<i>At the end of half-year to 31.12.10:</i>		
284,310,462 (2009 147,216,223) Ordinary Shares	\$ 43,284,395	\$ 18,496,553
	=====	=====
<i>Ordinary Shares, Partly Paid:</i>		
<i>At the beginning and end of half-year to 31.12.10:</i>		
500,000 (2009 500,000) Ordinary Shares @ 10c, paid up to 1c	5,000	5,000
	-----	-----
	\$ 5,000	\$ 5,000
	=====	=====

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
For the Half-Year Ended 31st December 2010
Continued...

6. SEGMENTS

In the half-year ended 31st December, 2010 the Company operated entirely within Australia and the principal activity was mineral exploration and development at the Morning Star mine.

7. CONTINGENT LIABILITIES

There have been no changes in contingent liabilities since the 30th June 2010 Annual Report.

8. CLAIM

The Company's mining properties may be affected by applications under the Native Title Act.

9. SUBSEQUENT EVENTS

No matters or circumstances have arisen since the end of the reporting period which have significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in subsequent financial periods.