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morningstar
mining a golden future

28th October 2011

QUARTERLY REPORT ENDING 30th SEPTEMBER 2011

- MODIFIED HIGH-SPEED WINDER RETURNED TO SITE FOR COMMISSIONING
- SHAFT REDEVELOPMENT AT MORNING STAR NEARING COMPLETION
- DIAMOND DRILLING FROM SURFACE DELINEATES ENCOURAGING ORE BODY
- UNDERGROUND RESOURCE DRILLING IN BURNS ZONE COMMENCED
- ROSE OF DENMARK ADIT REDEVELOPMENT COMPLETED FOR DRILL PROGRAM
- RESOURCE MODELLING COMMENCED ON MORNING STAR HILL DRILL PROGRAM



Underground Diamond Drilling on 6 Level - Morning Star Goldmine

CEO Report

The near term priorities for Morning Star are to:

1. Commence sustainable production from the Morning Star Goldmine;
2. Complete preparations for diamond drilling of ore targets at the Rose of Denmark Mine;
3. Embark on an expansive diamond drilling programme to test the "gap zone" at Morning Star;
4. Increase confidence levels in resource estimates and mining reserves at the Morning Star;
5. To advance a number of regional exploration and development targets;

Implicit in the achievement of these is ensuring that MCO provides a safe workplace, is environmentally responsible and contributes positively to our stakeholders and the community.

The commencement of production at the Morning Star Mine has been contingent upon the return and commissioning of the new purpose built single drum high speed winder. The winder returned to site as planned in August 2011 and at the end of September on site commissioning and testing is well advanced in preparation for mining resuming in late October 2011 and ore haulage and processing re-commencing in early November 2011. The installation and subsequent commissioning and testing of the winder have focused on multiple levels of safety outcomes for the new primary haulage system.

In parallel with the modifications to the winder, MCO took the opportunity to carry out significant shaft rehabilitation and reinforcement works that will ensure the integrity of the shaft in the longer term and allow it to function safely allowing for our increased haulage parameters.

These works have progressed to 9 Level (~275 metres depth) with the use of a hire auxiliary winder. As the shaft rehabilitation works have progressed access back onto mine levels has been possible enabling set up work to be done for future ore production on the 4 Level, continued development at the north end of the 9 Level in preparation for access to the new Kenny reef zone and infill underground diamond drilling to resume on the 6 Level that will confirm shorter term production targets.

At the Rose of Denmark Mine stripping of the adit has been completed enabling diamond drill access and planning for a trial mining parcel.

Diamond drilling with a Kempe drill rig is currently being undertaken from the 6 level at the Morning Star Mine and an upgraded scope comprising of almost 17,000 metres of underground diamond drilling and 10,000 metres of surface diamond drilling is currently out to five drilling companies for tender. This tender closes on the 28th of October 2011 and award of the contract is anticipated shortly thereafter.

Safety

Disappointingly one lost time injury was recorded in the quarter when a miner squashed his finger between equipment he was using and a rock wall underground. This occurred when considerable commitment and effort is being devoted to the continued development of a best practise safety system to ensure the continued

wellbeing of all our employees, something that MCO sees as fundamental for a successful business.

Winder

Morning Star (MCO's) new single drum high-speed winder returned to site on the 22nd of August 2011, following completion of modifications by the manufacturer. Commissioning of the winder since its return has involved connecting the hydraulic systems, electrical wiring, installation of safety systems such as limit switches and programming of the control system. At the close of the period, commissioning was in progress and at the time of writing, commissioning and electrical safety testing has been completed and live tests are occurring with the new haulage set-up (winder, rope, new cage, refurbished shaft). This work will be completed for ore hoisting to resume in November 2011.

Shaft Rehabilitation

Shaft rehabilitation works involving reinforcing the shaft steelwork and installing ground support to ensure the structural integrity of the Morning Star mine shaft have progressed to the 9 Level and are scheduled to be completed in October 2011. These have taken slightly longer than planned simply because extra rehabilitation works have identified and completed. Once complete these works will allow for increased hoisting speeds and consequently greater shaft haulage capacity. The shaft has now been significantly strengthened and refurbished down to a depth of 275 metres from surface.

Mining / Development

As previously reported mining (stopping) of Maxwell's reef (~268m depth) in the delineated high-grade zone will commence immediately the new winder is fully operational. Maxwell has been prepared for stoping but no high-grade ore has been mined or processed to date. Immediately available to hoist from this reef are lower grade broken ore stocks which will be utilised as the initial mill feed when milling resumes to ensure the mill is running optimally when high grade ore feed is available to process.

Development at the north end of the 9 Level in preparation for access to the new Kenny reef zone (~275m depth) is continuing utilising access via the auxiliary winder at the quarter end. A further 80 metres of development is required to have mining (stopping) ready at Kenny reef.

Access to the 3 and 4 Levels has enabled preparatory work for stoping of the Dickenson's Reef and the newly discovered 'Donaldson' Reef to be carried out.

Milling Update

The gravity mill is currently ready to accept high-grade ores for treatment and this is expected to commence in November 2011. The commencement of gravity processing is contingent upon the mining start up expected in late October 2011. With the advent of new haulage and ore transfer systems at site, MCO are confident

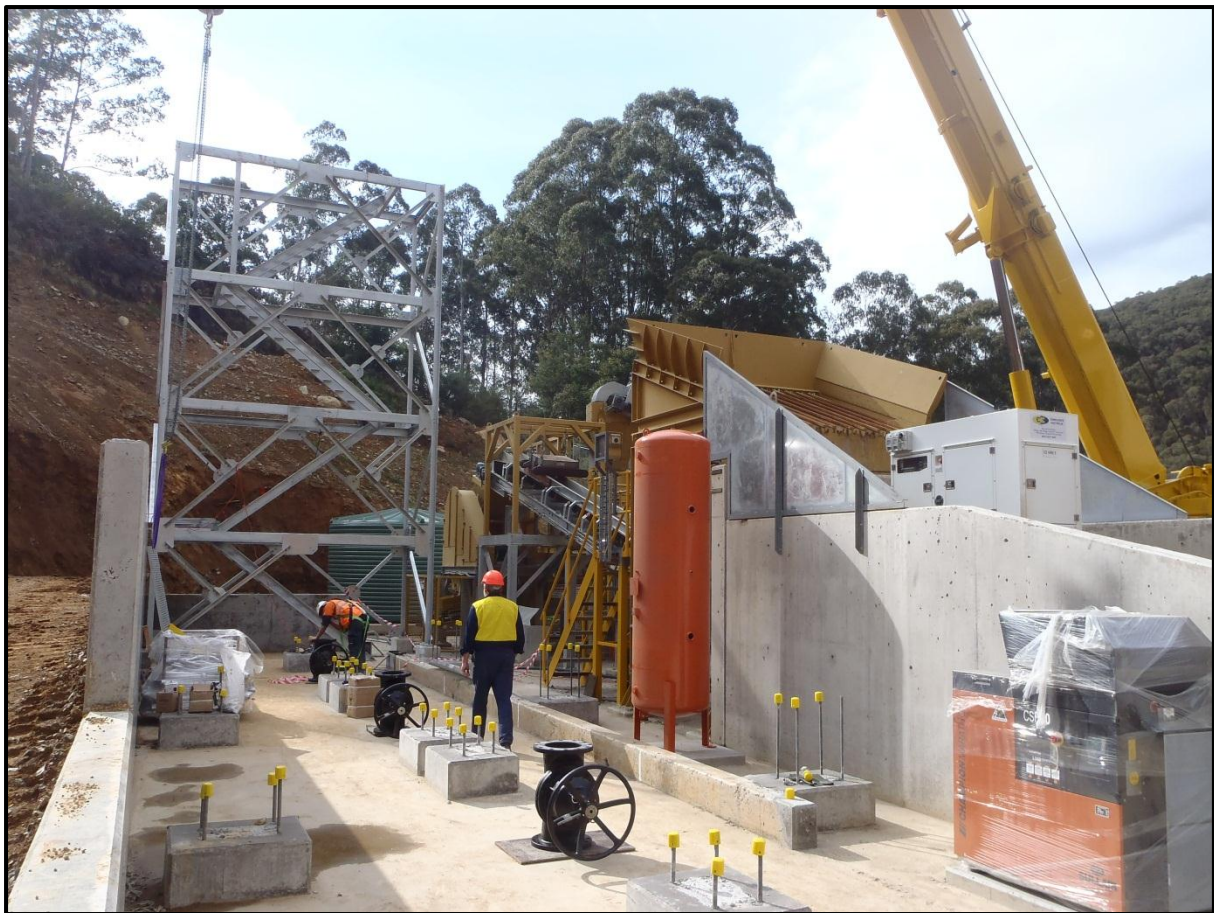
that the mill's current processing rate of 10TPH can be met by the upgraded haulage profile. Further haulage upgrades have been flagged in recent ASX announcements.

Capital Works

Paste - Backfill Plant

Concrete works for the paste plant have been completed and at the end of September steel fabrication of a number of components of the plant had been completed in preparation for delivery to site in October 2011.

In place, as contingency to ensure that any unplanned delay in the completion of the paste plant doesn't impact on the planned resumption of milling, are interim short term tailing storage arrangements.



The site of the paste backfill plant at Morning Star's Woods Point operations

Exploration

Morning Star Goldmine

- SURFACE DIAMOND DRILLING PROGRAM AT MORNING STAR HILL COMPLETED
- 9 HOLES COMPLETED & 8 OF 9 INTERSECT THE TARGETED MINERALISED REEF
- SIX HOLES TO DATE CONFIRM EXTENSION OF INTERCEPT IN MS357 (2.65M @ 28.17 G/T AU)
- TWO SMALLER CONJUGATE REEFS ALSO IDENTIFIED
- MODELLING UNDERWAY TO DETERMINE SIZE OF RESOURCE
- RESULTS SIGNIFICANTLY INCREASE PROBABILITY OF NEW SHALLOW MINEABLE RESOURCE
- UNDERGROUND DIAMOND DRILLING RESUMED ON THE 6 LEVEL TARGETING BURNS REEF

Over the Sept 2011 quarter, MCO completed a diamond drilling program of nine holes from the surface on Morning Star hill targeting areas above the 3 Level of the Morning Star goldmine and resumed underground diamond drilling on the 6 level to further test the Burns Reef.

The surface holes were planned to test a reported reef zone (AAA Zone) found in drillhole MS357 where an intersection of 2.65m @ 28.17 g/t Au was returned. In the June quarterly report it was reported that three of the first four drillholes completed had intersected the reef found in MS357 with the best results being 2.7m @ 4.37 g/t Au from 90.5 metres (including a zone of 0.7m @ 16.5 g/t Au) in MSD1102.

Hole ID	Easting (MGA94)	Northing (MGA94)	Elevation (RL)	Dip	Azimuth (True)	Depth (metres)
MSD1101	433,577	5,841,757	798	-57°	176°	199.4
MSD1102	433,577	5,841,757	798	-73°	180°	196.5
MSD1103	433,577	5,841,757	798	-63.5°	178°	199.4
MSD1104	433,577	5,841,757	798	-83°	199°	147.3
MSD1105	433,577	5,841,765	799	-63°	222°	172.3
MSD1106	433,577	5,841,765	799	-78°	48°	106.2
MSD1107	433,577	5,841,765	799	-85°	52°	151.6
MSD1108	433,556	5,841,779	803	-57.5°	221°	199.5
MSD1109	433,556	5,841,779	803	-79°	218°	154.3

Table 1: Drill Hole Locations

Surface Drilling Results for the Sept. 2011 Quarter

MSD1105

MSD1105 returned the best result of the four holes that have been assayed in the quarter with the best intersection being 0.83m @ 9.08g/t Au (from 74.8 metres) which importantly, lines up with the higher of the two conjugate reefs.

Additionally the second conjugate reef returned an intersection of 2.9m @ 2.27g/t Au (from 101metres) which includes 1m @ 5.29g/t Au.

The reef intersected in the previous drilling - christened the "Donaldson Reef" - returned an intersection of 5.26m @ 0.65g/t Au (from 147 metres). As reported previously, because of the nuggetty nature of the gold within the reef, drill hole grades can vary substantially and the history of mining and numerous grade factoring studies at Morning Star suggest the mining grade is always much higher than the drilling grade. Consequently identifying altered mineralised dyke is often more important than the grade and of significance in the results to date is the length of the intersection as it represents a good mining width.

MSD1106

Assaying of MSD1106 was less promising than MSD1105 with the three expected zones sampled returning a best result of 0.4m @ 0.55 g/t Au (from 58.85 metres).

MSD1107

MSD1107 returned two zones of mineralisation with the first being a 1.2 metre long zone which has been logged as the top conjugate reef (see graphic below), while the second zone is a 13 metre long zone and is a combination of the bottom conjugate reef and the wider Donaldson Reef.

The intersections are 1.2m @ 2.13 g/t Au (from 115.6 metres) and 13m @ 0.88 g/t Au (from 120.8 metres).

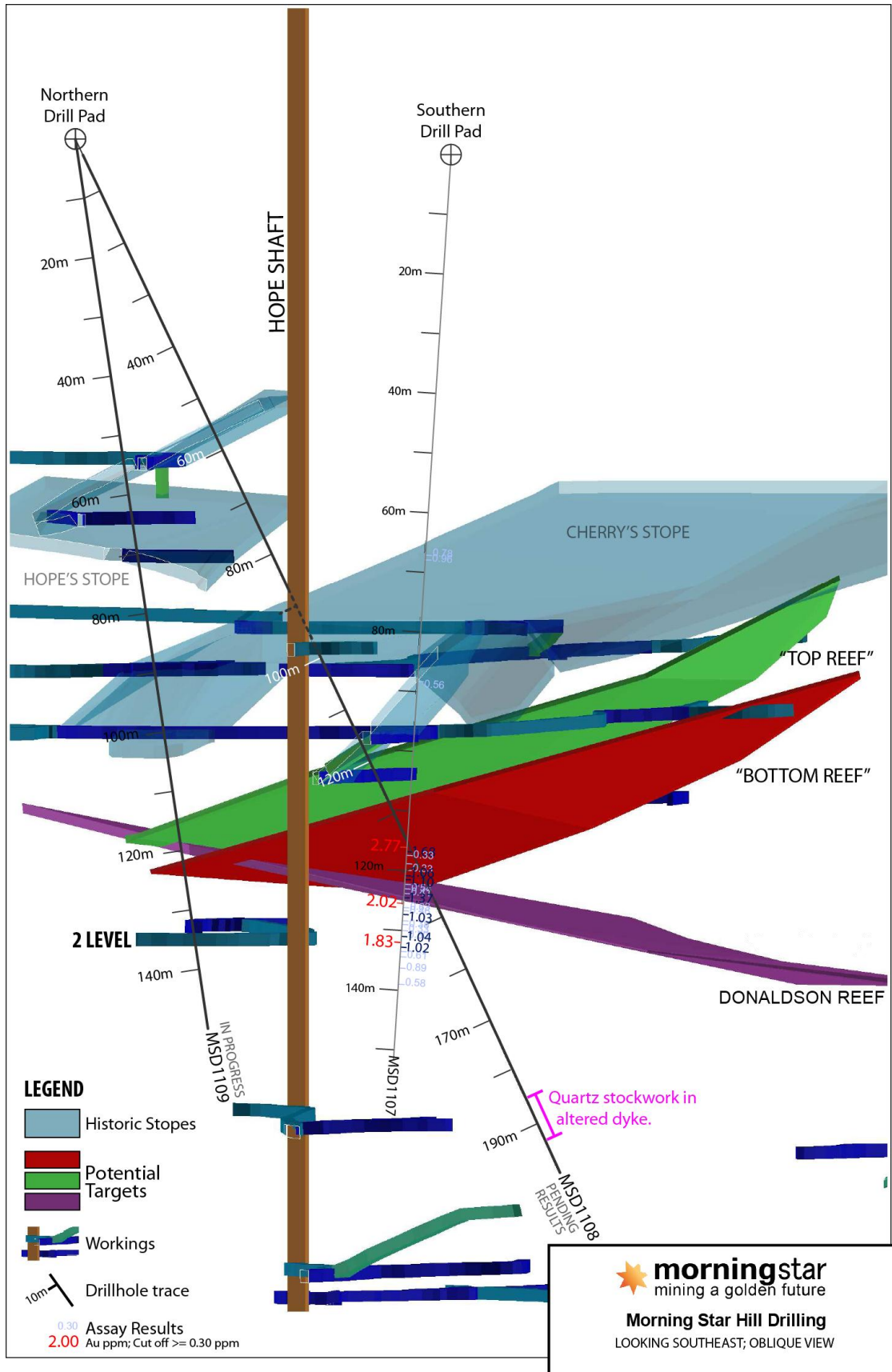
MSD1108

MSD1108 had only been partially sampled and assayed at the end of the quarter and of the results received so far the best has been 0.9m @ 0.22 g/t Au (from 24.4 metres).

MSD1109

MSD1109 has been logged but had not been sampled at the end of the Sept. quarter.

The schematic image below depicts a cross-section of the new shallow ore zone.



Section View of Morning Star Hill Displaying Projected New Reef Discoveries

Conclusions from Morning Star Hill Program to Date

Logging and assaying of the holes completed has highlighted the presence of three zones of altered mineralised diorite dyke containing quartz veining or stockwork, which is one of the main sources of gold mineralisation in the Morning Star Goldmine. Encouragingly, these new mineralised areas are shallow and will be accessible to a large degree from existing developments off 3 Level and sub-drives.

Due to the nuggetty nature of the gold within the reefs at Morning Star, identifying altered mineralised dyke is considered more important than the grades of intersections.

This is because grades can vary substantially in narrow vein coarse gold ore bodies of which this mine is an example.

MCO will continue modelling the three zones in the coming months once all the assays have been returned and if the area proves to be economic, MCO engineers will start work on defining a mineable resource from 3 Level up to areas above the existing mine workings. Subsequently, there is considerable vertical depth of mineralisation to assess. The widths of some intersections to date are a promising feature.

Underground Diamond Drilling

Planning for a underground diamond drilling program targeting the Morning Star mine between the 9 and 15 Level (the Gap Zone) began during the quarter, and a drilling tender for this work along with underground drilling at the Rose of Denmark and the Loch Fyne mines, as well as surface diamond drilling on MCO tenements has been sent to preferred tender companies.

In total the drilling contract will cover 27,000 metres of drilling over the next two years. This is the biggest drill program the company has embarked upon in its history.

The market will be informed of tender details and program commencements and results as they occur.

In the interim resource infill drilling on the 6 level targeting the Burns Reef utilising a Kempe Drill has resumed. This drilling was commenced in March 2011 prior to access becoming unavailable due to the winder and shaft upgrade works. Since resuming drilling the second of six planned holes has been completed and at quarter end no assay results had been received for this hole. The first hole drilled in March included two intersection grading 7.5 and 34 g/t.

Regional Exploration

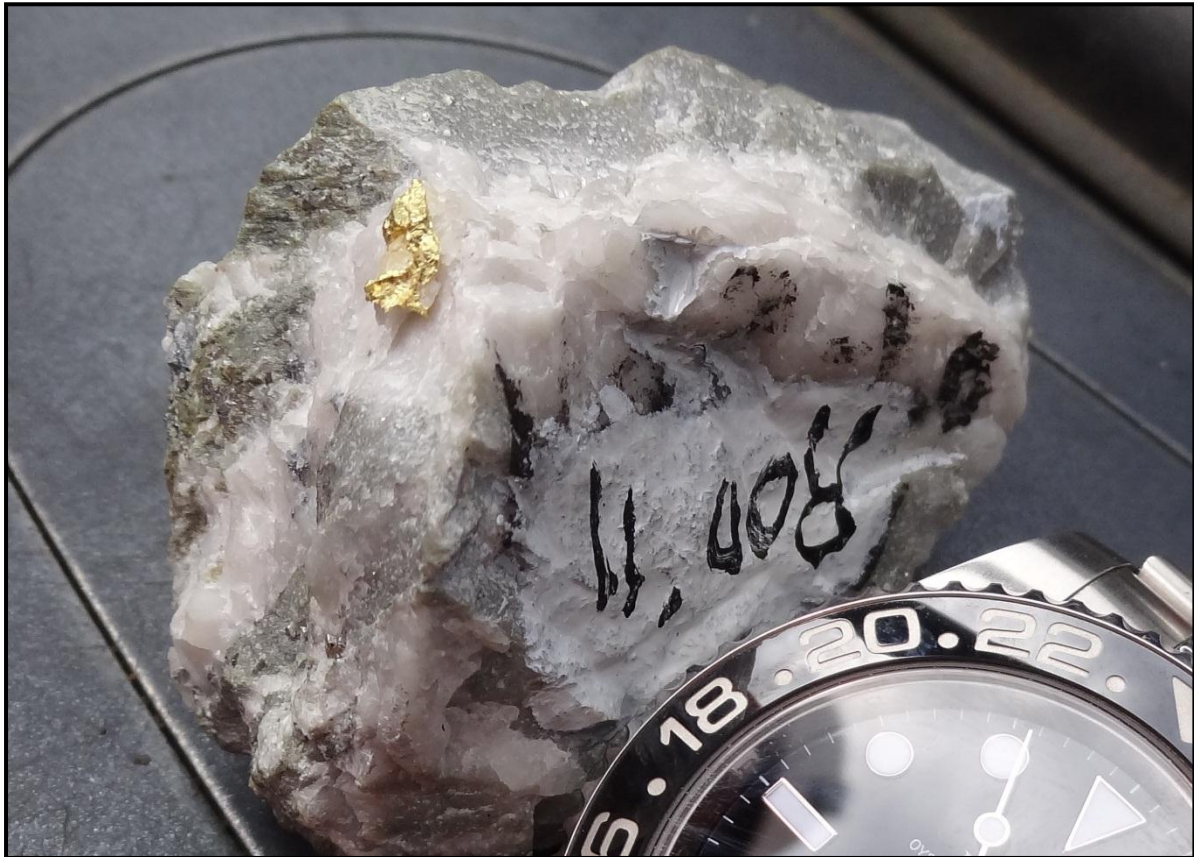
Rose of Denmark - MIN 5299 (Shandong JV)

Rehabilitation work preparing the Rose of Denmark (RoD) adit for diamond drilling was completed during the quarter and a 30 metre cross cut is being developed to establish an underground drill platform outside of the dyke where drill holes can be effectively drilled into potential reef structures at angles to allow for the most effective intersections for interpretation and sampling for assay. Once the cross cut is completed, underground drilling will be able to commence at the RoD and the

drilling is expected to take place after the first round of underground drilling (approx. 3,000 metres) has been completed at the Morning Star Goldmine.

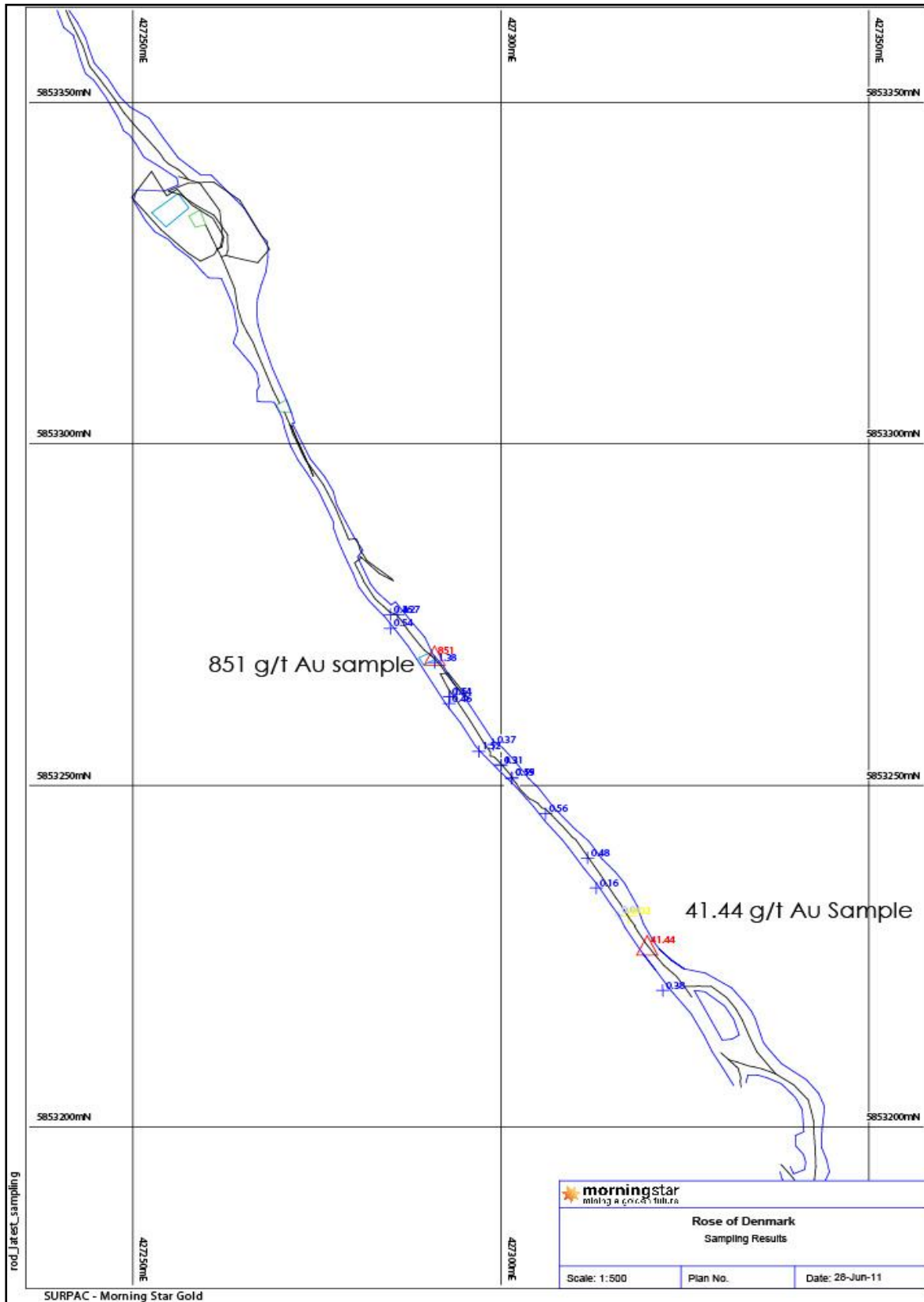
Sampling of the rehabilitation work at the RoD continued during the September quarter and results of up to 851g/t Au have been returned from grab sampling of quartz veins in the RoD dyke (Cannon's Creek adit). To date sampling of the RoD dyke has averaged 19.2g/t Au from 50 samples with no top cut applied (see Fig 3).

Plans are currently being considered for some ore to be removed from the accessible areas of the RoD in order to conduct some trial mining of the material and assess its amenability for milling at the Woods Point hub on a larger scale.



Visible Gold from the Rose of Denmark prospect at Gaffneys Creek MIN 5299

ASX RELEASE



Plan View of Sample Locations & Results at the Rose of Denmark Mine (MIN 5299)

Loch Fyne -MIN 5241 (Shandong JV)

After discussions with several Victorian Government departments, the work plan for Loch Fyne (MIN 5241) has been amended and re-submitted to the Department of Primary Industries (DPI) Victoria during the quarter. It is a mining and exploration work plan aimed at extracting parcels for trial mining and extensive exploration of untapped areas of the dyke.

The most recent discussions largely dealt with access from an existing track to the 3 Level adit of the Loch Fyne mine, which will be our primary access and egress during the expanded programs on MIN 5241.

Once DPIV approval is given for the amended work plan, a mining parcel will be extracted from the 3 level and transported to Woods Point for gravity milling and 2,000 metres of underground diamond drilling will be commenced. This drilling is focused on proving up mineable resources at the once prodigious Loch Fyne Mine.

The Loch Fyne has a reported historic production of at least 109,000 Ounces of gold.



A view of the Loch Fyne project area on MIN 5241

Board and Executive Positions

Commencement of Non-Executive Director

Noel Laidlaw is an extremely well know mining practitioner in Victoria. He is a mining engineer of 40 years' experience and is also experienced in metallurgy, milling and is an expert on matters of a mining & regulatory nature in Victoria, having being the Victorian State Mining Warden for close to ten years. Noel's involvement for MCO's has already proved invaluable.

Commencement of Chief Executive Officer

As advised to the ASX, the start of the September 2011 Quarter also saw the commencement of an experienced underground narrow vein mining man as Morning Star Gold's first Chief Executive Officer. Mike Botting started full time work for MCO in July, responsible for all mining & exploration operations, reporting to the Board. Mike has significant experience relevant to the technical operations and management role required at Morning Star's projects.

Sincerely,



Nick Garling, Chairman



Mike Botting, CEO

About Morning Star Gold

Morning Star Gold <ASX: MCO> is 100% owner and manager of the Woods Point Gold Project in Victoria's historic eastern goldfields. The company's Five Granted Mining & Exploration tenements (3 MINs and 2 ELs) join ~200km² of titles. They yielded ~2 million ounces of gold historically from various high-grade mines. Nearly half of this production was sourced from the Morning Star mine (circa 1MT mined at average grades approaching 1oz/t) for a recorded production of 883Kozs Au. Only three mines in the goldfield were mined to any significant depth and 100's of surface targets (mostly mafic/gabbro dykes) are recognised either from past production or mapping and sampling by MCO. At one point in the early 1940s, the Morning Star Goldmine was Australia's biggest mine. Western Mining (WMC Ltd) operated it for 25 years (1934-1959). The Morning Star also carries an in situ JORC resource of 910,000ozs. Production has recommenced at the Morning Star Goldmine in 2011 for the first time in nearly 50 years. The rate of production is expected to increase over 2012-13 and MCO is targeting 80KTPA throughput at its onsite gravity processing plant (GPP) with grades expected to range at 10-15g/t. Other gold production mines on MCO's tenements were generally constrained in relatively shallow workings in the near surface or 'weathered zone' and above the water table. Key current targets for new exploration and development include the Wallaby, Loch Fyne, Rose of Denmark, Hunts, Waverly, Little Comet, Reliance & All Nations mines. These mines historically produced ~500,000 ounces of gold at grades ranging 8g/t to 40g/t Au. MCO's Chinese partner Shandong Tianye are a well-capitalised publicly listed Chinese conglomerate who agreed to spend \$4.5M over 2011-12 to farm-in to 51% of two of MCO's regional licences. The Morning Star Goldmine and various other priority production targets are 100% owned by MCO, separate to the Shandong JV. For further information please subscribe to E-Alerts of all Morning Star's news & ASX Releases at the company's website. Progress reports are generally released monthly to the ASX.

Morning Star is also viewable on Twitter, Facebook and in hundreds of constantly updated pictures on the web:

Just click: <http://www.flickr.com/photos/morningstargold/>

Forward Looking Statements

This report may include statements and information pertaining to Morning Star Gold's expectations and beliefs concerning future events. Forward risks, uncertainties and other factors, many of which are outside the control of Morning Star Gold can cause actual results to differ materially from such statements. All envisaged mining & exploration works herein are subject to appropriate regulatory approvals. Morning Star Gold makes no undertaking to subsequently update or revise such statements but has made every endeavour to ensure that they are wholly accurate at the time of publication.

Competent Persons Statement

The information contained in this report was compiled Mr Greg Curnow BSc MAUSIMM who has over twenty years of relevant experience in relation to the mineralisation being reported on, to qualify as a Competent Person as defined in the 2004 Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr Curnow works on a full-time basis as a consultant to Morning Star Gold NL and consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/10.

Name of entity

Morning Star Gold NL

ABN

34 003 312 721

Quarter ended ("current quarter")

30 September 2011

Consolidated statement of cash flows

Cash flows related to operating activities		Current Quarter \$A'000	Year to date (3 months) \$A'000
1.1	Receipts from product sales and related debtors		
1.2	Payments for (a) exploration & evaluation	(362)	(362)
	(b) development	(543)	(543)
	(c) production	(619)	(619)
	(d) administration	(645)	(645)
1.3	Dividends received		
1.4	Interest and other items of a similar nature received	335	335
1.5	Interest and other costs of finance paid		
1.6	Income taxes paid		
1.7	Other:		
	GST Refund	53	53
	JV Monies Received	1,000	1,000
	Net Operating Cash Flows	(782)	(782)
Cash flows related to investing activities			
1.8	Payment for purchases of: (a) prospects		
	(b) equity investments		
	(c) other fixed assets	(1,815)	(1,815)
1.9	Proceeds from sale of: (a) prospects		
	(b) equity investments		
	(c) other fixed assets		
1.10	Loans to other entities		
1.11	Loans repaid by other entities		
1.12	Other (provide details if material)		
	Net investing cash flows	(1,815)	(1,815)
1.13	Total operating and investing cash flows (carried forward)	(2,596)	(2,596)

1.13	Total operating and investing cash flows (brought forward)	(2,596)	(2,596)
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.		
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings		
1.17	Repayment of borrowings		
1.18	Dividends paid		
1.19	Other (provide details if material)		
	Net financing cash flows	0	0
Net increase (decrease) in cash held			
		(2,596)	(2,596)
1.20	Cash at beginning of quarter/year to date	10,225	10,225
1.21	Exchange rate adjustments to item 1.20		
1.22	Cash at end of quarter	7,629	7,629

**Payments to directors of the entity and associates of the directors
Payments to related entities of the entity and associates of the related entities**

		Current Quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	0
1.24	Aggregate amount of loans to the parties included in item 1.10	0

1.25 Explanation necessary for an understanding of the transactions

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities		
3.2 Credit standby arrangements		

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	200
4.2 Development	400
4.3 Production	900
4.4 Administration	450
Total	1,950

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current Quarter \$A'000	Previous Quarter \$A'000
5.1 Cash on hand and at bank	7,383	7,383
5.2 Deposits at call	238	238
5.3 Bank overdraft		
5.4 Other (credit card) (CR)	7	7
Total: cash at end of quarter (item 1.22)	7,629	7,629

Changes in interests in mining tenements

	Tenement reference	Nature of interest note (2)	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed			
6.2	Interests in mining tenements acquired or increased			

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference securities (description)				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	283,818,462	283,818,462		
	500,000	500,000		Partly paid 1c
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 +Convertible debt securities (description)				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options (description and conversion factor)			<i>Exercise price</i>	<i>Expiry date</i>
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 Debentures (totals only)				

7.12	Unsecured notes (<i>totals only</i>)		
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Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).
- 2 This statement does give a true and fair view of the matters disclosed.



Sign here: Date: 28 October 2011
 Director

Print name: Nick Garling

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities.** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in and provisions of *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* applies to this report.
- 5 **Accounting Standards.** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.