

Morning Star Gold NL

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morningstar
mining a golden future

31st Jan 2011

QUARTERLY ACTIVITIES REPORT – TO 31st DEC 2010

HIGHLIGHTS OVER PERIOD

- Gravity Plant construction completed and undergoing commissioning
- Rose of Denmark rehabilitated & cleared to allow mapping & sampling next quarter
- Funding boost of \$15M placement at 46c a premium to market
- Diamond drilling commenced at the Reliance mine
- Morning Star shaft (existing) winder refurbishment undertaken
- Installation of new ventilation fan completed & associated infrastructure commenced
- Water filtration plant constructed on site & will be commissioned in early 2011
- Stopping of Maxwell reef commenced in Morning Star underground
- Site wide infrastructure & communications upgrades continue
- Preparations for new winder at Morning Star shaft commenced
- Hiring of new staff includes a mining engineer, senior exploration geologist, mine geologist & exploration staff

Further it was reported just prior to the end of the Dec quarter that:

- The Gravity Processing Plant (GPP) was still being commissioned at the end of the quarterly period having begun late in November 2010
- Gold production commenced just prior to Christmas
- The mine site would be closed 24th Dec 2010 through 2nd Jan 2011
- Commissioning would recommence at GPP on 3rd Jan 2011
- A new winder would be installed in Jan 2011 increasing haulage capacity at MS Mine
- Drilling within the Morning Star mine commences Q1 2011
- A diamond-drill program commences Q1 2011 at MCO's 100% held Reliance dyke prospect
- Mapping and sampling is underway at the Loch Fyne mine (Shandong JV)
- Board changes will take place in Jan-Feb 2011 with representatives from significant shareholders (Shandong & Chillee) joining the board
- Senior operational framework is being strengthened into 2011 to assist in expansion and production themes

MD Nick Garling commented at the quarter end: "It's been a big year for Morning Star as we aim to strengthen our key personnel and org structure and focus on improving site infrastructure"

as we return the Morning Star Goldmine to gold production in 2011. Commissioning of our new onsite gravity processing plant (GPP) continued through the month of December 2010 and we are grateful to our committed team of staff and contractors and also to Gekko Systems the GPP designers, who have together worked hard to overcome the typical commissioning challenges in this start-up phase. 2011 promises to be a golden year for Morning Star and I wish all of our staff and shareholders a very prosperous, safe and healthy new year”.



Morning Star's new onsite gravity processing plant (GPP) during the Dec quarter 2010

MORNING STAR MINE

During the Quarter ended 31st Dec 2010 work carried out at the Morning Star mine include:

Mining

Mining for the Quarter focussed on rehabilitating and refurbishing the Rose of Denmark adit to allow exploration work to begin so planning of a drill program can be carried out as the Rose of Denmark mine is seen by MCO as its most promising exploration prospect.

200 metres of development was carried out at the Rose of Denmark adit during the quarter and this has allowed access to the entire 575 metre long adit.

In carrying out the mining work at Rose of Denmark adit a number of pieces of quartz rock were found containing visible gold, with samples coming from both rock left behind in the previous mining operation and in rock blasted free by MCO operations. These visible gold samples lead MCO to believe that the Rose of Denmark is a very exciting prospect.

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The Rose of Denmark mine closed down in 1925 and the workings extend down 600 feet from the adit with access being from an internal winder which is now filled in (see Fig 1 below). There are also a series of historic workings running approximately 400 feet of above the Rose of Denmark adit that were accessed by a series of adits that are now inaccessible.

Once the geology and style of mineralisation has been worked out a drilling program will be designed to test the Rose of Denmark mineralisation both above and below the adit.

Work carried out at the Rose of Denmark for the Quarter included:

- Stripping out of the adit to allow a diamond drill rig to be taken in to the mine.
- Ground support and rock bolting to allow safe access.
- Clearing of Blockages to allow access to the entire length of the adit.

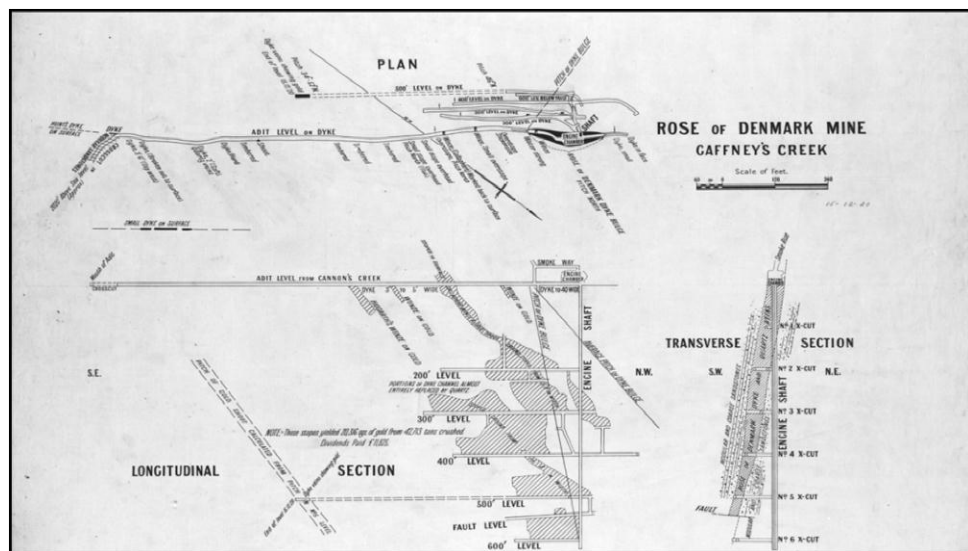


Fig 1: Rose of Denmark Historic Workings

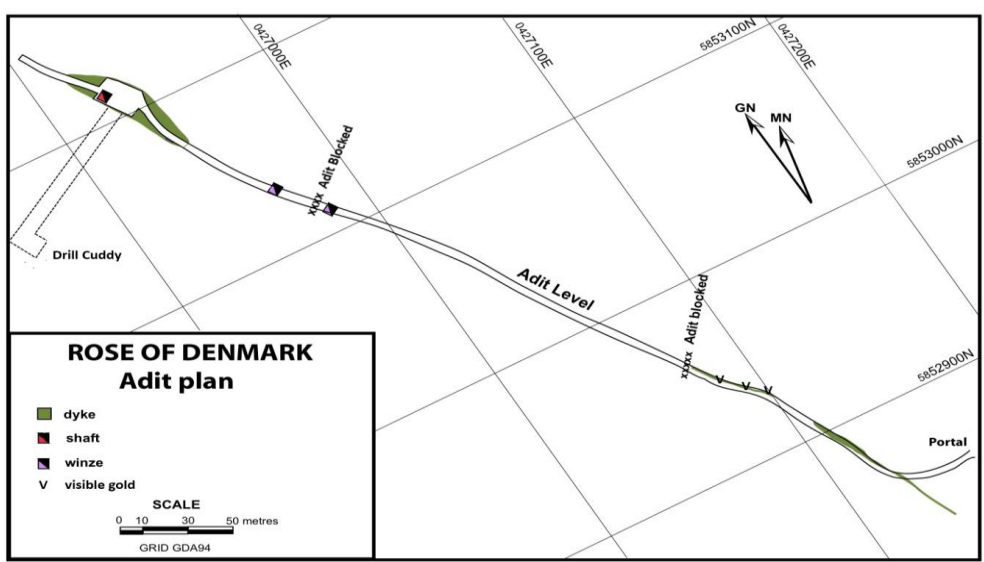


Fig 2.

Fig 2 above – Rose of Denmark adit plan



Visible Gold (2-3mm) found at the Rose of Denmark adit

Ventilation Works

Installation of the new 55Kw ventilation fan on the 2 Level was completed and ongoing infrastructure work was carried out during the quarter and included building of new vent doors on all Levels, modelling of air flows in the mine and upgrading the power circuit to 1,000 Kva to run the new ventilation fan.

The infrastructure work will be completed in the first quarter 2011.

Gravity Mill

Construction of the Gravity Plant was completed in late Dec 2010 and Gekko commenced commissioning of the plant which is expected to flow through to Jan 2011 at least. Commissioning of the plant involved dry running of the machinery. Wet commissioning is expected to start in earnest in the new year.

Tailings Disposal – Underground

Coffey Mining completed the initial design of a paste back fill plant to allow for the disposal of the tailings from the gravity plant underground at Morning Star. The detailed design and purchase process for the paste backfill plant commenced late in the Dec quarter.

Electrical Audit

Improvements and upgrading of the mine site wide electrical system continued during the quarter with Compliance Electrical our consultants planning and implementing a schedule of works to bring the mine site up to standard. A primary goal is to convert the mine from the present 415 volts underground to 1,000v to lessen ongoing costs and run bigger machinery.

Shaft & Winder Rehabilitation

During the Quarter work was carried out on refurbishing the existing winder system to bring it up to acceptable standards. This work is conducted in close concert with WorkSafe Vic and has so far included:

- Upgrading of the braking system including a new secondary brake.
- X-raying of components to check their competency.
- Replacement of the sheave wheels and components.
- New hydraulic drive.
- New wire rope.

The campaign of replacing the ground support for the shaft structure continued for the quarter. This is expected to run into the middle of 2011 but will assist with new higher speed winding and haulage operations.

Project Management

MCO has engaged various consulting engineers and partners to assist the management team as the planning workload has increased substantially over the previous two quarters. The scope of works over the Dec 2010 Quarter is listed below:

- Installation and commissioning of the mill tailings pumping system
- Recruitment of operators for the gravity mill
- Oversee the completion of the gravity plant
- Commissioning of the gravity mill
- Managing the installation of communications infrastructure for the site and new office
- Managing the renovation works for the new office
- Completion of the septic treatment system installation and commissioning
- Installation and commissioning of the water filtration treatment plant
- Construction of the foundations for the new winder
- Installation of additional raw water storage tanks for the mill and arsenic treatment plant
- Development of the design for the tailings paste fill plant in conjunction with Coffeys
- Mine planning works and resource delineation
- Manage the installation of security fencing around site
- Manage the installation of additional site amenities (change rooms and ablutions block)



Morning Star Mine site during the Dec Quarter 2010

Site Amenities

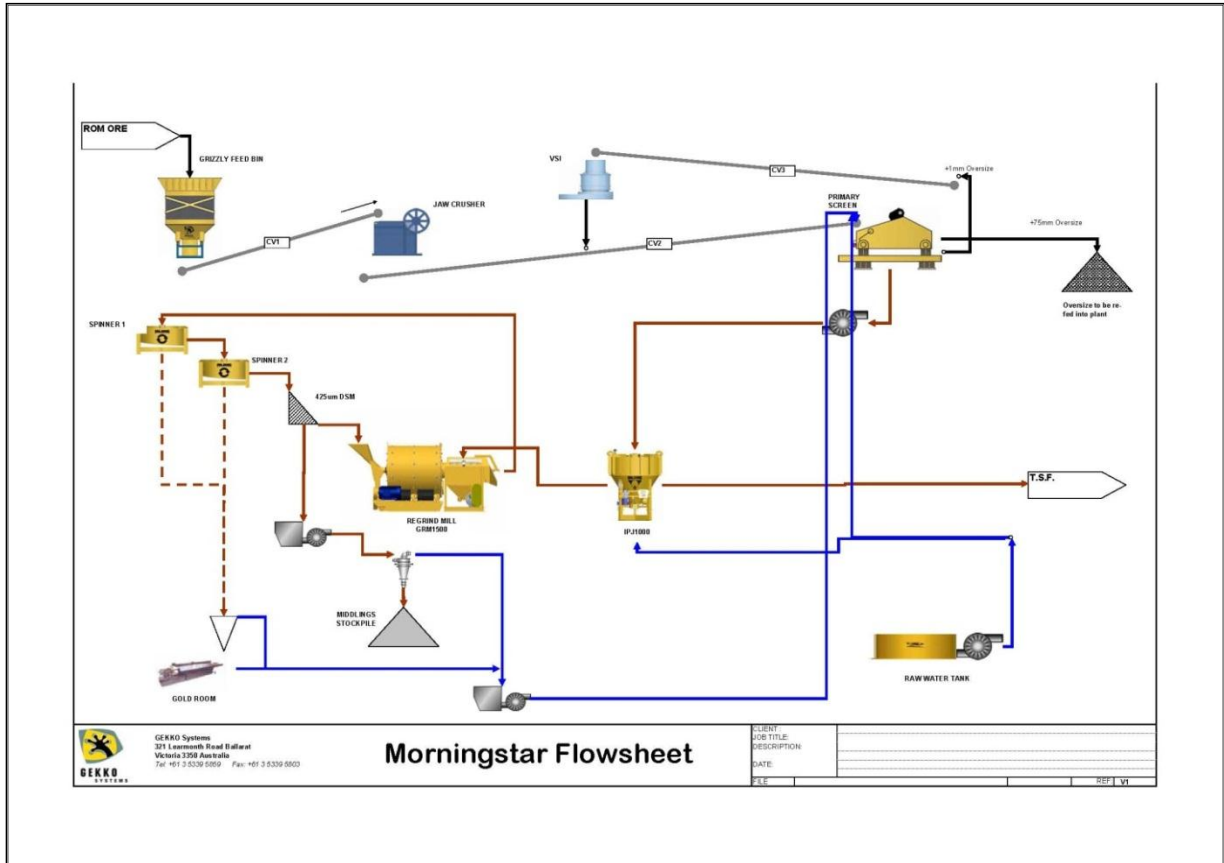
With approval being granted for the upgrade of the site amenities, work started with a new washroom, change room and exploration office being installed and core shed being commenced.

Additional upgrades included:

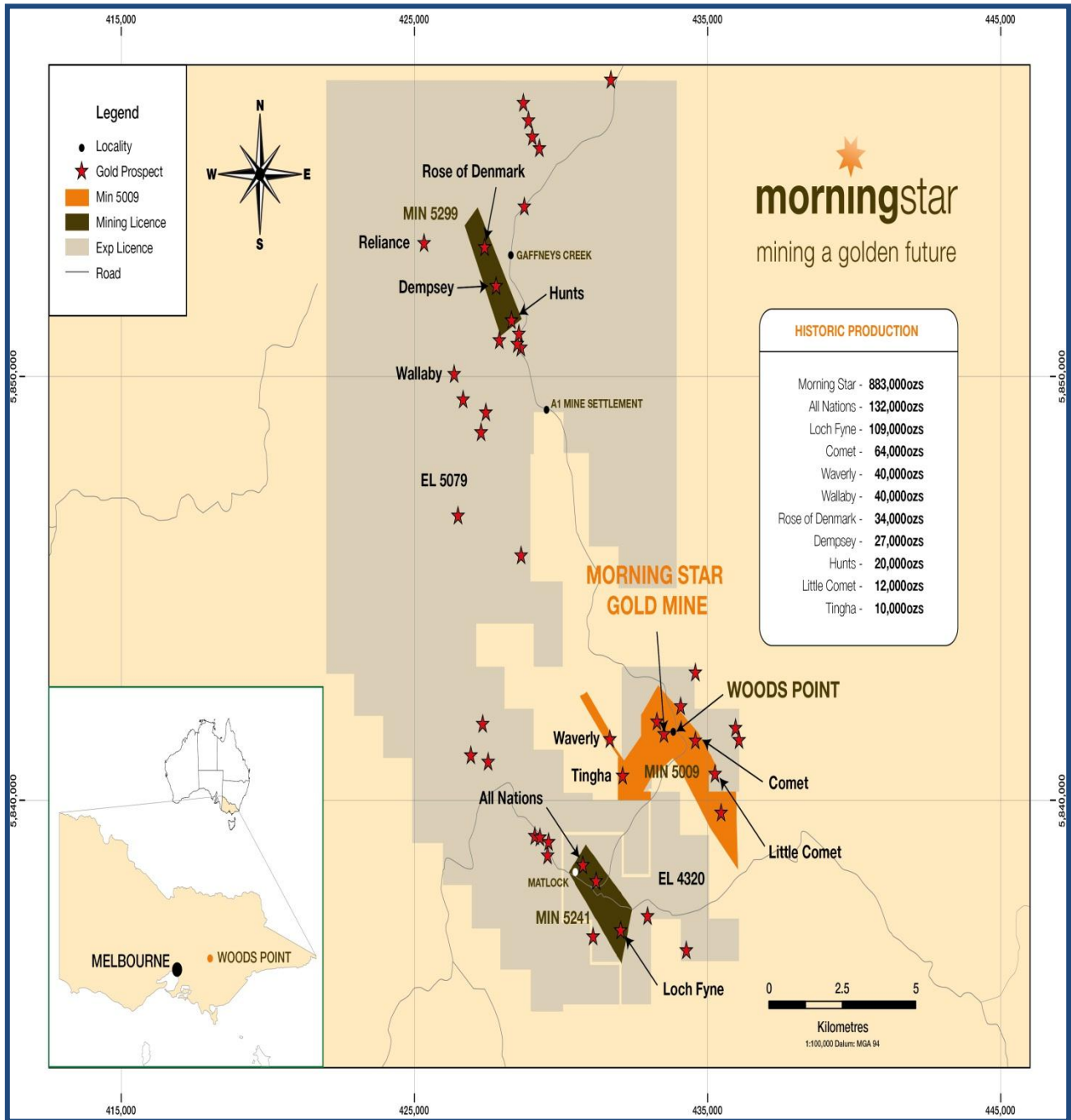
- Upgrading of the telephone and data system site wide including the new office in Woods Point.
- Installation of a shire approved septic treatment system at the minesite and new office.
- Installation of a water filtration system to upgrade our water supply.
- Planning for a small accommodation camp in Woods Point.

Work on the renovations to the old general store in Woods Point (the new MCO HQ) recommenced during the Quarter and is expected to be completed in early 2011.

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Flow Chart of the Gravity Mill being installed at the Morning Star mine



Morning Star Gold NL - Tenement Plan

Regional Exploration Program

The December Quarter saw the hiring of Chris Woof as the senior exploration geologist as well as two field technicians to assist Chris in carrying out the regional exploration on both the JV mining licences and the two exploration licences (held 100% by MCO). Chris is a very experienced exploration geologist who until recently has held a similar position with Barrick Gold in Kalgoorlie.

Chris has been tasked with overseeing the current scope of works and planning and implementing a long term exploration plan for the entire region.

Work for the period included:

- Commencement of a three hole diamond drilling program at the Reliance mine.
- Preliminary mapping and modelling of the Rose of Denmark adit.
- Compilation of Government annual reports.
- Preliminary site visits to Loch Fyne for planning purposes and assessment of the underground workings for access.

Drilling at the Reliance Mine

Key Points:

- Diamond Drilling commenced late Dec 2010 with hole REL-01 aimed to test the southern extent has concluded on MIN 5241 at the All Nations mine
- Mapping by MCO has found an 80 metre long dyke at the Reliance which is at least 35 metres wide.
- Sampling by MCO of a quartz reef in the Reliance dyke has returned results of up to 12 g/t Au.

MCO commenced drilling of its Reliance project in late Dec 2010, with the first hole REL-01 reaching 56 metres by the end of the year and was still in sediment country rock. REL-01 is planned to test the southern extension of the Reliance dyke and possibly help understand the dimensions of the dyke.

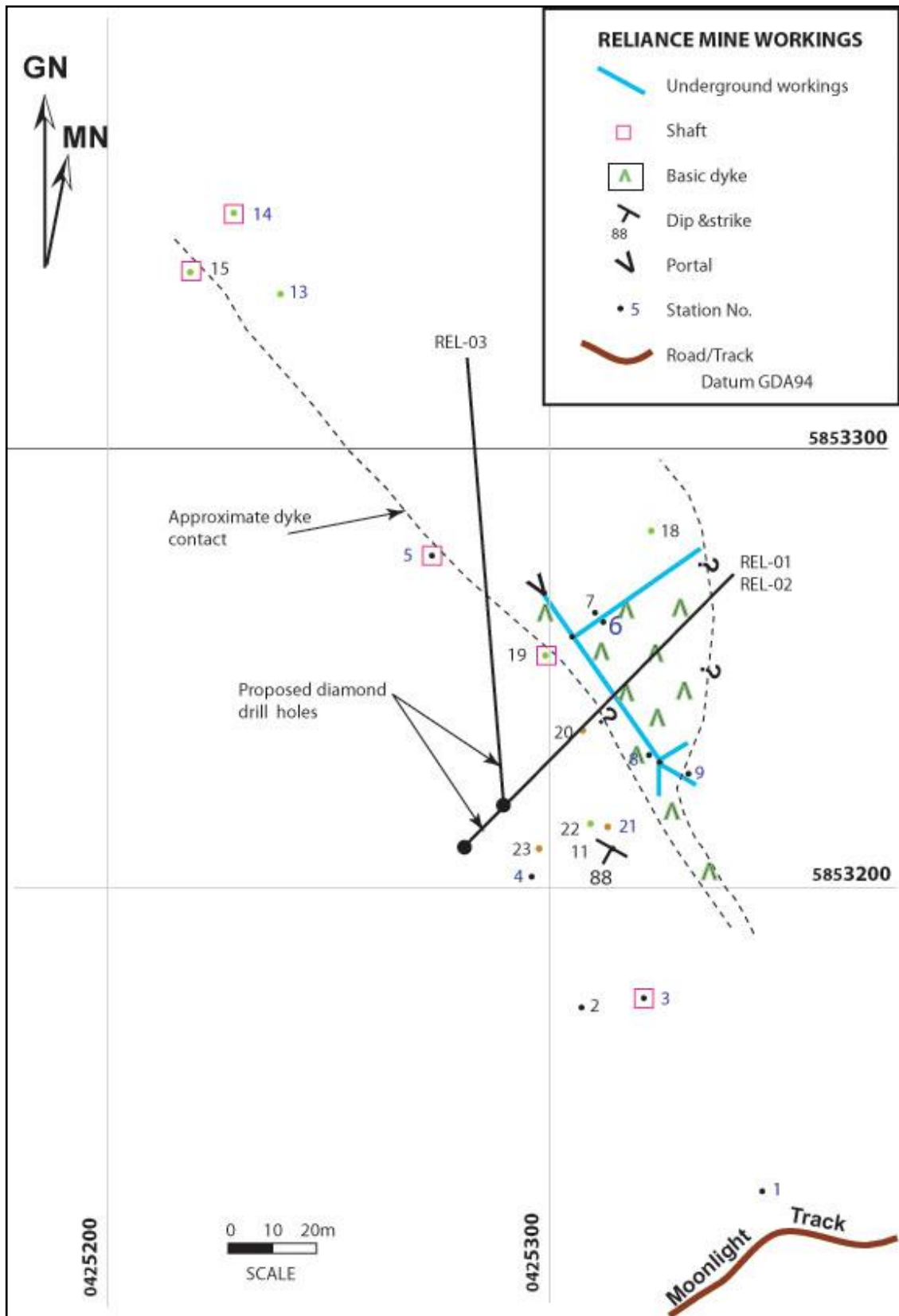
Drilling will recommence in early Jan 2011.

Rose of Denmark

As rehabilitation work has been completed at the Rose of Denmark adit preliminary mapping and modelling of the geology and mineralisation was commenced to assist in the planning of a systematic sampling program of the accessible workings.

This work is scheduled for the first quarter of 2011 and will be used to assist in the design of a drilling program that is scheduled for the second quarter of 2011.

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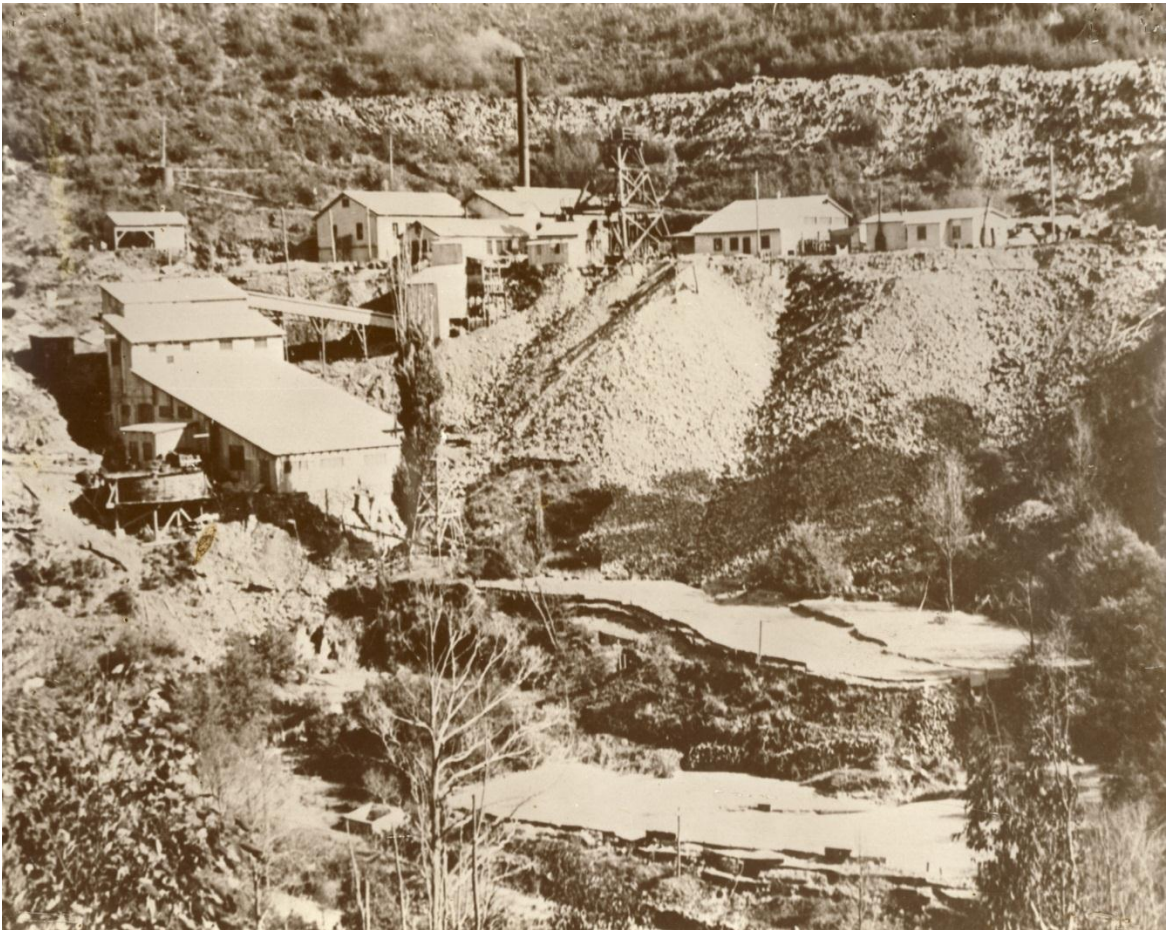
Occupational Health & Safety

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

Community Engagement

Morning Star Gold continues an active role in the local communities surrounding Woods Point. MCO was active on a number of fronts assisting where possible including:

- Constructing Community website
- Funding the painting of the RSL / Buffalo Community Hall
- Embarking on a series of events planned for 2011 to celebrate 150 Years of Gold in Woods Point including a “History Walk” and commemorative plaques.



Historic Photo of the Morning Star Goldmine

Financial

During the Dec 2010 Quarter the following key financing transaction was reported and was duly noted in the Dec Quarterly Cashflow report released a week ago.

PLACEMENT OF NEW SHARES RAISES \$15 MILLION EQUITY CAPITAL

- **\$15 Million raised at 46 cents per share in Morning Star Gold (MCO)**
- **Funds for working capital at MCO's 100% held Woods Point Gold Project**
- **Share register bolstered significantly with new corporate holder**
- **Balance sheet strengthened immediately prior to gold production**

Background

Morning Star Gold (MCO) is pleased to announce that it has accepted a cash investment offer totalling \$15 Million from a single institutional investor. The funds will be utilised by MCO for working capital at the Woods Point Gold Project based around the Morning Star Goldmine in Woods Point Victoria.

The company has agreed to place 32.6 Million new fully paid ordinary shares to the new investor at 46 cents per share for a total investment of \$15 Million. This placement of new shares falls inside allowable parameters of ASX Listing Rule 7.1 and the shares rank equally with other listed MCO stock.

At the formal completion of the placement, the Issued Capital of Morning Star Gold NL will be 284,318,462 shares and the new holding will be equivalent to an 11.47% stake in the company.

Nick Garling commented at the time: "We are delighted to welcome a strong new corporate investor to our register with a long term investment outlook and belief in the company and its assets. This initial \$15M investment will allow us to further strengthen our exploration and infrastructure programs at the Morning Star Goldmine and to concentrate on high grade ore delineation and substantial opportunities that exist in the 'Gap Zone' of the mine."

"The deal pricing at a premium to our current share price indicates a strong vote of confidence in our emerging company Morning Star Gold. The placement was set at a ~20% premium to MCO's 200 day moving average price".

"Commissioning is underway at our new onsite gravity processing plant and we expect to start processing ore from our onsite stockpile this week. It's a very exciting time for all connected with Morning Star".

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 gold fields. The company's 5 tenements (3 MINs and 2 ELs) are adjoining over 220km² and 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 an 1oz/T) for a recorded production of 883,000ozs of gold.

At one point in the early 1940s, the Morning Star mine was Australia's biggest gold mine. Gold Mines of Australia (WMC) operated it for 25 years (1934-1959). The Morning Star mine also carries an in situ gold resource, estimated in 2008 to exceed 900,000ozs. Mining is set to recommence at Morning Star for the first time in nearly 50 years in 2011.

Other gold production on MCO's regional tenements was generally confined to relatively shallow workings in the weathered zone above the water table. Key current targets for new exploration and development include the Wallaby, All Nations, Loch Fyne and Rose of Denmark, Hunts, Waverly, Little Comet and Reliance mines. These mines collectively produced ~500,000 ounces of gold at high grades historically.

MCO's Chinese partner, who is a large publicly listed Chinese conglomerate and investment house is spending \$4.5M over the next 2 years to farm-in to 51% of two of MCO's regional MINs. The Morning Star mine and other priority production targets are 100% owned by MCO.

For further information please contact Nick Garling, Morning Star's MD at 02 8569 7488 or you can subscribe to E-Alerts of all Morning Star's news & ASX Releases at the company's website.

Ends.

Forward Looking Statements

This presentation includes 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 accurate at the time of presentation.

Competent Persons Statement

The information contained in this report was compiled Greg Curnow who has the 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. Greg 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.