

Morning Star Gold NL

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Quarterly Activity & Cash Report – ends 31st Dec 2011

This report also aims to provide project updates subsequent to the Dec quarter end.

OVERVIEW

- **GOLD ORE BEING MINED FROM MAXWELLS AND DICKENSONS REEFS AT MORNING STAR**
- **TRIAL MINING AT ROSE OF DENMARK COMPLETED**
- **GOLD ORE PROCESSED AT ON SITE GRAVITY PLANT**
- **OFF SITE TESTING AND REFINING OF GOLD CONCENTRATE FROM GRAVITY PROCESSING COMMENCED**
- **PASTE & BACK FILL PLANT BEING COMMISSIONED**
- **SUCCESSFUL DIAMOND DRILLING TENDERER COMMENCED ON SITE**
- **FIRST SURFACE HOLE INTO WAVERLY DYKE INTERSECTED 0.5M @ 4.54 G/T FROM A DRILL DEPTH OF 70.8M WITH FREE GOLD VISIBLE (FGV)**

CEO REPORT

In the last quarterly report the near term priorities for MCO were:

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; and
5. To advance a number of regional exploration and development targets.

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

Prerequisite to commencing sustainable production was the return to service of the new single drum high speed winder. This was completed by mid-November 2011 and shortly thereafter ore was hoisted from the Morning Star Mine for processing. Since resuming mining production is steadily being ramped up to targeted production rates.

At the Rose of Denmark Mine and in parallel with the recommissioning of the new winder, set up for diamond drilling was completed and trial stoping was undertaken to test unmined portions of reef structures above the adit. Trial stoping was completed in December 2011. In total just over 500 tonnes was mined and the majority of this ore plus existing broken ore stocks from earlier mining has been hauled to the Morning Star Mine for processing. No further mining is planned at the Rose of Denmark until at least the initial phase of underground diamond drilling has been completed and assessed.

Tenders for the almost 17,000 metres of underground diamond drilling and 10,000 metres of surface diamond drilling were received and the Diamond Drilling Contract was awarded to Edrill, a Tasmanian based diamond drilling contractor with past experience in the Woods Point region. Edrill were able to mobilise their surface rig to site and commence drilling on the Waverly dyke, a regional target, before the end of the quarter. Success from surface drilling was immediate with the first hole drilled intersecting 0.5m @ 4.54 g/T from a drill depth of 70.8m, including some visible free gold.

Underground drilling with a Kempe rig to increase confidence levels in resource estimates in the upper levels commenced in January 2012 prior to the release of this report and drilling of the Gap Zone will commence upon the completion of modifications to a new electrically powered drill so the rig can fit down the shaft.

Going forward the priorities are;

1. Providing a safe, environmentally responsible work place that respects the community within which we operate;
2. Ramping up production at Morning Star Mine;
3. Finalising arrangements for the refining and sale of gold concentrate;
4. Drilling of the Gap Zone at Morning Star Mine; and
5. Continued drilling and assessment of ranked regional targets.

SAFETY

Three lost time injuries were reported in the quarter;

1. A miner got his hand caught in a vent door damaging a tendon on his finger
2. A miner rolled his ankle when he slipped on a rock in a puddle walking underground; and
3. A miner twisted his knee manoeuvring rail trucks loaded with ore.

All were investigated and corrective actions put in place to prevent re-occurrences. Similarly hazards and potential incident reported were also investigated and corrective actions identified. The reporting of hazards and potential incidents is encouraged as it creates an opportunity to eliminate safety risks before anyone is injured. Other pro-active tools utilised to assess and identify potential hazards include area inspections, regular safety meetings and task observations. Targets are set for the proactive measures each month with the goal of eliminating lost time injuries.

MORNING STAR GOLD MINE

MINING / DEVELOPMENT

Since commencing production in November 2011 ore production is steady being ramped up to targeted rates as the planned production areas (stopes) are set up and brought on line.

To date all production has been sourced from only two stopes, the Dickenson Reef on the 3 and 4 levels and the Maxwell Reef on 8 sub level. In these stopes the application of a resuing mining method has proven to be successful in minimizing dilution and thereby maximizing ore grade. Resuing is a mining technique applied in narrow ore bodies where the mining width required to enable access is greater is than the reef width and to minimise dilution waste and ore are mined separately.

In parallel, scheduled installation of infrastructure and access development has been progressed. This will enable the commencement production in a further 4 mining areas in the near future and access for diamond drilling of the gap zone and upper level targets. Works progressed or completed include:

1. Rise development towards the newly discovered Donaldson Reef;
2. The installation of rails on the 6 level in preparation for the mining of the high grade Burns Reef;
3. Rise development to access Campbell's Reef;
4. Clearing of an ore pass to the 9 level from 7 sub level in preparation for mining on the Kenny and Campbell Reefs;
5. Clearing of an ore pass from the 3 sub level for transfer of ore from Dickenson's and Donaldson's Reefs to the 4 level for hauling and hoisting; and
6. Excavation of diamond drill cuddies on the 9 level to enable drilling underfoot into the gap zone of the mine.

The availability of these additional mining areas and the completion of set up work for diamond drilling will enable production rates to be further increased. This production rate increase can be easily be accommodated with improvements completed in the haulage and milling systems.

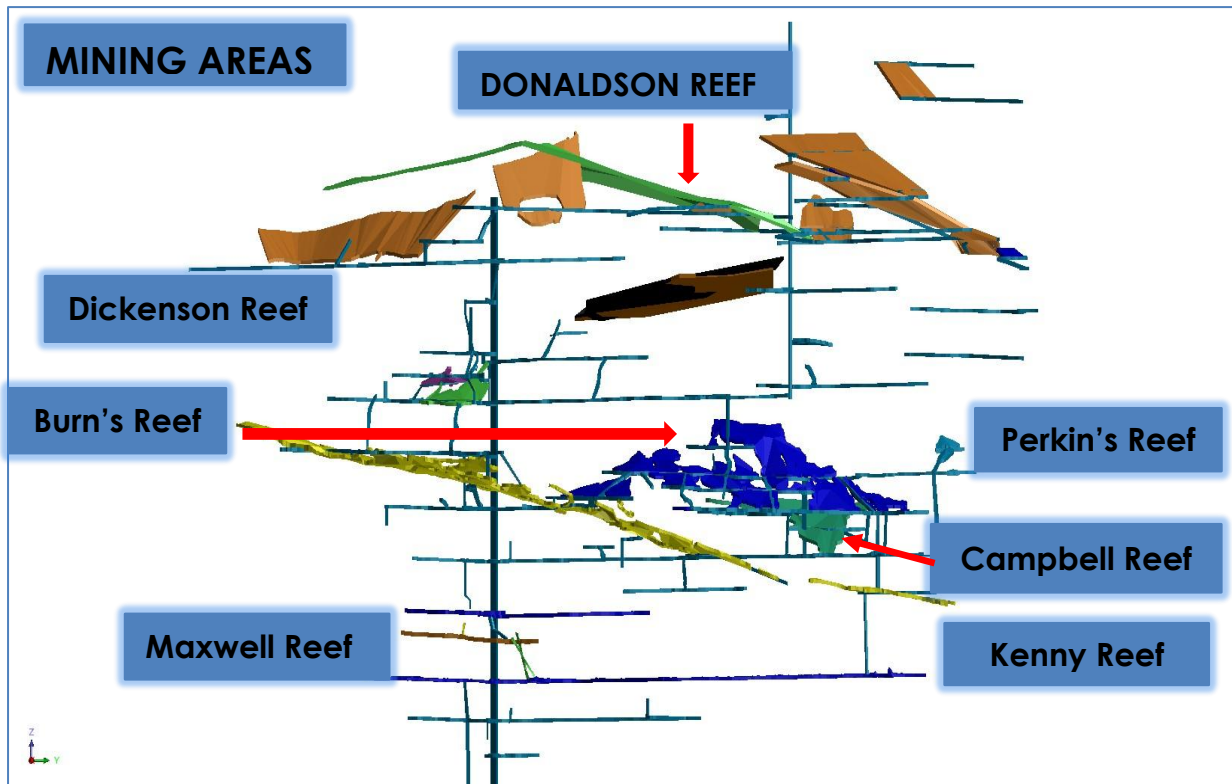


Figure 1: Morning Star Goldmine cross-section of Mining Areas 2011-12

ORE HOIST

Ore hoisting with the new high speed winder resumed mid-November 2011. Initially low grade ore from earlier mining stockpiled in the 8- sub ore pass was hoisted as its removal was necessary to enable high grade ore mined in Maxwell Reef to be hoisted.

Since then the new high speed winder has proven to have more than adequate capacity and when required design hoisting rates have been achieved.

GRAVITY PROCESSING

Processing at MCO's 80KTPA onsite gravity processing plant resumed on the 14th November. Initially 126 tonnes low grade ore was processed to test that the plant was operating effectively. The testing demonstrated that a number of minor modifications made by site personnel to the plant, whilst the winder was being up graded, had been effective in improving the performance.

Upon completion of this assessment the processing plant has been operated intermittently as mine production ramps up. In addition to the low grade ore, 481 tonnes of ore from trial stoping at the Rose of Denmark was batch fed through the plant and from mid-December 427 tonnes of high grade ore from Morning Star Mine has been processed. In total up to mid-January 2012 just over 1,000 tonnes of ore has been processed.

Final reconciled grades for ore processing are pending the return of a range of sample results explained under here in the gold refining section.

Gold from gravity processing is being captured in two primary concentrate products, which are sent off site for refining. Concentrate 1 is where we would expect a significant percentage of our gold to report. Concentrate 2 – which has much greater mass but a lower percentage of contained gold - is also being captured in the gold room, stockpiled and will be refined.

GOLD REFINING

Arrangements for the refining of gold concentrates are in the process of being finalised. Who refines the concentrate depends on the grade of the concentrate and associated minerals. Previous trial refining done in 2011 indicated that the higher grade concentrates could be processed in Melbourne and the lower grade concentrates could be processed interstate, overseas or in Ballarat, Victoria.

Earlier test work also indicated that with higher grade ore feed higher grade concentrates would be produced. Consequently when milling resumed in November there was a need via mill reconciliation protocols to confirm the concentrate grades and to determine which assay techniques most accurately predict the concentrate grade to aid in grade reporting.

To ascertain this, samples of stockpiled concentrates are being assayed using different techniques and then refined to compare assay results with actual quantity of gold produced. Of the initial assay techniques applied, Inductively Coupled Plasma Spectroscopy (ICP) has been found to significantly under estimate the quantity of gold in concentrate compared to actual refined gold outcomes and consequently is not suitable for determining the gold held in concentrates or the appropriate refining route.

Other assaying techniques are in the process of being assessed and the results for these are not yet available.

Morning Star is evaluating a site-based lab at Woods Point in order to aid mill reconciliation and speed up test work outcomes.

The results of this current test work are anticipated in February when final terms of an ongoing sale agreement will be negotiated with refiners in Victoria and NSW. In the meantime, gold concentrates are being securely stockpiled.

PASTE AND BACKFILL PLANT

Construction of the new purpose built tailings 'paste and back-fill' plant has largely been completed and testing of the plant has commenced. Reticulation for the delivery of paste into initial mined voids underground at the Morning Star Mine is also approaching completion.

Interim short-term tailing storage arrangements put in place to enable milling to resume in November have proved effective and no delays have been encountered due to the paste plant's current commissioning phase.



Figure 2: Paste Plant and Gravity Mill at Morning Star

SURFACE DRILLING

Edrill the successful tenderer for the Morning Star Drilling contract comprising of 10,000 metres of surface diamond drilling and 16,900 metres of underground diamond drilling over two years commenced surface drilling on site in December. Surface drilling is

planned for regional targets within MCO's leases which are to be tested to assess their potential for future mining. This is in line with the corporate strategy of developing multiple ore sources and the use of the gravity treatment plant at Morning Star Mine as a central facility for processing ore from.

The initial targets for surface drilling are on the Waverly line of Reef a few kilometres from the Morning Star Mine and located on the Morning Star mining licence (MIN5009).

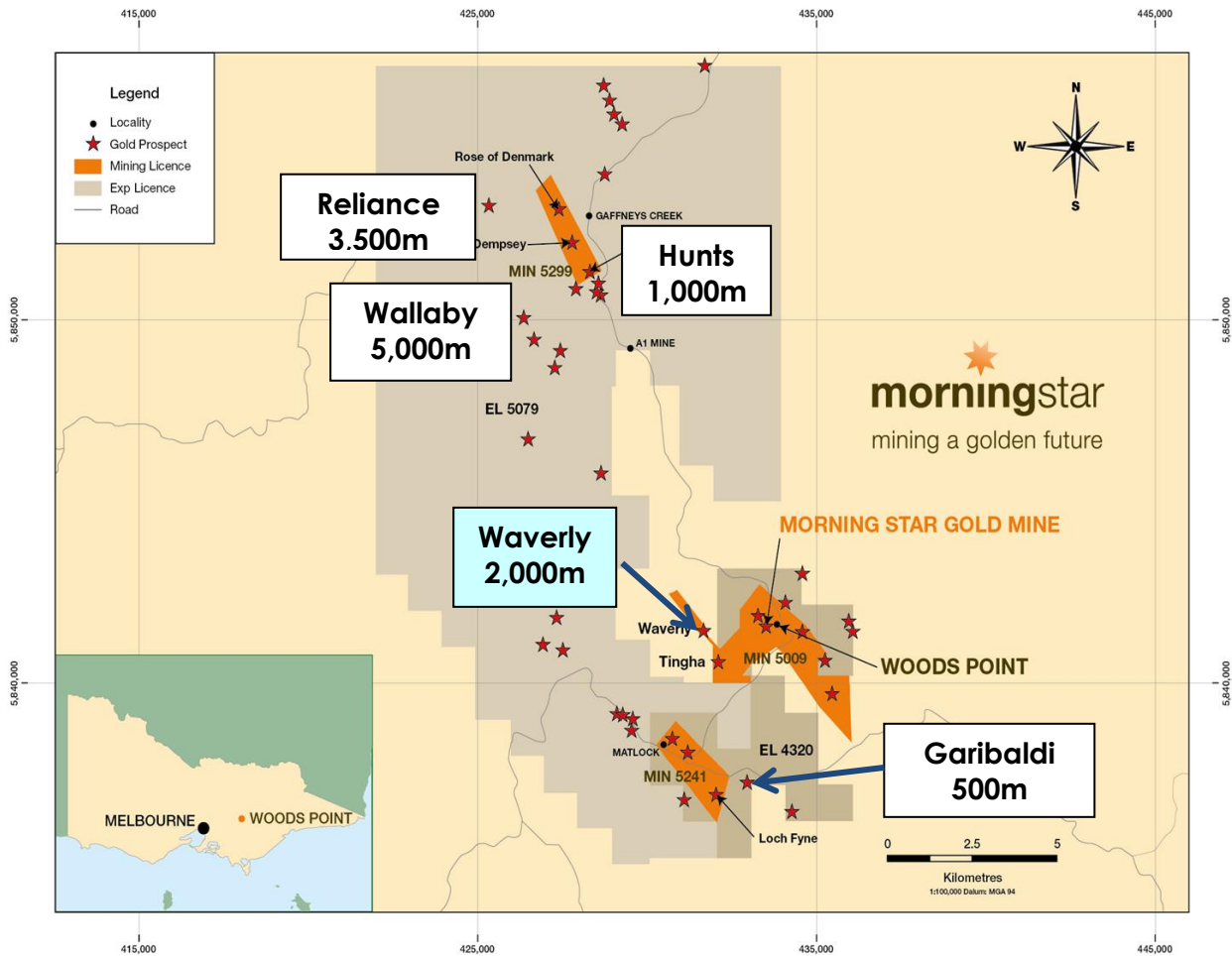


Figure 3: Regional Targets for Surface Diamond Drilling

To date 2 holes, THD1101 and THD1201 have been completed at Waverly. THD1101 successfully intersected mineralized dyke (0.5m @ 4.54 g/t) containing some visible free gold at a drill depth of 70.8m. THD1201 has yet to be logged and assayed. There are extensive near surface historical workings on the Waverly dyke and no mining was done below the water table. MCO consider the Waverly dyke to be highly prospective and an attractive proposition because of its close proximity to the Morning Star Gold Mine, its large strike length of over 4kms, its relative height above present workings at Morning Star and its location within one of MCO's current mining leases (MIN 5009).



Figure 4: Surface Drill Rig at Tingha/Waverly

UNDERGROUND DIAMOND DRILLING

Edrill commenced underground diamond drilling with the Kempe rig on the 7 level at Morning Star Mine in January 2012. The initial drilling on the 7 level is planned to further test and confirm resources on the Kenny, Perkins and Burn's Reefs. Results will be reported as they come to hand and growth in our in-situ mining reserves is our primary goal.

Diamond drilling of the gap zone underfoot is pending the completion of modifications to a larger electrically powered drill rig so it can fit in the underground workings. This underfoot drilling from 9 level of Morning Star will be the first ever into this gap zone bar 2 short trial holes in 2008.

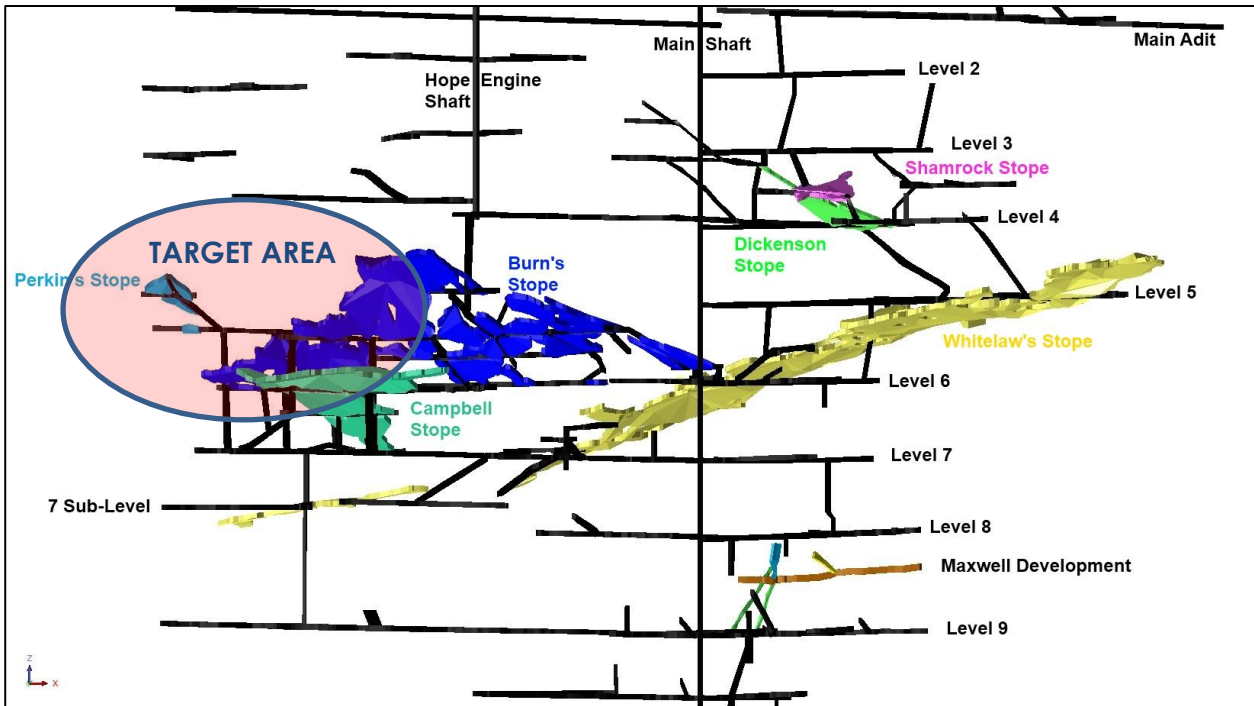


Figure 4: Initial target area for Kempe Drilling on the 7 Level at Morning Star Mine

TENEMENTS

In the period, MCO's two Exploration Licences (EL 5079 & EL 4320) were amalgamated into one licence in order to further secure the title position and aid in administration and reporting. The combined areas are now known solely as EL 4320.

Morning Star has recently made a new Mining Licence Application to DPIV for a new mining licence within this amalgamated EL 4320. Progress and further details of this new mining licence application will be reported on in subsequent progress reports. The company is obviously delighted that plans are afoot to develop another potential regional ore source local to Morning Star.

A Work Plan has been submitted to DPIV for the anticipated drilling and trial mining program at the Loch Fyne prospect on MIN 5241 near Matlock and approvals are anticipated in the coming period. A Work Plan for diamond drilling of the Wallaby prospect on the newly amalgamated EL 4320 is well advanced.

CONCLUSION

Overall, MCO has experienced a solid period of developing ore sources and setting the stage of our desired mining ramp up over 2012-13. The period saw the bulk of the payments for fixed asset infrastructure finalised – such things as winder, shaft, paste fill plant, staff amenities and electrical upgrades underground were rounded off.

At the Morning Star, it is anticipated that as new stopes are opened across a range of in-situ mine targets and total tonnages mined increase, milling throughput will accordingly significantly grow and gold output can likewise increase from the present time. The improvements in mill reconciliation protocols will enable us to better estimate grade and milling outcomes.

We believe drilling over the coming quarter both underground at Morning Star and on regional targets will help grow our resource inventory and near term mining targets.

After a slow start in 2011, where shaft and mine access impeded our development program at Morning Star, we are trending much better and looking forward to a positive quarter ahead.



Mike Botting
Chief Executive Officer
Morning Star Gold NL
(ASX: MCO)
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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 Four Granted Mining & Exploration tenements (3 MINs and 1 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 late 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.

Morning Star is also viewable on Twitter, Facebook and in hundreds of regularly updated project 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 Dr Peter Jackson BSc (Geology) PhD MAIG 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. Dr Jackson 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")

31 December 2011

Consolidated statement of cash flows

Cash flows related to operating activities

	Current quarter \$'000	Year to date (6 months) \$A'000
1.1 Receipts from product sales and related debtors		
1.2 Payments for (a) exploration & evaluation	(334)	(696)
(b) development	(1,116)	(1,659)
(c) production	(420)	(1,039)
(d) administration	(397)	(1,042)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	210	545
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Other:		
GST Refund	(53)	
JV Monies Received		1,000
Net Operating Cash Flows	(2,110)	(2,891)

Cash flows related to investing activities

1.8 Payment for purchases of: (a) prospects		
(b) equity investments		
(c) other fixed assets	(2,402)	(4,216)
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		



ASX RELEASE

1.12	Other (provide details if material)		
	Net investing cash flows	(2,402)	(4,216)
1.13	Total operating and investing cash flows (carried forward)	(4,511)	(7,107)

1.13	Total operating and investing cash flows (brought forward)	(4,511)	(7,107)
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			
		(4,511)	(7,107)
1.20	Cash at beginning of quarter/year to date	7,404	10,000
1.21	Exchange rate adjustments to item 1.20		
1.22	Cash at end of quarter*	2,893	2,893

*The opening cash balance for the year has been amended to exclude secured term deposits held for rehabilitation bonds (net \$224,828) previously classified as unencumbered cash funds at 1.20; and to also include interest received in the prior year (FY11) not previously in the opening balance and recorded as interest received last quarter at 1.4 (\$315,633).

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	28
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

Director's fees

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	300
4.2 Development	440
4.3 Production	200
4.4 Administration	340
Total	1,280

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	2,893	7,404
5.2 Deposits at call		
5.3 Bank overdraft		
5.4 Other		

Total: cash at end of quarter (item 1.22)

2,893

7,404

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				
7.2				
7.3	283,818,462 500,000	283,818,462 500,000	10 cents 10 cents	10 cents 1 cent
7.4				
7.5				
7.6				
7.7			<i>Exercise price</i>	<i>Expiry date</i>
7.8				
7.9				

7.10	Expired during quarter				
7.11	Debentures <i>(totals only)</i>				
7.12	Unsecured notes <i>(totals only)</i>				

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: 31 January 2012
 Director

Print name: NM 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* apply 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.

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