

MORNING STAR GOLD NL
(ABN 34 003 312 721)

INTERIM FINANCIAL REPORT FOR THE
SIX MONTHS ENDED 31 DECEMBER 2011

CORPORATE DIRECTORY

DIRECTORS

Nicholas Garling	Chairman, Executive Director
Peter Jackson	Non-Executive Director, Independent
Zhaoqin Zeng	Non-Executive Director
Alexei Motlokhov	Non-Executive Director
Noel Laidlaw	Non-Executive Director, Independent

CEO

Michael Botting

COMPANY SECRETARY

Natasha Sever

REGISTERED & PRINCIPAL ADDRESS

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DIRECTORS' REPORT

The directors of Morning Star Gold NL ("the Company") present their report together with the interim financial report for the half-year ended 31 December 2011.

DIRECTORS

The directors of Morning Star Gold NL at any time during or since the end of the half-year period are:

Name	Period of Directorship
Nicholas M Garling (Chairperson, Executive Director)	20 March 2007
Peter G Jackson (Non-Executive Director)	10 March 2008
Zhaoqin Zeng (Non-Executive Director)	01 February 2011
Alexei V Motlokhov (Non-Executive Director)	01 February 2011
Noel R Laidlaw (Non-Executive Director)	01 July 2011

RESULTS

The net loss of the Company after tax for the half-year ended 31 December 2011 was \$3,830,616 (2010: loss \$3,847,943).

REVIEW OF OPERATIONS

BACKGROUND

Morning Star Gold NL ("MCO", "the Company" or "Morning Star") is a gold producer and explorer focused on the highly prospective and historically significant Woods Point - Walhalla goldfield in the prolific Lachlan Fold Belt 120kms to the east of Melbourne.

MCO's strategy is to develop multiple mines around its present milling and operations hub at Woods Point. The Company's five Mining & Exploration Licences (4 MINs & 1 EL) connect ~200km² of tenements, which yielded ~2 million ounces of gold historically from various high-grade mines. Nearly half of this production was sourced from the Morning Star Goldmine ("MSGM"), where recorded production is 883Kozs @ 24g/t Au. The MSGM was operated by WMC (1934-59).

The inferred resource base of the Company is 910Kozs (4.62MT @ 6.12g/t). The underground resource within this is 2MT @ 11.2g/t for 726Kozs, including indicated and measured resources as per Table 1 below. These resources are at the MSGM.

Morning Star has upgraded site based infrastructure at the MSGM to cater for mine production including an onsite gravity plant and a paste plant for disposal of tailings in underground stopes.

MCO is focusing on growth via multi-mine potential at the Woods Point Gold Project. Numerous targets exist within 20kms of the present milling hub where mining and exploration was generally constrained to shallow workings of less than 100 metres depth.

Key current targets for new exploration and development include the Wallaby (MIN5560 priority), Loch Fyne and All Nations (MIN5241), Rose of Denmark and Hunts (MIN5299), Little Comet and Waverly/Tingha (MIN5009) and Reliance & Alhambra (EL4320).

A program of 27,000 metres of diamond drilling is underway in 2012 across various regional targets and at the MSGM in order to increase production opportunities and to grow resources.

Deposit	Measured			Indicated			Inferred			Total		
	Ore † '000s	Grade g/t Au	Total Oz Au '000s	Ore † '000s	Grade g/t Au	Total Oz Au '000s	Ore † '000s	Grade g/t Au	Total Oz Au '000s	Ore † '000s	Grade g/t Au	Total Oz Au '000s
Morning Star U/G	22	20.9	15	259	15.6	130	1734	10.4	582	2015	11.2	726
Morning Star Surface	736	2.0	47	793	2.2	56	1079	2.3	80	2608	2.2	184

Table 1: Resources Summary Table

Credit: Goodz & Associates GMC Pty Ltd (July 2008)

OVERVIEW OF HALF YEAR

- APPOINTMENT OF MIKE BOTTING AS CHIEF EXECUTIVE OFFICER
- NOEL LAIDLAW APPOINTED A NON-EXECUTIVE DIRECTOR
- NEW HIGH-SPEED WINDER & SHAFT IN COMMISSIONING
- MORNING STAR SURFACE DRILLING INTERCEPTS NEW ORE BODY
- UNDERGROUND RESOURCE DRILLING COMMENCED
- ROSE OF DENMARK ADIT COMPLETED & TRIAL STOPES MINED
- RESOURCE MODELLING COMMENCED AT MORNING STAR HILL
- ORE MINED FROM MAXWELLS & DICKENSONS REEFS AT MSGM
- GOLD ORE PROCESSED AT ON SITE GRAVITY PLANT
- OFF-SITE TESTING AND REFINING OF GOLD CONCENTRATES
- PASTE & BACK FILL PLANT COMMISSIONING COMMENCED
- 27,000 METRE DIAMOND DRILLING CONTRACT AWARDED

CEO REPORT

The priorities for Morning Star are to:

1. Establish sustainable gold production at the MSGM;
2. Diamond drilling of the 'Gap Zone' at the MSGM;
3. Increase confidence levels in resources and mining reserves at the MSGM;
4. To advance a number of regional exploration and development targets;
5. Establish best practice metallurgical protocols;
6. Finalise arrangements for the refining and sale of gold concentrate; and
7. To grow our overall resource inventory in size and confidence.

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

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 MSGM for processing. Upon the resumption of haulage, the plan is to steadily ramp up to targeted production rates. 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 progressed to 9 level (~275 metres depth) with the use of a hire auxiliary winder. This is close to the current water table level at 310 metres. As the shaft rehabilitation works have progressed access back onto mine levels has been possible enabling ongoing set up work to be done for future ore production on the 4 level, 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 (Burns Reef) that will confirm shorter term production targets.

At the Rose of Denmark Mine ("RoD") and in parallel with the recommissioning of the new winder at the MSGM, set up for diamond drilling was completed and trial stoping was undertaken to test unmined

portions of reef structures above the adit. Trial stoping at the RoD was completed late in the half year period. 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 MSGM for processing. No further mining is planned at the RoD until at least the initial phase of underground diamond drilling has been completed and assessed.

A tender comprising a significantly upgraded scope of almost 17,000 metres of underground diamond drilling and 10,000 metres of surface diamond drilling on MCO tenements was awarded late in the period to Edrill, a Tasmanian based diamond drilling contractor with past experience in the Woods Point goldfield.

Drilling commenced at the Waverly-Tingha prospect, a regional target on MIN5009. Success from surface drilling was immediate with the first drill hole intersecting 0.5m @ 4.54 g/t from a drill depth of 70.8m, including some visible free gold.

SAFETY

Four lost time injuries (LTI's) were recorded in the period. Considerable commitment and effort is being devoted to the development of a best practice safety system to ensure the continued wellbeing of all our employees, something that MCO sees as fundamental for a successful business.

The reported LTI's were;

1. An employee got his hand caught in a vent door damaging a tendon on his finger;
2. An employee squashed his finger between equipment he was using and a rock wall underground;
3. An employee rolled his ankle when he slipped on a rock in a puddle walking underground; and
4. An employee twisted his knee manoeuvring rail trucks loaded with ore.

All LTI's were investigated and corrective actions put in place to prevent re-occurrences. Similarly hazards and potential incident reports 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 altogether at MCO.

CORPORATE

Appointment of CEO and Non-Executive Director

Morning Star appointed its first Chief Executive Officer in the half year period. Mike Botting, a mining engineer with twenty-five plus years' underground and narrow vein mining experience, commenced his role in July 2011. Mike is responsible for all mining & exploration operations, reporting to the Board. He has held senior operational roles on projects for WMC, Bendigo Mining, Central Norseman, Tectonic Resources, Aditya Birla Minerals and MacMahon Contractors.

Noel Laidlaw joined the MCO Board in the period and is an extremely well known mining practitioner in Victoria. He is a mining engineer of 40 years' experience and is also experienced in milling and metallurgy - and is an expert on mining regulatory matters in Victoria, having been the State Mining Warden in Victoria for close to ten years.

MINING/PRODUCTION

Mining of ore commenced in November 2011 and plans are for a steady ramp up to targeted rates as the planned production areas (stopes) are set up and brought on line. In the period, production was sourced from 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 minimising dilution and thereby maximising ore grade. Resuing is a mining technique applied in narrow ore bodies where the mining width required to enable access is greater than the reef width and to minimise dilution, waste and ore are mined separately.

In parallel, scheduled installation of infrastructure and access development has progressed. This will enable the commencement of production in a further four mining areas in the coming period and access for diamond drilling of the Gap Zone and upper level resource targets. Works progressed or completed in the period include:

1. Rise development towards the newly discovered Donaldson Reef;
2. Rail installation on 6 level in preparation for the mining of Burns Reef;
3. Rise development to assess Campbell's Reef for resources and ventilation;
4. Clearing an ore pass to the 9 level from 7 sub level for mining at Kenny Reef;
5. Clearing an ore pass from the 3 sub level to 4 level for haulage and hoisting of ore from Dickenson's & Donaldson's Reefs;
6. Excavation of cuddies on the 9 level to enable diamond drilling underfoot into the Gap Zone of the mine; and
7. Stopping of slots on Maxwell Reef at 8 sub level.

It is envisaged that the availability of additional mining areas and the completion of set up work for diamond drilling will enable production rates to be increased in the coming period. Improvements completed in the haulage, hoisting and milling systems can comfortably accommodate increased production.

Winder/Ore Hoist

MCO's new single drum high-speed winder returned to site late in 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 (PLC). Ore hoisting trials with the winder resumed mid-November 2011. Initially low grade ore from earlier mining stockpiled in the 8 sub level ore pass was hoisted as its removal was necessary to enable higher grade ore mined in Maxwell Reef to be hoisted. Since then the new winder has proven to have more than adequate capacity and when required design hoisting rates at 4 m/s have been achieved.

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 were completed to the 9 level. These works allow for increased hoisting speeds and consequently greater shaft haulage capacity and safety.

Gravity Processing

Processing at MCO's 80KTPA onsite gravity processing plant resumed on 14 November 2011. Initially 126 tonnes of low grade ore was processed to test that the plant was operating effectively. The testing demonstrated that a number of minor modifications made to the plant had been effective in improving the performance.

In addition to the low grade ore, 481 tonnes of ore from trial stoping at the RoD was batch fed through the plant and late in the period, the plan was to process around 450 tonnes of higher grade ore from the MSGM. Final reconciled grades for ore processing are pending the return of a range of sample results explained below in '*Gold Refining*'.

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. Metallurgical testing of concentrates was ongoing at period end.

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 refining trials indicated that the higher grade concentrates are suitable to be processed in Melbourne and the lower grade concentrates could be refined via different processes interstate or by Gekko in Ballarat.

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 to confirm the concentrate grades via mill reconciliation protocols and to determine which assay techniques most accurately predict the concentrate grade to aid in grade reporting and mine planning. 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 underestimate 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. Atomic Absorption (AA) has also proven to underestimate gold quantity to be inconsistent, whilst 1 gram fire assays proved erratic and lower than actual recovered gold outcomes. Other assaying techniques were in the process of being assessed at the end of the period. MCO is evaluating a site-based lab at Woods Point in order to aid mill reconciliation and speed up test work outcomes.

Paste & Backfill Plant

Construction of the new purpose built tailings paste and backfill 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 MSGM is also approaching completion. Commissioning of the plant was underway at period end.

EXPLORATION

Morning Star Gold Mine

- Drilling tender awarded for 27,000m beginning 2012
- Surface diamond drilling program at Morning Star hill completed
- Eight of nine drill holes intersect the targeted mineralised reef in the 'AAA Zone'
- Six holes confirm extension of intercept in 'MS357' (2.65m @ 28.17g/t Au)
- Two smaller conjugate reefs also identified in the 'AAA Zone'
- Resource modelling underway in the 'AAA Zone'
- Significant increase in probability of shallow mineable resource
- Underground diamond drilling resumed on the 6 level at Burns Reef
- Drilling underfoot into 'Gap Zone' of the MSGM commencing next period

Surface Diamond Drilling

MCO completed a diamond drilling program of nine holes from the surface on Morning Star hill targeting areas above the 3 level of the MSGM 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 drill hole MS357 where a high-grade intersection of 2.65m @ 28.17 g/t Au was returned. Logging and assaying of the holes completed has highlighted the presence of three zones of altered mineralised diorite dyke containing quartz veining or stock work, which is one of the main sources of gold mineralisation in the MSGM. 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 the MSGM, 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.

There is considerable vertical depth of mineralisation to assess. The widths of some intersections to date are a promising feature. Modelling of the resource is underway.

The new drilling tender comprises 10,000 metres of surface diamond drilling and 16,900 metres of underground diamond drilling over two years. First holes were drilled late in the period.

Underground Diamond Drilling

A resource in-fill drilling program of six holes on the 6 level targeting the Burns Reef utilising a Kempe Drill was completed. This drilling was commenced in March 2011 prior to access becoming unavailable due to the winder and shaft upgrade works. Best intersections were 0.35m @ 43.3g/t, 0.21m @ 38g/t, 0.5m @ 2.7g/t and 0.2m @ 2.6g/t. Best intersections included two intersections grading 7.5g/t and 34g/t.

Edrill was set to commence underground diamond drilling with the Kempe rig on the 7 level at the start of the next period. This drilling on the 7 level is planned to further test and confirm resources on the Kenny, Perkins and Burns Reefs. The Edrill program will focus also on diamond drilling of the 'Gap Zone' from 9 level and 10 level. A larger electrically powered drill rig will be used to test this area and this drilling will be the first ever into this prospective area of the mine where there has been little development and mining done historically.

Regional Targets

As part of the new drilling tender awarded during the half year period, surface drilling is planned for several 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 the MSGM as a central ore processing facility.

The initial targets for surface drilling are on the highly prospective Waverly line of workings just a couple of kilometres from the MSGM and located on the same Mining Licence (MIN5009). There are extensive near surface historical workings on the Waverly dyke and no mining was done below the water table. MCO rate the Waverly-Tingha prospect highly because of its close proximity to the MSGM, its large strike length of over 4kms, the fact it's on a granted Mining Licence already and its relative height above present workings at the MSGM.

Two drill holes, *THD1101* and *THD1201* have been completed late in the period at Waverly. *THD1101* successfully intersected mineralised dyke (0.5m @ 4.54g/t) containing some visible free gold at a drill depth of 70.8m.

Rehabilitation work underground preparing the RoD (MIN5299) for diamond drilling was completed during the period. Assay 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.

A new work plan for MIN5241 was submitted in the period. It is a mining and exploration work plan for the Loch Fyne Mine near Matlock, aimed at extraction of trial mining parcels from the 3 level of the mine and 2,000 metres of underground diamond drilling of unexplored areas of the dyke. The programs will focus on proving up mineable resources at the once prodigious mine, which has reported gold production of 109Kozs.

TENEMENTS

In the period, MCO's two Exploration Licences (EL5079 & EL4320) were amalgamated into a single exploration licence in order to further secure the title position and aid in administration and reporting. The combined licence is now known as EL4320 and surrounds all of MCO's Mining Licences.

Morning Star has recently made a new Mining Licence application to the DPIV covering the Wallaby Mine near Raspberry Creek northwest of Woods Point. Priority has been received on this new Mining Licence now known as MIN5560. The Company is delighted that plans are advancing to develop another potential regional ore source in close proximity to the MSGM.

A mining work plan has been submitted to the DPIV for the anticipated drilling and trial mining program at the Loch Fyne prospect on MIN5241 near Matlock and approvals are anticipated in the coming period.

CONCLUSION

MCO experienced a solid period of finalising construction and commissioning of vital infrastructure to grow its aspirations as a gold producer and setting the stage of our desired mining ramp up over 2012-14. The half yearly period saw the bulk of the payments for fixed asset infrastructure finalised – such things as winder, shaft, paste and back-fill plant, staff amenities and electrical upgrades underground were rounded off and in their final stages early in the new period.

At the MSGM, it is anticipated that as new stopes are opened across a range of mine targets inferred in our resource model and total tonnages mined and milled begin to increase, 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 periods both underground at the MSGM and on regional targets will be a key factor in growing our resource inventory and near term mining targets and ore reserves.

After a slow start in our production aspirations, where shaft and mine access impeded our underground development program in the upper areas at the MSGM and where we have been fine tuning our site based milling set-up and metallurgy protocols were also refined, we are trending better and looking forward to a positive period ahead, where we can focus on building production rates and growing the Company for our shareholders.

The lead auditor's independence declaration is set out on page 21 herein and forms part of the directors' report for the six months ended 31 December 2011.

Signed in accordance with a resolution of the directors.

A handwritten signature in black ink, appearing to be "N M Garling".

N M Garling
Chairperson

Dated at Sydney this 15th day of March, 2012

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MCO is also viewable on Twitter, Facebook and Flickr at: www.flickr.com/photos/morningstargold/

INTERIM STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 31 December 2011

	December 2011	December 2010
	\$	\$
Revenue	957,371	1,834,264
Gain/(Loss) on revaluation of investments	(268,000)	528,000
Exploration and development expenses	(3,611,502)	(3,122,710)
Administration expenses	(908,485)	(3,087,497)
Profit/(Loss) before income tax	(3,830,616)	(3,847,943)
Income tax expense	-	-
Profit/(loss) for the period	(3,830,616)	(3,847,943)
Total comprehensive income for the year	(3,830,616)	(3,847,943)
Basic earnings per share (cents)	(1.35)	(1.00)
Diluted earnings per share (cents)	(1.34)	(1.00)

The accompanying condensed notes on pages 17 to 18 form part of these Financial Statements

INTERIM STATEMENT OF FINANCIAL POSITION

as at 31 December 2011

	December 2011	June 2011
	\$	\$
Current assets		
Cash & Cash Equivalents	2,892,841	10,549,618
Receivables	243,702	446,608
Inventory	566,478	254,459
Financial Assets	466,000	734,000
Other Current Assets	24,184	-
Total current assets	4,193,205	11,984,685
Non-current assets		
Property, Plant & Equipment	11,930,999	8,070,605
Mining Properties	716,858	716,858
Mine Security Bonds	241,093	2,000
Total non-current assets	12,888,950	8,789,463
Total assets	17,082,155	20,774,148
Current liabilities		
Trade & Other Payables	1,140,028	1,050,283
Provisions	110,196	61,318
Other Current Liabilities	-	-
Total current liabilities	1,250,224	1,111,601
Total liabilities	1,250,224	1,111,601
Net assets	15,831,931	19,662,547
Equity		
Issued Capital	43,771,891	43,771,891
Reserves	664,760	664,760
Retained Profits/(Accumulated Losses)	(28,604,720)	(24,774,104)
Total equity	15,831,931	19,662,547

The accompanying condensed notes on pages 17 to 18 form part of these Financial Statements

INTERIM STATEMENT OF CHANGES IN EQUITY

for the six months ended 31 December 2011

	Share Capital	Accumulated Losses	Expired 1992 Option Premium Reserve	Option Reserve	Total Equity
	\$	\$	\$	\$	\$
Balance at 1 July 2010	28,519,395	(20,323,162)	54,820	1,752,436	10,003,489
Shares Issued	15,000,000	-	-	-	15,000,000
Options Issued	-	-	-	-	-
Issue Costs	(230,000)	-	-	-	(230,000)
Total Comprehensive Income	-	-	-	-	-
(Loss) for the period	-	(3,837,943)	-	-	(3,837,943)
Balance at 31 December 2010	43,289,395	(24,161,105)	54,820	1,752,436	20,935,546

	Share Capital	Accumulated Losses	General Reserve	Option Reserve	Total Equity
	\$	\$	\$	\$	\$
Balance at 1 July 2011	43,771,891	(24,774,104)	664,760	-	19,662,547
Shares Issued	-	-	-	-	-
Options Issued	-	-	-	-	-
Issue Costs	-	-	-	-	-
Total Comprehensive Income	-	-	-	-	-
(Loss) for the period	-	(3,830,616)	-	-	(3,830,616)
Balance at 31 December 2011	43,771,891	(28,604,720)	664,760	-	15,831,931

The accompanying condensed notes on pages 17 to 18 form part of these Financial Statements

INTERIM STATEMENT OF CASH FLOWS

for the six months ended 31 December 2011

	December 2011	December 2010
	\$	\$
Cash flows from operating activities		
Payments to suppliers & employees	(3,548,180)	(702,402)
Expenses of joint venture	(799,810)	(1,194,103)
GST Refunded by ATO	-	450,579
Net increase/(decrease) in cash from operating activities	(4,347,990)	(1,445,926)
Cash flows from investing activities		
Interest and fuel tax credits received	230,271	125,360
Payments for property, plant & equipment	(4,300,283)	(1,094,370)
Investments in term deposits	(239,093)	-
Proceeds from sale of fixed assets	318	-
Net increase/(decrease) in cash from investing activities	(4,308,787)	(969,010)
Cash flows from financing activities		
Proceeds from issue of shares and options	-	15,000,000
Placement fees & other share issue costs	-	-
Proceeds from funding of joint venture	1,000,000	750,000
Net increase/(decrease) in cash from financing activities	1,000,000	15,750,000
Net increase/(decrease) in cash held	(7,656,777)	13,335,064
Cash at the beginning of the period	10,549,618	1,481,871
Cash at the end of the period	2,892,841	14,816,935

The accompanying condensed notes on pages 17 to 18 form part of these Financial Statements

CONDENSED NOTES TO THE INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

These general purpose financial statements for the interim half-year reporting period ended 31 December 2011 have been prepared in accordance with the requirements of the Corporations Act 2011 and Australian Accounting Standards including AASB 134: Interim Financial Reporting. Compliance with Australian Accounting Standards ensures that the financial statement 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 NL. 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 2011 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.

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 2011.

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.

2. DIVIDENDS

No dividend was declared or recommended during the 6 months ended 31 December 2011 (6 months ended 31 December 2010: nil)

3. ISSUED SHARE CAPITAL

Movement in fully paid shares on issue

	No of Shares	Issue Price	\$
Opening Balance at 1 January 2011	284,310,462		43,284,395
Costs associated with share issue dated 23/11/10	-		(670,000)
Transfer from option reserve	-		1,152,496
Closing balance at 30 June 2011	284,310,462		43,766,891
Opening balance at 1 July 2011	284,310,462		43,766,891
Closing balance at 31 December 2011	284,310,462		43,766,891

Movement in partly paid shares on issue

	No of Shares	Issue Price	\$
Opening Balance at 1 January 2011	500,000		5,000
Closing balance at 30 June 2011	500,000		5,000
Opening balance at 1 July 2011	500,000		5,000
Closing balance at 31 December 2011	500,000		5,000

4. SEGMENTS

The Company operates entirely within Australia and the principal activity was mineral exploration and development at the Morning Star Mine.

5. CONTINGENT LIABILITIES

There have been no changes in contingent liabilities since the 30 June 2011 Annual Report.

6. CLAIM

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

7. SUBSEQUENT EVENTS

On 15 March 2012 the Company announced that an agreement had been reached with Chillee Limited ("Chillee"), whereby Chillee has agreed to provide funds to the Company by means of a \$10 Million credit facility aimed at enhancing working capital in the early production phase at the MSGM and also aimed at fast tracking exploration at the MSGM and regional targets. The facility is expected to be finalised in the current quarter (March 2012).

No other 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.

DIRECTORS' DECLARATION

The directors of the Company declare that in their opinion:

1. the financial statements and notes as set out on pages 13 to 18 are set out in accordance with the Corporations Act 2001 including:
 - (a) complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations; and
 - (b) giving a true and fair view of the Company's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and
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.

A handwritten signature in black ink, appearing to be "N M Garling", with a long horizontal flourish extending to the right.

N M Garling
Chairperson

Dated at Sydney this 15th day of March, 2012



**CHARTERED ACCOUNTANT
BUSINESS ADVISOR**

Dale F Kaye FCA

**MORNING STAR GOLD NL
INDEPENDENT AUDITOR'S REVIEW REPORT**

To the Members of Morning Star Gold NL

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Morning Star Gold NL, which comprises the statement of financial position as at 31 December 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, condensed notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of Morning Star Gold NL are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls 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 the Auditing Standard on Review Engagements ASRE 2410: Review of a 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 entity's financial position as at 31 December 2011 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 NL, 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 enquiries, 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.

D F Kaye & Co. Chartered Accountant
ABN 24 213 751 745

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Independence

In conducting our review, we complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Morning Star Gold NL, would be in the same terms if given to the directors as at the time of this auditor's report.

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 NL is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134: Interim Financial Reporting and Corporations Regulations 2001.


Emphasis of Matter

Without qualification to the conclusion expressed above, we draw attention to the following matters:

Note 1 of the financial statements "basis of preparation of reports" reports that the financial statements have been prepared on a going concern basis.

Note 7 to the financial statements "subsequent events" reports that an agreement has been reached with Chillee Limited to provide future funding. The going concern concept is dependent upon this funding materialising. If not, there may be uncertainty whether the entity will be able to continue as a going concern in the normal course of business in the amounts stated in the half year financial report.

D F Kaye & Co
Chartered Accountants



Dale F Kaye FCA

Dated: 15 March 2012

D F Kaye & Co. Chartered Accountant
ABN 24 213 751 745

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**CHARTERED ACCOUNTANT
BUSINESS ADVISOR**

Dale F Kaye FCA

**MORNING STAR GOLD NL
INDEPENDENCE DECLARATION**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Morning Star Gold NL.

As auditor for the review of the financial statements of Morning Star Gold Limited for the half year ended 31 December 2011, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

**D F Kaye & Co
Chartered Accountants**



Dale F Kaye FCA

Dated: 15 March 2012

**D F Kaye & Co. Chartered Accountant
ABN 24 213 751 745**

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