




morningstar
mining a golden future

annual report 2011

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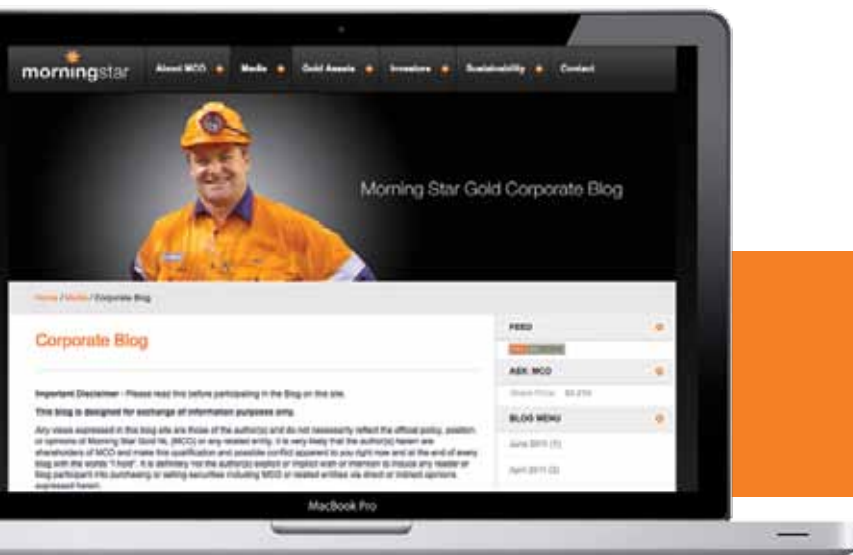
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executive chairman's message

Dear Fellow Shareholders

Welcome to your company's Annual Report for 2011. You will notice that by far the most effort has been put behind our online annual report, which is a stand-alone web 'microsite' and that the hard copy annual report has been de-emphasised. It contains the same information but won't have the images and plans which help interpret the report. This is the wish of our shareholders and is a far more logical and environmentally sustainable approach. So please enjoy the 2011 Annual Report and take your time in the web version to find your way around what's taken place for Morning Star Gold in the year leading up to 30 June 2011. You can also see a growing web photo gallery of our projects at our Flickr site and keep in touch with web updates over Twitter and Facebook.

Investing in the Future

The period encompassing the 2011 financial year has seen strong and continuing growth for Morning Star Gold NL (MCO). This has been squarely aimed at setting our business on a solid footing for future years. The share price has been contained in a range for much of the year after a stunning rise in market cap culminating in the 46 cent premium share placement and a stronger balance sheet. Arguably the share price demonstrated the market's view of a maturing company and the stage at which MCO is in the production life cycle. Most of our Capex over the year has been invested in the 'bricks and mortar' of long-term project solidifying and enhancing of assets. This investment will hold us in good stead for production returns benefiting our cash flow for many years to come. The company has made huge strides in preparation for sustained production of gold and consistent economic production will always be the catalyst for a re-rating in the value of the business. In the broader brush, the share price of MCO settled to a more realistic level after a strong and sustained upward valuation over the past two years or so. Let's not forget that not long ago, we were a company valued with a market capitalisation of between \$5 Million (M) and \$8M. We now comfortably hold the \$80M to \$100M range, more commensurate with an emerging gold production house. This valuation and the valuation gap to the peer group we want to mix with – the consistent Australian gold producers – gives great promise for the future of all of our investments.

Morning Star's transition to production has occurred at the right time considering rising gold prices. Notwithstanding a very tight labour market and skills shortage in key areas of the mining game, the global economic outlook appears to be favourable for our business of gold production into 2012-13. This probably couldn't have been said prior to now with any certainty so I believe where we sit today as a company is in a significantly stronger position than at the same time last year and that your investment in MCO is considerably de-risked in relation to past years.

2011 has been a year where we've had to spend an increasing amount of your money on capital expenditure in order to properly position ourselves for strong and sustainable gold production. Primarily this has occurred at the Morning Star Goldmine, which we are setting up as our production and milling hub but increasingly we are turning towards development of regional opportunities as well.

The background to this huge Capex and investment at Morning Star has been a 2011 financial year punctuated by enormous volatility for investors and I think regardless of MCO's operational performance – which has made great progress amidst some real challenges in infrastructure and compliance – investment risk appetite in our small mining sector has also taken a huge beating. At a time where the baby boomer self managed super generation in Australia should be at its most potent investment wise, we've had interest rate rises, a weak property market and very choppy stock markets. We hear daily talk in the media and financial world of GFC mark II, sovereign debt crises and of the dampened investment demand which is an



obvious corollary of the two new taxes flagged by the Labor government (the 'Carbon Tax' and the 'Mining Super Profits Tax'). No wonder cash is king and most Australian investors have been 'sitting on their hands'.

All year your company and its management have been focused on the fastest pathway to production with the safest most sustainable outcome. In many respects, looking back over what has taken place in FY 2011, we have achieved an awful lot but, disappointingly, we haven't achieved consistent production. But production isn't the only thing upon which I am measuring the success of our year. Let me take you through some of your company's achievements and progress up to the end of the financial year.

Highlights of the Year

First of all we actually produced a small amount of gold – this was the first gold production from the Morning Star Goldmine since 1962. No mean feat at a site that has lain fallow for nearly 50 years... the gold pour was arranged in Melbourne in order to do further metallurgical testing and to cost out future production scenarios. As with historical gold production from the Morning Star, silver metal was also recovered of around 16% of the total recovered metal. None of the gold produced to date has been sold.

We commenced stage one of a drilling program at the Reliance dyke on EL 5079 just north west of Woods Point. The Reliance is a large ore body and plenty more drilling needs to take place for us to understand the dyke better. Given it's a larger dyke bulge than the A1 dyke nearby, our geologists are very keen to continue work at the Reliance. Close to the Reliance, the Wallaby dyke is also very high up our target list and, although access is not as easy, 2012 will see drilling programs take place there also.

We had significant hurdles to overcome in the Morning Star shaft and haulage system, which was primarily set up to cater for shaft refurbishment and had not been overhauled in any significance since 1993. It was clear with our production mindset that the old kit just would not cut the mustard. During the previous period, work was done to refurbish and upgrade some of the old infrastructure at site but increasingly it became apparent that totally new systems for haulage and ore throughput were required. Much of the 2011 financial year was focused on specification, contract management and implementation of these new systems, which limited our access to and work within the Morning Star.

Over the previous period, the purpose built gravity mill was designed and built – in the early part of 2011 MCO ironed out the kinks with trial milling and batching programs. Much of this milling was carried out with development ores (dyke material and siltstones). The mill is designed for more premium grade quartz rich ore (not as hard with higher gold content). The outcome

was low gold output in first pass concentrates and plenty of fine-tuning of gear at the mill. We are confident that the process was worthwhile as it trained up a team on the mill and gave us a clear understanding of the machinations of the gravity plant. It also gave us a much clearer picture of the recovery rates and varying concentrates. It highlights the challenges of narrow vein ore bodies. It's the same issue that WMC successfully addressed in the heady days of the Morning Star between 1934-59. Ensuring a low-dilution feed to the mill however is a key deliverable for MCO's technical management team.

The ongoing joint venture with Shandong Tianye of Jinan, China has allowed MCO to redevelop and prepare the Rose of Denmark's main adit (the Cannon's Creek adit) for important exploration and trial mining programs. There have been multiple findings of coarse visible gold in the adit as the redevelopment has progressed and we are hopeful ore shoots running down through the adit provide good opportunity for proving up mining reserves. One feature of the Rose of Denmark is that we have the benefit of perhaps 200-300 metres of 'backs' above the adit to exploit and also untapped opportunities underfoot.

We completed the first series of diamond drill holes at the All Nations mine and associated reefs. It's a complicated structure of targets-contained reefs in sediment and also narrow mineralised targets along the dyke contact. While the first stage of drilling didn't produce stellar results in terms of assays, it has given MCO invaluable information about the ore bodies, which haven't been mined there since the early 1900's. 132,000ozs historical gold production says there is a still a significant exploration and redevelopment opportunity for us at the All Nations. Its proximity to the Loch Fyne dyke and what lies between the two ore bodies will become an increasing focus over 2012.

Importantly, Morning Star gained a regional base at Woods Point. We purchased and completely renovated the old town general store to provide state of the art offices for our growing technical and executive team at site. We are also adding more accommodation at site, providing a miner's camp in Woods Point for the expanding workforce. We want a residential focus for our mining people and as such will have to keep an open mind about securing other local accommodation either via buying or renting as we grow.

Morning Star Gold did plenty over the year upgrading its online digital presence. We launched a new corporate website and three satellite sites, rich with information about the history of the 'Upper Goulburn Diggings' around Woods Point leading to the present day. MCO has also been very active in the Woods Point community and inaugurated a high-profile award for the community-chosen most effective local participant each year. The gong is called the William Gooley Award – Gooley

discovered gold in the area in 1861. MCO also helped with small community projects around the district and sponsored local clubs and associations and assisted in rebuilding and maintaining important local infrastructure. MCO has also conceived and will build a 'Woods Point History Walk', where ten etched plaques on mining relic plinths will be placed around Woods Point, in order for visitors and history buffs to interactively engage with the fabric of the famous mining hamlet. I would personally like to acknowledge the support of the Woods Point and Gaffneys Creek communities and thank them for being a part of what we represent locally. Given the town of Woods Point sprang up around the diggings on Morning Star Hill in the early 1860's, it's a nice symbiotic circle which exists between the town and the mine.

2011 also saw a significant tightening in the MCO share register. The share holdings of directors and significant holders were increased significantly as a percentage of all outstanding shares. This shows a real confidence in your company by people with a lot at stake already, and those with a belief in the pathway to production MCO is taking. The 32.6M share placement to the Europe-domiciled Chillee Group at 46 cents (a premium to the stock's 200 day moving average) was another show of confidence from a very sophisticated investment group with deep pockets. Chillee subsequently increased their stake via market purchases to over 36M shares over the year.

New Leadership, More Publicity

Crucially at the close of the period, Morning Star also invested in a vital piece of 'human capital'. MCO hired Mike Botting – a 25 year experienced mining engineer with narrow vein speciality – as our new Chief Executive Officer. It has become clear for a fair period now that MCO needed to grow up and add job specific technical leaders, whereas in the past the company has been run like a friendly, well meaning co-op, with input from some smart mining people on a part-time basis. Mike Botting's appointment as CEO in July 2011 underlines our near term production aspirations and he has added some words in this report by way of introduction to himself and the vision he has for Morning Star's projects. We warmly welcome Mike aboard and trust you our shareholders will see a clearer and more professional approach to what is now a much larger yet more focused and technically challenging business than in past years. Along with the new executive management at MCO and with the expanded projects and cash flows, has come a need for more stringent and structured financial management and we have added an in-house financial officer to this end.

PR, roadshows, conferencing and publicity have been one area where MCO is starting to take tentative steps to become better recognised. It was always my contention that until a solid mining story with a

bright and sustainable future emerged, it was pointless 'flogging' the company to brokers or a wider audience of sophisticated investors and the general investing public. I believe that story can now be told and MCO will consistently be telling the story over the coming period. This will include conferences such as the Mines and Money series (Hong Kong, Sydney and London) and getting out into the broker/roadshow market more aggressively with the story.

Summary

Earlier I touched on the significant Capex investments your company has made in site-based infrastructures over the year. The expansion, upgrades and renewal of the key site-based production-focused infrastructure are a compelling sign that we are set-up and ready to go into 2012. The work has primarily been focused within the Morning Star mine shaft, on the site-based processing (gravity milling) facility, on state of the art brand new haulage processes, on a new geological camp close to site, on power above-ground and in-mine at the Morning Star Goldmine, on a purpose built water treatment (arsenic cleansing) plant, on new machinery and maintenance facilities, on various key items of mobile plant such as a small bogger/loader for hauling ore from various regional adits and a new ore loader for use at the gravity treatment plant.

The close of the 2011 year sees your company in great financial and managerial shape and ready to reap the benefits of a strong gold price as we commence production. The business carries less risk than in prior years. Our goal is to consistently produce gold and make this an economic opportunity, notwithstanding the challenges of tight labour and increased costs across the business.

I am confident we've got a good year ahead of us and look forward to sharing the benefits with all of you.

Sincerely



Nick Garling

Executive Chairman

ceo's message

Dear Shareholder

Having officially joined Morning Star (MCO) just following the close of the 2011 annual term, I feel it is appropriate to introduce myself and comment on the opportunities for MCO.

My first exposure to MCO's operations was as a mining consultant in the second half of the period. My initial impressions were that this is an operation that could, with the right leadership team become a successful gold producer. The exposure I gained to Nick Garling, the MCO team and to the projects proved invaluable in introducing me to Morning Star.

Since accepting the role of CEO I have been spending the majority of my time at the site of operations overseeing our desired outcomes of efficient, profitable, sustained gold production leading to expansion. In the near term MCO's priorities are to:

- Commence safe, environmentally responsible and sustainable production at the Morning Star Goldmine in 2011.
- Increase our confidence in mining reserves and resources.
- Replace what we mine and build our reserve and resource inventory to sustain and increase production rates in the future. To this end an expanded diamond drilling program to test the Gap Zone at Morning Star Goldmine and high priority regional targets has been planned and tendered.
- Continue preparations for trial mining and diamond drilling at the Rose of Denmark Mine and Loch Fyne prospect.
- Achieve efficiency in operating practices and costs of the business.

As has been well documented in this report, the commencement of production at the Morning Star Goldmine has been contingent upon the return and commissioning of the new purpose built single drum high speed winder. The winder is undergoing final commissioning at the time of writing. Mining is expected to resume late in October with milling to resume shortly after this. The installation and subsequent commissioning and testing of the winder have focused on multiple levels of safety outcomes for the new

primary haulage system. MCO has used best practice and now has a faster, safer and more reliable system at site than previously. This is essential for our growth plans to be successful.

While the winder upgrade was being completed, MCO also took the opportunity to carry out significant shaft upgrade works from surface to 9 Level (275m depth). These works will ensure the integrity of the shaft in the longer term and allow for safe operation at a greatly increased hoisting capacity. As the shaft upgrade works progressed, access has been possible back into key areas of the mine, enabling preparatory work for ore production to be completed on several levels.

We have also taken a more aggressive approach back into exploration at Morning Star both at surface and underground. MCO has sent out requests for tenders comprising 27,000 metres of diamond drilling. The award of the contract is anticipated in November 2011.

The projects at Morning Star and surrounds are a terrific opportunity to get a company like MCO into sustainable, safe and profitable gold production. I look forward to reporting our progress in coming months.

Sincerely



Mike Botting

CEO



review of operations

year ended 30 june 2011



review of operations

year ended 30 June 2011

The financial year ended 30 June 2011 has been a challenging one for Morning Star Gold NL (MCO). As we focused on returning one of Australia's famous old gold sites to production at Woods Point, ageing equipment and infrastructure impacted heavily on achieving our core goals. Every mining site needs heavy investments in infrastructure before any prospect of cash flow is possible. This front-loaded spend is required to create consistent production. It's a heavily Capex laden period for any aspiring producer. This is the period through which we've just lived through at Morning Star. Now we can see the light as the bulk of our work in preparation is finalised.

Winder

In the 2010 financial year, MCO committed to purchasing a new custom made single drum hi-speed winder for the Morning Star Goldmine with the expectation that it would be in place and commissioned in early 2011 to coincide with the completion of another large capital investment project – the gravity processing plant. Regulatory issues raised by WorkSafe Victoria meant that the new winder was deemed (in part at least), inappropriate for the higher production speeds and haulage capabilities it was conceived for. Consequently the winder was returned to the manufacturer in Queensland and modified to the higher regulatory standards deemed necessary by the statutory authority. At the turn of the period, the winder was still undergoing modifications and at the time of writing, it is undergoing field commissioning at the Morning Star mine site with haulage due to recommence in late October 2011 and production operations in November 2011.

During the period of this delay, the situation at the main mine shaft was further compounded when MCO deemed that its old winder – which started life in the Snowy River Scheme and had been in use at Morning Star since 1993 – was too unreliable to be safely used with the level of confidence and HSE standards demanded, and therefore not fit for the tasks required so it was decommissioned. Although the timing was bad and MCO management and independent experts deemed that there was only a very low chance of the old winder causing any accident, this risk was too high for MCO to carry and it was taken out of service.

Gravity Processing Plant

The new gravity plant construction was completed by Gekko in December 2010, and commissioning of the

mill began in early 2011. Initially over this period, low-grade ore that had been stockpiled in 2010 following mine development headings towards mineralised ore bodies at Maxwell Reef (9L – 275m) and near Dickenson Reef (4L – 120m), was processed and batch treated. Due to the constriction of access encountered with the winder, MCO has not been able to supply the mill with high grade ore and rather than treat low grade development ore at a loss, MCO decided that once the gravity plant was deemed to be operating at a satisfactory rate the plant would be put into care and maintenance until a suitable ore source could be supplied from the Morning Star Goldmine.

Much was learned about the mill's processing ability and what ores it is most effective in treating. The trial milling has provided MCO with a good preproduction test and enabled invaluable knowledge to be gained by MCO's mill operatives and, importantly, ironed out gear breakages and weak points of the circuit.

The mill is ready to accept high-grade ores for which it was designed to treat as soon as the haulage and stope mining has recommenced, which is expected after the close of the period of this report.

Shaft

Due to the lack of a production winder, MCO was able to rent a low speed construction rated winder (not able to be used to haul ore, only men and equipment) which allowed MCO to commence significant and long overdue rehabilitation work on the shaft infrastructures leading from surface down to 10 Level at 310 metres depth.

MCO retained independent expert structural engineers to assess the entire scope of the shaft upgrades with the background that the new high-speed winder – which is rated to operate at a much faster speed and carry more than double the tonnage of the previous winder – would put increased strain on the shaft steelwork and superstructure, which was largely built in the early to mid 1990's. Rehabilitation work was required before the new 160kW single drum winder could operate at full capacity. The work carried out over the period was extensive and was due to be completed late in Q3 2011. It largely involves adding extra cross bearers to the shaft and replacing any bolts and supports that have deteriorated with age (from surface to 10L). By renting the winder MCO has been able to carry out the rehabilitation work while waiting for the new winder to become operational.

review of operations (cont'd)

year ended 30 June 2011

Staff

During the past year MCO has focussed on building the competency of its senior technical staff and workforce with a number of key personnel being employed.

MCO was delighted to hire a Victorian born and bred mining engineer Alexandera (Alex) Kemp as its new Mine Manager in the period.

Alex, who is also a qualified geologist and surveyor, is highly experienced in a number of mining facets including previously working in the Woods Point area as an exploration geologist. She is expected to bring her vast experience and mine engineering skills to bear on increasing the professionalism of the mining team at MCO.

MCO also increased its geological workforce by employing four new geologists and a highly experienced field technician, which allowed for MCO to increase its regional exploration work on its tenements and importantly its database and modelling programs. The geologists range in experience from graduate to a senior exploration geologist and the hires raise the geological workforce to six at site.

This team is still overseen by Dr Peter Jackson and Greg Curnow, both geologists of considerable exploration geology and also mine geology experience.

CEO

As mentioned in the Chairman's message within this report, in June 2011 MCO was extremely pleased to announce that Mike Botting had agreed to join MCO as its Chief Executive Officer reporting to the Board of Directors. Mike has 25 years, experience as a mining engineer, starting his career with Western Mining in Kambalda as a trainee underground miner and rising through the ranks to mine manager at a number of WMC mines.

Following his time with WMC Mike worked for both Macmahon Contractors and mining consultants Mining One, giving him excellent experience in both mine contracting and the technical issues encountered in varied mining consulting work.

Importantly, Mike has many years of experience in narrow vein ore bodies and understands the challenges at Morning Star and around Woods Point.

MCO Board Changes

As touched on in Nick's report, Jeff Williams resigned as a non-executive director effective 30 June 2011. Jeff has provided solid professional support and been a great sounding board to the company since 2004 and MCO wishes him well in all of his future endeavours.

MCO has recently announced that Noel Laidlaw will be joining the board as a non-executive director effective 1 July 2011. Noel is a mining engineer who is enormously well respected and well known across the Victorian mining industry. He held the important and prestigious post of State Mining Warden for nine years until recently and his knowledge of government, regulatory, DPIV and the mining industry in general will be invaluable for Morning Star. Noel has particular expertise in gold milling operations and metallurgy, which is invaluable for MCO as we build our gold production footprint in eastern Victoria.

The Board changes, senior executive appointments and key technical appointees are all designed to position Morning Star for the first time to professionally engage this vital phase of its growth. The new team has been retained with a clear view to deliver the company to a level commensurate with where it aspires to be amongst its gold production peer group. The team will be responsible for delivering on MCO's considerable promise over the next few years in a methodical and transparent fashion with a clear road map obvious to all stakeholders.

Infrastructure Upgrades

Crucially for Morning Star, several important projects aimed at significant productivity improvements and sustainable gold production were completed or are well advanced at the period end. MCO has used the past year to upgrade, replace and add to its infrastructure at the Morning Star Goldmine with the list including but not limited to:

- A brand new purpose built gravity processing plant (mill)
- New security including fencing, gates, gold room and back to base video cameras
- New administrative offices and accommodation in Woods Point
- New Exploration offices and core shedding and core farm

review of operations (cont'd)

year ended 30 June 2011

- New telecommunications and computer network
- New site amenities such as larger miners change rooms and ablution blocks
- New secure stores facility
- A brand new purpose built water treatment plant (arsenic removal)
- A new 5 tonne 4WD truck and several mine 4WD vehicles
- Purchase of a Toro 150d underground bogger/ore loader
- Purchase of a Caterpillar 924G front end loader for moving ores from shaft to mill
- A new 500kVA electricity sub-station
- Upgrading all mine electrical circuits from 415V to 1,000V
- Installation of a standalone generator to supply backup power to the entire mine site
- Installation of primary exhaust fan on the 2 Level to aid ventilation
- Installation of vent doors on all levels of the mine
- Fabricated 1 tonne ore trucks for underground rail haulage
- Underground rail enhancements for haulage
- Purchased and rebuilt locos for underground haulage
- Rebuild of the main bridge into Paradise Point and the Rose of Denmark mine
- Construction of brand new paste backfill plant (completion due in November 2011)
- Design and construction of significant structural shaft and headframe additions
- Design and construction of new haulage systems including PLC driven safety upgrades
- Construction of a whole of mine site water reticulation and fire fighting system
- Construction of failsafe and emergency tailings storage system

Exploration and Development

With access to mining and development works at the Morning Star underground hindered for prolonged

periods, exploration and development focused on drilling at three locations and further development at the Rose of Denmark mine (RoD) along with mapping and sampling of the main adit accessing the RoD (Cannon's Creek adit).

Rose of Denmark (Mining Licence (MIN) 5299 JV)

Work over the period saw over 500 metres of adit refurbishment at the Rose of Denmark (RoD) completed. The area was made safe to MCO stringent standards in order for future exploration and developments planned at the site. These works involved widening the main access drive into the RoD so an underground drill rig and mining machinery including our new Toro bogger loader could be taken into the mine. The plan is to conduct a significant program of diamond drilling from underground within the dyke bulge as well as making the mine meet the necessary safety standards in order for underground mining and ore haulage to be carried out. Given the site had no access since just after the end of World War I, this has been a significant task. The exploration and resource drilling is scheduled for early 2012.

While carrying out the stripping work at the Cannon's Creek adit, MCO geologists have been sampling and mapping the drive and numerous samples of coarse visible gold have been found in the RoD dyke material up to 2mm in size. Assay results from the sampling have been up to 851g/t Au. MCO policy dictates that samples should be first inspected for visible gold prior to being submitted for assaying. If gold is present, the samples will be replaced with another sample in order not to deliberately sample high grade material, rather the lower grade material of the sample area.

Due to the positive results received at the RoD adit, MCO engineers have been planning to carry out initial trial mining programs on two areas. This will likely occur prior to the diamond drilling commencing, to fully test the area's potential as a second ore source for MCO's Woods Point milling operations.

Gold in the Woods Point Dyke Swarm is most often concentrated in the dyke bulges and MCO is heartened that mapping at the RoD has confirmed that the dyke widens out from its normal width of ~2 metres up to 25 metres wide.

Up to the end of the 2011 financial year 49 samples had been collected from the RoD adit and the average of the results was 19.9 g/t Au with a highest grade of 851g/t Au with no top cut being applied.

All Nations (MIN 5241 JV)

Six of the eight diamond-drill holes at the All Nations prospect near Matlock some 7kms from Woods Point, were completed in the 2011 annual period with the first two being drilled in the previous year. The first stage drilling being planned to assess the historical data that suggest the bulk of the 132,000 ounces of gold mined at the All Nations came, from 2 dykes and one quartz reef structure outside the dykes in sediments (Prince of Wales Reef).

MCO planned the eight drill holes to intersect these three structures at depths below the known workings to test their potential for future mining. Unfortunately no significant intersections were encountered in the period and MCO will use be doing more interpretive geological modelling to plan its future work at the All Nations. The proximity of the All Nations and the Loch Fyne dyke (107Kozs gold production) on the same mining licence (either side of the dividing range) is too important to ignore and more work is being scheduled over 2012.

Loch Fyne (MIN 5241 JV)

Late in the period, MCO was doing an increasing amount of planning work regards finalising DPIV work plans, in order to re-access the 3 Level of the Loch Fyne Mine near Matlock. The Loch Fyne was a prodigious producer as noted above and is a large dyke with good access over several levels. Although the Loch Fyne is in the Thomson Dam catchment (unlike all of MCO's other key targets), its key portals are more than 15kms from the dam and permits are being sought from various regulators to increase underground exploration and mining at the Loch Fyne site.

Reliance (Exploration Licence (EL) 5079)

The Reliance prospect is a large dyke bulge located on EL 5079 near Gaffneys Creek some 12kms northwest of Woods Point. The Reliance workings contain a number of small shafts and two shallow adits. Mapping and sampling by MCO in 2010 suggested that the dyke bulge – which is the typical and main source of gold mineralisation in the Woods Point area – was at least 35 metres wide, making the Reliance potentially the third

or fourth biggest dyke bulge in the area. Preliminary sampling of the adit indicated that economic levels of gold are present with one sample registering 12g/t Au.

MCO began drilling at the Reliance prospect in Jan 2011, with seven diamond holes being completed in phase one of the program at the dyke. The drilling primarily planned to delineate the size and dimension of the Reliance dyke as well as test its mineralised potential.

Results from the Reliance drilling were varied but not lacking in encouragement considering it's the first site there that's ever been drilled. We have other sites pegged out for drilling at Reliance which will aid the information we have to date. The best assay result returned 4.4g/t Au over 0.7 metres (RLD1002). Importantly though, the geology logged in the holes indicates that the right conditions are present for gold mineralisation and when this is coupled with the fact that visible gold was logged in one of the holes (RLD1006), MCO is encouraged that the Reliance has good potential for the future. Drilling is planned for 2012 at the site.

Morning Star Hill (MIN 5009)

MCO geologists have been keen to prove a theory that predicted a mineralised reef ran from 4 Level (Dickenson zone) up to the old workings located above the level of the Morning Star mine shaft collar. The reef had been likely pierced by drillhole MS357 that had intersected a zone of 2.65 metres width grading 28.17g/t Au.

In March 2011 MCO committed to a surface based diamond-drilling program of six holes to test the theory and to see if the zone of mineralisation in MS357 could be replicated. At the end of the financial year, five of the six holes are completed. Results from four of the five diamond holes indicated that the reef (already mapped underground on Levels 3 and 4) continued up above the shaft collar level. Even more importantly, the drill holes proved that the gold mineralisation in MS357 continued and that another two conjugate reefs were also present.

It should be noted that due to the nuggety nature of the gold mineralisation at the Morning Star dyke, drill intercepts might not always contain high-grade results. However they are still to be considered interesting provided they pierce a structural continuation we are looking for. MCO geologists look at the geology, alteration and mineralisation, along with the length of the

review of operations (cont'd)

year ended 30 June 2011

intercepts and their relationship to the other drillholes before deciding if the drill intersection is significant or not. At the close of the period, more drilling was taking place at the Morning Star Hill from a different site and MCO are very encouraged by results of the drill program to date. A successful drill out of a new reef in this area of the Morning Star Goldmine is important as access is good and the mineralised ore would be shallow at ~100 metres depth and less.

Regional Targets

MCO has plenty of other highly rated geological targets on its eastern Victorian tenements, in close proximity to its Woods Point hub, which will be further explored and developed over 2012-13.

On EL 5079 near Gaffneys Creek lies the Wallaby dyke. Access is currently difficult as a short track needs to be cut to our desired drill site but the sheer size of the Wallaby dyke bulge and the fact our only exploration attempt to date returned a grab sample from next to the main adit mullock dump of 78g/t Au is considered very encouraging. The Wallaby program is being developed for 2012 start-up.

On MIN 5009 not far from the Morning Star Goldmine, the Waverly dyke is still a tantalising prospect with over 4kms of outcropping dyke at surface on our 100% controlled ground and access from several directions. Although the Waverly/Tingha dyke is very narrow in structure at surface – some 3 metres or so in width – the dyke is yet to be tested to depth other than an earlier drill campaign of six diamond holes which intersected visible gold in hole 5 of the program. This was from one small place along the dyke and much more testing of the structure needs to be done. Access to the Waverly dyke from an adit up on the Tingha Track is available, and in late 2011 MCO will commence planning a second drill program from this underground location with direct access to underground exposures of the dyke. The Waverly dyke will certainly come in for more attention in 2012.

Also on MIN 5009 are other aspects of the Morning Star dyke that have had little exploration from surface. There is very little recorded exploration between the Morning Star, Hope and North Morning Star shafts. Underground samples in 2010 of an adit in close proximity to these shafts (Madisons adit) yielded high-grade assays up to 31g/t Au giving strong encouragement for more exploration to take place on this area of Morning Star

Hill, in close proximity to the township of Woods Point.

On MIN 5299, the Hunts dyke is also a prime 2012 target. Gaffneys Creek flows alongside the access track to both of the Hunts adits. During the heavy springtime rains in late 2010, the access was severely curtailed but MCO are devising a program of surface drilling from above the dyke situated in an old open cut on top of the Hunts dyke. Hunts has arguably our best drill intersection on record of some 134g/t Au over 1.5 metres at ~105 metres depth.

Community and Sustainability

MCO continued a very proactive approach during the 2011 period to the local community in and around Woods Point (the town built at the Morning Star Goldmine). Morning Star Gold's 'Community Engagement Policy' ensures a proactive approach to the local community and covers meetings and local publications to keep our community informed of progress and developments at the Morning Star project. MCO remains an active community participant and, as mentioned in Nick's report, we have a number of community initiatives happening this year and into 2012. Morning Star is active on a number of local fronts, assisting where possible with the Woods Point Museum and historical society, the Woods Point CFA, the Victorian Police at Woods Point, the Woods Point General Store, the Woods Point Progress Association and at the Woods Point Gun Club.

Morning Star's approach to sustainability is two faceted. Firstly we believe in sustaining our people, our staff, contractors and the people who rely upon them. MCO has policies against discrimination on many grounds but one thing we insist upon is our people take pride in their work, treat each other with respect and operate at work in a safe and sustainable manner. We also believe in sustaining the environments around us - both natural and built. We have taken great strides to ensure our footprint at Woods Point is as neutral as it can be. Our plan to mill ore at a single hub from several ore sources without any chemicals which might ordinarily place the environment at risk is one example of our approach. Our investments in infrastructure which protect the natural environment (such as our arsenic treatment plant) is another. MCO realises safe and sustainable approaches such as these benefit the company and every stakeholder in it.





financials

year ended 30 june 2011

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directors' report

The directors of Morning Star Gold NL present the financial report of the Company for the year ended 30 June 2011.

Directors

The names of the directors of the Company in office during the year and up to the date of printing this report, unless otherwise stated, are:

Nicholas M Garling – Director (Chairman)

Appointed as Director 20 March 2007, Chairman 28 April 2010

Nick Garling worked in banking and broking for 21 years in areas concerning equity capital raising, asset disposal, structured derivatives and listed markets sales & trading. He worked with a Sydney legal practice Barraket Kemp & Strang for four years and studied law at Sydney Uni part-time. Following this, Nick changed direction and moved into the financial markets field working in Sydney for Fay Richwhite & FIMAT Societe Generale. He spent 10 years in the 90s/00s in Tokyo, Japan and Hong Kong SAR, China with UBS Warburg & Lehman Brothers where he was a Managing Director of UBS's Equity Markets Group and before that a Managing Director of Lehman's Asia-Pacific Equity business. Nick is a substantial shareholder in Morning Star Gold and works in their Sydney office with regular visits to the mining tenements in and around Woods Point.

Dr Peter G Jackson BSc PhD (Geology) – Non-Executive Director (Independent)

Appointed as Director 10 March 2008

Dr Jackson has been the Director of Exploration and Geology for Morning Star for five years and a Board participant since early 2008. He has over 20 years of extensive practical & technical experience in the Woods Point Dyke Swarm (the local geology surrounding Morning Star's eastern Victorian mining & exploration tenements). Peter lectured at Melbourne's La Trobe University for many years in economic geology and has coauthored scientific texts on the area of MCO's tenements, conducted scores of economic studies into the historic gold mines of eastern Victorian. Peter has a wealth of experience in the Walhalla-Woods Point syncline, where MCO's tenements lie. Peter lived for many years on/off at Australia's Antarctic post and is based in Melbourne, spending working weeks in Woods Point at the Morning Star mine site.

Dr Alexei V Motlokhov PhD (Eco) – Director (Non-Executive)

Appointed as Director 1 February 2011

Mr Motlokhov was welcomed to the Board of Morning Star Gold NL on 1 February 2011. He is based in London and represents the interests of substantial shareholder Chillee Ltd which holds a tad more than 35 Million shares in Morning Star Gold common stock or around 12.3% of the issued capital. This holding was initiated via a \$15M investment via placement in late 2010 and has since been added to on market. Alexei Motlokhov works in London for Latymer Management as their Finance Director. He has extensive experience in strategic and corporate finance consulting. Prior to joining Latymer Management, Alexei worked for Oxera Consulting in various roles over a number of years. His work included provision of strategic advice on corporate restructuring, valuation of intangible assets and valuation of damages in the context of commercial litigation. Alexei also has experience in an advisory capacity on asset valuations as part of global commercial equity financing transactions.

Zhaoquin Zeng – Director (Non-Executive)

Appointed as Director 1 February 2011

Mr Zeng is the Chairman of Shandong Tianye Group (a publicly listed company on Shanghai), which presently holds 28M shares of MCO (9.9% of issued capital) and has a \$4.5M regional joint venture with MCO on two of its five mining titles in the Woods Point regional program. Zhaoquin Zeng holds an MBA from Nankai University. He established Shandong Tianye Real Estate Development Ltd in 1997 and was appointed Chairman at that time. In November 2006, he started what is effectively the 'diversity development' of the Shandong Tianye Group, growing the corporation's business aggressively in size and scope. His entrepreneurial approach has seen Shandong Tianye Group grow strongly to be one of the largest privately run corporations in Shandong Province (China's second largest province by GDP). Mr Zeng has won national and provincial awards for his works in China. STG has interests in real estate, mining, energy and financial services. He is regularly in Australia with offices in Perth and Jinan. He will be a direct contributor to MCO and STG's joint venture interests and a valued board member bringing great skill to MCO around his experience of growing small business enterprises into substantial entities with his energy, drive, ideas and his contacts in China. Mr Zeng is based in Jinan, Shandong Province, China.

directors' report *(cont'd)*

Jeffrey W Williams – Director (Resigned)

Ceased as Director 30 June 2011

Peter G Hepburn-Brown – Director (Resigned)

Ceased as Director 31 December 2010

Noel R Laidlaw MSc (Eng) – Non-Executive Director (Independent)

Appointed as Director 1 July 2011

Noel Laidlaw is a mining engineer with over 30 years of experience in narrow vein underground mining and also with relevant experience in gold processing operations and metallurgy. Noel was the State Mining Warden of Victoria for 10 years and in that role was the most senior independent statutory officer appointed by the State Government to oversee mining disputes and regulatory issues in Victoria and to assist the Minister and entities involved in mining in Victoria in administering the Mineral Resources (Sustainable Development) Act, 1990. Noel has significant experience relevant to MCO's growing projects in eastern Victoria in areas including project management and facilitation, stakeholder/tenements negotiation, knowledge of the MR(SD)A1990 and the accompanying regulatory framework, project compliance, cost estimation of underground and open-cut mining operations and associated treatment plants, mine planning, budget preparation and cost control within mining operations and a very experienced player in occupational health and safety vis a vis mining & exploration projects. Noel is based in Maryborough, Victoria – an area which was at one time the epicentre of world gold output.

Company Secretary – Peter F Harrowsmith

Appointed as Company Secretary 18 February 2011

Peter has been involved in the accountancy industry for nearly 40 years. During that period he has been a director in or a principal of several chartered accounting firms operating in Sydney. He has relevant experience gained from some years as lead auditing partner responsible for half and full year audits of another publicly listed mining company. He is an active advisor to small businesses and is based in Sydney.

Chief Executive Officer – Michael Botting BSc (Eng)

Appointed as CEO in July 2011

Mike Botting has been appointed CEO of Morning Star Gold NL following the end of the 2011 Financial Year. Mike is a mining engineer with over 25 years' relevant experience to the role envisaged at Morning Star. MCO's appointment of Mike as CEO is aimed at the company's transition into gold production. Mike has held senior in-house positions and consulted in senior roles on gold projects in Australia with considerable parallels to the challenges at Morning Star. His work has been for WMC Resources, Bendigo Mining, Central Norseman, Beaconsfield, BHP Billiton, Newmont and Barrick. Mike is based in Melbourne and at the company's eastern Victorian project area.

Directors' Shareholdings

Particulars of shares and options over shares of Morning Star Gold NL in which directors have a relevant interest at financial year end are as follows:

Director	July 1, 2010	Movement	June 30, 2011
N M Garling – Direct	15,541,276	4,659,768	20,201,044
N M Garling – Indirect	15,890,912	433,668	16,324,580
P G Jackson	–	–	–
P G Hepburn-Brown	889,270	(370,000)	519,270
J W Williams	1,150,000	–	1,150,000
Z Zeng	28,000,000	–	28,000,000
A V Motlokhov	–	35,008,696	35,008,696

Directors' Meetings

During the financial year six meetings of directors were held. Attendance at these meetings was as detailed below:

Director	No. of meetings held eligible to attend	No. of meetings attended
N M Garling	6	6
J W Williams	4	4
P G Jackson	6	4
P G Hepburn-Brown	4	4
Z Zeng	1	1
A V Motlokhov	1	0

Principal Activities

The principal activity of Morning Star Gold NL in the course of the 2011 financial year was gold exploration across five eastern Victorian mining tenements and also refurbishment of the Morning Star Goldmine (MIN 5009) in preparation for commencement of gold production at the historic gold production centre in calendar 2011. Secondly to looming gold production, the company is focused on surrounding exploration opportunities at several historic gold production sites in close proximity (20kms radius) of its base in Woods Point, Victoria. The Company remains in an exploration and development joint venture with Chinese partners (Shandong Tianye Group), who are spending \$4.5M in five cash tranches over the 2011-12 financial years and will progressively acquire 51% of Regional Mining Titles MIN 5299 (Dempsey/Rose of Denmark) and MIN 5241 (All Nations/Loch Fyne). There were no other significant changes in the nature of the activities during the year.

Trading Results

The net loss of the Company for the year ended 30 June, 2011 was (\$4,450,942) (2010 \$4,223,365).

Dividend

No dividend has been paid during the year nor have the directors recommended that dividends be paid at this stage.

Review of Operations

During the 2011 annual reporting period Morning Star Gold NL (ASX: MCO) was increasingly involved with development of a gold production hub based at the Morning Star Goldmine in Woods Point, Victoria.

The first gold was produced from the Morning Star site in 50 years.

The company also carried out exploration on its surrounding eastern Victorian tenements with the objective of identifying additional economic mineral deposits to aid production. Such exploration and development was both on wholly owned tenements and as part of the company's Joint Venture with Shandong Tianye Group.

The company constructed onsite gravity milling facilities at Morning Star and commenced a significant expansion and renewal of on-site infrastructures within its main shaft at Morning Star, in haulage, in its site geological camp, in power supply both above-ground and in-mine, in water treatment facilities, in mobile plant and staff accommodation at site.

A comprehensive review of the company's operations during the 2011 financial year appears on page 6 in this Annual Report.

directors' report *(cont'd)*

Remuneration Report

The remuneration of directors is established by the shareholders by way of a fixed annual fee.

There is no relationship between executive remuneration and the performance of the Company.

The Company is not of a size to justify a separate remuneration committee; all matters regarding directors' emoluments are subject to scrutiny at board meetings.

Remuneration of Key Management Personnel for the year ended 30.06.11

Directors	Directors' Fees \$	Consulting Fees \$	Superannuation Contribution \$	Cash Bonus \$	Non-Cash Benefits \$	Options \$	Total \$
N M Garling	20,000	250,028	24,302	-	-	-	294,330
J W Williams	30,000	-	1,800	-	-	-	31,800
P G Jackson	20,900	66,424	-	-	-	-	87,324
P G Hepburn-Brown	10,900	23,100	-	-	-	-	34,000
Z Zeng	-	-	-	-	-	-	-
A V Motlokhov	-	-	-	-	-	-	-
	81,800	339,552	26,102	-	-	-	447,454

Remuneration of Key Management Personnel for the year ended 30.06.10

Directors	Directors' Fees \$	Consulting Fees \$	Superannuation Contribution \$	Cash Bonus \$	Non-Cash Benefits \$	Options \$	Total \$
N M Garling	31,800	140,000	-	-	-	-	171,800
J W Williams	31,800	-	-	-	-	-	31,800
P G Jackson	31,800	80,930	-	-	-	-	112,730
P G Hepburn-Brown	7,944	43,477	-	-	-	-	51,421
M H Bird	-	-	33,797	-	-	-	33,797
M M Garling	26,843	94,000	-	-	-	-	120,843
	130,187	358,407	33,797	-	-	-	522,391

Directors or their associates were paid consulting fees in the normal course of business in respect to the Company's mining and exploration program as set out in Note 20.

The Company had up to 29 employees during the year ended 30 June, 2011. Employment and service contracts were instigated in the annual period with staff.

Interest in Contracts

Since the end of the previous financial year no director has had any interest in any contract or proposed contract with the Company.

Remuneration Report, continued

Significant Changes

Since the end of the previous financial year there have been no significant changes in the state of affairs of the Company. However the company significantly increased available infrastructure at the Morning Star Goldmine in order to facilitate upcoming gold production, including the establishment of a gravity gold treatment plant. Haulage enhancements at the Morning Star Goldmine were progressing at the close of the period.

Financial Position

Despite an increased expenditure of \$4,776,827 (\$3,151,649 in 2010) on its exploration and development programs, an issue of 32,608,696 shares raised \$15,000,000 before costs of the issue (\$12,359,660 in 2010) and the Company's net assets increased by \$9,659,058 to \$19,662,547 (\$7,623,109 to \$10,003,489 in 2010).

Likely Future Developments

Morning Star continues to plan regional exploration around its Woods Point hub in order to supplement resources available to put through its mill at Woods Point. Several high potential exploration and development sites continue to be advanced.

Environmental Regulations

The Company is subject to environmental regulations in respect to its exploration and mining activities and has fully complied with its obligations. No known rehabilitation commitments exist at the date of preparation of the accounts.

Since Balance Date

There have been no significant changes since balance date.

Options

At the date of this report there are no unissued ordinary shares of the Company under option. However 500,000 1 cent partly paid shares (with 9 cents to pay) are held by a former director Mr Bird.

Non-Audit Services

There were no non-audit services provided to the Company during the year by the independent auditors.

Auditor's Independence Declaration

The Company's auditor has provided an independence declaration to the Company for the year ended 30 June 2011. The declaration forms part of this report.

Signed in Sydney on this 30th day of September, 2011 in accordance with a resolution of directors.



N M Garling
Director



P G Jackson
Director

auditor's independence declaration

Under Section 307c of the Corporations Act 2001

To the Directors of Morning Star Gold NL

I declare that, to the best of my knowledge and belief, during the year ended June 2011 there have been:

1. no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
2. no contraventions of any applicable code of professional conduct in relation to the audit.

DF Kaye and Co
Chartered Accountants



Dale F Kaye FCA
666B Pittwater Road
Brookvale NSW 2100

Dated this 30th day of September 2011

statement of comprehensive income

For the year ended 30 June, 2011

	Notes	30 June 2011 \$	30 June 2010 \$
Revenue	4	2,970,000	174,736
Gain/(loss) on revaluation of investments		439,000	138,700
Exploration & development expenses		(4,776,827)	(3,151,649)
Administration expenses		(3,083,116)	(1,385,152)
Profit/(loss) before income tax		(4,450,942)	(4,223,365)
Income tax expense	2	-	-
Profit/(loss) for the year		(4,450,942)	(4,223,365)
Other comprehensive income		-	-
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		(4,450,942)	(4,223,365)
Basic earnings per share	17	(1.64) cents	(2.42) cents
Diluted earnings per share	17	(1.64) cents	(2.42) cents

The accompanying notes form part of these Financial Statements

statement of financial position

As at 30 June, 2011

	Notes	30 June 2011 \$	30 June 2010 \$
Current Assets			
Cash and Cash Equivalents	6	10,549,618	6,782,432
Receivables	7	446,608	301,662
Inventory	8	254,459	–
Financial Assets	9	734,000	259,000
Total Current Assets		11,984,685	7,343,094
Non-Current Assets			
Property, Plant and Equipment	10	8,070,605	3,971,566
Mining Properties	11	716,858	716,858
Mine Security Bond		2,000	2,000
Total Non-Current Assets		8,789,463	4,690,424
Total Assets		20,774,148	12,033,518
Current Liabilities			
Trade and Other Payables	12	1,050,283	1,466,774
Provisions	13	61,318	46,455
Other Current Liabilities		–	516,800
Total Current Liabilities		1,111,601	2,030,029
Total Liabilities		1,111,601	2,030,029
Net Assets		19,662,547	\$10,003,489
Equity			
Issued Capital	14	43,771,891	28,519,395
Reserves	15	664,760	1,807,256
Retained Profits (Accumulated Losses)		(24,774,104)	(20,323,162)
Total Equity		19,662,547	10,003,489

The accompanying notes form part of these Financial Statements

statement of changes in equity

For the year ended 30 June, 2011

	Share capital \$	Accumulated losses \$	Expired 1992 option premium reserve \$	Option reserve \$	Employee benefits reserve \$	Total \$
Balance as at 30.06.09	16,670,391	(16,099,797)	54,820	1,753,466	1,500	2,380,380
Shares Issued	12,359,660	-	-	-	-	12,359,660
Options Issued	-	-	-	7,000	-	7,000
Issue costs	(506,745)	-	-	(7,000)	-	(513,745)
Irrecoverable subscriptions	(5,411)	-	-	(1,030)	-	(6,441)
Profit/(loss)	-	(4,223,365)	-	-	-	(4,223,365)
Other comprehensive income	-	-	-	-	-	-
Transfer to option reserve from 1992 option premium reserve	-	-	(54,820)	54,820	-	-
Transfer to share capital from employee benefits reserve	1,500	-	-	-	(1,500)	-
Balance as at 30.06.10	28,519,395	(20,323,162)	-	1,807,256	-	10,003,489

	Share Capital	Accumulated Losses	General Reserve	Option Reserve	Employee Benefits Reserve	Total
Shares Issued	15,000,000	-	-	-	-	15,000,000
Issue costs	(900,000)	-	-	-	-	(900,000)
Profit/(loss)	-	(4,450,942)	10,000	-	-	(4,440,942)
Transfer to/(from) option reserve	1,152,496	-	-	(1,152,496)	-	-
Transfer to/(from) general reserve	-	-	654,760	(654,760)	-	-
Balance as at 30.06.11	43,771,891	(24,774,104)	664,760	-	-	19,662,547

The accompanying notes form part of these Financial Statements

statement of cash flows

For the year ended 30 June, 2011

	Notes	30 June 2011 Inflows (Outflows) \$	30 June 2010 Inflows (Outflows) \$
Cash Flows from Operating Activities			
Fuel tax credits received		21,535	178
Interest received		538,258	136,106
Payments to suppliers & employees		(5,794,921)	(3,925,282)
Interest paid		–	(445)
Net increase/(decrease) in cash from operating activities	24	(5,235,128)	(3,789,443)
Cash Flows from Investing Activities			
Payments for property, plant & equipment		(4,572,376)	(3,100,584)
Purchase of financial assets		(36,000)	–
Proceeds from sale of fixed assets		25,000	
Net increase/(decrease) in cash from investing activities		(4,583,376)	(3,100,584)
Cash Flows from Financing Activities			
Proceeds from issue of shares and options		15,000,000	12,296,660
Placement fees and other share issue costs		(900,000)	(443,745)
Proceeds from funding of joint venture		1,750,000	750,000
Expenses of joint venture		(2,264,310)	(173,548)
Net increase/(decrease) in cash from financing activities		13,585,690	12,429,367
Net increase/(decrease) in cash held		3,767,186	5,539,340
Cash at the beginning of the financial year		6,782,432	1,243,092
Cash at the end of the financial year	23	10,549,618	6,782,432

The accompanying notes form part of these Financial Statements

notes to financial statements

For the year ended 30 June, 2011

1. Significant accounting policies

Statement of Compliance:

The financial report is a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards, Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial statements have been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards (IFRS).

The financial report was authorised for issue by the Directors on 30 September, 2011.

Basis of Preparation:

The financial report is presented in Australian dollars.

The financial report is prepared on the historical cost basis except for financial instruments which have been stated at their fair value.

(a) Income Tax

The charge for current income tax expenses is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(b) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses.

Buildings, Plant and Equipment

Buildings, plant and equipment are measured on the cost basis less depreciation and impairment losses.

The carrying amount of buildings, plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Depreciation

The depreciable amount of all fixed assets including buildings, is depreciated over their useful lives to the economic entity commencing from the time the asset is held ready for use.

notes to financial statements *(cont'd)*

For the year ended 30 June, 2011

1. Significant accounting policies, continued

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate	Method
Buildings	2.5%	Straight Line
Plant and equipment	10% - 50%	Diminishing Value

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income.

(c) Exploration and Development Expenditure

Exploration and Development Expenditure consists of expenditure on prospects still at an exploratory stage or at an early stage of development. These costs include costs of acquisition, exploration, determination of recoverable reserves, economic feasibility studies, mine refurbishment and all technical and administrative overheads directly associated with those projects. Recoupment of exploration and development costs is dependent upon the successful commercial exploitation of each area of interest. The company adopts the 'area of interest' method of accounting whereby all exploration and development costs relating to areas of interest are written off as incurred.

(d) Mining and Development Leases

Mining and Development leases are carried at cost less, where applicable, impairment losses.

When production commences, the cost of the relevant lease will be amortised over the life of the mine according to the rate of depletion of the economically recoverable reserves. Estimated costs of site restoration, where material, are provided over the life of the mine from when the lease is acquired.

Security deposits have been lodged with the Department of Mineral Resources in relation to potential site restoration costs.

(e) Financial Instruments

Recognition

Financial instruments are initially measured at fair value. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets at fair value through profit and loss

Financial assets in this category are stated at fair value. Realised and unrealised gains and losses arising from changes in fair value are included in the statement of comprehensive income in the period in which they arise.

Fair Value

Fair value is determined based on current bid prices for all quoted investments.

(f) Impairment of Assets

At each reporting date, the company reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of comprehensive income.

notes to financial statements *(cont'd)*

For the year ended 30 June, 2011

1. Significant accounting policies, continued

(g) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

(h) Inventories

Inventories are measured at the lower of cost and net realisable value.

The cost of mining stocks includes direct materials, direct labour, transportation costs and variable and fixed overhead costs relating to mining activities.

(i) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the assets or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

(j) Share-based Payments

Equity-settled share-based payment transactions with suppliers are measured at the fair value of the goods and services received. The fair value is measured at the market price for those goods and services.

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Fair value is determined based on current bid prices for all quoted investments.

(k) Interests in Joint Ventures

The company's share of the assets, liabilities, revenue and expenses of joint venture operations are included in the appropriate items of the statement of comprehensive income and statement of financial position.

(l) Critical Accounting Estimates and Judgments

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgments, estimates and assumptions that effect the application of policies and the reported amounts of assets, liabilities, revenue and expenses.

The estimates and judgments incorporated into the financial report are based on historical experiences and the best available current information on current trends and economic data, obtained both externally and within the company. The estimates and judgements made assume a reasonable expectation of future events but actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision effects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. There were no key adjustments during the year which required accounting estimates and judgments.

(m) Key Estimates

Impairment

The company assesses impairment at each reporting date by evaluating conditions specific to the company that may lead to impairment. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value in use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

Rehabilitation

The company is required to estimate the rehabilitation costs of its operations as described in the accounting policy note in paragraph (d). The estimate is based on management best estimate of the cost.

notes to financial statements *(cont'd)*

For the year ended 30 June, 2011

1. Significant accounting policies, continued

(n) Revenue

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument.

Other revenue is recognised when the right to receive the revenue has been established.

All revenue is stated net of the amount of goods and services tax (GST).

(o) Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to the end of the reporting period. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled.

2. Income tax expense

No Income Tax is payable in respect of either this year or the previous year.

The Company has residual deductible exploration expenditure and losses for Income Tax purposes unrecouped at 30 June, 2011 as shown below, subject to confirmation by the Australian Taxation office.

The future Income Tax benefit which may be derived from this expenditure and tax losses has not been carried forward as an asset in the balance sheet and will only be obtained if the Company:

- i) derives future assessable income of a nature and sufficient amount to enable the benefit to be realised;
- ii) continues to comply with the legal conditions for deductibility; and
- iii) no changes in legislation adversely affect the ability of the Company to realise the benefit.

	30 June 2011 \$	30 June 2010 \$
Exploration & development expenditure & tax losses carried forward	25,438,497	20,192,026
The benefit of these deductions at the income rate of 30%		
Future Income tax benefit not brought to account	7,631,549	6,057,608
Numerical reconciliation of income tax expense to prima facie tax payable is as follows:		
Profit (loss) from operations before income tax expense	(4,450,942)	(4,223,365)
Tax at Australian tax rate of 30% (2010 also at 30%)	(1,335,283)	(1,267,010)
Tax effect of non-temporary differences	5,927	400
Tax effect of equity raising costs debited to equity	(102,781)	(52,216)
Tax effect of tax losses and temporary differences not recognised	1,432,136	1,318,826
Income tax expense	-	-

notes to financial statements *(cont'd)*

For the year ended 30 June, 2011

3. Franking account

Balance of franking account at year end	25,496	25,496
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4. Revenue

	30 June 2011 \$	30 June 2010 \$
Interest Received	538,258	136,106
Fuel Tax Credits	21,535	178
Equipment Hire Fee	103,310	10,800
Joint Venture Management Fee	290,330	27,652
Joint Venture Expenditure Recovered	2,016,567	-
	2,970,000	174,736

5. Profit (Loss) for the year

The profit/(loss) for the year has been determined after charging:		-
Auditor's Remuneration: Auditing or Reviewing the Financial Report	92,565	26,167
Other Assurance Services	24,865	-
Depreciation of Property, Plant & Equipment	195,660	297,275

6. Cash and Cash Equivalents

Cash on Hand	-	401
Cash at Bank	283	6,556,207
Interest Bearing Deposits	10,554,093	229,586
Corporate Credit Card	(4,758)	(3,762)
	10,549,618	6,782,432

7. Receivables

Due from Joint Venture	181,644	
Indirect Taxes Recoverable	201,055	297,300
Prepaid Expenses	24,609	-
Other Receivables	39,300	4,362
	446,608	301,662

notes to financial statements *(cont'd)*

For the year ended 30 June, 2011

8. Inventory

	30 June 2011 \$	30 June 2010 \$
Consumables on hand	180,866	–
Fuel on hand	13,880	–
Gold on hand	59,713	–
	254,459	–

9. Financial assets: At fair value through profit and loss

Silver Mines Limited	726,000	240,000
Central West Gold	8,000	19,000
At fair value	734,000	259,000

10. Property, Plant and Equipment

Buildings at Cost	360,475	274,159
Less: Accumulated Depreciation	73,963	62,939
	286,512	211,220
Plant and Equipment at Cost	8,723,930	4,542,723
Less: Accumulated Depreciation	939,837	782,377
	7,784,093	3,760,346
	8,070,605	3,971,566

Movements in Carrying Amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

	Buildings \$	Plant and Equipment \$	Total \$
Balance at 30 June 2009	–	328,022	328,022
Additions	214,005	3,726,814	3,940,819
Disposals	–	–	–
Depreciation	(2,785)	(294,490)	(297,275)
Balance at 30 June 2010	211,220	3,760,346	3,971,566
Additions	146,470	4,216,465	4,362,935
Disposals	–	(68,236)	(68,236)
Depreciation	(71,178)	(124,482)	(195,660)
Balance at 30 June 2011	286,512	7,784,093	8,070,606

notes to financial statements *(cont'd)*

For the year ended 30 June, 2011

11. Mining Properties

	30 June 2011 \$	30 June 2010 \$
Mining & Development Leases – See A below	716,858	716,858
Mining Exploration & Development Expenditure – See B below	–	–
	716,858	716,858
<i>A. Mining and Development Leases:</i>		
Balance brought forward	716,858	716,858
Balance carried forward	716,858	716,858
<i>B. Mining Exploration and Development Expenditure:</i>		
Balance brought forward	–	–
Expenditure incurred during the year	4,776,827	3,151,649
Expenditure written off during the year	(4,776,827)	(3,151,649)
Balance carried forward	–	–

Ultimate recoupment of mining exploration & development expenditure carried forward is dependent upon successful development and exploitation or sale of the respective areas.

12. Trade and Other Payables

Trade Creditors	888,776	1,318,766
Sundry Creditors and Accruals	–	99,843
Employee Benefits Payable	–	15,879
Unsecured Loan	161,507	32,286
Indirect Taxes Payable	1,050,283	1,466,774

13. Provisions

Provision for Annual Leave	61,318	46,455
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notes to financial statements *(cont'd)*

For the year ended 30 June, 2011

14. Issued capital

	30 June 2011 \$	30 June 2010 \$
<i>Paid up capital:</i>		
At beginning of financial year:		
251,701,766 Ordinary Shares (2010 127,950,487)	28,514,395	16,665,391
500,000 @ 1c Paid (2009 500,000)	5,000	5,000
<i>Issued during the year:</i>		
32,616,696 Ordinary Shares (2010 123,751,279)	15,000,000	12,359,660
Share Issue Costs	(900,000)	(506,745)
Transfer from Option Reserve	1,152,496	-
Irrecoverable Subscriptions Written Off	-	(5,411)
Transfer from Employee Benefits Reserve	-	1,500
	43,771,891	28,519,395
At end of financial year:		
284,318,462 Ordinary Shares (2010 251,701,766)	43,766,891	28,514,395
500,000 @ 1c Paid (2010 500,000)	5,000	5,000
	43,771,891	28,519,395

During the year the following changes were made to the share capital:

Partly Paid Shares

During March 2006, 2,000,000 shares were issued to MCO's four directors of the time (Messrs Mal Bird, Jeff Williams, Tim Allen & Max Garling) at a price of 10c per share, paid to 1c on issue and the unpaid amount to be called by the Company not later than 10 years after the issue date.

As at 30 June 2011, only 500,000 partly paid shares held by Mr M Bird remained unpaid as to 9c per share.

Options

As at 30 June 2011, the Company had no share options on issue (2010: no share options on issue).

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held.

At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Partly paid shares have no voting rights and no rights to dividends or any other distributions while they are partly paid.

Share options carry no rights to dividends and no voting rights.

notes to financial statements *(cont'd)*

For the year ended 30 June, 2011

14. Issued capital, continued

Capital Management

The Company's objectives when managing capital is to safeguard the ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Management effectively manages the Company's capital by assessing the Company's financial risks and adjusting its capital structure in response to changes in these risks and in the market. There have been no changes in the strategy adopted by management to control the capital of the Company since the prior year.

There are no externally imposed capital requirements.

15. Reserves

Option Reserve

During the current year, option reserves representing unexercised options were transferred to General Reserve. Exercised options were transferred to share capital.

16. Segments

In the year ended 30 June, 2011 the Company operated entirely within Australia and the principal activity was mineral exploration and refurbishment of the Morning Star Goldmine.

17. Earnings per Share

	30 June 2011 \$	30 June 2010 \$
(a) Earnings used in calculation of basic EPS.	(4,450,942)	(4,223,365)
(b) Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS.	271,096,306	174,427,236

Diluted Earnings Per Share has the same value as Basic Earnings Per Share for both years.

18. Commitments for Expenditure

Exploration Commitments

In order to maintain current rights of tenure to exploration and mining tenements, the Company is required to meet the minimum expenditure requirements of the Victorian Department of Primary Industries. The payment of these obligations, which are not provided for in the accounts are payable as follows:

	30 June 2011 \$	30 June 2010 \$
Not later than one year	959,500	936,800
Later than one year but not later than five years	3,626,200	3,747,200
Later than five years	-	-

notes to financial statements *(cont'd)*

For the year ended 30 June, 2011

19. Key Management Personnel

Details of Key Management Personnel – Directors

Nicholas M Garling	Chairman, Executive Director
Jeffrey W Williams	Director (resigned 30 June 2011)
Peter G Jackson	Non-Executive Director
Peter G Hepburn-Brown	Director (resigned 31 December 2010)
Zhaoquin Zeng	Non-Executive Director
Alexei V Motlokhov	Non-Executive Director

Compensation of Key Management Personnel

	30 June 2011 \$	30 June 2010 \$
Short Term Employee Benefits	331,828	486,794
Post-Employment Benefits	27,002	35,597
	357,930	522,391

Remuneration received or receivable by the Directors of the Company is disclosed in the Directors' Report.

20. Related Parties

Key Management Personnel

The aggregate number of shares and options for shares of Morning Star Gold NL acquired or disposed of by Key Management Personnel during the year is as follows:

Key Management Personnel	Balance at 01.07.10 (*or date of appointment)			Net Change Other	Balance at 30.06.11 (*or date of retirement)		
	Ordinary	1c Paid	Options		Ordinary	1c Paid	Options
N M Garling	15,541,276	–	–	4,659,768	20,201,044	–	–
J W Williams	1,150,000	–	–	–	1,150,000	–	–
P G Jackson	–	–	–	–	–	–	–
P G Hepburn-Brown	889,270	–	–	(370,000)	519,270	–	–
Z Zeng	–	–	–	–	–	–	–
A V Motlokhov	–	–	–	–	–	–	–
Total	17,580,546	–	–	4,289,768	21,870,314	–	–

Transactions including GST entered into during the year with Key Management Personnel are as follows:

1. Mr N Garling received a salary of \$250,028 in the normal course of business in respect of the Company's exploration and development program.
2. Mr P Jackson received geological fees of \$66,424 in the normal course of business in respect of the Company's exploration and development program.
3. Mr P Hepburn-Brown received consulting fees of \$23,100 in the normal course of business in respect of the Company's exploration and development program.

notes to financial statements *(cont'd)*

For the year ended 30 June, 2011

21. Share-Based Payments

NIL

22. Contingent Liabilities

As a condition for the granting of Exploration and Mining Licences, the Company was obliged to lodge with the Department of Mineral Resources security deposits in the form of Bankers Certificates in the total sum of \$208,500 (2010 \$208,500). In the event of the Company failing to fulfil any of its obligations in relation to the grant of the Exploration Licences the security deposits may be applied at the discretion of the Minister for Minerals Resources & Energy towards the costs of fulfilling such obligations.

As a condition for the issuing of the Banker's Certificates, the Company was obliged to set aside the total sum of \$208,500 (2010 \$208,500) which was placed on Term Deposit with its bankers as collateral.

In the event that the bankers are obliged to pay the Minister under the terms of the Banker's Certificates they would have full recourse to the Company for compensation.

The Directors are not aware of any events that have occurred either before or since 30 June 2011 which may result in the forfeiture of any of the above-mentioned funds.

23. Reconciliation of Cash

For the purposes of the statement of cash flows, cash includes cash on hand and 'at call' deposits with financial institutions. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	30 June 2011 \$	30 June 2010 \$
Cash and Cash Equivalents	10,549,618	6,782,432

24. Reconciliation of Net Increase (Decrease) in Cash from Operating Activities to Operating Profit (Loss) after Income Tax

	30 June 2011 \$	30 June 2010 \$
Operating profit (loss) after income tax	(4,450,942)	(4,223,365)
Depreciation	195,660	297,275
Employee share-based payments	-	-
Revaluation of Portfolio Investments	(439,000)	(138,700)
<i>Change in operation assets and liabilities:</i>		
Decrease (increase) in operating receivables	(141,441)	(286,607)
Decrease (increase) in inventory	(254,459)	
Increase (decrease) in operating liabilities	(146,199)	561,954
Net increase (decrease) in cash from operating activities	(5,235,128)	(3,789,443)

notes to financial statements *(cont'd)*

For the year ended 30 June, 2011

25. Since Balance Date

No significant changes have occurred since balance date.

26. Financial Instrument Disclosures

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise adverse affects on the financial performance of the Company. The Company uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rates and other price risks and aging analysis for credit risk.

Risk management is carried out by the Chief Financial Officer under policies approved by the Board of Directors. The Chief Financial Officer identifies and evaluates the risks in close cooperation with the Company's management and Board.

(a) Market Risk

(i) Foreign exchange risk

The Company does not have any significant exposure to foreign exchange risk.

(ii) Price Risk

The Company in the current year did not have any significant exposure to investment or commodity price risk. The Company will have exposure to gold price risk when mining operations begin. Directors have not made any determination at this stage as to whether they will consider commodity price hedge arrangements.

(iii) Cash flow and fair value interest rate risk

The Company has exposure to interest rate risk which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on those financial assets and the financial liabilities.

The Company policy is to ensure that the best interest rate is received for the short-term deposits. The Company uses a number of banking institutions, with a mixture of fixed and variable interest rates. Interest rates are reviewed prior to deposits maturing and re-invested at the best rate.

notes to financial statements *(cont'd)*

For the year ended 30 June, 2011

26. Financial Instrument Disclosures (continued)

The interest rate risk is detailed in the table below.

	Weighted Average Effective Interest Rate %	Floating Interest Rate \$	Fixed Interest Rate Maturing		Non- interest Bearing \$	Total \$
			Within 1 year \$	Over 1 year \$		
2011						
Financial assets						
Cash assets	6.17	284	10,301,874	238,460	–	10,549,618
Receivables					446,608	446,608
Inventory					254,459	254,459
Financial assets at fair value through profit and loss					734,000	734,000
Performance guarantee bonds					2,000	2,000
		284	10,554,093	238,460	1,437,067	11,986,685
Financial liabilities						
Trade and Other Payables					(1,050,283)	(1,050,283)
Net financial assets (liabilities)					386,784	10,936,402
2010						
Financial assets						
Cash assets	3.82	6,454,316	229,586	–	98,530	6,782,432
Receivables					322,862	322,862
Financial assets at fair value through profit and loss					259,000	259,000
Performance guarantee bonds		–	–	–	2,000	2,000
		6,454,316	229,586	–	682,392	7,366,294
Financial liabilities						
Trade and Other Payables		–	–	–	(1,466,774)	(1,466,774)
Net financial assets (liabilities)					(784,382)	5,899,520

(b) Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security in respect of recognised financial assets, is the carrying amount as disclosed in the statements of financial position and notes to the financial statements.

notes to financial statements *(cont'd)*

For the year ended 30 June, 2011

26. Financial Instrument Disclosures (continued)

(c) Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through adequate amount of committed credit facilities and the ability to close out market positions. The Company manages liquidity risk by continuously monitoring forecast and actual cash flows matching maturity profiles of financial assets and liabilities. Surplus funds are generally only invested in instruments that are tradable in highly liquid markets.

The Company at trading date had deposits which mature within twelve months and cash at bank. Due to the cash available to the Company there is no use of any credit facilities at balance date.

(d) Net Fair Values

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The net fair values of the financial assets and financial liabilities approximate their carrying values.

The fair value of financial assets and financial liabilities with standard terms and conditions and traded on organised markets are determined with reference to quoted market prices.

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the statements of financial position and in the notes to the financial statements.

(e) Sensitivity Analysis

The Company has not performed a sensitivity analysis on price risk and its impact on current year results and equity which could result from a change in this risk as the likely impact is insignificant given that no revenue was generated from gold sales during the year.

27. New Standards and Interpretations In Issue Not Yet Adopted

The AASB has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods and which the Company has decided not to early adopt. A discussion of those future requirements and their impact on the Group is as follows:

Standard/Interpretation and applicable date	Applies to
AASB 9: Financial Instruments (December 2010) (applicable for annual reporting periods commencing on or after 1 January 2013)	<p>This Standard is applicable retrospectively and includes revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments. The Company has not yet determined any potential impact on the financial statements.</p> <p>The key changes made to accounting requirements include:</p> <ul style="list-style-type: none">• simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;• simplifying the requirements for embedded derivatives;• removing the tainting rules associated with held-to-maturity assets;• removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost; allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument;• requiring financial assets to be reclassified where there is a change in an entity's business model as they are initially classified based on: (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows; and• requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

notes to financial statements *(cont'd)*

For the year ended 30 June, 2011

27. New Standards and Interpretations In Issue Not Yet Adopted, continued

AASB 124: Related Party Disclosures

(applicable for annual reporting periods commencing on or after 1 January 2011).

This Standard removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities and clarifies the definition of a 'related party' to remove inconsistencies and simplify the structure of the Standard. No changes are expected to materially affect the Company.

AASB 1053: Application of Tiers of Australian Accounting Standards and AASB 2010-2: Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements [AASB 1, 2, 3, 5, 7, 8, 101, 102, 107, 108, 110, 111, 112, 116, 117, 119, 121, 123, 124, 127, 128, 131, 133, 134, 136, 137, 138, 140, 141, 1050 & 1052 and Interpretations 2, 4, 5, 15, 17, 127, 129 & 1052]

(applicable for annual reporting periods commencing on or after 1 July 2013)

AASB 1053 establishes a revised differential financial reporting framework consisting of two tiers of financial reporting requirements for those entities preparing general purpose financial statements:

- Tier 1: Australian Accounting Standards; and
- Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 2 of the framework comprises the recognition, measurement and presentation requirements of Tier 1, but contains significantly fewer disclosure requirements.

The following entities are required to apply Tier 1 reporting requirements (ie full IFRS):

- » for-profit private sector entities that have public accountability; and
- » the Australian Government and state, territory and local governments.

Since the Company is a for-profit private sector entity that has public accountability, it does not qualify for the reduced disclosure requirements for Tier 2 entities.

AASB 2010-2

Makes amendments to Australian Accounting Standards and Interpretations to give effect to the reduced disclosure requirements for Tier 2 entities. It achieves this by specifying the disclosure paragraphs that a Tier 2 entity need not comply with as well as adding specific 'RDR' disclosures.

AASB 2009-12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]

(applicable for annual reporting periods commencing on or after 1 January 2011).

This Standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. The Standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. The amendments are not expected to impact the Company.

AASB 2009-14: Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement [AASB Interpretation 14]

(applicable for annual reporting periods commencing on or after 1 January 2011)

This Standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan.

This Standard is not expected to impact the Company.

AASB 2010-4: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13]

(applicable for annual reporting periods commencing on or after 1 January 2011)

This Standard details numerous non-urgent but necessary changes to Accounting Standards arising from the IASB's annual improvements project. Key changes include:

- clarifying the application of AASB 108 prior to an entity's first Australian-Accounting-Standards financial statements;
- adding an explicit statement to AASB 7 that qualitative disclosures should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments;
- amending AASB 101 to the effect that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income is required to be presented, but is permitted to be presented in the statement of changes in equity or in the notes;
- adding a number of examples to the list of events or transactions that require disclosure under AASB 134; and
- making sundry editorial amendments to various Standards and Interpretations.

This Standard is not expected to impact the Company.

AASB 2010-5: Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]

(applicable for annual reporting periods beginning on or after 1 January 2011)

This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. However, these editorial amendments have no major impact on the requirements of the respective amended pronouncements.

notes to financial statements *(cont'd)*

For the year ended 30 June, 2011

27. New Standards and Interpretations In Issue Not Yet Adopted, continued

AASB 2010-6: Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7]

(applicable for annual reporting periods beginning on or after 1 July 2011)

This Standard adds and amends disclosure requirements about transfers of financial assets, especially those in respect of the nature of the financial assets involved and the risks associated with them. Accordingly, this Standard makes amendments to AASB 1: First-time: Adoption of Australian Accounting Standards, and AASB 7: Financial Instruments: Disclosures, establishing additional disclosure requirements in relation to transfers of financial assets.

This Standard is not expected to impact the Company.

AASB 2010-7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127]

(applies to periods beginning on or after 1 January 2013)

This Standard makes amendments to a range of Australian Accounting Standards and Interpretations as a consequence of the issuance of AASB 9: Financial Instruments in December 2010. Accordingly, these amendments will only apply when the entity adopts AASB 9.

As noted above, the Company has not yet determined any potential impact on the financial statements from adopting AASB 9.

AASB 2010-8: Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112]

(applies to periods beginning on or after 1 January 2012).

This Standard makes amendments to AASB 112: Income Taxes.

The amendments brought in by this Standard introduce a more practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model under AASB 140: Investment Property.

Under the current AASB 112, the measurement of deferred tax liabilities and deferred tax assets depends on whether an entity expects to recover an asset by using it or by selling it. The amendments introduce a presumption that an investment property is recovered entirely through sale.

This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

The amendments brought in by this Standard also incorporate Interpretation 121 into AASB 112.

The amendments are not expected to impact the Company. .

AASB 2010-9: Amendments to Australian Accounting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters [AASB 1]

(applies to periods beginning on or after 1 July 2011)

This Standard makes amendments to AASB 1: First-time Adoption of Australian Accounting Standards.

The amendments brought in by this Standard provide relief for First-time adopters of Australian Accounting Standards from having to reconstruct transactions that occurred before their date of transition to Australian Accounting Standards.

Furthermore, the amendments brought in by this Standard also provide guidance for entities emerging from severe hyperinflation either to resume presenting Australian-Accounting-Standards financial statements or to present Australian-Accounting-Standards financial statements for the first time.

This Standard is not expected to impact the Company.

AASB 2010-10: Further Amendments to Australian Accounting Standards – Removal of Fixed Dates for First-time Adopters [AASB 2009-11 & AASB 2010-7]

(applies to periods beginning on or after 1 January 2013)

This Standard makes amendments to AASB 2009-11: Amendments to Australian Accounting Standards arising from AASB 9, and AASB 2010-7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010).

The amendments brought in by this Standard ultimately affect AASB 1: First-time Adoption of Australian Accounting Standards and provide relief for first-time adopters from having to reconstruct transactions that occurred before their transition date.

[The amendments to AASB 2009-11 will only affect early adopters of AASB 2009-11 (and AASB 9: Financial Instruments that was issued in December 2009) as it has been superseded by AASB 2010-7.]

This Standard is not expected to impact the Company.

notes to financial statements *(cont'd)*

For the year ended 30 June, 2011

28. Joint Venture

The Company has entered into a Joint Venture with Ample Rise Investments, a Hong Kong based resources investor with a long term strategic focus.

The key commercial terms of the Joint Venture are that Ample Rise Investments will expend \$4.5M over a two year period to earn a 51% interest in MIN5299 and MIN5241. Morning Star Gold NL will manage and operate the Joint Venture over this time earning 15% of the amounts expended on the Joint Venture for undertaking that role.

At the balance date, Ample Rise Investments had contributed \$2,500,000 to the Joint Venture with Morning Star Gold NL

Once the \$2,500,000 has been expended, 10% ownership of the two MINs will be effectively transferred to Ample Rise Investments and at that point Morning Star Gold NL will own 90% and Ample Rise (Shandong Tianye) will own 10% of the two MINs.

In the next period it is expected that a further tranche will be contributed by Ample Rise Investments as agreed.

The Company's share of the assets, liabilities, revenue and expenses of joint venture operations are included in the appropriate items of the statement of comprehensive income and statement of financial position.

The Company's share of assets employed in the joint venture was:

	30 June 2011	30 June 2010
	\$	\$
Mining Properties	264,000	264,000

directors' declaration

The directors of Morning Star Gold NL declare that:

1. the financial statements and notes are in accordance with the Corporations Act 2001 and;
 - a) comply with Accounting Standards; and
 - b) give a true and fair view of the financial position of the Company as at 30 June 2010 and its performance for the year ended on that date;
2. the Chief Executive Officer of the reporting period herein and the (Acting) Chief Financial Officer has declared that:
 - a) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
 - b) the financial statements and notes for the financial year comply with the Accounting Standards; and
 - c) the financial statements and notes for the financial year give a true and fair view.
3. in the directors' opinions there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the board of directors.



N M Garling
Director



P G Jackson
Director

Dated this 30th day of September 2011

independent audit report

to the members of Morning Star Gold NL

Report on the Financial Report

We have audited the accompanying financial report of Morning Star Gold NL, which comprises the Statement of Financial Position as at 30 June 2011, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date, a summary of significant accounting policies and other explanatory Notes and the Directors' Declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the 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 control relevant to the preparation and fair presentation of the 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. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

independent audit report *(cont'd)*

to the members of Morning Star Gold NL

Auditor's Opinion

In our opinion:

- (a) the financial report of Morning Star Gold NL is in accordance with the Corporations Act 2001, including:
 - (1) giving a true and fair view of the company's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
 - (2) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporation Regulations 2001;
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in the report of the directors for the year ended 30 June, 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with s 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Morning Star Gold NL for the year ended 30 June, 2011 complies with s 300A of the Corporations Act 2001.

DF Kaye and Co
Chartered Accountants



Dale F Kaye FCA

666B Pittwater Road
Brookvale, NSW, 2100

Dated this 30th day of September 2011

shareholder information

Issued Capital

As at 27 September 2011 the Company had on issue 284,318,462 ordinary shares and 500,000 partly paid shares issued at a price of 10c per share and paid to 1c on issue. The partly paid shares are not quoted on any exchange.

Substantial Shareholders

As at 27 September 2011 the Company had the following substantial shareholders:

NM Garling & SJ Graham	36,737,909 shares
Chillee Limited (and nominee accounts)	35,008,696 shares
Yarandi Investments Pty Ltd + Dirdot Pty Ltd	32,119,764 shares
BBY Nominees Pty Ltd	28,000,000 shares

Distribution of Shareholders

There were 1,860 shareholders. Each shareholder is entitled to one vote for each share held.

The analysis of the number of holders was:

Size of Holding	No. of Holders
1 – 1,000	147
1,001 – 5,000	395
5,001 – 10,000	279
10,001 – 100,000	778
100,001 – and over	261
	1,860

There were no shareholders who held less than a marketable parcel. The top twenty holders held 59.32% of the Company's share capital.

shareholder information *(cont'd)*

Top twenty holders of ordinary shares as at 14 September 2010

Name	Shares	%
NM Garling & SJ Graham	36,737,909	12.92
Chillee Limited	32,608,696	11.47
BBY Nominees Pty Ltd	28,000,000	9.85
Yarandi Investments Pty Ltd	22,327,265	7.85
Dirdot Pty Limited	9,792,499	3.44
JP Morgan Nominees Australia Limited	8,350,391	2.94
Goldsearch Limited	3,404,633	1.20
Citicorp Nominees Pty Limited	3,387,045	1.19
Drexwill Pty Limited	3,000,000	1.06
Forsyth Barr Custodians Limited	2,108,845	0.74
Reynolds (Nominees) Pty Ltd	2,104,955	0.74
Jayare Nominees Pty Limited	2,066,450	0.73
Max M Garling	2,050,000	0.72
Lugger Bay Pty Ltd	1,950,000	0.69
Ms Georgina Conlon	1,890,756	0.67
Mr S L Crutchett + Mrs A P Crutchett	1,830,370	0.64
P Utiger Pty Ltd	1,787,250	0.63
Mr Mark Bloom	1,766,000	0.62
EG Enterprises Pty Ltd	1,765,000	0.62
Mr Bruce Donald Hunt	1,700,000	0.60
Total	168,628,064	59.32

Unquoted Securities

As at 27 September 2011 the Company had 500,000 1c partly paid shares on issue to a former director, namely Malcolm H Bird.

corporate governance statement

Unless disclosed below, all the best practice recommendations of the ASX Corporate Governance Council have been applied for the entire financial year ended 30 June, 2011.

Ethical Standards

All directors, office-holders, employees and consultants are expected to act with the utmost integrity and objectivity and to enhance the reputation and performance of the company.

A code of conduct has been established requiring directors and employees to act honestly and in good faith; exercise due care and diligence in fulfilling the functions of office; avoid conflicts and make full disclosure of any possible conflict of interest; comply with the law; encourage the reporting and investigating of unlawful and unethical behaviour; and comply with the securities trading policy outlined below.

The Board of Directors

The skills, experience and expertise relevant to the position of each director who is in office, are detailed elsewhere in the Company's website under the heading 'About MCO; Our Team; Directors & CEO'. The board generally holds six formal or informal meetings throughout each financial year. At the present time, the board comprises five directors; one executive director and four Non-Executive Directors, (incl. two independent directors). A Chief Executive Officer, Michael Botting reports directly to the Board of Directors.

The Board of Morning Star Gold NL is currently as follows:

Nicholas Mark Garling – Chairman/MD (appointed as a Director on 20 March, 2007). Mr Garling receives a salary for his executive role.

Noel Robert Laidlaw – Non-Executive, Independent Director (appointed as a Director on 1 July, 2011). Mr Laidlaw may also act from time to time as a consultant to MCO.

Peter Gilbert Jackson – Non-Executive, Independent Director (appointed as a Director on 10 March, 2008). Dr Jackson may also act from time to time as a consultant to MCO.

Alexei V Motlokhov – Non-Executive Director (appointed as a Director on 1 Feb 2011).

Zhaoqin Zeng – Non-Executive Director (appointed as a Director on 1 Feb 2011).

Noel Robert Laidlaw and Peter Gilbert Jackson are considered to be independent directors as they are not substantial shareholders in the company and are remunerated as Non-Executive Directors.

The board is responsible for the overall Corporate Governance of the company and its primary functions include:

- The strategic direction of the company
- Approval of the long term goals for management and monitoring the achievement of these goals on behalf of the shareholders;
- The approval of the annual and half-yearly financial statements;
- The review and adoption of annual budgets for the financial performance of the company and monitoring the results throughout the year;
- Ensuring the company has implemented adequate systems to monitor compliance activities, risk management and occupational health and safety requirements.

The company does not comply with best practice recommendations 2.1: 'A majority of the board should be independent directors'; 2.2: 'The chairperson should be an independent director'; and 2.4: 'The board should establish a nomination committee'. However, the board believes that for a company of its size and considering the extent of its operations that its present composition provides for efficient decision making required by the company in its current circumstances. Also, the board does not believe that the formal establishment of a nomination committee is warranted by its size, as in effect, the board as a whole acts as the nomination committee. The board's nomination of directors and executive officers and other managers,

corporate governance statement *(cont'd)*

is dependent on the candidate's range of skills and experience relevant to the business of the company. The Chairman – in conjunction with external and independent consultants – conducts a performance evaluation for the board and its members and the CEO and other senior managers during each annual period using generally accepted and current industry practices.

Performance evaluation

The Chairman has conducted a performance evaluation for the board and its members during the financial year using generally accepted industry practices.

Audit and Remuneration Committee

The directors have considered the formation of an audit committee and a remuneration committee in order to enhance the company's corporate governance regime in accordance with recommendations 4.1 and 8.1. However, given the number of directors on the board, exclusion of one or more directors from each committee would detrimentally and unnecessarily limit the available skills. Consequently, it has been determined that the full board will take responsibility for the issues which would be expected to be within the purview of these committees.

The company's remuneration policy is disclosed in the Remuneration Report contained within the Directors' Report.

The amount of remuneration for all key management personnel for the company including all monetary and non-monetary components is detailed in the Remuneration Report.

An external audit is undertaken by Dale F Kaye, Chartered Accountant.

The external auditor attends the annual general meetings of the company and is available to answer shareholder questions.

The full board considers the qualifications and experience of the external auditor when considering potential appointees to the position. The rotation of external audit engagement partners is also considered by the full board in the light of relevant legislative and professional standards.

Risk Management

The directors consider that the identification and management of key risks associated with the business is vital. Matters of risk are regularly reviewed at board meetings and a risk management culture is encouraged amongst directors and employees.

Areas of risk that are regularly considered include performance and funding of exploration activities; budgetary control and asset protection; status of mineral exploration licenses; land access and native title considerations; compliance with laws and regulations; occupational health, safety and the environment; and continuous disclosure obligations.

Independent Professional Advice

Each director has the right to seek independent professional advice, in relation to matters arising in the conduct of his duties, at the economic entity's expense, subject to prior approval of the Chairman which is not to be unreasonably withheld.

Continuous Disclosure

The company has established policies and procedures to ensure compliance with ASX Listing Rule continuous disclosure requirements. All proposed company announcements are circulated to each director for their input before release to the market.

corporate governance statement *(cont'd)*

Securities Trading Policy

All directors, office holders and employees are bound by the company's official and public securities trading policy which prohibits trading in Morning Star Gold NL's securities while they are in possession of price sensitive information until it has been released to the market and adequate time has been given for this to be reflected in the security's price. The Company's Securities Trading Policy was revised in accordance with ASX guidelines 12.9, 12.10 and 12.12 and publicly filed on 31 December 2010 during the reporting period. A full copy of the policy document can be found at the official company website of Morning Star Gold NL www.msgold.com.au

The Environment

The company also has in place an Environment Policy under which the company, in seeking to locate and develop mineral resources, is committed to achieving a high standard of environmental protection. This will be achieved while ensuring that the needs of the community and the values attached to natural and physical resources are taken into account in company planning and the way in which business is conducted.

Shareholder Rights

The board aims to ensure that all shareholders are informed of significant developments through regular shareholder communications. These include the Annual Report and distribution of material covering major events when appropriate. Shareholders are entitled to vote on significant matters impacting on the business of the company. Shareholders are strongly encouraged to attend and participate in the Annual General Meetings of the company, to lodge questions to be responded to by the directors and are able to appoint proxies.

Other Information

Further information relating to the company's corporate governance practices and policies has been made publicly available on the company's website at www.msgold.com.au

company directory

Morning Star Gold NL

Directors

N M Garling	Chairman, Director, Acting CFO
P G Jackson	Non-Executive Director, Independent
N R Laidlaw	Non-Executive Director, Independent
Z Zeng	Non-Executive Director
A V Motlokhov	Non-Executive Director

CEO

M Botting

Secretary

P F Harrowsmith

Stock Exchange listing

Morning Star Gold NL shares are listed on the Australian Stock Exchange Ltd
ASX Code: MCO

Registered Office & Business Address

Suite 56A, Jones Bay Wharf
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Pyrmont NSW 2009

T 02 8569 7488
F 02 8569 7499
E info@msgold.com.au

www.msgold.com.au

Share registry

Computershare Investor Services
Yarra Falls, 452 Johnston Street
Abbotsford Vic 3067

T 1300 137 328
F 03 9473 2563

www-au.computershare.com

Auditors

Dale F Kaye & Co
Chartered Accountant
666B Pittwater Road
Brookvale NSW 2100

T 02 8065 9495

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