MCO.AU

Morning Star Gold NL

A$ 0.48

8 December 2010
Gold
Australia (Vic)
Production
Exchanges: ASX:MCO

MCO is being re-rated by the market, after a recent A$15m equity placement, and ahead of expected gold production at Morning Star Mine in December 2010. Initial output should be 15-25kozpa Au at 12-15g/t, with profit ~A$27m in 2011. Target A$0.79/share.

Capital Profile

Share price (A$)	0.48		
52 week range (A$/share)	0.31	to	0.51
Number of shares (m)	284		
Options and warrants (m)	0		
Convertible notes (m)	0		
Fully diluted (m)	284		
Market capitalisation (undiluted) (A$m)	136.5		
Debt (A$m) - Dec 10F	0.0		
Enterprise value (A$m)	136.5		
Major shareholders: N & S Garling Family Trust (11.8%), Chillee Ltd (11.5%) Griffith Family Trust (10.6%), Shandong Tianye (10.0%)			
Avg monthly volume (m)	8		
Cash (A$m) - Dec 10F	15.0		
Price/Cash (x)	9.1		
Price/Book (x)	5.9		
Listed company options:	No		

Production and Financial Forecasts

YEAR END: June	Sep-10a	Dec-10F	2010a	2011F	2012F
Exploration and evaluation (A$m)	0.94	0.30	1.52	2.24	0.00
Corporate (A$m)	0.41	0.40	1.06	1.61	1.60
Exploration/(Expl.+ Corporate) (%)	69	43	59	58	0
Funding duration at current burn (years)	2.6	21.5	2.6	7.4	31.9
Shares on issue (pr end) (m shares)	252.2	284.3	252.2	284.3	284.3
Drilling - RAB (m)	0	0	0	0	0
Drilling - Other/Diamond (m)	1,000	1,000	2,000	4,500	5,000
Land holding ('000 ha)*	24	24	24	24	24
Tenement costs ($k per year)	-	-	-	-	-
Capital raisings (A$m)	0.00	15.00	12.17	15.00	0.00
Funding from JV partners (A$m)	0.6	0.6	0.0	2.3	2.3
Cash (A$m)	3.5	15.0	6.8	28.6	51.1
Cash backing (Ac/share)	1.4	5.3	2.7	10.1	18.0
Net asset backing (Ac/share)	4.4	8.1	4.0	12.3	20.3

*Gold prospective tenements only, both held and under application. Quarters stated on calendar year basis.

Investment Points

100% focus on commencing gold production at Morning Star Mine, Woods Point, Eastern Goldfields, Vic.

Historical production at Woods Point underground mine 883koz Au at 26.5g/t; ~7moz production for goldfield.

Development has commenced on known gold reefs at the rebuilt Morning Star Mine, with ore being stockpiled.

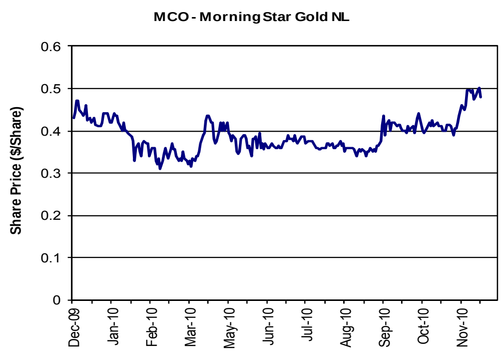
Development grades are exceeding underground resource grades (11.2g/t). A head grade of ~55g/t Au is expected from the 1st stope of Maxwell Reef (4Q10).

An 80ktpa gravity plant is being commissioned. MCO expects to be producing gold from Dec'10 at an initial rate of 12-15kozpa Au, then on to 25kozpa or more.

Upgrades to haulage system at MS Mine in the pipeline.

Potential for exploration within 20km radius (e.g. All Nations, Denmark mines) to provide a multi-million oz resource base to feed the Woods Point processing hub.

NAV at US$1360/oz Au is A$0.56/share, (current is A$0.49), with mid-term upside to A$0.79/share. Profit in 2011 is foreact to be A$27m at current Au price.



Source: Bloomberg

Company Comment

Overview: MCO's Morning Star Mine is located at Woods Point, 120km ENE of Melbourne, in a significant historic goldfield that saw ~6moz produced since the 1860's gold rush. MCO holds ~240km^2 giving it control over the Woods Point dyke swarm, known to have historical production of around 7moz. Its vision is that gravity mill(s) at or near Woods Point can become a processing hub for regional mining. MCO has started production at Morning Star for the first time since WMC in 1959.
Resource Status: In 2Q08 MCO confirmed a 910koz resource at 6.3g/t Au for the Morning Star Mine. There is an underground mining resource of **726koz Au at 11.2g/t**. Gold distribution is thought to be homogeneous (i.e. less nuggety) compared to other high-grade Victorian goldfields, such as Ballarat.
Production Strategy: Since 1993 the Morning Star Mine has been **rebuilt** by MCO from surface to Level 10 (310m underground) for total cost +A$28m. This allowed access to underground targets for production by small-scale stoping of veins. MCO re-commenced **mining** at Morning Star in August 2009. Development ore is being stockpiled. Mining rate should be between 30ktpa and 50ktpa in 2H10, for **est. production rate 12-15kozpa Au, growing to 25kozpa** (80ktpa) and scaleable to 120ktpa over 3 years. Four ore sources are being developed, over three levels (9, 7 and 3), including the 0.15m-0.6m thick Maxwell Reef, at ~240m depth, with assays up to 386.2g/t Au. The first stope will be of a Maxwell ore zone 41m long and indicating 55g/t Au head grade at the face. Recoveries are expected to be 90-92% by gravity at a 300µm coarse crush. Gold will be produced by onsite gravity processing plant (GPP), and a saleable "middling" concentrate with the remaining ~8% recoverable gold moved offsite for CIL (rate 10tpd). Tailings will be pumped underground. Commissioning of the +80ktpa (10tph) GPP (Gekko Systems, A$4m) started in Sep '10, with **production expected from Dec '10**.
Regional Development: MCO is managing a JV with Shandong Tianye, which is investing A$4.5m over 2 years to earn 51% of Mining Licences MIN5299 and MIN5241. Drilling is focused on the historic All Nations, Rose of Denmark and Hunts mines. All Nations, which is 4km SW of Morning Star, produced ~132koz Au @~ 1oz/tonne from reefs and dykes at shallow depths (60m-90m); assays are pending from 6 of initial 8 drill holes. Development along the Rose of Denmark adit has found strong signs of mineralisation; underground drilling is planned for Jan '11. Drilling at Hunts is expected 1Q11.
Corporate: Placed A$15m in shares at A$0.46/share (200 day MAP +20%) to Chillee Ltd, in Nov '10.
Valuation: The underground resource at Morning Star is 2mt @ 11.2g/t. MCO's target head grade from 2011-2015 is 15g/t Au. As is common with narrow-vein deposits, only mining will show exactly how much of the resource converts to production. The NAV of MCO with 5 years' production at Morning Star Mine is A$160m, or A$0.56/share including cash (conditions are 90% recovery, 80ktpa production growing to 100kt in 2013 and 120kt in 2014-2015, opex A$600/oz, capex A$32m, AU/US0.97, gold US$1360/oz i.e. spot). This does not account for the value of exploration properties or potential mine life extensions, e.g. 10 years' production takes NAV to A$0.79/share.
Investment Comment: The A$15m equity placement, together with the imminent start of gold production, has led to a partial re-rating – 3 month share-price performance is +34%. As we stated in September, MCO has strong growth potential and there is upside risk from mine life extensions and resource expansions following infill and exploration drilling. Underexplored regional holdings have potential to provide a 3-4moz Au resource base. MCO has the stated aim of being a mid-tier gold producer by 2015.

Reserves and Resources/Mineralised Material

Code for reporting mineral resources - Australian: (JORC)

Gold Au	Classification	Project Equity	Ore mt	Au g/t	Cut Off g/t	Au t	Au koz	Au Eqty koz
Reserves						**0.0**	**0.0**	**0.0**
Resources (July 2008)								
Morning Star U/G	Measured, Ind + Inf.	100%	2.02	11.2		23.3	726.0	726.0
Morning Star Surface	Measured, Ind + Inf.	100%	2.61	2.2		5.9	184.0	184.0
Total			**4.62**	**6.3**		**29.3**	**910.0**	**910.0**
Mineralised Material (est., non compliant with JORC)						**0.0**	**0.0**	**0.0**

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P Jackson (Non Exec)
J Williams (Ind, Non Exec)
PG Hepburn-Brown

Key Projects

Project	Ownership/ Option	Metal	JV Partner	Target Type	Process Route	Project Status	Location
Morning Star	100%	Au	None	qtz vein	gravity,leach	PFS	Aus (Vic)
Woods Point Regional	100%/49%	Au	Shandong	dykes	na	Early Expl.	Aus (Vic)

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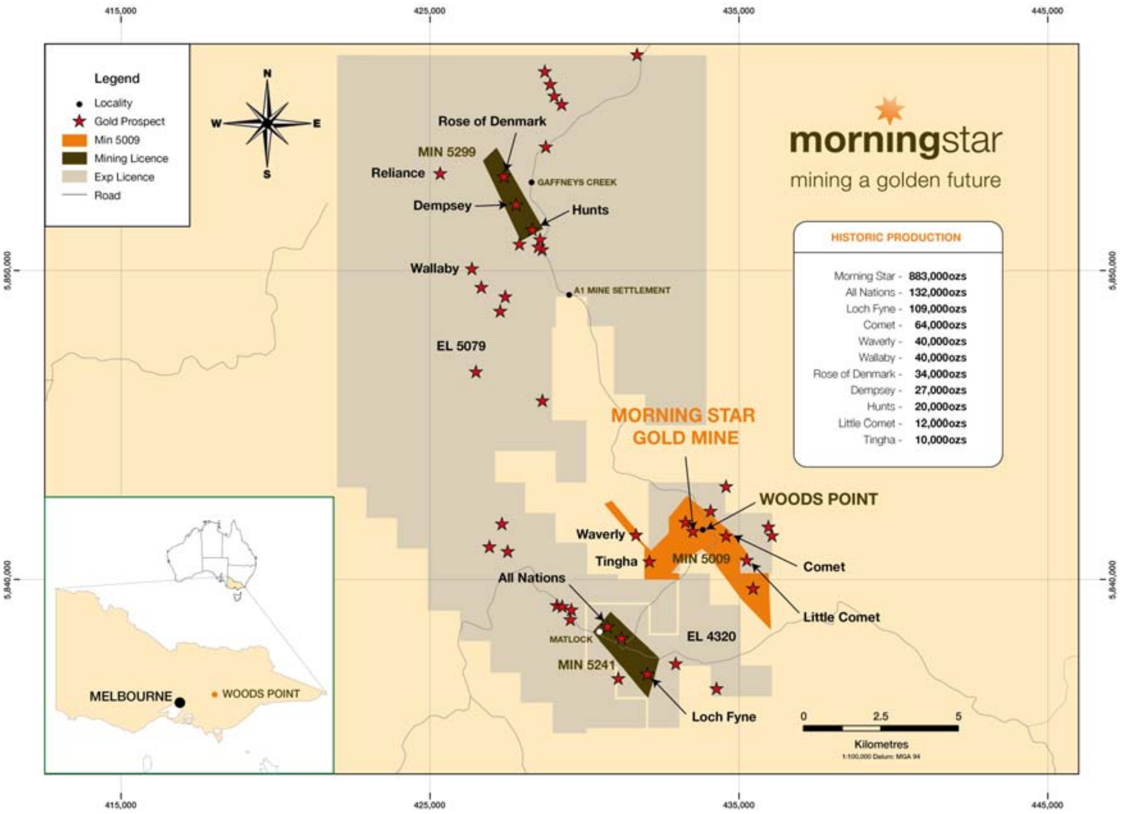
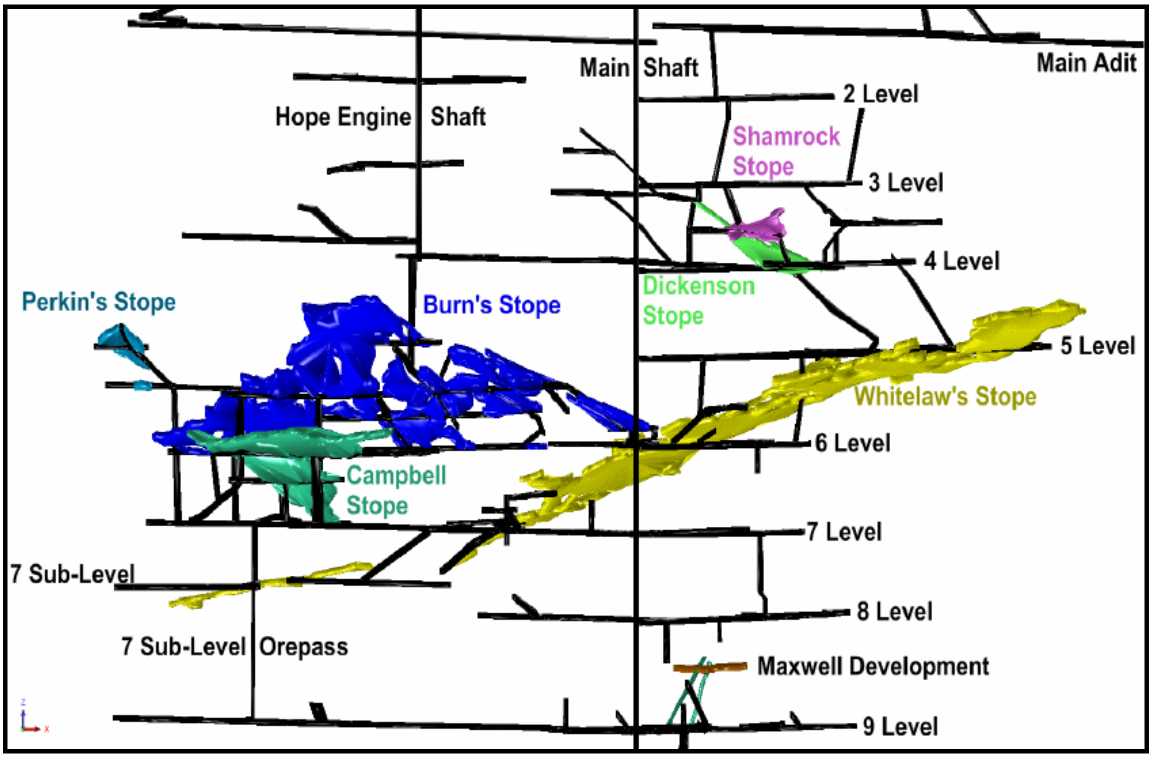
MCO's tenements cover ~220km^2 of Victoria's Eastern Goldfields with historic underground mines having produced ~2moz. MCO considers a regional resource target of 3-4moz is realistic. The recent A$4.5m JV over two MINs should hasten development. Drilling assays from the All Nations prospect are pending.



MCO's initial underground JORC resource of 2mt @ 11.2 g/t Au includes ore in the Maxwell and Kenny zones (above 9 Level). Assays from development mining at Maxwell run up to 386.2g/t Au and the initial stope samples average 55g/t Au. Processing through the onsite gravity plant is expected from Dec '10.



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