

MORNING STAR GOLD N.L.

ABN 34 003 312 721

Suite 101 Jones Bay Wharf

26-32 Pirrama Road

PYRMONT NSW 2009

Tel: 02 8569 7488

Fax: 02 8569 7499



30th September, 2010

The Manager
Company Announcements Office
ASX
20 Bridge Street
SYDNEY NSW 2001

Dear Sirs,

Following are the Company's Statutory Annual Financial Accounts for the year ended 30th June 2010. A full overview of the Company's operations will be available in Morning Star's online Annual Report which will be posted on the Company's website and in hard copy for those who requested it.

Yours faithfully,



N M GARLING
Director



COMPANY DIRECTORY

DIRECTORS:

N. M. Garling (Chairman, Managing Director)
J. W. Williams
P.G. Jackson
P.G. Hepburn-Brown

SECRETARY:

M.J. Davis, FCA

REGISTERED OFFICE:

Suite 101 Jones Bay Wharf
26-32 Pirrama Road
PYRMONT NSW 2009
Telephone: (02) 8569 7488
Facsimile: (02) 8569 7499

SHARE REGISTER:

Computershare Investor Services Pty Ltd
60 Carrington Street
Sydney NSW 2000
Telephone: (02) 8234 5000

BUSINESS ADDRESS:

Suite 101 Jones Bay Wharf
26-32 Pirrama Road
PYRMONT NSW 2009
Telephone: (02) 8569 7488
Facsimile: (02) 8569 7499

W: www.msgold.com.au E: info@msgold.com.au

AUDITORS:

D F Kaye & Co
Chartered Accountants
87a Campbell Parade
MANLY VALE NSW 2093
Telephone: (02) 9948 7768
Facsimile: (02) 8966 8811

STOCK EXCHANGE LISTING:

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

Directors' Report

The directors of Morning Star Gold N.L. present the financial report of the Company for the year ended 30th June 2010.

Directors

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

Ex-Chairman – Max M. Garling LLB – retired 8th April 2010

Max Garling collaborated with recently retired MCO director Malcolm Bird in 1993 to place the Morning Star goldmine, a once famous WMC mining asset, into the ownership of Mt Conqueror Minerals NL; now Morning Star Gold NL (MCO). At that time, Max joined Malcolm as an MCO director and helped to arrange the equity capital to buy out local prospectors (the Wright family), who had briefly owned the mine after its sale by Ballarat Goldfields. A four year period of exploration at the site ensued with some mineshaft refurbishment but as gold prices waned and the IT boom gained pace in 1997, Max left the board to pursue other interests. Max rejoined Mal Bird on the MCO board in 2004 and re-development of the mineshaft continued. In March of 2007, Max became non-executive chair of the MCO board at the same time his son Nick Garling joined the board in an executive capacity. In April 2010, Max Garling retired from MCO.

Chairman/Managing Director – Nicholas M. Garling

Nick Garling got involved at MCO in 2006 and joined the board on 20th March 2007. Prior to this time, he worked for brokers and investment banks for around 20 years in various fields and capacities such as equity capital raising, asset disposal, structured derivatives, hedge funds and listed markets trading of stocks, options, bonds and futures. Prior to this period, Nick worked for a Sydney legal firm for 3 years fresh from school. He worked for 10 years in Japan & Hong Kong, with UBS Warburg & Lehman Brothers where he was a managing director of the Equity Markets Group for UBS in Tokyo and before that as a MD of Lehman's Asia-Pacific Equity business, based in HK SAR and Tokyo. Nick spends his time between MCO's Sydney bunker and the company's mining tenements in Woods Point, Victoria in his capacity as executive chairman of MCO.

Director – Jeffrey W. Williams BSc (Min Engineer) MBA MAusIMM AFAIM

Jeff Williams has close to 20 years professional experience as a mining engineer and seven years in the stockbroking industry. His experience ranges from mine planning, underground management and feasibility studies through to mine development. From 1972 to 1984, Jeff held various positions with CRA Limited (now Rio Tinto) at Broken Hill in New South Wales. At their underground silver/lead/zinc mine, he gained his Mine Manager's Certificate and practical experience in mine planning and underground management. Following his Masters of Business Administration (MBA) program in 1987, Jeff was with North Limited in the capacity of Senior Project Engineer. Jeff spent the next seven years in stockbroking as a specialist in researching gold mining companies. Ultimately, Jeff was at James Capel Australia as their head of resources research. After that, Jeff joined ASX & TSX listed gold miner Mineral Deposits Limited (ASX: MDL), where he is Managing Director and he's been a director of MDL since 3rd January 1997. Jeff is based in Melbourne, Victoria and is MCO's independent director. Jeff joined the MCO board on 26th February 2004.

Director – Malcolm H. Bird – resigned 18th February 2010

Malcolm Bird was a founding director of Mount Conqueror Minerals NL in 1987 (now Morning Star Gold). He was the cornerstone director of the company up until February 2010, holding various roles on the MCO Board. After a career as a stockbroker with Reynolds and Company in Sydney, Mal used his extensive knowledge of Australian mining tenements and companies to broaden Morning Star's focus over the years to various tenements, some of which were since farmed out. Malcolm remains a Board member of two other ASX listed mining companies, Silver Mines Ltd (of which MCO is a large shareholder) and Central West Gold NL.

Directors' Report

Director – Dr. Peter G. Jackson BSc PhD MAIG – appointed 10th March 2008

Dr. Jackson is Morning Star's Director Geology and has been involved with the company since 2006. He has over 22 years of extensive practical & technical experience in the Woods Point Dyke Swarm (the local geology where MCO operates in Victoria) and he has other extensive economic geological experience across Victoria. He has a particular interest in igneous hosted gold deposits and lectured at Melbourne's La Trobe University for many years in economic geology. Peter has contributed to many geological publications and conducted scores of studies into Victorian gold deposits. Peter also lived for some time at Australia's Antarctic posts in roles with the Bureau of Meteorology and is currently based in Melbourne, Victoria. He spends most of his working weeks in Woods Point at the Morning Star mine site and across MCO's regional tenements in the area. Peter was appointed as a director of the company on 10th March, 2008 and it's his only current public company directorship.

Director – Peter G. Hepburn-Brown – appointed 19th February 2010

Peter Hepburn-Brown is a highly regarded mining engineer and mining operative who has worked with some of Australasia's best known gold producers including WMC, Niugini Mining, Great Central Mines, Harmony and St Barbara. Peter has been involved at senior management levels in such seminal gold projects as Bronzewing, Jundee and Leonora. He holds First Class Mining Certificates in Western Australia, Victoria and Queensland and has over 28 years of diversified mining industry experience from greenfields situations right through to production. More recently Peter has also operated Alloy Resources Ltd (ASX: AYR) and also sits on the board of Medusa Mining Ltd (ASX: MML). Peter holds a Bachelor of Science in Mining Engineering and a Graduate Diploma in Human Resources.

Directors' Report

Directors' Shareholdings

Particulars of shares and options over shares of Morning Star Gold N.L. in which directors have a relevant interest at the date of this report are as follows:

Director	Ordinary Shares
J.W. Williams	1,150,000
N.M. Garling	16,001,276
P.G. Jackson	0
P.G.Hepburn-Brown	889,270

Directors' Meetings

During the financial year 6 meetings of directors were held. Attendance at these meetings were as detailed below:

Director	No. of meetings held eligible to attend	No. of meetings attended
M.H. Bird	3	3
M.M. Garling	4	4
J.W. Williams	6	6
N.M. Garling	6	6
P.G. Jackson	6	6
P.G. Hepburn-Brown	2	2

Company Secretary

The following person held the position of Company Secretary at the end of the financial year:

Maxwell James Davis FCA

Mr. Davis was appointed Secretary of the Company on 18th June, 1987. He is a qualified accountant and is a senior partner of Davis & Benson, a Sydney firm of Chartered Accountants which provide services to a wide variety of corporates including listed public companies. Max is also the Company Secretary of Central West Gold N.L., a listed public company.

Principal Activities

The principal activity of the Company in the course of the financial year was mineral exploration over its tenements in eastern Victoria and refurbishment of the Morning Star mine in Woods Point. During the year the Company entered into a Joint Venture with new Chinese partners who are spending \$4.5M in cash over the next two annual periods and will progressively acquire 51% of regional Mining Licences MIN 5299 (Dempsey/Rose of Denmark/Hunts) 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 30th June, 2010 was \$4,223,365 (2009 \$2,205,950).

Dividend

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

Review of Operations

During the year the Company carried out exploration on its existing tenements with the object of identifying economic mineral deposits together with refurbishment of the Morning Star mine. A review of the operations during the year and the results of those operations will appear in the Company's Annual Review of Operations, which will be in the Company's Annual Report released shortly both online and in hard copy.

Directors' Report

Remuneration Report

The remuneration of directors is established by the shareholders by way of a fixed annual fee of \$20,000 each director.

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 full board meetings.

Remuneration of Key Management Personnel for the year ended 30.06.10

Directors	\$ Short Term: Directors' Fees	\$ Short Term: Consulting Fees	\$ Post Employment: Super- annuation Contribution	\$ Cash Bonus	\$ Non-Cash Benefits	\$ Options	\$ Total
M H Bird (resigned 16.02.10)	0	0	33,797	0	0	0	33,797
M M Garling (retired 08.04.10)	26,843	94,000	0	0	0	0	120,843
J W Williams	31,800	0	0	0	0	0	31,800
N M Garling	31,800	140,000	0	0	0	0	171,800
P.G. Jackson	31,800	80,930	0	0	0	0	112,730
P.G. Hepburn- Brown (appointed 19.02.10)	7,944	43,477	0	0	0	0	51,421
	----- 128,387 =====	----- 358,407 =====	----- 35,597 =====	----- 0 =====	----- 0 =====	----- 0 =====	----- 522,391 =====

Remuneration of Key Management Personnel for the year ended 30.06.09

Directors	\$ Short Term: Directors' Fees	\$ Short Term: Consulting Fees	\$ Post Employment: Super- annuation Contribution	\$ Cash Bonus	\$ Non-Cash Benefits	\$ Options	\$ Total
M H Bird	0	0	10,000	0	0	0	10,000
M M Garling	0	63,500	10,000	0	0	0	73,500
J W Williams	10,000	0	10,000	0	0	0	20,000
N M Garling	0	128,000	10,000	0	0	0	138,000
P.G. Jackson	16,715	30,130	10,000	0	0	0	56,845
	----- 26,715 =====	----- 221,630 =====	----- 50,000 =====	----- 0 =====	----- 0 =====	----- 0 =====	----- 298,345 =====

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

The Company had 29 employees during the year ended 30th June, 2010.

There are no service contracts in place.

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.

Directors' Report

Significant Changes

Significant changes in the state of affairs of the Company during the financial year were as follows:

During the year Morning Star Gold NL announced that its MCOOB listed options expiration on 31st March 2010 had been completed with the company successfully raising \$12.3 Million from existing share holders and option holders (before costs of the issue). The new capital will be used to expand both the scope and rate of development at MCO's Woods Point Gold Project, 130kms north east of Melbourne. The exercise of MCOOB represented a comprehensive 99.8% take up of available securities by existing option holders and share holders of the company. The total number of options exercised into fully paid ordinary shares of Morning Star Gold NL (ASX listed as MCO), was 123,482,426 leaving a shortfall of 297,308 securities in the issue which were immediately taken up by the underwriter BBY Limited, leaving all options in the MCOOB issue exercised. The \$12.3 million equity injection put Morning Star in its strongest ever financial position, further cementing work done in expanding its eastern Victorian tenements 100-fold over the past couple of years and striking an important and strategic Joint Venture with new Chinese partners, who took a strong equity holding in the company and in addition, are spending \$4.5M in cash over the following two annual periods to advance regional development and production opportunities proximal to the Morning Star Goldmine (within 20kms of Woods Point).

Financial Position

Despite an increased expenditure of \$3,151,649 on its exploration and development program, the issue of shares from the exercise of options raised \$12,359,660 (before costs of the issue) and the Company's net assets increased by \$7,623,109 to \$10,003,489.

Likely Future Developments

Morning Star plans to aggressively pursue its planned expansion of the wider Woods Point Gold Project with several high potential exploration and development sites being advanced at present both by MCO and under the Joint Venture. The planned gravity gold treatment plant being designed and constructed by Gekko Systems of Ballarat was on track to be commissioned for gold production in the final quarter of calendar 2010.

Environmental Regulations

The Company is subject to environmental regulations in respect to its exploration 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.

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 30th June 2010. The declaration forms part of this report.

Signed in Sydney on this 30th day of September, 2010 in accordance with a resolution of directors.

N.M. Garling
Director



P.G. Hepburn-Brown
Director



***Auditor's Independence Declaration
Under Section 307c of the Corporations Act 2001
To the Directors of Morning Star Gold N.L.***

I declare that, to the best of my knowledge and belief, during the year ended June 2010 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.

Name of Firm: DF Kaye & Co
Chartered Accountants



Name of Principal:
DALE F KAYE FCA

Address: 87a Campbell Parade
Manly Vale NSW 2093

Dated this 30th day of September 2010

Statement of Comprehensive Income

For the year ended 30th June, 2010

	Notes	30 th June, 2010	30 th June, 2009
REVENUE	4	174,736	34,064
GAIN (LOSS) ON REVALUATION OF INVESTMENTS		138,700	(192,700)
EXPLORATION AND DEVELOPMENT EXPENSES		(3,151,649)	(1,379,249)
ADMINISTRATION EXPENSES		(1,385,152)	(668,065)
		-----	-----
PROFIT (LOSS) BEFORE INCOME TAX		(4,223,365)	(2,205,950)
INCOME TAX EXPENSE	2	0	0
		-----	-----
PROFIT (LOSS) FOR THE YEAR		\$(4,223,365)	\$(2,205,950)
		=====	=====
OTHER COMPREHENSIVE INCOME		0	0
		-----	-----
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		0	0
		-----	-----
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>\$(4,223,365)</u>	<u>\$(2,205,950)</u>
BASIC EARNINGS PER SHARE	15	(2.42) cents	(1.83) cents
DILUTED EARNINGS PER SHARE	15	(2.42) cents	(1.83) cents

The accompanying notes form part of these Financial Statements

Statement of Financial Position

As at 30th June, 2010

	Notes	30 th June, 2010	30 th June, 2009
CURRENT ASSETS			
Cash and Cash Equivalents	6	6,782,432	1,243,092
Receivables	7	301,662	15,055
Financial Assets	8	259,000	120,300
		-----	-----
TOTAL CURRENT ASSETS		7,343,094	1,378,447
		-----	-----
NON-CURRENT ASSETS			
Property, Plant & Equipment	9	3,971,566	328,022
Mining Properties	10	716,858	716,858
Mine Security Bond		2,000	2,000
		-----	-----
TOTAL NON-CURRENT ASSETS		4,690,424	1,046,880
		-----	-----
TOTAL ASSETS		12,033,518	2,425,327
		-----	-----
CURRENT LIABILITIES			
Trade and Other Payables	11	1,466,774	44,947
Provisions	12	46,455	0
Other Current Liabilities	13	516,800	0
		-----	-----
TOTAL CURRENT LIABILITIES		2,030,029	44,947
		-----	-----
TOTAL LIABILITIES		2,030,029	44,947
		-----	-----
NET ASSETS		\$10,003,489	\$2,380,380
		=====	=====
EQUITY			
Issued Capital	14	28,519,395	16,670,391
Reserves	15	1,807,256	1,809,786
Retained Profits (Accumulated Losses)		(20,323,162)	(16,099,797)
		-----	-----
TOTAL EQUITY		\$10,003,489	\$2,380,380
		=====	=====

The accompanying notes form part of these Financial Statements

Statement of Changes in Equity

For the year ended 30th June, 2010

	Share Capital	Accumulated Losses	Expired 1992 Option Premium Reserve	Option Reserve	Employee Benefits Reserve	Total
BALANCE AS AT 01.07.08	\$15,418,316	\$(13,893,847))	\$54,820	\$600,970	\$0	\$2,180,259
SHARES ISSUED	1,410,325	0	0	0	0	1,410,325
ISSUE COSTS	(158,250)	0	0	(48,361)	0	(206,611)
OPTIONS ISSUED	0	0	0	1,200,857	1,500	1,202,357
PROFIT (LOSS)	0	(2,205,950)	0	0	0	(2,205,950)
OTHER COMPREHENSIVE INCOME	0	0	0	0	0	0
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	0	0	0		12,359,660
OPTIONS ISSUED	0	0	0	7,000		7,000
ISSUE COSTS	(506,745)	0	0	(7,000)		(513,745)
IRRECOVERABLE SUBSCRIPTIONS	(5,411)	0	0	(1,030)		(6,441)
PROFIT (LOSS)	0	(4,223,365)	0	0		(4,223,365)
OTHER COMPREHENSIVE INCOME	0	0	0	0	0	0
TRANSFER TO OPTION RESERVE FROM 1992 OPTION PREMIUM RESERVE	0	0	(54,820)	54,820	0	0
TRANSFER TO SHARE CAPITAL FROM EMPLOYEE BENEFITS RESERVE	1,500	0	0	0	(1,500)	0
BALANCE AS AT 30.06.10	\$28,519,395	\$(20,323,162)	0	\$1,807,256	\$0	\$10,003,489

The accompanying notes form part of these Financial Statements

Statement of Cash Flows

For the year ended 30th June, 2010

	Notes	30 th June, 2010 Inflows (Outflows)	30 th June, 2009 Inflows (Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES			
Fuel tax credits received		178	0
Interest received		136,106	34,064
Payments to suppliers & employees		(3,925,282)	(2,012,902)
Interest paid		(445)	(409)
Net increase (decrease) in cash from operating activities	24	(3,789,443)	(1,979,247)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		(3,100,584)	(15,088)
Net increase (decrease) in cash from investing activities		(3,100,584)	15,088)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares and options		12,296,660	2,032,932
Placement fees & other share issue costs		(443,745)	(38,361)
Proceeds from funding of joint venture		750,000	0
Expenses of joint venture		(173,548)	0
Net increase (decrease) in cash from financing activities		12,429,367	1,994,571
Net increase (decrease) in cash held		5,539,340	236
Cash at the beginning of the financial year		1,243,092	1,242,856
Cash at the end of the financial year	23	\$6,782,432	\$1,243,092

The accompanying notes form part of these Financial Statements

Notes to Financial Statements

For the year ended 30th June, 2010

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 30th September, 2010.

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.

Notes to Financial Statements

For the year ended 30th June, 2010

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, Plant and Equipment (continued)

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.

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.

Notes to Financial Statements

For the year ended 30th June, 2010

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(g) **Cash and Cash Equivalents**

Cash and cash equivalents includes 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) **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.

(i) **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.

(j) **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.

(k) **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.

Notes to Financial Statements

For the year ended 30th June, 2010

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Critical Accounting Estimates and Judgments (continued)

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 judgments 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.

(l) 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.

(m) 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).

Notes to Financial Statements

For the year ended 30th June, 2010

Adoption of New and Revised Accounting Standards

During the current year the company adopted all of the new and revised Australian Accounting Standards and Interpretations applicable to its operations which became mandatory.

The following is an explanation of the impact the adoption of these standards and interpretations has had on the financial statements of Morning Star Gold N.L.

AASB 101: Presentation of Financial Statements

In September 2007 the Australian Accounting Standards Board revised AASB 101 and as a result, there have been changes to the presentation and disclosure of certain information within the financial statements. Below is an overview of the key changes and the impact on the company's financial statements.

Disclosure impact

Terminology changes – The revised version of AASB 101 contains a number of terminology changes, including the amendment of the names of the primary financial statements.

Reporting changes in equity – The revised AASB 101 requires all changes in equity arising from transactions with owners, in their capacity as owners, to be presented separately from non-owner changes in equity. Owner changes in equity are to be presented in the statement of changes in equity, with non-owner changes in equity presented in the statement of comprehensive income. The previous version of AASB 101 required that owner changes in equity and other comprehensive income be presented in the statement of changes in equity.

Statement of comprehensive income – The revised AASB 101 requires all income and expenses to be presented in either one statement, the statement of comprehensive income, or two statements, a separate income statement and a statement of comprehensive income. The previous version of AASB 101 required only the presentation of a single income statement.

The company's financial statements now contain a statement of comprehensive income.

Other comprehensive income – The revised version of AASB 101 introduces the concept of 'other comprehensive income' which comprises income and expenses that are not recognised in profit or loss as required by other Australian Accounting Standards. Items of other comprehensive income are to be disclosed in the statement of comprehensive income. Entities are required to disclose the income tax relating to each component of other comprehensive income. The previous version of AASB 101 did not contain an equivalent concept.

AASB 8: Operating Segments

In February 2007 the Australian Accounting Standards Board issued AASB 8 which replaces AASB 114: Segment Reporting.

Identification and measurement of segments – AASB 8 requires the 'management approach' to the identification measurement and disclosure of operating segments. The 'management approach' requires that operating segments be identified on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker, for the purpose of allocating resources and assessing performance. This could also include the identification of operating segments which sell primarily or exclusively to other internal operating segments. Under AASB 114, segments were identified by business and geographical areas, and only segments deriving revenue from external sources were considered.

The adoption of the 'management approach' to segment reporting has resulted in the identification of reportable segments largely consistent with the prior year.

Notes to Financial Statements

For the year ended 30th June, 2010

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 30th June, 2010 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 affects the ability of the Company to realise the benefit.

	30th June, 2010	30th June, 2009
Exploration & development expenditure & tax losses carried forward	\$20,192,026	\$15,752,028
	=====	=====

The benefit of these deductions at the income tax rate of 30% is as follows:-

Future Income tax benefit not brought to account	\$6,057,608	\$4,725,608
	=====	=====

	30th June, 2010	30th June, 2009
Numerical reconciliation of income tax expense to prima facie tax payable is as follows:		
Profit (loss) from operations before income tax expense	\$(4,223,365)	\$(2,205,950)
	=====	=====
Tax at Australian tax rate of 30% (2009 also at 30%)	(1,267,010)	(661,785)
Tax effect of non-temporary differences	400	(1,021)
Tax effect of equity raising costs debited to equity	(52,216)	(21,796)
Tax effect of tax losses and temporary differences not recognised	1,318,826	684,602
	-----	-----
Income tax expense	\$0	\$0
	=====	=====

3. Franking Account:

	30th June, 2010	30th June, 2009
Balance of franking account at year end	\$25,496	\$25,496
	=====	=====

4. Revenue:

	30th June, 2010	30th June, 2009
Interest Received – Other	136,106	34,064
Fuel Tax Credits	178	0
Motor Vehicle Hire Fee	10,800	0
Joint Venture Management Fee	27,652	0
	-----	-----
	\$174,736	\$34,064
	=====	=====

Notes to Financial Statements

For the year ended 30th June, 2010

	30th June, 2010	30th June, 2009
5. Profit (Loss) for the year:		
The profit (loss) for the year has been determined after charging:		
Auditors Remuneration: Auditing or Reviewing the Financial Report (no other services were performed)	\$ 29,167	\$ 10,350
Depreciation of Property, Plant & Equipment	\$297,275	\$ 91,190
	=====	=====
6. Cash and Cash Equivalents:		
	30th June, 2010	30th June, 2009
Cash on Hand	401	0
Cash at Bank	6,556,207	1,049,092
Interest Bearing Deposits	229,586	194,000
Corporate Credit Card	(3,762)	0
	-----	-----
	\$6,782,432	\$1,243,092
	=====	=====
7. Receivables:		
	30th June, 2010	30th June, 2009
Indirect Taxes Recoverable	297,300	6,029
Other Receivables	4,362	9,026
	-----	-----
	\$301,662	\$15,055
	=====	=====
8. Financial Assets: at fair value through profit and loss		
	30th June, 2010	30th June, 2009
Shares in listed corporations:		
At fair value	\$259,000	\$120,300
	=====	=====
9. Property, Plant & Equipment:		
	30th June, 2010	30th June, 2009
Buildings at Cost	274,159	60,154
Less: Accumulated Depreciation	62,939	60,154
	-----	-----
	211,220	0
	-----	-----
Plant & Equipment at Cost	4,542,723	815,909
Less: Accumulated Depreciation	782,377	487,887
	-----	-----
	3,760,346	328,022
	-----	-----
	\$3,971,566	\$328,022
	=====	=====

Notes to Financial Statements

For the year ended 30th June, 2010

9. Property, Plant & Equipment (continued):

Movements in Carrying Amounts

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

	Buildings	Plant & Equipment	Total
Balance at 1 st July, 2008	0	404,124	404,124
Additions	0	15,088	15,088
Disposals	0	0	0
Depreciation	0	(91,190)	(91,190)
	-----	-----	-----
Balance at 30 th June, 2009	0	328,022	328,022
Additions	214,005	3,726,814	3,940,819
Disposals	0	0	0
Depreciation	(2,785)	(294,490)	(297,275)
	-----	-----	-----
Balance at 30 th June, 2010	\$211,220	\$3,760,346	\$3,971,566
	=====	=====	=====

10. Mining Properties:

	30th June, 2010	30th June, 2009
Mining & Development Leases - See A below	716,858	716,858
Mining Exploration & Development Expenditure - See B below	0	0
	-----	-----
	\$716,858	\$716,858
	=====	=====
<i>A. Mining & Development Leases:</i>		
Balance brought forward	716,858	716,858
	-----	-----
Balance carried forward	\$716,858	\$716,858
	=====	=====

Notes to Financial Statements

For the year ended 30th June, 2010

10. Mining Properties (continued):

	30th June, 2010	30th June, 2009
<i>B. Mining Exploration & Development Expenditure:</i>		
Balance brought forward	0	0
Expenditure incurred during the year	3,151,649	1,379,249
Expenditure written off during the year	(3,151,649)	(1,379,249)
	-----	-----
Balance carried forward	\$ 0	\$ 0
	=====	=====

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

11. Trade and Other Payables:

	30th June, 2010	30th June, 2009
Trade Creditors	1,318,766	0
Sundry Creditors & Accruals	99,843	28,974
Employee Benefits Payable	15,879	7,064
Unsecured Loan	0	8,909
Indirect Taxes Payable	32,286	0
	-----	-----
	\$1,466,774	\$44,947
	=====	=====

12. Provisions:

	30th June, 2010	30th June, 2009
Provision for Annual Leave	\$46,455	\$0
	=====	==

13. Other Current Liabilities:

	30th June, 2010	30th June, 2009
Deferred Recoverable Joint Venture Expenditure	\$516,800	\$0
	=====	==

14. Issued capital:

	30th June, 2010	30th June, 2009
<i>Paid up capital:</i>		
At beginning of financial year:		
127,950,487 Ordinary Shares (2009 114,596,734)	16,665,391	15,413,316
500,000 @ 1c Paid (2009 500,000)	5,000	5,000
Issued during the year:		
123,751,279 Ordinary Shares (2009 13,353,753)	12,359,660	1,410,325
Share Issue Costs	(506,745)	(158,250)
Irrecoverable Subscriptions Written Off	(5,411)	0
Transfer from Employee Benefits Reserve	1,500	0
	-----	-----
	\$28,519,395	\$16,670,391
	=====	=====
At end of financial year:		
251,701,766 Ordinary Shares (2009 127,950,487)	28,514,395	16,665,391
500,000 @ 1c Paid (2009 500,000)	5,000	5,000
	-----	-----
	\$28,519,395	\$16,670,391
	=====	=====

Notes to Financial Statements

For the year ended 30th June, 2010

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

Issue of 123,051,279 shares at 10c on exercise of options

Issue of 700,000 shares at 9c in lieu of placement fees

Partly Paid Shares

During a prior year 2,000,000 shares were issued to directors 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 30th June, 2010 500,000 shares remained partly paid to the extent of 9c per share.

Options

As at 30th June, 2010, the Company had no share options on issue (2009: 122,351,279, exercisable at 10 cents and expiring on 31st March, 2010).

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.

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

The Option Reserve records the total amount received from the issue of options as at 30th June, 2010 and includes the amount of \$54,820 formerly disclosed under the heading of "Expired 1992 Option Premium Reserve".

Employee Benefits Reserve

The Employee Benefits Reserve arises on the grant of share options to employees of the Company working at the Morning Star mine-site. Amounts are transferred out of the reserve and into share capital when the options are exercised.

16. Segments:

In the year ended 30th June, 2010 the Company operated entirely within Australia and the principal activity was mineral exploration and refurbishment of the Morning Star mine.

17. Earnings per Share:

	30th June, 2010	30th June, 2009
(a) Earnings used in calculation of basic EPS	\$(4,223,365)	\$(2,205,950)
(b) Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS.	174,427,236	120,266,133

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

Notes to Financial Statements

For the year ended 30th June, 2010

18. Commitments for Expenditure:

Exploration Commitments

In order to maintain current rights of tenure to exploration tenements, the Company is required to meet the minimum expenditure requirements of the Victorian Mines Department. The payment of these obligations, which are not provided for in the accounts, is dependent upon successful future fund - raising and are payable as follows:

	30th June, 2010	30th June, 2009
Not later than one year	\$936,800	\$1,653,380
Later than one year but not later than five years	\$3,747,200	\$3,614,902
Later than five years	\$0	\$0

Notes to Financial Statements

For the year ended 30th June, 2010

19. Key Management Personnel:

Details of Key Management Personnel - Directors

Max M. Garling (retired 08.04.10)	Nicholas M. Garling Chairman/Managing Director/Chief Executive
Jeffrey W. Williams Director	Malcolm H. Bird Director (retired 16.02.10)
Peter G. Jackson Director	P.G. Hepburn-Brown (appointed 19.02.10) Director

Compensation of Key Management Personnel

	30 th June, 2010	30 th June, 2009
Short Term Employee Benefits	486,794	248,345
Post Employment Benefits	35,597	50,000
	-----	-----
	\$522,391	\$298,345
	=====	=====

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 N.L. acquired or disposed of by Key Management Personnel during the year is as follows:-

Key Management Personnel	Balance at 01.07.09 (*or date of appointment)			Shares or Options Granted as Compensation	Options Exercised	Net Change Other	Balance at 30.06.10 (*or date of retirement)		
	Ordinary	1c Paid	Options				Ordinary	1c Paid	Options
Mr. M. Bird	1,679,455	500,000	1,764,455	0	500,000	(810,000) ord shares 0 options	*1,369,455	*500,000	*1,264,455
Mr. M Garling	3,200,081	0	3,322,681	0	1,422,681	(1,800,000) ord shares (1,900,000) options	*2,822,762	*0	*0
Mr. J Williams	700,000	0	700,000	0	700,000	(250,000) ord shares 0 options	1,150,000	0	0
Mr. N. Garling	22,011,179	0	11,938,123	0	19,664,744	(26,099,647) ord shares 7,726,621 options	15,576,276	0	0
Mr. P. Jackson	0	0	0	0	0	0	0	0	0
Mr. P. Hepburn-Brown	*0	*0	*889,270	0	889,270	0	889,270	0	0
	-----	-----	-----	-----	-----	-----	-----	-----	-----
Total	27,590,715	500,000	18,614,529	0	23,176,695	(23,133,026)	21,807,763	500,000	1,264,455
	=====	=====	=====	=====	=====	=====	=====	=====	=====

Notes to Financial Statements

For the year ended 30th June, 2010

20. Related Parties (continued):

Transactions including G.S.T. entered into during the year with Key Management Personnel are as follows:-

1. York Place Securities Pty Limited, a company controlled by Mr. M. Garling, received consulting fees of \$94,000 in the normal course of business in respect of the Company's exploration and development program.
2. Mr. N. Garling received consulting fees of \$140,000 in the normal course of business in respect of the Company's executive management, exploration and development programs.
3. Mr. P. Jackson received geological consulting fees of \$80,930 in the normal course of business in respect of the Company's exploration and development program.
4. Mr. P. Hepburn-Brown received consulting fees of \$43,477 in the normal course of business in respect of the Company's exploration and development program.

Other transactions entered into in the period included in November 2009, N Garling transferred 15,094,970 shares to Ample Rise Investments at 25.55 cents each for a value of \$3,859,997 and in March 2010, N Garling transferred 10,949,720 shares to Ample Rise Investments at 25.55 cents each for a value of \$2,800,000

Notes to Financial Statements

For the year ended 30th June, 2010

21. Share – Based Payments:

On 14th December, 2009 the Company issued 700,000 fully paid ordinary shares at an issue price of 9 cents per share together with 700,000 options at the issue price of 1 cent each expiring 31st March, 2010 exercisable at 10 cents to the arrangers of a placement made in the prior year in consideration of fees. The issues have no effect on the Statement of Comprehensive Income.

The options vested on issue and held no voting or dividend rights.

Options:

	2010		2009	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding at Beginning of Year	150,000	10 cents	600,000	25 cents
Granted	0		350,000	19 cents
Forfeited	0		0	
Exercised	(150,000)	10 cents	0	
Expired	0		(800,000)	25 cents
	-----	-----	-----	-----
Outstanding at Year End	0		150,000	10 cents
	=====	=====	=====	=====
Exercisable at Year End	0		150,000	10 cents
	=====	=====	=====	=====

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 (2009 \$208,500). In the event of the Company failing to fulfill 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 (2009 \$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 30th June, 2010 which may result in the forfeiture of any of the above-mentioned funds.

Notes to Financial Statements

For the year ended 30th June, 2010

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:

	30th June, 2010	30th June, 2009
Cash and Cash Equivalents	\$6,782,432 =====	\$1,243,092 =====

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

	30th June, 2010	30th June, 2009
Operating profit (loss) after income tax	(4,223,365)	(2,205,950)
Depreciation	297,275	91,190
Employee share-based payments	0	1,500
Revaluation of Portfolio Investments	(138,700)	192,700
 <i>Change in operation assets & liabilities:</i>		
Decrease (increase) in operating receivables	(286,607)	23,277
Increase (decrease) in operating liabilities	561,954	(81,964)
	-----	-----
Net increase (decrease) in cash from operating activities	\$(3,789,443) =====	\$(1,979,247) =====

25. Since Balance Date

No significant changes have occurred since balance date.

Notes to Financial Statements

For the year ended 30th June, 2010

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

For the year ended 30th June, 2010

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		Non-interest Bearing	Total
			Maturing			
			Within 1 year	Over 1 year		
	%	\$	\$	\$	\$	\$
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)		6,454,316	229,586	-	(784,382)	5,899,520
2009						
FINANCIAL ASSETS						
Cash assets	3.18	1,046,105	194,000	-	2,987	1,243,092
Receivables					15,055	15,055
Financial assets at fair value through profit and loss					120,300	120,300
Performance guarantee bonds		-	-	-	2,000	2,000
		1,046,105	194,000	-	140,342	1,380,447
FINANCIAL LIABILITIES						
Provisions	-	-	-	-	(46,455)	(46,455)
Trade and Other Payables	-	-	-	-	(44,947)	(44,947)
					(91,402)	(91,402)
NET FINANCIAL ASSETS (LIABILITIES)		1,046,105	194,000	-	48,940	1,289,045

Notes to Financial Statements

For the year ended 30th June, 2010

26. Financial Instrument Disclosures (continued):

(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.

(d) 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.

(e) 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.

Notes to Financial Statements

For the year ended 30th June, 2010

27. New Standards and Interpretations In Issue Not Yet Adopted:

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

The company does not anticipate the early adoption of any of the following Australian Accounting Standards.

Standard/Interpretation	Description	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project	This standard details numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. No changes are expected to materially affect the company	1 January 2010	30 June 2011
AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-Settled Share-based Payment Transactions	These amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. These amendments are not expected to impact the company	1 January 2010	30 June 2011
AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issues	These amendments clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. These amendments are not expected to impact the company.	1 February 2010	30 June 2011
AASB 124 Related Party Disclosures (revised December 2009), AASB 2009-12 Amendments to Australian Accounting Standards	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	1 January 2011	30 June 2012
AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9	These standards are applicable retrospectively and amend the classification and measurement of financial assets. The company has not yet determined the potential impact on the financial statements	1 January 2013	30 June 2014
AASB 2009-14 Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement	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	1 January 2011	30 June 2012
Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	This interpretation deals with how a debtor would account for the extinguishment of a liability through the issue of equity instruments. The interpretation states that the issue of equity should be treated as the consideration paid to extinguish the liability, and the equity instruments issued should be recognised at their fair value unless fair value cannot be measured reliably in which case they shall be measured at the fair value of the liability extinguished. The interpretation deals with situations where either partial or full settlement of the liability has occurred. The interpretation is not expected to impact the company.	1 July 2010	30 June 2011

Notes to Financial Statements

For the year ended 30th June, 2010

28. Joint Venture:

The Company entered into a Joint Venture with Ample Rise Investments, an investor based in Hong Kong. The key commercial terms of the Joint Venture are that Ample Rise Invs or their nominee will expend \$4.5M over a two year period to earn a 51% interest in MIN5299 and MIN5241. Morning Star Gold N.L. 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 Invs had contributed \$750,000 to the Joint Venture with Morning Star Gold N.L. Once the \$750,000 has been expended, 10% ownership of the two MINs will be effectively transferred to Ample Rise Investments or its nominee and at that point Morning Star Gold N.L. will own 90% and Ample Rise or its nominee will own 10% of the two MINs. Any nominee would be agreed by both Ample Rise & Morning Star Gold. In the next period it is expected that a further tranche will be contributed by Ample Rise Invs or its nominee as agreed in the Joint Venture agreement.

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.

	30th June, 2010	30th June, 2009
The Company's share of assets employed in the joint venture were:		
NON-CURRENT ASSETS		
Mining Properties	\$264,000	\$0
	=====	=====

Directors' Declaration

The directors of Morning Star Gold N.L 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 30th June 2010 and its performance for the year ended on that date;

2. the Chief Executive Officer and (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



P.G. HEPBURN-BROWN

Dated this 30th day of September, 2010

***Independent Audit Report
to the Members of
Morning Star Gold N.L.***

Report on the Financial Report

We have audited the accompanying financial report of Morning Star Gold N.L., which comprises the Statement of Financial Position as at 30th June, 2010, 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 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
to the Members of
Morning Star Gold N.L. – (continued)***

Auditor's Opinion

In our opinion:

- (a) the financial report of Morning Star Gold N.L. is in accordance with the Corporations Act 2001, including:
 - (1) giving a true and fair view of the company's financial position as at 30th 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 30th 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 N.L. for the year ended 30th June, 2010 complies with s 300A of the Corporations Act 2001.

Name of Firm: DF Kaye & Co.
Chartered Accountants



Name of Principal:
DALE F KAYE FCA

Address: 87a Campbell Parade, Manly Vale, NSW, 2093

Dated this 30th day of September, 2010

Shareholder Information

Issued Capital

As at 14th September, 2010 the Company had on issue 251,709,766 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 14th September, 2010 the Company had the following substantial shareholders:

BBY Nominees Pty Ltd	28,000,000 shares
Yarandi Investments Pty Ltd <Griffith Family No2 A/c>	29,686,741 shares

Distribution of Shareholders

There were 1,724 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	100
1,001 - 5,000	342
5,001 - 10,000	251
10,001 - 100,000	773
100,001 and over	258

	1,724
	====

There were no shareholders who held less than a marketable parcel. The top twenty holders held 47.91% of the Company's share capital.

Top twenty holders of ordinary shares as at 14th September, 2010

Name	Shares	%
BBY Nominees Pty Ltd	28,000,000	11.12
Yarandi Investments Pty Ltd <Griffith Family No 2 A/C>	20,686,741	8.22
Miss Samantha Graham	9,194,176	3.65
Dirdot Pty Limited <Griffith Super Fund A/C>	9,000,000	3.58
Mr Nicholas Mark Garling	5,790,201	2.30
Goldsearch Limited	5,550,000	2.20
Citicorp Nominees Pty Limited	5,400,882	2.15
Jerrymara Investments Pty Ltd	4,763,398	1.89
Miss Sam Graham	3,453,978	1.37
ANZ Nominees Limited <Cash Income A/C>	3,140,826	1.25
Drexwill Pty Limited <L Family A/C>	2,900,000	1.15
Forbar Custodians Limited <Forsyth Barr Ltd-Nominee A/C>	2,872,700	1.14
Lugger Bay Pty Ltd <J R Neville Smith A/C>	2,812,031	1.12
Max M Garling	2,797,493	1.11
Ridgeview Nominees Pty Ltd	2,568,167	1.02
Mr Trevor Harvey	2,515,596	1.00
Mr Nicholas Mark Garling <The Nicholas Garling S/F A/C>	2,389,874	0.95
NSF Group Investments Pty Ltd <NSF Group Investments A/C>	2,322,600	0.92
Hipete Pty Ltd <PJ Thomson Super Fund A/C>	2,250,000	0.89
Hirosie Pty Limited <RJ Thomson Super Fund A/C>	2,185,000	0.87
	-----	-----
Total	120,593,663	47.91
	=====	=====

Shareholder Information (continued)

Unquoted Securities

As at 17th September, 2010 the Company had 500,000 1c paid 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 30th June, 2010.

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 at the date of the annual report are detailed in the Directors' Report.

The names of independent directors of the company are:

Jeffrey Wayne Williams

Jeffrey Wayne Williams is considered to be an independent director as he is neither a substantial shareholder in the company nor receives remuneration from the company other than in relation to his position as a director.

The board held 6 meetings throughout the financial year.

At the date of this report the board comprises 4 directors; 1 executive director, being the Chief Executive Officer and Chairman and 3 non-executive directors, as follows:

Nicholas Mark Garling – Chairman, Chief Executive Officer and (acting) Chief Financial Officer (appointed on 20th March, 2007)

Jeffrey Wayne Williams – non – executive, independent director (appointed on 26th February, 2004)

Peter Gilbert Jackson – non – executive director (appointed on 10th March, 2008)

Peter Gordon Hepburn-Brown – non-executive director (appointed on 19th February, 2010)

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 health and safety requirements.

Corporate Governance Statement (continued)

The Board of Directors - continued

The company does not comply with best practice recommendations 2.1: “A majority of the board should be independent directors”; 2.2: “The chair should be an independent director”; 2.3. “The roles of chair and chief executive officer should not be exercised by the same individual”; 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 is dependent on the candidate’s range of skills and experience relevant to the business of the company.

Performance Evaluation

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

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 DF Kaye & Co, Chartered Accountants.

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 licences; land access and native title considerations; compliance with laws and regulations; occupational health, safety and the environment; and continuous disclosure obligations. The board has received assurance from the Chief Executive Officer and Chief Financial Officer that the s.295A declaration is founded on a sound system of risk management and internal control and that the system is operating effectively in all material aspects in relation to financial reporting risks.

Corporate Governance Statement (continued)

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.

Securities Trading Policy

All directors, office – holders and employees are bound by the company's securities trading policy which prohibits trading in Morning Star Gold N.L.'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 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 shareholders 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

Morning Star Gold N.L. also distributes E-News and updates via email and these can be subscribed to via the company's website. The Company can also be contacted via email at: info@msgold.com.au