

# MCO.AU

28 March 2011  
Gold  
Australia (Vic)  
Production  
Exchanges: ASX:MCO

## Morning Star Gold NL

A\$ 0.39

**MCO's share price has drifted lower in 2011, due to teething problems with the gold mill at the recommissioned Morning Star Mine: once these are resolved, shares could approach A\$0.57. Planned gold output is an initial 15-25kozpa Au grading 12-15g/t.**

### Capital Profile

Share price (A\$)	0.39
52 week range (A\$/share)	0.32 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)	110.9
Debt (A\$m) - Mar 11F	0.0
Enterprise value (A\$m)	110.9
Major shareholders: N & S Garling Family Trust (11.8%), Chilee Ltd (11.5%) Griffith Family Trust (10.6%), Shandong Tianye (10.0%)	
Avg monthly volume (m)	8
Cash (A\$m) - Mar 11F	11.1
Price/Cash (x)	10.0
Price/Book (x)	5.7
Listed company options:	No

### Production and Financial Forecasts

YEAR END: June	Dec-10a	Mar-11F	2010a	2011a	2012F
Gold Production (koz)	0.0	0.0	na	2.2	30.4
Cash Costs (US\$/oz)	na	na	na	2541	690
Exploration and Evaluation (A\$m)	2	2	2	5	2
Corporate (A\$m)	1.10	0.8	1.1	2.7	1.6
Exploration/(Expl.+ Corporate) (%)	67.9	66.7	58.9	66.8	60.0
Shares on issue (pr end) (m shares)	284	284	252	284	284
Drilling - RAB (m)	0	0	0	0	0
Drilling - Other/Diamond (m)	1,000	1,250	2,000	4,500	5,000
Land holding ('000 ha)*	24	24	24	24	24
Capital Raisings (A\$m)	15.0	0.0	12.2	15.0	0.0
Funding from JV partners (A\$m)	1	1	0	2	2
Cash (A\$m)	14.8	11.1	6.8	10.0	26.9
Cash Backing (Ac/share)	21.8	16.6	11.5	15.0	44.8
Net Asset Backing (Ac/share)	30.8	29.4	17.0	27.8	60.0

\*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. Current resource 910koz Au with potential to expand.

First bars smelted March 2011: 341g Au and 74.5g Ag, offsite due to delays in wet commissioning gravity plant (GPP). Engineering solutions are being implemented.

Initial rate expected to be 12-15kozpa Au, then 25kozpa or more. A head grade of ~55g/t Au is expected from the 1st stope of Maxwell Reef (in progress).

Upgrades to haulage system, infrastructure at MS Mine now in place: new winder system commissioning Mar '11.

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<sub>s</sub> at US\$1400/oz Au is A\$0.40/share, (current is A\$0.41), with upside to A\$0.57/share. March 2011 cash forecast is \$11m, after \$15m placement in 4Q10.

### 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<sup>2</sup> 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 reef-hosted 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. There is potential to expand the resource via drilling, which is ongoing. For example, underground drilling is targeting Burns Reef, where historic sampling regularly exceeded 100g/t Au.

**Production Strategy:** Since 1993, MCO has been rebuilding the Morning Star Mine from surface to Level 10 (310m underground), accessing underground targets for production by small-scale stoping of veins. MCO re-commenced development mining at Morning Star in August 2009. Initial rate should be between 30ktpa and 50ktpa, for **est. production 12-15kozpa Au, growing to 25kozpa** (80ktpa) and scaleable to 120ktpa over 3 years. Four ore sources are being developed, over three levels, including the 0.15m-0.6m thick Maxwell Reef, at ~240m depth, with assays up to 386.2g/t Au. The first stope has commenced in Maxwell ore zone. Milling is by gravity processing plant (GPP) and onsite smelting of dore bars, recovering 90-92% at a 300µm coarse crush, and with a saleable "middling" concentrate carrying the remaining gold (rate 10tpd). Tailings will be pumped underground. **Commissioning** of the +80ktpa (10tph) GPP (Gekko Systems, A\$4m) started in 4Q10. Some initial mechanical issues with crushing/screening are being addressed. A problem has emerged in removing sulphides via Wilfley table without too much gold flowing to the middlings - while a fix is found, concentrate is being shipped offsite for processing. A successful initial smelt in March 2011 recovered 341g Au and 74.5g Ag. Spinner concentrates have assayed 18,000g/t Au, well in excess of the 8-9000g/t Au target.

**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 historic mines and prospects. Development along the Rose of Denmark Mine (RoD) adit has found strong signs of mineralisation; underground drilling should proceed in when site prep is completed.

**Corporate:** Placed A\$15m in shares at A\$0.46/share (200 day MAP +20%) to Chilee 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<sub>s</sub> of MCO with 5 years' production is A\$115m, or A\$0.40/share with cash (90% recovery, 80ktpa production growing to 100kt in 2013 and 120kt in 2014-2015, opex A\$600/oz, capex A\$32m, AU/US parity, gold US\$1400/oz). This does not account for exploration or mine life extensions, e.g. 10 years' production takes NAV to A\$0.57/share.

**Investment Comment:** MCO's share price gained in the months prior to the start of production, with 3 month share-price performance +34% to mid December 2010. The past 3 months' performance has been more subdued due to delays in the process ramp-up. Such engineering and metallurgical problems are common in the first stages of mineral production and must be quickly addressed, in a cost effective way. There is upside risk to our \$0.57/share forecast from mine life extensions, resource expansions and exploration. Regional holdings have potential to provide a 3-4moz Au resource base.

### Reserves and Resources/Mineralised Material

Code for reporting mineral resources - Australian: (JORC)

Gold	Classification	Project	Ore	Au	Cut Off	Au	Au	Au Eqty	
Au		Equity	mt	g/t	g/t	t	koz	koz	
<b>Reserves</b>							0.0	0.0	0.0
<b>Resources (July 2008)</b>									
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	
<b>Total</b>			<b>4.62</b>	<b>6.3</b>		<b>29.3</b>	<b>910.0</b>	<b>910.0</b>	

**Mineralised Material** (est., non compliant with JORC)

0.0 0.0 0.0



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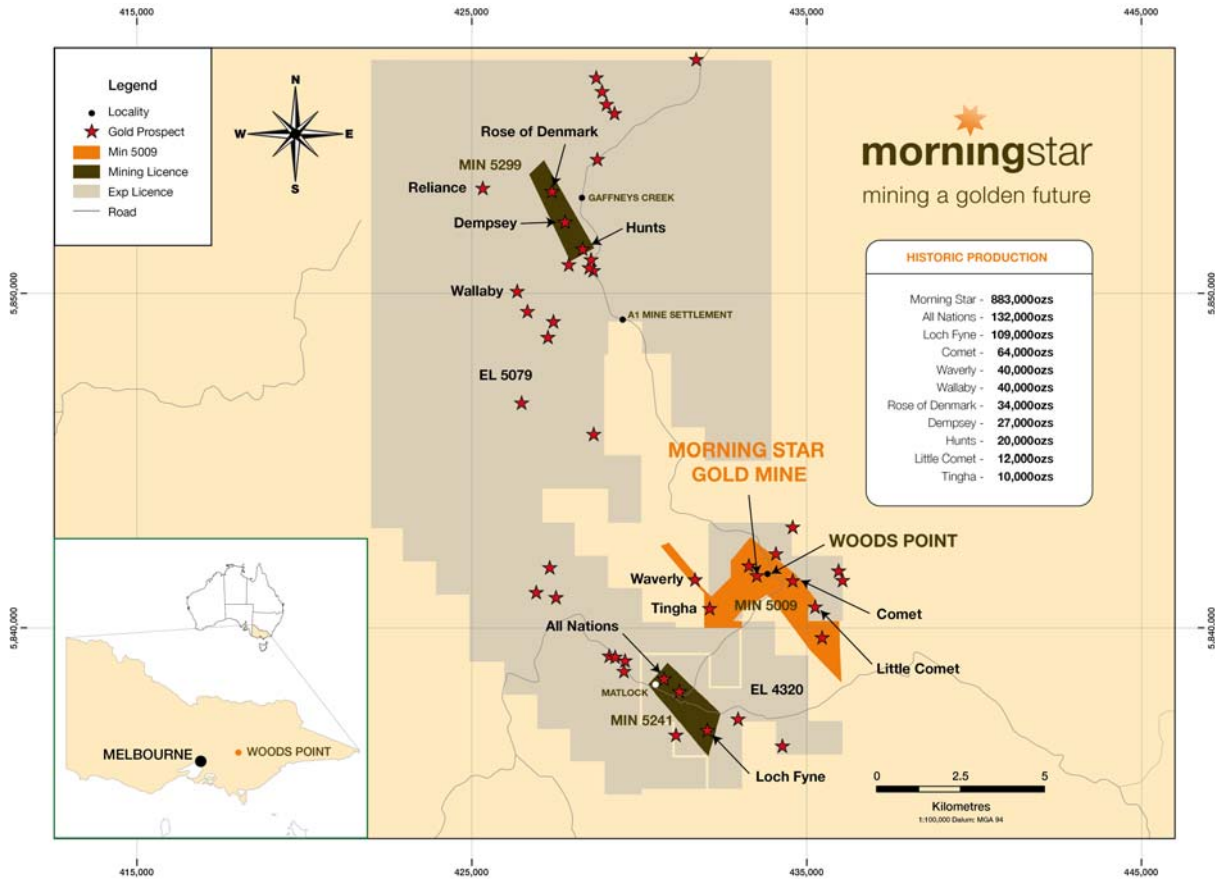
### Directors

N Garling (Exec Chair, MD)  
P Jackson (Non Exec)  
J Williams (Ind, Non Exec)  
A Motlokhov (Non Exec)  
Z Zheng (Non Exec)

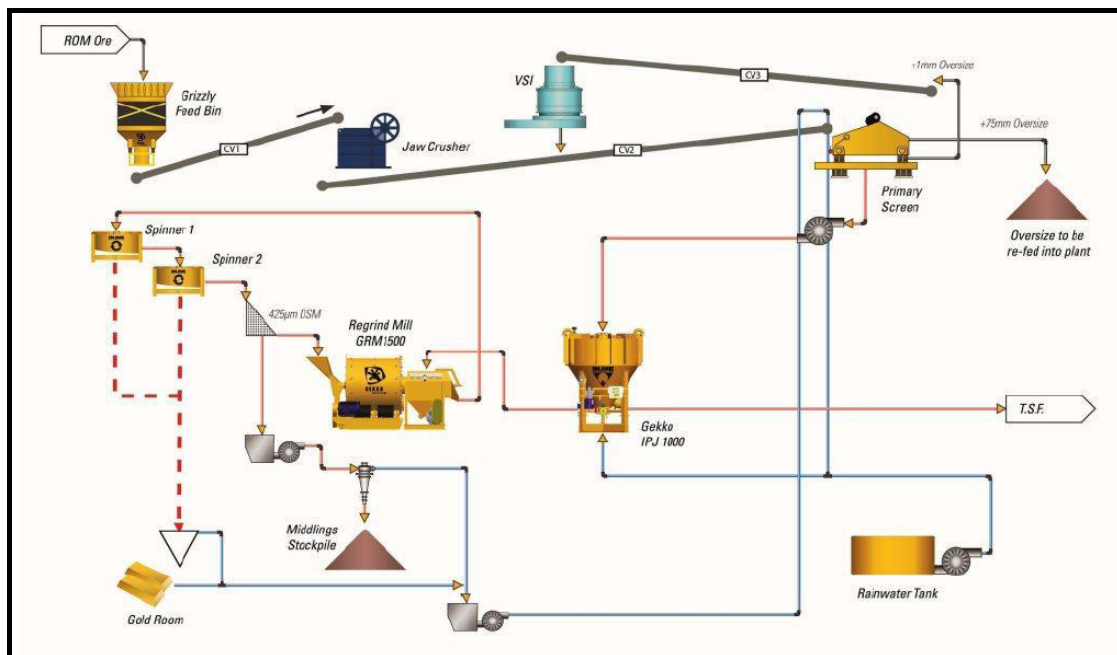
### Key Projects

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)

MCO's tenements cover ~220km<sup>2</sup> 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.



Flow sheet diagram: the gravity plant (GPP) uses a fairly simple system of crushing, screening and spinning to produce a concentrate, from which gold is removed using a Wilfley table and smelted into bars. Commissioning delays are focused on the primary crush/screen and downstream sulphide separation.



## Disclosure and Disclaimer

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