REINVENTION BRINGS GOLDEN RETURN

With its transition from explorer to producer almost complete, Morning Star Gold is discovering that the smell of success is even sweeter when the commodity price is right.

WITH THE IMMINENT start-up of its namesake gold mine near the small gold-rush town of Woods Point in eastern Victoria, Morning Star Gold managing director and chief executive Nick Garling is demonstrating more confidence now than he has in his four years at the helm.

The Morning Star mine is located within 220 square kilometres of mining and exploration tenements near the Victorian Alps, centred on historically prolific discoveries in a region first mined 100 years ago and famed for its impressively high-grade ore.

The mine has been one of the most prodigious finds in Australian minerals history, sharing around 7.5 million ounces of gold with the neighbouring Walhalla discovery to the south, and the rich goldfields in between boasting historical production grades of close to an ounce per tonne.

The Morning Star mine is 150km from Melbourne and just 400m from the township of Woods Point, providing access to an experienced and skilled workforce, accommodation and services, and Victoria's electricity grid.

The mine is a low-cost mining operation budgeted at around $650 an ounce, operating with an uptrend gold price of close to $1400/oz.

Garling believes it will be the first definitive project to finally put the company on the minerals map, 23 years after its listing as New South Wales-based explorer Mount Conqueror Minerals.

A name change to Morning Star Gold in 2006 and farm-out of non-core assets signalled Garling's intention to concentrate on eastern Victorian gold.

"Our objective is to focus heavily on grade and ounces of gold, not bulk tonnages, which we believe is the right strategy in this strong gold environment," he told *RESOURCESTOCKS*.

When Morning Star Gold purchased the mine from a group of small prospectors in 1992, it came with 45,000 microfilm pages of historical records saved by previous owner Western Mining Corporation.

The company wasted no time using that information to begin a multi-million dollar redevelopment and refurbishment program at the mine.

Carried out over six years until 1998, the program completely rehabilitated and rebuilt the surface and underground infrastructures to a depth of 130m below ground, providing access to the upper area of the mine's "gap zone".

This is an area of up to 600m depth where minimal historical production took place and is estimated to contain up to 65 million tonnes of dyke and host rocks, around which much of the mine's historical high-grade bounty of 883,000oz was taken.

The company lost its way between 1998 and 2002, as the gold price wallowed at multi-year lows, and was nearly sold as a shell to house a business connected to the information technology boom.

Thankfully, common sense prevailed and Morning Star Gold lived on following a board change with new shareholders joining the eastern Victorian gold rush.

One of these was Garling, who has since gained a stake of around 20%, making him the company's largest shareholder.

In 2005-06, he joined the board of directors in an effort to further "manage his investment".

"It should be viewed as an incentive to shareholders when a company's management team has such a large stake in the pie," he said.

"It demonstrates commitment and confidence in our assets, especially in this difficult marketplace."

The present focus is on the successful return to gold production at Woods Point and the creation of an operational and production hub, which will be fed by scores of subsidiary high-grade discoveries in the region held by the company.

Morning Star Gold considers the nearby Waverly line of workings, with historical production estimated at more than 50,000oz, as having

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NICK GARLING
MORNING STAR GOLD

great potential for expanding its current resource base and tapping into economic areas of mineralisation close to the mine.

Reconnaissance drilling at Waverly in 2008-09 comprised six diamond drillholes, resulting in two visible gold strikes at virgin dyke depths that provided information on the shape and orientation of the deposit beneath existing shallow workings.

Other key targets in the regional exploration program, such as Reliance, Wallaby, Hunts, All Nations, Rose of Denmark and Little Comet, are all within 10km of Woods Point.

They historically produced a total of around 500,000oz at high grades and have been earmarked for drilling in the 2010-12 period.

The program received a $4.5 million boost from Shanghai-listed Chinese partner Shandong Tianye Group, which has taken 28 million shares (or 11%) in Morning Star Gold and is farming into the company's ground surrounding the Morning Star mine.

"We have a 910,000-ounce dual resource over several zones just at Morning Star down to about the 500-metre level and our geologists are confident that our tenements host a number of similar opportunities which have only been mined to depths between surface and 100 metres," Garling said.

"We are hoping that between surface and 500 metres, we can eventually prove up 5-10 million ounces from these subsidiary targets, giving us significant positive cash flow to fund our entire operation on an ongoing basis."

In the meantime, the company remains focused on the final stages of the fabrication and installation of a $2.5 million onsite gravity gold plant, fully funded by cash at hand following a $12.3 million options exercise in March, to process up to 80,000t per annum targeting 0.5oz/t.

Supplied by Ballarat-based mineral processing specialist Gekko Systems, the plant is expected to be in operation by the end of July.

"A series of independent metallurgical tests has shown that gravity processing the high-grade ores at Morning Star returns a very high rate of 'free milling' gold," Garling said. "We expect our gold to be 85-90 per cent free milling through our gravity circuit, crushed to a coarse 250 microns and, importantly, without the use of any reagents.

Morning Star is eyeing a July start-up with gold production commencing in the second half of 2010

"By our estimates and given the grade of our ore stockpiles and in-mine zones of focus for near-term development, the plant could pay for itself within a quarter of a year.

"It does not get much simpler or more cost-effective than that."

Provided the plant goes to plan and pending regulatory approvals, Garling said the company would be poised for a July start-up with gold production commencing in the second half of 2010.

"This is the best possible time for us to establish a high-margin business and make the transition to producer because we expect the gold price to stay strong in a weak US dollar environment," he said.

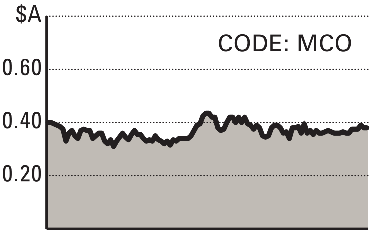
"If we produce 30,000 ounces of gold in our first year at a return of $700 per ounce, it will mean an incredible $21 million of profit within 12 months."

While the markets for Morning Star's product are "endless", Garling is happy to sell the product in Australia for now.

"We have had strong interest from buyers in China, India and across Asia to buy and smelt our gold and we may eventually seize those opportunities but in the early days of production, it is easier for us to sell it domestically," he said.

"Gold is a seller's market at the moment and if you are among the lucky few in Australia to be engaging in a high-grade, high-profit operation, you are definitely right in the box seat." – **Imelda Cotton**

MORNING STAR GOLD AT A GLANCE



5 months ending June 28, 2010

HEAD OFFICE
Level 4, 20 Loftus Street
Sydney NSW 2000
Australia
Ph: +61 2 9291 3888
Fax: +61 2 9291 3899
Email: info@msgold.com.au
Web: www.morningstargold.com.au

DIRECTORS
Nicholas Garling,
Peter Hepburn-Brown,
Jeffrey Williams, Peter Jackson

MARKET CAPITALISATION
$A95.5 million (at press time)

QUOTED SHARES ON ISSUE
251,404,458

MAJOR SHAREHOLDERS
Nicholas Garling 18%
BBY Nominees 11%
Yarandi Investments 12%