

MCO.AU

27 September 2010
Gold
Australia (Vic)
Production
Exchanges: ASX:MCO

Morning Star Gold NL

A\$ 0.41

MCO's onsite gravity plant is being commissioned, ready for initial production of 15-25kozpa Au at 12-15g/t, from Oct 2010. Assays are pending from regional drilling at All Nations prospect, while development at Rose of Denmark has signs of gold mineralisation.

Capital Profile

Share price (A\$)	0.41
52 week range (A\$/share)	0.29 to 0.49
Number of shares (m)	252
Options and warrants (m)	0
Convertible notes (m)	0
Fully diluted (m)	252
Market capitalisation (undiluted) (A\$m)	103.3
Debt (A\$m) - Sep 10F	0.0
Enterprise value (A\$m)	103.3
Major shareholders: N & S Garling Family Trust (13.2%), Griffith Family Trust (11.8%), Ample Rise Ltd (11.1%)	
Avg monthly volume (m)	9
Cash (A\$m) - Sep 10F	4.3
Price/Cash (x)	24.0
Price/Book (x)	8.6
Listed company options:	No

Investment Points

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

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

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

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

An 80ktpa gravity plant is being installed. MCO expects to be producing gold from 4Q10 at an initial rate of 12-15kozpa Au, then on to 25kozpa or more.

Upgrades to haulage system at MS Mine in the pipeline.

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

Morning Star Mine NPV at LT US\$900/oz Au is A\$0.79/share, 93% above current share price.



Production and Financial Forecasts

YEAR END: June	Jun-10a	Sep-10F	2010a	2011F	2012F
Exploration and evaluation (A\$m)	0.29	0.30	1.52	1.80	0.00
Corporate (A\$m)	0.40	0.30	1.06	1.50	1.60
Exploration/(Expl.+ Corporate) (%)	42	50	59	55	0
Funding duration at current burn (years)	9.9	7.2	2.6	1.0	9.6
Shares on issue (pr end) (m shares)	252.2	252.2	252.2	252.2	252.2
Drilling - RAB (m)	0	0	0	0	0
Drilling - Other/Diamond (m)	500	1,000	2,000	4,500	5,000
Land holding ('000 ha)*	24	24	24	24	24
Tenement costs (\$k per year)	-	-	-	-	-
Capital raisings (A\$m)	2.66	0.00	12.17	0.00	0.00
Funding from JV partners (A\$m)	0.0	0.6	0.0	2.3	2.3
Cash (A\$m)	6.8	4.3	6.8	3.4	15.4
Cash backing (Ac/share)	2.7	1.7	2.7	1.4	6.1
Net asset backing (Ac/share)	5.3	4.8	5.3	5.0	9.5

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

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 ~240km² giving it control over the Woods Point dyke swarm, known to have historical production of around 2moz. Its vision is that gravity mill(s) at or near Woods Point can become a processing hub for regional mining. MCO has started production at Morning Star for the first time since WMC in 1959.

Resource Status: In 2Q08 MCO confirmed a 910koz resource at 6.3g/t Au for the Morning Star Mine. There is an underground mining resource of **726koz Au at 11.2g/t**. Gold distribution is thought to be homogeneous (i.e. less nuggety) compared to other high-grade Victorian goldfields, such as Ballarat.

Production Strategy: Since 1993 the Morning Star Mine has been rebuilt by MCO from surface to Level 10 (310m underground) for total cost +A\$28m. This allowed access to underground targets for production by small-scale stoping of veins. MCO re-commenced mining at Morning Star in August 2009. Development ore is being stockpiled. Mining rate should be between 30ktpa and 50ktpa in 2H10, for **est. production rate 12-15kozpa Au, growing to 25kozpa (80ktpa)** in the future. Four ore sources are being developed, over three levels (9, 7 and 3), including the 0.15m-0.6m thick Maxwell Reef, at ~240m depth, with assays up to 386.2g/t Au. The first stope will be of a Maxwell ore zone 41m in length and indicating 55g/t Au head grade at the face, well above resource grade. Recoveries are expected to be 90-92% by gravity at a 300µm coarse crush. Gold will be produced by onsite gravity processing plant (GPP), and a saleable "middling" concentrate with the remaining ~8% recoverable gold moved offsite for CIL (rate 10tpd). Tailings will be pumped underground. The stand-alone +80ktpa (10tph) GPP has been constructed (Gekko Systems, A\$4m). Dry commissioning is expected to start in late Sep '10, with full scale production in October 2010.

Regional Exploration: MCO is managing a JV with Hong Kong's Ample Rise Investments, which is investing A\$4.5m over 2 years to earn 51% of regional Mining Licences MIN5299 and MIN5241. Drilling has commenced and will focus on the historic All Nations, Rose of Denmark and Hunts mines. All Nations, which is 4km SW of Morning Star, produced ~132koz Au @ ~10z/tonne from reefs and dykes at shallow depths (60m-90m); assays are expected in early October from initial 5 drill holes. Development along the Rose of Denmark adit has found strong signs of mineralisation in development. **Valuation:** The underground resource at Morning Star is 2mt @ 11.2g/t, within MCO's target head grade of 10-15g/t Au. As is common with narrow-vein deposits, only mining will show exactly how much of the resource converts to production. The NPV of Morning Star Mine with this resource (5% disc. real) is A\$159m, or A\$0.63/share (conditions are 92% mill recovery, 80ktpa production, opex A\$600/oz, capex A\$32m, AU/US0.8, LT gold US\$900/oz, with a ~20% adjustment for pre-production risks). At the current gold price of ~US\$1275/oz and exchange AU/US 0.94, NPV is A\$0.84/share. This does not account for cash, the surface resource, and value of exploration properties.

Investment Comment: Currently, project NPV at gold LT US\$900/oz is 93% above market capitalisation, ie. MCO's share price should increase if confidence grows in the Woods Point Project, with plant commissioning and into the first years of production. There is upside risk from future mine life extensions and resource expansions following infill and exploration drilling. Regional holdings have potential to provide a 3-4moz Au resource base. The share price is highly leveraged to the gold price, as shown by the recent 15% 1-month share price gain in an improving US\$ gold market.

Reserves and Resources/Mineralised Material

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

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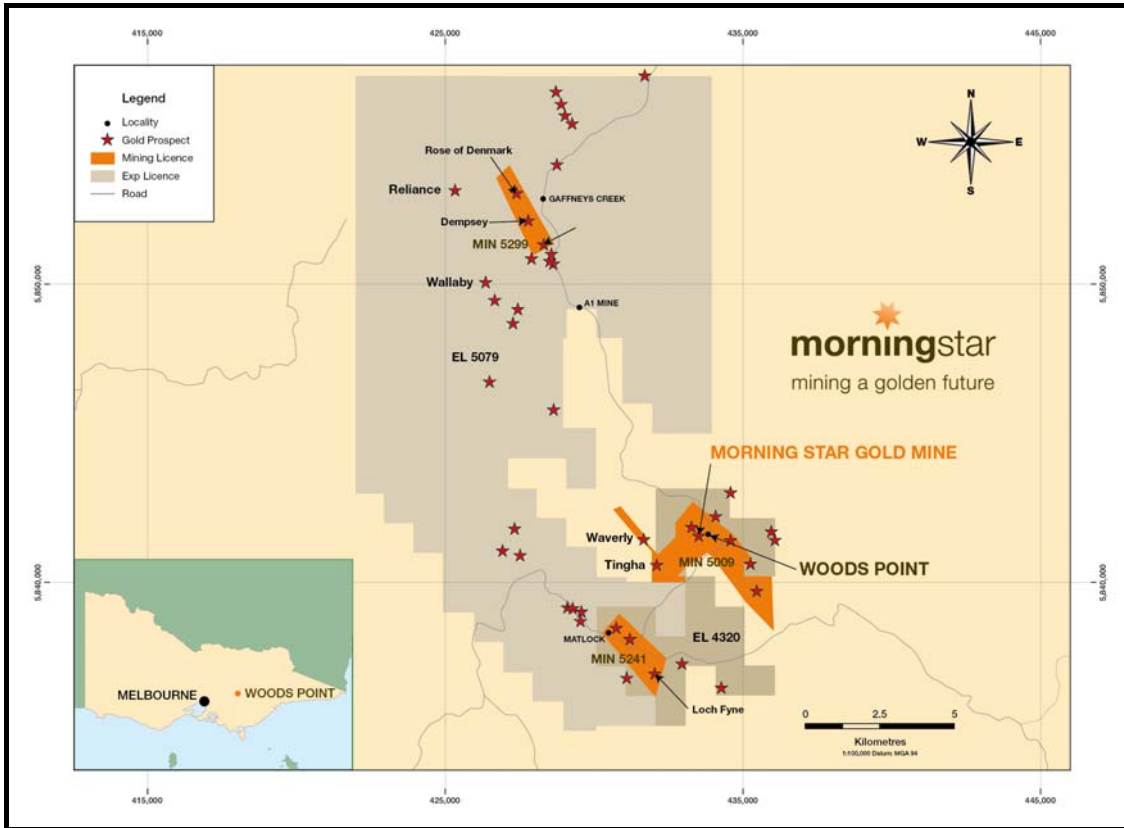
Directors

N Garling (Exec Chair, MD)
P Jackson (Non Exec)
J Williams (Ind, Non Exec)
PG Hepburn-Brown

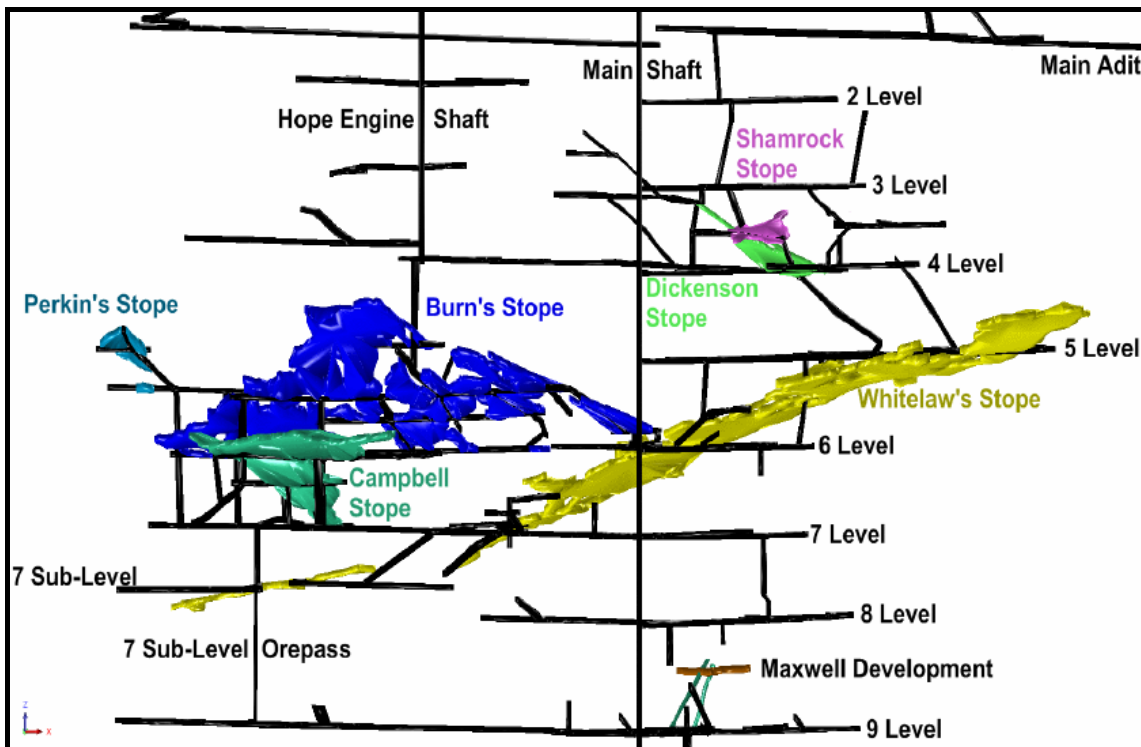
Key Projects

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

MCO's tenements cover ~220km² of Victoria's Eastern Goldfields with historic underground mines having produced ~2moz. MCO considers a regional resource target of 3-4moz is realistic. The recent A\$4.5m JV over two MINs should hasten development. Drilling assays from the All Nations prospect are pending.



MCO's initial underground JORC resource of 2mt @ 11.2 g/t Au includes ore in the Maxwell and Kenny zones (above 9 Level). Assays from development mining at Maxwell run up to 386.2g/t Au and the initial stope samples average 55g/t Au. Processing through the onsite gravity plant is expected from early 4Q10.



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