

MCO.AU

30 June 2010
 Gold
 Australia (Vic)
 Production
 Exchanges: ASX:MCO

Morning Star Gold NL

A\$ 0.39

MCO plans to produce 15-25kozpa Au from its gravity plant at the Morning Star Mine, commencing 3Q10. First production from the Maxwell Reef could run to 55g/t Au. Regional exploration is ramping up, with drilling under way at the All Nations prospect.

Capital Profile

Share price (A\$)	0.39
52 week range (A\$/share)	0.14 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)	98.2
Debt (A\$m) - Jun 10F	0.0
Enterprise value (A\$m)	98.2
Major shareholders: N Garling & S Graham (14.0%), Yarandi Investments (11.5%), Ample Rise Investments (11.0%)	
Avg monthly volume (m)	3
Cash (A\$m) - Jun 10F	10.3
Price/Cash (x)	9.5
Price/Book (x)	6.3
Listed company options:	No

Production and Financial Forecasts

YEAR END: June	Mar-10a	Jun-10F	2009a	2010F	2011F
Exploration and evaluation (A\$m)	0.21	0.20	1.58	1.44	2.00
Corporate (A\$m)	0.26	0.25	0.75	0.91	1.00
Exploration/(Expl.+ Corporate) (%)	44	44	68	61	67
Funding duration at current burn (years)	14.5	22.9	0.5	4.4	2.3
Shares on issue (pr end) (m shares)	173.2	252.2	127.9	252.2	252.2
Drilling - RAB (m)	0	0	0	0	0
Drilling - Other/Diamond (m)	500	500	2,400	2,000	4,500
Land holding ('000 ha)*	24	24	24	24	24
Tenement costs (\$k per year)	-	-	-	-	-
Capital raisings (A\$m)	7.67	4.63	2.02	14.14	0.00
Funding from JV partners (A\$m)	0.0	0.0	0.0	0.0	2.3
Cash (A\$m)	6.8	10.3	1.2	10.3	6.8
Cash backing (Ac/share)	3.9	4.1	1.0	4.1	2.7
Net asset backing (Ac/share)	6.5	6.2	1.9	6.2	6.0

*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 at 26.5g/t from 1862-1963.

Development has commenced on known gold reefs at the rebuilt Morning Star Mine, with ore being stockpiled (currently +10kt).

Production grades are exceeding underground resource grades (11.2g/t). A head grade of ~55g/t Au is expected from the first stope of Maxwell Reef (mid 2010).

An 80ktpa gravity plant has been built and could be operational in 3Q10. MCO expects to be producing gold at an initial rate of 12-15kozpa Au, then on to 25kozpa.

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

Underwritten option exercise 1H10 raised A\$12.3m.

Company Comment

Overview: MCO's Morning Star Mine is located at Woods Point, 120km ENE of Melbourne, in the Eastern Goldfields which is one of the most significant historical goldfields in Australia, with ~6moz produced since the 1860's gold rush days. MCO has recommenced production for the first time since WMC in 1959. MCO's Strategic Position: MCO has developed a tenement position of over 220km² giving it control over the historically rich production ground in the Woods Point dyke swarm, known to have historical production of around 2moz of gold. MCO's vision is that one or more gravity mills at/near Woods Point can become a processing hub for its future regional mining operations.

Mine Rehabilitation: 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.

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: MCO recommenced mining at Morning Star in August 2009, initially 40t/day increasing to 80t/day in 3Q10. Current development is at ~240m depth along the 0.15m-0.6m thick Maxwell Reef, above 9 level, with assays returning up to 386.2g/t Au. The first stope, planned for when the gravity mill is commissioned (see below), will be of a Maxwell ore zone 41m in length and indicating 55g/t Au head grade at the face, well above resource grade. Other targets are Dickenson Reef between 3 and 4 levels (100m depth), and Kenny Reef at 7 sub level, which was partially developed but not stoped by WMC and is in an area of high grade drilling assays (including 694g/t and 532g/t in 2008). Development ore is being stockpiled. Mining rate will be between 30ktpa and 50ktpa in CY10, est. production rate 12-15kozpa, then 25kozpa. Metallurgy in 4Q09 found gravity concentration and a leach circuit recovered +98% Au, or ~90-92% from gravity alone at a 300µm coarse crush. Gold will be produced by gravity onsite, and a saleable "middling" concentrate with the remaining ~8% moved offsite for CIL (rate 10tpd). Tailings will be pumped underground. A stand-alone +80ktpa (10tph) gravity plant has been constructed (Gekko Systems, A\$4m including site civils) and will be assembled at Morning Star after final approval for slab pour and 30 days commissioning - expected 3Q10.

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 grading ~1oz/tonne from reefs at shallow depths (60m-90m). Underground drilling at Denmark is planned, from a refurbished adit.

Investment Comment: Mining grades from Maxwell Reef are well in excess of the Morning Star resource - a possible 55g/t Au head grade from the first stope at Maxwell Reef would be a good start to production proper. Gearing up to a 30-50ktpa operation in 2H10 should see gold output in the range 15-25kozpa, or higher. Opex should be ~A\$600/oz giving solid margins. We repeat our assertion of 1Q10, which is, if MCO can continue to achieve predicted grades and start milling on schedule, a share price re-rating is expected. Regional holdings have potential to provide a 3-4moz resource base.

Reserves and Resources/Mineralised Material

Code for reporting mineral resources - Australian: (JORC)

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

Mineralised Material (est., non compliant with JORC)

0.0 0.0 0.0



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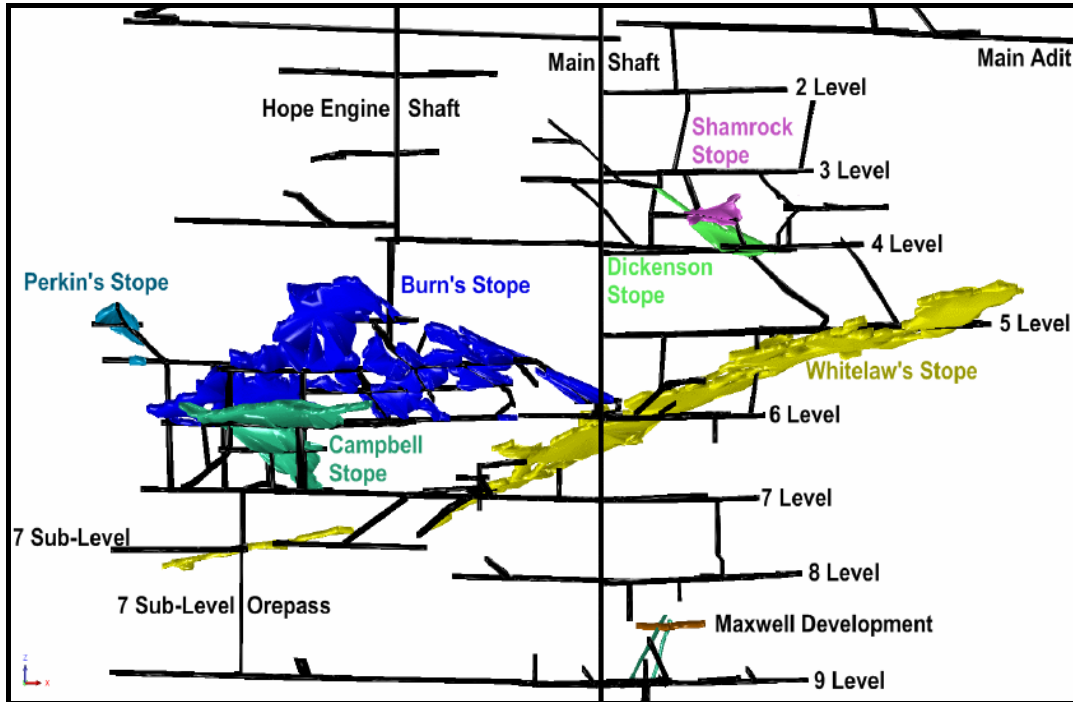
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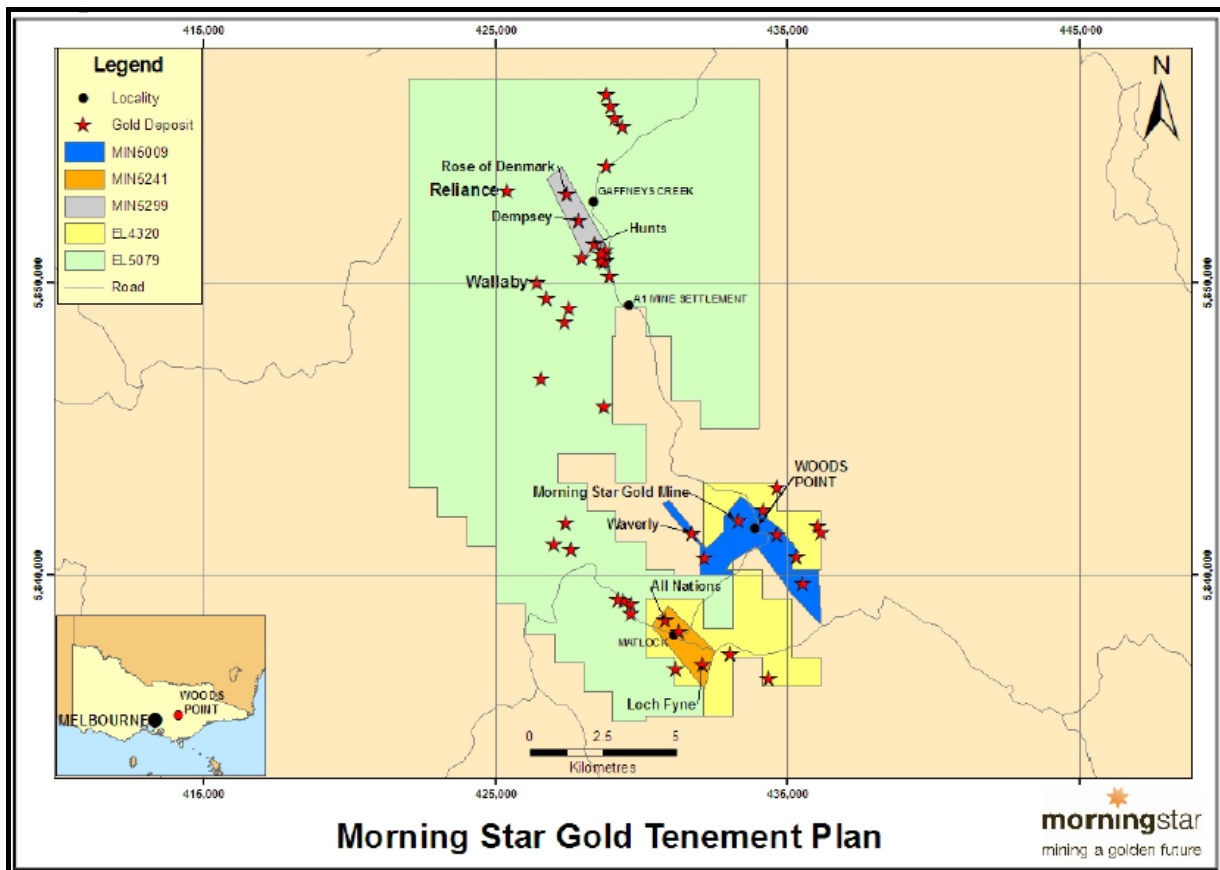
Key Projects

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 initial underground JORC resource of 2mt @ 11.2 g/t Au is in the Maxwell and Kenny zones (upper 9 level). Assays from development mining at Maxwell include 386.2g/t Au, with a recent average from the reef of 75.2g/t Au. The reef has a halo with lower gold grades; this material could be processed separately.



MCO's tenements cover ~240km² of Victoria's Eastern Goldfields with historic underground mines having produced >1.8moz. MCO considers a regional resource target of 3-4moz is realistic, using the Morning Star mine as an ore processing hub. The recent A\$4.5m JV over two MINs should boost development.



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