

MCO.AU

Morning Star Gold NL

A\$ 0.33

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

Underground mining grades at Morning Star averaged 22.95g/t in 4Q09, well in excess of current resource grades and in line with historic production (~900koz at 26g/t). Milling to produce 15-25kozpa Au via gravity could commence in Jun '10.

Capital Profile

Share price (A\$)	0.33
52 week range (A\$/share)	0.11 to 0.49
Number of shares (m)	173
Options and warrants (m)	79
Convertible notes (m)	0
Fully diluted (m)	252
Market capitalisation (undiluted) (A\$m)	56.3
Debt (A\$m) - Mar 10F	0.0
Enterprise value (A\$m)	56.3
Major shareholders: N Garling (23.0%), Ample Rise Investments (12%) Yarandi Investments (8.9%)	
Avg monthly volume (m)	4
Cash (A\$m) - Mar 10F	5.8
Price/Cash (x)	9.8
Price/Book (x)	7.1
Listed company options:	MCOOB

Investment Points

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

Historical production at Woods Point underground mine 883,000 oz at 26.5g/t from 1862-1963.

Mining has commenced at Morning Star, for the first time since 1959 (WMC), with ore being stockpiled.

MCO has spent >A\$28m and more than a decade rehabilitating and re-building the Morning Star mine to level 10 (310m depth).

Production grades are exceeding resource grades - average reef in 4Q09 was 22.95g/t Au with grades now increasing (recent 44.4g/t from 26 ore zone samples)

An ~80ktpa gravity plant is under construction and could be operational in Jun '10. MCO expects to be producing gold at an initial level of 15 - 25kozpa Au

Underwritten option exercise 1Q10 is injecting A\$12.3m.



Production and Financial Forecasts

Year End: June	Dec-09a	Mar-10F	2009a	2010F	2011F
Exploration and evaluation (A\$m)	0.62	0.60	1.58	1.88	1.00
Corporate (A\$m)	0.18	0.25	1	0.90	1.00
Exploration/(Expl.+ Corporate) (%)	77	71	0	68	55
Funding duration at current burn (years)			0	4.8	6.0
Shares on issue (pr end) (m shares)	147.2	173.2	127.9	252.2	252.2
Drilling - RAB (m)	0	0	0	0	0
Drilling - Other/Diamond (m)	500	500	2,400	2,000	0
Land holding ('000 ha)	24	24	24	24	0
Tenement costs (\$k per year)	-	-	-	-	-
Capital raisings (A\$m)	0.4	4.4	2.0	14.2	0.0
Funding from JV partners (A\$m)	0	0	0	0	0.0
Cash (A\$m)	1.5	5.8	1.2	13.3	11.9
Cash backing (Ac/share)	1.0	3.3	1.0	5.3	5.2
Net asset backing (Ac/share)	1.9	4.6	1.9	6.2	6.7

*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 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 is recommencing production for the first time in nearly 50 years.

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 a gravity mill at Woods Point could become a hub processing facility from other regional mining operations developed by MCO in the future.

Mine Rehabilitation: Since 1993 the Morning Star mine has been totally rehabilitated and rebuilt by MCO from surface to Level 10 (310m underground) for a total cost exceeding A\$28m. This has allowed resource definition and access to several key underground targets for initial production.

Resource Status: In 2Q08 MCO confirmed a 910koz resource at 6.3g/t Au for Morning Star mine.

Production Strategy: MCO re-commenced mining at Morning Star in August 2009, initially 40t/day increasing to 80t/day in 1Q10. Current development is along the 0.15m-0.6m thick Maxwell Reef, above 9 level, with assays returning up to 137.4g/t Au. In 4Q09, development samples averaged 10.77g/t Au and reef samples 22.95g/t Au - more recent sample groups have averaged 44.4g/t Au and 75.2g/t. These are well above resource grades. Other targets are Dickenson and Shamrock reefs between 3 and 4 levels, and Burns Reef (6 sub level). Ore is being stockpiled. MCO is building a stand-alone treatment plant at Morning Star. Capacity initially ~80ktpa (10tph). Mining will be between 30ktpa and 50ktpa in CY10, est. production 15-25kozpa in 2010. Metallurgical testing in 4Q09 found gravity concentration and a leach circuit gave recoveries of ~95%-99%, or ~92% from gravity alone at a 300µm coarse crush. Currently, the plan is to use gravity to produce a saleable concentrate for CIL processing. Construction has commenced (by Gekko Systems): operation is expected in Jun '10.

Comparison with Ballarat Goldfields: The disaster that befell Lihir Gold (ASX:LGL) at Ballarat after the purchase of Ballarat Goldfields NL for A\$350m has naturally made investors wary about historical high grade mines being re-started in Victoria. It is, however, important to note that the geology at Ballarat (sedimentary/saddle reefs) is less homogenous and more nuggety than Woods Point (igneous dyke-hosted reefs) and LGL's large scale 'bulk mining' mining approach was unsuited to the ore body and very different to MCO's planned small scale selective mining of reef veins.

Regional Exploration: Excellent potential for a 3-4moz resource base, Regional drilling is expected in 1H10, focusing on the historic Reliance Dyke (chip assays to 12g/t Au). MCO is managing a JV with Hong Kong's Ample Rise Investments, which will invest A\$4.5m over 2 years to earn 51% of regional Mining Licences MIN5299 and MIN5241.

Corporate: Outstanding options (MCOOB), exercisable by March 2010 and currently well in the money at A\$0.10/share, should provide a cash injection of A\$12.3m - conversion is underwritten by BBY Ltd.

Investment Comment: Mining grades from Maxwell Reef are well in excess of the Morning Star resource. 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. If MCO can continue to achieve predicted grades and commence milling on schedule, a share price re-rating is expected. There is excellent resource upside and the JV with Ample should fast-track development of regional holdings.

Reserves and Resources/Mineralised Material

Code for reporting mineral resources - Australian: (JORC)									
Gold	Classification	Project	Ore	Au	Cut Off	Au	Au	Au	
Au		Equity	mt	g/t	g/t	t	koz	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	910.0	
Mineralised Material (est., non compliant with JORC)							0.0	0.0	0.0

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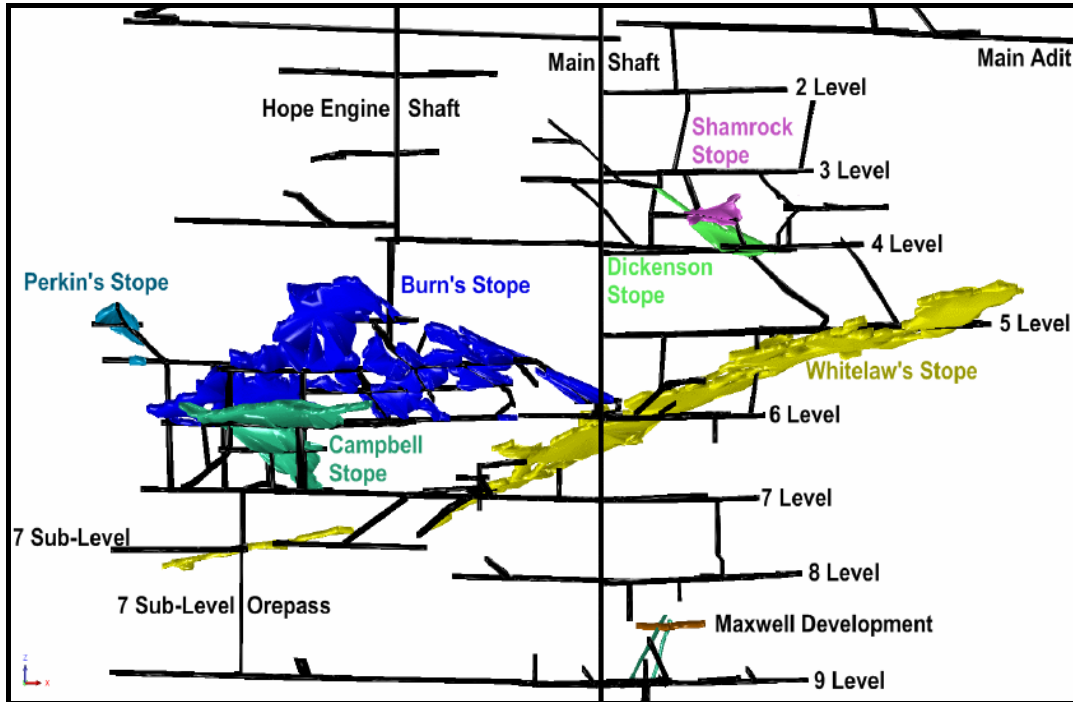
Directors

M Garling (Exec Chairman)
N Garling (MD)
P Jackson (Non Exec)
J Williams (Non Exec)
PG Hepburn-Brown

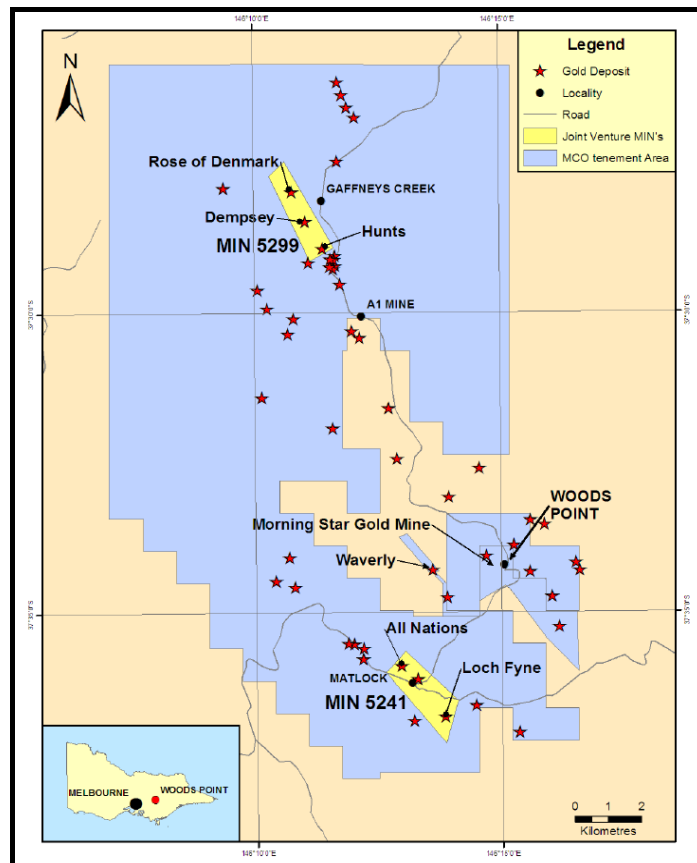
Key Projects

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%	Au	none	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 137.4g/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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