

MORNING STAR GOLD N.L.

A.B.N. 34 003 312 721

FINANCIAL REPORT FOR THE HALF-YEAR ENDED 31ST DECEMBER, 2006

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly this report is to be read in conjunction with the annual report for the year ended 30th June, 2006 and any public announcements made by Morning Star Gold N.L. during the interim period in accordance with the continuous disclosure requirements of the Corporations Act 2001.



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REVIEW of EXPLORATION for the SIX-MONTH PERIOD ENDING
31 DECEMBER 2006

VICTORIA

Morning Star Gold Mine, Woods Point Project

Operations at the Morning Star mine continued as underground exploration – development phase. The main activities were shaft-sinking operations down to below No. 8 Level and an internal winze refurbishment from the No. 7 Level.

Underground sampling on Whitelaws and Burns Floors continued with assays up to 578 g/t gold. The period saw the granting and renewal of all of Morning Star Gold NL's Mining Licences. Surface surveying and mapping of regional dyke occurrences and mine workings on the MCO tenements was carried out, and work is in preparation to submit a plan for surface exploration drilling on the Comet, All Nations and Loch Fyne Dykes.

In light of the bush fires that affected northeast alpine Victoria, the Morning Star Gold NL project areas had very little impact, as did the supporting community of Woods Point. There were disruptions due to emergency provisions and one positive outcome was the upgrade of provision of electricity generation capacity to ensure minimal risk of power supply impact in the future.

1. Underground Mine Development

Shaft refurbishment continues to proceed ahead of schedule. The No. 8 Level was accessed and the 8L plat refurbished during the period.

Shaft refurbishment has reached the 251m depth below surface.

A winze below 7L was located and refurbished as an access-way to the base of the Whitelaws Reef development. The winze intersects Whitelaws at ~20m below the level and will provide access to several historical visible gold intersections. Winze refurbishment is currently awaiting installation of a ventilation system.

During the period, the site electric-hydraulic winding and hoisting systems underwent maintenance programmes, including a new cable replacement onto the pneumatic equipment winch and a new cable has been scheduled for installation on the main haulage winder.

2. Underground Mine Exploration

It is anticipated that the auriferous mineralization of the Whitelaws Floor and other northern drill intersections will be sampled from the No. 7 Level winze access during the next quarter. This area was last mined by WMC (GMA) in 1939; production records from this period were ~40g/t gold.

Subsequent to the end of the biannual period, preparations have commenced to begin sampling on Whitelaws from the No. 8 Level. Sampling has shown anomalous results up to 6.12 g/t in development exposures.

Samples from the Burns 1965' level returned assays between 149g/t and 578g/t, with an average of 357g/t. These values are consistent with the previous assays of samples collected along Burns' Reef.

It appears that progress is well within schedule and budget to commence underground drilling as planned.

Underground drilling platforms will be utilized to test the Gap Zone (200m to 600m depth of the Morning Star Mine). Drilling is being planned from the No. 9 Level, which will be accessed during the next quarter.

All the targets could validate the geological model and have the opportunity to significantly increase global resource potential of the project by increasing the size and frequency of both known and new host structures.

3. Surface Mine Exploration

Since the end of the reporting period, surveying and mapping of regional dyke occurrences and mine workings on the MCO tenements was carried out. Work is in preparation to submit a plan for surface exploration drilling on the Comet, All Nations and Loch Fyne Dykes.

The mapping of the Comet line of workings has revealed that the dyke is much wider and the workings more extensive than were anticipated. The geological team reported mineralised quartz veins bearing visible gold were observed and sampled from underground workings of the Comet mine. Mapping and further sampling was underway at the time of preparation of this report.

Works are underway to complete the geological model and to define surface exploration drilling for the next period.

Offers were being received from drilling contractors and review is in progress.

4. Occupational Health & Safety

There were no incidents or near miss occurrences (MTI) or lost time injuries (LTI) during the quarter.

5. Granting & Renewal of All Mining Licences

During the quarter, the Department of Primary Industries granted all Mining Licence applications, MIN's 5233, 5234, 5240, 5241, and 5242.

Also during the quarter all existing Morning Star tenements were renewed.

This positions Morning Star Gold NL with the largest granted mining tenement holding at Woods Point, with a production history in excess of 1.6 million ounces of gold.

The information contained in this report was compiled Morrie D. Goodz who is a Corporate Member of the Australasian Institute of Mining and Metallurgy, and has relevant experience in relation to the mineralisation being reported on, to qualify as a Competent Person as defined in the Australasian Code for Reporting of Identified Mineral Resources and Ore Reserves.

Morrie Goodz
M AusIMM, M CanIMM, MBA, Cert. Mine Manager

NEW SOUTH WALES

Since the end of the half-year, Morning Star Gold NL has sold its interest in its silver exploration licences (EL 5937, EL 6114 and EL 6239) to Silver Mines Ltd for a consideration of 2,500,000 shares at the issue price of 5 cents per share totalling \$125,000.



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SCHEDULE OF MINING TITLES

Project	Tenement	Area	Commodity	Interest	Title
Currency of		(km2)		(%)	
<u>VICTORIA</u>					
Morning Star					
	Min. 5009				
	Min. 5010	1.3	gold	100	to 20.09.2008
	Min. 5013				
	Min. 5233	(4ha)	gold	100	01.11.2008
	Min. 5234	(116ha)			
	Min. 5240	(176ha)			
	Min. 5241	(254ha)	gold	100	01.11.2008
	Min. 5242	(194ha)			
	E.L.A.4320	67.5	gold	100	
<u>NEW SOUTH WALES</u>					
Boona	E.L.6437	9	gold/base metals	13.96	to 30.06.2007
Bobadah	E.L.5878	96	gold/base metals/silver	15*	to 23.07.2007

* The Company holds a 15% interest in 18.75% of this Licence (being the area of the former E.L.4067)

DIRECTORS REPORT

Your directors present their report on Morning Star Gold N.L. for the half-year ended 31st December, 2006.

This information should be read in conjunction with the 2006 Annual Report.

RESULTS

The net profit (loss) of the Company for the half-year ended 31st December 2006 was \$(798,069) after income tax expense/(benefit) of \$NIL.

DIRECTORS

The following persons held office as directors of Morning Star Gold N.L. during the whole of the half-year and up to the date of this report:

T. R. Allen (Chairman)
M. H. Bird
M. M. Garling
J. W. Williams

REVIEW OF OPERATIONS

During the period under review, the Company's activities were focused on the Woods Point areas in Victoria.

AUDITOR'S INDEPENDENCE DECLARATION

We have obtained an independence declaration from our auditors, Graham Abbott & Associates, as presented on page 5 of this half-year financial report.

Signed in accordance with a resolution of the Board of Directors.

M. H. BIRD
Director

M. M. GARLING
Director

Dated this 14th March 2007

Morning Star Gold N.L.
A.B.N. 34 003 312 721

**AUDITOR'S INDEPENDENCE DECLARATION UNDER
SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF MORNING STAR GOLD N.L.**

I declare that, to the best of my knowledge and belief, during the half-year ended 31 December 2006 there have been:

- (a) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

GRAHAM ABBOTT & ASSOCIATES
Chartered Accountants
10 Crown Street, Sydney

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G.B. ABBOTT - Principal
14th March 2007

**INDEPENDENT REVIEW REPORT
TO THE MEMBERS OF
MORNING STAR GOLD N.L.**

SCOPE

We have reviewed the financial report of Morning Star Gold N.L. for the half-year ended 31st December, 2006 as set out on pages 7 to 16. The company's directors are responsible for the financial report. We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 134: Interim Financial Reporting and other mandatory professional reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the company's financial position, and performance as represented by the results of its operations and its cash flows, and in order for the company to lodge the financial report with the Australian Securities and Investments Commission/Australian Stock Exchange Limited.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

INDEPENDENCE

In conducting our review, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

STATEMENT

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Morning Star Gold N.L. is not in accordance with:

- (a) the Corporations Act 2001, including:
 - (1) giving a true and fair view of the company's financial position as at 31st December 2006 and of its performance for the half-year ended on that date; and
 - (2) complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

GRAHAM ABBOTT & ASSOCIATES
Chartered Accountants
10 Crown Street, Sydney

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G.B. ABBOTT - Principal
14th March 2007

DIRECTORS' DECLARATION

The directors of the company declare that, in their opinion:

1. the financial statements and notes set out on pages 8 to 16 are in accordance with the Corporations Act 2001, including:
 - (a) complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations; and
 - (b) give a true and fair view of the company's financial position as at 31 December 2006 and of its performance for the half-year ended on that date.
2. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

M. H. BIRD
Director

M. M. GARLING
Director

Dated this 14th day of March 2007

Condensed Income Statement

For the Half Year Ended 31st December, 2006

	31.12.06	31.12.05
	\$	\$
REVENUE	47462	12667
EXPLORATION EXPENSES	(667370)	(564522)
ADMINISTRATION EXPENSES	(178161)	(216195)
	-----	-----
PROFIT (LOSS)		
BEFORE INCOME TAX	(798069)	(768050)
INCOME TAX ATTRIBUTABLE THERETO	0	0
	-----	-----
PROFIT (LOSS) FOR THE HALF YEAR		
AFTER INCOME TAX	(798069)	(768050)
	-----	-----
PROFIT (LOSS) ATTRIBUTABLE TO		
MEMBERS OF THE COMPANY	\$(798069)	\$(768050)
	-----	-----
	Cents	Cents
BASIC & DILUTED EPS FOR HALF YEAR	(0.83)	(1.13)

The accompanying notes form part of these Financial Statements

Condensed Balance Sheet

As at 31st December, 2006

	31.12.06	30.06.06
	\$	\$
CURRENT ASSETS		
Cash and Cash Equivalents	2184512	802183
Receivables	440440	25294
Financial Assets	56000	35000
	-----	-----
TOTAL CURRENT ASSETS	2680952	862477
	-----	-----
NON-CURRENT ASSETS		
Property, Plant & Equipment	67268	34284
Mining Property	452858	452858
Security Bonds	12000	12000
	-----	-----
TOTAL NON-CURRENT ASSETS	532126	499142
	-----	-----
TOTAL ASSETS	3213078	1361619
	-----	-----
CURRENT LIABILITIES		
Payables	143198	96445
	-----	-----
TOTAL CURRENT LIABILITIES	143198	96445
	-----	-----
TOTAL LIABILITIES	143198	96445
	-----	-----
NET ASSETS	\$3069880	\$1265174
	-----	-----
EQUITY		
Contributed Equity	13020233	10417458
Reserves	54820	54820
Retained Profits (Accumulated Losses)	(10005173)	(9207104)
	-----	-----
TOTAL EQUITY	\$ 3069880	\$ 1265174
	-----	-----

The accompanying notes form part of these Financial Statements

Condensed Statement of Changes in Equity

For the Half Year Ended 31st December, 2006

	Share Capital	Retained Profits	Reserves	Total
Balance as at 01.07.05	7,995,423	(7,634,669)	54,820	415,574
Shares Issued	1,170,994			1,170,994
Profit (Loss) Attributable to Members		(768,050)		(768,050)
Balance as at 31.12.05	\$9,166,417	\$(8,402,719)	\$54,820	\$818,518
Balance as at 01.07.06	10,417,458	(9,207,104)	54,820	1,265,174
Shares Issued	2,692,202			2,692,202
Transaction Costs	(89,427)			(89,427)
Profit (Loss) Attributable to Members		(798,069)		(798,069)
Balance as at 31.12.06	\$13,020,233	\$(10,005,173)	\$54,820	\$3,069,880

The accompanying notes form part of these Financial Statements

Condensed Cash Flow Statement
For the Half Year Ended 31st December 2006

	31.12.06 Inflows (Outflows) \$	31.12.05 Inflows (Outflows) \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest and rent received	26852	12667
Payments to suppliers & employees	(181128)	(236151)
GST net movement	(2518)	
Decrease (increase) in receivables	(7532)	13475
Increase (decrease) in creditors		23877
	-----	---
Net increase (decrease) in cash from operating activities	(164326)	(186132)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for exploration activities	(648937)	(544522)
Payments for property, plant & equipment	(37500)	
Decrease (increase) in investments		
7327		
	-----	-----
Net increase (decrease) in cash from investing activities	(686437)	(537195)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares (net of share issue costs)	2233092	670837
	-----	-----
Net increase (decrease) in cash held	1382329	(52490)
Cash at beginning of the period	802183	452559
	-----	-----
Cash at the end of the period	\$2184512	\$ 400069
	-----	-----

The accompanying notes form part of these Financial Statements

Notes to the Condensed Financial Statements

For the Half Year Ended 31st December 2006

1. BASIS OF PREPARATION

The half-year condensed financial statements are a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standard AASB 134: Interim Financial Reporting, Urgent Issues Group Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2006 and any public announcements made by Morning Star Gold NL during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001. The half-year report does not include notes of the type normally included in an annual financial report.

The same accounting policies and methods of computation are followed in this interim financial report as compared with the most recent annual financial report.

The financial report is prepared on the historical cost basis except for financial instruments which have been stated at their fair value.

(a) **Income Tax**

The charge for current income tax expenses is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(b) **Property, Plant and Equipment**

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses.

Buildings, Plant and Equipment

Buildings, plant and equipment are measured on the cost basis less depreciation and impairment losses.

Notes to the Condensed Financial Statements
For the Half Year Ended 31st December 2006

1. BASIS OF PREPARATION (cont'd)

Property, Plant and Equipment (cont'd)

The carrying amount of buildings, plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Depreciation

The depreciable amount of all fixed assets including buildings, is depreciated over their useful lives to the economic entity commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate	Method
Buildings	10%	Straight Line
Plant and equipment	20%	Diminishing Value

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement.

(c) **Exploration and Development Expenditure**

Mining Exploration Expenditure consists of expenditure on prospects still at an exploratory stage. These costs include costs of acquisition, exploration, determination of recoverable reserves, economic feasibility studies and all technical and administrative overheads directly associated with those projects. Recoupment of exploration costs is dependent upon the successful development and commercial exploitation of each area of interest. The company adopts the "area of interest" method of accounting whereby all exploration costs relating to areas of interest are written off as incurred.

(d) **Mining and Development Leases**

Mining and Development leases are carried at cost less, where applicable, impairment losses.

Notes to the Condensed Financial Statements
For the Half Year Ended 31st December 2006

1. BASIS OF PREPARATION (cont'd)

Mining and Development Leases (cont'd)

When production commences, the cost of the relevant lease will be amortised over the life of the mine according to the rate of depletion of the economically recoverable reserves.

Estimated costs of site restoration, where material, are provided over the life of the mine from when the lease is acquired.

Security deposits have been lodged with the Department of Mineral Resources in relation to potential site restoration costs.

(e) **Financial Instruments**

Recognition

Financial instruments are initially measured at fair value. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets at fair value through profit and loss

Financial assets in this category are stated at fair value. Realised and unrealised gains and losses arising from changes in fair value are included in the income statement in the period in which they arise.

Fair Value

Fair value is determined based on current bid prices for all quoted investments.

(f) **Impairment of Assets**

At each reporting date, the company reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

(g) **Interests in Joint Ventures**

The company's share of the assets, liabilities, revenue and expenses of joint venture operations are included in the appropriate items of the income statement and balance sheet.

(h) **Cash and Cash Equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with banks and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

(i) **Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these

Notes to the Condensed Financial Statements

For the Half Year Ended 31st December 2006

1. BASIS OF PREPARATION (cont'd)

Goods and Services Tax (cont'd)

circumstances the GST is recognised as part of the cost of acquisition of the assets or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

2. RECONCILIATION OF CASH	31.12.06	31.12.05
Cash at the end of the period as shown in the Cash Flow Statement is reconciled to the related items in the Balance Sheet as follows:-		
Cash at Bank and on Term Deposit	\$ 2184512	\$ 400069
	<u> </u>	<u> </u>

3. DIVIDENDS

No dividend was declared or recommended during the 6 months ending 31st December, 2006 (6 months ended 31st December, 2005: nil).

4. NON CASH FINANCING AND INVESTING ACTIVITIES

This Company, together with Central West Gold N.L., was the registered holder of E.L.4067 Bobadah. Through a JV agreement Delta Gold Exploration Pty Ltd earned a 70% interest in the licence by spending in excess of \$110,000 on exploration. In September 1998 Tri Origin Australia N.L. formed an agreement with Delta to earn an interest from Delta and in mid-2001 they consolidated the licence and their adjoining tenements into E.L. 5878 (of which area the former E.L. 4067 occupied 18.75%). Subsequently the licence was joint ventured to Triako Resources Ltd to carry out further exploration. Pro rata entitlements to the 18.75% part of the licence may be retained or relinquished by the Company in proportion to its contribution to further expenditure in this area.

This Company was the initial registered holder of E.L.'s 2727 & 4766, Boona. Through a JV agreement dated 7th February 2000 Triako Resources Ltd. have spent \$75,000 to earn a 51% interest. Triako also elected to acquire a further 29% by expenditure of an additional \$196,000 on a continuing exploration program, so that at the end of June Triako held an 80% interest in the licence, with Morning Star the remaining 20%. Morning Star can elect to contribute pro-rata to subsequent exploration or to dilute. Triako have continued to invest in the property so that at 31st December 2006 Morning Star's interest had been reduced to 13.96%.

Notes to the Condensed Financial Statements

For the Half Year Ended 31st December 2006

5. CLAIM

The Company's exploration mining properties may be affected by applications under the Native Title Act.

6. CONTRIBUTED EQUITY

	31st Dec. 2006	31st Dec. 2005
At beginning of half year :		
92,573,413 (2005 63,120,476) Ordinary Shares	10,417,458	7,995,423
<i>Shares issued during the year:</i>		
31.10.06 7,911,012 @ 20c (2005 7,827,256 @ 7c)	1,582,202	533,908
22.12.06 6,500,000 @ 15c (2005 530,567 @ 6c)	975,000	31,834
22.12.06 Call of 9c on 1,500,000 (2005 2,000,000 @ 1c)	135,000	20,000
27.10.05 2,500,000 @ 10c	0	250,000
22.12.05 3,500,000 @ 10c	0	350,000
Less transaction costs	(89,427)	(14,748)
<i>At the end of half year to 31.12.06</i>	-----	-----
106,984,425 (2005 79,478,299) Ordinary Shares	<u>\$13,020,233</u>	<u>\$9,166,417</u>

7. SEGMENTS

In the half-year ended 31st December, 2006 the Company operated entirely within Australia and the principal activity was the exploration for minerals.

8. CONTINGENT LIABILITIES

There have been no changes in contingent liabilities since the 30th June 2006 Annual Report.

9. SUBSEQUENT EVENTS

Since the end of the half-year ended 31st December 2006 the company has issued 53,249,289 options at the issue price of 1 cent each. Each option entitles the holder to subscribe for one ordinary share at the exercise price of 25 cents, expiring on 31st December 2008.

The company has agreed to sell its various silver holdings, Boorook, Pyes Creek and Webbs Consols to Silver Mines Ltd for a consideration of 2,500,000 shares at the issue price of 5 cents per share totalling \$125,000.

No other matters or circumstances have arisen since the end of the reporting period which have significantly affected or may significantly affect the operations of the company, the results of those operations, or the state of affairs of the company in subsequent financial periods.