



**ABN 34 003 312 721**

**Level 4, 20 Loftus Street, Sydney NSW 2000  
Phone 9252 3699 – Fax 9252 3797**

30<sup>th</sup> October, 2006

The Manager  
Company Announcements Office  
ASX  
20 Bridge Street  
SYDNEY NSW 2001

Dear Sirs,

Enclosed is the Quarterly Exploration Activities Report, together with the Quarterly Report (Appendix 5B) to 30<sup>th</sup> September, 2006.

Yours faithfully,

Malcolm Bird  
Director



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**REVIEW of EXPLORATION for the QUARTER ENDING**  
**30 SEPTEMBER 2006**

**OVERVIEW**

At the Morning Star Mine, shaft rehabilitation has reached No. 8 Level, 244m depth below surface and preparations for an extensive underground sampling program are well advanced.

High grade gold-bearing quartz veins have been exposed underground with assays up to 940g/t Au.

Morning Star Gold NL has agreed to sell its interest in its silver exploration licences (EL 5937, EL 6114 and EL 6239) for a consideration of 2,500,000 shares in Silver Mines Ltd. Silver Mines Ltd is expected to issue a prospectus to raise up to \$6,000,000 in August 2006.

Shareholders in Morning Star Gold will have an opportunity to apply for shares in Silver Mines Ltd subject to the prospectus.

**VICTORIA**

**Morning Star Gold Mine, Woods Point Project**

Operations at the Morning Star Project have moved to an advanced underground exploration – development phase. The Quarter's main activities were the introduction of intensive underground exploration and sampling programmes to compliment the ongoing shaft refurbishment operations. With consideration of increased underground activity and extended workforce, the focus was safety first.

**1. Underground Mine Development**

Shaft refurbishment is proceeding ahead of schedule. The No. 8 Level was accessed during the quarter and the plat refurbishment is underway.

Shaft refurbishment had reached the 250m depth below surface at the time of this report.

A main pumping station was constructed and established on the No. 7 Level. A winze between 7L and 9L was located and set up as a decant sump. The shaft pump system was relocated to the 7-9 winze. A pump sub-station has been set up on the No. 8 Level.

The internal winze from the No.4 Level to the No. 7 Level was extended during the Quarter, with refurbishment works on the 1965 and 1940 Intermediate Levels on the Burns Floor.

During the quarter, the new compressed air and water reticulation systems were commissioned to the plats on Levels 5, 6 and 7 and preparation works were undertaken for underground exploration.

It appears that shaft refurbishment progress and preparation for exploration is well within schedule and budget.



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**REVIEW of EXPLORATION for the QUARTER ENDING**  
**30 SEPTEMBER 2006 (cont.)**

**2(a) Underground Exploration & Sampling**

The Quarter saw the appointment of an exploration team for underground operations.

The anticipated auriferous mineralisation of the Burns, Campbells & Whitelaws Floors and other northern drill intersections were encountered from the No. 4 Level winze access and sampling has commenced on Burns & Whitelaws. Late in the September Quarter assays results were commencing to be received and sampling will continue during the next quarter. It's noted here that the production history of the Burns and Whitelaw's reefs was estimated to average over 35 g/t Au between 1934-1941 (for approximately 104,000 ozs).

The aim of the sampling programme was initially to define areas for more comprehensive and systematic channel sampling and also to locate areas for the Company's Bulk Sampling Program targeted for Q2 2007.

Initial results from sampling carried out late in the Quarter, reported that samples assayed between 8.21 g/t Au and 376 g/t Au, with an average grade of 178 g/t Au.

**2(b) Underground Exploration & Sampling Results – Post 30<sup>th</sup> September**

With the intense nature of sampling late in the Quarter, results have continued to arrive and at the time of this report, it was believed that significant results had been encountered and should be reported as follows:

**6 Level Reconnaissance Sampling** - Has been partially completed with the sampling confined to Whitelaw's Reef. Only the western part of Whitelaw's has been sampled with grades up to 18g/t Au obtained adjacent to the stopes. The historically rich eastern side of Whitelaw's Reef has not yet been accessed.

**6 Level Channel Sampling** - A rise along 6 Level has provided access to the Intermediate levels that intersect stoping on Burns Reef in the southern portion of the northern dyke workings. The strongly laminated reef is well exposed along these levels and in stopes between the levels. Previously reported Reconnaissance Sampling in this area of the mine returned extremely encouraging results. The current Channel Sampling Program produced 44 samples from approximately 5 metre sample spacing, yielding an average grade of 66.7g/t Au. From 16 of the 44 samples assayed, samples contained higher than 15g/t Au with a high of 940g/t Au. There is sufficient remnant ore to represent an economic target.

**1275N winze access** - Access via the 1275N winze from 4 Level in the central part of the dyke bulge has enabled sampling of Burns Reef in an area that was historically rich. In these old workings, the exposed Burns Reef is strongly laminated and up to 750mm thick. 21 Channel Samples across the reef were taken and are currently awaiting assay.



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**REVIEW of EXPLORATION for the QUARTER ENDING**  
**30 SEPTEMBER 2006 (cont.)**

Traverses along this Burns zone show extensive exploration targets.

**8 Level Reconnaissance Sampling** - Preparation of the workings on 8 Level has commenced for sampling and should be completed by mid-November.

## **2. Underground Drilling**

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).

Each hole will have multiple targets down to 600m depth, including extensions of the strike of known lines of lode that were intensely mined in the near surface zones (above 200m depth) and below the Gap Zone.

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. Occupational Health & Safety**

The Company has continued with its health and safety reviews, including an independent audit by Coffey Mining Consultants and by the Victoria Government DPI Auditor.

There were no incidents or near miss occurrences (MTI) or lost time injuries (LTI) during the Quarter. OH&S has included drug & alcohol testing of all staff members working at the mine site.

*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**



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**SCHEDULE OF MINING TITLES**  
**At end of September, 2006**

Project	Tenement	Area (km2)	Commodity	Interest (%)	Currency of Title
<b><u>VICTORIA</u></b>					
Morning Star	Min. 5009 ) Min. 5010 ) Min. 5013 )	1.3	gold	100	to 20.09.2005 (renewal appns. lodged)
	Min.Lic.Appn. 5233 Min.Lic.Appn. 5234	4ha) 116ha)	gold	100	lodged 24.02.1998
	Min.Lic.Appn. 5240 Min.Lic.Appn. 5241 Min.Lic.Appn. 5242	176ha) 254ha) 194ha)	gold	100	lodged 29.05.1998
	E.L.A.4320	67.5	gold	100	lodged 05.05.1998
<b><u>NEW SOUTH WALES</u></b>					
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
Boorook	E.L.5937	15	silver/gold	50	to 29.04.2006 (renewal pending)
Pyes Creek	E.L.6114	24	silver/base metals	50	to 13.08.2006
Webbs Consols	E.L.6239	30	silver/base metals	100	to 16.05.2006 (renewal pending)

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



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**ATTACHMENT TO QUARTERLY REPORT (APPENDIX 5B)**  
**FOR QUARTER ENDED 30<sup>th</sup> SEPTEMBER, 2006.**

**ITEM 2.2 NON-CASH FINANCING AND INVESTING ACTIVITIES**

- The Company holds a 50% joint interest in several mining tenements with Central West Gold N.L., as described in the Schedule of Mining Titles.
- 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%).

In February 2002 Triako Resources Ltd entered into a JV agreement with Tri Origin to earn an interest in the Licence through expenditure on further exploration.

Morning Star Gold has the right to contribute pro-rata towards any part of this exploration that might take place within their area of interest or to dilute.

Such exploration has not occurred at the date of this report and Morning Star Gold retains a 15% interest in the area of the former E.L.4067.

- This Company was the initial registered holder of E.L.'s 2727 & 4766, Boona.

A JV agreement over these Licences was formulated with Triako Resources Ltd on 7<sup>th</sup> February 2000 and subsequently E.L.5757 was added to the JV holdings.

By spending \$271,000 on exploration Triako earned an 80% interest in these Licences, at which stage Morning Star Gold had the right to contribute pro rata to further exploration or to dilute.

In June 2005, when the Company's interest had diluted to 13.93%, the Licences were consolidated as E.L.6437.