



Middle Island
RESOURCES LIMITED

Middle Island Resources Limited
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QUARTERLY REPORT

For the period ended 30 September 2017

HIGHLIGHTS

Middle Island Resources Ltd
ACN 142 361 608

ASX Code: MDI

Office:

Suite 1, 2 Richardson Street
WEST PERTH WA 6005
Western Australia

Postal Address:

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E: info@middleisland.com.au

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Capital Structure:

586 million shares
38,300,000 options

Board Members:

Peter Thomas

Chairman

Rick Yeates

Managing Director

Beau Nicholls

Non-Executive Director

Dennis Wilkins

Company Secretary

- Cash at 30 September 2017 of A\$1.3 million.
- Diamond drill hole MSDD156, which generated a recent intercept of **415.2m at 1.34g/t Au** within the Sandstone (WA) gold project's Two Mile Hill tonalite was extended to a depth of 730m utilising the balance of the WA Government's Round 14 EIS grant. **Assay results are pending.**
- Positive metallurgical testwork results returned from the Two Mile Deeps tonalite-hosted mineralisation, with **gold recoveries of 93% to 97% (>58% recoverable via gravity concentration)** and low associated reagent consumptions.
- Preliminary mineralogical assessment of the tonalite deeps deposit at Two Mile Hill indicates that **in excess of 99% of the gold mineralisation is hosted within quartz veins**, supporting the decision to assess ore sorting as a means to up-grade potential mill feed from this deposit.
- Reverse circulation (RC) pre-collared diamond drilling to assess up-dip extensions of high grade, BIF-hosted gold mineralisation adjacent to the Two Mile Hill tonalite was completed during the September quarter. **Assay results are pending.**
- Resource definition RC and diamond drilling was completed during the quarter at the recently optioned Wirraminna gold deposit adjacent to Sandstone. **Assay results are pending.**
- Auger and aircore geochemical drilling was completed at Sandstone's Davis prospect during the quarter, with results defining **four significant new blind gold anomalies to 688ppb Au (0.68g/t)** beneath a thick veneer of transported cover. Reconnaissance RC drill traverses were subsequently completed over two anomalies in order to assess associated saprolitic mineralisation. **Assay results are pending.**
- Middle Island **executed an option to acquire a 100% interest in the Dandaraga gold project**, located proximal to Sandstone, presenting an immediate target at the Agnes gold prospect and consolidating additional exploration acreage into Middle Island's existing Sandstone tenure.
- Aggregate maiden tribute gold nugget production from the Sandstone project for the September quarter was 182.3oz, of which Middle Island's share was 27.3oz gold.



Operating Activities

Corporate

Finance

Middle Island Resources Limited (**ASX:MDI, Middle Island or the Company**) had a cash balance of A\$1.3 million as at 30 September 2017.

Strategy

Middle Island's over-arching strategy remains to extend and enhance the proposed gold production profile for the wholly-owned Sandstone Project in WA in order to recommission its processing plant at the earliest opportunity.

This strategy has been further progressed during the September quarter via a multi-faceted campaign, variously including the following:-

- Diamond drilling and metallurgical testwork on underground brownfields targets comprising the Two Mile Hill tonalite deeps and BIF deposits.
- Seeking to enhance the front end of the planned production schedule via resource definition drilling of the Wirraminna open pit deposit and initial RC drilling of the new Davis gold anomalies.
- An option to acquire 100% of the nearby Dandaraga project, including an immediate open pit exploration target at the Agnes prospect and consolidating significant additional exploration acreage. Further opportunities are under review.
- Reviews of third-party gold deposits within the broader Sandstone district.

The Company remains confident that continuing this approach will ultimately lead to recommissioning and gold production.



Sandstone Gold Project (100%) – Western Australia

Dandaraga Option Agreement

Via its 100%-owned subsidiary, Sandstone Operations Pty Ltd (SOPL), Middle Island executed an option deed to acquire a 100% interest in the Dandaraga gold project (E57/1028) upon payment of \$200,000 at any time within the next three years.

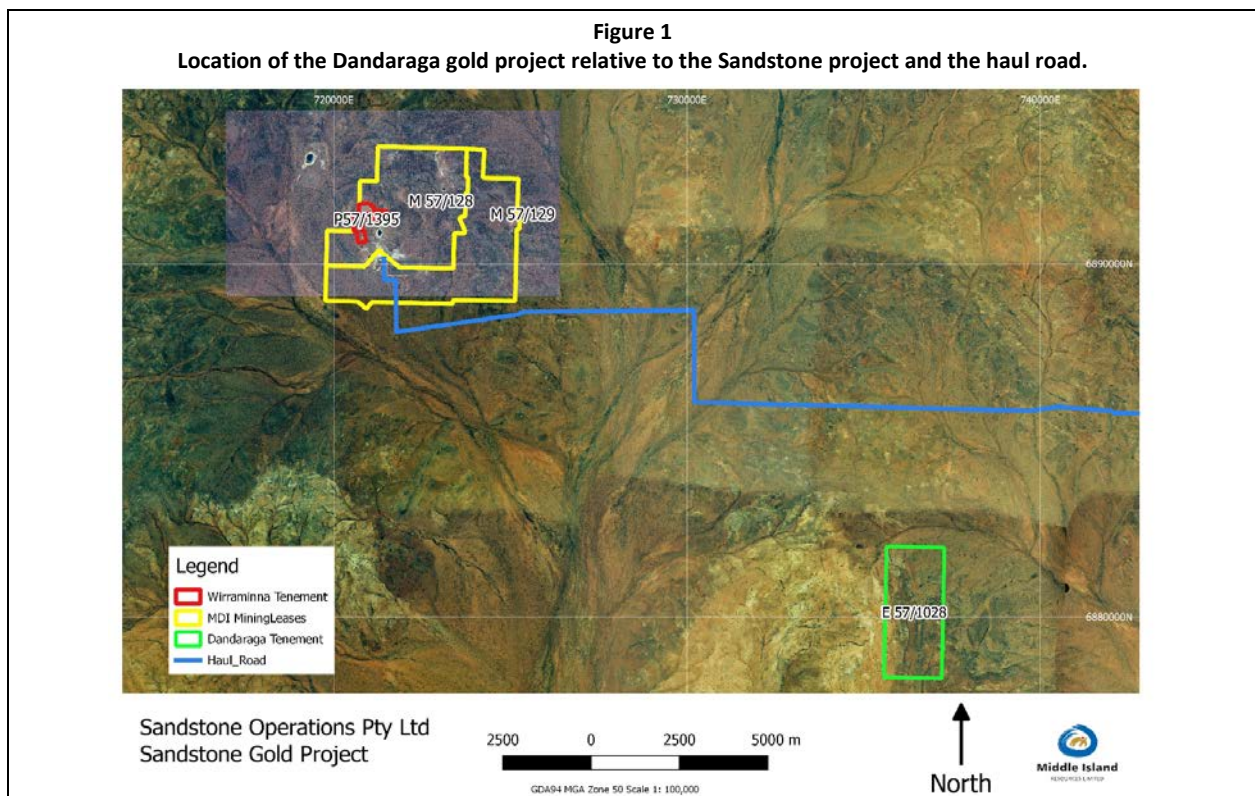
Details of the Dandaraga transaction, its significance and the planned exploration programme can be found in the Company's ASX release dated 11 September 2017. All conditions to this agreement have been satisfied and the transaction has successfully completed.

Dandaraga is situated 16km southeast of Middle Island's Sandstone gold project and processing plant, and 4km south of the haul road from the Lord Henry and Lord Nelson deposits (Figure 1).

The geology comprises a succession of banded iron formations (BIFs), ultramafics, gabbros and, importantly, dolerites. The project incorporates a series of historic gold workings that remain untested or poorly tested by modern gold exploration. The more significant Agnes workings are developed on a zone of stockwork quartz veining within a dolerite unit, adjacent to which free gold has been identified in a highly brecciated, gossanous and quartz-veined BIF.

The Dandaraga gold project is largely well-exposed, facilitating rapid, conventional and cost-effective exploration for additional targets. The acquisition presents both an immediate and attractive open pit exploration target at the Agnes gold prospect, and consolidates considerable exploration acreage into Middle Island's existing, well-endowed Sandstone gold tenure.

The Dandaraga transaction represents a second consolidation, following the Company's June 2017 signing of an option to acquire the Wirraminna gold project, which immediately adjoins the Sandstone project.





Two Mile Hill Tonalite Deeps Diamond Drilling

A diamond core extension to the ~500m deep MSDD156 drill hole was completed at the Two Mile Hill tonalite deeps deposit during the September quarter. The 230.9m extension of MSDD156 (730m total depth) comprised the remaining drilling available under Round 14 of the WA Government's Exploration Incentive Scheme (EIS), following a successful variation request.

The original MSDD156 generated an intercept of **415.2m at 1.34g/t Au** from the commencement of coring at 83.7m depth to the end of the hole at 498.9m. This broader intercept ended with an intersection of **66.9m at 3.27g/t Au** from 432m to end of hole at 498.9m, finishing in strongly mineralised material. Details of the original hole can be found in the Company's ASX release dated 7 June 2017.

The primary purpose of the MSDD156 extension was to establish to what extent the apparent increase in grade with depth persisted.

The hole was ultimately terminated at 730m depth, representing a 230.9m extension. The extension has now been logged, and core cutting and sampling is in progress, prior to assaying. The initial ~105m of the extension is visually strongly mineralised, characterised by intense sheeted quartz veining and associated sericite-carbonate alteration (Figure 2), including multiple logged instances of visible gold (Figure 3). It is hoped that assaying will confirm a ~180m intercept of higher grade mineralisation, including the final 67m of the original hole.

At ~604m depth the hole encountered basalts comprising the western (hangingwall) contact of the tonalite. Some 15.2m of navigational drilling (navi-drilling), during which there is no core recovery, was then employed to bring the hole back on track into the tonalite. A further 90.1m of more weakly veined tonalite was then intersected before the hole once again deviated into the hangingwall. As this process would likely be repeated, given the expense of navi-drilling and having reached the estimated limit of the EIS grant funding, the hole was terminated in basalt at 730m depth. The three additional positions of the basalt-tonalite hangingwall contact will also provide valuable information for geological modelling.

Details of the MSDD156 diamond core extension can be found in the Company's ASX release dated 11 October 2017.

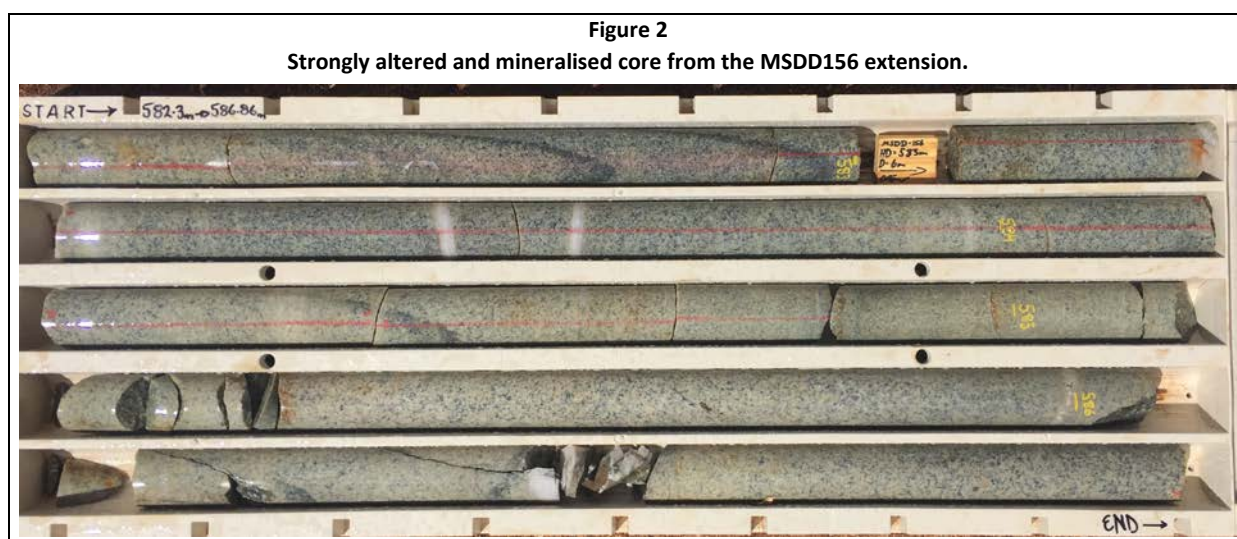




Figure 3
Example of visible gold from the MSDD156 extension



Two Mile Hill Tonalite Deeps Metallurgical Testwork

Indicative metallurgical testwork on primary material from the Two Mile Hill Deeps tonalite deposit was completed during the September quarter. The testwork results indicate a moderate ball mill work index, excellent leach kinetics, high gravity recoveries and low reagent consumptions, the details of which can be found in the Company’s ASX release dated 6 September 2017 and are summarised in Table 1 below.

| Table 1 | | | | | | | |
|--|-----------------------|--------------------|-------------------------|---------------------------------------|----------------------------------|-------------------------------|----------------------------------|
| Two Mile Hill Tonalite Deposit - Gravity and Leach Recovery Results | | | | | | | |
| Composite | Cyanide (kg/t) | Lime (kg/t) | Grind Size (p80) | Calculated head grade (g/t Au) | Gravity gold recovery (%) | Residue grade (g/t Au) | Total gold extraction (%) |
| ROM | 0.65 | 0.30 | 125um | 1.77 | 68.9% | 0.06 | 96.9% |
| ROM | 0.77 | 0.32 | 106um | 1.52 | 69.9% | 0.04 | 97.4% |
| ROM | 0.78 | 0.26 | 75um | 1.13 | 60.4% | 0.03 | 97.4% |
| | | | | | | | |
| HG | 1.07 | 0.71 | 58um | 3.23 | n/a | 0.16 | 95.0% |
| HG | 0.77 | 0.32 | 58um | 3.72 | 58.3% | 0.26 | 93.0% |

Testwork parameters:- target pH 9.5; target cyanide 0.05% initial; pulp density 45%; 3” Laboratory Knelson used for GRG tests; 5kg vat leach with air sparging used for leach tests; site process water utilised.



The moderate bond ball mill work index of 16.4kWh/t indicates that the stockwork quartz-veined tonalite material at depth is unlikely to present any issue for the Sandstone comminution circuit. The lower than expected work index is suggested to be a function of the intense sericite-carbonate alteration making the rock relatively soft.

The testwork also identifies that gravity gold recoveries of >58% can be anticipated prior to leaching. The overall gold recoveries ranged from 93% to 97%, with ~90% leach extraction being achieved within just two hours following gravity gold recovery.

Low reagent consumptions and no deleterious elements indicate no issues for future treatment, and the material appears consistent with the current and proposed configuration of the Sandstone processing plant.

Two Mile Hill Tonalite Deeps Mineralogical Assessment

Initial mineralogical testwork on separate composite samples of quartz veining and tonalite from the Two Mile Hill Deeps deposit suggests that in excess of 99% of the gold is hosted by the quartz veins. Quartz vein composite samples averaged 34.8g/t Au, while tonalite-only composites averaged 0.15g/t Au.

These initial results indicate that the concept of reviewing ore sorting as a valid means of upgrading mill feed, thereby lowering process operating costs (and consequently the mining cut-off grade), for a possible underground operation is readily justified. Despite the substantial scale of the Two Mile Hill tonalite deposit, the ore sorting concept could prove more compatible with the milling capacity of the Sandstone processing plant.

While further mineralogical work is progressing, ore sorting groups have been approached to commence initial characterisation testwork and ore sorting trials in the December quarter.

Two Mile Hill BIF Diamond Drilling

RC pre-collared diamond drilling, comprising a further three holes, was completed at Two Mile Hill during the quarter to test the up-dip extensions of high grade gold intercepts associated with pyrite replacement mineralisation within the upper unit of the Shillington banded iron formation (BIF), where intruded by the Two Mile Hill tonalite.

All holes have been logged, and core cutting and sampling is in progress, prior to assaying.

The southern two holes MSDD157 and MSDD158 did not visually include the broader zones of massive to semi-massive pyrite development typical of higher grade intercepts within previous drilling, while the third (northern) hole (MSDD159) included only restricted zones of disseminated pyrite replacement of magnetite. These observations (yet to be confirmed by assaying) suggest that the thicker, higher grade zones of gold mineralisation within the upper BIF unit do not persist up dip as hoped.

Details of the pre-collared diamond drilling on the up-dip extension to the Two Mile Hill BIF mineralisation can be found in the Company's ASX release dated 11 October 2017.

Two Mile Hill Deeps Mining Concept Study

Progress on the underground mining concept study at the Two Mile Hill prospect was suspended until assay results are received for the recently completed diamond drilling programmes on both the tonalite deeps and BIF deposits. This work will resume in the December quarter.



Wirraminna Resource Definition Drilling

A programme of resource definition RC and diamond drilling was completed on the recently optioned Wirraminna deposit (ASX Release - 6 June 2017) during the quarter. The Wirraminna deposit lies immediately adjacent to the Company's Sandstone project and within 1km of the Company's 100%-owned, 600ktpa gold processing plant (Figure 4).

Mineralisation comprising the Wirraminna deposit is associated with a steeply northeast dipping and northwest trending, high grade quartz lode that remains open at depth and to a lesser extent along strike. The RC and diamond drilling programme was variously designed to verify, infill and extend the existing Wirraminna Inferred Mineral Resource (JORC 2004) prior to upgrading the estimate to JORC 2012 compliance, the majority ideally to an Indicated status, and undertaking pit optimisation studies.

All RC samples have been submitted for assay, the results of which are pending. The diamond core tails have been logged, and the core is currently being cut and sampled, prior to submission for assay.

Details of the Wirraminna resource definition RC and diamond core drilling can be found in the Company's ASX release dated 11 October 2017.

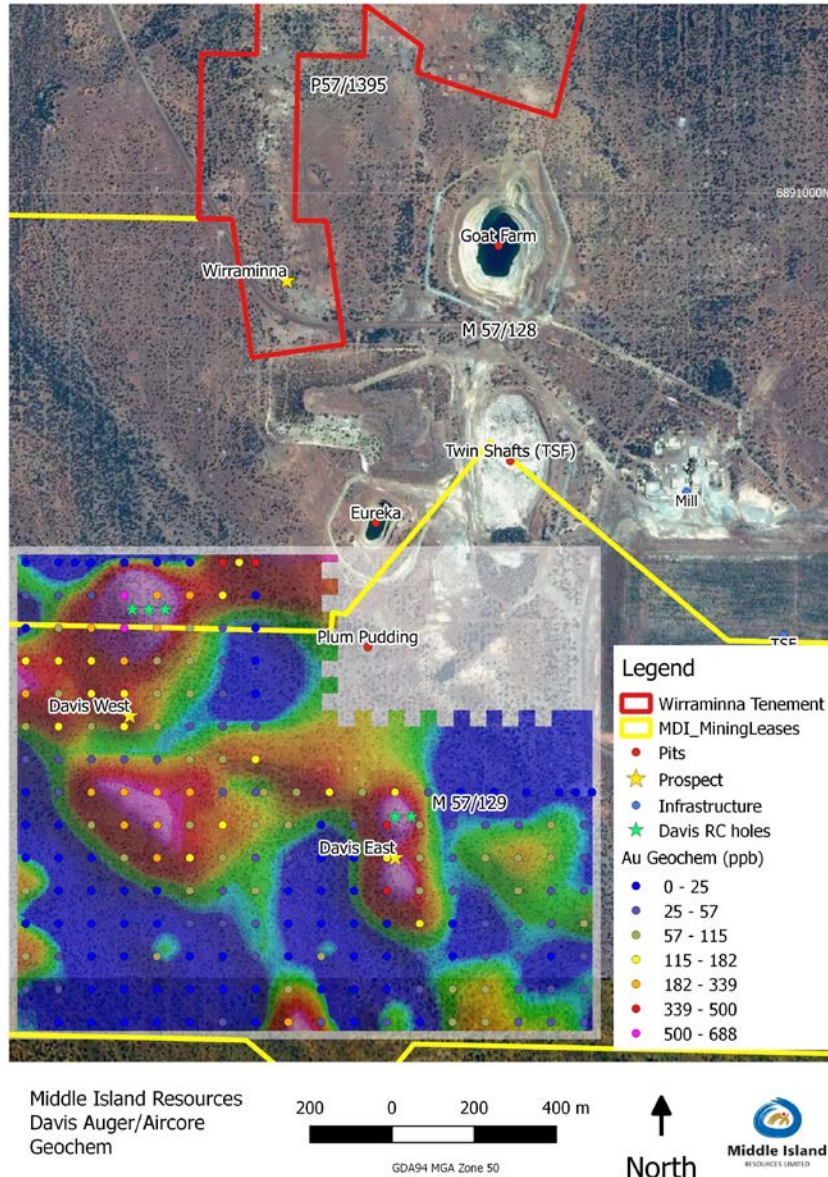
Davis Prospect Auger/Aircore Geochemical Drilling

A geochemical auger and aircore drilling programme was completed at the Davis prospect during the September quarter. Davis represents the highest priority target generated by the 'weights of evidence' (WoE) targeting study completed during the March quarter. The Davis target lies in the extreme south-western portion of the Sandstone project, beneath a thick veneer of transported sheetwash. This initial programme was designed to establish the presence of anomalous gold geochemistry at the interface between the transported and residual profiles, allowing more accurate drill targeting of saprolite mineralisation.

The results of this programme, reported in the Company's ASX release dated 12 September 2017, define four significant new blind gold anomalies, with peak values up to 688ppb Au (0.68g/t) and a strong coincident arsenic response. Individually the anomalies have strike lengths of ~200m. However, some may prove to be linked over strike lengths of up to 600m (Figure 4). Each of the anomalies is consistent with those defining nearby, high grade open pit deposits that have been mined and processed, and, importantly, all lie within 1km of the Company's 600,000tpa Sandstone gold processing plant, consistent with an area hosting the highest density of gold deposits within the entire Sandstone greenstone belt.



Figure 4
Davis prospect imaged aircore gold values showing proximal deposits and infrastructure



Davis is the first of the WoE targets to be tested by geochemical drilling, providing considerable confidence in the Company’s technical approach to defining targets beneath transported cover and that other WoE targets may generate similar anomalies.

Davis Prospect Reconnaissance RC Drilling

A single traverse of reconnaissance RC holes was completed over each of the Davis East and Davis West anomalies to understand the nature and tenor of associated saprolitic mineralisation. Traverses comprised two, angled, overlapping, ~80m RC holes at Davis East and three similar holes across Davis West (Figure 4).

The RC holes encountered broad zones of ferruginous quartz veining within saprolitic ultramafic rocks, similar in appearance and setting to that at the adjacent Wirraminna and Eureka deposits. Samples have been submitted for assay and all results are pending.



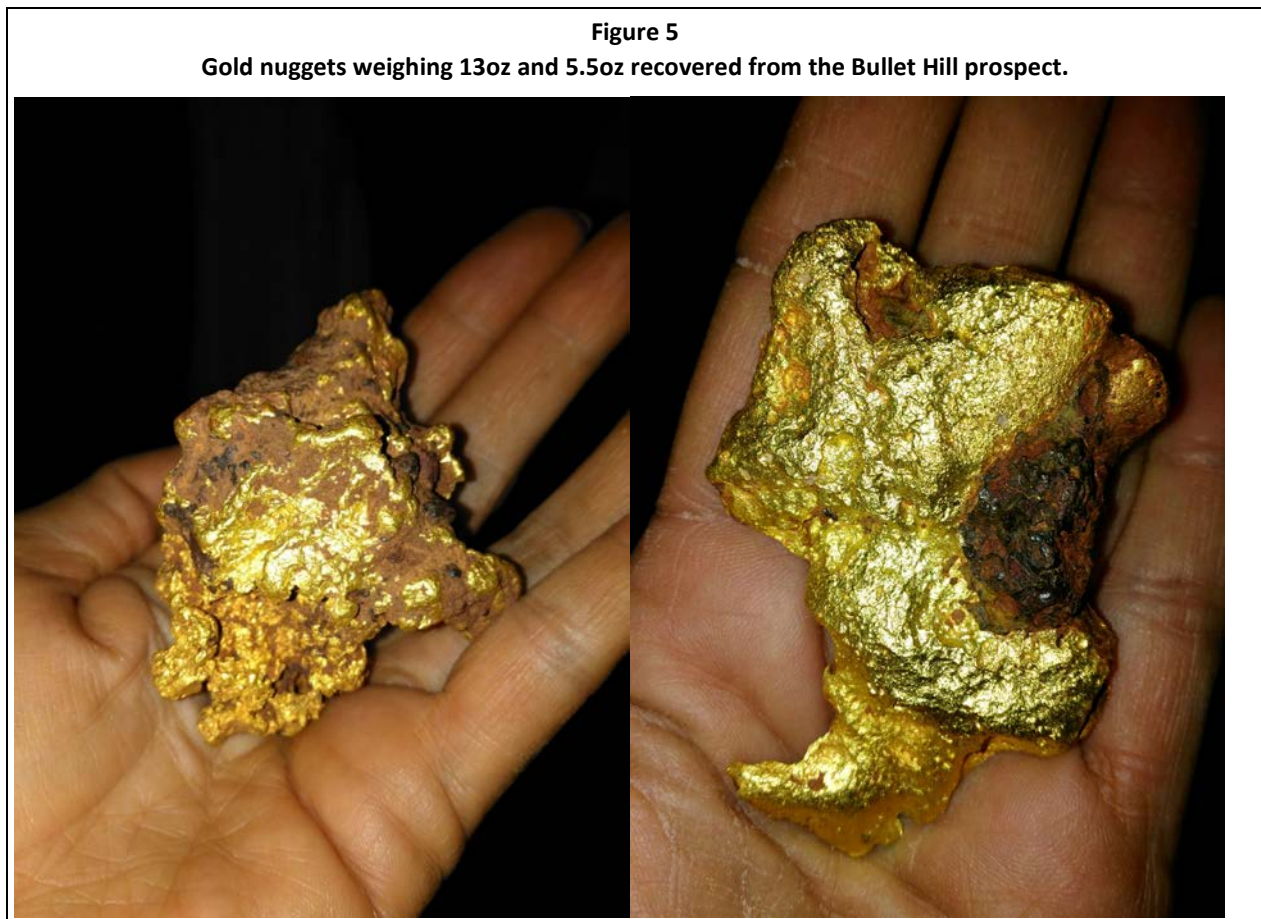
Details of the Davis reconnaissance RC drilling can be found in the Company's ASX release dated 11 October 2017.

Tribute Gold Production

The Company is pleased to report September quarter gold production of 182.3oz from the surface rights tribute agreement over its 100%-owned Sandstone gold project, comprising restricted areas of M57/128 and M57/129.

Tribute gold production was 81.8oz, 66.8oz and 33.7oz for July, August and September respectively, being the initial quarter of production since the tribute agreement was formalised. Middle Island's share of gold for the September quarter, being 15% of aggregate production, was 27.3oz gold.

The aggregate quarterly production included larger nuggets of 13oz and 5.5oz recovered from the Bullet Hill prospect (Figure 5).



The larger nuggets from Middle Island's share of production are being progressively sold to a registered gold buyer and trader at a premium to the spot gold price, while the remainder will be batch smelted, refined and sold at the Perth Mint at the prevailing spot price.

While covering monthly corporate administration costs, income from the tribute production is otherwise immaterial. The major benefit is that the tribute arrangement is serving to identify additional bedrock gold targets for Middle Island, with potential sources of saprolitic gold now defined at the Bullet Hill, Three Mile and the new McClaren prospects.



The McClaren prospect is of particular interest, with residual, manganese-rich, lateritic ironstone hosting abundant coarse platy free gold (Figure 6) that appears to be of primary origin. Equally, very fine ‘flour’ gold, estimated to represent material averaging approximately 1oz/tonne, can be panned from a wide area in proximity to the sub-cropping ironstone horizon.

Each of these new prospects will be prioritised and assessed by exploration as funds permit.

Figure 6
Coarse, platy gold within residual ironstone from the McClaren Prospect



Mill Clean-up

A clean-up of accessible areas of the Sandstone processing plant was completed during the September quarter and 6.5t of mineralised residues from within and beneath the Sandstone processing plant were despatched for gold recovery. It is anticipated that this work will be completed during the December quarter.



Planned 2017 December Quarter Activities

Activities planned at the Sandstone Project for the December quarter comprise:-

Two Mile Hill Deeps

- Sample, assay and report results for the extension (from 500m to 730m depth) of diamond hole MSDD156 within the tonalite.
- Sample, assay and report pre-collared diamond core drilling on the up-dip extent of high grade BIF-hosted mineralisation on the western margin of the tonalite.
- Update Mineral Resource estimates for the tonalite deeps and BIF deposits.
- Additional mineralogical testwork and initial ore-sorting trials on the primary tonalite mineralisation.
- Refine and finalise underground mining concept studies for the tonalite deeps and BIF deposits.

Wirraminna

- Sample, assay and report resource definition RC and pre-collared diamond core drilling.
- Re-estimation of the Mineral Resource in accordance with 2012 JORC Code guidelines.
- Pit optimisation studies on the deposit to establish its economic impact on the production schedule.

Davis

- Report results from reconnaissance RC drill traverses across the Davis East and Davis West anomalies.
- If justified by initial RC drilling results, undertake resource definition RC drilling of all Davis anomalies.

Dandaraga

- Geologically map and soil sample the recently optioned Dandaraga project.

Twin Shafts Mill

- Complete and report clean-up of residual gold from the processing plant.

Other

- Review and negotiate other proximal consolidation transactions.



Reo Gold Project (100%) – Burkina Faso

Exploration

No exploration was undertaken at the Company's 100%-owned Reo gold project in Burkina Faso during the September quarter, pending the outcome of the remaining permit extension applications.

Subject to tenure being confirmed, the continuing focus will be on identifying an appropriate partner to help fund the project through to feasibility. To this end, two entities completed data reviews and site visits during the June quarter, and an offer to invest in the project was tabled for discussion late in the September quarter.

Tenure

Following ratification of the new Mining Act in Burkina Faso in February 2017, the first two permit extension applications for the Reo Project (Didyr and Bissou) were granted during the June quarter. It is anticipated that remaining extension applications will be granted during 2017/18 and progress on these continues to be closely monitored.



Safety, Environmental & Social

Health, Safety & Environment

No injuries, safety or environmental incidents were recorded at the Company's projects and premises during the September quarter.

Rehabilitation of disturbed areas, primarily drill sites, is being progressively undertaken in accordance with POW requirements. Safety signage and restricted access areas associated with the open pits and the processing plant are being regularly maintained. An updated mine closure plan for the Sandstone project was approved by the WA Department of Mines, Industry Regulation and Safety (DMIRS) during the September quarter for a further two years.

Social

The Company continues to engage with the Shire of Sandstone, providing updates for Council meetings and presentations as required. The Company also actively seeks to sponsor or facilitate any community events.

Contact with our host communities at the Reo project in Burkina Faso is being maintained to ensure they are informed of Middle Island's status and this arrangement is actively reciprocated.

Comment

Middle Island Managing Director, Mr Rick Yeates:

Middle Island has made further excellent progress on its multi-faceted exploration campaign at Sandstone during the September quarter, all elements of which deliver directly into our strategy.

Whilst the substantial scale and potential of the Two Mile Hill tonalite deposit is deservedly attracting the more significant investment and corporate interest, the highlight of the September quarter is undoubtedly the definition of significant gold anomalies beneath transported cover at the Davis prospect. While only a 'technical success' at this stage, you need a technical success before you can register an economic success.

The significant drilling and transactional progress achieved during the June and September quarters will be consolidated in the December quarter. Planned activities variously include the reporting of results on four recently completed drilling programmes, resource estimation and pit optimisation studies at the Wirraminna deposit, possible resource definition drilling at the Davis prospect, mineralogical testwork and ore-sorting trials on the Two Mile Hill tonalite deeps deposit, completion of the Two Mile Hill deeps resource estimate, underground mining concept studies, and commencement of mapping and soil geochemistry at the new Dandaraga project.

All planned activities are entirely consistent with the primary objective of building a robust production schedule prior to recommissioning the Sandstone gold processing plant at the earliest possible opportunity, with drilling success at the Wirraminna deposit and Davis anomalies presenting the most advanced and proximal catalysts for a possible recommissioning decision.



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WEBSITE: www.middleisland.com.au

Forward Looking Statements

Certain statements made during or in connection with this communication, including, without limitation, those concerning the economic outlook for the mining industry, expectations regarding gold prices, exploration costs and other operating results, growth prospects and the outlook of Middle Island's operations contain or comprise certain forward looking statements regarding Middle Island's exploration operations, economic performance and financial condition. Although Middle Island believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct.

Accordingly, results could differ materially from those set out in the forward looking statements as a result of, among other factors, changes in economic and market conditions, success of business and operating initiatives, changes that could result from future acquisitions of new exploration properties, the risks and hazards inherent in the mining business (including industrial accidents, environmental hazards or geologically related conditions), changes in the regulatory environment and other government actions, risks inherent in the ownership, exploration and operation of or investment in mining properties in foreign countries, fluctuations in gold prices and exchange rates and business and operations risks management, as well as generally those additional factors set forth in our periodic filings with ASX. Middle Island undertakes no obligation to update publicly or release any revisions to these forward-looking statements to reflect events or circumstances after today's date or to reflect the occurrence of unanticipated events.

Competent Persons' Statement

Information in this report relates to exploration results that are based on information compiled by Mr Rick Yeates (Member of the Australasian Institute of Mining and Metallurgy). Mr Yeates is a fulltime employee of Middle Island and has sufficient experience which is relevant to the style of mineralisation and type of deposits under consideration and to the activities undertaken to qualify as a Competent Person as defined in the 2012 edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Yeates consents to the inclusion in the release of the statements based on his information in the form and context in which they appear.



Middle Island Resources Limited (**Company**) advises the following information required under ASX Listing Rule 5.3.3:

Mining Tenements

| Tenements | Mining tenements acquired during the quarter | Mining tenements disposed during the quarter | Mining tenements held at the end of the quarter | Tenement location |
|-----------|--|--|---|-------------------|
| Pouni | - | - | 100% - extension pending | Burkina Faso |
| Dassa | - | - | 100% - extension pending | Burkina Faso |
| Didyr | - | - | 100% | Burkina Faso |
| Dassa Sud | - | - | 100% | Burkina Faso |
| Nebya | - | - | 100% - extension pending | Burkina Faso |
| Gossina | - | - | 100% - extension pending | Burkina Faso |
| M57/128 | - | - | 100% | Western Australia |
| M57/129 | - | - | 100% | Western Australia |
| P57/1395 | 0% | | 0% - Option to acquire 100% | Western Australia |
| E57/1028 | 0% | | 0% - Option to acquire 100% | Western Australia |

Visit www.middleisland.com.au for further information and announcements.