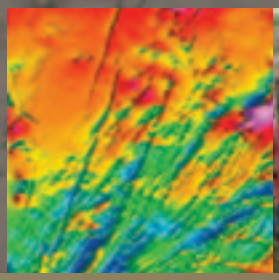

Middle Island
RESOURCES LIMITED

ANNUAL REPORT 2011

MIDDLE ISLAND RESOURCES LIMITED
ABN 70 142 361 608

Annual Report for the period
ended 30 June 2011

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CORPORATE INFORMATION

DIRECTORS

Peter Thomas	Non Executive Chairman
Richard Yeates	Managing Director
Beau Nicholls	Technical Director
Linton Kirk	Non Executive Director
Dennis Wilkins	Alternate Director

COMPANY SECRETARY

Dennis Wilkins

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STOCK EXCHANGE LISTING

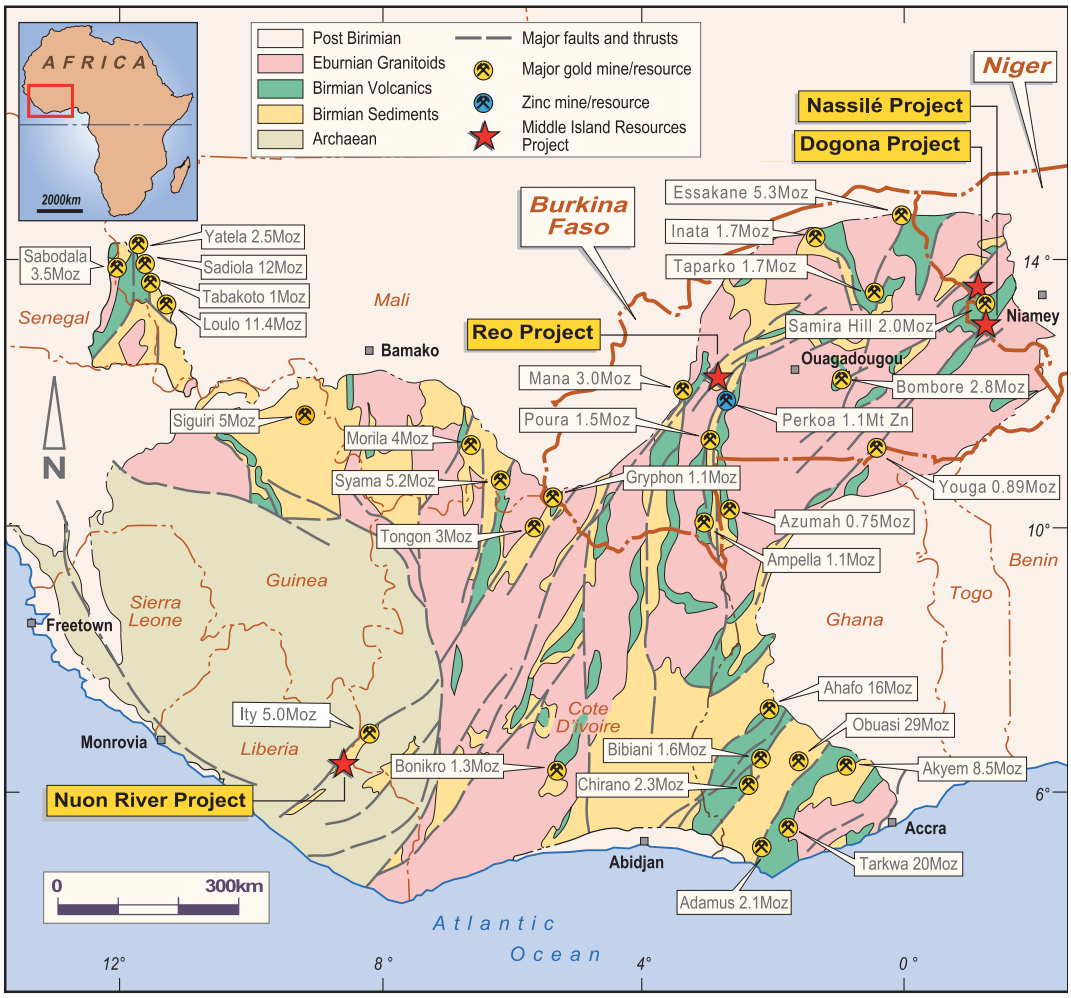
Middle Island Resources Limited shares are listed on the Australian Securities Exchange (ASX code: MDI).

MANAGING DIRECTOR'S OVERVIEW

Dear Shareholder,

This 2011 Annual Report represents the first for Middle Island Resources Limited since the Company listed on the Australian Stock Exchange in December 2010 as a West African-focused gold explorer and developer. During the six months to balance date since listing, your Company has continued to pursue an aggressive, yet systematic, exploration and corporate development strategy that has yielded significant progress on the Reo and Nassilé gold projects in Burkina Faso and Niger respectively, as well as securing a major, highly prospective land package comprising the Nuon River gold project in eastern Liberia, as shown in Figure 1 below.

Figure 1. **Middle Island Resources project locations**



MANAGING DIRECTOR'S OVERVIEW

Exploration at Middle Island's 100%-owned Reo Project in Burkina Faso has clearly defined two significant targets at the Morley and K4/K5 Prospects, either or both of which constitute key resource opportunities that have the potential to satisfy the Company's primary objective, **'to identify a minimum resource base of 1.1Moz on at least one project within the first two years from listing'**. In addition, the Company has embarked on (and completed 45% of) a major auger drilling campaign at the Reo Project to identify other targets of equivalent merit within this extensive and highly prospective land package.

Similarly, at the Nassilé Project in Niger, extensive geochemical auger drilling completed during the year has identified a 7km long north-eastern extension to the Songonduari Prospect, from which the majority of previous significant drill intersections were derived. This anomaly constitutes a further extremely valid target for initial reconnaissance Reverse Circulation (RC) drilling that may well also meet the Company's stated minimum objective or alternatively identify smaller deposits that may be toll treated through or sold to the nearby Samira Hill gold operation, owned by Canadian listed company Semafo Inc.

Of further significance during the year, Middle Island realised its strategy to acquire a major landholding in eastern Liberia, in what is considered by the Company to represent one of the most prospective and under-explored gold terrains in West Africa. Your Company's early recognition of Liberia as an extremely attractive exploration destination resulted in the acquisition of a large, prime, strategic exploration landholding immediately prior to a major pegging rush that has since seen the country blanketed with new permit applications.

Your Company has also advanced its social development activities in line with its policy to dedicate 5% of exploration expenditure towards building community relations. To the best of the Company's knowledge, we are the first junior exploration company to initiate such a policy. This initiative has already attracted considerable positive attention from institutional investors and fund managers in particular. All too frequently companies only institute such policies once a major discovery has been made, by which time legacy issues have already arisen. Our first community relations project, a secure water supply, at the Reo holding in Burkina Faso, has been completed, and a formal opening of the facility will be held within the next few weeks, while our second community initiative at the Nassilé Project in Niger, a new primary school, is also now well advanced.

Your Company takes its responsibilities for safety and environmental performance very seriously and continues to build and instil this culture throughout what is still a relatively new company. Aside from the tragic loss of two employees in an after-hours (off-duty) traffic accident during the year, our safety performance has been excellent with only one medically treated injury (MTI) and one Incident recorded during the period to 30 June 2011. Both incidents involved site contractors. Equally, no environmental incidents were recorded during the period under review. Irrespective of this excellent performance, there is always room for improvement.

Middle Island has also managed to build a high calibre exploration and administrative team in West Africa, ably led by Andrew Chubb as Exploration Manager. Andrew is supported by our West African Administration Manager, Simone Munkailah, our recently appointed Senior Geologist, Emmanuel Sarbah, our Country Managers in Burkina Faso, Niger and Liberia respectively, Cyrille Kabré, Amadou Kimba and Abdul Razak, along with an excellent team of geologists, field technicians and support staff. I am proud of the fact that Andrew is our only expat in West Africa, with the remainder of the team comprising quality national professional and technical personnel, many of whom are former RSG, RSG Global and Coffey Mining colleagues.

In the short time since listing, your Company has also established a small corporate headquarters in West Perth; established its West African operational headquarters in Ouagadougou, the capital of Burkina Faso; acquired shared, low cost, administrative offices in Niamey and Monrovia, the capitals of Niger and Liberia respectively; established exploration camps at both the Reo and Nassilé projects; and acquired a fleet of vehicles, satellite communications equipment and generators to facilitate effective field operations.

Middle Island also recognises the importance of actively marketing and promoting your Company at every opportunity. To this end, we have been well represented at eight major conferences variously in Cape Town (Mining Indaba), Perth (Gold Conference and Africa Down Under), Kalgoorlie (Diggers & Dealers), Sydney (Resources Roundup), New York (Rodman & Renshaw), Denver (Vail Precious Metals Summit) and Zurich (Australian Resources Conference). These events include three fund-focussed, invitation-only events. We have also participated in numerous road-shows to Sydney (x2), Melbourne, Brisbane, London, Zurich, New York and Toronto; and otherwise made numerous presentations to international institutions, resource funds, broking houses and high net worth individual equity investors.

Middle Island has also been featured in more than 35 editorial news articles in various respected broadsheets, industry journals and e-news platforms, including significant media exposure following our stellar debut on the ASX, an event which attracted considerable, important, early attention. Three broking firms have provided coverage, and since balance date, Bell Potter has initiated formal independent coverage of Middle Island Resources.

I am extremely pleased with the significant progress we continue to make in what is a little over six months since listing the Company, and the Board and Management of Middle Island is confident that we are well on track to achieve our stated primary objective by December 2012.

The two most significant impediments to field activities during the 2010-11 field season were reliable access to drilling rigs, RC rigs in particular, and poor assay turn-around times, which at one stage extended out to as much as 99 days. Although not assisted by the commencement of activities mid-way through the traditional field season, these two factors conspired to limit the logical and timely planning and progression of exploration activities and also constrained the flow of results to the market. In order to avoid a repetition of this during 2011-12, our team has been using the current monsoon season to confirm drilling contracts and explore alternative assaying options. I am pleased to advise that this has been successfully completed in the former case, and is well advanced in the latter.

In the six and a half month period from listing to the 30 June 2011 balance date, MDI has expended an aggregate of A$3.12m on exploration and administration, leaving a cash balance of A$10.15m at financial year end. During this same period the MDI share price has consistently remained well above the issue price of A$0.25, trading within a range of A$0.30 to A$0.65. While our share price performance has been challenged by general wider negative market sentiment since April 2011, we have managed to hold our ground. Irrespective of these circumstances, I am extremely confident that the outlook for gold remains very positive in the medium and longer terms and our commodity focus on gold is readily justified. I am equally confident that, market sentiment permitting, our exploration success to date and our planned programme for the coming field season should provide a sufficient basis for a positive re-rating by equity markets over the next 12 months.

Whilst Middle Island has had an extremely successful start to listed life, none of this would be possible without the support and on-going loyalty of you, our valued shareholders. For your important contribution to our success, I thank you sincerely and will stridently continue to seek to build shareholder value.

Rick Yeates
Managing Director

REO PROJECT – BURKINA FASO

Trenching (Morley Prospect)

The trenching programme at the Morley Prospect was finalised early in the June Quarter, with 12 trenches for 549m ultimately completed.

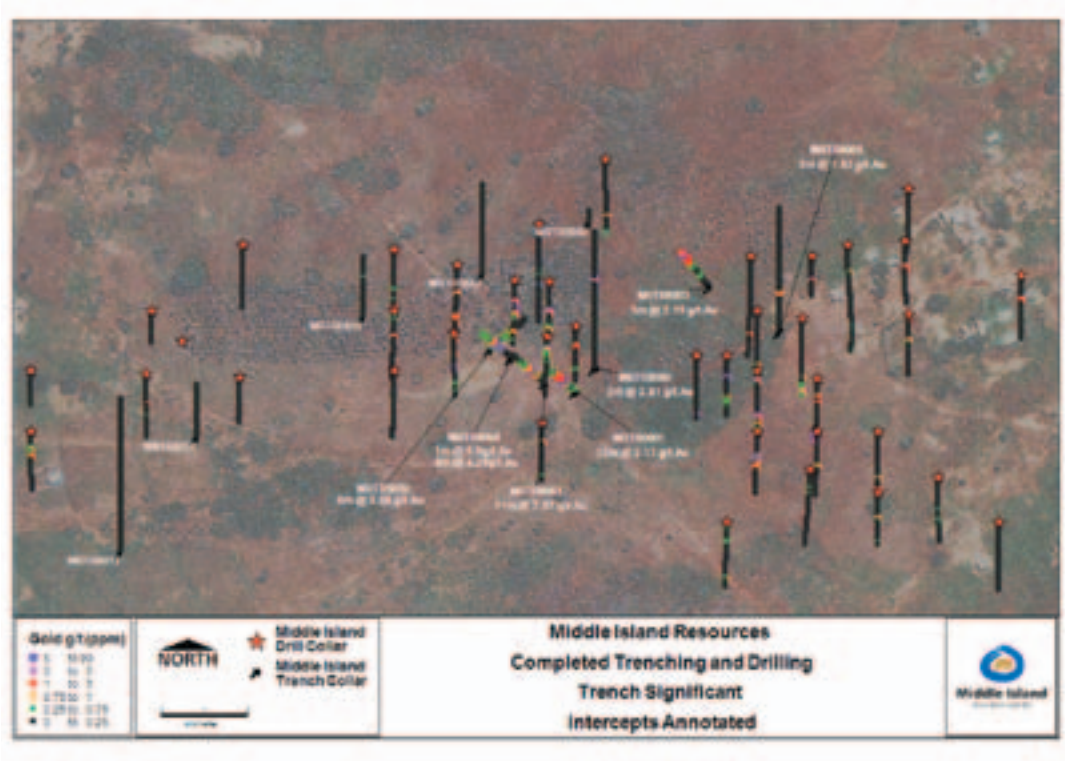
Along with initial RC drilling, the primary objective of the trenching programme was to trace the surface expression of mineralisation associated with a single east-west trending mineralised zone (northern zone) at the Morley Prospect in order to confirm the mineralised zone geometry and optimum drilling orientation, such that the findings could be extrapolated to other interpreted east–west trending zones within the Morley-Goumi structural envelope. The more significant final trench intercepts are provided in Table 1 below, while a plan of the trenching programme is shown in Figure 2.

Table 1. **Significant trench intercepts at the Morley Prospect**

Trench ID	Easting	Northing	Azimuth	Dip	From (m)	To (m)	Interval (m)	Grams/Tonne
MRTR0001 #	540240	1338873	317	0	7	18	11	7.97†
				including	7	9	2	1.93*
				and	11	15	4	20.17*
MRTR0002#	540220	1388169	47	0	3	9	6	3.88†
				including	4	7	3	6.09*
				and	8	9	1	3.54*
					11	16	5	0.93†
				including	15	16	1	2.31*
MRTR0003#	540369	1388215	320	0	21	30	9	2.19†
				including	27	29	2	4.62‡
MRTR0004#	540258	1388152	320	0	9	11	2	3.22†
				including	10	11	1	5.90‡
					14	18	4	4.25†
				including	14	17	3	5.23‡
MRTR0005#	540289	1388262	320	0	7	19	12	3.17†
				including	9	18	9	4.02*
MRTR0006	540293	1388161	360	0	58	60	2	3.61
MRTR0009	540421	1388178	360	0	25	27	2	1.63

Notes: # Previously Reported. † Calculated at a 0.5g/t cut including a maximum of 2m of internal waste.
* Calculated at a 1g/t Cut off with no internal waste. ‡ Calculated at a 2g/t Cut off with no internal waste.

Figure 2. **Morley Prospect - Northern Zone Trenching Summary**



RC Drilling (Morley Prospect)

The initial RC drilling program (60 holes for 5,060m) at the Morley Prospect on the Reo Project was completed during the reporting year.

The RC results confirm the interpreted mineralised zone geometry and validate the new drilling orientation (-60° to 180° grid). The width and tenor of intercepts is consistent with that encountered at surface in historic and recent trenching as well as remodelled drilling completed by Newmont. The results received for Morley are consistent with stacked, moderately north-dipping veins and lodes, and the current drill orientation is providing near true widths of mineralisation. However, further rotary air blast (RAB) drilling is required to confirm the architecture and potential of the entire Morley system.

Planning for the proposed RAB drilling programme has been completed and the programme will commence early in the coming field season. The objective of this programme is to test the modified interpretation of the mineralised architecture comprising the Morley-Goumi system, which is based on the concept that the broad, high grade, shorter strike length (200-300m), east-west trending mineralised dilation zones within the structural envelope are stacked tens of metres apart along the northeast trending axis of deformation (granite contact), rather than comprising a series of longer (800m-1,000m), more isolated zones extending across the full width of the envelope that are separated by hundreds of metres.

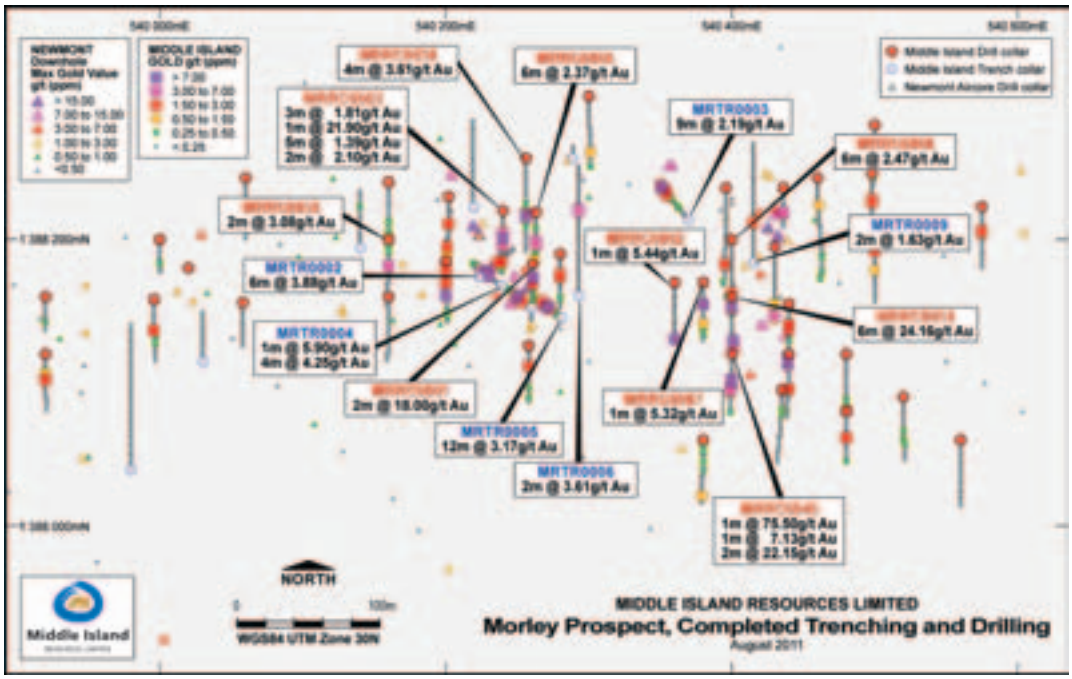
A list of more significant RC drill intersections returned from the Morley Prospect to date is included in Table 2 on the next page, while a plan of the drilling is provided in Figure 3.

Table 2. **Significant RC drilling results – Morley Prospect**

Hole	Prospect	East	North	RL	Total Depth	From	To	Width	Au (ppm)
MRRC0001	Morley	540261	1388183	299	84	17	19	2	18.0
					including	17	18	1	32.5†
						24	28	4	1.57
MRRC0002	Morley	540240	1388220	301	86	29	32	3	1.81
					including	31	32	1	3.54*
						36	37	1	21.9
						43	48	5	1.39
					Including	44	45	1	3.35*
						69	71	2	2.11
MRRC0003	Morley	540263	1388219	299	72	39	45	6	2.37
					including	40	41	1	4.66*
					and	44	45	1	3.26*
MRRC0004	Morley	540430	1388195	313	102	96	97	1	3.74
MRRC0005	Morley	540440	1388155	299	84	33	34	1	2.05
						74	84	10	9.63
					including	74	75	1	43.0†
					and	82	83	1	13.5†
MRRC0006	Morley	540400	1388200	305	106	72	73	1	1.10
						90	96	6	2.47
					including	93	94	1	8.78*
MRRC0008	Morley	540200	1388185	300	84	4	5	1	1.87
						10	11	1	1.43
						29	30	2	1.36
						46	47	1	7.41
MRRC0009	Morley	540202	1388230	298	114	37	38	1	1.27
						70	72	2	1.97
MRRC0010	Morley	540396	1388236	307	126	101	102	1	2.49
MRRC0013	Morley	540575	1388223	300	84	33	36	3	1.71
MRRC0014	Morley	540500	1388198	300	84	10	11	1	1.06
MRRC0015	Morley	540498	1388246	298	84	35	39	4	1.05
MRRC0016	Morley	540400	1388160	303	88	60	66	6	4.16
					Including	60	61	1	10.1†
						72	73	1	1.18
MRRC0020	Morley	539996	1388158	294	84	40	41	1	1.50
MRRC0022	Morley	539920	1388120	283	78	32	36	4	1.27
MRRC0027	M -Satelite 3	539155	1387125	293	90	32	33	1	3.01
MRRC0028	M -Satelite 4	539200	1387100	295	84	22	24	2	1.72
MRRC0033	Morley	540160	1388200	294	90	34	36	2	3.08
MRRC0034	Morley	540160	1388240	296	78	76	77	1	1.00
MRRC0036	Morley	540256	1388257	304	132	76	80	4	3.61
MRRC0038	Morley	540258	1388126	295	78	26	27	1	1.20
MRRC0040	Morley	540400	1388120	306	82	33	34	1	75.5
						37	38	1	7.13
						45	50	5	2.15
MRRC0041	Morley	540440	1388120	308	90	47	48	1	1.02
MRRC0043	Morley	540436	1388236	314	54	33	35	2	2.51
MRRC0062	Morley	540360	1388170	302	84	77	78	1	5.44
MRRC0063	Morley	540480	1388080	302	70	34	35	1	1.11
MRRC0067	Morley	540380	1388170	300	80	29	30	1	5.32
MRRC0068	Morley	540280	1388190	300	74	27	28	1	1.06
						31	32	1	1.16

Notes: All holes drilled to grid 180 degrees and inclined at -60 degrees. Initial significant intercepts calculated at a 1g/t cutoff value including 2 metres of internal waste.
* Denotes calculated using 3g/t cutoff and no internal waste. † Denotes calculated at a 10g/t cutoff and no internal waste.

Figure 3. **Morley Prospect - Northern Zone RC drilling summary**



RC Drilling (Dassa Prospect)

Five reconnaissance RC holes (408m) were completed at the Dassa Prospect. The results (Table 3 below) returned several narrow and relatively low grade intercepts, consistent with those returned from previous Newmont drilling, and the prospect remains a lower priority target that may represent a limited supplementary resource at best.

Table 3. **Significant RC drilling results – Dassa Prospect**

Hole	Prospect	East	North	RL	Total Depth	From	To	Width	Au (ppm)
MRRC0050	Dassa	529440	1376960	279	72	4	5	1	1.83
						12	14	2	2.48
						19	20	1	2.76
MRRC0051	Dassa	529420	1376960	284	76	41	42	1	1.00
						60	61	1	1.96
						63	65	2	1.32
MRRC0052	Dassa	529420	1377000	285	80	28	29	1	1.03
MRRC0053	Dassa	529470	1377182	283	78	55	56	1	1.11
MRRC0054	Dassa	529580	1377360	284	102	11	12	1	3.86
						79	82	3	2.56

Notes: All holes drilled to grid 180 degrees and inclined at -60 degrees. Initial significant intercepts calculated at a 1g/t cutoff value including 2 metres of internal waste.
* Denotes calculated using 3g/t cutoff and no internal waste. † Denotes calculated at a 10g/t cutoff and no internal waste.

RC Drilling (K5 Prospect)

Three reconnaissance RC holes (246m) were completed at the K5 Prospect. The results (Table 4 below) returned a best intercept of 13m at 2.23g/t Au in hole MRRC0047, which ended in mineralisation. This intercept is located some 30m from a previous Newmont aircore intercept of 18m at 2.51g/t Au in NAC027, which also ended in mineralisation. Examination of the drill chips from both holes indicates mineralisation comprises sheeted to massive quartz-carbonate veining associated with intense sericite alteration in a meta-sedimentary host rock, which is interpreted to thinly veneer the shallow south plunging extremity of the Didyr batholith.

Based on the reasonable assumption that the MDI and Newmont intercepts represent the same mineralised zone, modelling indicates an east-west trend on what looks to be a broad zone that likely represents the source of substantial lateritic gold mineralisation that was until recently the focus of extensive artisanal mining activity at K5.

MDI hole MRRC0046 also encountered a 1m interval at 6.04g/t Au from surface, again reflecting the focus of the recently closed artisanal laterite mining activity at K5.

Table 4. **Significant RC drilling results – K5 Prospect**

Hole	Prospect	East	North	RL	Total Depth	From	To	Width	Au (ppm)
MRRC0046	K5	532633	1371357	280	90	0	1	1	6.04
MRRC0047	K5	532635	1371323	284	72	53	54	1	1.18
						59	72	13	2.23
					Including	63	67	4	3.44*
MRRC0049	K5	532685	1371365	278	84	12	14	2	2.24
						24	25	1	1.13

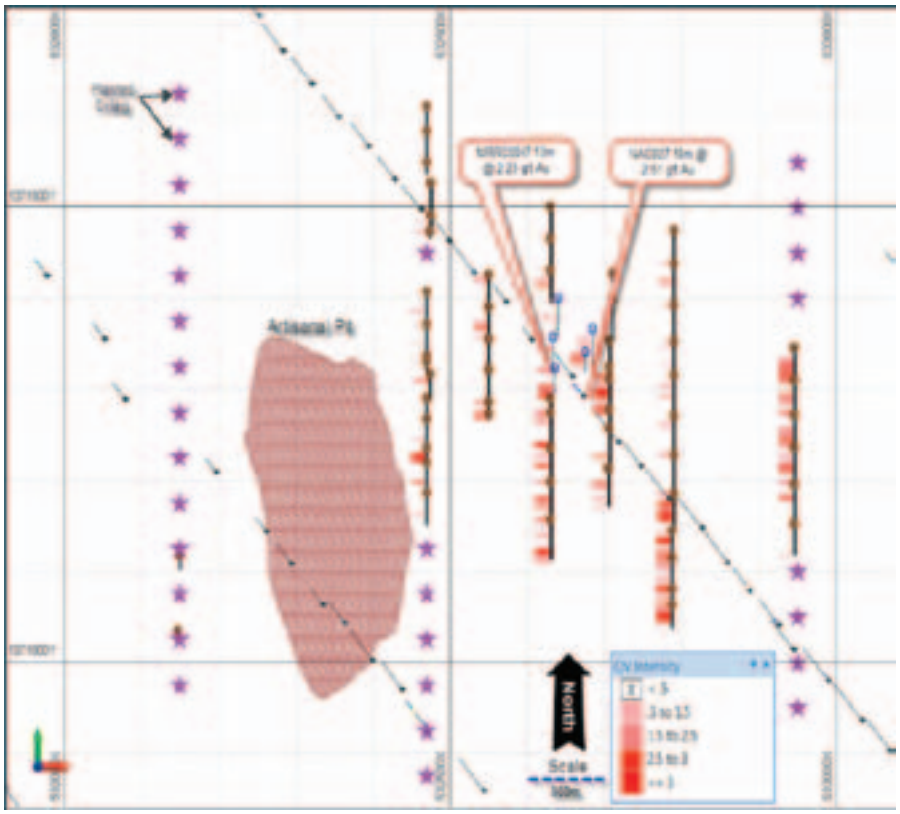
Notes: All holes drilled to grid 180 degrees and inclined at -60 degrees. Initial significant intercepts calculated at a 1g/t cutoff value including 2 metres of internal waste
* Denotes calculated using 3g/t cutoff and no internal waste. † Denotes calculated at a 10g/t cutoff and no internal waste.

RAB Drilling (K5 Prospect)

Although originally scheduled to commence in October following the monsoon season, a 5,000m RAB drilling programme was commenced on the Reo Project in June, with the objective of advancing drilling as much as possible prior to the onset of the rains, at a time when drill rigs are more readily available.

The first objective of this programme is to confirm the geometry, extent and tenor of the initial mineralised zone identified at the K5 Prospect in anticipation of follow-up RC drilling next field season. At the end of June, some 2,900m (58 holes) had been completed at the K5 target on 80m to 160m spaced north-south traverses. Although no assay results were received prior to the reporting date, broad intervals of logged quartz veining and alteration provided considerable early encouragement. The status of the RAB drilling programme at K5 as at the end of June is illustrated in Figure 4 on the next page.

Figure 4. **Summary of planned and completed K5 RAB drilling showing logged quartz veining**



Should the results of either or both the K5 and Morley elements of the RAB programme prove successful, it is planned to commence pattern RC and diamond drilling of these targets in November/December 2011.

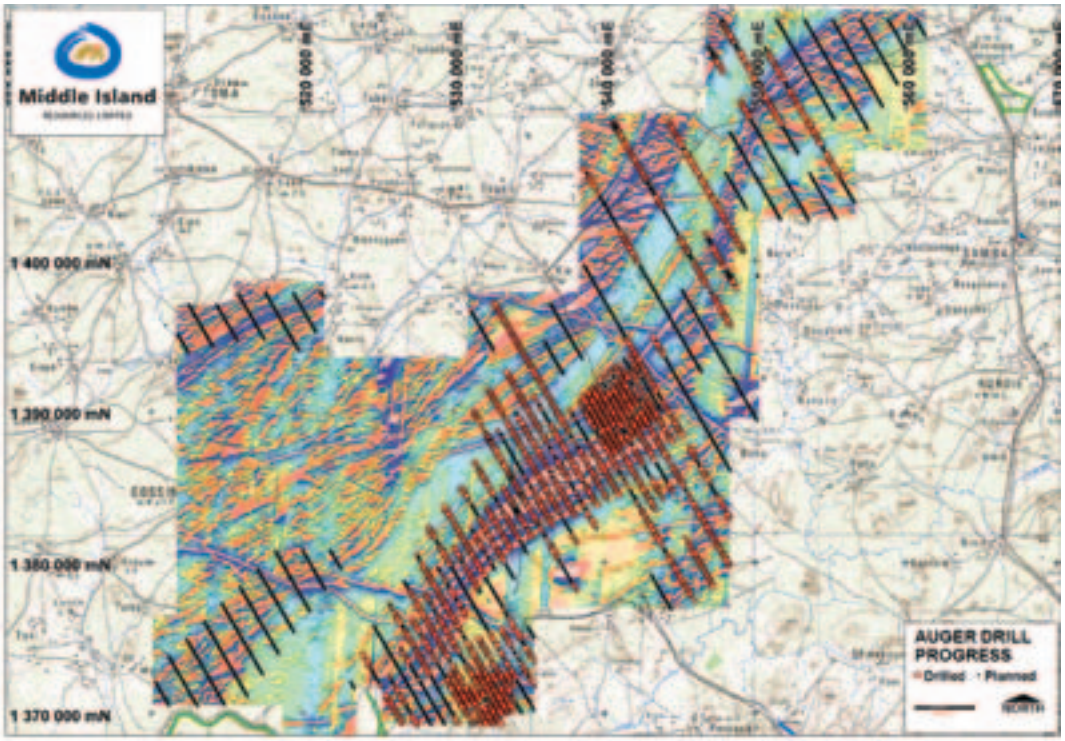
Geochemical Auger Drilling

A 40,000m geochemical auger drilling programme, designed on the basis of the high resolution airborne magnetic survey and subsequent structural and targeting studies, commenced using four rigs, at the Reo Project in May 2011. This programme (Figure 5 on the next page) is designed to identify and prioritise new targets, additional to those inherited from Newmont, before prematurely over-committing resources to any particular prospect at the project. Although planned to be undertaken next field season, the programme was commenced in May 2011 in the hope of completing a portion of the work before the monsoon season curtailed activities.

Some 2,259 holes (18,299m) were completed before the rigs were demobilised in mid July, at which time the rains and farming activity became impediments to progress. All Priority 1 work, comprising the Morley-Goumi-Dassa-K4/5 corridor, and some Priority 2 work, was completed before the rigs were demobilised. The Priority 2 will primarily focus on the north-eastern portion of the Reo Project area where the major Yako shear undergoes a significant deflection around the western margin of an interpreted intrusive stock. Although this intrusive is not exposed at surface, interestingly a ground gravity survey completed by Newmont exhibits a strong positive gravity anomaly over the stock, suggesting it is most likely of mafic or ultramafic affinity.

The remainder of the geochemical auger drilling programme will be completed at the cessation of the monsoon season in October 2011. However, a steady stream of results from the first half of the programme should become available in the intervening period.

Figure 5. **Airborne magnetic image showing the partially completed geochemical auger drilling programme over the Reo Project**



Tenure

The Company is pleased to report that formal transfers of the Didyr, Dassa Sud and Pouni II permits from Newmont to Middle Island Resources were effected during the year.

The third of five option payments, this comprising US$30,000, on the Nebya permit, was made to West African Mining SARL (WAM) during the June Quarter.

During the June Quarter the Company applied for a further two exploration permits to the immediate south of the Reo Project in order to consolidate the possible extent of the K4/K5 mineralisation. The new applications, Tiogo and Nebya Sud, cover an aggregate area of 40km^2, representing the remaining vacant ground lying between the existing Reo Project and the extensive Tiogo Forest Reserve to the south. These applications are entirely consistent with the Company's strategy to consolidate existing project areas, particularly where they have the potential to fulfil the or preserve Company's primary objective.

Social Programme

Consistent with the Company's policy of contributing 5% of its project exploration expenditure towards social development initiatives in the communities in which we operate, MDI is pleased to report that our initial programme at the Reo Project has been successfully completed.

The Company partnered with French NGO, Eau Vive, and the Pouni Community Council to provide a solar powered, gravity reticulated water supply to more than 1,000 residents of the relatively dispersed village of Pouni in the eastern portion of the project area. Prior to the commencement of this project, the Pouni residents were required to travel considerable distances to manually pump and cart water to outlying portions of the township (Figure 6 on the next page).

Figure 6. **Previous water well servicing disparate areas of Pouni village**

The project involved the construction of a solar powered pump to elevate water to storage tanks, from where it is gravity reticulated to five watering points, each with three taps, constructed at strategic locations throughout the village, as shown in Figures 7 and 8 below.

Figure 7. **A new solar powered pump now lifts water to elevated tanks from where it is gravity reticulated.**

Figure 8. **Water is now gravity reticulated to five distribution points strategically located throughout the dispersed village.**

NASSILÉ PROJECT – NIGER

Geochemical Auger Drilling

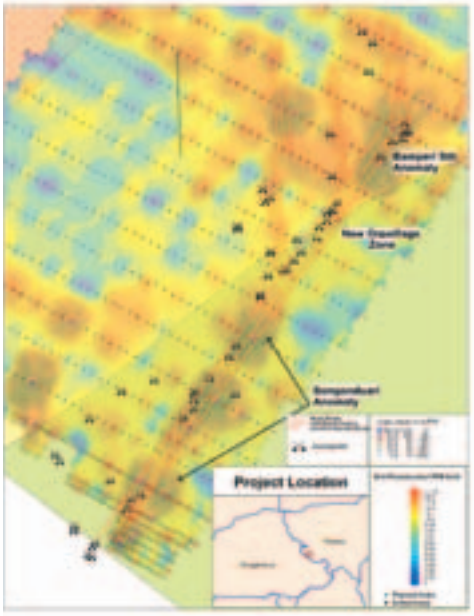
An initial auger geochemical drilling programme, which commenced at the Nassilé Project in Niger in December 2010, was completed during the June Quarter, with 15,203m (2,911 holes) of primary and infill drilling undertaken. Only 250 assays remained outstanding at the end of June, but the received results define a 7km long, high tenor (up to 2.06g/t Au) north-eastern extension to the Songonduari Prospect, a series of north trending splay structures at the northern end of the Songonduari trend in the Bamperi South area, a 1.2km north-northwest extension to the Forbemi Prospect and two isolated high tenor anomalies associated with quartz blows in the north-eastern portion of the project area.

Anomalies generated by the geochemical auger drilling programme represent an extremely exciting target for RC drilling, planned to commence early in the coming field season.

The results of geochemical auger drilling as at the end of June are shown in Figure 9 and 10 below.

Figure 9. **Isometric gold images generated from auger geochemical drilling at the Nassilé Project**

Figure 10. **Plan view gold image generated from auger geochemical drilling at the Nassilé Project**



Geological Mapping

Detailed geological mapping of the Songonduari-Bamperi South auger geochemical anomaly has determined that the axis of this anomaly coincides with a sheared contact between metasediments and metavolcanics. This structure is intruded in the north (Bamperi South area) by a gabbro, within which a series of north trending splay structures are also developed.

Social Programme

At the Nassilé Project, Middle Island is progressing plans to construct a primary school in Koutougou village, adjacent to the Company's camp. At present, there are two teachers and 40 pupils who have no classrooms, but are required instead to conduct lessons in the open or in low makeshift thatch shelters, the walls of which are regularly blown away or consumed by livestock (Figure 11 below).

The Company has again engaged the services of Eau Vive to design, implement and manage the project in consultation with the Niger Government and the Koutougou community.

Figure 11. **Headmaster of Koutougou Primary School next to one of two temporary classrooms currently accommodating some 40 students**

DOGONA PROJECT – NIGER

Tenure

The Dogona and Boulkagou permit applications, collectively comprising the Dogona Project, were formally granted and issued to MDI's joint venture partner, Cassidy Gold Corp, on 13 July, 2011. As a consequence, no exploration has been undertaken during the reporting period. MDI now has the right to earn an initial 90% interest in the permits via staged exploration expenditure of US$1 million over a 2 year term from grant.

NUON RIVER PROJECT – LIBERIA

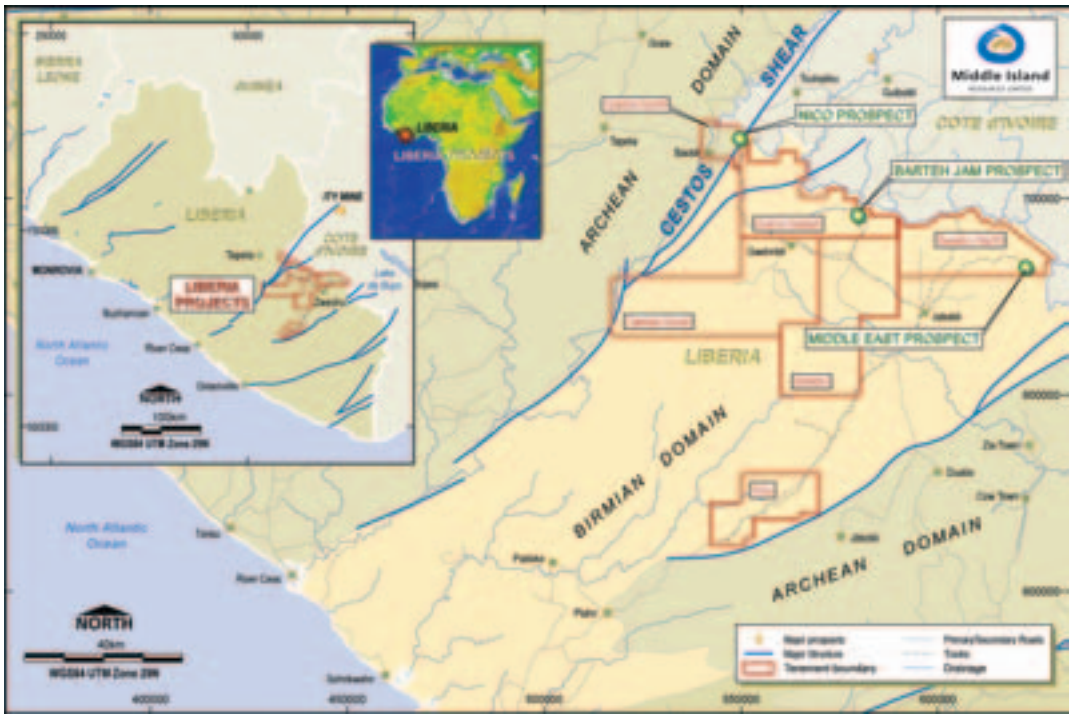
Tenure

In a major strategic development during the year, Middle Island secured the rights to a significant, highly prospective, semi-contiguous land package referred to as the Nuon River Project in Liberia, West Africa, covering some 3,005km^2. This represents the Company's first West African expansion beyond its initial ASX listing assets in Burkina Faso and Niger.

The Nuon River Project lies in one of the most technically prospective gold terrains in West Africa, being located at the boundary between the Archaean (Man Shield) and Proterozoic (Birimian) components of the West African Craton, immediately along strike from the 5Moz Ity gold deposit in adjacent Côte d'Ivoire. The Nuon River Project straddles and lies immediately east of the Cestos Shear, which represents the interpreted major east-dipping, listric, crustal suture separating the Archaean and Brimian terrains. While major first order structures such as the Cestos Shear need not necessarily be mineralised in their own right, the second and third order structures which propagate off them frequently control and/or host major gold deposits in such terrains worldwide. Although both the Archaean and Proterozoic domains either side of the Cestos Shear host gold deposits, Middle Island has deliberately focused on the Birimian elements to the east, lying on the interpreted hanging wall side of the listric faults, in a more favourable lithological setting, with lower metamorphic grades, and which have a substantially higher density of mapped gold occurrences.

The Nuon River assets comprise a 100% interest in five adjacent permits (Cestos North, Cestos South, Zwedru, Zwedru North and Putu) granted to Middle Island Resources in its own right (Figure 12). Middle Island also has the right to earn up to a 75% initial interest in the 657km^2 Grand Gedeh permit for an initial US$100,000 cash payment, followed by staged exploration expenditure of up to US$5 million over a 5 year term or completion of a feasibility study, whichever is the earlier.

Figure 12. **Middle Island's Nuon River project permits straddling and lying immediately east of the major boundary between the Archaean and Birimian elements of the West African Craton**



The Grand Gedeh permit includes a long history of significant artisanal alluvial and saprolite gold mining activity, particularly at the Barteh Jam and Nico mining centres. Previous exploration has also identified numerous significant stream sediment anomalies throughout the Grand Gedeh permit. The Big Hill Prospect within the Barteh Jam mining centre (Figure 13 and 14) is defined by a broad, 2km long, open ended, high tenor soil anomaly pock-marked by abundant active and historic artisanal shafts. Gold mineralisation appears to be associated with sheeted or stockwork quartz veining hosted within sericite-carbonate altered mafic volcanics. The prospect is readily accessible via established roads.

Figure 13. **Satellite image of the Barteh Jam mining centre showing the extensive distribution of alluvial and saprolite workings, with soil geochemistry associated with the Big Hill Prospect superimposed**

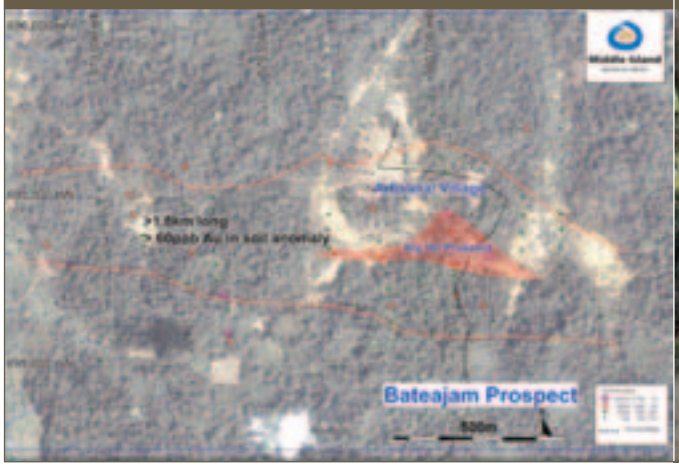


Figure 14. **Big Hill Prospect within the Grand Gedeh Permit, showing abundant artisanal shafts developed to ~40m depth in the foreground and alluvial workings evident through the trees in the background**

The remaining 100% owned permits incorporate numerous mapped (USGS) and identified gold occurrences located across the Archaean/Birimian transition zone. No modern exploration has ever been undertaken in the area.

The Nuon River Project represents the realisation of a key objective of Middle Island, namely to secure a major land package in one of the most prospective emerging gold frontiers of West Africa. We are excited about commencing work on this project shortly.

SAFETY & ENVIRONMENTAL PERFORMANCE

Safety Performance

Middle Island's safety performance has similarly been excellent, with only one medically treated injury (MTI) and one Incident recorded during the year to 30 June 2011, both involving site contractors.

While Middle Island's safety record for the year is extremely encouraging, our steadfast view is that there is never room for complacency and we can always do better. The Company continuously instils safety awareness into the culture of what is still a relatively new team and we also work closely with contractors to ensure a consistent approach.

Environmental Performance

Middle Island is pleased to advise that there were no Environmental Incidents reported from the Company's activities during the reporting period.

All drill collars, variously relating to RC, RAB and auger drilling programmes, are being systematically plugged and capped on completion, and trenches at the Reo Project were backfilled and rehabilitated on programme completion in April.

From left to right: Peter Thomas, Beau Nicholls, Richard Yeates, Linton Kirk, Dennis Wilkins

Your directors submit their report on the consolidated entity (referred to hereafter as the Group) consisting of Middle Island Resources Limited and the entities it controlled at the end of, or during, the period ended 30 June 2011.

DIRECTORS

The names and details of the Company's directors in office during the period and until the date of this report follow. Each Director was in office for this entire period unless otherwise stated.

Names, qualifications, experience and special responsibilities

Peter Thomas, (Non Executive Chairman, appointed 2 March 2010 (date of incorporation))

Mr Thomas was a practising solicitor from 1980 until June 2011 specialising in the provision of corporate and commercial advice to explorers and miners. Since the mid 1980s, he has served on the boards of various listed companies. He was the founding chairman of Sandfire Resources NL and remains the non-executive founding chairman of ASX-listed Image Resources NL, Magnetic Resources NL, Meteoric Resources NL, Emu Nickel NL and Middle Island Resources Limited.

Richard Yeates, (Managing Director, appointed 2 March 2010 (date of incorporation))

Mr Yeates is a geologist whose professional career has spanned 30 years, variously working for major companies such as BHP, Newmont and Amax, prior to co-founding the consulting firm of Resource Service Group (subsequently RSG Global) in 1987, which was ultimately sold to ASX listed consulting firm, Coffey International, in 2006 to become Coffey Mining.

Mr Yeates has considerable international experience, having worked in some 29 countries, particularly within Africa and South America, variously undertaking project management assignments, feasibility studies and independent reviews for company listings, project finance audits and technical valuations. Mr Yeates has also been responsible for developing and overseeing all marketing and promotional activities undertaken by RSG, RSG Global and Coffey Mining over the last 23 years.

Mr Yeates is a Member of the Australasian Institute of Mining and Metallurgy (AusIMM), a Member of the Australian Institute of Geoscientists (AIG) and is a Graduate Member of the Australian Institute of Company Directors (AICD). He currently serves as a non-executive director of ASX 200 nickel producer Western Areas NL, and is a board member of the Australia-Africa Mining Industry Group (AAMIG), established in early 2010 at the request of the Federal Government to facilitate Australia's re-engagement with Africa.

Beau Nicholls, (Technical Director, appointed 30 April 2010)

Beau Nicholls has 16 years in mining and exploration geology, ranging from grass roots exploration management to through to mine production environments. He is a Member of the Australian Institute of Geoscientists (AIG) with a proven track record on four continents (Australia, Eastern Europe, Africa and the Americas) and in over 20 countries, Beau has been instrumental in the discovery and / or development of a number of world class deposits. Mr Nicholls also has over 10 year's international consulting experience with RSG, RSG Global and Coffey Mining, including 3 years as the resident Regional Manager in West Africa.

Linton Kirk, (Non Executive Director, appointed 1 September 2011)

Mr Kirk is a Fellow of the AusIMM whose career variously encompasses mining, earthmoving, contracting, management and consulting activities covering both open pit and underground operations. His operating experience mostly involved him filling the positions of Mining Manager and/or General Manager of gold, iron ore and copper projects in Australia, Zambia, Papua New Guinea, Zimbabwe and Ghana.

He has been a fulltime consultant since 1997, servicing projects in some 20 countries. In this capacity he held the position of Manager – Mining Engineering with Global Mining Services then Manager – Mining Engineering and Partner at RSG Global, then, following the sale of RSG Global to Coffey International Limited in 2006, Chief Mining Engineer with Coffey Mining. Since 1997, Mr Kirk has been involved in and/or managed major feasibility studies, technical audits, owner mining studies and mining contract tenders on projects across the globe.

Dennis Wilkins, B.Bus, AICD, ACIS (Alternate Director for Beau Nicholls, appointed 1 May 2010)

Mr Dennis Wilkins is an accountant who has been a director, company secretary or acted in a corporate advisory capacity to listed resource companies for over 20 years.

Mr Wilkins previously served as the Finance Director and Company Secretary for a mid tier gold producer and also spent five years working for a leading merchant bank in the United Kingdom. Resource postings to Indonesia, South Africa and New Zealand in managerial roles has broadened his international experience.

Mr Wilkins has extensive experience in capital raising specifically for the resources industry and is the principal of DWCorporate which provides advisory, funding and administrative management services to the resource sector. Mr Wilkins is a director of Key Petroleum Limited, Enterprise Mining Limited and Minemakers Limited.

COMPANY SECRETARY

Dennis Wilkins (appointed 2 March 2010)

Interests in the shares and options of the Company and related bodies corporate

As at the date of this report, the interests of the directors in the shares and options of Middle Island Resources Limited were:

	Ordinary Shares	Options over Ordinary Shares
Peter Thomas	3,000,000[1]	2,000,000[2]
Richard Yeates	20,000,010[3]	10,000,000[2]
Beau Nicholls	2,900,000[2]	2,500,000[2]
Linton Kirk	80,000[4]	Nil[5]
Dennis Wilkins	500,000[2]	500,000[2]

1. 2,200,000 restricted securities until 16 December 2012.
2. All restricted securities until 16 December 2012.
3. 20,000,002 restricted securities until 16 December 2012.
4. All unrestricted securities.
5. Subject to shareholder approval at the Company's next AGM, it is proposed that 300,000 options will be granted to Mr Kirk on the Company's normal terms & conditions, with an exercise price that is 150% of the VWAP of the Company's shares on the 5 days prior to the date of shareholder approval, with an expiry date approximately 3 years after issue.

PRINCIPAL ACTIVITIES

During the period the Group carried out exploration on its tenements and applied for or acquired additional tenements with the objective of identifying gold and other economic mineral deposits.

DIVIDENDS

No dividends were paid or declared during the period. No recommendation for payment of dividends has been made.

OPERATING AND FINANCIAL REVIEW

Finance Review

Middle Island Resources Ltd was registered on 2 March 2010 and, after a $12.5M IPO raising, preceded by seed capital issues to raise $1,830,402, listed on the ASX in December 2010.

During the period, total exploration expenditure incurred by the Group amounted to $2,336,628. In line with the Group's accounting policies, all exploration expenditure, other than acquisition costs, were written off as they were incurred. Net administration expenditure incurred amounted to $912,016. This resulted in an operating loss after income tax for the period ended 30 June 2011 of $3,248,644.

At 30 June 2011 cash assets available totalled $9,982,666.

Operating Results for the Period

Summarised operating results are as follows:

	2011	
	Revenues $	Results $
Revenues and losses from ordinary activities before income tax expense	453,730	(3,248,644)

Shareholder Returns

	2011
Basic loss per share (cents)	(5.6)

Risk Management

The board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that activities are aligned with the risks and opportunities identified by the board.

The Group believes that it is crucial for all board members to be a part of this process, and as such the board has not established a separate risk management committee.

The board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the board. These include the following:

- Board approval of a strategic plan, which encompasses strategy statements designed to meet stakeholders' needs and manage business risk.
- Implementation of board approved operating plans and budgets and board monitoring of progress against these budgets.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Other than as disclosed in this Annual Report, no significant changes in the state of affairs of the Group occurred during the financial period.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

No matters or circumstances, besides those disclosed at note 21, have arisen since the end of the period which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial periods.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Group expects to maintain the present status and level of operations and hence there are no likely developments in the entity's operations.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group is subject to significant environmental regulation in respect to its exploration activities.

The Group aims to ensure the appropriate standard of environmental care is achieved, and in doing so, that it is aware of and is in compliance with all environmental legislation. The directors of the Company are not aware of any breach of environmental legislation for the period under review.

REMUNERATION REPORT

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

Principles used to determine the nature and amount of remuneration

Remuneration Policy

The remuneration policy of Middle Island Resources Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives. The board of Middle Island Resources Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain suitable executives and directors to run and manage the Group.

The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the board. All executives receive a base salary (which is based on factors such as experience), superannuation and a package of options over shares in the Company. The board will review executive packages as and when it considers it appropriate to do so in accordance with its remuneration policy and by reference to the Group's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

The board may exercise discretion in relation to approving incentives, bonuses and options. The policy is designed to reward executives for performance that results in long-term growth in shareholder wealth.

Executives are also entitled to participate in the employee share and option arrangements.

The executive directors and executives receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits.

All remuneration paid to directors and executives is "valued" at the cost to the Group and expensed. Options are ascribed a fair value in accordance with Australian Accounting Standards using the BlackScholes methodology.

The board's policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The board determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought as and when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting (currently $300,000). Fees for non-executive directors are not linked to the performance of the Group. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company and are able to participate in the employee option plan.

Performance based remuneration

The Group currently has no performance based remuneration component built into director and executive remuneration packages. Options are issued to directors and executives as part of their remuneration. The options are not issued based on performance criteria, but are issued to the majority of directors and executives of Middle Island Resources Limited to increase goal congruence between executives, directors and shareholders.

Company performance, shareholder wealth and directors' and executives' remuneration

No relationship exists between shareholder wealth, director and executive remuneration and Group performance.

Details of remuneration

Details of the remuneration of the directors, the key management personnel of the Group (as defined in AASB 124 *Related Party Disclosures*) and specified executives of Middle Island Resources Limited and the Middle Island Resources Group are set out in the following table. The key management personnel of Middle Island Resources Limited and the Group include the directors and company secretary as per page 16 and the following executive officer who has authority and responsibility for planning, directing and controlling the implementation of the exploration activities of the Group:

- Andrew Chubb – *Exploration Manager – West Africa, appointed 1 November 2010*

Given the size and nature of operations of Middle Island Resources Limited and the Group, there are no other employees who are required to have their remuneration disclosed in accordance with the *Corporations Act 2001*.

Key management personnel and other executives of Middle Island Resources Limited and the Group

	Short-Term		Post Employment		Share-based Payments	Total
	Salary & Fees	Non Monetary (D&O Insurance premium)	Superannuation	Retirement benefits		
	$	$	$	$	$	$
Directors						
Peter Thomas 2011	30,064	6,148	2,706	-	-	38,918
Richard Yeates 2011	163,846	6,148	14,746	-	-	184,740
Beau Nicholls 2011	190,274	6,148	-	-	-	196,422
Dennis Wilkins 2011	198,471[1]	6,148	-	-	-	204,619[1]
Other key management personnel						
Andrew Chubb 2011	95,478	-	-	-	63,075	158,553
Total key management personnel compensation						
2011	678,133	24,592	17,452	-	63,075	783,252

[1]. See details of service agreement below. This amount includes fees for company secretarial and IPO corporate advisory services.

Service agreements

Richard Yeates, Managing Director:

- Term of agreement – Commencing 2 March 2010 until terminated in accordance with the agreement.
- Annual salary of $300,000, excluding superannuation, from the date of admission to the Official List of ASX (16 December 2010).
- The agreement may be terminated by the Company giving 12 month's notice in writing, or by Mr Yeates giving 3 month's written notice, or applicable shorter periods upon breach of contract by either party. There are no benefits payable on termination other than entitlements accrued to the date of termination.

Beau Nicholls, Technical Director:

- Term of agreement – Commencing 1 May 2010 until terminated in accordance with the agreement.
- Annual salary of $146,200, inclusive of superannuation and exclusive of GST, for 12 months from 1 May 2010, then an annual salary of $196,200 inclusive of superannuation and exclusive of GST, from 1 May 2011. The agreement is with, and amounts are paid to, Amazon Consultoria Em Mineracao E Servicos, a company controlled by Mr Nicholls.
- The agreement may be terminated by the Company giving 1 month's notice in writing, or by Mr Nicholls giving 3 month's written notice, or applicable shorter periods upon breach of contract by either party. There are no benefits payable on termination other than entitlements accrued to the date of termination.

Dennis Wilkins, Alternate Director and Company Secretary:

- Term of agreement – Commencing 17 March 2010 until terminated in writing by either party, no notice period of termination is required.
- Mr Wilkins' firm, DWCorporate Pty Ltd, is engaged to provide bookkeeping, accounting and company secretarial services. Fees are charged on an hourly basis, and all amounts are included in Mr Wilkins' remuneration.

Andrew Chubb, Exploration Manager – West Africa:

- Term of agreement – Commencing 1 November 2010 until terminated in accordance with the agreement.
- Annual salary of USD $150,000, increased to $180,000 from 1 July 2011, excluding superannuation, to be increased at the end of each calendar year during the term by a minimum of CPI.
- The agreement may be terminated by either party giving two month's notice in writing, or applicable shorter periods upon breach of contract by either party. There are no benefits payable on termination other than entitlements accrued to the date of termination.

Share-based compensation

Options may be issued to directors and executives as part of their remuneration. The options are not issued based on performance criteria, but are issued to the majority of directors and executives of Middle Island Resources Limited to increase goal congruence between executives, directors and shareholders. The Group does not have a formal policy in relation to the key management personnel limiting their exposure to risk in relation to the securities, but the Board actively discourages key management personnel from obtaining mortgages over securities held in the Group.

The following options were granted to or vesting with key management personnel during the year, there were no options forfeited during the year:

	Grant Date	Granted Number	Vested Number	Date Vesting and Exercisable	Expiry Date	Exercise Price (cents)	Value per option at grant date (cents)	Exercised Number	% of Remuneration
Other key management personnel									
Andrew Chubb	07/12/2010	250,000	250,000	07/12/2010	31/12/2014	25.0	11.1	N/A	17.6
Andrew Chubb	07/12/2010	250,000	250,000	07/12/2010	31/12/2014	37.5	8.0	N/A	12.7
Andrew Chubb	07/12/2010	250,000	250,000	07/12/2010	31/12/2014	50.0	6.0	N/A	9.5
End of audited section									

DIRECTORS' MEETINGS

During the period the Company held eight meetings of directors. The attendance of directors at meetings of the board were:

	Directors Meetings		Committee Meetings Audit	
	A	B	A	B
Peter Thomas	8	8	1	1
Richard Yeates	8	8	1	1
Beau Nicholls	6	8	1	1
Dennis Wilkins (alternate for Beau Nicholls)	2	2	1	1

Notes:
A – Number of meetings attended.
B – Number of meetings held during the time the director held office during the period.
There were no meetings of other Committees during the period.

SHARES UNDER OPTION

At the date of this report there are 16,200,000 unissued ordinary shares in respect of which options are outstanding.

	Number of options
Balance at the beginning of the period	-
Movements of share options during the period	
Issued, exercisable at 25 cents, on or before 31 December 2014	250,000
Issued, exercisable at 25 cents, on or before 30 June 2015	15,000,000
Issued, exercisable at 37.5 cents, on or before 1 November 2013	450,000
Issued, exercisable at 37.5 cents, on or before 31 December 2014	250,000
Issued, exercisable at 50 cents, on or before 31 December 2014	250,000
Total number of options outstanding as at 30 June 2011 and the date of this report	16,200,000

No person entitled to exercise any option referred to above has or had, by virtue of the option, a right to participate in any share issue of any other body corporate.

INSURANCE OF DIRECTORS AND OFFICERS

During or since the financial period, in accordance with each director's Deed of Indemnity, Insurance and Access with Middle Island Resources Limited, the Group has paid premiums insuring all the directors of Middle Island Resources Limited against all liabilities incurred by the director acting directly or indirectly as a director the Company to the extent permitted by law, including legal costs incurred by the director in defending proceedings, provided that the liabilities for which the director is to be insured do not arise out of conduct involving a wilful breach of the director's duty to the Company or a contravention of sections 182 or 183 of the *Corporations Act 2001*.

The total amount of insurance contract premiums paid is $24,592.

NON-AUDIT SERVICES

The following non-audit services were provided by the entity's auditor, Somes and Cooke or associated entities. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor;
- None of the services undermine the general standard of independence for auditors.

Somes and Cooke received or are due to receive the following amounts for the provision of nonaudit services:

	2011 $
Investigating Accountants Report for the IPO prospectus	7,150

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 23.

Signed in accordance with a resolution of the directors.

Richard Yeates
Managing Director
Perth, 29 September 2011

AUDITOR'S INDEPENDENCE DECLARATION

To those charged with governance of Middle Island Resources Limited

As auditor for the audit of Middle Island Resources Limited and its controlled entities for the year ended 30 June 2011, I declare that, to the best of my knowledge and belief, there have been:

i) no contraventions of the independence requirements of the *Corporations Act 2001* in relation to the audit; and

ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Somes and Cooke

Somes and Cooke

Kevin Somes
Partner
29 September 2011

Except to the extent stated below, for the period commencing upon the Company being listed on the ASX and the year ended 30 June 2011, Middle Island Resources Limited complied with each of the recommendations (**Recommendations**) in the ASX Corporate Governance Council's second edition (August 2007 as revised in June 2008 and June 2010) of the Corporate Governance Principles and Recommendations.

1. LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Companies should establish and disclose the respective roles and responsibilities of board and management.

1.1 Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.

1.2 Companies should disclose the process for evaluating the performance of senior executives.

"If not, why not":

As at 30 June 2011, the Company only employed three executives, being the Managing Director, Technical Director and Exploration Manager – West Africa. These executives are effectively under a constant process of performance evaluation as measured by the Company's market capitalisation/share price at a point in time compared to previous periods or points in time. The Company has a Remuneration Policy which establishes a Remuneration Committee to review and make decisions in relation to senior executive remuneration and incentive policies. The Board concurs with the full implementation of this Principle and will review appropriate ways of compliance as and when further senior executives are engaged.

1.3 Companies should provide the information indicated in the *Guide to reporting on Principle 1.*

2. STRUCTURE THE BOARD TO ADD VALUE

Companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.

2.1 A majority of the board should be independent directors.

"If not, why not":

The Company does not comply – there are four directors on the board, two of which clearly serve as executives. Mr Kirk is considered to be an independent director. As to the Chair, Mr Thomas, refer the "If not, why not" response to Recommendation 2.2.

The Company has a small close knit team which has a positive interactive working history. Given all the circumstances attendant upon the Company including its objectives, the nature and extent of its actual and proposed operations, its capital base and other resources, the costs associated with a board comprised of more than the current number and the need for a board comprised of persons with a blend and diversity of traits, skills, gender, experience, expertise, entrepreneurialism, innovation, tenacity, vision and dedication in order to enliven the prospects of creating value for shareholders, at the time the policy was adopted this recommendation was thought by the board to be neither appropriate nor achievable but the board is now open to the appointment of an additional non-executive director with appropriate complementary skills.

The composition of the Board will be reviewed as the Company develops.

2.2 The Chair should be an independent director.

"If not, why not":

See the "If not, why not" response to Recommendation 2.1. The Chair considers himself to be an independent director as he is not part of the management team and he regards himself as being free of any relationship that could materially interfere with the independent exercise of his judgement. However he acknowledges that it might well be perceived that his shareholding in the Company and his remuneration as a director compromise or materially interfere with his independent exercise of judgement and ability to act in an entirely disinterested manner in all things.

2.3 The roles of the Chair and chief executive officer (or equivalent) should not be exercised by the same individual.

2.4 The board should establish a Nomination Committee.

2.5 Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.

2.6 Companies should provide the information indicated in *Guide to Reporting on Principle 2.*

In compliance with this recommendation, the Company declares that, as set out in its Board Charter, directors have the right to seek independent professional advice in the furtherance of their duties as directors at the Company's expense. Written approval must be obtained from the chair prior to incurring any expense on behalf of the Company.

The skills and experience of the Directors are set out in the Company's annual report and on its website.

"If not, why not":

The Guide requires the information to appear in the corporate governance statement in the annual report – the Company does not include the required information in the corporate governance statement in the annual report to the extent that information appears elsewhere in the annual report as to do so would be duplicate that information (for no benefit that the board can perceive).

3. PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

Companies should actively promote ethical and responsible decision-making.

3.1 Companies should establish a Code of Conduct and disclose the code or a summary of the code as to the:

3.1.1 practices necessary to maintain confidence in the Company's integrity;

3.1.2 practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders;

3.1.3 responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

3.2 Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them.

"If not, why not":

The Company has established a Diversity Policy, however, the policy does not include requirements for the board to establish measurable objectives for achieving gender diversity. Given the Company's size and stage of development as an exploration company, the board does not think it is appropriate to include measurable objectives in relation to gender. As the Company grows and requires more employees, the Company will review and amend this policy if it sees fit.

3.3 Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.

"If not, why not":

See the response to 3.2 above.

3.4 Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.

"If not, why not":

In compliance with this recommendation, the Company declares that there are no women in senior executive positions or on the board. However, the Company has not compiled information to declare the proportion of women employees in the whole organisation as it believes that the resources required to obtain the information outweigh the value of providing the information. The Company will review its compliance with this recommendation as the Company develops and will comply if it sees fit.

3.5 Companies should provide the information indicated in the *Guide to reporting on Principle 3*.

4. SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.

4.1 The board should establish an Audit Committee.

4.2 The Audit Committee should be structured so that it:

4.5.1 consists only of non-executive directors;

4.5.2 consists of a majority of independent directors;

4.5.3 is Chaired by an independent Chair, who is not Chair of the board;

4.5.4 has at least three members.

"If not, why not":

As established by resolution of directors on 14 September 2011, the Audit Committee consists of Mr Thomas, Mr Kirk, Mr Yeates & Mr Wilkins. Mr Thomas and Mr Kirk are the only independent directors and only non-executive directors of the Audit Committee (see the response to 2.1 and 2.2 above). Mr Wilkins, Company Secretary, is chair of the Audit Committee. The composition of the Committee is considered to be appropriate given the Company's size and stage of development. The Company will review the composition of the audit committee as it develops.

4.3 The Audit Committee should have a formal charter.

4.4 Companies should provide the information indicated in *Guide to reporting on Principle 4.*

In compliance with this Recommendation, the Company declares that the Audit Committee has had 1 meeting since listing on ASX.

5. MAKE TIMELY AND BALANCED DISCLOSURE

Companies should promote timely and balanced disclosure of all material matters concerning the Company.

5.1 Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.

5.2 Companies should provide the information indicated in the *Guide to reporting on Principle 5.*

6. RESPECT THE RIGHTS OF SHAREHOLDERS

Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.

6.1 Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.

6.2 Companies should provide the information indicated in the *Guide to reporting on Principle 6.*

7. RECOGNISE AND MANAGE RISK

Companies should establish a sound system of risk oversight and management and internal control.

7.1 Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.

7.2 The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.

7.3 The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

7.4 Companies should provide the information indicated in *Guide to reporting on Principle 7.*

"If not, why not":

Management has not reported to the board as to the effectiveness of the Company's management of its material business risks. Whilst the board recognises the benefit of the discipline of documenting such matters, the board has deployed its scarce resources to other endeavours in priority to the preparation of a written report on the matter of risk. Given that the Company has a Risk Management Policy in place and that the board has two executive directors who are well versed in the day to day affairs of the Company and the internal control measures in place, the Company considers that it is managing its material business risks just as effectively as if a formal independent committee was established for the purpose recommended. The Company will review the need to require management to design and implement risk management and internal control systems as it develops.

8. REMUNERATE FAIRLY AND RESPONSIBLY

Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

8.1 The board should establish a Remuneration Committee.

8.2 Companies should be structured so that it:

8.2.1 consists of a majority of independent directors;

8.2.2 is chaired by an independent director;

8.2.3 has at least three members.

"If not, why not":

The Remuneration Committee consists of the full Board with Mr Thomas as chair. Mr Thomas and Mr Kirk are the only independent directors (see response to recommendation 2.1 and 2.2 above). The Remuneration Policy states that no executive is to be directly involved in deciding their own remuneration, so the composition of the Committee will be altered as circumstances require. The composition of the Committee is considered to be appropriate given the Company's size and stage of development. The Company will review the structure of the Remuneration Committee as it develops.

8.3 Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.

8.4 Companies should provide the information indicated in *Guide to reporting on Principle 8.*

STATEMENT OF COMPREHENSIVE INCOME

PERIOD 2 MARCH 2010 TO 30 JUNE 2011	Notes	Consolidated
		2011
		$
REVENUE	4	453,730
EXPENDITURE		
Administration expenses		(930,515)
Depreciation expense		(51,896)
Exploration expenses		(2,336,628)
Salaries and employee benefits expense		(265,785)
Share-based payments	24	(117,550)
LOSS BEFORE INCOME TAX		(3,248,644)
INCOME TAX BENEFIT / (EXPENSE)	6	-
LOSS FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF MIDDLE ISLAND RESOURCES LIMITED		(3,248,644)
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations		126,943
Other comprehensive income for the period, net of tax		126,943
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF MIDDLE ISLAND RESOURCES LIMITED		(3,121,701)
Basic and diluted loss per share for loss attributable to the ordinary equity holders of the Company (cents per share)	23	(5.6)

The above Statement of Comprehensive Income should be read in conjunction with the Notes to the Financial Statements.

STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2011	Notes	Consolidated
		2011
		$
CURRENT ASSETS		
Cash and cash equivalents	7	9,982,666
Trade and other receivables	8	320,260
TOTAL CURRENT ASSETS		10,302,926
NON-CURRENT ASSETS		
Plant and equipment	9	438,009
Mining properties	10	2,842,208
TOTAL NON-CURRENT ASSETS		3,280,217
TOTAL ASSETS		13,583,143
CURRENT LIABILITIES		
Trade and other payables	11	382,963
TOTAL CURRENT LIABILITIES		382,963
TOTAL LIABILITIES		382,963
NET ASSETS		13,200,180
EQUITY		
Contributed equity	12	16,204,331
Reserves	13(a)	244,493
Accumulated losses	13(b)	(3,248,644)
TOTAL EQUITY		13,200,180

The above Statement of Financial Position should be read in conjunction with the Notes to the Financial Statements.

PERIOD 2 MARCH 2010 TO 30 JUNE 2011						
	Notes	Contributed Equity	Share-based Payments Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total
Consolidated		$	$	$	$	$
BALANCE AT INCORPORATION		-	-	-	-	-
Loss for the period	13(b)	-	-	-	(3,248,644)	(3,248,644)
OTHER COMPREHENSIVE INCOME						
Exchange differences on translation of foreign operations		-	-	126,943	-	126,943
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		-	-	126,943	(3,248,644)	(3,121,701)
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS						
Shares issued during the period	12	16,867,237	-	-	-	16,867,237
Transaction costs	12	(662,906)	-	-	-	(662,906)
Options issued to employees	24	-	117,550	-	-	117,550
BALANCE AT 30 JUNE 2011		16,204,331	117,550	126,943	(3,248,644)	13,200,180

The above Statement of Changes in Equity should be read in conjunction with the Notes to the Financial Statements.

PERIOD 2 MARCH 2010 TO 30 JUNE 2011	Notes	Consolidated
		2011
		$
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees		(1,002,604)
Expenditure on mining interests		(2,147,937)
Interest received		219,415
Payments for security deposits		(16,462)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	22(a)	(2,947,588)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for plant and equipment		(500,935)
Payments for mining properties		(236,307)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(737,242)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issues of ordinary shares		14,330,402
Payments of share issue costs		(662,906)
NET CASH INFLOW FROM FINANCING ACTIVITIES		13,667,496
NET INCREASE IN CASH AND CASH EQUIVALENTS		9,982,666
Cash and cash equivalents at incorporation		-
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	7	9,982,666

The above Statement of Cash Flows should be read in conjunction with the Notes to the Financial Statements.

30 JUNE 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. The financial statements are for the consolidated entity consisting of Middle Island Resources Limited and its subsidiaries. The financial statements are presented in the Australian currency. Middle Island Resources Limited is a company limited by shares, domiciled and incorporated in Australia. The financial statements were authorised for issue by the directors on 29 September 2011. The directors have the power to amend and reissue the financial statements.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Australian Accounting Interpretations and the *Corporations Act 2001*.

Compliance with IFRS

The financial statements of Middle Island Resources Limited comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property, where applicable.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Middle Island Resources Limited ("Company" or "parent entity") as at 30 June 2011 and the results of all subsidiaries for the year then ended. Middle Island Resources Limited and its subsidiaries together are referred to in these financial statements as the Group or the consolidated entity.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

(ii) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of Middle Island Resources Limited.

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes

of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a jointly controlled entity or associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(c) Segment reporting

An operating segment is defined as a component of an entity that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the full Board of Directors.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Middle Island Resources Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless that is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences is reclassified to profit or loss, as part of the gain or loss on sale where applicable.

(e) Revenue recognition

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial assets.

(f) Income tax

The income tax expense or revenue for the year is the tax payable on the current year's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associated operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(g) Leases

Leases where a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 18). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

(h) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(i) Cash and cash equivalents

For statement of cash flows presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

(j) Investments and other financial assets

Classification

The Group classifies all of its financial assets as loans and receivables. Management determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are recognised initially at fair value and subsequently at amortised cost less impairment. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the statement of financial position.

Collectability of loans and receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables or in an otherwise timely manner. The amount of the impairment allowance is the difference between the asset's carrying amount and the estimated future cash flows. None of the Group's loans and receivables has an applicable interest rate hence the cash flows are not discounted.

The amount of the impairment loss is recognised in the statement of comprehensive income within impairment expenses. When a loan or receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of comprehensive income.

Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed to the statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Subsequent measurement

Loans and receivables are carried at amortised cost using the effective interest method.

Impairment

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. If there is evidence of impairment for any of the Group's financial assets carried at amortised cost, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognised in the statement of comprehensive income.

(k) Plant and equipment

All plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the statement of comprehensive income during the reporting period in which they are incurred.

Depreciation of plant and equipment is calculated using the reducing balance method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term. The rates vary between 25% and 40% per annum.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting 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 (note 1(h)).

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

(l) Exploration and evaluation costs

It is the Group's policy to capitalise the cost of acquiring areas of interest. All other exploration expenditure is expensed to the Statement of Comprehensive Income.

The costs of acquisition are carried forward as an asset provided one of the following conditions are met:

- Such costs are expected to be recouped through the successful development and exploitation of the area of interest, or alternatively, by its sale; or
- Exploration activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence of otherwise of recoverable reserves, and active and significant operations in relation to the area are continuing.

When the technical feasibility and commercial viability of extracting a mineral resource have been demonstrated then any capitalised exploration and evaluation expenditure is reclassified as capitalised mine development. Prior to reclassification, capitalised exploration and evaluation expenditure is assessed for impairment.

Impairment

The carrying value of capitalised exploration and evaluation expenditure is assessed for impairment at the cash generating unit level whenever facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount.

An impairment exists when the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. Any impairment losses are recognised in profit or loss.

(m) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial period which are unpaid. The amounts are unsecured, non-interest bearing and are paid on normal commercial terms.

(n) Employee benefits

Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(o) Share-based payments

The Group provides benefits to employees (including directors) of the Group, and to vendors and suppliers, in the form of share-based payment transactions, whereby employees render services, or where vendors sell assets to the Group, in exchange for shares or rights over shares ('equity-settled transactions'), refer to note 24.

The cost of these equity-settled transactions with employees is measured by reference to the "fair value" at the date at which they are granted. The "fair value" is determined in accordance with Australian Accounting Standards by an internal valuation using a Black-Scholes option pricing model for options and a market price for ordinary shares. The Directors do not consider the resultant value as determined by the Black-Scholes European Option Pricing Model is in anyway representative of the market value of the share options issued, however, in the absence of reliable measure of the goods or services received, AASB 2 – Share Based Payments prescribes the measurement of the fair value of the equity instruments granted. The Black-Scholes European Option Pricing Model is an industry accepted method of valuing equity instruments, at the date of grant.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of options that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for options that do not ultimately vest, except for options where vesting is conditional upon a market condition.

Where an option is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the option is recognised immediately. However, if a new options is substituted for the cancelled option, and designated as a replacement option on the date that it is granted, the cancelled and new option is treated as if a modification of the original option.

(p) Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

(q) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial period, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(r) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis.The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(s) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below. New standards and interpretations not mentioned are considered unlikely to impact on the financial reporting of the Group.

AASB 9: Financial Instruments (December 2010) (applicable for annual reporting periods commencing on or after 1 January 2013)

This Standard is applicable retrospectively and includes revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments. The Group has not yet determined any potential impact on the financial statements.

The key changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument;
- requiring financial assets to be reclassified where there is a change in an entity's business model as they are initially classified based on: (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows; and
- requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

AASB 124: Related Party Disclosures (applicable for annual reporting periods commencing on or after 1 January 2011)

This Standard removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities and clarifies the definition of a "related party" to remove inconsistencies and simplify the structure of the Standard. No changes are expected to materially affect the Group.

AASB 1053: Application of Tiers of Australian Accounting Standards and AASB 2010–2: Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements [AASB 1, 2, 3, 5, 7, 8, 101, 102, 107, 108, 110, 111, 112, 116, 117, 119, 121, 123, 124, 127, 128, 131, 133, 134, 136, 137, 138, 140, 141, 1050 & 1052 and Interpretations 2, 4, 5, 15, 17, 127, 129 & 1052] (applicable for annual reporting periods commencing on or after 1 July 2013)

AASB 1053 establishes a revised differential financial reporting framework consisting of two tiers of financial reporting requirements for those entities preparing general purpose financial statements:

- Tier 1: Australian Accounting Standards; and
- Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 2 of the framework comprises the recognition, measurement and presentation requirements of Tier 1, but contains significantly fewer disclosure requirements.

The following entities are required to apply Tier 1 reporting requirements (ie full IFRS):

- for-profit private sector entities that have public accountability; and
- the Australian Government and state, territory and local governments.

Since the Group is a for-profit private sector entity that has public accountability, it does not qualify for the reduced disclosure requirements for Tier 2 entities.

AASB 2010–2 makes amendments to Australian Accounting Standards and Interpretations to give effect to the reduced disclosure requirements for Tier 2 entities. It achieves this by specifying the disclosure paragraphs that a Tier 2 entity need not comply with as well as adding specific "RDR" disclosures.

(t) Critical accounting judgements, estimates and assumptions

The directors evaluate estimates and judgements incorporated into the financial report based on its industry experience and accumulated knowledge. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

(u) Accounting period

The Company was incorporated as Middle Island Resources Pty Ltd on 2 March 2010 and converted to a public company and changed its name to Middle Island Resources Limited on 5 November 2010. This is the first annual reporting period for the Group, being the period from incorporation to 30 June 2011, and as such, no comparative information is included in these financial statements.

2. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Risk management is carried out by the full Board of Directors as the Group believes that it is crucial for all board members to be involved in this process. The Managing Director, with the assistance of senior management as required, has responsibility for identifying, assessing, treating and monitoring risks and reporting to the board on risk management.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the A$, the US dollar and the West African CFA franc.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency and net investments in foreign operations. The Group has not formalised a foreign currency risk management policy however, it monitors its foreign currency expenditure in light of exchange rate movements.

(ii) Commodity price risk

Given the current level of operations, the Group's financial statements for the year ended 30 June 2011 are not exposed to commodity price risk.

(iii) Interest rate risk

The Group is exposed to movements in market interest rates on cash and cash equivalents. The Group policy is to monitor the interest rate yield curve out to six months to ensure a balance is maintained between the liquidity of cash assets and the interest rate return. The entire balance of cash and cash equivalents for the Group $9,982,666 is subject to interest rate risk. The weighted average interest rate received on cash and cash equivalents by the Group was 6.0%.

Sensitivity analysis

At 30 June 2011, if interest rates had changed by -/+ 100 basis points from the weighted average rate for the period with all other variables held constant, post-tax loss for the Group would have been $75,500 lower/higher as a result of lower/higher interest income from cash and cash equivalents.

(b) Credit risk

The Group has no significant concentrations of credit risk. The maximum exposure to credit risk at balance date is the carrying amount (net of provision for impairment) of those assets as disclosed in the statement of financial position and notes to the financial statements.

As the Group does not presently have any debtors, lending, significant stock levels or any other credit risk, a formal credit risk management policy is not maintained.

(c) Liquidity risk

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and ensuring sufficient cash and marketable securities are available to meet the current and future commitments of the Group. Due to the nature of the Group's activities, being mineral exploration, the Group does not have ready access to credit facilities, with the primary source of funding being equity raisings. The Board of Directors constantly monitor the state of equity markets in conjunction with the Group's current and future funding requirements, with a view to initiating appropriate capital raisings.

The financial liabilities of the Group are confined to trade and other payables as disclosed in the statement of financial position. All trade and other payables are non-interest bearing and due within 12 months of the reporting date.

(d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. All financial assets and financial liabilities of the Group at the balance date are recorded at amounts approximating their carrying amount due to their short term nature.

3. SEGMENT INFORMATION

For management purposes, the Group has identified only one reportable segment as exploration activities undertaken in West Africa. This segment includes activities associated with the determination and assessment of the existence of commercial economic reserves, from the Group's mineral assets in this geographic location.

Segment performance is evaluated based on the operating profit and loss and cash flows and is measured in accordance with the Group's accounting policies.

Exploration segment

30 JUNE 2011	Consolidated
	2011
	$
Segment revenue	-
Reconciliation of segment revenue to total revenue before tax:	
Interest revenue	453,730
Total revenue	453,730
Segment results	(2,656,289)
Reconciliation of segment result to net loss before tax:	
Other corporate and administration	(592,355)
Net loss before tax	(3,248,644)
Segment operating assets	3,342,441
Reconciliation of segment operating assets to total assets:	
Other corporate and administration assets	10,240,702
Total assets	13,583,143
Segment operating liabilities	187,048
Reconciliation of segment operating liabilities to total liabilities:	
Other corporate and administration liabilities	195,915
Total liabilities	382,963

4. REVENUE

From continuing operations	
Other revenue	
Interest	453,730

5. EXPENSES

30 JUNE 2011	Consolidated
	2011
	$
Loss before income tax includes the following specific expenses:	
Defined contribution superannuation expense	19,335
Minimum lease payments relating to operating leases	21,052
Net foreign exchange losses	5,345

6. INCOME TAX

(a) Income tax expense	
Current tax	-
Deferred tax	-
(b) Numerical reconciliation of income tax expense to prima facie tax payable	
Loss from continuing operations before income tax expense	(3,248,644)
Prima facie tax benefit at the Australian tax rate of 30%	(974,593)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:	
Share-based payments	35,265
Sundry items	362
	(938,966)
Movements in unrecognised temporary differences	(103,307)
Tax effect of current period tax losses for which no deferred tax asset has been recognised	1,042,273
Income tax expense	-
(c) Unrecognised temporary differences	
Deferred Tax Assets (at 30%)	
On Income Tax Account	
Sundry items	77,057
Capital raising costs	159,097
Carry forward tax losses	1,042,273
	1,278,427
Deferred Tax Liabilities (at 30%)	-

Net deferred tax assets have not been brought to account as it is not probable within the immediate future that tax profits will be available against which deductible temporary differences and tax losses can be utilised.

The Group's ability to use losses in the future is subject to the Group satisfying the relevant tax authority's criteria for using these losses.

7. CURRENT ASSETS - CASH AND CASH EQUIVALENTS

30 JUNE 2011	Consolidated
	2011
	$
Cash at bank and in hand	689,282
Short-term deposits	9,293,384
Cash and cash equivalents as shown in the statement of financial position and the statement of cash flows	9,982,666

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

8. CURRENT ASSETS - TRADE AND OTHER RECEIVABLES

Sundry receivables	320,260

9. NON-CURRENT ASSETS - PLANT AND EQUIPMENT

Plant and equipment	
Cost	488,952
Accumulated depreciation	(50,943)
Net book amount	438,009
Plant and equipment	
Opening net book amount	-
Exchange differences	(11,030)
Additions	500,935
Depreciation charge	(51,896)
Closing net book amount	438,009

10. NON-CURRENT ASSETS - MINING PROPERTIES

Tenement acquisition costs carried forward in respect of mining areas of interest	
Opening net book amount	-
Exchange variances	69,066
Capitalised tenement acquisition costs	2,773,142
Closing net book amount	2,842,208

The ultimate recoupment of costs carried forward for tenement acquisition is dependent on the successful development and commercial exploitation or sale of the respective mining areas.

11. CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

Trade payables	292,592
Other payables and accruals	90,371
	382,963

12. ISSUED CAPITAL

(a) Share capital

30 JUNE 2011			2011
	Notes	Number of shares	$
Ordinary shares fully paid	12(b), 12(d)	99,987,349	16,204,331
Total issued capital		99,987,349	16,204,331

(b) Movements in ordinary share capital

Beginning of the financial period	-	-
- Issued during the period:		
- Issued at incorporation	10	2
- Issued to Promoters	25,400,000	25,400
- Issued to seed investors	14,440,000	1,805,000
- Issued as consideration for tenement acquisition	10,147,339	2,536,835
- Issued at IPO for 25 cents per share	50,000,000	12,500,000
Less: Transaction costs	-	(662,906)
End of the financial period	99,987,349	16,204,331

(c) Movements in options on issue

	Number of options
	2011
Beginning of the financial period	-
Issued, exercisable at 25 cents, on or before 31 December 2014	250,000
Issued, exercisable at 25 cents, on or before 30 June 2015	15,000,000
Issued, exercisable at 37.5 cents, on or before 1 November 2013	450,000
Issued, exercisable at 37.5 cents, on or before 31 December 2014	250,000
Issued, exercisable at 50 cents, on or before 31 December 2014	250,000
End of the financial period	16,200,000

(d) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

(e) Capital risk management

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it may continue to provide returns for shareholders and benefits for other stakeholders.

Due to the nature of the Group's activities, being mineral exploration, the Group does not have ready access to credit facilities, with the primary source of funding being equity raisings. Therefore, the focus of the Group's capital risk management is the current working capital position against the requirements of the Group to meet exploration programmes and corporate overheads. The Group's strategy is to ensure appropriate liquidity is maintained to meet anticipated operating requirements, with a view to initiating appropriate capital raisings as required. The working capital position of the Group at 30 June 2011 is as follows:

30 JUNE 2011	Consolidated
	2011
	$
Cash and cash equivalents	9,982,666
Trade and other receivables	320,260
Trade and other payables	(382,963)
Working capital position	9,919,963

13. RESERVES AND ACCUMULATED LOSSES

(a) Reserves	
Foreign currency translation reserve	126,943
Share-based payments reserve	117,550
	244,493
Movements:	
Foreign currency translation reserve	
Balance at beginning of financial period	-
Currency translation differences arising during the period	126,943
Balance at end of financial period	126,943
Share-based payments reserve	
Balance at beginning of financial period	-
Option expense	117,550
Balance at end of financial period	117,550
(b) Accumulated losses	
Balance at beginning of financial period	-
Net loss for the period	(3,248,644)
Balance at end of financial period	(3,248,644)

(c) Nature and purpose of reserves

(i) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entities are taken to the foreign currency translation reserve, as described in note 1(d). The reserve is recognised in profit and loss when the net investment is disposed of.

(ii) Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of options issued.

14. DIVIDENDS

No dividends were paid during the financial period. No recommendation for payment of dividends has been made.

15. KEY MANAGEMENT PERSONNEL DISCLOSURES

30 JUNE 2011	Consolidated
	2011
	$
(a) Key management personnel compensation	
Short-term benefits	702,725
Post employment benefits	17,452
Other long-term benefits	-
Termination benefits	-
Share-based payments	63,075
	783,252

Detailed remuneration disclosures are provided in the remuneration report on pages 19 to 21.

(b) Equity instrument disclosures relating to key management personnel

(i) Options provided and shares issued on exercise of such options

Details of options provided and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in the remuneration report on page 21.

(ii) Option holdings

The numbers of options over ordinary shares in the Company held during the financial period by each director of Middle Island Resources Limited and other key management personnel of the Group, including their personally related parties, are set out below:

2011	Balance at start of the period	Granted as compensation	Exercised	Other changes	Balance at end of the period	Vested and exercisable	Unvested
Directors of Middle Island Resources Limited							
Peter Thomas	-	-	-	2,000,000	2,000,000	2,000,000	-
Richard Yeates	-	-	-	10,000,000	10,000,000	10,000,000	-
Beau Nicholls	-	-	-	2,500,000	2,500,000	2,500,000	-
Dennis Wilkins	-	-	-	500,000	500,000	500,000	-
Other key management personnel of the Group							
Andrew Chubb	-	750,000	-	-	750,000	750,000	-

All vested options are exercisable at the end of the period.

(iii) Shareholdings

The numbers of shares in the Company held during the financial period by each director of Middle Island Resources Limited and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

2011	Balance at start of the period	Received during the period on the exercise of options	Other changes during the period	Balance at end of the period
Directors of Middle Island Resources Limited				
Ordinary shares				
Peter Thomas	-	-	3,000,000	3,000,000
Richard Yeates	-	-	20,000,010	20,000,010
Beau Nicholls	-	-	2,900,000	2,900,000
Dennis Wilkins	-	-	500,000	500,000
Other key management personnel of the Group				
Ordinary shares				
Andrew Chubb	-	-	-	-

(c) Loans to key management personnel

There were no loans to key management personnel during the period.

(d) Other transactions with key management personnel

Services

DWCorporate Pty Ltd, a business of which Mr Wilkins is principal, provided company secretarial, bookkeeping and other corporate services to the Middle Island Group during the period. The amounts paid were on arms length commercial terms and are included as part of Mr Wilkins' compensation. At 30 June 2011 there was nil owing to DWCorporate Pty Ltd.

Mr Andrew Chubb is engaged through an executive service agreement to provide his services as Exploration Manager – West Africa to the Group during the period. The amounts paid were on arms length commercial terms and are included as part of Mr Chubb's' compensation. At 30 June 2011 there was $72,067 owing to Mr Chubb.

Mr Nicholls is a director and substantial shareholder of PowerXplor Limited, which owns Sahara Geoservices SARL. Sahara Geoservices provided drilling services to the Middle Island Group during the period. The amounts paid were on arms length commercial terms. At 30 June 2011 there was $117,000 owing to Sahara Geoservices.

16. REMUNERATION OF AUDITORS

During the period the following fees were paid or payable for services provided by the auditor of the Company, its related practices and non-related audit firms:

30 JUNE 2011	Consolidated
	2011
	$
(a) Audit services	
Somes and Cooke – audit and review of financial reports	25,000
Total remuneration for audit services	25,000
(b) Non-audit services	
Somes and Cooke – independent accountants report	7,150
Total remuneration for other services	7,150

17. CONTINGENCIES

There are no material contingent liabilities or contingent assets of the Group at balance date.

18. COMMITMENTS

(a) Exploration commitments

The Group has certain commitments to meet minimum expenditure requirements on the mining exploration assets it has an interest in. Outstanding exploration commitments are as follows:

30 JUNE 2011	Consolidated
	2011
	$
within one year	1,803,834
later than one year but not later than five years	6,987,956
	8,791,790
(b) Lease commitments: Group as lessee	
Operating leases (noncancellable):	
Minimum lease payments	
within one year	54,336
later than one year but not later than five years	88,733
Aggregate lease expenditure contracted for at reporting date but not recognised as liabilities	143,069

The property lease is a non-cancellable lease with a three-year term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require the minimum lease payments to increase in accordance with CPI movements on each annual anniversary of the commencement date. An option exists to renew the lease at the end of the three-year term for an additional term of two years. The lease allows for subletting of all lease areas.

(c) Remuneration commitments

Amounts disclosed as remuneration commitments include commitments arising from the service contracts of key management personnel referred to in the remuneration report on page 6 that are not recognised as liabilities and are not included in the key management personnel compensation.

within one year	366,945
later than one year but not later than five years	-
	366,945

19. RELATED PARTY TRANSACTIONS

(a) Parent entity

The ultimate parent entity within the Group is Middle Island Resources Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in note 20.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 15.

(d) Loans to related parties

Middle Island Resources Limited has provided unsecured, interest free loans to each of its wholly owned subsidiaries totalling $5,684,739 at 30 June 2011. Included in this total is a non-cash amount of $2,536,835 from the issue of 10,147,339 ordinary shares in the Company to Newmont as consideration for tenement acquisitions by Middle Island Resources – Burkina Faso Limited. An impairment assessment is undertaken each financial year by examining the financial position of the subsidiary and the market in which the subsidiary operates to determine whether there is objective evidence that the subsidiary is impaired. When such objective evidence exists, the Company recognises an allowance for the impairment loss.

20. SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

Name	Country of Incorporation	Class of Shares	Equity Holding[1] 2011 %
Middle Island Resources - Burkina Faso Limited[2]	Burkina Faso	Ordinary	100
Middle Island Resources – Liberia Limited[3]	Liberia	Ordinary	100

(1) The proportion of ownership interest is equal to the proportion of voting power held.
(2) On 7 October 2010, Middle Island Resources - Burkina Faso Limited was incorporated in Burkina Faso with Middle Island Resources Limited as the sole shareholder. Since incorporation the subsidiary has commenced exploration activities on the Group's tenements in Burkina Faso, West Africa.
(3) On 23 February 2011, Middle Island Resources - Liberia Limited was incorporated in Liberia with Middle Island Resources Limited as the sole shareholder. Since incorporation the subsidiary has commenced exploration activities on the Group's tenements in Liberia, West Africa.

21. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Since the end of the financial period the Company has acquired interests in additional mineral properties in Africa and, as a consequence has incurred or will incur exploration expenditure at an increased rate which exceeds (but is not inconsistent with the disclosure concerning) the burn rate suggested by the numbers appearing in the statement of intended use of funds appearing in the Company's prospectus dated 9 November 2010.

Noother matters or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial periods.,

22. STATEMENT OF CASH FLOWS

30 JUNE 2011	Consolidated
	2011
	$
(a) Reconciliation of net loss after income tax to net cash outflow from operating activities	
Net loss for the period	(3,248,644)
Non-Cash Items	
Depreciation of non-current assets	51,896
Share-based payments	117,550
Net exchange differences	68,907
Change in operating assets and liabilities	
(Increase) in trade and other receivables	(320,260)
Increase in trade and other payables	382,963
Net cash outflow from operating activities	(2,947,588)

(b) Non-cash investing and financing activities

During the financial period ended 30 June 2011, 10,147,339 ordinary shares were issued at a deemed cost of $2,536,835 as consideration for tenement acquisition. This amount has been capitalised as part of 'Mining properties' on the statement of financial position in accordance with the Group's accounting policy.

23. LOSS PER SHARE

	Number of shares
	2011
(a) Reconciliation of earnings used in calculating loss per share	
Loss attributable to the owners of the Company used in calculating basic and diluted loss per share	(3,248,644)
(b) Weighted average number of shares used as the denominator	
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted loss per share	58,388,386

(c) Information on the classification of options

As the Group has made a loss for the period ended 30 June 2011, all options on issue are considered antidilutive and have not been included in the calculation of diluted earnings per share. These options could potentially dilute basic earnings per share in the future.

24. SHARE-BASED PAYMENTS

(a) Options issued to employees

The Group provides benefits to employees (including directors) and contractors of the Group in the form of share-based payment transactions, whereby options to acquire ordinary shares are issued as an incentive to improve employee and shareholder goal congruence. The exercise price of the options granted range from 25 cents to 50 cents per option. All options granted have expiry dates ranging from 1 November 2013 to 31 December 2014.

Options granted carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share of the Company with full dividend and voting rights.

Set out below are summaries of the options granted:

30 JUNE 2011		
		Consolidated
		2011
	Number of options	Weighted average exercise price cents
Outstanding at the beginning of the financial period	-	-
Granted	1,200,000	37.5
Forfeited/cancelled	-	-
Exercised	-	-
Expired	-	-
Outstanding at year-end	1,200,000	37.5
Exercisable at year-end	1,200,000	37.5

The weighted average remaining contractual life of share options outstanding at the end of the financial period was 3.1 years, and the exercise prices range from 25 to 50 cents.

The weighted average "fair value" (not market value), of the options granted during the period was 9.8 cents. The price was calculated in accordance with Australian Accounting Standards by using the Black-Scholes European Option Pricing Model applying the following inputs. The Directors do not consider the resultant value as determined by the Black-Scholes European Option Pricing Model is in anyway representative of the market value of the share options issued :

	2011
Weighted average exercise price (cents)	37.5
Weighted average life of the option (years)	3.6
Weighted average underlying share price (cents)	27.3
Expected share price volatility	75%
Weighted average risk free interest rate	4.75%

Historical volatility has been used as the basis for determining expected share price volatility as it assumed that this is indicative of future trends, which may not eventuate.

The life of the options is based on historical exercise patterns, which may not eventuate in the future.

(b) Shares issued to suppliers

During the financial period ended 30 June 2011shares were issued as consideration for tenement acquisition (refer note 22(b).

(c) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period were as follows:

	Consolidated
	2011
	$
Options issued to employees as part of share-based payments	117,550

25. PARENT ENTITY INFORMATION

The following information relates to the parent entity, Middle Island Resources Limited, at 30 June 2011. The information presented here has been prepared using accounting policies consistent with those presented in Note 1.

30 JUNE 2011	2011
	$
Current assets	10,200,399
Non-current assets	5,725,042
Total assets	15,925,441
Current liabilities	195,916
Total liabilities	195,916
Contributed equity	16,204,331
Share-based payments reserve	117,550
Accumulated losses	(592,356)
Total equity	15,729,525
Loss for the year	(592,356)
Total comprehensive loss for the year	(592,356)

In the directors' opinion:

(a) the financial statements comprising the statements of comprehensive income, statements of financial position, statements of changes in equity, statements of cash flows and accompanying notes set out on pages 28 to 50 are in accordance with the Corporations Act 2001, including:

(i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the Company's and the consolidated entity's financial position as at 30 June 2011 and of their performance for the financial year ended on that date;

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

(c) the remuneration disclosures included in the Directors' Report (as part of the audited Remuneration Report), for the year ended 30 June 2011, comply with Section 300A of the *Corporations Act 2001;* and

(d) a statement that the attached financial statements are in compliance with International Financial Reporting Standards has been included in the notes to the financial statements.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001.*

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

Richard Yeates
Managing Director
Perth, 29 September 2011

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Somesand Cooke

Independent Auditor's Report
To the members of Middle Island Resources Limited

Report on the Financial Report

We have audited the accompanying financial report of Middle Island Resources Limited and controlled entities, which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and consolidated statement of cash flows for the period then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the period's end or from time to time during the financial period.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Kevin Somes FCA
John Cooke FCA ACIS

Julie Burns CA
Rochelle Rose CA CPP*

Chartered Accountants, Business Consultants and Financial Advisers

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Middle Island Resources Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

(a) the financial report of Middle Island Resources Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the period ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 5 to 7 of the directors' report for the period ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Middle Island Resources Limited for the period ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.

Somes and Cooke

Somes and Cooke

Kevin Somes
29 September 2011
Perth

Additional information required by Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 14 October 2011.

(a) Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

			Ordinary shares	
			Number of holders	Number of shares
1	–	1,000	16	10,804
1,001	–	5,000	71	242,692
5,001	–	10,000	106	872,299
10,001	–	100,000	358	13,790,658
100,001	–	and over	102	85,070,896
			653	99,987,349
The number of shareholders holding less than a marketable parcel of shares are:			21	16,525

(b) Twenty largest shareholders

The names of the twenty largest holders of quoted ordinary shares are:

		Listed ordinary shares	
		Number of shares	Percentage of ordinary shares
1	Quenda Investments Pty Ltd <Quenda S/F A/C>	16,000,000	16.00
2	Newmont Capital Pty Ltd	10,147,339	10.15
3	JP Morgan Nominees Australia Ltd <Cash Income A/C>	5,058,224	5.06
4	Diamantina Resources Pty Ltd <Yeates Fam A/C>	4,000,000	4.00
5	Thomas, P S + Goodwin, S A <Waterford Retirement>	3,000,000	3.00
6	Amazon Consultoria em Min	2,900,000	2.90
7	National Nominees Ltd	2,654,500	2.65
8	Citicorp Nominees Pty Ltd	2,485,700	2.49
9	HSBC Custody Nominees Australia Ltd	2,007,500	2.01
10	Rollason Pty Ltd <Giorgetta Super Pty Ltd>	1,810,000	1.81
11	HSBC Custody Nominees Australia Ltd	1,561,235	1.56
12	Macquarie Bank Ltd	1,500,000	1.50
13	Stanley, Ross Francis	1,500,000	1.50
14	Harbour, Seager Rex	1,327,500	1.33
15	Gryphon Partners Pty Ltd	1,200,000	1.20
16	Lomacott Pty Ltd <Keogh S/F A/C>	1,049,947	1.05
17	Stockwork Kal Pty Ltd <Stockwork Inv A/C>	1,000,000	1.00
18	Smith, Anthony G + T A <Ariel A/C>	940,000	0.94
19	Grimwood Nominees Pty Ltd	820,000	0.82
20	Pan Australian Nominees Pty Limited	820,000	0.82
		61,781,945	61.79

(c) Substantial shareholders

The names of substantial shareholders who have notified the Company in accordance with section 671B of the *Corporations Act 2001* are:

	Number of Shares
Quenda Investments Pty Ltd <Quenda S/F A/C>	16,000,000
Newmont Capital Pty Ltd	10,147,339
JP Morgan Nominees Australia Ltd <Cash Income A/C>	5,058,224

(d) Voting rights

All ordinary shares (whether fully paid or not) carry one vote per share without restriction.

(e) Schedule of interests in mining tenements

Location	Tenement	Percentage held / earning
Burkina Faso	Pouni II	100
Burkina Faso	Dassa	100
Burkina Faso	Didyr	100
Burkina Faso	Dassa Sud	100
Burkina Faso	Nebya	100
Burkina Faso	Bissou	100
Burkina Faso	Gossina	100
Burkina Faso (pending)	Nebya Sud	100
Burkina Faso (pending)	Tiogo	100
Niger	Dogona	90
Niger	Boulkagou	90
Niger	Nassile	70
Niger (pending)	Kakou	100
Liberia	Grand Gedeh	75
Liberia	Cestos South	100
Liberia	Cestos North	100
Liberia	Zwedru North	100
Liberia	Zwedru	100
Liberia	Putu	100

(g) Restricted Securities

The number of restricted securities on issue are:

Class	Number of Restricted Securities	Date Escrow Period Ends
Ordinary Fully Paid Shares	10,147,339	10 December 2011
Ordinary Fully Paid Shares	25,600,002	16 December 2012
Unlisted 25 cent Options, Expiry 30 June 2015	15,000,000	16 December 2012

(h) Unquoted Securities

Class	Number of Securities	Number of Holders	Holders of 20% or more of the class	
			Holder Name	Number of Securities
Fully Paid Ordinary Shares	35,747,341	7	Quenda Investments Pty Ltd	16,000,000
			Newmont Capital Pty Ltd	10,147,339
Unlisted 25 cent Options, expiry 30 June 2015	15,000,000	5	Quenda Investments Pty Ltd	8,000,000
Unlisted 37.5 cent Options, Expiry 1 November 2011	450,000	3	Ms K Manning	350,000
Unlisted 25 cent Options, Expiry 31 December 2014	250,000	1	Mr A Chubb	250,000
Unlisted 37.5 cent Options, Expiry 31 December 2014	250,000	1	Mr A Chubb	250,000
Unlisted 50 cent Options, Expiry 31 December 2014	250,000	1	Mr A Chubb	250,000
Unlisted 53 cent Options, Expiry 1 November 2014	200,000	1	Mr E Sarbah	200,000

(i) Use of Funds

The Company has used its funds in accordance with its initial business objectives.

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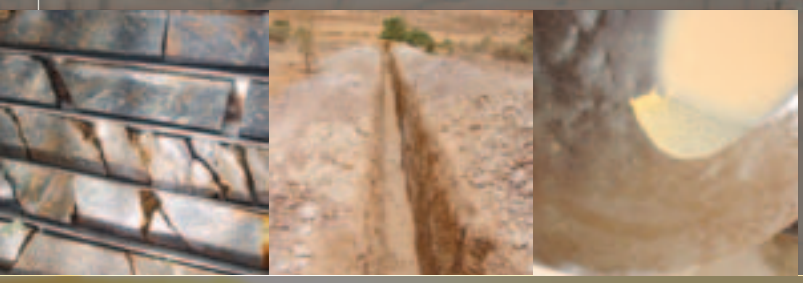

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