ANNUAL REPORT 2013

Middle Island
RESOURCES LIMITED

MIDDLE ISLAND
RESOURCES LIMITED
ABN 70 142 361 608

Annual Report
for the period ended
30 June 2013

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MANAGING DIRECTOR'S OVERVIEW

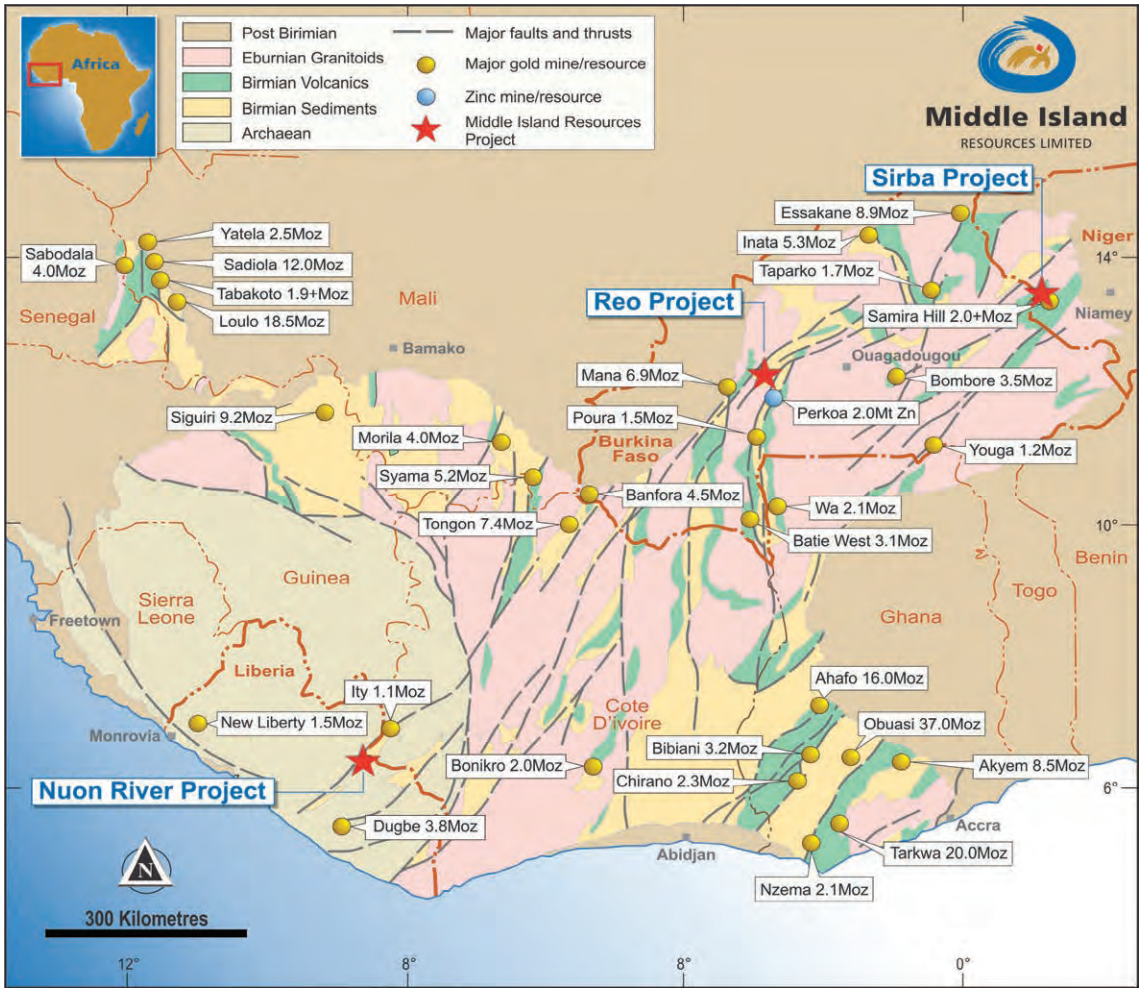
Dear Fellow Shareholders,

It gives me great pleasure to present Middle Island Resources' 2013 Annual Report, providing a summary of the past year's activities.

Middle Island has fared better than many of its immediate peers in 2012-13, despite another challenging year for junior resource equities. However, our share price at end FY13 is cold comfort to many investors, the Directors included. Irrespective of this your Company remains in a sound financial position, holding A$5.63 million in cash at balance date and no debt.

Although based on a significantly reduced exploration budget of A$4.7 million in FY13, Middle Island's focus has been on actively progressing exploration at the more advanced Reo and Sirba gold projects in Burkina Faso and Niger respectively, where we have made substantial progress in identifying and quantifying potential satellite resources and stand alone resource targets.

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



MANAGING DIRECTOR'S OVERVIEW

Companies can either choose to constantly lament the present market circumstances or can actively pursue opportunities of exceptional value that only ever arise in such markets. In addition to progressing exploration on the more advanced existing targets, your Company has been vigorously pursuing potential acquisition opportunities. This has been undertaken in a manner consistent with the Company's stated policy of seeking only value-add consolidations of existing exploration projects on the one hand or, alternatively, a more advanced asset on the other that has the potential to generate an early cash flow.

To this end we have evaluated over 50 of opportunities, with 95% failing to progress beyond an initial review. Of those that have progressed, the possible acquisition of a majority interest in the Samira Hill gold project in Niger presented as an outstanding opportunity. The Samira Hill Project, being located central to our extensive Sirba Gold Project permit interests, represents a clear consolidation opportunity for Middle Island. It also represents an advanced target with a processing plant, associated reserves, resources and exploration potential, and provides the means to process satellite deposits being progressively identified within our surrounding permits. Given the Samira Hill Project's potential to generate an immediate cash flow for your Company, the pursuit of this opportunity has justified the close attention and financial commitment of our team since it was first identified in February 2013. Since the Heads of Agreement with the vendor, SEMAFO Inc., was signed in May 2013, comprehensive technical, legal, financial and taxation due diligence reviews have been completed. The Company is continuing in its endeavour to secure necessary approvals from the Government of Niger to successfully conclude a transaction.

At the Sirba gold project in Niger we have, subsequent to the record date, defined a maiden Indicated and Inferred Resource of some 117,300oz gold at the Tialkam South Prospect, situated within the Tialkam permit only 12km from the Samira Hill processing plant, and confirmed an exploration target of some 185,800oz gold at the Sefa Nangue Prospect within the Deba permit, some 35km from Samira Hill. Feasibility drilling and studies are scheduled to commence on the Tialkam South and Sefa Nangue deposits as soon as the relevant permit extensions have been granted under Section 23 of the Niger Mining Code. In addition, a further nine potential satellite targets have been defined within a 35km radius of the Samira Hill processing plant. Of these, the Deba Hill and Deba Village prospects have been linked via auger drilling into a cohesive 7.5km long gold anomaly that represents a further priority target for bedrock drilling. The 10km long Kimba auger gold anomaly, located at the northern end of the Nassilé permit some 35km from Samira Hill, has been progressively infilled with auger drilling to a 200m x 100m pattern during the course of the 2012-13 field season. The results of a limited RC drilling program were pending at the record date.

At the Reo gold project in Burkina Faso your Company has confirmed the Madi Shear Zone at the K4/K5 Prospect as a significant resource target, albeit relatively low grade. This target has the potential to represent a resource of some 1-2Moz gold and the indicative metallurgical recoveries of 93%, 97% and 95%, in oxide transitional and primary zones respectively, are exceptional. We have also identified a further four smaller, higher grade, potential satellite targets at the K4/K5 Prospect. These lie within 4km of the main Madi Zone and are supplemented by the high grade Morley Prospect some 20km to the north.

Exploration activities on the Nuon River gold project in Liberia were reduced and ultimately suspended during the course of FY13. While ample exploration potential remains within the Nuon River Project, Liberia is the Company's most expensive jurisdiction and hosts its least advanced targets. As such, the Company has placed the project on care and maintenance and is endeavouring to secure an appropriate partner.

Middle Island has also consolidated and strengthened its mineral tenure during the year, having successfully negotiated a joint venture farm-in agreement with AMI Resources Inc. over the Deba, Tialkam and Boksay permits in Niger. These three permits effectively complete consolidation of the prospective Sirba Project tenure surrounding the Samira Hill gold mine, and host the recently defined Tialkam South resource and Sefa Nangue exploration target. Subsequent to the record date, your Company has negotiated both AMI Resources and its predecessor, Golden Star Resources Limited, to a royalty agreement on both the Deba and Tialkam permits, leaving Middle Island with a 100% interest in both. The Boksay permit continues as an earn-in JV with AMI Resources in isolation. At the Reo gold project in Burkina Faso, the final option payment on the Nebya permit was effected in March 2013. While a royalty still applies at Nebya, the payment leaves Middle Island with a 100% interest in the permit and indeed full ownership of the entire Reo Project tenure. Given present market circumstances, and the need to focus expenditure on key advanced targets, the Board elected to substantially reduce the Company's permit holdings in Liberia on the basis of the airborne geophysical and stream sediment survey results, and has withdrawn from the Grand Gedeh Joint Venture (JV) entirely.

The proposed exploration strategy and budget for the 2013-14 field season will be very much predicated on the success or otherwise of the Samira Hill acquisition. Statutory expenditure commitments on all Reo Project permits in Burkina Faso have been met for the next 18-36 months, providing considerable budget flexibility. Should the Samira Hill transaction prove successful, then an exploration budget of A$7.2 million will be dedicated to defining and upgrading resources, completing feasibility studies and permitting within both the Samira Hill and Sirba tenure in order to extend the Samira Hill production profile well beyond the existing 2-3 years reserves.

In the event that the Samira Hill transaction is unsuccessful, an alternative 2013-14 exploration budget of approximately A$3.9 million has been proposed. In this instance exploration will focus on the Sirba Project in order to achieve a similar outcome for the Tialkam South and Sefa Nangue resources, via possible toll milling through the Samira Hill plant once feasibility studies and permitting have been completed. Work at the Reo Project will continue to progress the K4/K5 and Morley targets via infill drilling and further metallurgical testwork, including investigation of the material's amenability to heap leach extraction as a less capital intensive development option.

Your Company also continues to advance its community development initiatives in line with its policy to dedicate up to 5% of its exploration expenditure towards building political and social capital. The benefits of this approach have again been demonstrated with the three main communities in the wider Sirba Project area advocating to the Niger Government on Middle Island's behalf in its ambition to secure an interest in the Samira Hill Project. At the record date, some 11 community development projects had been completed or initiated in all three of the Company's projects under the expert guidance of our preferred NGO, Eau Vive. Several of these programs involve external donors, including the Direct Aid Program (DAP) funding provided by the Australian High Commissions in Accra and Abuja, and Eau Sans Frontières in France.

Despite the persistent, negative equities market sentiment, Middle Island continues to recognise the importance of maintaining a positive public profile. To this end, we have been well represented at eight major international conferences during the year. We have also participated in several road-shows to Sydney, Melbourne, Hong Kong and London, and otherwise made numerous presentations to international institutions, resource funds, broking houses, and high net worth and retail investors.

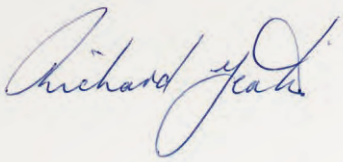
Four broking firms, Bell Potter Securities, PCF Capital, Argonaut Securities and RFC Ambrian, provide formal independent coverage of Middle Island, and the Company has also been featured in dozens of editorial articles in various respected print media and e-news platforms.

Middle Island continues to make significant progress towards its development and/or production ambitions. This is now progressing at a somewhat slower pace, with your Company remaining prudently cognisant of the present capital market and share price environment, and having little appetite for unnecessarily diluting shareholders without the promise of a near-term cash flow. While the AUD/USD exchange rate has eroded our exploration capacity to some extent, the West African service sector is now considerably more competitive in response to market circumstances, more than accommodating the differential.

I thank the Board and management team of Middle Island Resources for their dedication during the course of FY13. Not only did the Company successfully complete its planned exploration program, but we also delivered our maiden resource shortly after the record date. Similarly, the proposed Samira Hill acquisition has tested us on many fronts and spread our small team thinly over an extended period. In this respect, I particularly acknowledge Non-Executive Director, Mr Linton Kirk, who seamlessly stepped into the acting COO role to lead the technical due diligence and implementation teams in the acquisition process. Only someone of his extraordinary operational experience could have undertaken such a task so proficiently and I thank him sincerely for his dedication.

Last, but by no means least, I again thank all Middle Island Resources shareholders for your on-going support, loyalty, patience and understanding in what is a challenging environment for junior gold companies. Rest assured that the Board of Middle Island recognises and thoroughly appreciates these attributes and will always do everything in its power to consider and ultimately reward your valued contribution.

Yours faithfully,

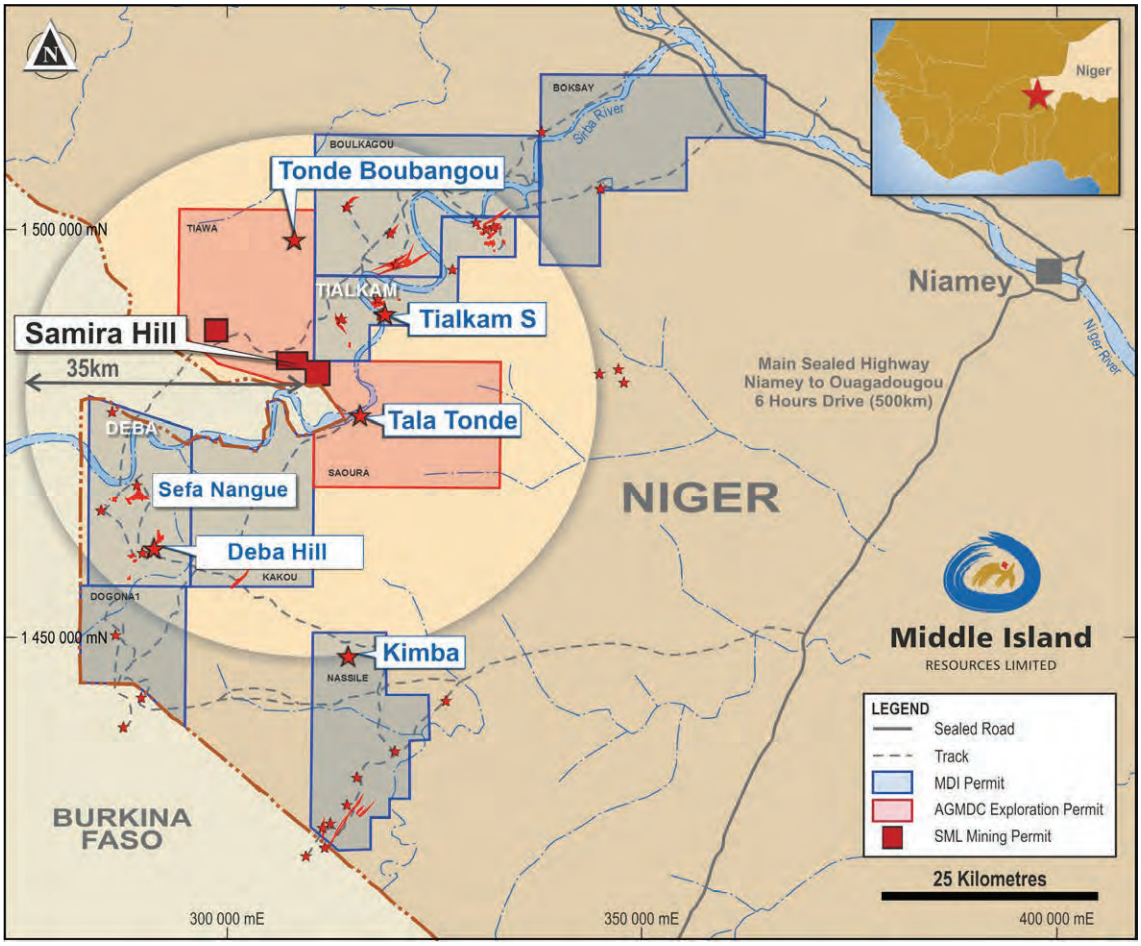


Rick Yeates
Managing Director

SIRBA GOLD PROJECT – NIGER

The Sirba gold project in Niger comprises an interest in seven semi-contiguous permits, extending over a 100km strike length from the Burkina Faso border in the southwest to the Niger River in the northeast (Figure 2). The project area of 1,916km² straddles the centrally located Samira Hill gold mine and processing plant, located approximately 100km west of the capital city of Niamey.

Figure 2. **The seven permits comprising the consolidated Sirba Project (blue) straddling the Samira Hill gold mine (red).**



Samira Hill Project Acquisition

Following extensive technical due diligence, on 18 July 2013 Middle Island announced the execution of a Heads of Agreement (HOA) to purchase an 80% interest in the Samira Hill gold mine, via the acquisition of all the shares in AGMDC (a wholly-owned indirect subsidiary of SEMAFO Inc.), which owns an 80% interest in Société des Mines du Liptako S.A. (SML), owner and operator of the Samira Hill gold project. The Government of Niger owns the remaining 20% interest in SML.

The then proposed purchase agreement comprised a cash payment of US$1.25 million and a net smelter return (NSR) royalty of 1.2%, payable on all production at or above a gold price of US$1,450/oz and capped at US$12 million.

The project includes 1.35Moz in reserves and resources (as at 31 December 2012), a 2Mtpa oxide CIL processing facility, grid power and 6MW back-up power station, tailings dam, 4ML process water reservoir, ancillary mobile fleet, mill spares, plant consumables, workshops, warehouses, 200 man camp and airstrip as shown in Figure 3 and Figure 4 below.

Figure 3. **Samira Hill gold processing plant and associated infrastructure.**

Figure 4. **Mining in the Libiri open pit at Samira Hill.**

Existing reserves represent approximately 2-3 years production at 40,000oz - 50,000oz per annum, potentially increasing to 80,000oz per annum over a mine life of >8 years if all Inferred resources are successfully converted to reserves, plus considerable exploration upside associated with the Tiawa and Saoura exploration permits.

Although the HOA expired on 30 September 2013 due to the inability of the parties to secure required Niger Government approvals and consents in time, Middle Island continues to vigorously pursue the acquisition of an interest in the Samira Hill Project.

Tialkam South Prospect

The Tialkam South gold prospect lies within the southern portion of the Tialkam permit, comprising part of the Sirba Project. The Tialkam South Prospect is located 12km northwest of the Samira Hill gold processing plant.

Mapping & Data Compilation

Detailed geological mapping and compilation of historic exploration data was completed at the Tialkam South Prospect during the 2012 December quarter. This work provided the basis for a reinterpretation of the geology to aid planning of an initial RC/diamond drilling campaign at the prospect.

Ground Geophysical Survey

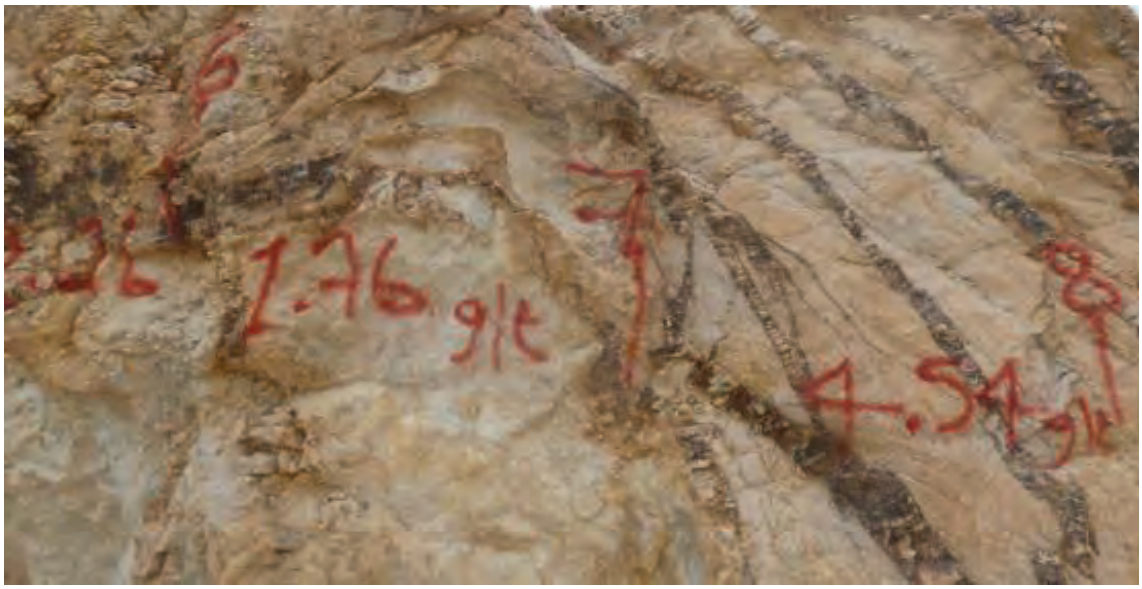
Assessment of historic exploration data at the Tialkam South Prospect identified a strong electrical conductivity contrast between the resistive mineralised porphyry and conductive enveloping sediments. In order to exploit this characteristic, Middle Island completed an induced polarisation ground geophysical survey over a 2km by 1km array to resolve the morphology, orientation and depth extent of the porphyries.

Along with compilation of historic drilling data and detailed mapping completed late in 2012, the ground geophysical survey enhanced planning of subsequent reverse circulation percussion (RC) resource drilling.

Channel Sampling

Prior to RC drilling, Middle Island completed a single, 15m long channel sample across a well exposed face of the main mineralised porphyry body at Tialkam South, as shown in Figure 5 below. The channel sampling results generated a consistently mineralised interval of **15m at 2.68g/t Au.**

Figure 5. **Portion of channel sampling traverse, showing sheeted to stockwork quartz veining within the porphyry host and 1m channel sample grades marked on the face.**



RC Drilling

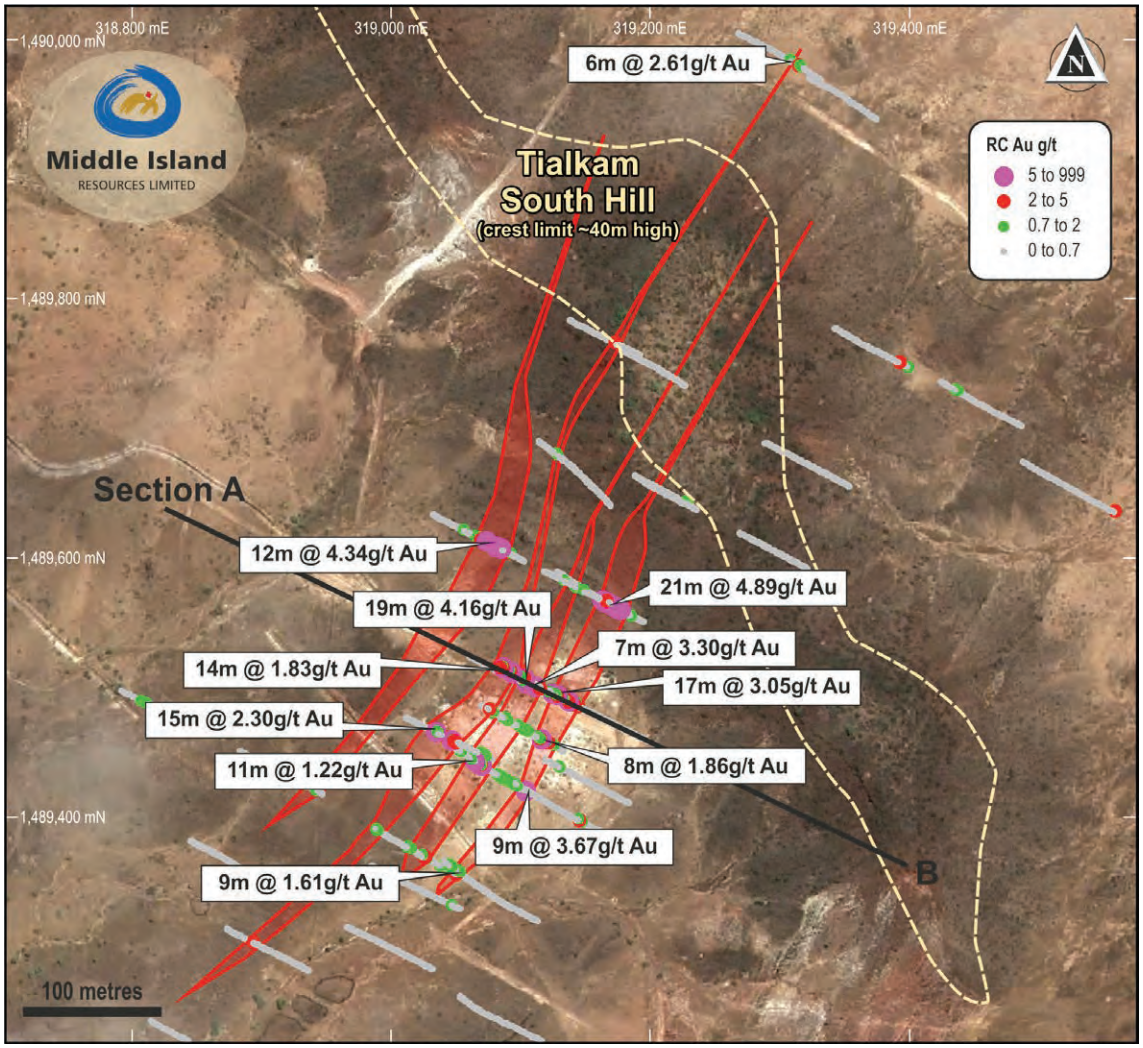
A maiden RC resource drilling program, comprising 37 holes (4,314m), was completed at the Tialkam South Prospect during the 2013 June quarter. Given the prospect's proximity to the Samira Hill gold mine, the program was designed to quantify an initial resource with a view to toll milling the material through the Samira Hill processing plant.

The extremely encouraging RC results returned from this program define a high grade zone <100m depth, over a 350m strike length, which remains open along strike and at depth. Better results from drilling include: **21m at 4.89g/t, 19m at 4.16g/t, 12m at 4.34g/t, 17m at 3.05g/t, 9m at 3.67g/t, 14m at 1.83g/t Au**, as reported on 20 June 2013.

Mineralisation comprises a series of tabular, sub-vertical zones (3m to 25m wide) of sheeted to stockwork quartz veining that strike northeast, predominantly hosted by a series of quartz-feldspar porphyry dykes, but extending into adjacent metasediments and metavolcanics. Drilling was oriented towards both the southeast and northwest in order to determine the extent of the porphyries and the grade of mineralised vein sets.

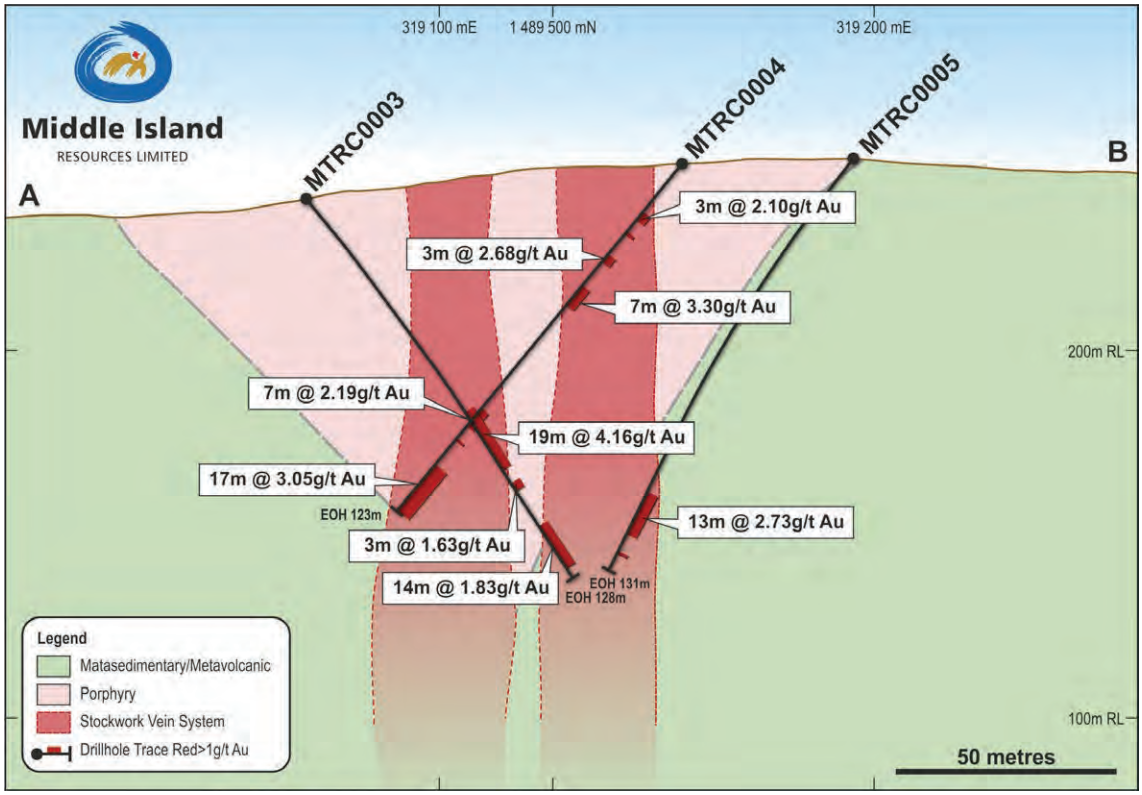
The RC drill-hole location plan and a schematic cross section are shown in Figure 6 and Figure 7 below.

Figure 6. **RC drill hole locations at the Tialkam South Prospect, with significant results highlighted.**



The drilling results are consistent with historic intercepts returned from the previous explorers at the prospect, which include: **8m at 4.57g/t, 18m at 4.89g/t (ending in mineralisation), 18m at 3.01g/t and 18m at 2.41g/t Au (ending in mineralisation).**

Figure 7. **Representative cross section from RC drilling at the Tialkam South Prospect.**



Resource Estimation (Post Record Date)

Andes Mining Services was commissioned by Middle Island to prepare a Mineral Resource estimate for the Tialkam South Prospect in accordance with the Joint Ore Reserves Committee (JORC) guidelines (2004) issued by the Australasian Institute of Mining and Metallurgy (AusIMM).

Indicated and Inferred Mineral Resources of **2.02Mt at 1.82g/t Au (0.7g/t lower cut-off grade) for a total of 117,300oz of gold** have been estimated, as displayed in Table 1.

Table 1. **Middle Island Resources – Tialkam South Prospect Indicated and Inferred Mineral Resource Grade Tonnage Report – 20 August 2013 (Block Model – 10mN X 5mE X 5mRL)**				
Material Type	**Cut-Off (Au g/t)**	**Tonnes**	**Au_Cut (g/t)**	**Ounces Au (oz)**
Indicated Resource Category				
Oxide	0.7	577,000	1.60	29,700
Transitional	0.7	191,000	1.45	8,900
TOTAL INDICATED RESOURCES		768,000	1.57	38,600
Inferred Resource Category				
Oxide	0.7	944,000	2.05	61,600
Transitional	0.7	306,000	1.74	17,100
TOTAL INFERRED RESOURCES		1,250,000	1.97	78,700
TOTAL INDICATED & INFERRED RESOURCES		2,018,000	1.82	117,300

Indicative Metallurgical Testwork (Post Record Date)

Middle Island collected a suite of composite RC samples, representative of all Tialkam South host rocks, alteration styles, oxidation states and grades, and submitted these to ALS Laboratories in Ouagadougou for preliminary cyanidation bottle roll tests to establish the material's indicative amenability to conventional CIL processing, consistent with the 2Mtpa Samira Hill gold plant.

Indicative average recoveries of **95% and 78%** were respectively returned from the oxide and transitional mineralisation. More comprehensive metallurgical testing will be undertaken during 2013-14 as part of the feasibility study.

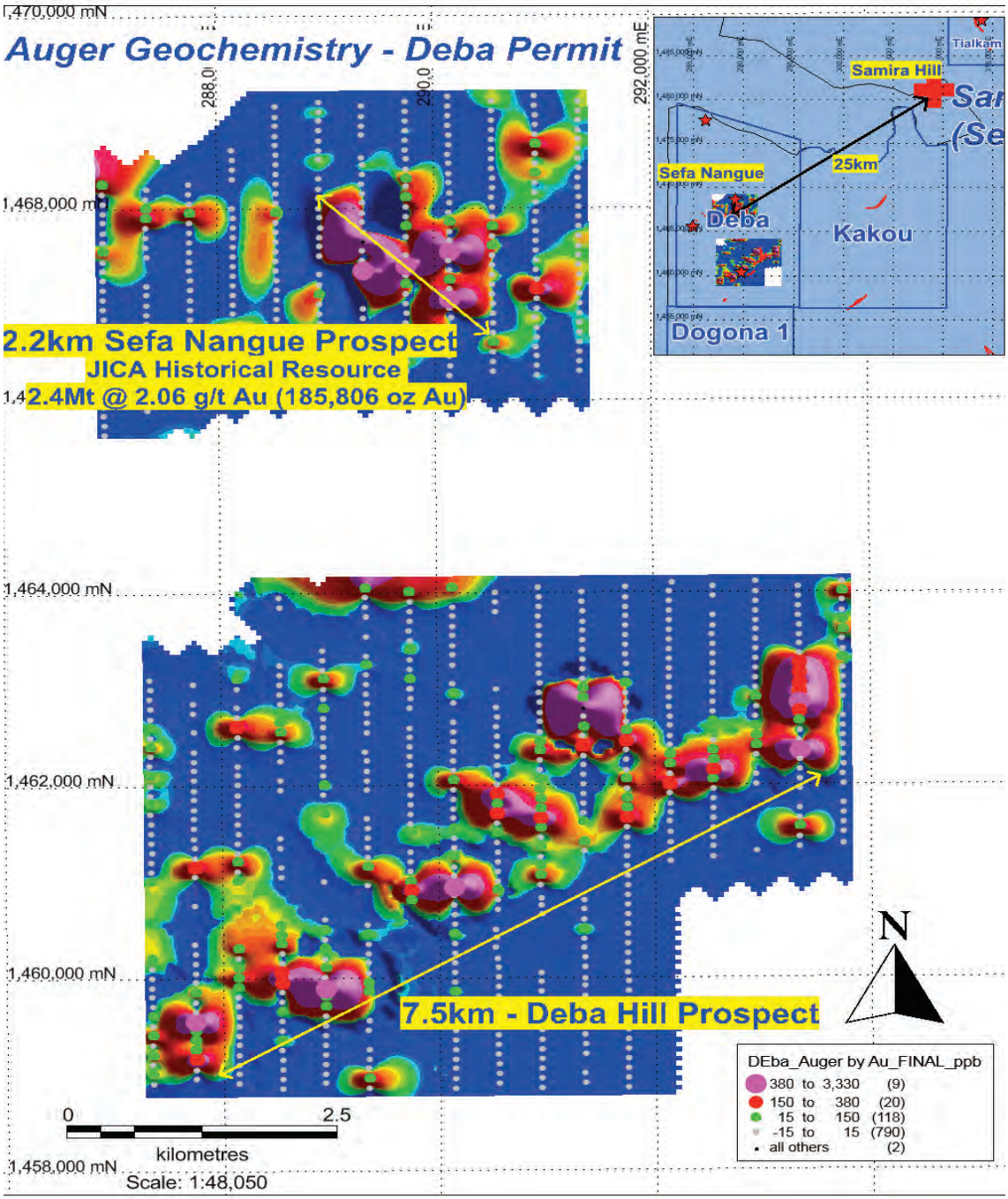
Deba & Sefa Nangue Prospects

The historic Deba and Sefa Nangue prospects lie within the Deba permit to the southwest of Samira Hill.

An auger drilling program (989 holes for 6,640m) was completed on a 400m x 100m grid over portions of the historic Deba Hill, Deba Village and Sefa Nangue prospects (Figure 8). Encouraging results were returned, particularly near the Deba Hill Prospect where peak values of 3,883ppb Au (3.8g/t Au) and 1,445ppb Au (1.45g/t Au) define two new mineralised trends. The Sefa Nangue Prospect also returned significant results, with a peak value of 1,958ppb Au (1.96g/t Au). The program, primarily designed to test geochemical extensions of known prospects, also succeeded in discovering previously unrecognised mineralised trends.

The Deba trend has been soil sampled by numerous prior explorers, but recent auger drilling is the first geochemical program that clearly connects the Deba Hill and Deba Village prospects along a 7.5km trend (with values >200ppb Au) that is coincident with a structure recognised from regional scale geophysics.

Figure 8. **Sefa Nangue and Deba Hill Prospect Auger Anomalies.**



Kimba Prospect

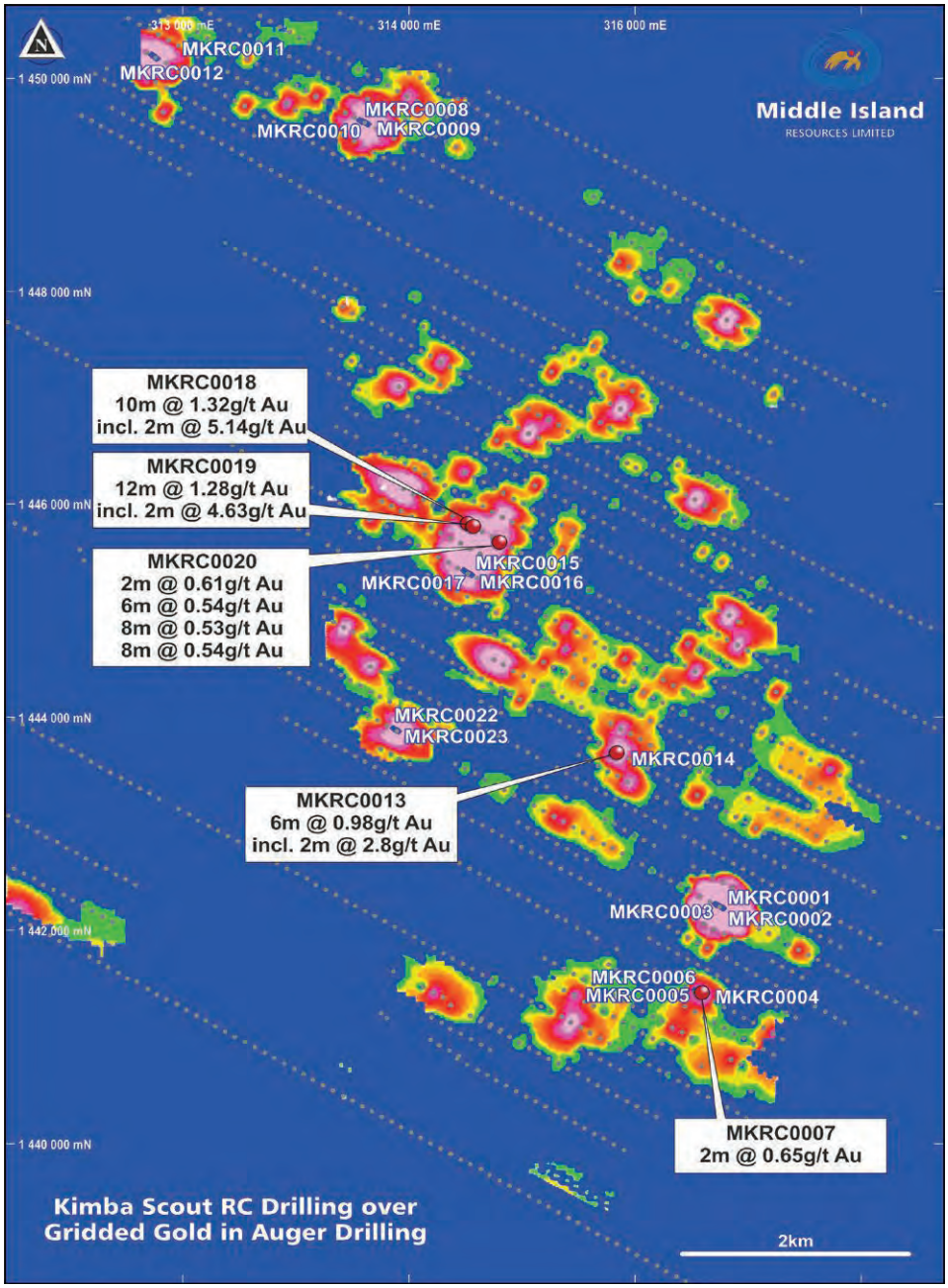
Auger Drilling

Stage 2 infill auger drilling on 200m x 100m spacing (954 holes for 6,230m) was completed over the 10km long, high tenor Kimba Prospect within the northern portion of the Nassilé permit during the year.

The Kimba target (Figure 9 below) occupies an expansive area, veneered by 7-9m of transported cover, lying between an intrusive contact to the west and a major, first order structure to the east. The gold tenor of the auger results is up to 3.2g/t Au, with numerous values exceeding 0.5g/t Au.

Progressive infill auger drilling has resulted in some discontinuity in the original broad scale anomaly (Figure 9), although individual targets are still evident on a kilometre scale.

Figure 9. **Imaged 200m spaced auger gold geochemistry and location of initial RC traverses completed to date at the Kimba Prospect within the Nassilé permit.**



RC Drilling

Twenty three (23) 60m deep reconnaissance RC holes were drilled over the best auger anomalies late in the field season. Results were pending at the record date.

Tenure

Nassilé Permit Interest to 70%

Early in FY13, following aggregate exploration expenditure of over US$2M on the Nassilé permit, Middle Island Resources earned its initial 70% interest in the Nassilé permit from minority partners First Graphite Corp. and Cassidy Gold Corp. While Cassidy immediately elected to revert to a royalty, a decision from First Graphite (now Desert Star Resources) has not been forthcoming and the matter is being arbitrated.

Kakou Permit Grant

The Company's 100%-owned Kakou permit application was formally granted on 6 July, 2012. The Kakou permit lies immediately northwest of the Nassilé permit and immediately northeast of the Dogona permit.

Niger-Burkina Faso Border Realignment

Independent arbitration by the International Court of Justice in The Hague to resolve the disputed border between Niger and Burkina Faso resulted in a realignment of the border that encroaches on what was understood to represent the undisputed sovereign territory of Niger, negatively impacting on the Nassilé (including parts of the Songonduari and Forbemi prospects) and, to a lesser extent, Dogona permits.

AMI Resources Inc. Farm-in Agreement

In October 2012 Middle Island executed an agreement with AMI Resources Inc. (AMI) (TSX-V:AMU) comprising an option for Middle Island to earn a 70% equity in AMI's interests in three granted exploration permits, being the Deba, Tialkam and Boksay permits, as shown in Figure 2.

AMI has been progressively earning a majority interest in the Deba and Tialkam permits from Golden Star Exploration Limited, a wholly-owned subsidiary of Golden Star Resources Limited (GSR) (TSX:GSC, US:GSS). The third permit, Boksay, is held 100% by AMI Africa Exploration Limited, a wholly-owned subsidiary of AMI.

Under the original agreement with AMI, Middle Island could earn a 70% interest in AMI's rights to all permits via staged exploration expenditure of US$2 million over a three year period. The three AMI permits cover a collective area of 799km^2.

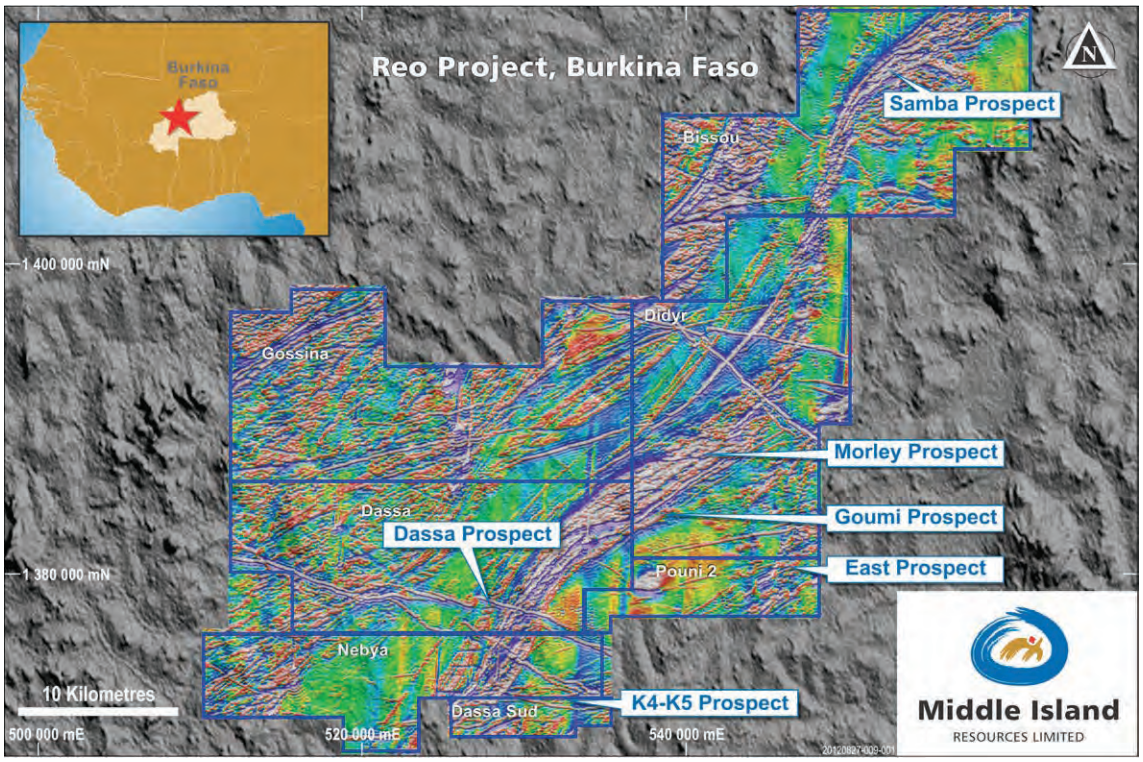
Subsequent to the record date, Middle Island negotiated AMI and GSR direct to a royalty interest on the Deba and Tialkam permits to effect a 100% interest in these permits. A residual royalty of 1.5% to each party remains, with a buy-out option of US$1.5M per company payable within 12 months of commencing production.

The JV agreement with AMI remains over the Boksay permit, where Middle Island has the right to earn up to a 70% interest.

REO GOLD PROJECT – BURKINA FASO

The Reo gold project in Burkina Faso comprises seven contiguous permits covering an aggregate area of 1,166km^2 lying approximately 150km west of the capital city of Ouagadougou. The project straddles a sinuous, northeast trending shear zone which runs for 50km strike kilometres down the southeast margin of the project area, providing an immediate focus for exploration (Figure 10 below).

Figure 10. **Reo Project permits and prospects superimposed on magnetic image.**



Diamond Drilling

A five-hole (723.5m) diamond drilling program was successfully completed at the K4/K5 gold prospect in the 2012 December quarter, with results received during the 2013 March quarter. The program involved the completion of one hole into each of five mineralised zones previously identified within the 6km diameter K4/K5 target area. The purpose of the drilling was to determine the nature, geology, geometry and alteration associated with each of these zones prior to infill RAB and pattern RC drilling.

Although designed to determine structural and stratigraphic orientations rather than grade, two of the more significant diamond drilling intercepts comprised **3m at 11.52g/t (incl. 1m at 31.9g/t) and 3m at 11.45g/t (incl. 1m at 23.2g/t) Au.**

Diamond drilling has confirmed the stratigraphic and structural orientations associated with the majority of mineralised zones and defined an extensive, 7km long, mineralised shear system (Madi Shear Zone) lying along the southeast margin of the K4/K5 target. This structure is coincident with a gold-potassium-arsenic geochemical anomaly returned from earlier auger drilling and appears to represent the locus of the K4/K5 mineralised system.

The diamond core from all holes is highly altered and, although holes are over 1km apart in some instances, the target appears to comprise an extensive, zoned alteration system, variously dominated by silica-pyrite at the axis, progressively transitioning outwards to sericite, chlorite and carbonate dominated assemblages, all of which are overprinted by quartz-carbonate veining.

RAB Drilling

A 4,916m (156 holes) infill RAB drilling program was completed over the K4/K5 and Samba targets during FY13. The infill RAB drilling at K4/K5 was designed to refine better mineralised zones defined during the 2011-12 field season. More significant results included **36m at 1.25g/t, 16m at 2.66g/t (incl. 12m at 3.23g/t), 20m at 1.65g/t (incl. 8m at 3.17), 8m at 4.68g/t (incl. 4m at 8.21g/t), 8m at 1.70g/t, 4m at 3.54g/t, 4m at 2.25g/t and 6m at 1.24g/t Au** as shown in Figure 13.

These results complement previously reported RAB and RC results of **18m at 2.51g/t (eoh), 13m at 2.23g/t (eoh), 4m at 16.2g/t, 4m at 14.0g/t, 12m at 4.11g/t, 8m at 2.25g/t, 20m at 1.73g/t, 4m at 8.54g/t, 18m at 1.59g/t and 4m at 12.2g/t** at the K4/K5 target.

Collectively the results define an open ended, 2.5km long zone of continuous gold mineralisation coincident with the major, northeast trending and southeast dipping Madi Shear Zone, lying along the southeast margin of the K4/K5 anomaly. This represents a significant potential 'stand-alone' resource target and confirms the primary focus for RC pattern drilling. This zone comprises part of a 7km long auger anomaly, providing ample scope to extend mineralisation along the structure.

A series of additional open-ended, sub-parallel mineralised zones, representing satellite targets that splay off the primary structure, account for the remaining significant drilling results returned from the K4/K5 target to date.

Preliminary Metallurgical Testwork

Preliminary bottle roll cyanidation testwork was completed on a suite of 17 individual samples derived from diamond core holes drilled at the K4/K5 Prospect in December 2012. The samples, which are representative of all oxidation states, rock types, gold grades and alteration styles, were prepared at a nominal grind-size of 80% passing 75 microns and subjected to standard 72 hour bottle roll tests, with cyanide solution readings taken at 12, 24, 36, 48 and 72 hour intervals.

Final solution readings (72 hours) against calculated head grades generated average indicative recoveries of **93%, 97% and 95%** from oxide, transitional and primary ore types respectively. Leach curves indicate that the majority of gold is extracted within the first 24 to 36 hours, with minor gold resorption noted in some subsequent solution readings, particularly in the oxide samples.

Excellent average gold recoveries ranging from **93% to 96%** were recorded across the four principal host rocks, being argillite, sandstone, basalt and granodiorite.

Similarly, average gold recoveries ranging from **92% to 99%** were returned from the full range of alteration styles, being silica-pyrite, sericite, chlorite and carbonate.

In the first instance these results provide considerable confidence that high gold recoveries can be anticipated from all K4/K5 material via conventional carbon-in-leach (CIL) processing. In the second instance the results indicate that a heap leach processing option may be worthy of consideration, representing a considerably lower development capital commitment, particularly if the defined mineralisation proves to be of lower average grade.

IP Ground Geophysical Survey

A trial 1km x 1km array induced polarisation (IP) ground geophysical survey was completed over a portion of the mineralised Madi Shear. The trial survey proved successful in delineating both the primary mineralised structure and one of the three main satellite zones comprising the K4/K5 target.

The success of this trial survey sponsored the commissioning of a further four IP arrays, covering the known 2.5km mineralised strike length of the Madi Shear and one satellite target to provide better resolution of specific mineralised zones prior to RC pattern drilling in the 2013 June quarter.

Results from the IP clearly define the major structural controls along the Madi Shear and identified a new parallel trend to the southeast. Figure 11 shows the chargeability and resistivity images, while Figure 12 shows the positive interference pattern between chargeability and resistivity, highlighting locations where the anomalies are coincident. The survey was completed by SAGAX and comprised 58 line kilometres of gradient array and 4 line kilometres of pole-dipole surveys.

The IP survey interpretation correlates well with prior drilling results and has significantly optimised the quantity of drilling required to fully assess the target.

Figure 11. **Completed chargeability (left) and resistivity (right) images at K4/K5.**

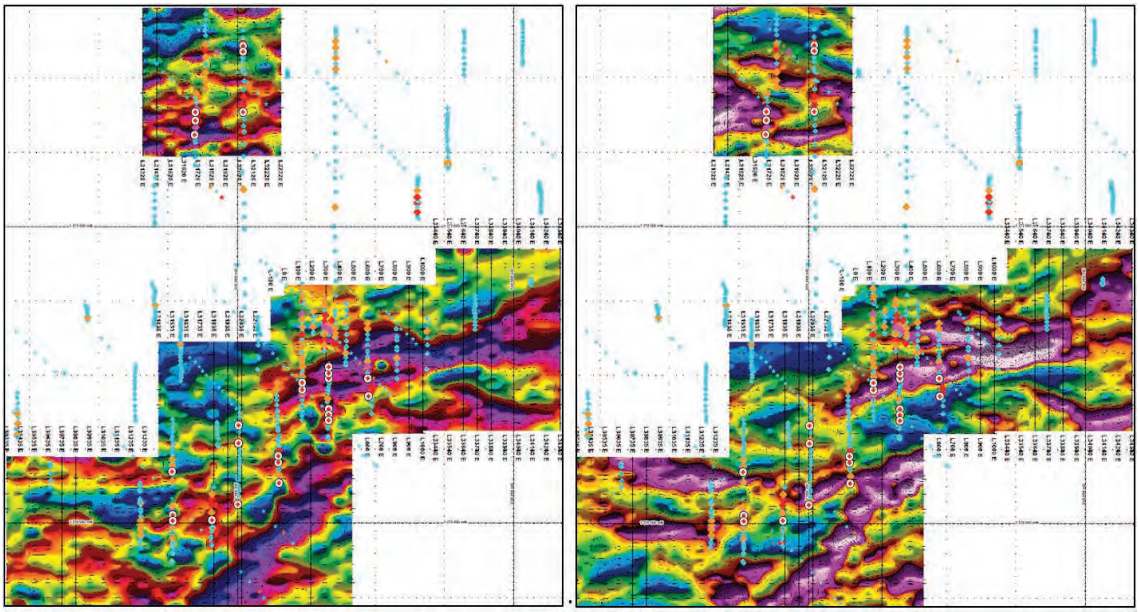
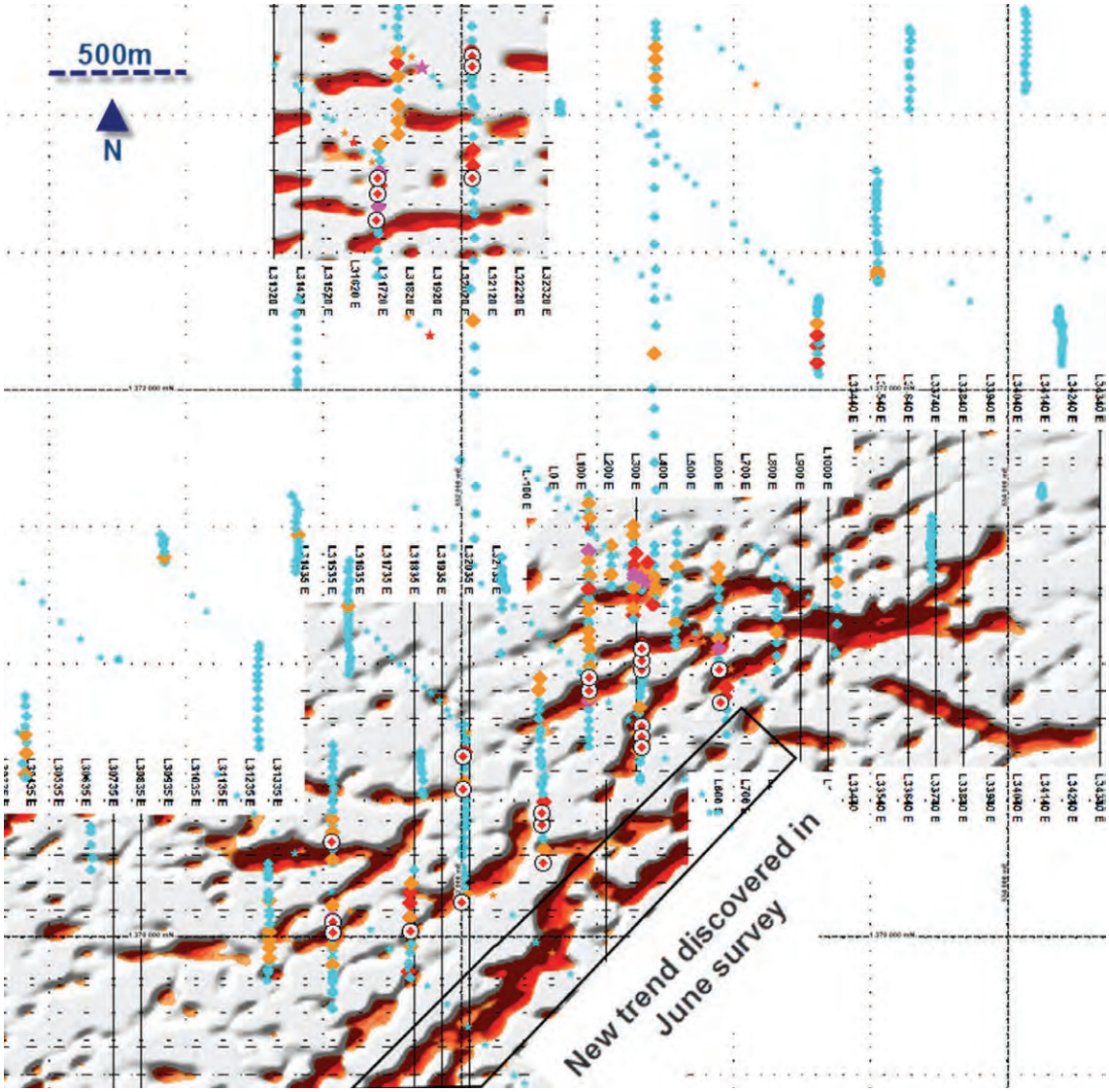


Figure 12. **Interference imag over the K4/K5 Prospect, combining resistivity and chargeability to highlight coincident anomalies. The survey has defined an untested trend to the southeast of previous drilling along the Madi Shear.**



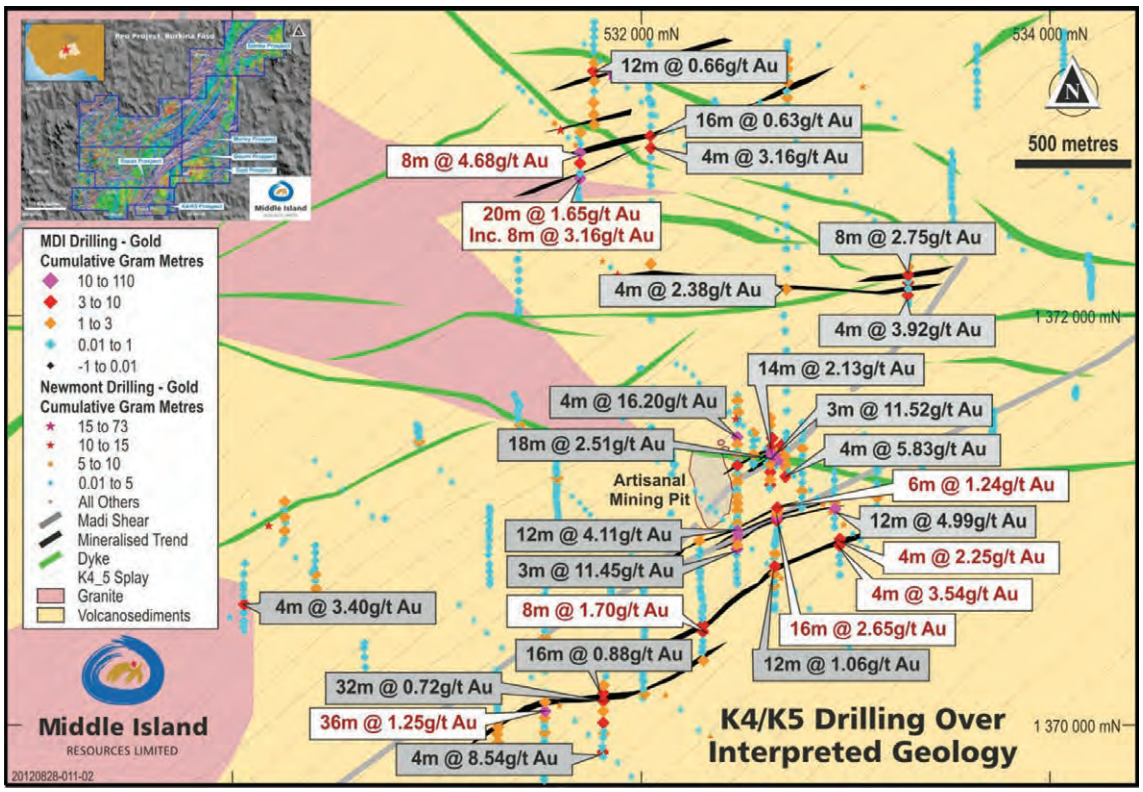
RC Drilling

Staged RC drilling at the K4/K5 Prospect has focussed on the open-ended, 2.5km long zone of continuous gold mineralisation coincident with the major, northeast trending and southeast dipping Madi Shear Zone. This target represents a significant potential 'stand-alone' resource target.

A 30 hole (2,848m) RC drilling program was successfully completed at the K4/K5 (26 holes) and Samba (4 holes) gold prospects. At the K4 Prospect the program comprised traverses along the known mineralised portion of the Madi Shear (refined by the IP survey), initially within the deep (up to 60m vertical) oxide profile. The program also included limited drilling of at least one further open-ended satellite target in the K5 area to the northwest.

RC results were pending at the record date and are being progressively compiled. Significant results from previous campaigns at K4/K5 include **16m at 2.66g/t (incl. 12m at 3.23g/t), 20m at 1.65g/t (incl. 8m at 3.17), 8m at 4.68g/t (incl. 4m at 8.21g/t), 4m at 3.54g/t, 4m at 2.25g/t, 18m at 2.51g/t (eoh), 13m at 2.23g/t (eoh), 4m at 16.2g/t, 4m at 14.0g/t, 12m at 4.11g/t, 8m at 2.25g/t, 20m at 1.73g/t, 4m at 8.54g/t, 18m at 1.59g/t and 4m at 12.2g/t Au**, as shown in Figure 13 below.

Figure 13. **Main 2.5km long mineralised zone, consistent with the Madi Shear, lying along the southeast margin of the K4/K5 Prospect.**



Tenure

Transfer of Nebya Permit

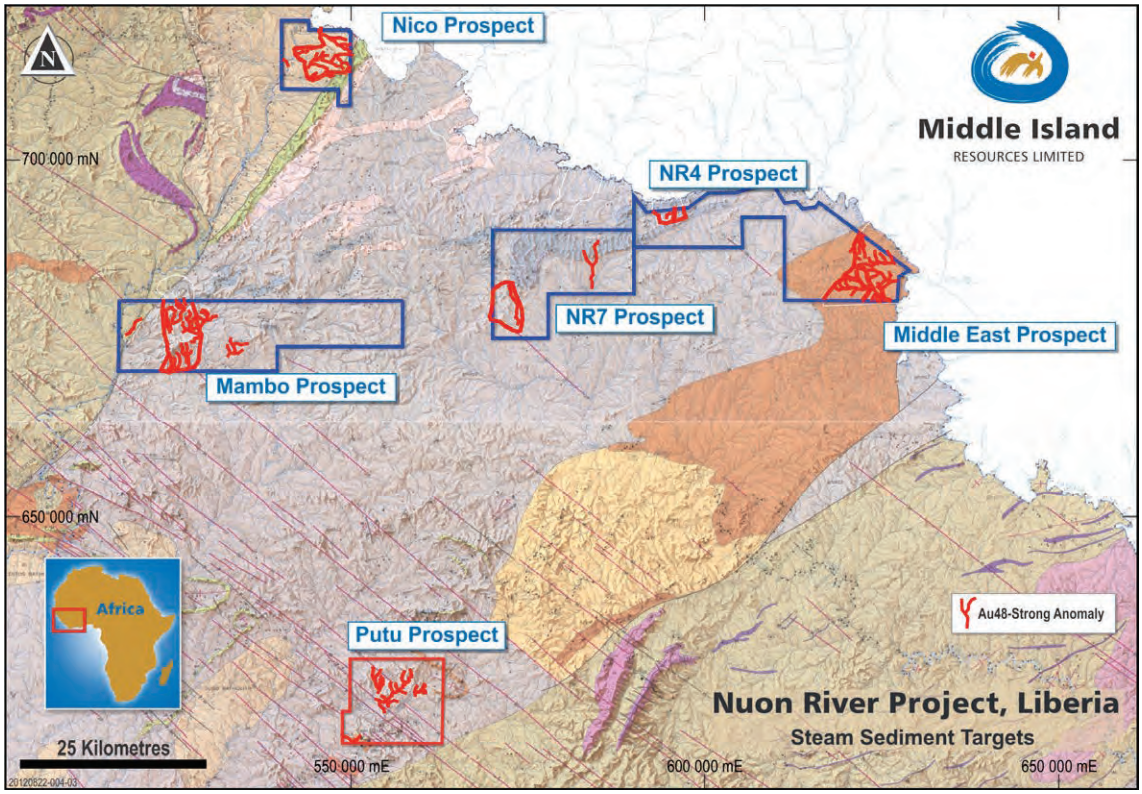
The final option payment of US$75,000 for the Nebya permit has been made to West African Mining to effect Middle Island's 100% ownership (subject to a royalty), and the permit is in the process of being transferred to Middle Island's name. The Nebya permit represents an integral part of the K4/K5 Prospect.

NUON RIVER GOLD PROJECT – LIBERIA

The Nuon River gold project in Liberia comprises five exploration permits covering an aggregate area of 1,135km^2, predominantly situated within Grand Gedeh County, some 275km east of the capital city Monrovia, as shown in Figure 14 below.

Middle Island has minimised all exploration activities and expenditure in Liberia during FY13 to ensure that permits are maintained in good standing. The Nuon River Project hosts the Company's least advanced targets, in its most expensive jurisdiction, and opportunities to divest the project are being actively pursued.

Figure 14. **Nuon River Project Permits.**



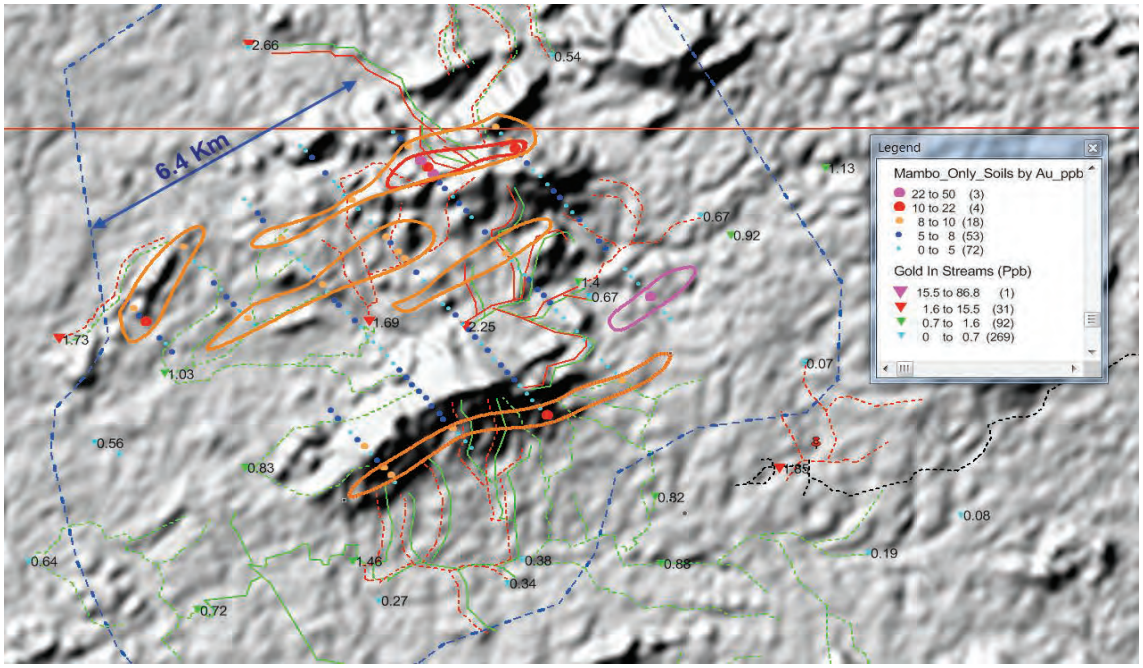
Infill Stream Sediment Sampling

A total of 150 infill stream sediment samples, including thirteen field duplicates and six replicate samples were collected over five permit areas during FY13. The samples were assayed by Intertek-Genalysis in Perth and results were interpreted by consulting geochemist, Stan Harrison, who completed the initial drainage sampling interpretation. The final anomalies are shown on Figure 14, with the Middle East and Mambo targets being the clear priorities.

Reconnaissance Soil Sampling

Reconnaissance soil sampling on 800m spaced lines has been completed over the source of the Mambo stream sediment anomaly within the Cestos South permit. The results are interpreted to define a series of parallel, northeast trending gold anomalies up to 6km in length, as shown in Figure 15.

Figure 15. **Contoured gold soil sample results over the digital terrain model at the Mambo Prospect.**



Tenure

Environmental Permits

The outstanding environmental permits for the Zwedru North and Putu licences were finally issued early in the 2013 June quarter.

Permit Area Reductions

Middle Island has completed area reductions for all its 100% owned permits in Liberia on the basis of the airborne geophysical and stream sediment sampling results, significantly reducing future statutory expenditure obligations and permit fees prior to renewal, as shown in Figure 14.

Grand Gedeh Joint Venture

Consistent with the Company's approach to minimising exploration expenditure in Liberia, the on-going uncertainties surrounding the status of the permit, and having tested all key targets within the joint venture area, Middle Island elected to withdraw from the Grand Gedeh JV.

The revised aggregate permit area for the Nuon River Project is 1,135km^2.

SAFETY & ENVIRONMENTAL PERFORMANCE

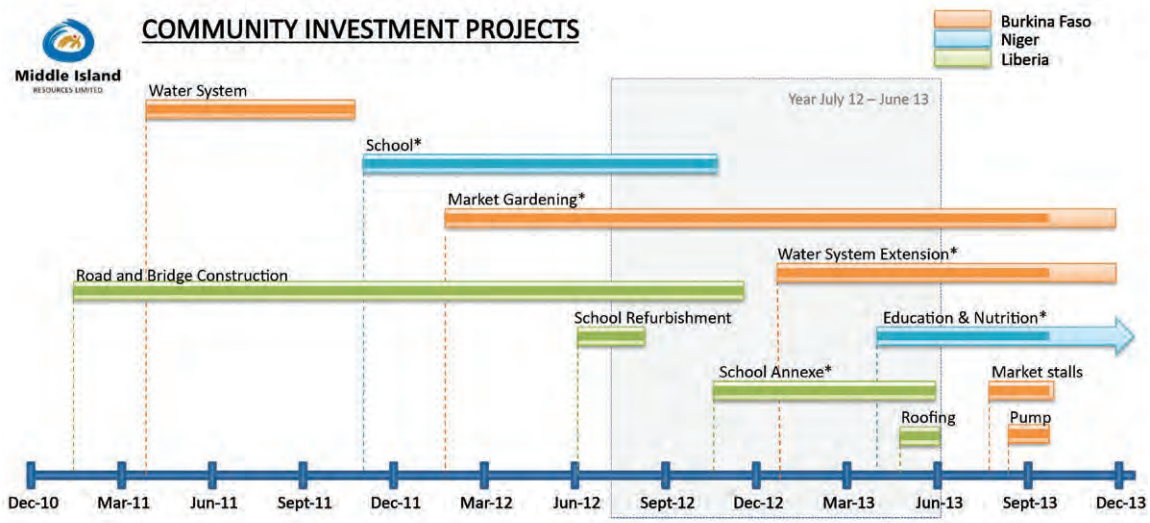
Aside from occasional cases of malaria during the monsoon season, no lost time injuries (LTIs), medically treated injuries (MTIs) or safety incidents were recorded at the Company's projects during the year.

Similarly, Middle Island is pleased to advise that there were no environmental incidents reported from the Company's projects during the year.

COMMUNITY DEVELOPMENT

Alongside its exploration activities, Middle Island has continued to actively implement its policy of dedicating up to 5% of the exploration budget to community development initiatives across the three jurisdictions as shown in Figure 16. Working in partnership with local authorities and NGOs, the Company seeks to support actions in line with local development priorities while building local capacities and involving all stakeholders.

Figure 16.



* Designates projects where supplementary Australian Government funding applies

In **Liberia** education has been a development priority since the end of the civil war. The Company worked with County authorities and local stakeholders to improve education conditions in two of the main towns where Middle Island had a significant presence. In Zai Town, the construction of an annexe for the local high school was accompanied by six months of social mobilisation activities coordinated by a local NGO including a campfire night, a workshop on local development (Figure 17), focus group discussions and a football tournament.

Figure 17. **Local community leaders and representatives mapping their towns during the workshop on local development.**

In **Burkina Faso**, the project to support market gardeners in the Commune of Dassa completed a full vegetable-producing season with very positive results (Figure 18). The local producer umbrella organisation successfully managed the revolving fund for seeds and inputs and is ready for the next season. Two of the cooperatives that benefitted from the installation of demonstration drip irrigation systems are planning to invest to extend the system for next season.

The water supply system in Pouni-Nord has benefitted from an extension of the network. Training of the local authorities, the local water user association and management committee will be on-going to December 2013.

Figure 18. **Xavier Badiel had a bumper crop of onions thanks to the drip irrigation and wants to expand the irrigated area next season.**

In **Niger** the construction of a three-classroom school was successfully completed in Koutougou (Figure 19). The theme of education is being continued with the launch of a project to construct more classrooms in conjunction with the development of school vegetable gardens to supplement school operating funds.

Middle Island approaches these projects as partnerships, working closely with the local stakeholders, local construction companies and NGOs to build sustainable results. This includes welcoming other development partners who wish to contribute to these projects, enabling their impact to be widened and increased. Under the AAMIG initiative, the Australian Government Direct Aid Programme, managed by the Australian High Commissions in Accra and Abuja, has been a valued partner in these projects.

Figure 19. **The principal and the students are delighted with the new classrooms which are bright and airy with proper desks and chairs.**

Competent Persons Statement

Information in this report relates to exploration results or mineral resources that are based on information compiled by Mr Rick Yeates (Member of the Australasian Institute of Mining and Metallurgy) and Mr Beau Nicholls (Member of Australian Institute of Geoscientists).
Mr Yeates and Mr Nicholls are both fulltime employees of Middle Island and have sufficient experience which is relevant to the style of mineralisation and type of deposits under consideration and to the activities undertaken to qualify as Competent Persons as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Yeates and Mr Nicholls consent to the inclusion in the release of the statements based on their information in the form and context in which they appear.

Please note with regard to exploration targets, the potential quantity and grade is conceptual in nature, that there has been insufficient exploration to define a Mineral Resource and that it is uncertain if further exploration will result in the determination of a Mineral Resource.

Qualified Person's Statement

The estimates of mineral reserves and resources were estimated as at December 31, 2012, the whole in accordance with the provisions adopted by the Canadian Institute of Mining Metallurgy and Petroleum and incorporated into NI 43-101. These reserve and resource estimates from Samira Hill Mine were reviewed and approved by, Mr. Michel A. Crevier, P. Geo, MScA, Vice-President Exploration and Mining Geology, Semafo's "qualified person" (as defined in NI 43-101).

Forward Looking Statements

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

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

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

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 year ended 30 June 2013.

DIRECTORS

The names and details of the Company's directors in office during the year 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)

Mr Thomas was a practising solicitor from 1980 until June 2012 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. He is non-executive director of ASX-listed Image Resources NL, Meteoric Resources NL, Emu NL and Middle Island Resources Limited. Within the last 2 years he served as a non-executive director of ASX listed Magnetic Resources NL – he resigned that position 16 July 2013.

Richard Yeates, (Managing Director)

Mr Yeates is a geologist whose professional career has spanned more than 30 years, initially 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 30 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 was also responsible for developing and overseeing all marketing and promotional activities undertaken by RSG, RSG Global and Coffey Mining over a 23 year period.

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).

Beau Nicholls, (Technical Director)

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)

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)

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 have 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. Within the last 3 years Mr Wilkins has also been but no longer is a director of Enterprise Metals Limited and Minemakers Limited.

COMPANY SECRETARY

Dennis Wilkins

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	3,200,000	2,000,000[1]
Richard Yeates	20,000,010	10,000,000[1]
Beau Nicholls	2,900,000	2,500,000[1]
Linton Kirk	380,000	300,000[2]
Dennis Wilkins	500,000	500,000[1]

[1] Exercisable at 25 cents, on or before 31 December 2014.
[2] Exercisable at 56 cents, on or before 15 December 2014.

PRINCIPAL ACTIVITIES

During the year the Group carried out exploration on its tenements, reviewed tenement (including in the later part of the year a gold mine) opportunities and applied for or acquired additional tenements with the primary objective of identifying economic gold deposits. It is not the objective of the Group to explore for or seek to identify other economic mineral deposits albeit the Group reserves the right to follow up leads (thrown up by its gold exploration activities) for other commodities where the Board of the Company considers that doing so may add value.

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

The Group began the financial year with a cash reserve of $12,959,058. Funds were used to advance and accelerate programmes on the Group's advanced gold exploration properties projects in West Africa, particularly those in Niger and Burkina Faso, where the Company was drilling significant resource targets, and for general working capital.

During the year, total exploration expenditure incurred by the Group amounted to $5,282,815 (2012: $5,711,639). In line with the Group's accounting policies, all exploration expenditure, other than acquisition costs, were written off as they were incurred. Other expenditure incurred, net of revenue, amounted to $1,671,341 (2012: $1,481,592). This resulted in an operating loss after income tax for the year ended 30 June 2013 of $6,954,156 (2012: $7,193,231).

At 30 June 2013 cash assets available totalled $5,631,116.

Operating Results for the Year

Summarised operating results are as follows:

	2013	
	Revenues $	Results $
Revenues and losses for the year from ordinary activities before income tax expense	400,593	(6,954,156)

Shareholder Returns

	2013	2012
Basic loss per share (cents)	(5.6)	(6.8)

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.
- A risk matrix designed to identify and quantify the various risk factors and implement mitigating strategies accordingly.

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 year.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

No matters or circumstances, besides those disclosed at note 21, have arisen since the end of the year 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

As mentioned elsewhere in this report, announced to the market via the ASX Company Announcements Platform, reported in various press articles (both online and paper format) and trade magazines and also the subject of broker notes to clients and investors generally, the Group has entered into a heads of agreement to acquire the Samira Hill Gold Mine. Although indeterminate at the date of this report, and subject to future events which might affect the eventual outcome and which are unable to be anticipated, the directors consider the completion of the Proposed Acquisition a possible development. If that transaction does indeed close, the expected results therefrom are dependent on market influences, operational ability, weather and environmental conditions and many other factors, many of which are outside of the Group's control. The likely result is increased revenues and costs, increased cash flows, greater fluctuations in cash balances, creditors, debtors and working capital. The extent to which the development will result in a profit, a loss, positive or negative cashflow is unable to be predicted at this stage with any accuracy or certainty. Very specific risks include but are by no means limited to:

(i) the grade of the remaining reserves (the subject of the acquisition) is low at 1.25g/t Au, with metallurgical recoveries being relatively low, estimated at 80%;

(ii) the mine is not profitable at a gold price less than of ~US$1,200/oz;

(iii) the mine has to be placed in "suspension" if it goes into a phase of care and maintenance, for any reason (including the gold price falling below ~US$1,200/oz), then the infrastructure, plant and equipment will be exposed to heightened security risks.

Additionally, if the Group does indeed complete the proposed acquisition, the Placement referred to in note 21 will also complete, the result of which will be an increase of cash reserves of $5 million, an increase in shareholder equity of the same amount, the Company gaining new shareholders and certain existing shareholders increasing their shareholdings (including the directors). The directors have also announced a conditional intention to conduct a share purchase plan to raise up to an additional $3 million.

Apart from the above, there are no expected substantive changes 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 year 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 key management personnel objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific short term and 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 key management personnel to run and manage the Group.

The remuneration policy, setting the terms and conditions for the executive directors and other senior executives (if any), 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 of Australia, which was 9% for the 2013 financial year (9.25% effective 1 July 2013) but are not entitled to 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 Black Scholes methodology.

The board's policy is to remunerate non executive directors at market rates for comparable companies for time, commitment and responsibilities, albeit that the non-executive directors are currently remunerated at the lower end of the market rate range. 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 has issued performance based remuneration to Mr A Chubb, Exploration Manager – West Africa, in the form of options. Mr Chubb's options have been issued to him but do not vest until certain hurdles have been met. The hurdles are based around the Company obtaining an interest in JORC mineral resources of certain levels within certain prescribed time periods. These hurdles could either be met by successful exploration or project acquisition. No amount has been brought to account for the 2013 financial year as the options have not yet vested.

Company performance, shareholder wealth and key management personnel remuneration

No relationship exists between shareholder wealth, key management personnel remuneration and Group performance.

Use of remuneration consultants

The Group did not employ the services of any remuneration consultants during the financial year ended 30 June 2013.

Voting and comments made at the Company's 2011 Annual General Meeting

The Company received approximately 99% of "yes" votes on its remuneration report for the 2012 financial year. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

Details of remuneration

Details of the remuneration of the directors and the key management personnel of the Group are set out in the following table.

The key management personnel of the Group include only the directors as per page 24.

Key management personnel of the Group

	Short-Term		Post Employment		Share-based Payments	Total
	Salary & Fees	Non Monetary	Superannuation	Retirement benefits		
	$	$	$	$	$	$
Directors						
Peter Thomas						
2013	58,104	-	5,229	-	-	63,333
2012	55,046	-	4,954	-	-	60,000
Richard Yeates						
2013	300,000	-	27,000	-	-	327,000
2012	300,000	-	27,000	-	-	327,000
Beau Nicholls						
2013	199,133	-	-	-	-	199,133
2012	196,200	-	-	-	-	196,200
Linton Kirk [1]						
2013	40,000	-	3,600	-	-	43,600
2012	29,167	-	2,625	-	55,590	87,382
Dennis Wilkins [2]						
2013	-	-	-	-	-	-
2012	-	-	-	-	-	-
Total key management personnel compensation						
2013	597,237	-	35,829	-	-	633,066
2012	580,413	-	34,579	-	55,590	670,582

[1] Kirk Mining Consultants Pty Ltd, a business of which Mr Kirk is principal, provided mining consulting services to the Middle Island Group during the year. The amounts paid were on arms' length commercial terms and amounted to $30,075 (2012: nil) for the year to 30 June 2013.

[2] Mr Wilkins is not remunerated for his role as alternate director, however, a total of $223,355 (2012: $176,982) was paid to DWCorporate Pty Ltd, a business of which Mr Wilkins is principal. DWCorporate Pty Ltd provided company secretarial, accounting and bookkeeping services to the Group during the year. The amounts paid were at usual commercial rates with fees charged on an hourly basis.

Service agreements

Richard Yeates, Managing Director:

- Term of agreement – Commencing 2 March 2010 until terminated.
- 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 months' notice in writing, or by Mr Yeates giving 3 month's written notice, or applicable shorter periods upon breach of contract by either party. No benefits are 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.
- Annual salary of $196,200 from the beginning of the financial year increased to $205,000 effective 1 March 2013, inclusive of superannuation and exclusive of GST. 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 months' notice in writing, or by Mr Nicholls giving 3 months' written notice, or applicable shorter periods upon breach of contract by either party. No benefits are 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 company secretarial, accounting and bookkeeping services. Fees are charged on an hourly basis, and all amounts are included in Mr Wilkins' remuneration.

Share-based compensation

Options may be issued to key management personnel as part of their remuneration. The Group has a formal policy in relation to the key management personnel limiting their exposure to risk in relation to the securities which actively discourages key management personnel from granting mortgages over securities held in the Group.

There were no options granted to or vesting with key management personnel during the year.

End of audited section

DIRECTORS' MEETINGS

During the year the Company held nine meetings of directors. The attendance of directors at meetings of the board were:

			Committee Meetings		Committee Meetings	
	Directors Meetings		Audit		Remuneration / Risk / Nomination	
	A	B	A	B	A	B
Peter Thomas	9	9	1	2	1	1
Richard Yeates	9	9	2	2	1	1
Beau Nicholls	9	9	*	*	1	1
Linton Kirk	9	9	2	2	1	1
Dennis Wilkins (alternate for Beau Nicholls)	-	-	2	2	-	-

Notes: A – Number of meetings attended. B – Number of meetings held during the time the director held office during the period. * – Not a member of the relevant committee.

SHARES UNDER OPTION

At the date of this report there are 18,475,000 unissued ordinary shares in respect of which options are outstanding.

	Number of options
Balance at the beginning of the year	18,475,000
Total number of options outstanding as at 30 June 2013 and the date of this report	**18,475,000**

The balance is comprised of the following:

Expiry date	Exercise price (cents)	Number of options
31 December 2014	25.0	250,000
30 June 2015	25.0	15,000,000
1 November 2013	37.5	450,000
31 December 2014	37.5	250,000
16 December 2014	50.0	1,500,000
31 December 2014	50.0	250,000
1 November 2014	51.0	275,000
1 December 2014	53.0	200,000
15 December 2014	56.0	300,000
Total number of options outstanding at the date of this report		**18,475,000**

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 year, 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 of 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 $17,650.

NON-AUDIT SERVICES

The following details any non audit services provided by the entity's auditor, Somes 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 Cooke received or are due to receive the following amounts for the provision of non audit services:

	2013 $	2012 $
Taxation compliance services	9,506	-

PROCEEDINGS ON BEHALF OF THE COMPANY

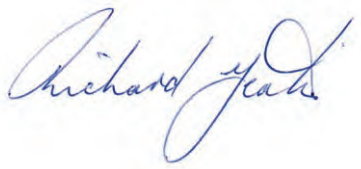
No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or any part of those 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 32.

Signed in accordance with a resolution of the directors.



Richard Yeates

Managing Director

Perth, 27 September 2013

SOMES COOKE

1304 Hay St
West Perth
WA 6005

PO Box 709,
West Perth
WA 6872

T 08 9426 4500 F 08 9481 5645
W somescooke.com.au
E info@somescooke.com.au

Chartered Accountants
Business Consultants
Financial Advisors

AUDITOR'S INDEPENDENCE DECLARATION

To those charged with governance of Middle Island Resources Limited

As auditor for the audit of Middle Island Resources Limited for the year ended 30 June 2013, I declare that, to the best of my knowledge and belief, there have been:

(a) No contraventions of the independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) No contraventions of any applicable code of professional conduct in relation to the audit.

Somes Cooke

Somes Cooke

Kevin Somes
Perth
27 September 2013

THE BOARD OF DIRECTORS

The Company's constitution provides that the number of directors shall not be less than three and not more than ten.

As and if the Company's activities increase in size, nature and scope the size of the board will be reviewed periodically. Otherwise reviews will be effected periodically and as circumstances demand. The optimum number of directors will be determined within the maximum and minimum limitations imposed by the constitution.

The membership of the board, its activities and composition, is subject to periodic review. The criteria for determining the identification and appointment of a suitable candidate for the board shall include quality of the individual, background of experience and achievement, compatibility with other board members, credibility within the Company's scope of activities, intellectual ability to contribute to board's duties and physical ability to undertake board's duties and responsibilities.

Directors are initially appointed by the full board subject to election by shareholders at the next general meeting. Under the Company's constitution the tenure of a director (other than managing director, and only one managing director where the position is jointly held) is subject to reappointment by shareholders not later than the third anniversary following his or her last appointment. Subject to the requirements of the *Corporations Act 2001*, the board does not subscribe to the principle of retirement age and there is no maximum period of service as a director. A managing director may be appointed for any period and on any terms the directors think fit and, subject to the terms of any agreement entered into, may revoke any appointment.

ROLE OF THE BOARD

The board's primary role is the protection and enhancement of long term shareholder value.

To fulfil this role, the board is responsible for oversight of management and the overall corporate governance of the Company including its strategic direction, establishing goals for management and monitoring the achievement of these goals.

APPOINTMENTS TO OTHER BOARDS

Directors are required to take into consideration any potential conflicts of interest when accepting appointments to other boards.

INDEPENDENT PROFESSIONAL ADVICE

The board has determined that individual directors have the right in connection with their duties and responsibilities as directors, to seek independent professional advice at the Company's expense. The engagement of an outside adviser is subject to prior consultation with the Chairman (or another director if it is unreasonable that the Chairman is consulted).

ASX PRINCIPLES OF GOOD CORPORATE GOVERNANCE

The board has reviewed its current practices in light of the revised ASX Corporate Governance Principles and Recommendations with a view to making amendments where applicable after considering the Company's size and resources.

As the Company's activities develop in size, nature and scope, the size of the board and the implementation of any additional formal corporate governance committees will be given further consideration.

The board has adopted the revised Recommendations and the following table sets out the Company's present position in relation to each of the revised Principles.

	ASX Principle	Status	Reference/comment
Principle 1:	Lay solid foundations for management and oversight		
1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions	A	This information is disclosed in the Company's Board Charter, a copy of which can be viewed on the Company website.
1.2	Companies should disclose the process for evaluating the performance of senior executives	A	In compliance with this recommendation, the Company declares that the senior executives of the Company (other than directors) are reviewed annually by the Managing Director against specified criteria, with the results of those review tabled at the next Remuneration Committee meeting for consideration. The Board will continue to 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	A	A copy of the Company's Board Charter can be viewed on the Company website.
Principle 2:	Structure the board to add value		
2.1	A majority of the board should be independent directors	N/A	There are four directors on the board, two of which clearly serve as executives. Linton Kirk is considered to be an independent director. The Chair, Peter Thomas, 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.
2.2	The chair should be an independent director	A	The Chair, Peter Thomas, 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 chair and chief executive officer should not be exercised by the same individual	A	
2.4	The board should establish a nomination committee	A	The full board comprises the Nomination Committee. A copy of the Nomination Committee Charter can be viewed on the Company website. The Nomination Committee met on 13 March 2013.
2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors	A	This information is disclosed in the Company's Board Charter, a copy of which can be viewed on the Company website. An evaluation was conducted in accordance with the process disclosed at the Nomination Committee meeting on 13 March 2013.
2.6	Companies should provide the information indicated in the Guide to reporting on Principle 2	A	The skills, experience and period of office of Directors are set out in the Company's Annual Report (Directors' Report) and on its website. Statements as to the mix of skills and diversity for which the board of directors is looking to achieve in membership of the board and as to the Company's materiality thresholds are disclosed in the Company's Board Charter, which can be viewed on the Company website.

A = Adopted N/A = Not adopted

	ASX Principle	Status	Reference/comment
Principle 3:	Promote ethical and responsible decision-making		
3.1	Companies should establish a code of conduct and disclose the code	A	The Company has established a Code of Conduct which can be viewed on its website.
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	N/A	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	N/A	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.
3.4	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	A	The proportion of women employees in the whole organisation is 18.4% (excluding directors). There are currently no women in senior executive positions. There are currently no women on the board.
3.5	Companies should provide the information indicated in the Guide to reporting on Principle 3	A	
Principle 4:	Safeguard integrity in financial reporting		
4.1	The board should establish an audit committee	A	The Audit Committee consists of Peter Thomas (Chairman), Linton Kirk (Independent Non-Executive Director), Rick Yeates (Managing Director) and Dennis Wilkins (Company Secretary). 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.
4.2	The audit committee should be structured so that it:		
	• consists only of nonexecutive directors	N/A	Peter Thomas and Linton Kirk are the only non-executive directors of the Company. Sourcing alternative directors to strictly comply with this Principle is considered expensive with costs out weighing potential benefits. The board believes that this is both appropriate and acceptable at this stage of the Company's development.
	• consists of a majority of independent directors	N/A	Mr Thomas and Mr Kirk are the only independent directors of the Company. Sourcing alternative directors to strictly comply with this Principle is considered expensive with costs out weighing potential benefits. The board believes that this is both appropriate and acceptable at this stage of the Company's development.
	• is chaired by an independent chair, who is not chair of the board	A	Dennis Wilkins is the chair of the Audit Committee.
	• has at least three members	A	

A = Adopted N/A = Not adopted

	ASX Principle	Status	Reference/comment
4.3	The audit committee should have a formal charter	A	A copy of the Audit Policy can be viewed on the Company website.
4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4	A	The committee is to meet at least half yearly, with further meetings on an as required basis. The Audit Committee met on 26 September 2012 and 12 March 2013.
Principle 5:	Make timely and balanced disclosure		
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	A	A copy of the Company's Continuous Disclosure Policy can be viewed on the Company website.
5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5	A	
Principle 6:	Respect the rights of shareholders		
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	A	A copy of the Company's Shareholder Communication Policy can be viewed on the Company website.
6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6	A	
Principle 7:	Recognise and manage risk		
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies	A	A copy of the Company's Risk Management Policy can be viewed on the Company website.
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	N/A	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.
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	A	Assurances received.

A = Adopted N/A = Not adopted

	ASX Principle	Status	Reference/comment
7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7	A	
Principle 8:	Remunerate fairly and responsibly		
8.1	The board should establish a remuneration committee	A	A Remuneration Committee has been formed with the Charter available on the Company's website. The remuneration committee is comprised of the full board, however the composition of the Remuneration Committee can vary to accommodate the requirement that a director must not sit on the committee to consider that director's remuneration. 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. The Remuneration Committee met on 13 March 2013.
8.2	The remuneration committee should be structured so that it:		
	• consists of a majority of independent directors	N/A	Peter Thomas and Linton Kirk are the independent directors of the Company. Sourcing alternative directors to strictly comply with this Principle is considered expensive with costs out weighing potential benefits. The board believes that this is both appropriate and acceptable at this stage of the Company's development.
	• is chaired by an independent chair	N/A	Peter Thomas is the Chair of the Remuneration Committee. Sourcing alternative directors to strictly comply with this Principle is considered expensive with costs out weighing potential benefits. The board believes that this is both appropriate and acceptable at this stage of the Company's development.
	• has at least three members.	A	
8.3	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives	A	Refer to the Remuneration Report in the Company's Annual Report.
8.4	Companies should provide the information indicated in the Guide to reporting on Principle 8	A	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.

A = Adopted N/A = Not adopted

STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 30 JUNE 2013	Notes	Consolidated	Consolidated
		2013	2012
		$	$
REVENUE	4	400,593	505,232
EXPENDITURE			
Administration expenses		(1,096,660)	(1,211,859)
Depreciation expense		(249,126)	(144,209)
Exploration expenses		(5,282,815)	(5,711,639)
Salaries and employee benefits expense		(583,516)	(531,738)
Share-based payments	24	(142,632)	(99,018)
LOSS BEFORE INCOME TAX		(6,954,156)	(7,193,231)
INCOME TAX BENEFIT / (EXPENSE)	6	-	-
LOSS FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF MIDDLE ISLAND RESOURCES LIMITED		(6,954,156)	(7,193,231)
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		363,568	(229,297)
Other comprehensive income for the period, net of tax		363,568	(229,297)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF MIDDLE ISLAND RESOURCES LIMITED		(6,590,588)	(7,422,528)
Basic and diluted loss per share for loss attributable to the ordinary equity holders of the Company (cents per share)	23	(5.6)	(6.8)

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the Notes to the Consolidated Financial Statements.

STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2013	Notes	Consolidated	Consolidated
		2013	2012
		$	$
CURRENT ASSETS			
Cash and cash equivalents	7	5,631,116	12,959,058
Trade and other receivables	8	164,397	98,494
TOTAL CURRENT ASSETS		5,795,513	13,057,552
NON-CURRENT ASSETS			
Plant and equipment	9	585,517	576,948
Mining properties	10	3,046,632	2,674,089
TOTAL NON-CURRENT ASSETS		3,632,149	3,251,037
TOTAL ASSETS		9,427,662	16,308,589
CURRENT LIABILITIES			
Trade and other payables	11	469,839	902,810
TOTAL CURRENT LIABILITIES		469,839	902,810
TOTAL LIABILITIES		469,839	902,810
NET ASSETS		8,957,823	15,405,779
EQUITY			
Contributed equity	12	25,733,440	25,733,440
Reserves	13	620,414	114,214
Accumulated losses		(17,396,031)	(10,441,875)
TOTAL EQUITY		8,957,823	15,405,779

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

YEAR ENDED 30 JUNE 2013						
	Notes	Contributed Equity	Share-based Payments Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total
Consolidated		$	$	$	$	$
BALANCE AT 1 JULY 2011		16,204,331	117,550	126,943	(3,248,644)	13,200,180
Loss for the period		-	-	-	(7,193,231)	(7,193,231)
OTHER COMPREHENSIVE INCOME						
Exchange differences on translation of foreign operations		-	-	(229,297)	-	(229,297)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		-	-	(229,297)	(7,193,231)	(7,422,528)
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS						
Shares issued during the period	12	10,000,000	-	-	-	10,000,000
Transaction costs	12	(470,891)	-	-	-	(470,891)
Options issued to employees	24	-	99,018	-	-	99,018
BALANCE AT 30 JUNE 2012		25,733,440	216,568	(102,354)	(10,441,875)	15,405,779
Loss for the year		-	-	-	(6,954,156)	(6,954,156)
OTHER COMPREHENSIVE INCOME						
Exchange differences on translation of foreign operations		-	-	363,568	-	363,568
TOTAL COMPREHENSIVE INCOME		-	-	363,568	(6,954,156)	(6,590,588)
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS						
Options issued to employees	24	-	142,632	-	-	142,632
BALANCE AT 30 JUNE 2013		25,733,440	359,200	261,214	(17,396,031)	8,957,823

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

STATEMENT OF CASH FLOWS

YEAR ENDED 30 JUNE 2013	Notes	Consolidated	Consolidated
		2013	2012
		$	$
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		(1,653,121)	(1,876,227)
Expenditure on mining interests		(5,735,350)	(5,064,260)
Interest received		327,322	718,941
Payments for security deposits		-	12,522
Other revenue		390	308
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	22	(7,060,759)	(6,208,716)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for plant and equipment		(184,089)	(311,311)
Payments for mining properties		-	(38,278)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(184,089)	(349,589)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issues of ordinary shares		-	10,000,000
Payments of share issue costs		-	(470,891)
NET CASH INFLOW FROM FINANCING ACTIVITIES		-	9,529,109
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(7,244,848)	2,970,804
Cash and cash equivalents at the beginning of the financial year		12,959,058	9,982,666
Effects of exchange rate changes on cash and cash equivalents		(83,094)	5,588
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	7	5,631,116	12,959,058

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

30 JUNE 2013

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 27 September 2013. 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 and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Middle Island Resources Limited is a for-profit entity for the purpose of preparing the financial statements.

(i) Compliance with IFRS

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

(ii) New and amended standards adopted by the Group

None of the new standards and amendments to standards that were mandatory for the first time for the financial year beginning 1 July 2012 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods. However, amendments made to AASB 101 *Presentation of Financial Statements* effective 1 July 2012 now require the statement of profit or loss and other comprehensive income to show the items of comprehensive income grouped into those that are not permitted to be reclassified to profit or loss in a future period and those that may have to be reclassified if certain conditions are met.

(iii) Early adoption of standards

The Group did not elect to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2012.

(iv) Historical cost convention and going concern basis

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, which have been measured at fair value. These financial statements have been prepared on the going concern basis.

(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 2013 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 profit or loss and other 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, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

(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" (as used in this report, "fair value" bears the meaning ascribed by the AASB which produces a result that commonly does not reflect market or realisable 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.

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 rights to explore 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 the Statement of Comprehensive Income.

(m) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year 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" (not market 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 option is substituted for the cancelled option, and designated as a replacement option on the date that it is granted, the cancelled and new option are treated as 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 year, 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 2012 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, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) and AASB 2012-6 Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures (effective from 1 January 2015)

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 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 2012–2 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.

AASB 2010–10: Further Amendments to Australian Accounting Standards – Removal of Fixed Dates for First-time Adopters [AASB 2009–11 & AASB 2011–7] (applies to periods beginning on or after 1 January 2013)

This Standard makes amendments to AASB 2009–11: Amendments to Australian Accounting Standards arising from AASB 9, and AASB 2011–7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010).

The amendments brought in by this Standard ultimately affect AASB 1: First-time Adoption of Australian Accounting Standards and provide relief for first-time adopters from having to reconstruct transactions that occurred before their transition date.

[The amendments to AASB 2009–11 will only affect early adopters of AASB 2009–11 (and AASB 9: Financial Instruments that was issued in December 2009) as it has been superseded by AASB 2010–7.]

This Standard is not expected to impact the Group.

AASB 1054: Australian Additional Disclosures (applies to periods beginning on or after 1 January 2013)

This Standard is as a consequence of phase 1 of the joint Trans-Tasman Convergence project of the AASB and FRSB.

This Standard relocates all Australian specific disclosures from other standards to one place and revises disclosures in the following areas:

- compliance with Australian Accounting Standards;
- the statutory basis or reporting framework for financial statements;
- whether the financial statements are general purpose or special purpose;
- audit fees; and
- imputation credits.

This Standard is not expected to impact the Group.

AASB 2011-2: Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence project – Reduced disclosure regime [AASB 101 & AASB 1054] (applies to periods beginning on or after 1 July 2013)

This Standard makes amendments to the application of the revised disclosures to Tier 2 entities that are applying AASB 1053.

This Standard is not expected to impact the Group.

AASB 10: Consolidated Financial Statements (applies to periods beginning on or after 1 January 2013)

This Standard establishes a new control model that applies to all entities. It replaces parts of AASB 127 *Consolidated and Separate Financial Statements* dealing with the accounting for consolidated financial statements and Interpretation 112 *Consolidation – Special Purpose Entities*.

The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. This Standard is not expected to impact the Group.

AASB 11: Joint Arrangements (applies to periods beginning on or after 1 January 2013)

This Standard replaces AASB 131 Interests in Joint Ventures and Interpretation 113 *Jointly-Controlled Entities – Non-monetary Contributions by Ventures*. AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition, AASB 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method. This may result in a change in the accounting for the joint arrangements held by the Group.

AASB 12: Disclosures of Interests in Other Entities (applies to periods beginning on or after 1 January 2013)

This Standard includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests. The Group has not yet determined any potential impact on the financial statements.

AASB 13: Fair Value Measurement (applies to periods beginning on or after 1 January 2013)

This Standard establishes a single source of guidance under AASB for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under AASB when fair value is required or permitted by AASB. Application of this definition may result in different fair values being determined for the relevant assets.

AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined. The Group has not yet determined any potential impact on the financial statements.

The Directors do not consider the resultant value as determined by the AASB 13 is necessarily representative of the market value of assets and liabilities, however, in the absence of reliable measure of the market value, AASB 13 prescribes the measurement of the fair value of assets and liabilities.

AASB 119: Employee Benefits (applicable for annual reporting periods commencing on or after 1 January 2013)

The main change introduced by this standard is to revise the accounting for defined benefit plans. The amendment removes the options for accounting for the liability, and requires that the liabilities arising from such plans is recognized in full with actuarial gains and losses being recognized in other comprehensive income. It also revised the method of calculating the return on plan assets. The definition of short-term benefits has been revised, meaning some annual leave entitlements may become long-term in nature with a revised measurement. Similarly the timing for recognising a provision for termination benefits has been revised, such that provisions can only be recognised when the offer cannot be withdrawn.

Consequential amendments were also made to other standards via AASB 2011-10.

Interpretation 20: Stripping Costs in the Production Phase of a Surface Mine (applicable for annual reporting periods commencing on or after 1 January 2013)

This interpretation applies to stripping costs incurred during the production phase of a surface mine. Production stripping costs are to be capitalised as part of an asset, if an entity can demonstrate that it is probable future economic benefits will be realised, the costs can be reliably measured and the entity can identify the component of an ore body for which access has been improved. This asset is to be called the "stripping activity asset".

The stripping activity asset shall be depreciated or amortised on a systematic basis, over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity. The units of production method shall be applied unless another method is more appropriate.

(t) Critical accounting judgements, estimates and assumptions

The preparation of these financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are:

Exploration and evaluation costs

The costs of acquiring rights to explore areas of interest are capitalised, all other exploration and evaluation costs are expensed as incurred.

These costs of acquisition are carried forward only if they relate to an area of interest for which rights of tenure are current and in respect of which:

(i) such costs are expected to be recouped through successful development and exploitation or from sale of area; or
(ii) exploration and evaluation activities in the area have not yet reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active operations in, or relating to, the area are continuing.

When an area of interest is abandoned or the directors decide that it is not commercial, any capitalised acquisition costs in respect of that area are written off in the financial year the decision is made.

Taxation

Balances disclosed in the financial statements and the notes thereto related to taxation are based on the best estimates of the directors. These estimates take into account both the financial performance and position of the Group as they pertain to current income taxation legislation, and the directors understanding thereof. No adjustment has been made for pending or future taxation legislation. The current income tax position represents that directors' best estimate, pending an assessment by the Australian Taxation Office.

Share-based payments

Share-based payment transactions, in the form of options to acquire ordinary shares, are valued using the Black-Scholes option pricing model. This model uses assumptions and estimates as 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, 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.

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.

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.

(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.

The functional currency of subsidiary companies is either the US dollar or the West African CFA franc. All parent entity balances are in Australian dollars and all Group balances are in either Australian or US dollars, or West African CFA francs, so the Group does not have any exposure to foreign currency risk at the reporting date (2012: Nil exposure).

(ii) Commodity price risk

Given the current level of operations, the Group's financial statements for the year ended 30 June 2013 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 $5,631,116 (2012: $12,959,058) is subject to interest rate risk. The weighted average interest rate received on cash and cash equivalents by the Group was 5.3% (2012: 5.5%).

Sensitivity analysis

At 30 June 2013, if interest rates had changed by -/+ 100 basis points from the weighted average rate for the year with all other variables held constant, post-tax loss for the Group would have been $93,500 lower/higher (2012: $91,000 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.

All surplus cash holdings within the Group are currently invested with AA- rated financial institutions.

(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 (not market 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

	Consolidated	Consolidated
	2013	2012
	$	$
Segment revenue	-	19
Reconciliation of segment revenue to total revenue before tax:		
Interest revenue	400,203	504,924
Other revenue	390	289
TOTAL REVENUE	400,593	505,232
Segment results	(5,874,919)	(6,260,212)
Reconciliation of segment result to net loss before tax:		
Other corporate and administration	(1,079,237)	(933,019)
NET LOSS BEFORE TAX	(6,954,156)	(7,193,231)
Segment operating assets	3,726,509	3,364,082
Reconciliation of segment operating assets to total assets:		
Other corporate and administration assets	5,701,153	12,944,507
TOTAL ASSETS	9,427,662	16,308,589
Segment operating liabilities	314,501	822,894
Reconciliation of segment operating liabilities to total liabilities:		
Other corporate and administration liabilities	155,338	79,916
TOTAL LIABILITIES	469,839	902,810

4. REVENUE

	Consolidated 2013 $	Consolidated 2012 $
FROM CONTINUING OPERATIONS		
Other revenue		
Interest	400,203	504,924
Other revenue	390	308
	400,593	505,232

5. EXPENSES

LOSS BEFORE INCOME TAX INCLUDES THE FOLLOWING SPECIFIC EXPENSES:		
Defined contribution superannuation expense	43,142	42,325
Minimum lease payments relating to operating leases	47,947	41,074

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	(6,954,156)	(7,193,231)
Prima facie tax benefit at the Australian tax rate of 30%	(2,086,247)	(2,157,969)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share-based payments	42,790	29,705
Sundry items	1,628	1,079
	(2,041,829)	(2,127,185)
Movements in unrecognised temporary differences	(91,776)	(1,382)
Tax effect of current period tax losses for which no deferred tax asset has been recognised	2,133,605	2,128,567
Income tax expense	-	-
(C) UNRECOGNISED TEMPORARY DIFFERENCES		
Deferred Tax Assets (at 30%)		
On Income Tax Account		
Sundry items	35,274	15,293
Capital raising costs	164,309	232,337
Carry forward tax losses	5,304,445	3,170,840
	5,504,028	3,418,470
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

	Consolidated	Consolidated
	2013	2012
	$	$
Cash at bank and in hand	91,916	3,419,858
Short-term deposits	5,539,200	9,539,200
Cash and cash equivalents as shown in the statement of financial position and the statement of cash flows	5,631,116	12,959,058

Cash at bank and in hand at 30 June 2013 comprises A$5,548,179 (2012: A$12,882,290), with the balance held in US dollars and West African CFA francs.

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	164,397	98,494

9. NON-CURRENT ASSETS - PLANT AND EQUIPMENT

PLANT AND EQUIPMENT		
Cost	1,065,887	763,564
Accumulated depreciation	(480,370)	(186,616)
Net book amount	585,517	576,948
PLANT AND EQUIPMENT		
Opening net book amount	576,948	438,009
Exchange differences	73,606	(28,163)
Additions	184,089	311,311
Depreciation charge	(249,126)	(144,209)
Closing net book amount	585,517	576,948

10. NON-CURRENT ASSETS - MINING PROPERTIES

Tenement acquisition costs carried forward in respect of mining areas of interest		
Opening net book amount	2,674,089	2,842,208
Exchange variances	372,543	(206,397)
Capitalised tenement acquisition costs	-	38,278
Closing net book amount	3,046,632	2,674,089

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

	Consolidated	Consolidated
	2013	2012
	$	$
Trade payables	196,656	409,618
Other payables and accruals	273,183	493,192
	469,839	902,810

12. ISSUED CAPITAL

(A) SHARE CAPITAL

30 JUNE 2012		2013		2012	
	Notes	Number of shares	$	Number of shares	$
Ordinary shares fully paid	12(b), 12(d)	124,987,349	25,733,440	124,987,349	25,733,440
Total issued capital		124,987,349	25,733,440	124,987,349	25,733,440

(B) MOVEMENTS IN ORDINARY SHARE CAPITAL

Beginning of the financial period	124,987,349	25,733,440	99,987,349	16,204,331
Issued during the year:				
- Issued for cash at 40 cents per share	-	-	25,000,000	10,000,000
Less: Transaction costs	-	-	-	(470,891)
End of the financial year	124,987,349	25,733,440	124,987,349	25,733,440

(C) MOVEMENTS IN OPTIONS ON ISSUE

	Number of options	
	2013	2012
Beginning of the financial year	18,475,000	16,200,000
Issued, exercisable at 50 cents, on or before 16 December 2014	-	1,500,000
Issued, exercisable at 51 cents, on or before 1 November 2014	-	275,000
Issued, exercisable at 53 cents, on or before 1 November 2014	-	200,000
Issued, exercisable at 56 cents, on or before 15 December 2014	-	300,000
End of the financial year	18,475,000	18,475,000

(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 strive 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 2013 and 30 June 2012 are as follows:

	Consolidated	Consolidated
	2013	2012
	$	$
Cash and cash equivalents	5,631,116	12,959,058
Trade and other receivables	164,397	98,494
Trade and other payables	(469,839)	(902,810)
Working capital position	5,325,674	12,154,742

13. RESERVES AND ACCUMULATED LOSSES

(A) RESERVES		
Foreign currency translation reserve	261,214	(102,354)
Share-based payments reserve	359,200	216,568
	620,414	114,214

(B) 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 year. No recommendation for payment of dividends has been made.

15. KEY MANAGEMENT PERSONNEL DISCLOSURES

(A) KEY MANAGEMENT PERSONNEL COMPENSATION		
Short-term benefits	597,237	580,413
Post-employment benefits	35,829	34,579
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payments	-	55,590
	633,066	670,582

Detailed remuneration disclosures are provided in the remuneration report on pages 27 to 30.

(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 27.

(ii) Option holdings

The numbers of options over ordinary shares in the Company held during the financial year 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:

2013	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of the year	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	-
Linton Kirk	300,000	-	-	-	300,000	300,000	-
Dennis Wilkins	500,000	-	-	-	500,000	500,000	-

2012	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of the year	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	-
Linton Kirk	-	300,000	-	-	300,000	300,000	-
Dennis Wilkins	500,000	-	-	-	500,000	500,000	-

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

(iii) Shareholdings

The numbers of shares in the Company held during the financial year 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.

2013	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
Linton Kirk	-	-	230,000 (1)	230,000
Dennis Wilkins	500,000	-	-	500,000

(1) The balance held on date of appointment as a director, 1 September 2011, was 80,000.

2012	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
Linton Kirk	-	-	230,000(1)	230,000
Dennis Wilkins	500,000	-	-	500,000

(1) The balance held on date of appointment as a director, 1 September 2011, was 80,000.

(C) LOANS TO KEY MANAGEMENT PERSONNEL

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

(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 year. The amounts paid were on arms' length commercial terms and are disclosed in the remuneration report in conjunction with Mr Wilkins' compensation. At 30 June 2013 there was $16,761 (2012: nil) owing to DWCorporate Pty Ltd.

Mr Nicholls is a director and 30% shareholder of PowerXplor Limited, which owns Sahara Geoservices SARL. Sahara Geoservices provided drilling services to the Middle Island Group during the year. The amounts paid were on arms' length commercial terms and amounted to $521,109 (2012: $480,461) for the year to 30 June 2013. At 30 June 2013 there was $43,510 (2012: nil) owing to Sahara Geoservices.

Kirk Mining Consultants Pty Ltd, a business of which Mr Kirk is principal, provided mining consulting services to the Middle Island Group during the year. The amounts paid were on arms' length commercial terms and amounted to $30,075 (2012: nil) for the year to 30 June 2013. At 30 June 2013 there was nil (2012: nil) owing to Kirk Mining Consultants Pty Ltd.

16. REMUNERATION OF AUDITORS

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

	Consolidated	Consolidated
	2013	2012
	$	$
(A) AUDIT SERVICES		
Somes Cooke – audit and review of financial reports	27,500	35,500
Total remuneration for audit services	27,500	35,500
(B) NON-AUDIT SERVICES		
Somes Cooke – independent accountants report	9,506	-
Total remuneration for other services	9,506	-

17. CONTINGENCIES

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

The Group has included an amount of approximately $457,000 in Current Liabilities for services, the value of which is disputed. The amount has been included to ensure conservative accounting treatment. The Group believes it has strong grounds to successfully contest the claim. The accrual of the amount and inclusion in this report does not represent an admission of the debt.

18. COMMITMENTS

(A) EXPLORATION COMMITMENTS

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

	Consolidated	Consolidated
	2013	2012
	$	$
within one year	1,135,000	5,382,187
later than one year but not later than five years	4,500,000	6,508,950
	5,635,000	11,891,137
(B) LEASE COMMITMENTS: GROUP AS LESSEE		
Operating leases (noncancellable):		
Minimum lease payments		
within one year	32,997	55,736
later than one year but not later than five years	-	32,997
Aggregate lease expenditure contracted for at reporting date but not recognised as liabilities	32,997	88,733

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.

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 $17,942,213 at 30 June 2013 (2012: $11,560,042). 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]	
			2013	2012
			%	%
Middle Island Resources - Burkina Faso Limited	Burkina Faso	Ordinary	100	100
Middle Island Resources – Liberia Limited	Liberia	Ordinary	100	100

(1) The proportion of ownership interest is equal to the proportion of voting power held.

21. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

During July 2013 the Company entered into a non-binding heads of agreement for the purchase of a 100% interest in African GeoMin Mining Development Corporation Limited ("AGMDC"). AGMDC holds an 80% interest in Societe des Mines du Liptako (SML) S.A. ("SML"), owner and then operator of the Samira Hill gold mine (now in a state of suspension). The Government of Niger owns the remaining 20% interest in SML.

Consideration for the purchase comprises a cash payment of US$1.25 million and a fixed net smelter return ("NSR") royalty of 1.2% on gold sold from the Samira Hill plant. The NSR is payable only if the spot price of gold is at or greater than US$1,450 per ounce and is capped at US$12 million.

The agreement is subject to a number of conditions and each party has the right to terminate the Heads of Agreement prior to closing the transaction.

On 23 September 2013 the Company announced the closure of a private placement to new and existing institutional and sophisticated investors and other section 708 exempt investors through the issue of 50,000,000 ordinary shares at $0.10 each to raise $5 million (before costs) ("Placement"). The proceeds from the Placement are to be held in trust by the lead manager until such time as the Proposed Acquisition has been completed, and failing completion shall be returned to the subscribers.

22. STATEMENT OF CASH FLOWS

	Consolidated	Consolidated
	2013	2012
	$	$
RECONCILIATION OF NET LOSS AFTER INCOME TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES		
Net loss for the year	(6,954,156)	(7,193,231)
NON CASH ITEMS		
Depreciation of non current assets	249,126	144,209
Share-based payments	142,632	99,018
Net exchange differences	513	-
CHANGE IN OPERATING ASSETS AND LIABILITIES		
Decrease/(increase) in trade and other receivables	(65,903)	221,441
Increase in trade and other payables	(432,971)	519,847
Net cash outflow from operating activities	(7,060,759)	(6,208,716)

23. LOSS PER SHARE

	Number of shares	Number of shares
	2013	2012
(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	(6,954,156)	(7,193,231)
(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	124,987,349	106,040,904

(C) INFORMATION ON THE CLASSIFICATION OF OPTIONS

As the Group has made a loss for the year ended 30 June 2013, 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 may provide 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 prices of the options on issue at 30 June 2013 range from 50 cents to 56 cents per option and 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:

	Consolidated	Consolidated	Consolidated	Consolidated
	2013	2013	2012	2012
	Number of options	Weighted average exercise price cents	Number of options	Weighted average exercise price cents
Outstanding at the beginning of the financial year	3,475,000	46.5	1,200,000	37.5
Granted	-	-	2,275,000	51.2
Forfeited/cancelled	-	-	-	-
Exercised	-	-	-	-
Expired	-	-	-	-
Outstanding at year-end	3,475,000	46.5	3,475,000	46.5
Exercisable at year-end	1,550,000	41.5	1,500,000	41.2

The weighted average remaining contractual life of share options outstanding at the end of the financial year was 1.3 years (2012: 2.3 years), and the exercise prices range from 25 to 56 cents.

There were no options granted during the 2013 financial year. The weighted average "fair value" (not market value) of the options granted during the 2012 financial year was 14.0 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 necessarily representative of the market value of the share options issued:

	2013	2012
Weighted average exercise price (cents)	-	51.2
Weighted average life of the option (years)	-	2.75
Weighted average underlying share price (cents)	-	32.6
Expected share price volatility	-	83.8%
Weighted average risk free interest rate	-	4.00%

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.

(C) EXPENSES ARISING FROM SHARE-BASED PAYMENT TRANSACTIONS

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

	Consolidated	Consolidated
	2013	2012
	$	$
Options issued to employees (including directors) as part of share-based payments	142,632	99,018

25. PARENT ENTITY INFORMATION

The following information relates to the parent entity, Middle Island Resources Limited, at 30 June 2013. The information presented here has been prepared using accounting policies consistent with those presented in Note 1.

Current assets	5,688,719	12,919,000
Non-current assets	12,433	11,585,549
TOTAL ASSETS	5,701,152	24,504,549
Current liabilities	155,339	79,915
TOTAL LIABILITIES	155,339	79,915
Contributed equity	25,733,440	25,733,440
Share-based payments reserve	359,200	216,568
Accumulated losses	(20,546,827)	(1,525,374)
TOTAL EQUITY	5,545,813	24,424,634
Loss for the year	(19,021,453)	(933,018)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	(19,021,453)	(933,018)

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 2013 and of their performance for the financial year ended on that date;

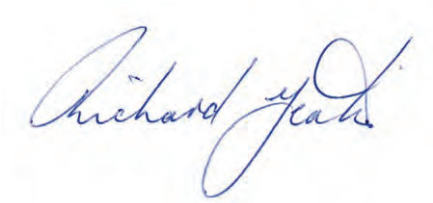
(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

(c) the remuneration disclosures included in the Directors' Report (as part of the audited Remuneration Report), for the year ended 30 June 2013, 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, 27 September 2013

SOMES COOKE

1304 Hay St
West Perth
WA 6005

PO Box 709,
West Perth
WA 6872

T 08 9426 4500 F 08 9481 5645
W somescooke.com.au
E info@somescooke.com.au

Chartered Accountants
Business Consultants
Financial Advisors

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, which comprises the consolidated statement of financial position as at 30 June 2013, the consolidated statement of profit and loss and other comprehensive income, the consolidated statement of changes in equity and consolidated statement of cash flows for the year 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.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

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 2012 and of its performance for the year 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 year ended 30 June 2013. 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 year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.

Somes Cooke

Kevin Somes
Perth
27 September 2013

Additional information required by Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 25 September 2013.

(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	22	7,290
1,001	-	5,000	61	198,869
5,001	-	10,000	82	660,443
10,001	-	100,000	318	13,003,136
100,001		and over	130	111,117,611
			613	124,987,349
The number of shareholders holding less than a marketable parcel of shares are:			71	146,159

(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 Inv Pty Ltd <Quenda S/F A/C>	16,000,000	12.80
2	Newmont Cap Pty Ltd	10,147,339	8.12
3	National Nom Ltd	8,215,000	6.57
4	Citicorp Nom Pty Ltd	6,618,000	5.29
5	Laguna Bay Cap Pty Ltd	6,514,571	5.21
6	JP Morgan Nom Aust Ltd <Cash Income A/C>	5,164,718	4.13
7	Diamantina Resources Pty Ltd <Yeates Fam A/C>	4,000,000	3.20
8	P S Thomas & S A Goodwin <Waterford Retirement Plan>	3,000,000	2.40
9	Amazon Consultoria Em Mineracao E Servicos	2,900,000	2.32
10	Newmont Cap Pty Ltd	2,537,156	2.03
11	Lomacott Pty Ltd <Keogh S/F A/C>	2,500,000	2.00
12	Rollason Pty Ltd <Giorgetaa Super Plan>	1,810,000	1.45
13	Ross Francis Stanley	1,750,000	1.40
14	Macquarie Bank Ltd	1,500,000	1.20
15	GP Sec Pty Ltd	1,200,000	0.96
16	HSBC Custody Nom Pty Ltd	1,104,000	0.88
17	Grimwood Nom Pty Ltd	1,070,000	0.86
18	Super Seed Pty Ltd <Seed Fam A/C>	1,033,300	0.83
19	Greenslade Holdings Pty Ltd	1,030,000	0.82
20	Heemskirk Consolidated Ltd	1,000,000	0.80
		79,094,084	63.27

(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
JP Morgan Nominees Australia Ltd <Cash Income A/C>	12,227,173
National Nominees Limited	10,686,699
Newmont Capital Pty Ltd	10,147,339

(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
Niger	Dogona	90
Niger	Boulkagou	90
Niger	Nassilé	70
Niger	Kakou	100
Niger	Tialkam	100
Niger	Deba	100
Liberia	Cestos South	100
Liberia	Cestos North	100
Liberia	Zwedru North	100
Liberia	Zwedru	100
Liberia	Putu	100

(f) Unquoted Securities

			Holders of 20% or more of the class	
Class	Number of Securities	Number of Holders	Holder Name	Number of Securities
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 2013	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 16 December 2014	1,500,000	1	Mr A Chubb	1,500,000
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
Unlisted 51 cent Options, Expiry 1 November 2014	275,000	2	Mr A Razak	250,000
Unlisted 56 cent Options, Expiry 15 December 2014	300,000	1	Mr L Kirk	300,000
Unlisted 56 cent Options, Expiry 15 December 2014	300,000	1	Mr L Kirk	300,000

(i) Use of Funds

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

CORPORATE INFORMATION

DIRECTORS

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

COMPANY SECRETARY

Dennis Wilkins

REGISTERED OFFICE

Ground Floor, 20 Kings Park Road, West Perth WA 6005

PRINCIPAL PLACE OF BUSINESS

Unit 2, 2 Richardson Street, West Perth WA 6005

Tel: +61 8 9322 1430 Fax: +61 8 9322 1474

POSTAL ADDRESS

PO Box 1017, West Perth WA 6872

SOLICITORS

Williams and Hughes

28 Richardson Street, West Perth WA 6005

SHARE REGISTER

Security Transfer Registrars Pty Ltd

770 Canning Highway, Applecross WA 6153

AUDITORS

Somes and Cooke

Level 1, 1304 Hay Street, West Perth WA 6005

EMAIL

info@middleisland.com.au

INTERNET ADDRESS

www.middleisland.com.au

STOCK EXCHANGE LISTING

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

Middle Island
RESOURCES LIMITED

Unit 2, 2 Richardson Street
WEST PERTH WA 6005
Website: www.middleisland.com.au
Email: info@middleisland.com.au
Tel: +61 8 9322 1430
Fax: +61 8 9322 1474