



Middle Island
RESOURCES LIMITED

Middle Island Resources Limited
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QUARTERLY REPORT

For the period ended 31 December 2017

HIGHLIGHTS

Middle Island Resources Ltd
ACN 142 361 608

ASX Code: MDI

Office:

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

Postal Address:

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E: info@middleisland.com.au

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Capital Structure:

796 million shares
38,300,000 options

Board Members:

Peter Thomas

Chairman

Rick Yeates

Managing Director

Beau Nicholls

Non-Executive Director

Dennis Wilkins

Company Secretary

- Cash at 31 December 2017 of A\$2.0 million.
- Diamond drill hole MSDD156 at the Company's Sandstone development project in WA produced a gold intercept of **508.3m at 1.38g/t Au**, including an intercept of **160m at 2.31g/t Au** (from 432m to 592m depth) at the Two Mile Hill deeps deposit.
- An Exploration Target of **24Mt to 34Mt at 1.1g/t to 1.4g/t Au, comprising between 0.9Moz & 1.5Moz of gold** has been estimated between 140m and 700m depth for the Two Mile Hill tonalite deeps deposit.
- Initial ore sorting testwork on the Two Mile Hill tonalite deeps deposit indicates that **a 185%-257% increase in grade, recovering in excess of 93% of the gold, can be achieved. Up to 64% of the sorter feed material may be rejected**, delivering significant benefits to the project economics.
- The tonalite deeps drilling and ore sorting results not only reinforce the long-term bulk underground mining potential of the deposit, but sorting demonstrates there may be no requirement to construct a new mill as the deposit may provide suitable feed for Sandstone's existing processing plant - substantially reducing capex and lifting the project's production upside over an extended period.
- The Mineral Resource (JORC 2012) at Sandstone's adjoining **Wirraminna deposit more than doubled to 550,000t at 1.3g/t Au for 23,000oz gold** following verification, infill and extension drilling.
- **A 100% interest in the Ned's gold exploration project was acquired for \$500 in cash.** Ned's is 10km east-southeast of the Sandstone project, straddling the former haul road from the Lord Henry and Lord Nelson gold deposits.
- **Tribute gold nugget production of 62.9oz** is reported from the Sandstone project for the December quarter, of which Middle Island's share is 9.83oz gold.

Schedule for March quarter 2018:

- Large diameter diamond core drilling of the Two Mile Hill tonalite deeps deposit to generate additional material for geotechnical testwork and definitive ore sorting trials, along with resource definition diamond drilling of the upper 450m of the deposit.

Operating Activities

Corporate

Finances

Emerging gold developer, Middle Island Resources Limited (**ASX:MDI, Middle Island or the Company**), had a cash balance of A\$2.0 million as at 31 December 2017.

Middle Island completed a Placement on 20 December 2017 to institutional and sophisticated shareholders of 111,617,647 fully paid ordinary shares at A\$0.017 (1.7c) per share to raise \$1,897,500 before costs. The proceeds from the Placement, combined with the Company's existing cash balance, will be used to fund exploration and development work at the Company's wholly-owned Sandstone gold project in WA, primarily focussed on the Two Mile Hill tonalite deeps deposit. Exploration and development activities will include resource definition diamond drilling, ore sorting trials, independent resource updates and underground mining studies. In addition, the funds will be applied to exploration at other targets within the Sandstone tenure, the deferred acquisition payment and general working capital.

2017 Annual General Meeting

The 2017 Annual General Meeting of Middle Island was held in Perth on 22 November 2017. All resolutions were overwhelmingly supported by shareholders, with in excess of 99% affirmative votes recorded in each case.

Strategy

At the Sandstone gold project in WA, Middle Island has been primarily pursuing the extension and enhancement of the proposed gold production profile in order to recommission its on-site processing plant at the earliest opportunity.

Sandstone's Two Mile Hill tonalite deeps deposit was previously considered incompatible with the existing processing plant capacity, thereby representing a potential new project, with consideration given to a possible farm-out to a larger company with a stronger balance sheet. This view has recently been modified following recognition of the deposit's amenability to pre-concentration of gold mineralisation via ore sorting, thereby reducing the required throughput and costs, and increasing the feed grade to a level that is anticipated to be compatible with the existing processing plant's capacity and capability. In this way, the Two Mile Hill tonalite deeps deposit has the potential to provide a substantially higher production profile over an extended period. Hence, the focus has been adjusted in recognition of this significant, longer-term opportunity.

Notwithstanding this, the multi-faceted, over-arching strategy has been further progressed during the December quarter, variously via the following:-

- Deep diamond drilling of the Two Mile Hill tonalite deeps deposit.
- Estimation of an Exploration Target on the Two Mile Hill tonalite deeps deposit.
- Mineralogical and ore sorting testwork on the Two Mile Hill tonalite deeps deposit.
- Resource estimation and pit optimisation on the Wirraminna open pit deposit.
- Discovery and initial exploration of new greenfields targets.
- Acquisition of a 100% interest in the proximal Ned's gold exploration project, the third such consolidation in 2017, with further opportunities under review.
- On-going review of third-party gold deposits within the broader Sandstone district.

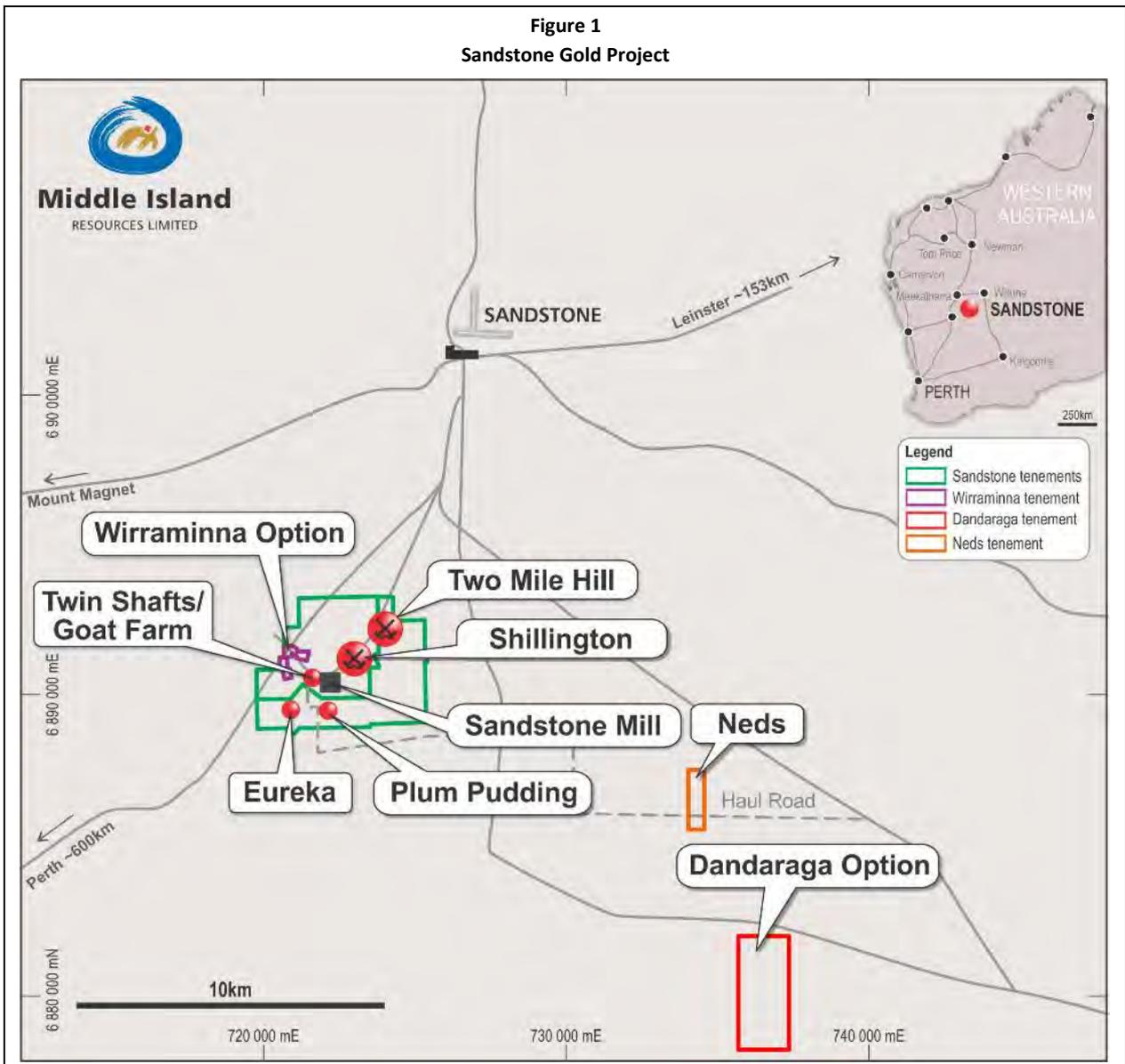


Enhanced by a greater focus on the Two Mile Hill tonalite deeps opportunity, the Company remains confident that continuing this strategic approach will ultimately lead to recommissioning and gold production at Sandstone.

At the Reo gold project in Burkina Faso, West Africa, the focus remains on securing permit renewals and extensions, and evaluating appropriate divestment opportunities. In this latter respect, two companies commenced or completed due diligence reviews of the Reo project during the December quarter, and Middle Island is in the process of documenting a possible transaction.

Sandstone Gold Project (100%) – Western Australia

The Sandstone gold project is shown in Figure 1 below.



Two Mile Hill Tonalite Deeps Deposit

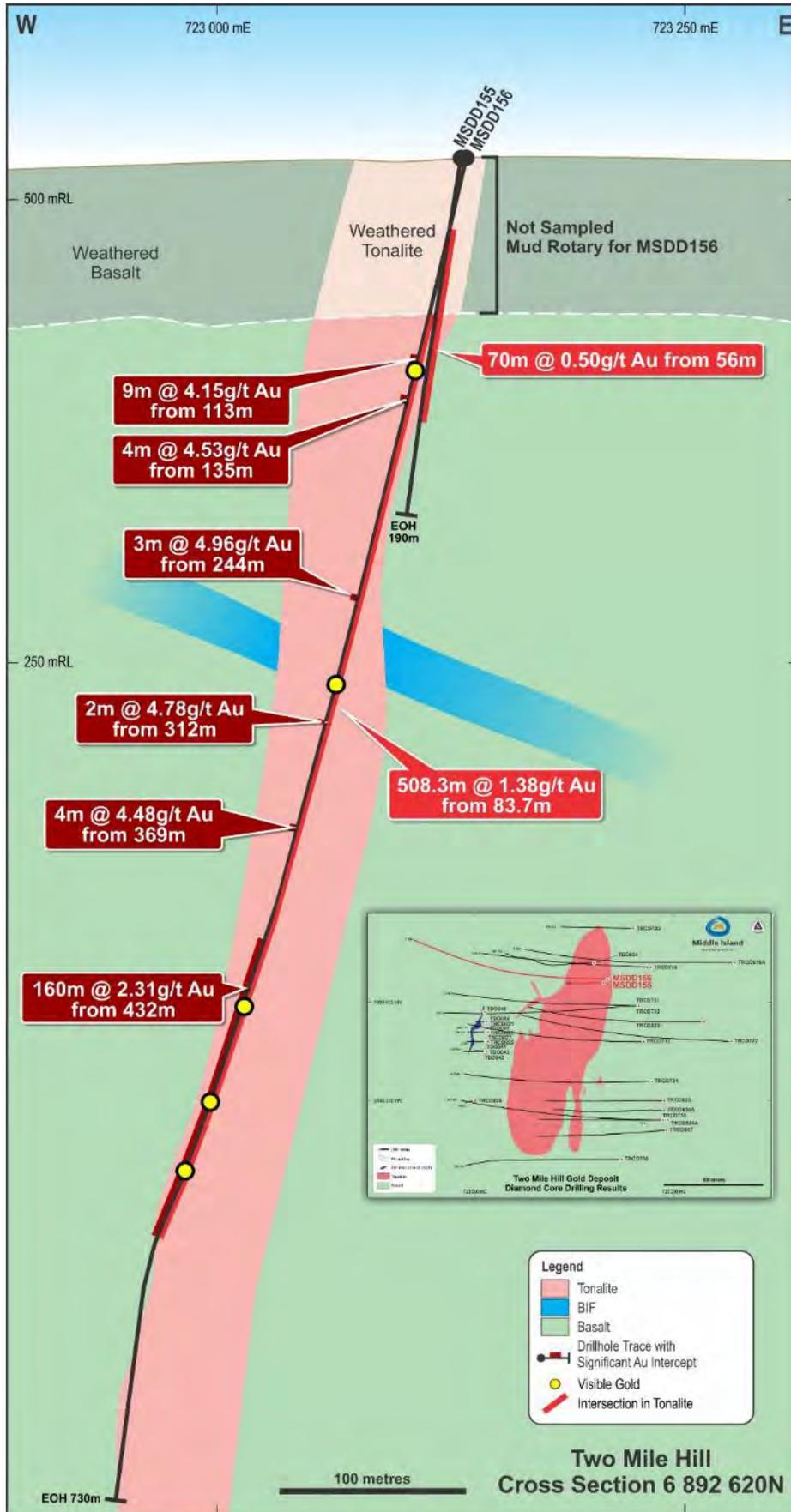
The Two Mile Hill tonalite deeps deposit is located 4km north (via an existing haul road) of the Company's 600,000tpa gold processing plant (Figure 1).

Diamond Drilling

Following completion of a 231m diamond core extension to hole MSDD156 (to a final depth of 730m), a revised gold intercept of 508.3m at 1.38g/t Au was intersected (ASX Release – 14 November 2017). MSDD156 is mineralised from the start of coring to 592m depth, including an intercept of 160m at 2.31g/t Au (from 432m to 592m depth), as shown in Figure 2 below. When combined with the MSDD155 RC pre-collar, immediately adjacent to MSDD156, the extended mineralised intercept becomes 551m at 1.33g/t Au. This intercept in MSDD156 is entirely consistent with previous diamond drilling at Two Mile Hill, including intersections of 372.7m at 1.52g/t, 230.4m at 1.62g/t, 353.3m at 1.04g/t, 141.0m at 2.30g/t and 156.3m at 1.14g/t Au.



Figure 2
Two Mile Hill diamond drill section 6,892,620N showing MSDD156



Exploration Target

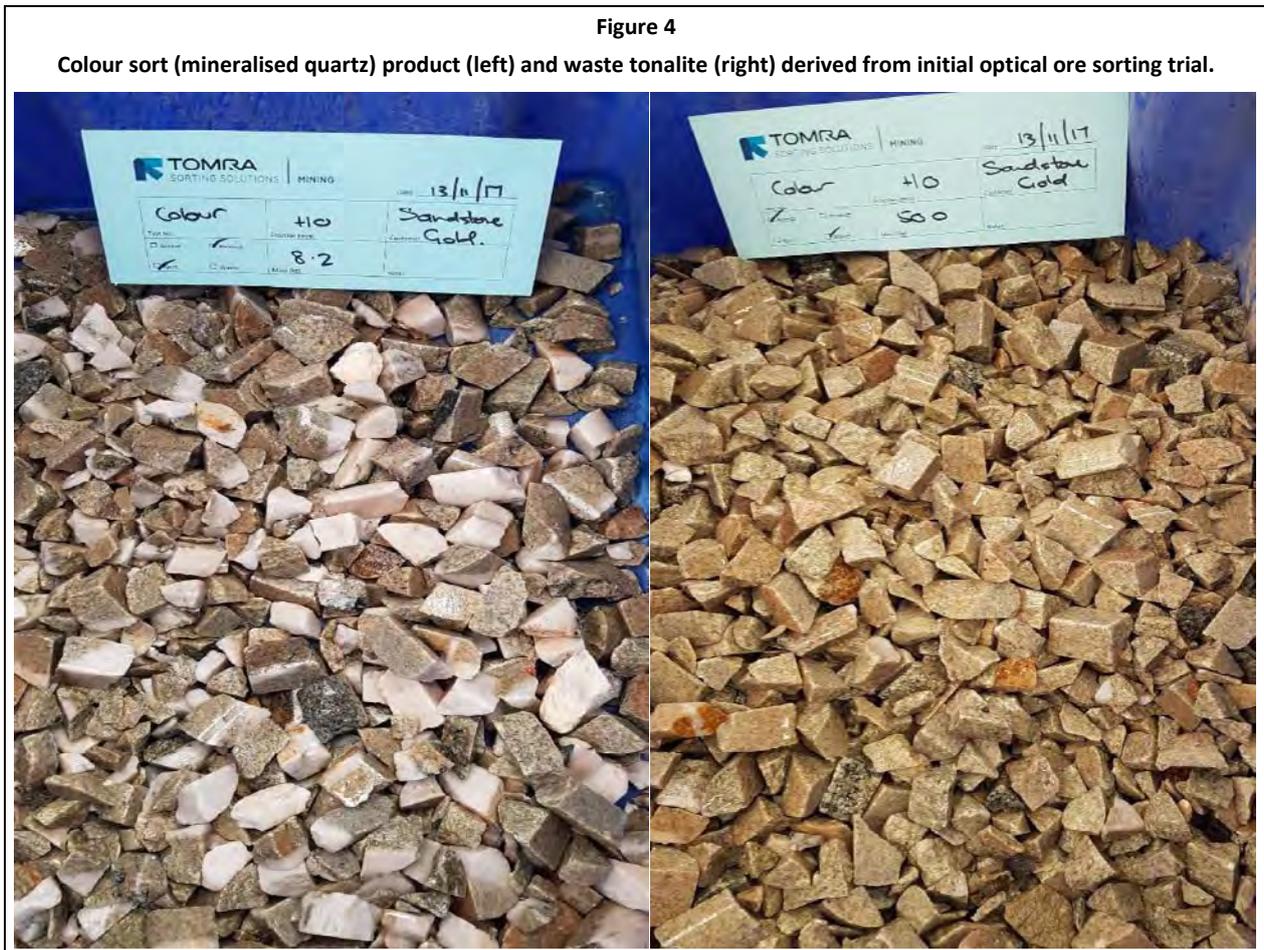
An Exploration Target of 24Mt to 34Mt at 1.1g/t to 1.4g/t Au, comprising between 0.9Moz & 1.5Moz of gold, has been estimated between 140m and 700m depth for the Two Mile Hill tonalite deeps deposit (ASX Release – 29 November 2017).

The Exploration Target follows the incorporation of results from diamond core hole MSDD156, along with all previous diamond drilling. Within the Exploration Target, broader, sub-horizontal zones of higher grade mineralisation include approximate true width intercepts of 160m at 2.31g/t, 22m at 5.95g/t, 37m at 4.46g/t, 50m at 2.71g/t, 13m at 6.39g/t and 11m at 6.89g/t Au.

It is planned to commence staged resource definition diamond drilling of the mineralised tonalite to an initial depth of 400-450m during the March quarter, 2018.

Ore Sorting

Initial ore sorting testwork demonstrates that the Two Mile Hill tonalite deeps deposit is amenable to pre-concentration sorting, with a high selectivity of gold mineralisation using X-ray and optical sensors (Figure 4). The testwork indicates that sorting can deliver a 185%-257% increase in grade with gold recoveries in excess of 93% and up to 64% of the sorter feed material being rejected. Confirmation of this outcome would deliver significant economic benefits (including reduced unit haulage and process operating costs, and tailings disposal and water requirements) towards development of the Two Mile Hill tonalite deeps deposit.



A POW has been lodged to provide PQ diameter diamond core for more definitive ore sorting testwork on larger composite samples during the March quarter. This work would include multistage XRT/Colour/Laser sorting, with iterations around grade ranges and crush sizes.

In the interim, indicative ore sorting results will be incorporated into an underground mining concept study to be prepared during the March quarter.

Wirraminna Gold Deposit

The Wirraminna gold deposit lies only 1km west of the Company's 100%-owned, 600,000tpa Sandstone gold processing plant (Figure 1).

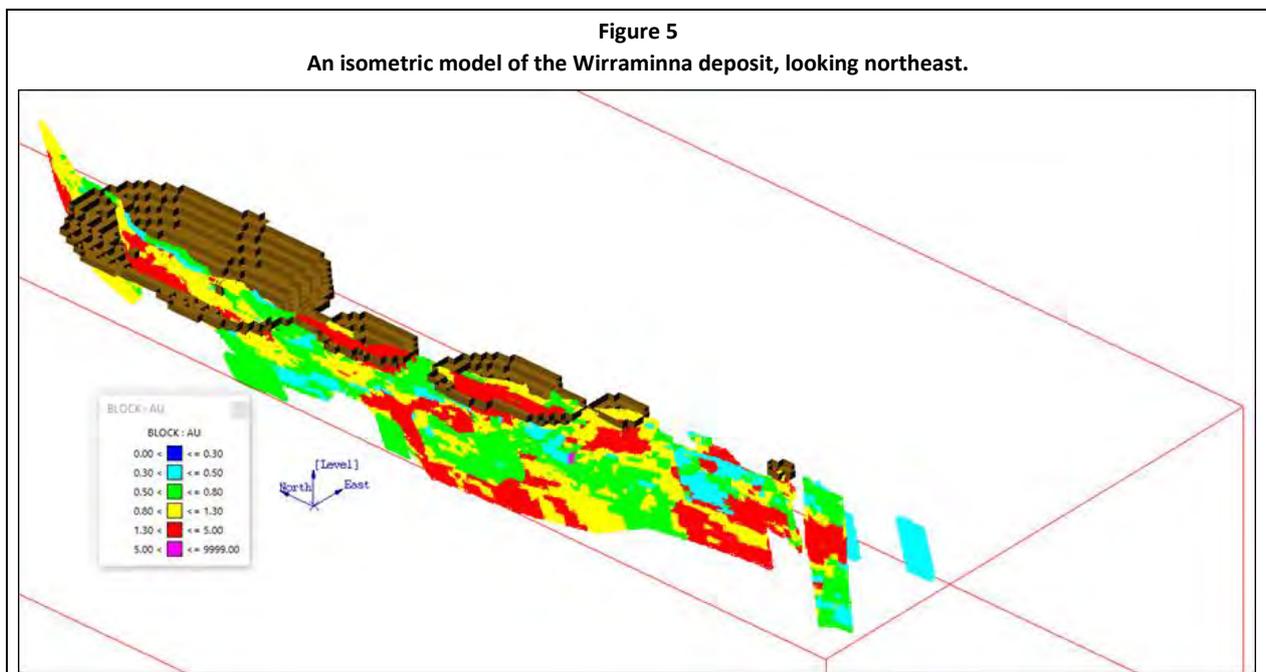
Resource Definition Drilling

A programme of infill resource definition drilling, comprising 1,939m (24 holes) of RC and 175.9m of HQ3 diamond core tails (on four holes) was completed at the Wirraminna deposit during the December quarter (ASX Release – 2 November 2017).

Drilling at the Wirraminna deposit returned results generally consistent with historic drilling, including higher grade intercepts of 4m at 13.4g/t, 1m at 17.8g/t, 1m at 12.1g/t and 1m at 10.8g/t Au. However, diamond core tails failed to validate several reported historic higher grade intercepts.

Resource Estimation

An updated estimate of the Mineral Resource for Wirraminna deposit was completed during the December quarter by an external independent consultant (ASX Release – 8 December 2017). The updated Mineral Resource, estimated in accordance with the 2012 JORC Code guidelines, more than doubled to 550,000t at 1.3g/t Au for 23,000oz gold (at a 0.5g/t lower cut-off grade) following verification, infill and extension drilling (Figure 5). Some 55% of the new Wirraminna Mineral Resource is classified as Indicated, with the balance in the Inferred category.



The updated estimate compares with a previous Inferred Mineral Resource estimate (JORC 2004) of 106,300t at 2.07g/t Au (10,674oz). The increase in tonnage reflects a higher degree of mineralised zone continuity demonstrated by infill and extension drilling, and the application of a lower cut-off grade.

Pit Optimisation

The updated Wirraminna Mineral Resource estimate was optimised at a gold price of A\$1,600/oz. The optimal pit shell (Figure 5) included 72,000 t at 1.97 g/t gold at a strip ratio of 9:1.

Considerable opportunity remains to further expand the Wirraminna deposit via follow-up RC drilling, including confirming the location of historic higher grade holes and infill drilling of Inferred Mineral Resources.

Davis Gold Prospect

Reconnaissance RC Drilling

Two traverses of reconnaissance RC holes (aggregating 5 holes; 386m) were completed over two of the four Davis prospect gold anomalies to determine the nature and tenor of associated saprolitic mineralisation. Traverses comprised two, angled, overlapping, RC holes at Davis East and three similar holes across Davis West.

The RC holes encountered broad zones of ferruginous quartz veining within saprolitic ultramafic rocks. While similar in appearance and setting to gold mineralisation at the adjacent Wirraminna and Eureka deposits, the initial results included a best intercept of 1m at 1.88g/t Au from 23m depth in MSRC259 at Davis West.

Ned's Gold Project Acquisition

During the December quarter, Middle Island acquired a 100% interest in the Ned's gold exploration project for \$500 in cash. The Ned's gold project (P57/1384) covers an area of 34ha and lies ~10km east-southeast of the Company's existing Sandstone gold project, as shown in Figure 1. The Ned's project straddles the former haul road linking the Lord Henry and Lord Nelson deposits with Middle Island's 600,000tpa Sandstone gold processing plant.

The Ned's project is interpreted to comprise a north-south trending succession of predominantly ultramafic rocks situated in the south-central portion of the Sandstone greenstone belt. Gold mineralisation is evidenced by nugget patches, spatially related to historic gold workings developed on quartz veins within ultramafic rocks.

The Ned's project lies between the Indomitable and Vanguard gold trends that represent the current focus of exploration by Alto Metals Limited on adjacent tenements.

Subject to available funding and exploration priorities, work planned for the Ned's project in 2018 includes soil geochemistry over the entire project area, along with initial RAB and/or RC drill testing of any significant targets identified.

The outright acquisition of Ned's, on extremely favourable terms, adds further exploration acreage to Middle Island's well-endowed Sandstone gold tenure. Ned's is the Company's third such consolidation in 2017, having previously secured options over the Wirraminna and Dandaraga projects.

Tribute Gold Production

The Company is pleased to report December quarter gold production of 62.9oz from the surface rights tribute agreement over its 100%-owned Sandstone gold project, comprising restricted areas of M57/128 and M57/129.

Tribute gold production was 33.5oz and 29.4oz for October and November respectively, with prospecting activities ceasing in late November due to seasonal heat and atmospheric interference on metal detectors. Middle Island's share of gold for the December quarter, being 15% of aggregate production, was 9.83oz gold, as shown in Figure 6 below.



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

While covering monthly corporate administration costs, income from the tribute production is otherwise immaterial. The major benefit is that the tribute arrangement is serving to identify additional bedrock gold targets for Middle Island. The Cowan prospect, located east of Shillington, represents the most recent target of interest. Prospecting activities identified coarse, platy, free gold that appears to be of primary origin associated with a 1m wide quartz reef that was intermittently exposed over a 100m strike length.

These new prospects will be prioritised and assessed by exploration as funds permit.

Sandstone mill clean-up

Some 6.5t of mineralised residues derived from the Sandstone processing plant were despatched for gold recovery in the September quarter. Although originally anticipated during the December quarter, it is understood that the results and proceeds of this work will now become available during the March quarter, 2018.

Planned 2018 March & June Quarter Activities

Activities planned at the Sandstone Project for the March & June quarters variously comprise:-

Two Mile Hill Tonalite Deeps

- Large diameter (PQ) diamond core hole to provide material for geotechnical testwork and bulk mineralised composites for further ore sorting trials.
- Geotechnical testwork on PQ diamond core.
- Additional mineralogical studies to determine the nature and distribution of gold within the tonalite.
- More definitive ore sorting trials to include multi-stage XRT/Colour/Laser sorting, with iterations around grade ranges and crush sizes.
- Resource definition diamond drilling of the mineralised tonalite to an initial depth of 400-450m, notionally to an Indicated Resource status.
- Complete underground mining concept study incorporating preliminary ore sorting results.

Wirraminna

- RC drilling to extend the Wirraminna deposit and confirm historic high grade drill results.

Davis

- Limited follow-up RC drilling.

Cowan

- Limited initial rock chip sampling and RC drilling of recently identified quartz vein.

McClaren

- Limited initial RC drilling.

Dandaraga

- Geological mapping and soil sampling over the entire project, and limited RC drilling at Agnes.

Ned's

- Soil sampling over the entire project.

Twin Shafts Mill

- Report clean-up of residual gold from the processing plant.

Other

- Continue to review other proximal consolidation transactions.

Reo Gold Project (100%) – Burkina Faso

Exploration

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

The focus remains on identifying an appropriate partner to help fund the project through to feasibility. To this end, a further two entities completed or commenced data reviews and site visits during the December quarter, with each tabling and negotiating commercial terms. Middle Island is in the process of documenting its preferred transaction, with any outcome to be advised to the market once finalised.

Tenure

Following ratification of the new Mining Act in Burkina Faso in February 2017, the first two permit extension applications for the Reo Project were granted during 2017. It is anticipated that remaining extension applications will be granted during 2018 and progress on these continues to be closely monitored.

Safety, Environmental & Social

Health, Safety & Environment

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

Rehabilitation of disturbed areas, primarily drill sites, is being progressively undertaken in accordance with POW requirements. Safety signage and restricted access areas associated with the open pits and the processing plant are being regularly maintained.

Social

The Company continues to engage with the Shire of Sandstone and actively seeks to sponsor or facilitate community events.

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

Comment

Middle Island Managing Director, Mr Rick Yeates:

Middle Island continues to make excellent progress on its multi-faceted strategy at Sandstone.

The December quarter highlight is undoubtedly the significant progress made on the Two Mile Hill tonalite deeps deposit. Deep diamond drilling generated an intercept of 508.3m at 1.38g/t Au, following which an Exploration Target of 0.9-1.5Moz was estimated.

Of greater economic significance is the successful initial ore sorting trial, with testwork indicating that sorting may deliver up to a 257% increase in grade, at gold recoveries in excess of 93%, with up to 64% of the sorter feed material being rejected as waste. This outcome increases the deposits' potential to represent a long-term, bulk underground mining proposition, compatible with the Company's existing processing plant, and has the potential to underpin production at Sandstone for an extended period.

In addition, a doubling of the Wirraminna resource serves to further extend open pittable mineralisation for the planned production profile, while the Ned's acquisition expands the proximal exploration acreage available to Middle Island, supplementing the recent Wirraminna and Dandaraga consolidations.

Planned activities in the March and June quarters of 2018 variously include further diamond drilling, ore sorting trials and an underground mining concept study at Two Mile Hill. Elsewhere, additional drilling is planned at Wirraminna and, funds permitting, further exploration will be completed at the Davis, Cowan, McClaren, Dandaraga and Ned's prospects. Review work will also continue on other possible consolidations.

I take this opportunity to welcome and thank new and existing shareholders to the Middle Island register following your support for the recent capital raising.

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Forward Looking Statements

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

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

Competent Persons' Statement

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

Middle Island Resources Limited (**Company**) advises the following information required under ASX Listing Rule 5.3.3 as at 31 December 2018:

Mining Tenements

Tenements	Mining tenements acquired during the quarter	Mining tenements disposed during the quarter	Mining tenements held at the end of the quarter	Tenement location
Pouni	-	-	100% - extension pending	Burkina Faso
Dassa	-	-	100% - extension pending	Burkina Faso
Didyr	-	-	100%	Burkina Faso
Dassa Sud	-	-	100%	Burkina Faso
Nebya	-	-	100% - extension pending	Burkina Faso
Gossina	-	-	100% - extension pending	Burkina Faso
M57/128	-	-	100%	Western Australia
M57/129	-	-	100%	Western Australia
P57/1395	-	-	Option to acquire 100%	Western Australia
P57/1384	100%	-	100%	Western Australia
E57/1028	-	-	Option to acquire 100%	Western Australia

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