



Middle Island

RESOURCES LIMITED

INTERIM FINANCIAL REPORT

For the Half-Year ended 31 December 2017
ABN 70 142 361 608

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2017 and any public announcements made by Middle Island Resources Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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DIRECTORS' REPORT

Your directors are pleased to present their report on the consolidated entity consisting of Middle Island Resources Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2017.

DIRECTORS

The names of the directors who held office during or since the end of the half-year, to the date of this report, are:

Peter Thomas
Richard Yeates
Beau Nicholls
Dennis Wilkins (alternate for Beau Nicholls)

REVIEW AND RESULTS OF OPERATIONS

A summary of consolidated revenues and results for the half-year is set out below:

	2017	
	Revenues	Profit/(Loss)
	\$	\$
Consolidated entity revenues and loss	143,143	(1,116,680)

Corporate

Finances

Middle Island Resources Limited (ASX: **MDI, Middle Island or the Company**), had a cash balance of approximately A\$2.0 million as at 31 December 2017. This balance reflects payment of the A\$500,000 (plus GST) Deferred Payment made to the Sandstone Project vendors in December 2017.

Equity

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, are being applied to exploration and development work at the Company's wholly-owned Sandstone gold project in WA, primarily focused 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 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 & Operations

Sandstone Gold Project (Western Australia)

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 half, variously via the following:

- Metallurgical testwork on the Two Mile Hill tonalite deeps deposit;
- 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 definition drilling of the Wirraminna open pit deposit and initial RC drilling of the new Davis gold anomalies;
- Resource estimation and pit optimisation on the Wirraminna open pit deposit;
- Discovery and initial exploration of new greenfields targets;
- An option to acquire 100% of the nearby Dandaraga project;
- Acquisition of a 100% interest in the proximal Ned's gold exploration project; and
- 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.

The above strategy has met with considerable success during the half year and I refer the reader to the Company's ASX announcements throughout the period for details.

Reo Gold Project (Burkina Faso)

At the Reo gold project in Burkina Faso, West Africa, the focus remains on securing permit renewals and extensions, and evaluating appropriate divestment opportunities.

With respect to divestment, and subsequent to the reporting period, Middle Island executed a Heads of Agreement with Tajiri Resources Corp. (TSX-V:TJ, 'Tajiri') for Tajiri to be granted an option to acquire a 100% interest in the Reo gold project in Burkina Faso, West Africa. Summary commercial terms involve aggregate cash payments to Middle Island of US\$335,000 (US\$35,000 of which has been paid) and the issue of 5 million shares, representing 8% of Tajiri's then post-issue expanded capital, plus a 2% net smelter return (NSR) royalty, which can be purchased by Tajiri for US\$5 million.

Via the equity and royalty components, the Tajiri transaction structure allows Middle Island to retain a significant indirect interest in the upside potential of the Reo project. The equity component also offers considerable exposure to Tajiri's significant gold project interests in Guyana, South America.

Health, Safety & Environment

No injuries, safety or environmental incidents were recorded at the Company's projects and premises during the December 2017 half-year.

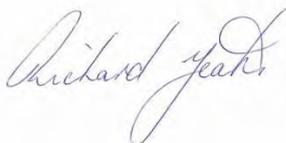
Social

The Company continued to liaise with communities on both its Western Australian (Sandstone) and its West African (Reo) projects. Whilst in exploration and development the Company's ability to support communities is limited, but nevertheless it is committed to working with its communities as best it can. The Company continues to keep its communities informed of Middle Island's situation.

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 4.

This report is made in accordance with a resolution of directors.



Richard Yeates
Managing Director
Perth, 12 March 2018



Auditor's Independence Declaration

To those charged with governance of Middle Island Resources Limited

As auditor for the review of Middle Island Resources Limited for the half-year ended 31 December 2017, I declare that, to the best of my knowledge and belief, there have been:

- i. no contraventions of the independence requirements of the *Corporations Act 2001* in relation to the review; and
- ii. no contraventions of any applicable code of professional conduct in relation to the review.

Greenwich & Co Audit Pty Ltd

Greenwich & Co Audit Pty Ltd

Nicholas Hollens

Nicholas Hollens

Managing Director

12 March 2018

Perth

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the Half-Year Ended 31 December 2017

	Note	Half-year Ended	
		31 Dec 2017	31 Dec 2016
		\$	\$
Revenue		23,108	8,980
Other income		120,035	-
EXPENDITURE			
Exploration and evaluation expenses		(845,602)	(1,645,258)
Administration expenses		(230,249)	(243,413)
Salaries and employee benefits expense		(182,599)	(186,827)
Depreciation expense		(1,373)	(10,939)
Share-based payments expense	3	-	(729,000)
LOSS BEFORE INCOME TAX		(1,116,680)	(2,806,457)
Income tax		-	-
LOSS FOR THE PERIOD		(1,116,680)	(2,806,457)
OTHER COMPREHENSIVE INCOME			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations		20,796	(25,019)
Other comprehensive income for the period, net of tax		20,796	(25,019)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO MEMBERS OF MIDDLE ISLAND RESOURCES LIMITED		(1,095,884)	(2,831,476)
Basic and diluted loss per share (cents)		(0.2)	(0.6)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

		31 December 2017 \$	30 June 2017 \$
CURRENT ASSETS			
Cash and cash equivalents		2,005,682	1,841,875
Trade and other receivables		28,474	10,198
TOTAL CURRENT ASSETS		2,034,156	1,852,073
NON-CURRENT ASSETS			
Property plant and equipment		2,042,720	2,044,092
Mining properties		2,080,275	2,057,754
TOTAL NON-CURRENT ASSETS		4,122,995	4,101,846
TOTAL ASSETS		6,157,151	5,953,919
CURRENT LIABILITIES			
Trade and other payables		122,247	606,781
TOTAL CURRENT LIABILITIES		122,247	606,781
NON-CURRENT LIABILITIES			
Rehabilitation provisions		1,203,417	1,203,417
TOTAL NON-CURRENT LIABILITIES		1,203,417	1,203,417
TOTAL LIABILITIES		1,325,664	1,810,198
NET ASSETS		4,831,487	4,143,721
EQUITY			
Contributed equity	3	34,954,474	33,170,824
Reserves		1,138,748	1,124,382
Accumulated losses		(31,261,735)	(30,151,485)
TOTAL EQUITY		4,831,487	4,143,721

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY For the Half-Year Ended 31 December 2017

	Note	Contributed Equity	Share-based Payments Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total
		\$	\$	\$	\$	\$
BALANCE AT 1 JULY 2016		31,399,916	6,430	402,883	(25,895,430)	5,913,799
Loss for the period		-	-	-	(2,806,457)	(2,086,457)
OTHER COMPREHENSIVE INCOME						
Exchange differences on translation of foreign operations		-	-	(25,019)	-	(25,019)
TOTAL COMPREHENSIVE INCOME		-	-	(25,019)	(2,806,457)	(2,831,476)
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS						
Issue of options to directors and consultants	3		729,000			729,000
Issue of shares as supplier payments	3	100,000	-	-	-	100,000
BALANCE AT 31 DECEMBER 2016		<u>31,499,916</u>	<u>735,430</u>	<u>377,864</u>	<u>(28,701,887)</u>	<u>3,911,323</u>
BALANCE AT 1 JULY 2017		33,170,824	735,430	388,952	(30,151,485)	4,143,721
Loss for the period		-	-	-	(1,116,680)	(1,116,680)
OTHER COMPREHENSIVE INCOME						
Exchange differences on translation of foreign operations		-	-	20,796	-	20,796
TOTAL COMPREHENSIVE INCOME		-	-	20,796	(1,116,680)	(1,095,884)
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS						
Issue of shares during the period		1,897,500	-	-	-	1,897,500
Share issue transaction costs		(113,850)	-	-	-	(113,850)
Employee options expired/cancelled during the period	3	-	(6,430)	-	6,430	-
BALANCE AT 31 DECEMBER 2017		<u>34,954,474</u>	<u>729,000</u>	<u>409,748</u>	<u>(31,261,735)</u>	<u>4,831,487</u>

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the Half-Year Ended 31 December 2017

	Half-year Ended	
	31 Dec 2017	31 Dec 2016
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	19,266	-
Exploration Incentive Scheme grant received	97,303	-
Expenditure on mining interests	(824,309)	(1,486,323)
Payments to suppliers and employees	(436,938)	(814,020)
Interest received	3,829	8,979
Other income received	7,540	-
Net cash used in operating activities	(1,133,309)	(2,291,364)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for plant and equipment	(500,000)	(1,041,446)
Proceeds from sale of plant and equipment	15,192	-
Payments for mining properties	-	(376,630)
Net cash used in investing activities	(484,808)	(1,418,076)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issues of ordinary shares	1,897,500	1,454,723
Payment of share issue transaction costs	(113,850)	-
Net cash provided by financing activities	1,783,650	1,454,723
Net increase/(decrease) in cash and cash equivalents	165,533	(2,254,717)
Cash and cash equivalents at the beginning of the period	1,841,875	3,612,918
Effects of exchange rate changes on cash and cash equivalents	(1,726)	-
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	2,005,682	1,358,201

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

This consolidated interim financial report for the half-year reporting period ended 31 December 2017 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by Middle Island Resources Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

This consolidated interim financial report has been prepared on an accruals and historical cost basis.

This consolidated interim financial report has been prepared on the going concern basis that contemplates normal business activities and the realisation of assets and extinguishment of liabilities in the ordinary course of business.

This consolidated interim financial report was approved by the Board of Directors on 12 March 2018.

Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

In the half-year ended 31 December 2017, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2017. It has been determined by the Group that there is no impact, material or otherwise, of these new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the half-year ended 31 December 2017. As a result of this review the Directors have determined that there is no impact, material or otherwise, of these new and revised Standards and Interpretations on its business and, therefore, no change necessary to Group accounting policies.

Going concern

The interim financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity, the realisation of assets and the settlement of liabilities in the normal course of business.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated entity had net assets of \$4,831,487 at 31 December 2017 (30 June 2017: \$4,143,721), incurred a net loss after tax for the six months ended 31 December 2017 of \$1,116,680 (six months to 31 December 2016: loss \$2,806,457) and experienced net cash inflows of \$165,533 (six months to 31 December 2016: \$2,254,717 outflow).

Whilst the directors have instituted measures to preserve cash and secure additional finance, they recognise that the Group's ability to continue as a going concern is dependent on its ability to raise additional capital to fund its business plans.

The Company expects to be able to raise additional capital from the capital market, and on that basis, the directors believe that the going concern basis of the presentation is appropriate.

Nonetheless, the group's working capital position and other period-end financial indicators show a significant uncertainty whether the Group will be able to continue as a going concern.

Should the Company be unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different from those stated in the financial report.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2: SEGMENT INFORMATION

For management purposes, the Group has identified two reportable segments, being exploration activities undertaken in Australia and in West Africa. These segments include activities associated with the determination and assessment of the existence of commercial economic reserves from the Group's mineral assets in these geographic locations.

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.

	Half-year Ended	
	31 Dec 2017	31 Dec 2016
<u>Exploration Segment</u>	\$	\$
Segment revenue - Australia	19,266	-
Segment revenue - Africa	-	-
Segment revenue - Total	19,266	-
Reconciliation of segment revenue to total revenue before tax:		
Interest revenue	3,842	8,980
Other income	120,035	-
Total revenue	143,143	8,980
Segment results - Australia	(788,890)	(1,607,184)
Segment results - Africa	(37,539)	(51,718)
Segment results - Total	(826,429)	(1,658,902)
Reconciliation of segment result to net loss before tax:		
Other corporate and administration	(290,251)	(1,147,555)
Net loss before tax	(1,116,680)	(2,806,457)



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	31 Dec 2017	30 Jun 2017
	\$	\$
Segment operating assets - Australia	3,366,853	3,366,853
Segment operating assets - Africa	752,521	730,092
Segment operating assets - Total	4,119,374	4,096,945
Reconciliation of segment operating assets to total assets:		
Other corporate and administration assets	2,037,777	1,856,974
Total assets	6,157,151	5,953,919
Segment operating liabilities - Australia	1,251,348	1,725,769
Segment operating liabilities - Africa	76	73
Segment operating liabilities - Total	1,251,424	1,725,842
Reconciliation of segment operating liabilities to total liabilities:		
Other corporate and administration liabilities	74,240	84,356
Total liabilities	1,325,664	1,810,198

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3: EQUITY SECURITIES ISSUED

Issues of ordinary shares during the period

	31 Dec 2017		Half-year Ended 31 Dec 2016	
	Shares	\$	Shares	\$
Opening balance	586,283,790	33,170,824	459,318,295	31,399,916
Issued for cash at 1.7 cents per share	111,617,647	1,897,500	-	-
Issue in payment of services	-	-	9,708,738	100,000
Cost of capital raise		(113,850)	-	-
Closing balance	697,901,437	34,954,474	469,027,033	31,499,916

Movements of options during the period

	Half-year Ended 31 December 2017	
	Number of Options	Value of Options
Opening Balance	38,300,000	735,430
\$0.10c options expired 7 July 2017	(600,000)	(5,220)
\$0.15c options expired 7 July 2017	(100,000)	(670)
\$0.20c options expired 7 July 2017	(100,000)	(540)
Cancellation of \$0.07c options expiring 18 November 2018	(7,500,000)	-
Closing Balance	30,000,000	729,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4: CONTINGENCIES

There has been no change in contingent liabilities since the last annual reporting date.

NOTE 5: TENEMENT EXPENDITURE COMMITMENTS

The minimum statutory expenditure requirements on granted tenements for the next 12 months amounts to \$304,354.

NOTE 6: SUBSEQUENT EVENTS

No matter or circumstance has arisen since 31 December 2017 which has significantly affected, or may significantly affect, the operations of the Group, the result of those operations, or the state of affairs of the Group in subsequent financial years.

DIRECTORS' DECLARATION

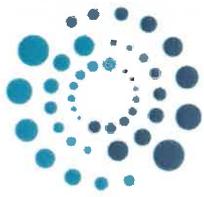
In the directors' opinion:

1. the financial statements and notes set out on pages 5 to 14 are in accordance with the *Corporations Act 2001*, including:
 - (a) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (b) giving a true and fair view of the company's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and
2. there are reasonable grounds to believe that Middle Island Resources Limited will be able to pay its debts as and when they become due and payable.

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



Richard Yeates
Managing Director
Perth, 12 March 2018



Independent Auditor's Review Report

To the members of Middle Island Resources Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Middle Island Resources Limited, which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the company's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Middle Island Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Middle Island Resources Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the company's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting and Corporations Regulations 2001*.

Emphasis of matter – Inherent uncertainty regarding continuation as a going concern

Without modifying our conclusion, we draw attention to Note 1 to the financial report, which describes that the ability of the company to continue as a going concern is dependent on its ability to raise additional capital to fund its business plans.

As a result, there is material uncertainty related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern, and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Greenwich & Co Audit Pty Ltd

Greenwich & Co Audit Pty Ltd

Nicholas Hollens

Nicholas Hollens
Managing Director
12 March 2018
Perth