Middle Island

RESOURCES LIMITED

INTERIM FINANCIAL REPORT

For the Half-Year ended 31 December 2016

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 2016 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*.

Middle Island Resources Limited
ACN 142 361 608

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 2016.

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

Linton Kirk (resigned 11 July 2016)

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:

	2016	
	Revenues	**Results**
	$	**$**
Consolidated entity revenues and loss	8,980	2,806,457

Corporate

Middle Island held cash of approximately $1,358,000 as at 31 December 2016. Middle Island's liabilities at 31 December 2016 total $570,000 of which $500,000 is payable in January 2018 as part of the consideration for the Sandstone Gold Project purchased during the period.

Project Acquisition

The Company completed the 100% acquisition of the Sandstone Gold Project in WA on 11 July 2016, following shareholder approval of the transaction at a general meeting of the Company held on 24 June 2016 and satisfaction of other Conditions Precedent. The assets acquired (on an 'as is, where is' basis, with no warranties being provided by the vendor) were:

a) two granted mining leases (M57/128 and M57/129) situated within the Sandstone greenstone belt;
b) JORC Code 2004 indicated and inferred mineral resources, which the Company intended to take into production in the near term (following, and subject to the results of, a pre-feasibility study);

c) the Sandstone Mill (currently on care and maintenance), a licensed tailings facility, permitted bore field, fuel tanks, workshops, water supply equipment, stockpiles, offices and a substantial inventory of mill stores and spares;
d) three well equipped camps on, and including, freehold titles located in the township of Sandstone; and
e) multiple brownfield exploration targets.

The purchase price was comprised of a cash deposit of $250,000 (paid on 9 May 2016), a cash payment of $1,250,000 on completion (11 July 2016) and the following deferred payments:

a) $500,000, payable within 28 days of the receipt of proceeds from the first sale of gold produced from the Sandstone Assets; and
b) the "Deferred Payment" of $500,000, payable by no later than 18 months following Completion (or $400,000 if paid within 3 months of Completion).

Strategy

With the successful completion of the Sandstone Gold Project acquisition the Companies strategic focus has moved to exploration of the Sandstone tenure and the feasibility studies required to support the eventual re-development of the Sandstone Project. In light of the mid-December 2016 deferral of the mill re-commissioning schedule at the Sandstone Gold Project, MDI's priority then became and remains the identification of suitable, additional mill feed via a multi-faceted strategy variously including the following:-

- Continued brownfields exploration and conceptual mining studies on the deeper, high grade, Two Mile Hill BIF targets.
- Greenfields exploration within the Company's Sandstone leases, especially targets with the potential to provide near-term, higher grade, open pit mill feed.
- Commissioning of a 'weights of evidence' targeting study over the entire tenure, to commence early in the March quarter of 2017.
- A review of third-party deposits and exploration opportunities within the wider Sandstone area with a view to negotiating farm-ins, acquisitions and toll-milling or production sharing agreements.

At the Reo gold project in Burkina Faso, West Africa the focus is on securing permit renewals and extensions, following which the Company will continue to evaluate appropriate divestment opportunities or recommence exploration in its own right.

Refer to the Company's ASX announcements throughout the period for details.

Health, Safety & Environment

No injuries, safety or environmental incidents were recorded at the Company's projects and premises during the period under review.

Social

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

Equity

In satisfaction of a corporate advisory fee in relation to the Sandstone acquisition above, the Company issued 9,708,738 fully paid ordinary shares on 11 July 2016 at a deemed issued price of $0.0103 per share. The fee was included as an accrued expense at the reporting date and recognised in the profit or loss.

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, 15 March 2017

Greenwich & Co

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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 year ended 31 December 2016, 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

15 March 2017

Perth

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the Half-Year Ended 31 December 2016

		Half-year Ended	
		31 Dec 2016	31 Dec 2015
	Note	$	$
REVENUE			
Other revenue		**8,980**	26,015
EXPENDITURE			
Exploration and evaluation expenses		**(1,645,258)**	(62,660)
Administration expenses		**(243,413)**	(244,195)
Salaries and employee benefits expense		**(186,827)**	(179,914)
Depreciation expense		**(10,939)**	(7,514)
Share-based payments expense	3	**(729,000)**	(136)
Impairment of capitalised tenement acquisition cost	4	**-**	(1,946,139)
Impairment of receivable		**-**	(127,912)
LOSS BEFORE INCOME TAX		**(2,806,457)**	(2,542,455)
Income tax		**-**	-
LOSS FOR THE PERIOD		**(2,806,457)**	(2,542,455)
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		**(25,019)**	115,105
Other comprehensive income for the period, net of tax		**(25,019)**	115,105
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO MEMBERS OF MIDDLE ISLAND RESOURCES LIMITED		**(2,831,476)**	(2,427,350)
Basic and diluted loss per share (cents)		**(0.6)**	(1.0)

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 2016

	Note	31 December 2016 $	30 June 2016 $
CURRENT ASSETS			
Cash and cash equivalents		**1,358,201**	3,612,918
Trade and other receivables		**11,046**	1,714,033
TOTAL CURRENT ASSETS		**1,369,247**	5,326,951
NON-CURRENT ASSETS			
Property plant and equipment		**1,543,173**	12,666
Mining properties		**2,569,139**	967,528
TOTAL NON-CURRENT ASSSETS		**4,112,312**	980,194
TOTAL ASSETS		**5,481,559**	6,307,145
CURRENT LIABILITIES			
Trade and other payables		**570,236**	393,346
TOTAL CURRENT LIABILITIES		**570,236**	393,346
NON-CURRENT LIABILITIES			
Rehabilitation provisions		**1,000,000**	-
TOTAL NON-CURRENT LIABILITIES		**1,000,000**	-
TOTAL LIABILITIES		**1,570,236**	393,346
NET ASSETS		**3,911,323**	5,913,799
EQUITY			
Contributed equity	3	**31,499,916**	31,399,916
Reserves		**1,113,294**	409,313
Accumulated losses		**(28,701,887)**	(25,895,430)
TOTAL EQUITY		**3,911,323**	5,913,799

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 2016

	Note	Contributed Equity	Share-based Payments Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total
		$	$	$	$	$
BALANCE AT 1 JULY 2015		**25,733,440**	**6,250**	**311,001**	**(22,724,878)**	**3,325,813**
Loss for the period		**-**	**-**	**-**	**(2,542,455)**	**(2,542,455)**
OTHER COMPREHENSIVE INCOME						
Exchange differences on translation of foreign operations		**-**	**-**	**115,105**	**-**	**115,105**
TOTAL COMPREHENSIVE INCOME		**-**	**-**	**115,105**	**(2,542,455)**	**(2,427,350)**
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS						
Issue of shares	3	**503,428**	**-**	**-**	**-**	**503,428**
Transaction costs	3	**(12,000)**	**-**	**-**	**-**	**(12,000)**
Director and employee options	3	**-**	**136**	**-**	**-**	**136**
BALANCE AT 31 DECEMBER 2015		**26,224,868**	**6,386**	**426,106**	**(25,267,333)**	**1,390,027**
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			729,000			729,000
Issue of shares as supplier payments		100,000	-	-	-	100,000
Director and employee options	3	-	-	-	-	-
BALANCE AT 31 DECEMBER 2016		**31,499,916**	**735,430**	**377,864**	**(28,701,887)**	**3,911,323**

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 2016

	Half-year Ended	
	31 Dec 2016	**31 Dec 2015**
	$	**$**
CASH FLOWS FROM OPERATING ACTIVITIES		
Expenditure on mining interests	**(1,486,323)**	(68,168)
Payments to suppliers and employees	**(814,020)**	(485,351)
Interest received	**8,979**	5,804
Other income received	**-**	21,272
Net cash used in operating activities	**(2,291,364)**	(526,443)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for plant and equipment	**(1,041,446)**	-
Proceeds from sale of plant and equipment	**-**	**-**
Payments for mining properties	**(376,630)**	
Net cash used in investing activities	**(1,418,076)**	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issues of ordinary shares	**1,454,723**	503,428
Payment of share issue cost	**-**	(12,000)
Net cash provided by financing activities	**1,454,723**	491,428
Net decrease in cash and cash equivalents	**(2,254,717)**	(35,015)
Cash and cash equivalents at the beginning of the period	**3,612,918**	564,732
Effects of exchange rate changes on cash and cash equivalents	**-**	(560)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**1,358,201**	529,157

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 2016 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 2016 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 14 March 2017.

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 2016, 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 2016. 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 2016. 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 $3,911,323 at 31 December 2016 (30 June 2016: $5,913,799), incurred a net loss after tax for the six months ended 31 December 2016 of $2,806,457 (six months to 31 December 2015: loss $2,542,455) and experienced net cash outflows of $2,254,717 (six months to 31 December 2015: $35,015).

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 year-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 segment, being exploration activities undertaken in Australia and in West Africa. These segments includes activities associated with the determination and assessment of the existence of commercial economic deposits 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 2016	**31 Dec 2015**
Exploration Segment	**$**	**$**
Segment revenue - Australia	-	-
Segment revenue - Africa	-	-
Segment revenue - Total	-	-
Reconciliation of segment revenue to total revenue before tax:		
Profit on sale of assets	**-**	-
Interest revenue	**8,980**	4,743
Other income	**-**	21,272
Total revenue	**8,980**	26,015
Segment results - Australia	**(1,607,184)**	-
Segment results - Africa	**(51,718)**	(1,996,028)
Segment results - Total	**(1,658,902)**	(1,996,028)
Reconciliation of segment result to net loss before tax:		
Other corporate and administration	**(1,147,555)**	(546,427)
Net loss before tax	**(2,806,457)**	(2,542,455)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Half-year Ended	
	31 Dec 2016	30 Jun 2016
	$	$
Segment operating assets - Australia	**3,190,325**	-
Segment operating assets - Africa	**949,748**	1,114,306
Segment operating assets - Total	**4,140,073**	1,114,306
Reconciliation of segment operating assets to total assets:		
Other corporate and administration assets	**1,341,486**	5,192,839
Total assets	**5,481,559**	6,307,145
Segment operating liabilities - Australia	**1,514,116**	-
Segment operating liabilities - Africa	**73**	73
Segment operating liabilities - Total	**1,514,189**	73
Reconciliation of segment operating liabilities to total liabilities:		
Other corporate and administration liabilities	**56,047**	393,273
Total liabilities	**1,570,236**	393,346

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3: EQUITY SECURITIES ISSUED

Issues of ordinary shares during the period

	Half-year Ended			
	31 Dec 2016		**30 June 2016**	
	Shares	**$**	**Shares**	**$**
Opening balance	459,318,295	**31,399,916**	250,844,253	26,224,868
Issue in payment of services	9,708,738	**100,000**	-	-
Entitlement issue	**-**	**-**	208,474,042	5,454,221
Cost of capital raise	**-**	**-**		(279,173)
Closing balance	469,027,033	**31,499,916**	459,318,295	31,399,916

Movements of options during the period

	Half-year Ended 31 December 2016	
	Number of Options	**Value of Options**
Opening Balance	800,000	6,430
Issue of $0.10c options expiring 18 November 2018	30,000,000	729,000
Issue of $0.07c options expiring 18 November 2018	7,500,000	-
Closing Balance	**38,300,000**	**835,430**

The value of the options issued on 18 November 2016 were calculated in accordance with Australian Accounting Standards by using the Black-Scholes European Option Pricing Model. 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.

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. An Australian treasury bond rate has been used as the risk free rate. The life of the options is based on the expiry date.

The $0.07c options have performance criteria that must be met before they vest and a probability of these options vesting (of NIL) has been used in the determining that no value is recorded as an expense for these options.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4: CONTINGENCIES

As noted above the purchase price for the Sandstone Gold Project included two deferred payments both in the amount of $500,000 with one being payable within 28 days of the receipt of proceeds from the first sale of gold produced from the Sandstone Assets. The eventual payment of this amount is contingent on the production and sale of gold from the Sandstone Assets.

The Sandstone tenements were acquired subject to legacy royalties, including a royalty equal to 2% of the net smelter return on all minerals produced from M57/128 and M57/129 and a royalty of A$1 per tonne of ore mined and treated from M57/129.

There may be a further legacy royalty payable in relation to the tenements acquired by the Company. Pursuant to an Agreement (Deed of Sale – Sandstone) dated 27 September 2004 (Sale Deed) a royalty may be payable in relation to a portion of any gold produced from the Sandstone tenements. Royalties payable under the Sale Deed are to be calculated using a complex formula driven by the specific tenements from which gold is produced, the “deemed entitlement to gold” of persons having a 33.3% participating interest in “the Sandstone Joint Venture”, and a royalty rate of $12.50 per ounce of gold. Eighty six tenements are covered by the Sale Deed, only two of which were acquired by the Company. The Company’s understanding is that the Sandstone Joint Venture no longer exists. The royalty only commences when 50,000 ounces of gold have been produced across the eighty six tenements and it ceases when $4 million has been paid in total across the eighty six tenements under the Sale Deed. Accordingly, depending on how much gold has been produced from the other eighty four tenements and the status of the Sandstone Joint Venture, it is possible that a $12.50 royalty per ounce of gold produced is payable on 1/3 of the gold produced from certain portions of the tenements acquired by the Company. This is being investigated further and the Company will inform the market if and as soon as the status of that potential further royalty has been resolved.

NOTE 5: TENEMENT EXPENDITURE COMMITMENTS

The minimum statutory expenditure requirements on granted tenements for the next 12 months amounts to $250,000.

NOTE 6: SUBSEQUENT EVENTS

As notified to the ASX the Company issued 117,256,757 fully paid ordinary shares on 1 March 2017 at an issue price of $0.015 each and raised $1,758,857 before costs.

No other matter or circumstance has arisen since 31 December 2016 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 2016 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, 15 March 2017

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 condensed statement of financial position as at 31 December 2016, 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 2016 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*.

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 2016 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
15 March 2017
Perth