



## QUARTERLY REPORT

For the period ended 30 June 2016

### HIGHLIGHTS

**Middle Island Resources Ltd**

ACN 142 361 608

ASX Code: MDI

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**Capital Structure:**

469 million shares  
800,000 options

**Board Members:**

**Peter Thomas**

Chairman

**Rick Yeates**

Managing Director

**Beau Nicholls**

Non-Executive Director

**Dennis Wilkins**

Company Secretary

- The Company raised an aggregate of \$5.45 million (before costs) during the quarter by way of two heavily over-subscribed Placements and a Rights Issue. The proceeds of the Rights Issue were not reflected in the cash balance at 30 June 2016, leaving the cash position at A\$3.6 million and no debt.
- On 8 May 2016, Middle Island announced a binding agreement to acquire a 100% interest in the Sandstone gold project, located in the East Murchison gold district of Western Australia, for a headline acquisition price of A\$2.5 million.
- The acquisition, completed on 11 July 2016, includes substantial gold resources, several significant brownfields and greenfields exploration targets, a 600ktpa carbon-in-pulp (CIP) gold processing plant (on care and maintenance), significant associated infrastructure, camps, and a substantial inventory of equipment and spares.
- Re-commissioning of the operation is anticipated within a 12-18 month timeframe.
- Exploration during the June quarter included pegging holes for a planned resource definition drilling programme at Sandstone and a review of the priority brownfields target, being the Two Mile Hill (2MH) banded iron formation (BIF).
- The review of the 2MH BIF target included re-sampling of diamond drill core, which confirmed broad widths of high grade gold comprising:-
  - 22m at 23.8g/t Au
  - 8m at 56.0g/t Au
  - 5m at 26.5g/t Au
- Plans for Sandstone during the September quarter include:-
  - Complete a ~4,200m infill resource definition, reverse circulation percussion (RC) drill programme.
  - Commence the pre-feasibility study (PFS).
  - Undertake the first phase of a diamond drilling programme designed to extend the priority, brownfields, 2MH BIF underground target.

## **Operating Activities**

### **Corporate**

#### *Finance*

Middle Island Resources Limited (ASX:MDI, Middle Island or the Company) raised an aggregate of A\$5.45 million (before costs) in fresh equity capital during the June quarter. This capital was raised in three separate tranches as follows:-

- A\$0.4 million in a Placement at 1c, simultaneous with announcement of an agreement for the Sandstone acquisition, in order to provide immediate working capital and pay the transaction deposit.
- A\$3.6 million in a Conditional Placement (subject to shareholder approval) at 3c to facilitate payment of the transaction completion costs and supplement working capital.
- A\$1.45 million in a 1:6 Non-renounceable Rights Issue at 3c which, along with proceeds of the Conditional Placement, will provide working capital to progress the Sandstone Project.

As at 30 June 2016, proceeds of the Rights Issue (which are effectively off-set by the Completion Payment) had not been cleared, resulting in a closing cash balance of A\$3.6 million and the Company remains debt free.

#### *Strategy*

The acquisition of the Sandstone gold project, which was completed on 11 July 2016, fulfils Middle Island's primary strategic objective of securing a new gold project that meets the following key criteria:-

- Mitigates shareholder exposure to sovereign risk.
- Represents an advanced asset with a clear path to early production and cash flow.
- Limited capital required to develop the project.

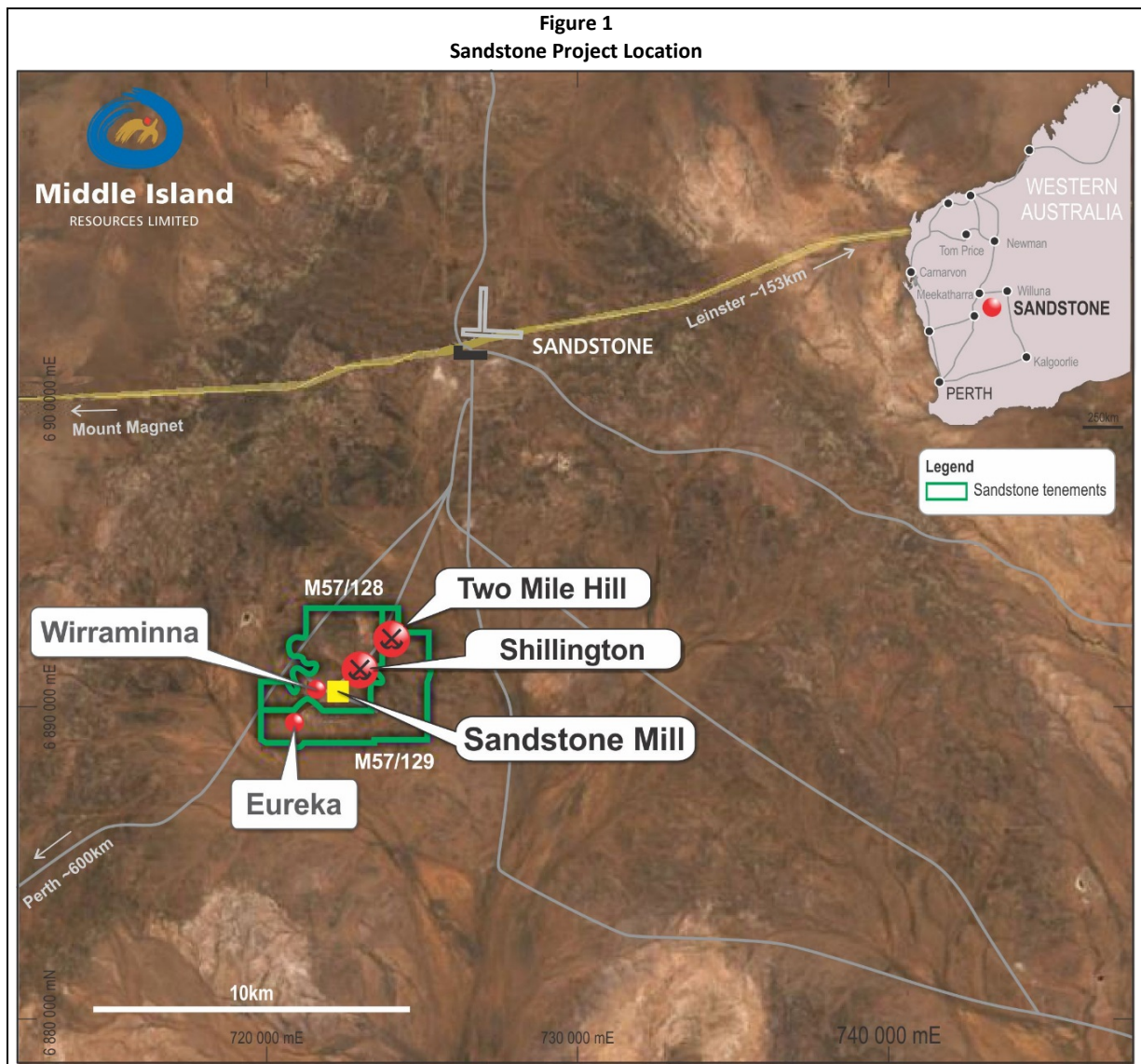
The Board of Middle Island firmly believes that the Sandstone gold project successfully accommodates all these strategic criteria.

Middle Island's second strategic objective is to identify an appropriate partner to invest in resource definition drilling and feasibility studies at the Company's Reo gold project in Burkina Faso, West Africa. While no satisfactory offers have been received, three parties remain interested in securing an interest in the project. However, given the substantial recent improvement in market sentiment towards West African gold assets, the Company resuming exploration activities at Reo in its own right is becoming a more appealing proposition.

## **Sandstone Gold Project (100%) – Western Australia**

### **Overview**

The Sandstone gold project and processing facility is situated 12km south of the township of Sandstone, ~600km northeast of Perth, and located on a sealed highway between the mining towns of Mt Magnet and Leinster in the East Murchison Mineral Field of Western Australia (Figure 1).



The Sandstone project comprises a 100% interest in two granted Mining Leases covering 20km<sup>2</sup> that includes considerable gold resources (see ASX Release 8 May 2016), a 600,000tpa CIP processing plant (which has been on care and maintenance since 2010), contracted power plant, workshops and offices, a substantial inventory of equipment and spares, a licenced tailings facility, bore field and three fully equipped camps on freehold title in the nearby settlement of Sandstone.



**Processing Plant & Infrastructure**

The processing plant was constructed in 1994 with a capacity of 250,000tpa and upgraded to 600,000tpa capacity by Troy in 1999 (Figure 2). Troy operated the plant from 1999 to 2010, processing a total of approximately 4.4Mt of ore to produce ~508,000 ounces of gold at an average grade of 3.6g/t Au. The plant was placed on care and maintenance in September 2010 and has not operated since.

The plant has a conventional grinding and milling circuit, and carbon-in-pulp (CIP) leach circuit. It is in a reasonable condition, with refurbishment and upgrade costs of \$5-8 million estimated by a recognised independent process engineering firm in November 2012, which costs were independently affirmed as reasonable in late 2015.

The processing plant is supported by a diesel-generated power plant (contracted), fuel tanks, all associated workshops and offices, and a substantial inventory of equipment and spares. The current licenced in-pit tailings facility has approximately 12 months' capacity which, along with a permitted bore field, lies proximal to the processing plant.

A 57-person owner's camp, a 36-person contractor's camp, and an 8-person exploration camp and core farm are all located on freehold title (owned by the Company) within the village of Sandstone, 12km north of the plant. Sandstone also has a well-maintained airport capable of servicing FIFO operations.

**Figure 2**  
**Sandstone processing plant with power plant and fuel tanks in the background**





**Production Potential**

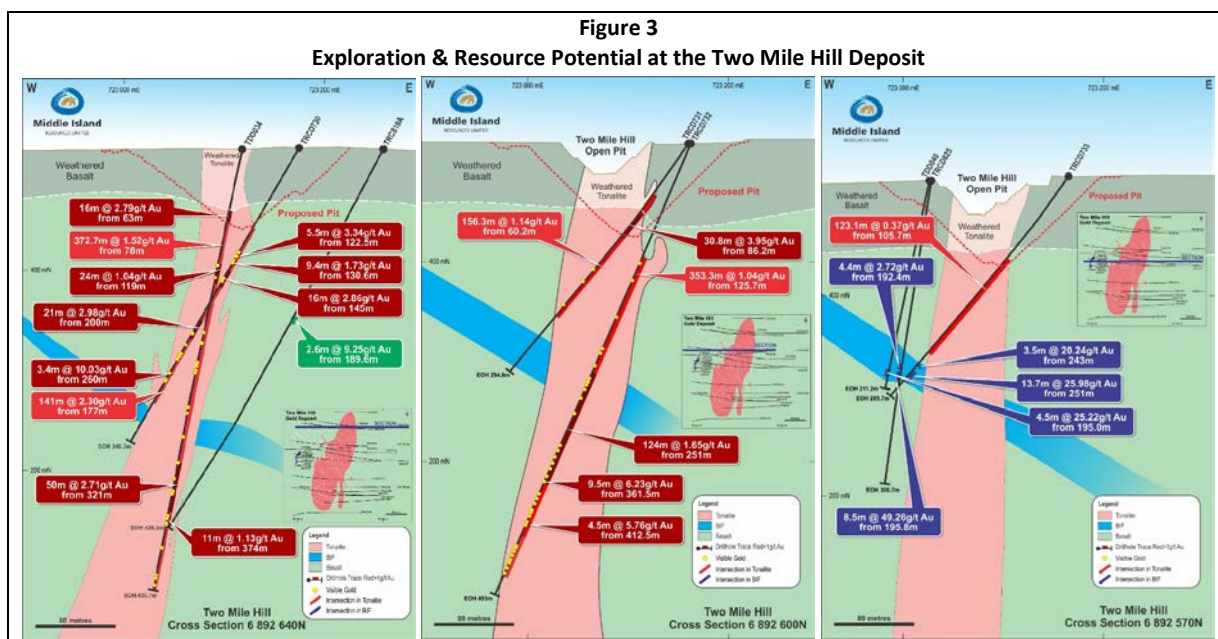
In 2012-2013, Southern Cross Goldfields Limited completed pit optimisations applying then current contract mining and processing costs, and process recoveries from Troy’s metallurgical testwork and production records, using a gold price of A\$1,600/oz. The optimisations were run by recognised independent industry consultants.

Middle Island will shortly commence additional drilling designed to upgrade the Shillington, Shillington North and Two Mile Hill deposits to an Indicated Resource status under the JORC 2012 guidelines prior to completing a Pre-feasibility Study.

**Exploration Potential**

Two very significant, initial exploration targets have been identified at the Two Mile Hill prospect, located 3.2km north of the processing plant. The first comprises a ubiquitously altered and intensely sheeted veined, tonalite intrusive plug that is 250m long and 70m wide. This target includes historic drill intercepts of 141m at 2.30g/t, 353.3m at 1.04g/t and 156.3m at 1.14g/t Au and is mineralised to at least 450m depth.

Similarly, a banded iron formation (BIF), which obliquely intersects the tonalite at depth, is also very strongly mineralised. Drilling within the BIF adjacent to the tonalite includes intercepts (essentially true widths) of 8.5m at 49g/t, 13.7m at 26g/t, 4.5m at 25g/t and 3.5m at 20g/t Au at a depth of some 200m below surface, as shown in Figure 3 below. This significant underground target remains untested up and down plunge (along the zone of intersection between the BIF and tonalite) on both margins of the intrusive.



**Transaction**

The headline cost of the Sandstone Project acquisition is A\$2.5M, comprising the following:-

- A\$250,000 non-refundable deposit - paid on 8 May 2016.
- A\$1,250,000 at completion - paid on 11 July 2016 (see ASX Release 12 July 2016).
- A\$500,000 at 18 months following completion (or A\$400,000, if paid by 11 October 2016).
- A\$500,000 on re-commencement of gold production.



The tenements come with a legacy 2% NSR royalty payable to Troy, along with a royalty of A\$1 per tonne of ore mined and processed from M57/129 that is payable to Herald and National Resources Exploration Ltd. The precise legal status of a further legacy royalty remains unclear and is under review.

The headline transaction value of A\$2.5 million equates to ~US\$4 per resource ounce.

### **June Quarter Activities**

In the June quarter, Middle Island commenced or completed the following activities at the Sandstone Project:-

- Lodged a programme of work (POW) with the W.A. Department of Mines and Petroleum (DMP) for a planned ~4,200m infill resource definition RC drilling programme, pegged proposed drill hole locations, and confirmed associated contractors and logistics.
- Commenced a geological and geophysical review of the priority brownfields 2MH BIF underground target.

### **Two Mile Hill Review**

#### Geology

Two significant brownfields targets exist at the 2MH deposit within the Sandstone gold project; deeper portions of the pervasively sericite-altered and gold mineralised 2MH intrusive (tonalite), and the down-dip extent of the adjacent Shillington BIF, where it is intruded by the tonalite.

Of more immediate significance is the thick, high grade, 2MH BIF target. This target represents the down dip continuation of the Shillington BIF (on which the Shillington and possible Shillington North open pits are predicated and which, along with the Two Mile Hill open pit cutback, are to be included in the planned PFS).

Mineralisation associated with the 2MH BIF deposit is hosted within the Shillington BIF at a depth of ~200m where it's intruded by the mineralised 2MH tonalite. This high grade deposit may possibly be accessed via a conventional decline from the planned 2MH or Shillington pits. The target is developed over a 50m plunge length on the western margin of the tonalite, but remains open along the balance of the western margin and is essentially un-drilled along the 250m length of the eastern margin, an aggregate potential plunge length of ~500m.

Re-logging of the existing mineralised drill core intercepts indicates that gold mineralisation within the BIF is preferentially developed proximal to the tonalite contact and the gold-mineralising fluids have clearly been sourced from or through the tonalite itself. Gold mineralisation is associated with pyrite replacement of carbonate and/or magnetite bands within the BIF, with massive sulphide developed over substantial widths closer to the tonalite contact.

#### Geophysics

In addition to the geological review, a geophysicist has been engaged to evaluate geophysical properties of the 2MH BIF deposit that may assist in refining the precise location and extent of mineralisation in order to better target deeper diamond core drilling planned for the September quarter.

Magnetic susceptibility readings on the drill core predictably demonstrate a strong contrast between the magnetic BIF and the adjacent basalt and tonalite. However, the EM susceptibility response is very low and unlikely to be of assistance.

While this work is on-going, it is reasonably anticipated that modelling of the strong magnetic susceptibility contrast between the BIF and tonalite will enable better definition of the higher priority contact zone, possibly with the aid of a limited ground magnetic survey to improve resolution.



### Drill Core Re-assaying

In order to verify previous diamond core results from the 2MH BIF target, a selection of the remaining half-core intercepts were cut by Middle Island, and resulting quarter-core intervals sampled and submitted to Intertek Minerals for 50gm fire assay.

Re-sampling has confirmed broad widths (approximately true widths) of high grade gold mineralisation, comprising:-

**TRCD733: 22m at 23.8g/t Au from 243m**

**TDRC735: 5m at 26.5g/t Au from 216m**

**TDCD825: 8m at 56.0g/t Au from 196m**

The results (see ASX Release 14 July 2016) closely correlate with previous intercepts recorded by Troy Resources, providing considerable confidence in the existing assay data.

### Appointment of Key Personnel

The Company has appointed key part-time or casual personnel as follows:-

- Mr Linton Kirk as Consulting Project Manager (following his resignation from the Board).
- Mr Stephen Jones as Contract Chief Financial Officer.
- Mr Richard Millington as Contract Project Geologist.
- Mr Alan Bloore as Sandstone Caretaker.

### **Planned September Quarter Activities**

#### **Resource Definition Drilling**

Work at the Sandstone Project in the September quarter will commence with a ~4,200m resource definition RC drilling programme designed to upgrade open pit resources at the Two Mile Hill, Shillington and Shillington North deposits for inclusion in the pre-feasibility study (PFS). POW approval for this programme was received from the DMP on 18 July 2016. Weather and ground conditions permitting, the programme is planned to commence on 27 July and is anticipated to take some three weeks to complete.

#### **Pre-feasibility Study**

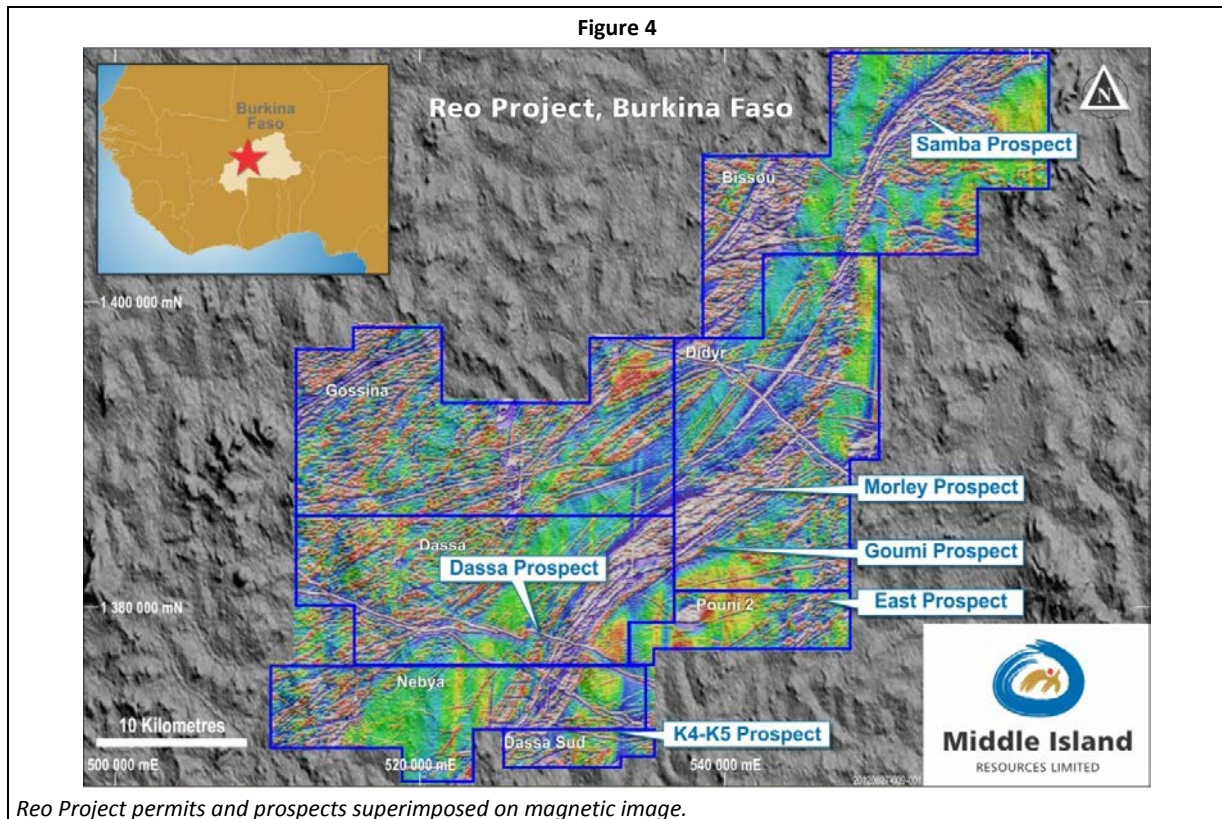
Once results from the resource definition drilling are received and compiled, it is planned to re-estimate the resources (consistent with the JORC 2012 guidelines) and commence the PFS under the stewardship of Linton Kirk as Project Manager. The PFS, which is scheduled to be completed in the December quarter, will provide the confidence necessary to commit to the plant and infrastructure refurbishment, leading to project re-commissioning in 2017.

#### **Exploration**

Once the review of the 2MH BIF target has been completed, it is planned to undertake an initial pre-collared diamond core drilling programme with the objective of extending the deposit, initially along the western margin of the 2MH tonalite. Depending on the outcome of the geophysical component of the review, the programme may be preceded by a limited ground magnetic survey in order to refine the target for more cost-effective diamond drilling. Initial drilling on the 2MH BIF target is planned to commence in September 2016.



## Reo Gold Project (100%) – Burkina Faso



### Exploration

No exploration was undertaken at the Company's 100%-owned Reo gold project in Burkina Faso (Figure 4 above) during the June quarter.

The continuing focus has been on identifying an appropriate partner to help fund the project through to feasibility. To date, indicative farm-in offers have proved unsatisfactory. However, discussions are progressing with three interested parties.

The Reo gold project remains highly prospective, with significant unfinished resource definition and exploration activities to be completed. Given improving market sentiment in the West African gold sector, the Company recommencing exploration in its own right remains a valid option.

No exploration is planned until the December quarter at the earliest, when the monsoon season has abated, by which time it is hoped that the majority of current permit renewals and extensions will have been forthcoming.

### Tenure

An extension application for a further project permit was lodged during the June quarter, bringing the total to five renewal and extension applications lodged in 2016. The Dassa Sud permit was renewed for a further period of three years during the March quarter, and progress on the remaining applications is being closely monitored. One final permit renewal application is due to be lodged in the September quarter.



## **Safety, Environmental & Social**

### *Health, Safety & Environment*

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

### *Social*

An introductory meeting was held with the President and Acting CEO of the Sandstone Shire in W.A. immediately following announcement of the Sandstone project acquisition. This meeting provided the opportunity for Middle Island to explain its plan to re-commission the project, discuss infrastructure issues and offer its support to the Sandstone community.

Given the hiatus in exploration activity in West Africa, the Company's community development initiatives at the Reo Project have been curtailed. However, contact with our host communities at the Reo Project is being maintained to ensure they are informed of Middle Island's situation. Meetings of introduction with the recently elected Commune mayors are currently being coordinated.

## **Comment**

Since 2013, Middle Island has been pro-actively identifying and reviewing advanced gold (and gold-copper) opportunities, primarily within Australia and Africa. The well-communicated objectives were to acquire an asset that would mitigate shareholder exposure to sovereign and political risk, provide near-term production and cash flow potential, and require limited capital expenditure to develop. While opportunities are rarer, Australia was an obvious destination due to the substantially lower risk profile, administrative synergies, more favourable recent exchange rate and relatively lower operating cost environment, which have more recently been enhanced by the improving market support for ASX-listed gold stocks.

The Sandstone Project as an asset that is consistent with all the Company's objectives in the short term, yet also includes sound resource and exploration upside in the longer term.

However, none of this would be possible without the support of our loyal and patient shareholders. I take this opportunity to thank you sincerely for your support with the recent rights issue which, when shortfall applications are taken into account, was again substantially over-subscribed. I also take the opportunity to welcome new shareholders onto the register, whether by virtue of the placements or via investment on-market. Your support is equally appreciated and we will do everything in our power to ensure that your confidence and investment are not misplaced.

We look forward to bringing you regular Sandstone project updates as our plans progress.

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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:

**Mining Tenements**

Tenements	Mining tenements acquired during the quarter	Mining tenements disposed during the quarter	Mining tenements held at the end of the quarter	Tenements location
Pouni	-	-	100%	Burkina Faso
Dassa	-	-	100% - extension lodged	Burkina Faso
Didyr	-	-	100% - extension pending	Burkina Faso
Dassa Sud	-	-	100% - renewal granted	Burkina Faso
Nebya	-	-	100%	Burkina Faso
Bissou	-	-	100% - extension pending	Burkina Faso
Gossina	-	-	100% - extension pending	Burkina Faso
Nassilé	-	-	100%	Niger
Kakou	-	-	100%	Niger
*M57/128	Yes	-	100%	Western Australia
*M57/129	Yes	-	100%	Western Australia

\*Acquisition completed 11 July 2016 (post June quarter end).

**Farm-in or Farm-out Arrangements**

Tenements	Interests in farm-in or farm-out acquired during the quarter	Interests in farm-in or farm-out disposed during the quarter	Interests in farm-in or farm-out held at the end of the quarter	Tenements location
Dogona	-	Renewal pending	Earning 90%	Niger
Boulkagou	-	Renewal pending	Earning 90%	Niger

Visit [www.middleisland.com.au](http://www.middleisland.com.au) for further information and announcements.