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Middle Island Resources (ASX: MDI)

August 2017

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Note: This report is based on information provided by the company as at August 2017

Investment Profile	
Share Price as at 4 August 2017	\$0.016
Issued Capital:	
Ordinary Shares	596.3m
Listed Options	0.0m
Unlisted Options	37.5m
Performance Rights	0.0m
Fully Diluted	623.8.3m
Market Capitalisation	\$9.38m
12 month L/H	\$0.010/\$0.089

Board and Management	
Mr Peter Thomas: Chairman	
Mr Rick Yeates: Managing Director	
Mr Beau Nicholls: Non-executive Director	
Mr Dennis Wilkins: Company Secretary and Alternate for Beau Nicholls	

Major Shareholders	
Rick Yeates	8.35%
Twynam Agricultural Group P/L	5.68%
Jetosea P/L	5.46%
Lomacott P/L	5.29%
Board and Management	13.00%
Top 20	56.77%



Senior Analyst – Mark Gordon

The investment opinion in this report is current as at the date of publication. Investors and advisers should be aware that over time the circumstances of the issuer and/or product may change which may affect our investment opinion.

SHORT TERM GOLD START-UP

With their 100% owned Sandstone Gold Project (“Sandstone” or “the Project”) Middle Island Resources (ASX: MDI, “MDI” or “the Company”) has a potential short-term gold start-up project in the world-class mining jurisdiction of Western Australia. Sandstone is differentiated by being on granted mining leases, and having a 600,000tpa CIP treatment plant and associated infrastructure on site that could be refurbished relatively quickly and for the modest sum of under A\$10 million. Although the Project currently has insufficient resources to justify a re-start of operations, there are a number of options to bring potential mill feed up to the required level – exploration work has highlighted the opportunity to discover and define new resources, there are acquisition opportunities in the district and there is also the potential to enter into toll treating opportunities with third parties who hold stranded assets within trucking distance of Sandstone.

KEY POINTS

Mill and infrastructure: Ownership of the mill and infrastructure, with the expected modest refurbishment costs, will allow the development of resources that otherwise would not be viable, and will also significantly cut back expected costs and development lead time. Any refurbishment will include a contract crushing circuit that will allow the mill to treat both oxide and fresh material - historically the mill treated mostly oxide material due to the limitations of the crushing circuit which is no longer on site, however some harder primary and pisolitic material was successfully treated.

Granted mining licences: Being on granted mining licences (with a 2031 expiry), and with a permitted tailings dam and bore field, will significantly cut back any permitting time and costs for any re-start of operations; in addition, the two MLs are pre-Native Title thus again reducing expected permitting requirements for any restart of operations.

Prospective landholding: The Sandstone tenements are prospective for additional mineralisation as highlighted by results of work to date – previous work, by virtue of the plant then operating, largely concentrated on shallow oxide material, with only little work being done on deeper primary mineralisation and the controls on that mineralisation – work being carried out by MDI is leading to a fuller understanding of the geology, leading to more effective exploration targeting that should result in a higher chance of success.

Infrastructure: Sandstone is readily accessible by sealed highway in a well-established mining region – the Project is only 600km by air from Perth, with ready access to services and skilled personnel.

Attractive mining destination: Western Australia is a well-recognised mining destination, with a long mining history and well established and understood mining law and regulations, ranking third globally in the 2016 Fraser Institute Survey of Mining Companies.

Experienced and Committed Personnel: Company personnel have significant experience in the junior resources industry, as well as having combined 13% shareholdings in the Company, with this latter point aligning the interests of Company personnel with that of other investors.

Well leveraged to exploration success: Having a market capitalisation of ~A\$10 million means that MDI is well leveraged to exploration success, as well as to value appreciation with the successful restart of any operations.

Steady News Flow: Ongoing activities should provide steady news flow through 2017.

SWOT ANALYSIS

Strengths

- ◆ **Plant and infrastructure:** Owning the plant and key infrastructure is a key strength of MDI – although having been under care and maintenance for seven years it is estimated that the plant and other infrastructure can be brought back into commission for a relatively modest ~A\$10 million – this cost also includes a contract crushing plant that will be able to treat all potential ore types and deliver a finer product to the mill than that in previous operations, that generally treated mostly softer oxide material.
- ◆ **Potential short-term start-up:** Dependent upon either increasing resources and /or sourcing third party mill feed, Sandstone presents a potential short term, low cost gold start-up opportunity by virtue of the plant, and being located on granted mining leases with a number of key permits in place.
- ◆ **Prospective geology:** Sandstone is prospective for additional gold mineralisation, with this borne out by the results of exploration to date, and the growing understanding of the controls on mineralisation.
- ◆ **Western Australia:** Western Australia is a jurisdiction with a long history of mining, and which ranked third globally in the 2016 Fraser Institute Survey of Mining Companies.
- ◆ **Experienced people with skin in the game:** Company personnel have significant experience in the resources game as well as shareholdings in the Company, thus aligning their interests with those of the other shareholders.

Weaknesses

- ◆ **Small tenement:** Although prospective, the size of the tenement may limit the potential to find the “big one,” however the mill was constructed at the current location as it had the highest density of deposits anywhere in the Sandstone belt, thus highlighting the higher prospectivity of the Project for deeper mineralisation.
- ◆ **Low grade mineralisation:** Mineralisation defined to date is relatively low grade – this will need to be offset by a relatively large resource and/or high-grade mineralisation to return a robust project.
- ◆ **Cash position:** With only \$1.84 million in the bank as of June 30, 2017 the Company will need to raise cash to fund activities into 2018 – the current quarterly burn rate is in the order of \$1 million.

Opportunities

- ◆ **Resource expansion:** This is the key opportunity at Sandstone, and one which is required to support a viable operation – results of work to date have highlighted the potential, and also, given that mostly oxide material was treated previously, there is good potential for the discovery and delineation of resources in fresh material.
- ◆ **Acquisitions:** The Company has actively been looking at acquisition opportunities, with the recent Wirraminna transaction being the first that could provide mill feed for Sandstone.
- ◆ **Third party toll treatment:** In addition to treating its own material, there is the potential to toll treat material from a number of stranded deposits in the region.

Threats

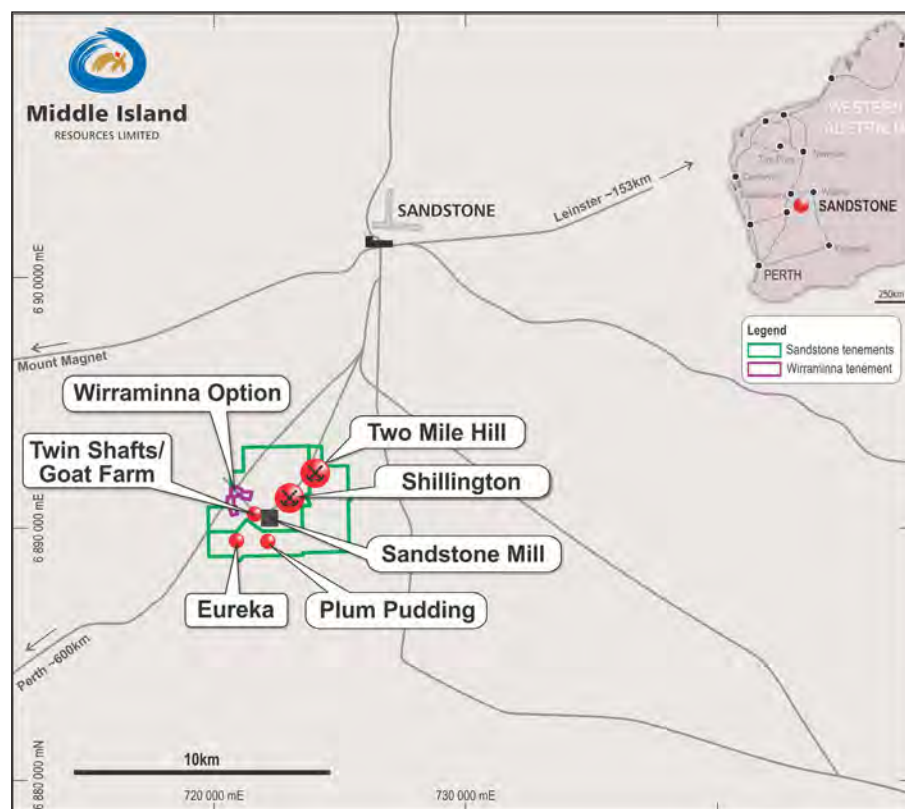
- ◆ **Lack of exploration success** – This is self-explanatory, and will affect the viability of any future operation.
- ◆ **Prices and markets** – Given that MDI need to raise capital they are exposed to any adverse changes in the markets – these however remain reasonably buoyant, particularly with the gold price at its current levels.

OVERVIEW

STRATEGY AND PROJECT OVERVIEW

- ◆ MDI's activities are focussed on the 100% owned Sandstone Gold Project ("Sandstone", Figure 1), which the Company acquired from the liquidators of Black Oak Minerals (ASX: BOK, now delisted) in July 2016, with the subsequent June 2017 signing of an option to acquire 100% of the adjacent Wirraminna gold project.

Figure 1: Sandstone project location map

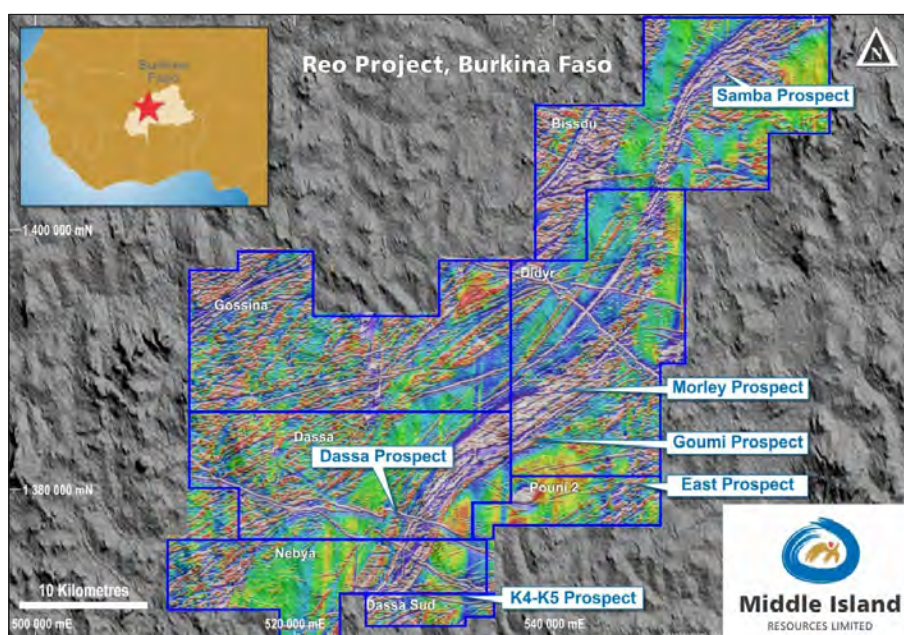


Source: MDI

- ◆ At the time of acquisition, the Project had JORC 2004 compliant Mineral Resources (largely Inferred, and both underground and open cut) of 10.78Mt @ 1.38g/t gold for 480koz of contained gold – this was subsequently partially updated by the Company.
- ◆ Wirraminna has a JORC-2004 compliant Inferred Resource of 106,300t @ 2.07g/t Au for 10,674oz.
- ◆ The original Sandstone acquisition included a 600,000tpa CIP plant, site infrastructure (including a licenced tailings storage facility "TSF") and camp facilities in the nearby town of Sandstone; infrastructure as previously used by Troy Resources Limited (ASX: TRY, "Troy") in its Sandstone operations, which shut down in 2010.
- ◆ Initial plans by the Company were to complete a Pre-Feasibility Study ("PFS") in early 2017, with a view to a quick restart of gold operations at the site – the PFS was suspended in December 2016 with the work as of that date indicating that the resources as they stood would not support a viable operation.
- ◆ The strategy subsequently changed to finding additional resources, with this work ongoing – the Company expects an upgraded Mineral Resource Estimate ("MRE") to be completed by the end of 2017, along with an underground mining concept study focussed on Two Mile Hill which will feed into an updated PFS.
- ◆ The underground mining concept study will look at initial selective mining of the high grade deep BIF target, followed by a higher-level look at the potential to mine the lower grade tonalite-hosted mineralisation.
- ◆ In addition to defining additional resources within the Project area, MDI is also looking at nearby acquisition opportunities to add to the resource inventory that would be suitable for processing at the current facility.

- ◆ There is also the potential for toll treating or production sharing at the mill, which the Company expects would cost in the order of A\$9.3 million to refurbish (including owner's costs of A\$1.23 million, with this figure provided by independent engineer GR Engineering Services), including installing a contract crusher that would treat all ore types – when operated by Troy the crusher was capable of only treating mostly softer oxide material, with this limited by the crushing circuit and not the rest of the plant.
- ◆ The Company has had preliminary discussions with several parties that hold stranded assets and that may have an interest in toll treating or production sharing through the Sandstone plant.
- ◆ MDI also holds 100% of the Reo Gold Project in Burkina Faso (Figure 2) which has a 1 to 2 Moz Exploration Target – two permit extension applications have been granted and four are still pending, and the Company is seeking partners to help fund the Project through to feasibility.
- ◆ Given the focus on Sandstone we will not discuss this project further.

Figure 2: Reo project location map



Source: MDI

FINANCIAL POSITION

- ◆ As of June 30, 2017, the Company had \$1.840 million in cash and no debt.
- ◆ Over the twelve months to June 30, 2017 the Company raised a total of \$3.214 million through two issues - a 1 for 6 rights issue (\$1.455 million @ \$0.03/share) in the September quarter of 2016, and a placement of 117.3 million shares @ \$0.015/share to raise \$1.759 million in March 2017.
- ◆ Over the same period the Company spent \$2.373 million on exploration and evaluation, \$0.992 million on administration and wages, and \$1.665 million on the purchase of Sandstone.

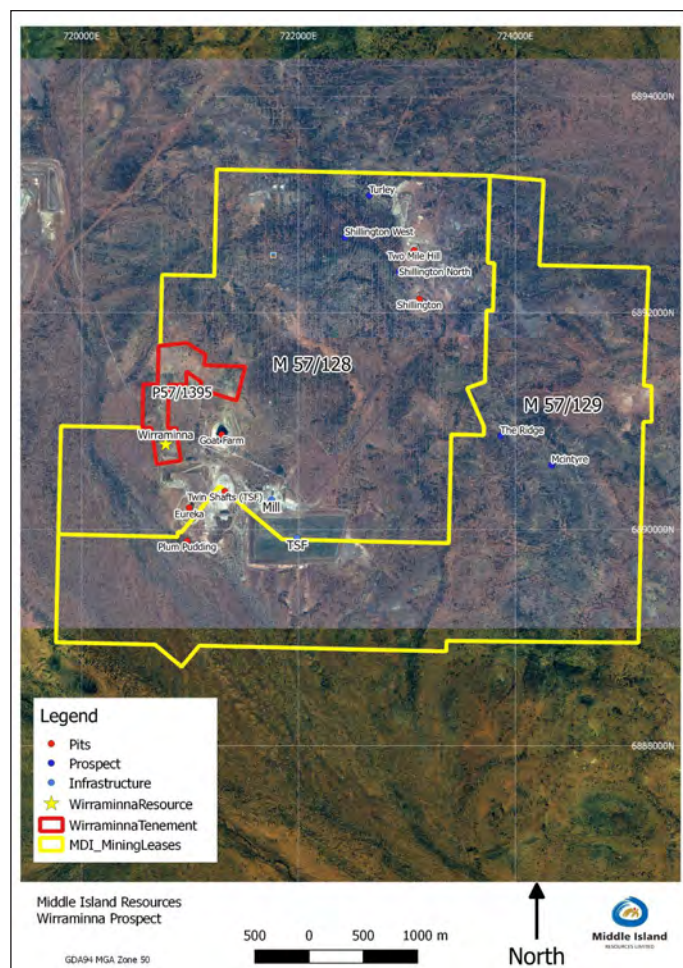
SANDSTONE GOLD PROJECT - MDI 100%

Location and Tenure

- ◆ Sandstone comprises two 100%-owned, granted Mining Leases ("ML"), M57/128 and M57/129 for a total area of 20km², and an option to purchase 100% of one recently granted prospecting licence (P57/1395 "Wirraminna") which covers 40.64ha, immediately adjacent to M57/128 (Figure 3).
- ◆ All assets are held through Sandstone Operations Pty Ltd ("SOPL"), a wholly-owned subsidiary of MDI.
- ◆ All tenements are in good standing, with the MLs due for renewal in 2031 and the PL in 2021 – the granting of the MLs predates Native Title.

- ◆ The Project is located 12km south of the township of Sandstone, which is some 150km east of Mount Magnet on the sealed Mount Magnet – Leinster Highway – Sandstone is some 720km by sealed highway from Perth (Figure 1).

Figure 3: Sandstone licences and key prospects



Source: MDI

Acquisition

- ◆ As initially announced to the market on May 4, 2016 (with finalisation of the acquisition being announced on July 12, 2016), 100% of Sandstone was purchased from the liquidators of Black Oak under the following terms:
 - A\$250,000 non-refundable deposit (paid),
 - A\$1.25 million payment on completion (paid),
 - A\$500,000 payment 18 months after completion (due in January 2018), and,
 - A\$500,000 on recommencement of gold production from any source.
- ◆ The signing of an Option Deed to acquire 100% of Wirraminna was announced on June 6, 2017, and includes the following conditions:
 - The option can be exercised any time in the four years following signing of the agreement through a payment of A\$300,000 to the vendors Mr Kym McLaren and Mr Karl Mansen.
 - During the option period MDI will have access to explore for sub-surface gold over the licence, with the vendors retaining the right to all gold down to a depth of two metres.
 - A four-year Tribute Agreement was signed in conjunction with the Option Deed, with this granting the vendors the right to undertake surface gold detecting activities over certain areas of M57/128 and M57/129 (excluding defined resources and exploration targets) down to a depth of two metres.
 - Under the Tribute Agreement Mr McLaren will be responsible for all costs and environmental liabilities associated with the prospecting, and will pay MDI 15% of the gross value of any gold recovered.

Project infrastructure and Permits

- ◆ The initial Sandstone acquisition included significant infrastructure and permits.
- ◆ As mentioned previously, the key is the 600,000tpa CIP plant with a conventional grinding and leaching circuit – this plant was reportedly initially built by Herald Resources for their Montague operation in 1987, and subsequently moved to Sandstone in 1994.
- ◆ The plant was subsequently upgraded to 600,000tpa in 1999, and operated by Troy from 1999 to 2010, processing ~4.4Mt of ore and producing some 508,000oz of gold at a grade of 3.6g/t Au.
- ◆ The plant was placed on care and maintenance in 2010 and, as mentioned previously, it is estimated that it will cost A\$8.05 million in direct costs and A\$1.23 million in owners' costs to refurbish the plant and associated infrastructure.
- ◆ The refurbishment cost includes allowance for a new contract crushing circuit that will have the capability of treating all potential ore types and delivering a finer product to the mill, unlike the previous crushing plant (which has been removed from site) that was suitable only for a majority of oxide material.
- ◆ Supporting infrastructure includes a contracted diesel generating plant, all associated workshops and offices and a reasonable inventory of spares and equipment.
- ◆ The site also includes a permitted TSF that has an estimated capacity for a further 6 months production and a fully permitted bore field, located close to the plant.
- ◆ Mine closure obligations apply to Sandstone, including rehabilitation of waste dumps (which is close to complete), and rehabilitation of the TSF and plant site and removal of buildings - these latter obligations have obviously not as yet been satisfied given the re-start plans - the Company has a mine closure liability of A\$1 million on its balance sheet.
- ◆ The Company has just had an updated Mine Closure Plan approved by the DMP - another review is required in three years.
- ◆ Three camps are located on freehold land in Sandstone – these include a 57-person owners' camp, a 36 bed contractors' camp and an eight-bed exploration camp.
- ◆ Infrastructure in Sandstone also includes a well-maintained council airstrip suitable for servicing any FIFO operation.

Historic Activities

- ◆ The area has seen mining since 1899, with some 1Moz of gold being produced from surface, open cut and underground operations.
- ◆ More recent work has been attributable to Herald Resources in the 1990's and Troy from 1999 to 2010 – as mentioned earlier Troy produced some 508,000oz of gold before placing the plant on care and maintenance in 2010.
- ◆ The Project was acquired from Troy by Southern Cross Gold Limited (ASX: SXG) in December 2012, with plans to move the plant to their Marda Project some 200km to the south - the subsequent merger with Poly Metals to form Black Oak saw the focus move to New South Wales, with Black Oak subsequently being placed into administration in September 2015 and liquidated in early 2016.

Work by MDI

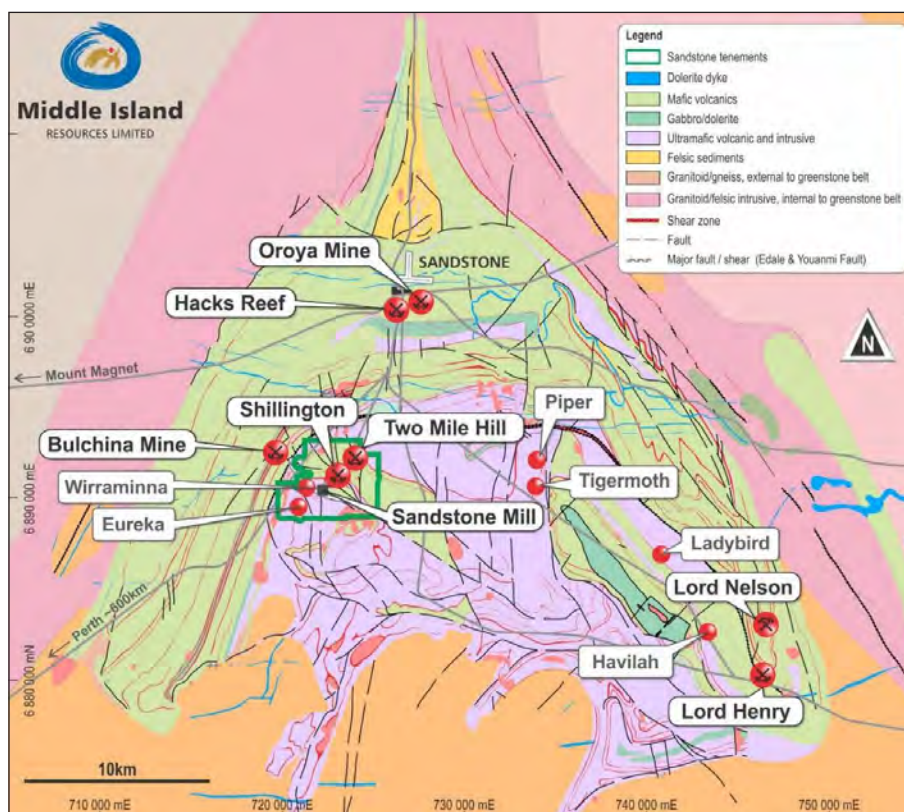
- ◆ Initial work by MDI was aimed at a short-term (2-3 year) start-up operation, with the Company commencing a PFS soon after acquisition – as mentioned earlier, due to results not meeting expectations, the PFS was suspended in late 2016.
- ◆ However, work associated with the PFS will be incorporated into upcoming studies, and includes a number of phases.
- ◆ An updated MRE for the Shillington and Two Mile Hill open pit deposits was completed in December 2016, and is discussed later.
- ◆ Ongoing work is focussed on identifying additional resources – this includes a “weights of evidence” study that has identified and prioritised prospects with the Project and a detailed infill gravity survey over the north-western part of the Project aimed at identifying additional felsic intrusives that may be mineralised.
- ◆ Existing prospects are also being assessed – these include the brownfields Two Mile Hill tonalite and deep BIF targets, Shillington and Wirraminna, and the greenfields McIntyre North and South, Shillington West, Turley, Davis and the remaining ‘weights of evidence’ targets.

- ◆ Drilling to date has included eight diamond holes for 2,351m, targeting the Two Mile Hill deep BIF and tonalite targets, and metallurgical sampling of the Two Mile Hill and Shillington North deposits (these are discussed in more detail later).
- ◆ 222 reverse circulation (“RC”) holes for 10,040m have been drilled over a number of prospects, including Two Mile Hill, Shillington, Shillington North and McIntyre North and South, with sterilisation drilling also being completed around the Shillington waste dumps – results of drilling were used in the Two Mile Hill and Shillington MRE’s as completed by MDI.
- ◆ The Shillington sterilisation drilling discovered the Turley zone which now requires follow up (discussed later).

Geology and Mineralisation

- ◆ Sandstone is located over the Sandstone greenstone belt (“SSGB”; Figure 4), a triangular greenstone belt within the northern part of the Southern Cross Belt, which forms the central part of the Archaean Yilgarn Craton of Western Australia.
- ◆ The SSGB is interpreted as forming a north-plunging anticline at the northern end of the Diemals Dome, and is bound by the major trans-cratonic Youanmi and Edale faults.
- ◆ The belt is dominated by ultramafic and mafic volcanics and intrusives, with some felsic units at the northern end of the greenstones – as typical in greenstone belts, the ultramafic units form the basal packages, which transition upwards into the mafic and then felsic units.
- ◆ The boundary between the ultramafics and mafic packages is marked by a fundamental structure, the Sandstone décollement, with significant differences in deformation style between the two packages.
- ◆ The SSGB also contains a number of “internal” granitoid intrusives – these intrusives are temporally related to the development of the greenstones, and are younger than the major orogenic granites which form the basement granites throughout the Yilgarn.
- ◆ One of these, the “Two Mile Hill Tonalite,” forms a major mineralised target within the Project.
- ◆ Other key units in the Project include the Shillington banded iron formation (“BIF”), again which is mineralised.

Figure 4: Sandstone geology and key prospects



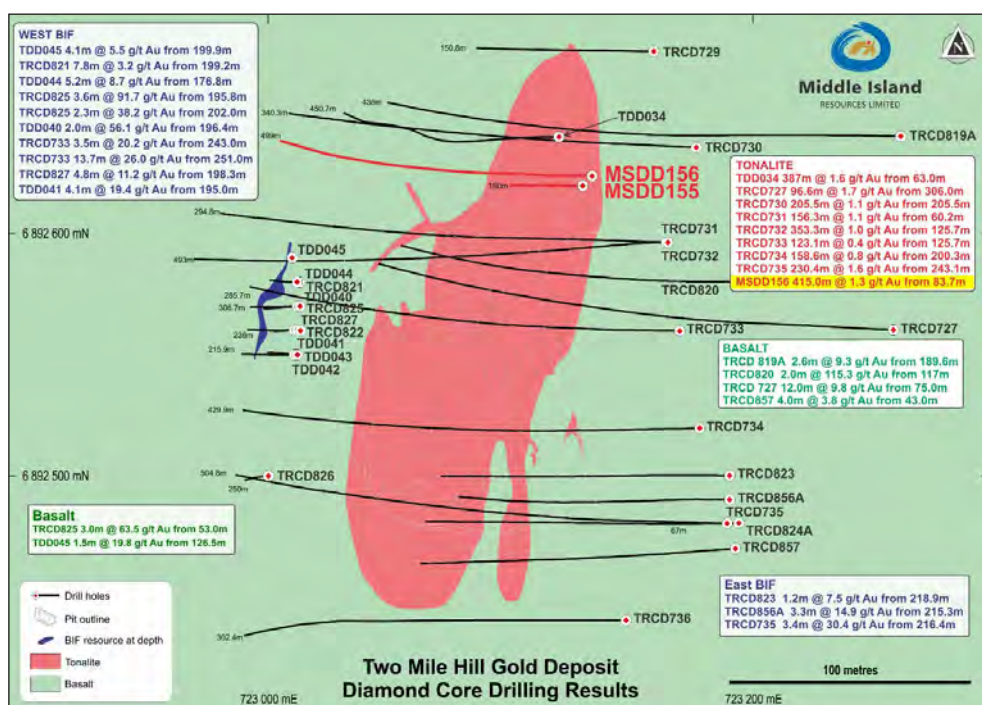
Source: MDI

- ◆ As is typical in the Yilgarn, well developed lateritic weathering profiles are present, with the base of oxidation up to 80m below surface; in addition, significant areas are masked by surficial cover.
- ◆ Gold mineralisation at Sandstone is typical of Archaean mesothermal styles, hosted largely in regional structural corridors, however given the varied geology and complex structure a number of different styles are present.
- ◆ Within MDI's project area, main hosts include sheeted veins within the Two Mile Hill tonalite, mineralisation associated with the Shillington BIF at a number of prospects and gold associated with major structures comprising the Twin Shafts-Goat Farm line and the Wirraminna-Eureka line, all of which have seen historic mining.

Two Mile Hill

- ◆ Two Mile Hill includes two targets – the Two Mile Hill tonalite and the deep BIF target, which comprises the NW dipping Shillington BIF adjacent to the tonalite.
- ◆ The Company is looking at options to develop these targets – the tonalite may present an underground bulk-mining opportunity, potentially using caving methods, with the BIF being a small traditional high grade selective underground mining target – the current underground mining concept study is considering options, largely related to the BIF, where a decline could be developed off the bottom of any expanded open cut.
- ◆ The Two Mile Hill tonalite is an altered, steep westerly dipping and sub-horizontally quartz veined granitic intrusive, with dimensions of ~250m N-S and 80m E-W, and which has been intersected thus far to a depth of ~500m below surface (Figures 5, 7 and 8).
- ◆ Troy mined and treated mineralised oxide material from Two Mile Hill from a small, 40m deep open cut.
- ◆ Mineralisation in the Two Mile Hill tonalite is hosted in sub-horizontal quartz veins, with mineralisation reasonably well distributed through the intrusive, and being open at depth –two vein sets have been recognised, with some being associated with chlorite selvages, with these seemingly more associated with the visible gold that has been identified in the latest drilling.
- ◆ Figure 8 also shows two fixed loop electromagnetic ("FLEM") conductor plates defined by a trial survey conducted by MDI – these were drill tested by the latest round of drilling at Two Mile Hill, however no source for the EM anomalism was intersected.
- ◆ The hole did encounter the BIF in the anticipated position, but this was unmineralised.

Figure 5: Two Mile Hill plan showing geology and deeper diamond drilling (shallower RC drilling is not shown)



Source: MDI

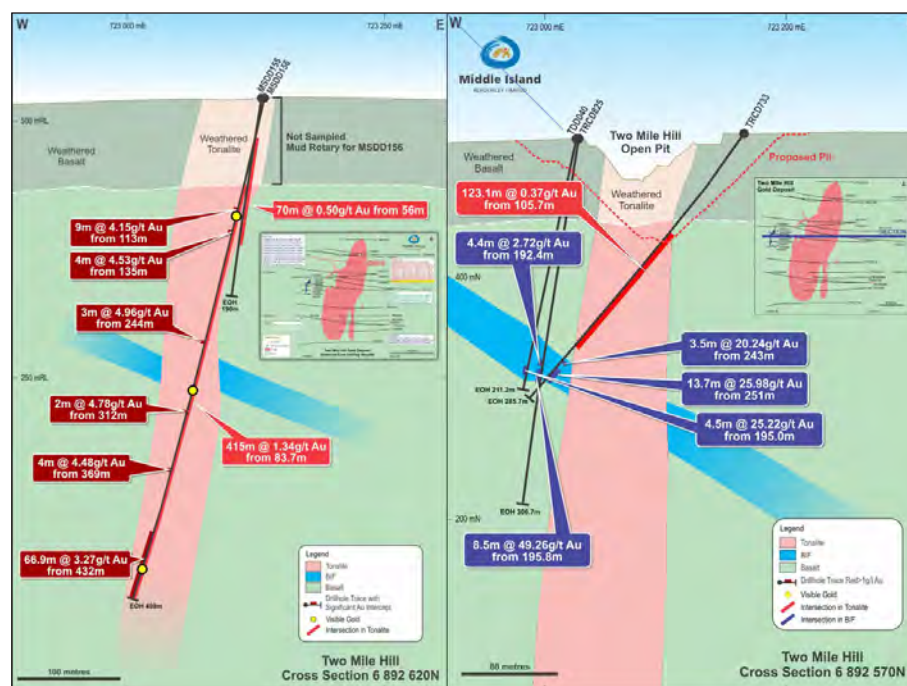
Figure 6: Visible gold – Two Mile Hill



Source: MDI

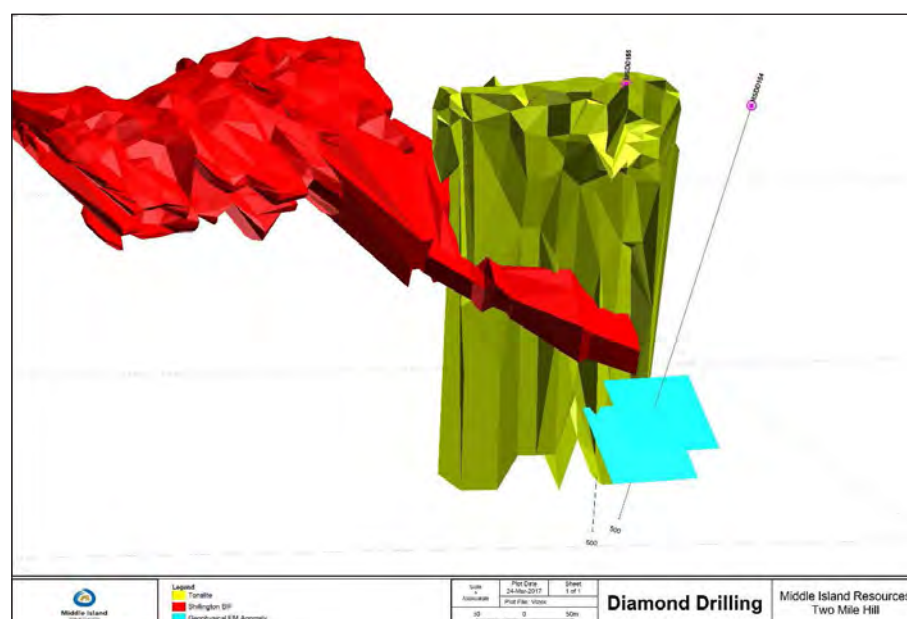
- ◆ Alteration, which is pervasive sericite-carbonate+/-pyrite in style, imparts a pale apple-green colour to the intrusive – petrology suggests that the original composition of the intrusive may have been a granodiorite, with the alteration now masking the original texture and composition.
- ◆ As confirmed by the latest drilling, there are areas of higher grade mineralisation (66.9m @ 3.27g/t Au, within a broader interval of 415.2m @ 1.34g/t Au, Figure 7) – given the limited drilling into the tonalite the controls on the higher grade zones (and also the overall controls on the quartz veining) are as yet not fully understood, and subject to ongoing interpretations – there are only subtle changes in vein density between lower and higher grade areas.
- ◆ There is the possibility that the veins and mineralisation may be related to a major structure controlled by the contact of the intrusive with the surrounding basaltic wall rocks - such zones of rheological contrast are commonly associated with shears and mineralisation in orogenic gold deposits.
- ◆ In addition to the tonalite, drilling by MDI (as well as previous operators) has also targeted the deep BIF target, which represents the down-dip projection of the Shillington BIF where it is intruded by the tonalite.
- ◆ MDI has recognised two mineralised BIF units from drilling, the upper and middle BIF, with the mineralisation being marked by intense sulphide replacement of magnetite bands with the intensity of replacement possibly increasing towards the tonalite contact.
- ◆ A third deeper BIF has been inferred from down-hole magnetic data, but has not yet been confirmed by drilling.
- ◆ The deep BIF target has returned spectacular grades, including effectively true width intercepts of 22m @ 23.8g/t Au and 13.7m @ 25.98m (Figure 7) – the Upper BIF appears to be the most intensely mineralised.
- ◆ Increased grades are also associated with increasing vein density in the BIF.
- ◆ Although the high grades were originally interpreted as being related to the intrusion of the tonalite, there is now some conjecture as to whether they are more due to structure, including either folding or faulting/shearing along the tonalite margin – interpretations are ongoing.
- ◆ This zone is largely untested on the eastern side of the tonalite, where there is the potential for a shallowly north plunging target along the 250m strike length of the tonalite – given the north-east dip of the Shillington BIF, the depth of the target is interpreted as ranging from ~125m at the south-western margin of the tonalite to ~300m at the north-eastern margin.

Figure 7: Two Mile Hill sections 6892620mN and 6892570mN (note different scales)



Source: Adapted from MDI

Figure 8: Two Mile Hill isometric view looking west – tonalite is green, Shillington BIF is red

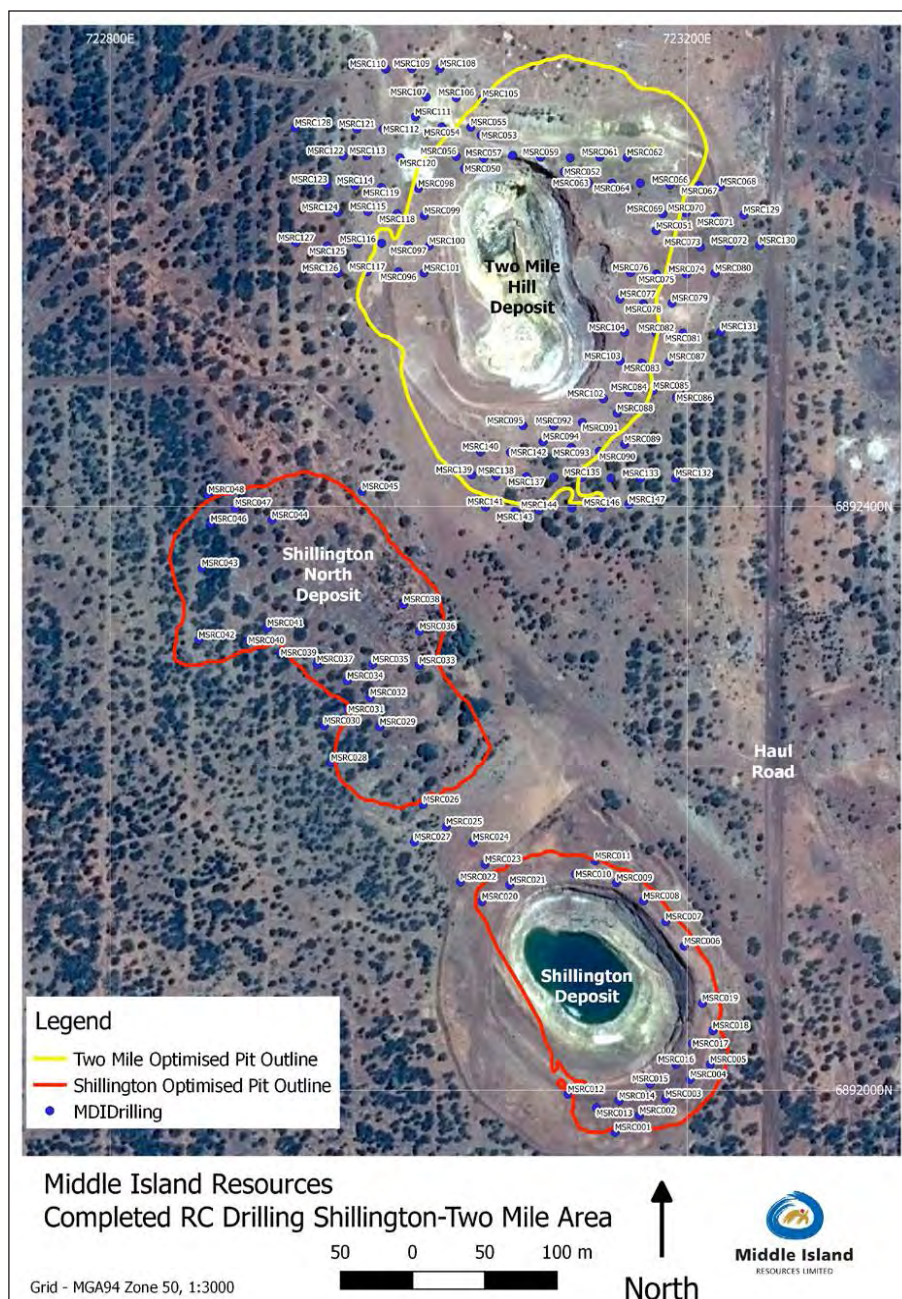


Source: MDI

Shillington BIF

- ◆ The Shillington BIF is the host lithology for a number of prospects within the Sandstone project, including the deep BIF target at Two Mile Hill previously discussed, Shillington, Shillington North, Shillington West, McIntyre North and South and several 'weights of evidence' targets (Figure 3).
- ◆ Known mineralisation at the latter prospects is generally flat to shallowly dipping, and largely in the oxide zone.
- ◆ Previous mining in a small open cut was completed at Shillington, and as discussed earlier MDI has an updated MRE of 1.288Mt @ 1.3g/t Au for 54,000oz contained gold at Shillington/Shillington North – this estimate incorporated the results of drilling completed in 2016 by MDI (Figure 9).
- ◆ The results of the drilling supported the results of previous work, confirming the mineralisation, with better results including 5m @ 14.2g/t from 36m, 10m @ 4.12g/t Au from 78m and 7m @ 4.51g/t from 101m.

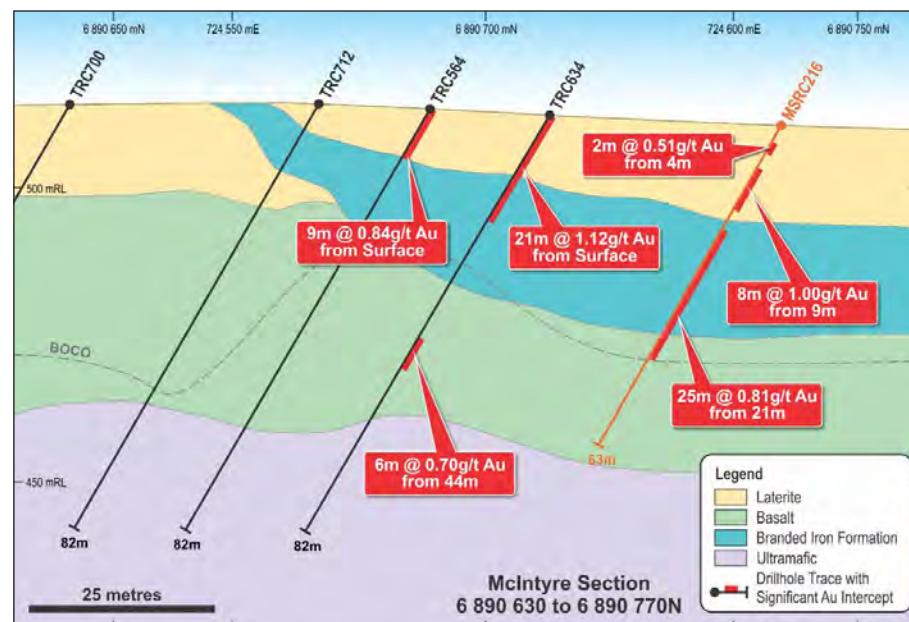
Figure 9: 2016 Shillington and Two Mile Hill drilling and optimised pit outlines



Source: MDI

- ◆ The McIntyre prospect, located some 1.5km southeast of Shillington, is centred over a gold soil anomaly, associated with structurally disrupted BIF units – previous RAB and RC drilling returned intercepts of up to 30m @ 1.84g/t Au in shallowly dipping BIF.
- ◆ MDI completed 23 RC drillholes at McIntyre in Q2, 2017, with three of these returning broad, low grade results intervals of gold – MSRC2016 is shown in Figure 10.
- ◆ The controls on mineralisation are not fully understood – it may be possible that it is controlled by the intersection of the shallowly dipping BIF with north to northeast trending structures at McIntyre – interpretations are currently underway.
- ◆ This however leaves open the potential for deeper mineralisation within the Project, with the possibility for additional areas where structure intersects the BIF units – additional areas of BIF have been identified through a geophysical review undertaken in 2016.
- ◆ Due to their reactivity, BIFs are a common host for mineralisation in the Yilgarn.

Figure 10: McIntyre North section looking northwest



Source: MDI

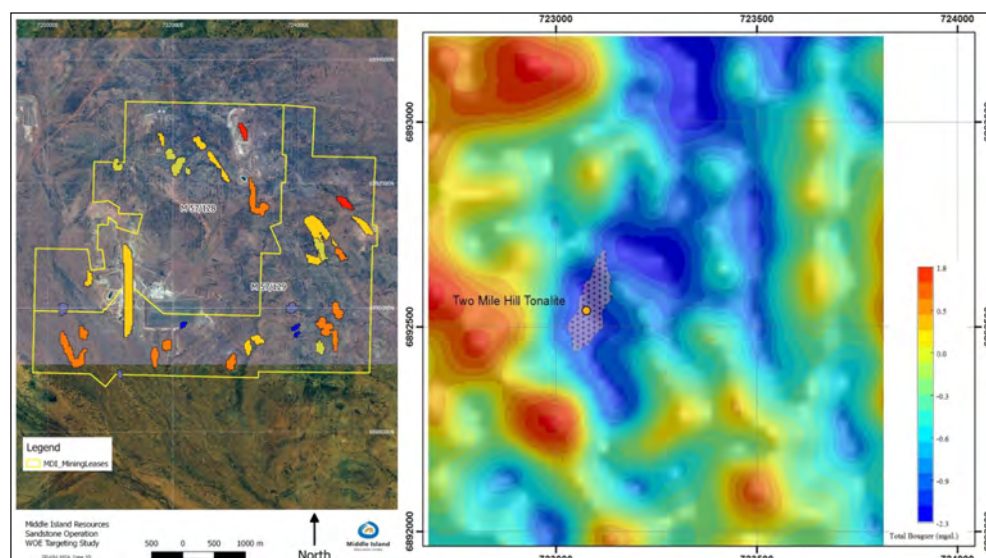
Wirraminna

- ◆ The recently acquired Wirraminna prospect, located within 1km of the plant, is host to a JORC-2004 compliant MRE of ~10,000oz gold as detailed previously.
- ◆ In addition to the defined resource, there are two other known laterite deposits and deeper potential associated with three intersecting high grade mineralised structures.
- ◆ Historic drilling has returned intersections of up to 11m @ 23.8g/t Au, 16m @ 14.6g/t Au and 19m @ 4.85g/t Au – these are interpreted as forming a high grade shoot at the core of the resource.

Exploration Potential

- ◆ Work by MDI has identified a number of additional prospects that require follow up, including targets that have had no previous work.
- ◆ Key among these is Turley, identified during the sterilisation drilling programme for the proposed Shillington waste dump – hole MSRC177 returned an intersection of 4m @ 17.6g/t Au, with resampling of this composite returning 1m @ 161g/t Au from 48m downhole – mineralisation is associated with a chert unit in basalts.
- ◆ Work has included a “weights of evidence” targeting study over the Project, with this including a review and analysis of all available exploration data, leading to the identification and prioritisation of targets as shown in Figure 11.
- ◆ This identified felsic intrusives and north-south trending structures as being key criteria – higher priority targets were identified southwest of the Wirraminna trend in the southwest of the Project (Davis prospect) and southeast of Shillington.
- ◆ As a follow up to this study the Company has completed a detailed infill gravity survey in the north-western area of the Project to identify potential felsic intrusives – these are marked by gravity lows, with a number of potential bodies identified in the analysis of the new gravity data in the vicinity of Two Mile Hill (Figure 11).

Figure 11: Targeting study and detailed gravity results



Source MDI

Mineral Resources

- ◆ Drilling completed in 2016 was included in the updated MRE, as presented in Table 1 below; a breakdown of resources between Two Mile Hill and Shillington is included as Appendix 1.
- ◆ We have also included the latest estimate by previous operators in Table 2 as a comparison with the MDI MRE – as shown in Appendix 1 the 2016 resources are split relatively evenly between Shillington and Two Mile Hill.
- ◆ The 2016 MRE has also resulted in a significant proportion (~85%) of mineralisation being in the Indicated category.
- ◆ The difference between the two estimates is due to, amongst others:
 - The MDI MRE does not include Plum Pudding as included previously,
 - The MDI Two Mile Hill estimate is above 120m depth below surface only; the previous estimate included an open pit component above 150m below surface and additional material between 450m and 150m below surface – this provides the majority of the difference between the estimates,
 - New drilling was incorporated into all estimations, and,
 - The use of different estimation methods and updated domaining of weathered zones.

Table 1: 2016 Sandstone Aggregate Mineral Resource Estimate (2012 JORC Code)

2016 Sandstone Aggregate Mineral Resource Estimate (2012 JORC Code)									
Grade-Tonnage Report – Multiple Indicator Kriging with a Change Support Selective Mining Unit (5mE by 10mN by 2.5mRL)									
Cut-off Grade (g/t Au)	Indicated			Inferred			Total		
	Tonnes (kt)	Au (g/t)	koz Au	Tonnes (kt)	Au (g/t)	koz Au	Tonnes (kt)	Au (g/t)	koz Au
0.5	3,292	1.05	112	699	0.9	20	3,992	1.03	132
0.6	2,560	1.2	99	532	1.01	17	3,092	1.17	116
0.7	2,028	1.34	88	387	1.15	14	2,414	1.31	102
0.8	1,631	1.48	78	293	1.28	12	1,924	1.45	90
0.9	1,327	1.63	69	223	1.42	10	1,550	1.6	80
1	1,126	1.76	64	185	1.51	9	1,311	1.72	73

Source: MDI

Table 2: Previously estimated gold resources (2004 JORC Code)

Previously Estimated Gold Resources (JORC 2004)					
Deposit	Category	Tonnes	Grade (g/t Au)	Contained Gold (oz.)	Tenement
Two Mile Hill - Tonalite	Inferred	10,541,000	1.33	452,094	M57/128
- BIF	Indicated	59,100	9.90	18,811	
Shillington	Inferred	130,000	1.50	6,269	M57/128
Plum Pudding	Inferred	50,000	1.60	2,572	M57/129
Total Indicated		59,100	9.90	18,811	
Total Inferred		10,721,000	1.34	460,935	
TOTAL RESOURCES		10,780,100	1.38	479,746	

ONGOING AND FUTURE WORK

- ◆ Ongoing activities are concentrated on identifying additional mineralisation, and delivering an updated MRE and the underground mining concept study in early 2018 – the mining study is virtually complete; however, the Company will be looking at incorporating any updated MRE into this.
- ◆ Near-term planned activities include:
 - Additional diamond drilling (~500m) at Two Mile Hill partly funded under a WA Government Exploration Incentive Scheme (“EIS”) grant,
 - Phase 1 of a proposed 2 phase RC/diamond drilling programme testing the up-dip extents of the deep BIF to the west of the tonalite at Two Mile Hill,
 - Initial metallurgical and mineralogical test work on the deeper tonalite-hosted mineralisation,
 - Extensional, infill and verification drilling at Wirraminna, to be used in an initial JORC-2012 compliant MRE,
 - Pit optimisation studies at Wirraminna, to be incorporated in the overall Sandstone project studies, and to elucidate the economic effect of Wirraminna on the overall project,
 - Detailed gravity surveying over Wirraminna, and,
 - Auger/aircore geochemical drilling at Davis to define a saprolitic target below sheetwash cover has recently been completed, with results pending.
- ◆ The Company has also been cleaning up accessible areas around the plant, with 14 bulka bags of mineralised residues being collected – once assays are received the Company will look at options with respect to recovering gold from this material.

PEER GROUP ANALYSIS

- ◆ Table 2 presents a group of ASX-listed gold developers and miners, with the majority being focussed on Western Australia.
- ◆ As a comparison metric, we have used EV/equity resource ounce – this however should be considered an indicative comparison only, with this being affected by any number of factors.
- ◆ In the group below the resource weighted average EV is \$50/ounce.
- ◆ We note MDI’s relatively high figure multiple of A\$75/oz, however this is based on the updated MRE of ~100,000oz contained gold – should the previous 480,000oz figure be used this multiple decreases to ~A\$17/oz, the lowest of the peers.
- ◆ Should the Company enter production we should also see an increase in this multiple to reflect the lower risk.
- ◆ This does not take into consideration the value of any other resource projects the companies may have – in the case of MDI this includes the Reo Gold Project in Burkina Faso.

Table 2: Middle Island peers

Table 2: Middle Island peers								
Company	Location	EV Undiluted (A\$m)	Global Resource (Mt)	Global Au Grade (g/t)	Company Equity Share	Contained Au Moz Coy Share	EV/oz Au equity share	Project Stage
Pantoro Limited	Australia	\$178.9	1.6	7.43	100%	0.38	\$475.39	Producing
Explaurum	Australia	\$39.4	4.7	2.00	100%	0.30	\$130.50	Exploration
Middle Island	Australia	\$7.5	2.4	1.31	100%	0.10	\$74.16	Pre-Feasibility
Kin Mining	Australia	\$47.5	11.8	1.88	100%	0.71	\$66.59	PFS Completed
Matsa	Australia	\$21.0	5.6	1.99	100%	0.36	\$58.79	Development
Gascoyne Resources	Australia	\$109.1	52.6	1.39	100%	2.35	\$46.51	Development
Sumatra Copper Gold	Indonesia	\$18.0	6.1	1.98	100%	0.39	\$46.37	Producing
Tyranna	Australia	\$7.4	6.9	1.00	72%	0.17	\$43.77	Exploration
Alto Metals	Australia	\$9.7	3.6	2.00	100%	0.23	\$42.08	Exploration
Medusa Mining	Philippines	\$53.5	10.6	4.13	100%	1.41	\$37.97	Producing
Primary Gold	Australia	\$31.4	30.7	1.42	100%	1.40	\$22.36	Scoping
White Cliff Minerals	Kyrgyzstan	\$5.1	1.8	5.20	90%	0.27	\$18.81	Exploration

Source: IRESS, Company Reports, IIR analysis

- ◆ Given the low enterprise value, the Company is also well leveraged to exploration success, which is the key to driving share prices and company value.
- ◆ Recent discoveries in Australia that have led to large price moves including Nova-Bollinger discovery by Sirius in 2012 (\$0.05 to a peak of \$5.00/share) and the Doolgunna discovery by Sandfire in 2009, which had an initial run from \$0.05 to \$4.08/share, with subsequent movements to over \$8.00/share.
- ◆ Successes on the gold side include Dacian, with their Mt. Morgans discovery near Laverton driving the share price from ~\$0.40 in July 2015 to a peak of \$4.00 in August 2016, and Breaker, which saw price appreciation from \$0.04 to \$0.76 over a similar period – although Dacian subsequently retreated, Breaker did likewise but has recovered to near high values.

CAPITAL STRUCTURE

- ◆ Middle Island has 586.3 million shares and 37.5 million unlisted options on issue.
- ◆ The top 20 hold 56%, with directors holding 13% - the largest shareholder is the Managing Director, Mr Rick Yeates, with direct and indirect holdings of 8.35%.
- ◆ The Company has ~670 shareholders.

RISKS

- ◆ **Resource upside** – This is the key risk for MDI (either from exploration success, acquisitions or third-party agreements), with an increase in resources required to justify a plant refurbishment and restart of operations at Sandstone – results of work to date however have highlighted the potential for this to occur.
- ◆ **Funding** - This is a perennial issue for junior resource companies, and with A\$1.84 million in the bank and a quarterly burn rate in the order of A\$1 million, MDI will soon need to look at returning to the markets.
- ◆ **Markets** – Although they have appeared to pick up after a quiet few months, markets can turn on a dime and funding for juniors can dry up very quickly.
- ◆ **Metals prices and exchange rates** – Although we are seeing relatively high AUD denominated gold prices and a stable USD denominated price, the current strength of the AUD may be some cause for concern – given the grades and relatively small throughput of any operation at Sandstone, returns will be very sensitive to changes in the gold price.
- ◆ **Sovereign and permitting** – Being in a mining friendly jurisdiction and being on granted mining leases these are low risk factors for MDI.

BOARD AND MANAGEMENT

◆ **Mr Peter Thomas – Non-Executive Chairman:** Peter was a practising solicitor from 1980 until June 2011 specialising in the provision of corporate and commercial advice to explorers and miners. Since the mid-1980s, he has served on the boards of various listed companies. He was the founding chairman of Sandfire Resources NL and remains the non-executive chairman of ASX-listed Emu Nickel NL and Middle Island Resources Limited, and a non-executive director of Image Resources NL.

◆ **Mr Rick Yeates – Managing Director:** Rick is a geologist, graduating from the University of New England in 1982, whose professional career has spanned 35 years, variously working for major companies such as BHP, Newmont and Amax, prior to co-founding the consulting firm of Resource Service Group (subsequently RSG Global) in 1987. Over the next 20 years he grew RSG and its antecedents from a small Goldfields-based firm into a highly respected international consulting group with an annual turnover >\$20M, progressively establishing offices in Australia, Africa and South America, and in the process winning numerous business, technology and export awards. RSG Global was successfully sold to Australian-listed Consulting group Coffey International Limited in 2006 to become Coffey Mining, where Rick continued to work in mergers & acquisitions and business development functions until his resignation in late 2009 to found Middle Island Resources in 2010.

Rick has considerable international experience, having worked in some 29 countries, particularly within Africa and South America, variously undertaking project management assignments, feasibility studies and independent reviews for company listings, project finance audits and technical valuations.

Rick is well known to the major international mining exchanges and financial institutions, has been responsible for several significant mineral discoveries, has reviewed hundreds of mining and exploration projects worldwide and has lectured in exploration geochemistry at the Western Australian School of Mines.

Rick is also a member of the Australasian Institute of Mining and Metallurgy (AusIMM), a graduate member of the Australian Institute of Company Directors (AICD), and has served on the boards of numerous private companies and industry bodies, including Austmine and the Australia-Africa Mining Industry Group (AAMIG, now AMAMEG). He currently serves (since 2009) as a non-executive director of ASX 200 nickel producer Western Areas Limited.

◆ **Mr Beau Nicholls – Non-Executive Director:** Beau has 20 years in mining and exploration geology, ranging from grass roots exploration management through to mine production environments. With a proven track record on four continents (Australia, Eastern Europe, Africa and the Americas) and in over 20 countries, Beau has been instrumental in the discovery and/or development of a number of world class deposits, variously located in Western Australia, Romania, Bulgaria, Senegal, Burkina Faso, Ghana, Guinea and Sierra Leone.

Beau has over 10 years international consulting experience with RSG/RSG Global and Coffey Mining, including serving in the positions of Regional Manager - West Africa, based in Accra Ghana, and most recently as Geology Manager – Brazil, based in Belo Horizonte.

Beau is a graduate of the Western Australian School of Mines in Kalgoorlie, holds an unrestricted Quarry Managers permit for Western Australia and has an Advanced Diploma in Business Management from the Australian Institute of Management.

◆ **Mr Dennis Wilkins – Company Secretary and Alternate for Beau Nicholls:** Dennis is an accountant who has been a director, company secretary or acted in a corporate advisory capacity to listed resource companies for over 25 years.

Dennis previously served as the Finance Director and Company Secretary for a mid-tier gold producer and also spent five years working for a leading merchant bank in the United Kingdom. He has extensive experience in capital raising, specifically for the resources industry, and is the principal of DWCorporate Pty Ltd which provides advisory, funding and administrative management services to the resource sector. Dennis is a non-executive director of Key Petroleum Limited.

APPENDIX 1 – SANDSTONE DETAILED MRE

Shillington Deposits - Updated Mineral Resource Estimate (2012 JORC Code)									
Grade-Tonnage Report – Multiple Indicator Kriging with a Change Support Selective Mining Unit (5mE by 10mN by 2.5mRL)									
Cut-off	Indicated			Inferred			Total		
grade (g/t Au)	Tonnes (kt)	Au (g/t)	koz Au	Tonnes (kt)	Au (g/t)	koz Au	Tonnes (kt)	Au (g/t)	koz Au
0.5	1,591	1.06	54	478	0.93	14	2,069	1.03	69
0.6	1,255	1.2	48	370	1.03	12	1,625	1.16	61
0.7	1,015	1.33	43	272	1.17	10	1,288	1.3	54
0.8	830	1.45	39	211	1.3	9	1,041	1.42	48
0.9	684	1.58	35	168	1.42	8	852	1.55	42
1	582	1.7	32	141	1.5	7	723	1.66	39

Two Mile Hill Deposit - Updated Mineral Resource Estimate (2012 JORC Code)									
Grade-Tonnage Report – Multiple Indicator Kriging with a Change Support Selective Mining Unit (5mE by 10mN by 2.5mRL)									
Cut-off Grade	Indicated			Inferred			Total		
(g/t Au)	Tonnes (kt)	Au (g/t)	koz Au	Tonnes (kt)	Au (g/t)	koz Au	Tonnes (kt)	Au (g/t)	koz Au
0.5	1,701	1.05	57	222	0.85	6	1,923	1.03	63
0.6	1,305	1.2	50	161	0.97	5	1,467	1.17	55
0.7	1,012	1.36	44	114	1.1	4	1,127	1.33	48
0.8	801	1.52	39	82	1.23	3	883	1.49	42
0.9	643	1.68	35	56	1.41	3	698	1.66	37
1	511	1.82	32	44	1.53	2	588	1.8	34

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