



Middle Island
RESOURCES LIMITED



Middle Island Resources Limited
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25 May 2016

Dear Shareholder,

On behalf of the Directors of Middle Island Resources Limited (Middle Island or the Company) I am pleased to enclose details of the Right's Issue and Notice of Meeting (NoM).

The Rights Issue and NoM relate to the recent announcement of your Company's intention to complete the acquisition of a 100% interest in the Sandstone gold project in Western Australia. This acquisition has received overwhelming market support and reinvigorated Middle Island following an extended period of general market malaise. With your assistance, we look forward to completing the proposed acquisition, prior to embarking on a campaign of drilling to upgrade the status of existing resources, undertake priority exploration and complete a pre-feasibility study in order to confirm the viability of recommending gold production at Sandstone. Under prevailing market circumstances, your Directors are confident that the Sandstone gold project can be successfully and profitably recommissioned.

In relation to the Right's Issue, the Directors intend to participate in the Entitlements Issue and I encourage all shareholders to do the same. As with the previous successful issue in July 2015, the offer has been priced at a considerable discount to the prevailing market price. This discount again provides the opportunity to reward shareholders for your patience and support over an extended period.

The current capital raising, comprising both a Conditional Placement and Right's Issue to collectively raise approximately \$5M, is more than initially envisaged. The additional capital will allow the Company to also pre-pay the Deferred Payment of \$400,000, thereby providing a \$100,000 saving to the Company (otherwise \$500,000 due 18 months following Completion), and commence diamond drilling on the highest priority 'brownfields' target, being the high grade Two Mile Hill banded iron formation (BIF).

While your Directors fully acknowledge that the quantum and structure of the capital raising may serve to dilute some shareholders, we firmly believe the benefits far out-way the disadvantages in the current circumstances. Seeking professional advice where necessary and noting the risks identified in the NoM, I urge you to follow your Right's to the maximum extent possible in order to achieve all objectives outlined above.

Similarly, in relation to the Resolutions included in the NoM, the Directors firmly believe that an affirmative vote on all resolutions is also in the best interests of your Company, and encourage you to support these. I look forward to catching up with as many of you as possible at the General Meeting on 24 June 2016 at which I will be presenting details of the Sandstone gold project and the Company's plans to recommission the operation

In the interim, should you have any queries in relation to the Right's Issue and/or the NoM, please do not hesitate to contact either the Company Secretary, Dennis Wilkins, on (08) 9389 2111 or myself on 0401 694 313.

Via the Sandstone Project acquisition, we look forward to creating and sharing in a rewarding future for Middle Island Resources Limited.

Yours faithfully,

Rick Yeates
Managing Director

MIDDLE ISLAND RESOURCES LIMITED
ABN 70 142 361 608

NOTICE OF GENERAL MEETING

AND

EXPLANATORY STATEMENT

AND

PROXY FORM

Date of Meeting

24 June 2016

Time of Meeting

11.30am

Place of Meeting

The Celtic Club
48 Ord Street
WEST PERTH WA 6005

This Notice of General Meeting should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their accountant, solicitor or other professional adviser prior to voting.

MIDDLE ISLAND RESOURCES LIMITED
ABN 70 142 361 608
NOTICE OF GENERAL MEETING

Notice is hereby given that the General Meeting of Shareholders of Middle Island Resources Limited (**Company**) will be held at The Celtic Club, 48 Ord Street, West Perth, Western Australia on 24 June 2016 at 11.30am (**Meeting**) for the purpose of transacting the following business.

Capitalised terms used in this Notice will, unless the context otherwise requires, have the same meaning as given to them in the Glossary.

Resolution 1 – Change to scale of activities

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That, subject to Resolution 5 being passed, for the purpose of Listing Rule 11.1 (and specifically Listing Rule 11.1.2) and for all other purposes, the Company be authorised to make a significant change to the scale of its activities in the manner stated in the Explanatory Statement and the acquisition of the Sandstone Assets under the Asset Sale Agreement referred to in the Explanatory Statement be and is hereby approved.”

Voting Exclusion: For the purposes of Listing Rule 11.1.2, the Company will disregard any votes cast on this Resolution by Black Oak and any of its Associates and any person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the Resolution is passed, unless it is cast:

- (a) by a person as proxy for a person who is entitled to vote (in accordance with the directions on the proxy form); or
- (b) by the person chairing the meeting as proxy for a person who is entitled to vote (in accordance with a direction on the proxy form to vote as the proxy decides).

Resolution 2 – Issue of Advisor Shares

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That, for the purposes of Listing Rule 7.1 and for all other purposes, Shareholders approve and authorise the Company to issue up to 9,708,738 Advisor Shares to PCF (or its nominees) for the purposes and on the terms and conditions set out in the Explanatory Statement”.

Voting Exclusion: For the purposes of Listing Rule 7.3, the Company will disregard any votes cast on this Resolution by PCF and any of its Associates and any person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the Resolution is passed, unless it is cast:

- (a) by a person as proxy for a person who is entitled to vote (in accordance with the directions on the proxy form); or
- (b) by the person chairing the meeting as proxy for a person who is entitled to vote (in accordance with a direction on the proxy form to vote as the proxy decides).

Resolution 3 – Ratification of issue of Placement Shares

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That for the purpose of Listing Rule 7.4 and for all other purposes, Shareholders approve and ratify the issue of 40,000,000 Placement Shares to sophisticated and professional investor clients of Bell Potter for the purposes and on the terms and conditions set out in the Explanatory Statement”.

Voting Exclusion: For the purposes of Listing Rule 7.5, the Company will disregard any votes cast on this Resolution by any person who participated in the issue and any of their Associates, unless it is cast:

- (a) by a person as proxy for a person who is entitled to vote (in accordance with the directions on the proxy form); or
- (b) by the person chairing the meeting as proxy for a person who is entitled to vote (in accordance with a direction on the proxy form to vote as the proxy decides).

Resolution 4 – Ratification of issue of 2015 Placement Shares

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That for the purpose of Listing Rule 7.4 and for all other purposes, Shareholders approve and ratify the issue of 869,555 2015 Placement Shares to sophisticated investors for the purposes and on the terms and conditions set out in the Explanatory Statement”.

Voting Exclusion: For the purposes of Listing Rule 7.5, the Company will disregard any votes cast on this Resolution by any person who participated in the issue and any of their Associates, unless it is cast:

- (a) by a person as proxy for a person who is entitled to vote (in accordance with the directions on the proxy form); or
- (b) by the person chairing the meeting as proxy for a person who is entitled to vote (in accordance with a direction on the proxy form to vote as the proxy decides).

Resolution 5 – Issue of Conditional Placement Shares

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That, subject to Resolution 1 being passed, for the purpose of Listing Rule 7.1 and for all other purposes, Shareholders approve and authorise the issue of up to 120,000,000 Conditional Placement Shares to persons to whom a disclosure document is not required to be provided under Part 6D.2 of the Corporations Act for the purposes and on the terms and conditions set out in the Explanatory Statement”.

Voting Exclusion: For the purposes of Listing Rule 7.3, the Company will disregard any votes cast on this Resolution by any person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the resolution is passed, and any of their Associates, unless it is cast:

- (a) by a person as proxy for a person who is entitled to vote (in accordance with the directions on the proxy form); or
- (b) by the person chairing the meeting as proxy for a person who is entitled to vote (in accordance with a direction on the proxy form to vote as the proxy decides).

By Order of the Board of Directors



Dennis Wilkins
Company Secretary
Date: 24 May 2016

OTHER BUSINESS

To deal with any other business that may be brought forward in accordance with the Constitution and the Corporations Act.

PROXIES

A Proxy Form is attached to the Notice. This is to be used by Shareholders if they wish to appoint a representative (a "proxy") to vote in their place. All Shareholders are invited and encouraged to attend the Meeting or, if they are unable to attend in person, sign and return the Proxy Form to the Company in accordance with the instructions on the form. Lodgement of a Proxy Form will not preclude a Shareholder from attending and voting at the Meeting in person.

Please note that:

- a member of the Company entitled to attend and vote at the Meeting is entitled to appoint a proxy;
- a proxy need not be a member of the Company; and
- a member of the Company entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise, but where the proportion or number is not specified, each proxy may exercise half of the votes.

If you are a registered Shareholder of the Company and are unable to attend the Meeting in person, please date and execute the accompanying Proxy Form and return it in accordance with its instructions prior to 11.30am WST on 22 June 2016 by:

1. post to Security Transfer Registrars Pty Ltd, PO Box 535, Applecross, Western Australia 6953;
2. facsimile to Security Transfer Registrars Pty Limited at (08) 9315 2233 (International: +61 8 9315 2233);
3. email at registrar@securitytransfer.com.au; or
4. online at www.securitytransfer.com.au.

If you are a beneficial Shareholder and receive these materials through your broker or through another intermediary, please complete and return the form of proxy or voting instruction form in accordance with the instructions provided to you by your broker or by the other intermediary.

ENTITLEMENT TO VOTE

For the purposes of regulation 7.11.37 of the Corporations Regulations 2001, the Company determines that members holding Shares at 11.30am WST on 22 June 2016 will be entitled to attend and vote at the Meeting.

CORPORATIONS

A corporation may elect to appoint a representative in accordance with the Corporations Act, in which case the Company will require written proof of the representative's appointment, which must be lodged with, or presented to the Company, before the Meeting.

ELECTRONIC COMMUNICATION

All Shareholders may elect to receive communications from the Company's share registry electronically. To provide or update your email address, please contact the Company's share registry.

REVOCAION OF PROXIES

A Shareholder executing and delivering a proxy has the power to revoke it in accordance with the provisions of the Corporations Act, which provides that every proxy may be revoked by an instrument in writing executed by the Shareholder or by his or her attorney authorised in writing and delivered either to the registered office of the Company at any time up to and including the last business day preceding the day of the Meeting, or any adjournment thereof at which the proxy is to be used, or to the Chairman of the Meeting on the day of the Meeting or any adjournment thereof, or in any other manner permitted by law.

VOTING OF PROXIES

The Proxy Form accompanying this Notice confers discretionary authority upon the proxy with respect to any amendments or variations to the matters identified in the Notice of Meeting and any other matters that may properly come before the Meeting. At the time of printing this Notice, management knows of no such amendment, variation or other matter.

Shareholders must mark the boxes directing its proxy how to vote. If no voting instructions are indicated on the appointment of proxy form, the proxy will be voted as recommended by management or as the proxyholder sees fit (in the latter case, if management is not appointed as proxy).

EXPLANATORY STATEMENT

This Explanatory Statement has been prepared for the Shareholders of the Company in connection with the business to be conducted at the General Meeting of the Company to be held at The Celtic Club, 48 Ord Street, West Perth WA 6005, on 24 June 2016 commencing at 11.30am WST and any adjournment thereof.

The Directors recommend that Shareholders read this Explanatory Statement in full before making any decision in relation to the Resolutions.

Capitalised terms used in this Explanatory Statement will, unless the context otherwise requires, have the same meaning as given to them in the Glossary.

1. OVERVIEW OF ACQUISITION AND CAPITAL RAISING

1.1 Background

The Company was incorporated in Western Australia on 2 March 2010 to undertake mineral exploration, primarily for gold, in West Africa. Pursuant to various earn-in and joint venture agreements, the Company acquired mineral interests in three West African jurisdictions, being Burkina Faso, Niger & Liberia.

On 16 December 2010, the Company was admitted to the official list of the ASX.

Since the Company's admission to ASX, it has been actively conducting its exploration activities, including the review of many mineral exploration opportunities. Shortly after the Company's admission to the ASX, a progressive and marked deterioration in investor interest in mineral exploration generally and mineral projects in Africa specifically, occurred. As a result, the capital markets showed diminished support for exploration activities in West Africa due to, amongst other things, civil unrest and an increase in sovereign risk profiles. Consequently, the Company's focus, as disclosed in its announcements (refer to the Company's September 2014 quarterly report and all quarterly reports since that time), has been on implementing cost efficiencies to conserve cash and review of project acquisition opportunities in Africa and Australia. The Company's current strategic focus is two-fold: to identify an appropriate partner to invest in resource definition drilling and feasibility studies at the Reo gold project in Burkina Faso; and to identify a new gold or copper-gold transaction within Australia or Africa that will generate significant additional shareholder and investor interest.

On 4 May 2016, the Company announced to ASX that the Company had entered into an agreement to acquire a 100% interest in the Sandstone Project in Western Australia. The Transaction Documents, which are detailed in sections 1.2 and 1.3 of this Explanatory Statement, require the consideration to be satisfied by cash payments. The Company is therefore undertaking the Capital Raising to fund the Acquisition. The details of the Placement were announced on 4 May 2016 and the details of the Conditional Placement and the Entitlements Issue were announced on 17 May 2016. The Placement was finalised on 9 May 2016. The Conditional Placement is subject to Shareholder approval and is planned to be completed, with the Entitlements Issue, prior to Completion.

The ratification of the Placement is the subject of Resolution 3 – refer to section 4 of this Explanatory Statement for further information. The Conditional Placement is subject to Shareholder approval and is the subject of Resolution 5 – refer to section 6 of this Explanatory Statement for further information. Refer to section 1.6 of this Explanatory Statement for a detailed timetable for the Placement, the Entitlements Issue, the Conditional Placement and the Acquisition.

1.2 Acquisition of Sandstone Project

The Company and Black Oak have entered into the Asset Sale Agreement for the sale and purchase of the Sandstone Assets (**Acquisition**). The Sandstone Assets form the Sandstone Project.

On Completion, the Sandstone Project will comprise:

- (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 aims to move towards near term gold production (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. The Sandstone Mill is being purchased on an 'as is, where is' basis, with no warranties being provided by Black Oak as to its condition;
- (d) three well equipped owner, contractor and exploration camps on, and including, freehold titles in the township of Sandstone; and

- (e) multiple identified brownfield exploration targets.

Refer to section 1.4 of this Explanatory Statement for further details of the Sandstone Project.

The Company has incorporated a wholly owned subsidiary, Sandstone Operations, to purchase the Sandstone Assets and the Company has guaranteed and will provide security for the performance of Sandstone Operations under the Asset Sale Agreement. Refer to section 1.3(c) of this Explanatory Statement for more information on the security to be provided by the Company.

1.3 Key terms of the Acquisition

The key terms of the Acquisition are as follows:

- (a) **Purchase Price:** The purchase price under the Asset Sale Agreement and Deferred Payment Agreement is \$2,500,000 (or \$2,400,000), exclusive of GST, and is payable as follows:
- (i) cash payment of \$250,000 to Black Oak within five business days of execution of the Asset Sale Agreement (paid on 9 May 2016) (**Deposit**);
 - (ii) cash payment of \$1,250,000 to Black Oak upon Completion which, subject to fulfilment of the conditions precedent outlined below, is to take place no earlier than 14 days after the satisfaction of the Conditions; and
 - (iii) deferred cash payments pursuant to the Deferred Payment Agreement as follows:
 - 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).

The tenements acquired are 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 to Troy Resources and a royalty of A\$1 per tonne of ore mined and treated from M57/129 to Herald Resources Ltd and National Resources Exploration Limited.

There may be a further legacy royalty payable in relation to the tenements being acquired by the Company. Pursuant to an Agreement (Deed of Sale – Sandstone) dated 27 September 2004 between Troy Resources NL, International Annax Ventures Inc and Herald Resources Ltd (**Annax Sale Deed**) a royalty may be payable in relation to a portion of any gold produced from the tenements acquired by the Company from Black Oak. Royalties payable under the Annax Sale Deed are 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 Annax Sale Deed, only two of which are being 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 Annax 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 as soon as the status of that potential further royalty has been resolved.

Black Oak may apply the Deposit for care and maintenance costs until Completion (or termination of the Asset Sale Agreement). If the Asset Sale Agreement is terminated, the balance of the Deposit is refundable, in general terms, if a condition precedent (other than Shareholder approval) is not satisfied and the Company has complied with all its obligations in relation to that condition precedent. If Shareholder approval is not obtained and the Asset Sale Agreement is terminated, the Deposit is forfeited and the Company is liable to pay Black Oak’s legal fees in relation to the Acquisition (capped at \$50,000).

In addition, the Company shall issue the Advisor Shares on Completion to PCF pursuant to the terms of the Mandate. Refer to Resolution 2 and section 3 of this Explanatory Statement for further information on the Advisor Shares.

Stamp duty will be paid by the Company on the Acquisition.

- (b) **Conditions precedent:** the Acquisition is conditional upon the satisfaction or waiver of the conditions set out below prior to the Sunset Date (being 1 July 2016 or any other date that the parties to the Asset Sale Agreement agree to in writing):

- (i) the Company's Shareholders having passed a resolution approving the acquisition of the Sandstone Assets from Black Oak, including for the purpose of Listing Rule 11.1;
- (ii) the relevant Minister having provided an indicative approval to Sandstone Operations or Black Oak in respect of the transfer to Sandstone Operations of M57/128 and M57/129 on acceptable terms and conditions. The tenements being acquired by the Company are mining leases. The consent of the Minister is required under section 82(1)(d) of the Mining Act 1978 for transfer of a mining lease. In practice the Minister's delegate, the Department of Mines and Petroleum, considers applications for consent. The Department has given consent to the transfers, conditional on instruments of transfer being lodged and the payment of any amounts owing to the Department by Black Oak in respect of the tenements. The Company is not aware of any amounts being owed, and instruments of transfer will only be delivered by Black Oak at formal completion under the Asset Sale Agreement between Black Oak and the Company;
- (iii) certified true copies of the original instruments of title for all of the freehold properties on which the camps in Sandstone township are located have been provided to Sandstone Operations and Black Oak confirms by notice that the original duplicate instruments will be delivered at Completion;
- (iv) Black Oak lodges, and the Department of Mines and Petroleum accepts, a Form 5 expenditure report in respect of mining lease M57/129 such that the expenditure commitment for the tenement year ended 9 April 2016 has been satisfied in full, or satisfactory waivers granted;
- (v) Sandstone Operations, Black Oak and Troy Resources entering into an agreement binding Sandstone Operations to observe and perform the terms of the Royalty Deed – Net Smelter Return Royalty between Troy Resources and Black Oak dated 26 March 2013 (**Royalty Deed**);
(together, the **Conditions**); and
- (vi) as at 10:00am on the date of Completion, no impediment exists as a consequence of any judgement/order by a court or any person having instituted proceedings claiming any right to or interest in the Sandstone Assets which prevents or impedes Black Oak or the Receivers and Managers from complying with any of their obligations under the Transaction Documents (**Completion Condition**).

As at the date of this Notice, three of the five Conditions, namely (ii), (iii) and (iv) have been satisfied. All that now remains for the Acquisition to proceed to Completion is the approval of Shareholders as outlined in (i) above and a signed agreement in relation to the Royalty Deed as outlined in (v) above, as well as the Completion Condition. The agreement referred to in (v) is a standard document within the mining industry and it is not expected that there will be difficulty in satisfying that Condition.

- (c) **Security:** in order to secure the payment of the deferred cash payments pursuant to the Deferred Payment Agreement, the Company and Sandstone Operations will enter into the Security Agreements at Completion, detailed as follows:

- (i) the General Security Deed, pursuant to which Sandstone Operations will grant a first ranking security interest over Sandstone Operations' personal property to Black Oak and charges other property (including rights and interests in any land) to Black Oak by way of a first ranking fixed charge to secure the payment of any amounts owing under the Deferred Payment Agreement or the Security Agreements;
- (ii) the Featherweight Security Deed, pursuant to which the Company will grant a first ranking security interest over the Company's personal property and its shares in Sandstone Operations to Black Oak and charges other property (including rights and interests in any land) to Black Oak by way of a first ranking floating charge to guarantee the performance of Sandstone Operations under the Deferred Payment Agreement and the Security Agreements and to indemnify Black Oak against any loss suffered in connection with any failure of such performance;
- (iii) a first ranking real property mortgage over the freehold properties on which the camps in Sandstone township are located to be granted by Sandstone Operations in favour of Black Oak; and
- (iv) a mining mortgage over mining leases M57/128 and M57/129 to be granted by Sandstone Operations in favour of Black Oak.

The secured property will remain secured to Black Oak until Black Oak releases it. However, Sandstone Operations and the Company may require Black Oak to release secured property, and Black Oak must comply with that request if it is satisfied that all the secured money has been paid and that no amount will become payable (including under an indemnity).

Under the terms of the Deferred Payment Agreement, Sandstone Operations may request Black Oak's consent for the Company and Sandstone Operations to enter into security arrangements with a financier which rank ahead of the Security Agreements. Black Oak must grant its consent if a deed of priority is entered into detailing the ranking of the various security arrangements and the first ranking priority of all the financing arrangements does not exceed \$7,500,000 (plus interest and fees).

1.4 Overview of the Sandstone Project

The Sandstone Project and Sandstone Mill are located 12km south-southwest of the township of Sandstone, approximately 600km northeast of Perth, and between the towns of Mt Magnet and Leinster in the East Murchison Mineral Field of Western Australia.

The tenure being acquired is situated within the Sandstone greenstone belt, and comprises two granted mining leases. The Sandstone Mill is situated on one of those leases. The operation also includes an operating licence, permitted tailings storage facility, and borefield and various freehold titles within the nearby Sandstone township, on which well equipped camps are located.

In addition to JORC Code 2004 mineral resources in two separate deposits, following the completion of a pre-feasibility study, and subject to the results of that study, the Company aims to move towards near term production on the Sandstone Project which has significant exploration upside. Previous exploration has defined additional targets that remain only partially tested by drilling.

The Sandstone Mill was originally constructed in 1994 with a capacity of 250,000tpa and subsequently upgraded to 600,000tpa capacity by Troy Resources in 1999. Troy Resources operated the plant from 1999 to late 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 Sandstone Mill was placed on care and maintenance in September 2010 and has not operated since.

The Sandstone Mill has a conventional grinding and milling circuit and CIP leach circuit and associated infrastructure. It is in a reasonable condition, with refurbishment and upgrade costs of \$5,000,000 to \$8,000,000 estimated by an independent process engineering firm in November 2012, which was independently confirmed in 2015. A power generation station owned by a third party is located on site. The Company expects to negotiate a power supply agreement with the third party.

A 57-person owner's camp, a 36-person contractor's camp, and a 7-person exploration camp and core farm are all located on freehold titles within the township of Sandstone, 12km north-northeast of the Sandstone Mill. On Completion, Sandstone Operations will own the camps as well as the freehold titles on which they are situated. Sandstone also has a well-maintained airport capable of servicing FIFO operations.

Immediately upon Completion, the Company intends to embark on a pre-feasibility study likely to span a period of 3 to 4 months. See section 1.7(e) of this Explanatory Statement for more information on the scale up of the Company's activities on Completion.

1.5 Capital Raising

The Company funded the Deposit from existing working capital and undertook the Placement to replace the Company's working capital. The Placement was completed on 9 May 2016 to sophisticated and professional investor clients of Bell Potter to raise \$400,000 (before costs).

The Conditional Placement and the Entitlements Issue will enable the Company to meet its obligations at Completion, implement an expedited exploration and drilling program at the Sandstone Project with the objective of materially upgrading the existing mineral resources already estimated on the tenements being acquired, continue to assess opportunities for a joint venture partner for the Reo gold project in Burkina Faso, undertake a drilling and exploration program at the Reo gold project, and for working capital purposes. The Conditional Placement and the Entitlements Issue are partially directed at enabling the Company to bring forward the \$500,000 Deferred Payment (otherwise due 18 months after Completion) associated with the Acquisition, resulting in a cost saving of \$100,000 (being the agreed discount for early payment). The exact allocation of amounts will depend on how much is raised under the Entitlements Issue and contingencies about which it is not possible to provide clear guidance as to the outcome.

Refer to section 1.6 of this Explanatory Statement for more information on the timetable of the Entitlements Issue and the Conditional Placement. Refer to Resolution 5 and section 6 of this Explanatory Statement for more information on the Conditional Placement. Refer to section 1.7(e) of this Explanatory Statement for more information on the Company's plans to scale up its operations after Completion, including planned activities at the Reo gold project in Burkina Faso.

1.6 Timetable for Capital Raising and Acquisition

The anticipated timetable for the Capital Raising and the Acquisition is set out below, based on the following assumptions:

- (a) the Conditions and the Completion Condition are satisfied or waived within the applicable timeframe;
- (b) Resolutions 1 through 5 are passed and implemented;
- (c) no changes are made to the Entitlements Issue and Conditional Placement timetable; and
- (d) Completion occurs under the Asset Sale Agreement 14 days after the Sunset Date of 1 July 2016 (refer to section 1.3(a)(ii) of this Explanatory Statement for further information on the timing of Completion).

| Event | Date |
|--|--------------|
| Completion of the Placement | 9 May 2016 |
| Announcement of Entitlements Issue and Conditional Placement | 17 May 2016 |
| Entitlements Issue record date | 20 May 2016 |
| Dispatch Entitlements Issue offer document | 25 May 2016 |
| Entitlements Issue open date | 25 May 2016 |
| Entitlements Issue closing date | 24 June 2016 |
| General Meeting held | 24 June 2016 |
| Entitlements Issue & Conditional Placement allotment date | 29 June 2016 |
| Quotation of Entitlements Issue securities | 30 June 2016 |
| Sunset Date for satisfaction or waiver of Conditions | 1 July 2016 |
| Completion of Acquisition | 14 July 2016 |

1.7 Effect of the Acquisition and the Capital Raising on the Company**(a) Effect on the Company's nature of activities**

The Company is a gold exploration entity. At present, the Company's main business activities are exploring for and developing gold deposits in West Africa, the assessment of joint venture acquisition opportunities and the assessment of gold and copper acquisition opportunities in Africa and Australia.

Following the Acquisition, the Company will conduct its gold exploration activities in both West Africa and Australia and will continue to assess gold and copper acquisition opportunities in Africa and Australia and partial divestment opportunities for its Reo gold project in Burkina Faso, while aspiring to become a development company.

(b) Effect on the Company's Board or senior management

The Company does not intend to change the Board as a result of the Acquisition, other than the possibility, currently being considered, of Mr Kirk being appointed as the project manager for the Sandstone Project and simultaneously ceasing as a Director. The Company acknowledges that additional board skills, to complement those already held, may be required as the Sandstone Project moves through to the development stage. Following Completion, the Company will look to recruit a senior management team consistent with the requirements of a mining project re-development.

(c) Effect on the Company's Share capital

The Company intends to fund the remaining cash components of the Purchase Price through the Capital Raising (being the Placement to raise \$400,000 (before costs) completed on 9 May 2016, the Conditional Placement to raise up to \$3,600,000 (before costs) which is subject to Shareholder approval and the Entitlements Issue to raise approximately \$1,454,000 (before costs)). The Capital Raising is proposed to raise more funds than are required for the cash component of the Purchase Price at Completion so that the Company has funds available for working capital.

The Placement was completed on 9 May 2016 and is already reflected in the current capital structure of the Company. The effect of the Entitlements Issue, Conditional Placement, Advisor Shares and the Acquisition on the capital structure of the Company is set out below, based on the following assumptions:

- (i) Resolutions 1 through 5 are passed and implemented;
- (ii) 48,474,042 Shares are issued pursuant to the Entitlements Issue;
- (iii) 120,000,000 Shares are issued pursuant to the Conditional Placement;
- (iv) 9,708,738 Advisor Shares are issued at an issue price of \$0.0103 per Share; and
- (v) no other Shares are issued, including on the exercise of existing Options.

| | Current capital structure (includes the Placement) | | Capital structure after Entitlements Issue & Conditional Placement | | Capital structure after Completion | |
|---|---|-------------------|--|-------------------|---------------------------------------|-------------------|
| | Number | Voting Power % | Number | Voting Power % | Number | Voting Power % |
| Shares held by existing Shareholders | 290,844,253 | 100 | 290,844,253 | 63.32 | 290,844,253 | 62.01 |
| Shares to be issued pursuant to Entitlements Issue | - | - | 48,474,042 | 10.55 | 48,474,042 | 10.34 |
| Shares to be issued pursuant to the Conditional Placement | - | - | 120,000,000 | 26.13 | 120,000,000 | 25.58 |
| Advisor Shares | - | - | - | - | 9,708,738 | 2.07 |
| Total Shares | 290,844,253 | 100 | 459,318,295 | 100 | 469,027,033 | 100 |

(d) Effect on the Company's exploration expenditure on its interests in existing tenements

Following the Acquisition, the Company will hold a participating interest in approximately 13 tenements (an increase of 2 tenements from the number of tenements in which the Company held a participating interest as at 30 June 2015). The Company will also hold the Sandstone Mill, associated offices and workshops, accommodation camps, bore field, tailings dam and freehold titles on which the camps are situated, along with other items of plant, equipment and spares and inventory.

The Company's exploration expenditure for the 12 months ended 31 December 2015 was \$290,000. If the Acquisition is completed, the Company's forecast exploration expenditure for the 12 months beginning from Completion is \$700,000 (subject to availability of funds, assuming that a joint venture partner is found for the Reo gold project). Refer to section 1.7(e) and (e) of this Explanatory Statement for more information on the activities proposed to be undertaken by the Company.

(e) Scale up of the Company's operations

On Completion, the Company plans to complete additional drilling directed at upgrading the Sandstone Project mineral resources to indicated resource status under the JORC Code 2012, prior to undertaking a pre-feasibility study. Upon successful results from the pre-feasibility study and receipt of further funding, the scale of the Company's operations will increase from the exploration and study phase to mining and processing operations. This will include refurbishment of the Sandstone Mill and appointing an experienced open pit mining contractor to mine several open pits and to feed ore to the Sandstone Mill.

The Sandstone Mill has a nominal capacity of 600,000tpa. The existing licensed tailings disposal area will be used and expanded as required. Other existing infrastructure that will be utilised for mining and processing operations includes a bore field and water supply and a third party owned power station on the tenements and three camps located in Sandstone town.

The Company will look to recruit a senior management team consistent with the requirements of a pre-feasibility study and mining project re development.

At the Company's Reo gold project in Burkina Faso, six permit renewal and extension applications have been lodged (or are in the process of being lodged), of which one has been formally granted to date. Assuming no reduction in tenement area, the anticipated minimum annual statutory expenditure commitment for the project is approximately \$600,000 and the funds to enable the Company to carry out this expenditure will be sourced from the Capital Raising. Pending the successful renewal/extension of all permits, the Company has planned exploration and drilling programs to satisfy the statutory expenditure commitment if a suitable joint venture partner cannot be identified (on acceptable terms) by the end of the 2016 monsoon season (around October 2016). Proposed exploration at the Reo gold project includes infill geochemical auger drill testing of the identified IP anomaly at the K5 prospect (Madi East target), which lies immediately adjacent and parallel to the mineralised Madi Zone. The program will also include RAB/aircore drilling of the sparsely tested Samba prospect at the northern end of the project, along with follow up RAB/aircore drilling at Madi East should favourable geochemistry be returned from auger drilling.

1.8 Pro-forma Statement of Financial Position

An unaudited pro-forma statement of financial position as at 31 December 2015 as a result of the Acquisition and Capital Raising is set out below.

The pro-forma statement of financial position assumes the following:

- (i) 40,000,000 Placement Shares were issued at an issue price of \$0.01 per Share pursuant to the Placement;
- (ii) Resolutions 1 through 5 are passed and implemented;
- (iii) 48,474,042 Shares are issued at \$0.03 per Share pursuant to the Entitlements Issue;
- (iv) 120,000,000 Conditional Placement Shares are issued at \$0.03 per Share pursuant to the Conditional Placement;
- (v) 9,708,738 Advisor Shares are issued at an issue price of \$0.0103 per Share;
- (vi) \$20,000 was paid to Bell Potter in fees for the Placement and \$232,711 will be paid to Bell Potter in fees for the Conditional Placement and the Entitlements Issue;
- (vii) \$50,000 will be paid for legal and compliance fees; and
- (viii) no other Shares are issued, including on the exercise of existing Options.

Pro forma balance sheet

| | ACTUAL | PRO-FORMA |
|----------------------------------|------------------|------------------|
| | \$ | \$ |
| CURRENT ASSETS | | |
| Cash and cash equivalents | 529,159 | 4,160,667 |
| Trade and other receivables | 14,128 | 14,128 |
| TOTAL CURRENT ASSETS | 543,285 | 4,174,795 |
| NON-CURRENT ASSETS | | |
| Property, plant and equipment | 13,867 | 13,867 |
| Tenement acquisition costs | 970,000 | 3,570,000 |
| TOTAL NON-CURRENT ASSETS | 983,867 | 3,583,867 |
| TOTAL ASSETS | 1,527,152 | 7,758,662 |
| CURRENT LIABILITIES | | |
| Trade and other payables | 137,125 | 1,137,125 |
| TOTAL CURRENT LIABILITIES | 137,125 | 1,137,125 |
| TOTAL LIABILITIES | 137,125 | 1,137,125 |
| NET ASSETS | 1,390,027 | 6,621,537 |
| EQUITY | | |
| Issued capital | 26,224,868 | 31,779,089 |
| Reserves | 432,492 | 432,492 |
| Accumulated losses | (25,267,333) | (25,590,044) |
| TOTAL EQUITY | 1,390,027 | 6,621,537 |

1.9 Advantages of the proposed Acquisition

The Directors are of the view that the following non-exhaustive list of advantages of the Acquisition may be relevant to a Shareholder's decision on how to vote on the proposed Resolutions 1 to 5:

- (a) the Acquisition represents a significant opportunity for the Company to increase the size of the Company's assets and projected earnings, which should increase the number and size of the investor pool that may invest in the Company's shares and thus encourage liquidity in the Company's shares;
- (b) the Acquisition provides for an attractive purchase price/structure for a gold plant, mine infrastructure and defined resources;
- (c) the Directors believe that the Acquisition is an opportunity to build substantial value for Shareholders;
- (d) the Company's increased size and improved financial position following the Acquisition should improve access to future equity funding (if necessary);
- (e) the Acquisition is located in low risk, Western Australian jurisdiction, proximal to the Company's headquarters in Perth, and with ready access to world-class industry suppliers and service companies; and
- (f) the Acquisition is ideally timed for an emerging developer to capitalise on a more buoyant Australian gold market, with a relatively favourable exchange rate in an increasingly cost-competitive jurisdiction.

1.10 Disadvantages of the proposed Acquisition

The Directors are of the view that the following non-exhaustive list of disadvantages of the Acquisition may be relevant to a Shareholder's decision on how to vote on the proposed Resolutions 1 to 5:

- (a) there are a number of risk factors associated with the Acquisition. Some of the risks are set out in section 1.11 below;
- (b) the Acquisition may not be consistent with the investment objective of all Shareholders;
- (c) the Sandstone Mill is being purchased on an 'as is, where is' basis, with no warranties being provided by Black Oak as to its condition. However, a reputable and independent engineering company has completed a detailed refurbishment plan and cost estimate in late 2012, which has been recently reviewed in 2015 and is expected to cost between \$5,000,000 and \$8,000,000; and
- (d) the holdings of existing Shareholders will be significantly diluted by the Conditional Placement and the Entitlements Issue, which are being undertaken to fund activities as described in section 1.5 of this Explanatory Statement. Current Shareholders will retain approximately 75% of the Company's Shares, assuming all Shareholders take up their entitlements in the Entitlements Issue – refer to section 1.7(c) of this Explanatory Statement for more information.

1.11 Generic Risk Factors

Based on the information available, a non-exhaustive list of risk factors in relation to the Acquisition are as follows:

(a) **Gold price**

Any material down turn in the gold price will adversely affect the Company's operations, financial position (including revenue and profitability where margins are negatively affected) and performance. In the event that the price of gold falls significantly, it is likely that the value of the Company is also likely to fall significantly.

(b) **No alternative source of revenue**

The Company's only business will be the exploration and investment in mining tenements in Burkina Faso and Australia. Until the Company is able to realise value from the tenements, it is likely to incur ongoing operating losses as the Company has no other means of generating income (apart from interest) or cash flows. If the tenements are not explored on schedule, at budgeted costs and in the manner anticipated, there could be a material adverse effect on the Company's financial position and the Company may be forced to put one or all of its projects into care and maintenance to conserve its cash position.

(c) **Volatility of commodity prices**

Historically, commodity prices (including gold) have displayed considerable fluctuations and are affected by numerous factors over which the Company does not have any control. These include world production and demand levels, international economic trends, currency exchange fluctuations, expectations for inflation, speculative activity, consumption patterns and global or regional political events.

(d) **Currency risk**

The Company's operations will be subject to exchange rate fluctuations and exchange control and may become subject to other similar restrictions. Such fluctuations may affect the cash flows that the Company realises from its operations.

(e) **Operational risks**

Notwithstanding the intensive investigations undertaken on the project, the Sandstone Project's development and exploration requirements may change.

(f) **Counterparty and contractual risk**

The Company is or will be a party to a number of agreements that will affect the Company post completion of the Acquisition. The ability of the Company to achieve its stated objectives will depend on the performance of counterparties to each agreement, of their respective obligations under these agreements. If any of the counterparties defaults in the performance of their obligations, it may be necessary for the Company to approach a court to seek a legal remedy.

1.12 Public information available for inspection

As a company listed on the ASX and a “disclosing entity” under the Corporations Act, the Company is subject to regular reporting and disclosure obligations. Broadly, these require the Company to announce price sensitive information as soon as it becomes aware of such information, subject to exceptions for certain confidential information. The Company’s recent announcements are available from www.asx.com.au. Further announcements concerning developments at the Company will continue to be made available on this website after the date of this Explanatory Statement.

The Company is required to prepare and lodge with the ASIC and the ASX annual and half yearly financial statements accompanied by a statement and report from the Directors and an audit or review report. Additionally, The Company is required to prepare and lodge quarterly operations reports and cashflow statements with the ASX. Copies of these and other documents lodged with the ASIC may be obtained from or inspected at an ASIC office and on the Company’s website at www.middleisland.com.au.

2. RESOLUTION 1 – CHANGE TO SCALE OF ACTIVITIES

2.1 General

Listing Rule 11.1.2 provides that if an entity proposes to make a significant change, either directly or indirectly to the nature or scale of its activities, it must obtain the approval of its shareholders and it must set out such material as will fully and fairly inform shareholders of the matters to be considered at the meeting and enable them to make a properly informed judgement on the proposed transaction.

As outlined in section 1.2 of this Explanatory Statement, the Company has entered into the Asset Sale Agreement to acquire the Sandstone Assets. This will allow the Company to proceed with its strategic objective of finalising a new project acquisition and pursue its objectives as an exploration and development company. The Company is undertaking the Conditional Placement and the Entitlements Issue to fund the Purchase Price of the Acquisition, resulting in significant dilution of capital. The changes to the balance sheet and capital structure of the Company arising as the result of the Acquisition, the Conditional Placement and the Entitlements Issue are being treated by the ASX as representing a significant change to the scale of the Company’s activities.

Accordingly, Resolution 1 seeks Shareholder approval under Listing Rule 11.1.2 for the proposed significant change to the scale of its activities as a result of the Acquisition, as well as the Acquisition of the Sandstone Assets under the Asset Sale Agreement.

Resolution 1 is subject to Resolution 5 being approved by Shareholders. If either of Resolution 1 or Resolution 5 is not approved by Shareholders, Black Oak may terminate the Asset Sale Agreement and the Deposit will be retained by Black Oak and the Company will have to pay up to \$50,000 in legal fees to Black Oak.

2.2 Directors’ Recommendation

The Directors unanimously recommend that Shareholders vote in favour of Resolution 1. It is the view of the Board that the proposed Acquisition will allow the Company to take advantage of current favourable conditions for operating in Australia and will provide value for Shareholders.

The Directors have indicated that they intend to vote the Shares they own or control in favour of Resolution 1. The Chair intends to vote all undirected proxies in favour of the Resolution.

3. RESOLUTION 2 – ISSUE OF ADVISOR SHARES

3.1 General

The Company entered into the Mandate in late 2015, pursuant to which PCF agreed to provide the Company with assistance to prepare for and implement the Acquisition, including assistance with due diligence, investor presentations and discussion, negotiations, and preparation of documentation. Pursuant to the Mandate, PCF has agreed to include all fees in a single transaction fee payable on Completion. The fee is \$100,000, to be satisfied by the issue of Advisor Shares at an issue price of \$0.0103 (the volume weighted average price of Shares over the 30 days prior to the announcement of the Acquisition, being 4 May 2016).

The Advisor Shares will not be issued if Completion does not occur. Refer to sections 1.2 and 1.3 of this Explanatory Statement for further information on the Acquisition and the conditions precedent for Completion.

Listing Rule 7.1 provides that a company must not, subject to specified exceptions, issue or agree to issue more equity securities during any 12 month period than that amount which represents 15% of the number of fully paid ordinary securities on issue at the commencement of that 12 month period.

The effect of Resolution 2 will be to allow the Directors to issue the Advisor Shares to PCF without using the Company's 15% annual placement capacity.

Accordingly, Shareholder approval is being sought under Listing Rule 7.1 for the issue of the Advisor Shares.

3.2 Information required by Listing Rule 7.3

The following information is provided in accordance with Listing Rule 7.3.

- (a) The maximum number of Advisor Shares that may be issued is 9,708,738.
- (b) Any Advisor Shares issued in accordance with Resolution 2 will be issued and allotted no later than 3 months after the date of the Meeting.
- (c) The Advisor Shares will be issued at \$0.0103 per Share.
- (d) The Advisor Shares will be issued to PCF or its nominees.
- (e) The Advisor Shares will rank equally in all respects with the Company's existing Shares on issue.
- (f) The Advisor Shares will be issued as consideration for PCF providing its services pursuant to the Mandate, so no funds will be raised by the issue of the Advisor Shares.
- (g) Subject to Completion occurring, the Advisor Shares will be issued on the date of Completion.
- (h) A voting exclusion statement is included in the Notice.

3.3 Directors' recommendation

Based on the information available, including the information contained in this Explanatory Statement, all the Directors consider that Resolution 2 is in the best interests of the Company and recommend that Shareholders vote in favour of Resolution 2. The Directors have formed this view as the passing of this Resolution will provide greater flexibility when considering future capital raising opportunities. The passing of Resolution 2 will mean that the Company is not required to use the Company's placement capacity under Listing 7.1 if and when it is required to issue the Advisor Shares.

Each Director has indicated that he intends to vote the Shares he owns or controls in favour of Resolution 2. The Chair intends to vote all undirected proxies in favour of the Resolution.

4. RESOLUTION 3 – RATIFICATION OF ISSUE OF PLACEMENT SHARES

4.1 General

The Company completed the Placement on 9 May 2016, as part of the Capital Raising, in order to replace funds paid for the Deposit and to supplement working capital. The Company issued 40,000,000 Placement Shares at \$0.01 per Share in accordance with Listing Rules 7.1 and 7.1A and now seeks, pursuant to Resolution 3 of the Notice, to ratify the allotment and issue of those securities. Refer to section 1 of this Explanatory Statement for more information on the Acquisition and the Capital Raising.

Listing Rule 7.1 provides that (subject to certain exceptions) prior approval of shareholders is required for an issue of securities by a company if the securities will, when aggregated with the securities issued by a company during the previous 12 months, exceed 15% of the number of the ordinary securities on issue at the commencement of that 12 month period. Listing Rule 7.1A provides that eligible entities may, subject to shareholder approval by special resolution, issue equity securities up to 10% of its issued capital over a period of 12 months after the approval. Shareholder approval was obtained pursuant to Listing Rule 7.1A on 27 November 2015.

The Placement was within the Company's Listing Rule 7.1 and 7.1A placement capacity.

Listing Rule 7.4 sets out the procedure and effect of shareholder approval of a prior issue of securities and provides that where shareholders in general meeting ratify a previous issue of securities made without approval under Listing Rule 7.1 (including Listing Rule 7.1A), provided that the previous issue of securities did not breach the ASX Listing Rule 7.1, those securities shall be deemed to have been made with shareholder approval for the purposes of Listing Rule 7.1.

By ratifying this issue, the Company will retain the flexibility to issue equity securities in the future up to the 15% placement capacity set out in ASX Listing Rule 7.1 without the requirement to obtain prior Shareholder approval. In addition, approval of Resolution 3 will refresh the additional 10% placement capacity provided under Listing Rule 7.1A which was utilised in undertaking the Placement.

4.2 Information required by Listing Rule 7.5

The following information is provided in accordance with Listing Rule 7.5.

- (a) 40,000,000 Placement Shares were allotted and issued by the Company.
- (b) The issue price per Placement Share was \$0.01.
- (c) The Placement Shares allotted were fully paid ordinary shares which rank equally with all other fully paid ordinary shares on issue.
- (d) The Placement Shares were allotted to sophisticated and professional investor clients of Bell Potter who, at the date of the issue of the Shares, were not related parties of the Company.
- (e) The funds raised are being used as additional working capital for the Company to replace the funds paid for the Deposit and to supplement working capital.
- (f) A voting exclusion statement is included in the Notice.

4.3 Directors' recommendation

Based on the information available, including the information contained in this Explanatory Statement, all of the Directors consider that Resolution 3 is in the best interests of the Company and recommend that Shareholders vote in favour of Resolution 3. The Directors have formed this view as the passing of this Resolution will provide greater flexibility when considering future capital raising opportunities. The passing of Resolutions 3 and 4 will return the Directors' ability to issue new Shares to the maximum permitted by the ASX Listing Rules without requiring Shareholder approval.

Each Director has indicated that he intends to vote the Shares he owns or controls in favour of Resolution 3. The Chair intends to vote all undirected proxies in favour of the Resolution.

5. RESOLUTION 4 – RATIFICATION OF ISSUE OF 2015 PLACEMENT SHARES

5.1 General

The Company issued the 2015 Placement Shares on 13 August 2015 in order to provide funds for working capital. The placement was made under the Company's Listing Rule 7.1 placement capacity and the Company now seeks, pursuant to Resolution 4 of the Notice, to ratify the allotment and issue of the securities.

Listing Rule 7.4 permits the ratification of previous issues of securities made without prior shareholder approval provided the issue did not breach the threshold set by Listing Rule 7.1. The purpose and effect of such a ratification is to restore a company's discretionary power to issue further shares pursuant to Listing Rule 7.1 without requiring shareholder approval.

The Company proposes Resolution 4 to ratify a previous issue of securities in accordance with Listing Rule 7.4. The Company confirms that the issue and allotment of the securities the subject of Resolution 4 did not breach Listing Rule 7.1.

5.2 Information required by Listing Rule 7.5

The following information is provided in accordance with Listing Rule 7.5.

- (a) The number of 2015 Placement Shares allotted and issued by the Company was 869,555.
- (b) The issue price per 2015 Placement Share was \$0.004.
- (c) The 2015 Placement Shares allotted were fully paid ordinary shares which rank equally with all other fully paid ordinary shares on issue.
- (d) The 2015 Placement Shares were allotted to sophisticated investors who were not related parties of the Company.
- (e) The funds raised were used as additional working capital for the Company.
- (f) A voting exclusion statement is included in the Notice.

5.3 Directors' recommendation

Based on the information available, including the information contained in this Explanatory Statement, all of the Directors consider that Resolution 4 is in the best interests of the Company and recommend that Shareholders vote in favour of Resolution 4. The Directors have formed this view as the passing of this Resolution will provide greater flexibility when considering future capital raising opportunities. The passing of Resolutions 3 and 4 will return the Directors' ability to issue new Shares to the maximum permitted by the ASX Listing Rules without requiring Shareholder approval.

Each Director has indicated that he intends to vote the Shares he owns or controls in favour of Resolution 4. The Chair intends to vote all undirected proxies in favour of the Resolution.

6. RESOLUTION 5 – APPROVAL FOR ISSUE OF CONDITIONAL PLACEMENT SHARES

6.1 General

As announced on 17 May 2016, as part of the Capital Raising, the Company has entered into the Engagement Letter with Bell Potter with respect to the Entitlements Issue and Conditional Placement, where the placement of the Conditional Placement Shares is subject to Shareholder approval. The Company has been informed by Bell Potter that Bell Potter has received commitments to subscribe for 120,000,000 Conditional Placement Shares at \$0.03 per Share to raise approximately \$3,600,000 (before costs). These commitments are in favour of Bell Potter and not the Company. Bell Potter and the Company may terminate the Engagement Letter by providing written notice at any time.

The Conditional Placement is being undertaken concurrently with an Entitlements Issue, to enable the Company to meet its obligations at Completion, implement an expedited exploration and drilling program at the Sandstone Project with the objective of materially upgrading the existing mineral resources already estimated on the tenements being acquired, continue to assess opportunities for a joint venture partner for the Reo gold project in Burkina Faso, undertake a drilling and exploration program at the Reo gold project, and for working capital purposes. The Conditional Placement and Entitlements Issue are partially directed at enabling the Company to bring forward the \$500,000 Deferred Payment (otherwise due 18 months after Completion) associated with the Acquisition resulting in a cost saving of \$100,000 (being the agreed discount for early payment).

Refer to section 1 of this Explanatory Statement for more information on the Acquisition, the Capital Raising and the Company's plans to scale up its operations after Completion (including planned activities at the Reo gold project in Burkina Faso).

Listing Rule 7.1 prohibits a company from issuing shares representing more than 15% of its issued capital in any 12 month period, without the prior approval of its shareholders (subject to certain exceptions). Accordingly, Shareholder approval is being sought under Listing Rule 7.1 for the issue of up to 120,000,000 Conditional Placement Shares in the Company.

Resolution 5 is subject to Resolution 1 being passed by Shareholders.

6.2 Information required by Listing Rule 7.3

The following information is provided in accordance with Listing Rule 7.3.

- (a) The maximum number of Conditional Placement Shares that may be issued is 120,000,000.
- (b) Any Conditional Placement Shares issued in accordance with Resolution 5 will be issued and allotted no later than 3 months after the date of the Meeting.
- (c) The Conditional Placement Shares will be issued at \$0.03 per Share.
- (d) The Conditional Placement Shares will be issued to persons to whom a disclosure document is not required to be provided under Part 6D.2 of the Corporations Act, who are not related parties of the Company.
- (e) The Conditional Placement Shares will rank equally in all respects with the Company's existing Shares on issue.
- (f) A maximum of \$3,600,000 (before costs) will be raised by the issue of the Conditional Placement Shares and the funds raised will be used to fund the Purchase Price of the Acquisition and to provide working capital for the Company.
- (g) Assuming Resolutions 1 and 5 are passed, the Conditional Placement Shares will be issued on or around 29 June 2016 in a single placement.
- (h) A voting exclusion statement is included in the Notice.

6.3 Directors' recommendation

Based on the information available, including the information contained in this Explanatory Statement, all the Directors consider that Resolution 5 is in the best interests of the Company and recommend that Shareholders vote in favour of Resolution 5. The Directors have formed this view as the passing of this Resolution will provide the funds necessary to pay the Purchase Price of the Acquisition and proceed to a pre-feasibility study on the Sandstone Project.

Each Director has indicated that he intends to vote the Shares he owns or controls in favour of Resolution 5. The Chair intends to vote all undirected proxies in favour of the Resolution.

OTHER BUSINESS

Management is not aware of any other business to come before the Meeting other than as set forth in the accompanying Notice. If any other business properly comes before the Meeting, it is the intention of the persons named in the form of proxy to vote the Shares represented thereby in accordance with their best judgement on such matter.

GLOSSARY

In this Explanatory Statement and the Notice, the following terms have the following meanings unless the context otherwise requires:

2015 Placement Shares means 869,555 Shares issued by the Company on 13 August 2015 to sophisticated investors at an issue price of \$0.004;

Acquisition has the meaning set out in the first paragraph of section 1.2 of this Explanatory Statement;

Advisor Shares means 9,708,738 Shares to be issued pursuant to the terms of the Mandate at an issue price of \$0.0103;

Annax Sale Deed has the meaning set out in section 1.3(a) of this Explanatory Statement;

Asset Sale Agreement means the asset sale agreement between the Company, Sandstone Operations, the Receivers & Managers, Black Oak and the Secured Creditor dated 2 May 2016, as amended;

Associate has the same meaning as defined in section 11 and section 13 to 17 of the Corporations Act;

ASX means ASX Limited ABN 98 008 624 691 and, where the context permits, the Australian Securities Exchange operated by ASX Limited;

Bell Potter means Bell Potter Securities Limited ABN 25 006 390 772;

Black Oak means Black Oak Minerals Limited (Administrators Appointed) (Receivers & Managers Appointed) ACN 124 374 321;

Board means the board of Directors;

Capital Raising means the Placement, the Entitlements Issue and Conditional Placement;

Chair means the chair of the Board;

Company or **Middle Island** means Middle Island Resources Limited ABN 70 142 361 608;

Completion means completion of the Acquisition;

Completion Condition has the meaning set out in section 1.3(b) of this Explanatory Statement;

Conditions has the meaning set out in section 1.3(b) of this Explanatory Statement;

Conditional Placement means the placement, subject to Shareholder approval, of up to 120,000,000 Shares at \$0.03 per Share to persons to whom a disclosure document is not required to be provided under Part 6D.2 of the Corporations Act to raise up to \$3,600,000 (before costs) anticipated to complete on or around 29 June 2016;

Conditional Placement Shares means Shares issued pursuant to the Conditional Placement;

Constitution means the Company's constitution, as amended from time to time;

Corporations Act means Corporations Act 2001 (Cth);

Deferred Payment means an amount equal to \$500,000 payable by the date that is 18 months after Completion or, if paid in full by no later than 3 months after Completion, \$400,000;

Deferred Payment Agreement means the deferred payment agreement between the Company, Sandstone Operations, Black Oak, and the Receivers & Managers dated 2 May 2016, as amended;

Deposit has the meaning set out in section 1.3(a)(i) of this Explanatory Statement;

Director means a director of the Company;

Engagement Letter means the letter of engagement between Bell Potter and the Company dated 13 May 2016;

Entitlements Issue means the entitlements offer proposed to be made by the Company on the basis of one new Share for every six existing Shares held at the record date of 20 May 2016 at an issue price of \$0.03 per Share to raise up to approximately \$1,454,000 (before costs), as set out in the Company's ASX announcement dated 17 May 2016;

Explanatory Statement means the explanatory statement accompanying the Notice;

Featherweight Security Deed means the featherweight general security deed between the Company, Black Oak and the Receivers & Managers to be entered into at Completion;

General Security Deed means the general security deed between Sandstone Operations, Black Oak and the Receivers & Managers to be entered into at Completion;

Listing Rules means the Listing Rules of the ASX;

JORC Code 2004 means the 2004 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves;

JORC Code 2012 means the 2012 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves;

Mandate means the mandate between the Company and PCF dated 16 December 2015, as amended;

Meeting or **General Meeting** means the general meeting of Shareholders convened for the purpose of considering the Resolutions;

Notice means the notice of General Meeting to which this Explanatory Statement is attached;

Option means an option to subscribe for one Share;

PCF means PCF Capital Group Pty Ltd ACN 089 188 063;

Placement means the issue by the Company on 9 May 2016 of 40,000,000 Shares at \$0.01 per Share to sophisticated and professional investors who are not related parties of the Company to raise \$400,000 (before costs);

Placement Shares means Shares issued pursuant to the Placement;

Production Payment means an amount equal to \$500,000, payable within 28 business days of the receipt of proceeds from the first sale of gold produced by Sandstone Operations from ore from any source after Completion;

Purchase Price has the meaning given in section 1.3(a) of this Explanatory Statement;

Proxy Form means the proxy form attached to this Notice;

Receivers & Managers means Simon Theobald, Marcus Ayres and Michel Owen of PPB Advisory;

Resolution means a resolution contained in this Notice;

Royalty Deed means the Royalty Deed – Net Smelter Return Royalty between Troy Resources and Black Oak dated 26 March 2013;

Sandstone Assets means tenure (mining lease M57/128 and M57/129, operating licence L6949/1993/8 and other approvals and licences), the Sandstone Mill, tailings dam, bore field, three equipped camps in the settlement of Sandstone, the freehold titles on which the camps are situated, plant and equipment, fuel tanks, offices and workshops, mill stores and spares, water supply equipment, mining information, royalty information, inventory, stockpiles, contracts and business records;

Sandstone Mill means the grinding, milling and processing plant with 600,000tpa capacity and associated infrastructure located on M57/129 and currently on care and maintenance owned by Black Oak;

Sandstone Operations means Sandstone Operations Pty Ltd ACN 611 811 280, a wholly owned subsidiary of the Company;

Sandstone Project means the gold project known as the Sandstone Gold Project located in the vicinity of the township of Sandstone, Western Australia and with a central plant site located approximately 12 kilometres south-southwest of the township of Sandstone;

Secured Creditor means Trailstone Netherlands I Coöperatief U.A. Registration Number 60932627;

Security Agreements means the General Security Deed, the Featherweight Security Deed, a first ranking real property mortgage over the freehold properties on which are located the camps in the township of Sandstone granted by Sandstone Operations in favour of Black Oak and a mining mortgage over mining leases M57/128 and M57/129 granted by Sandstone Operations in favour of Black Oak;

Share means a fully paid ordinary share in the capital of the Company;

Shareholder means the holder of a Share;

Sunset Date means 1 July 2016 or any other date that the parties agree in writing;

Transaction Documents means the Asset Sale Agreement, Deferred Payment Agreement, the Security Agreements and all other agreements contemplated by or entered into pursuant to the Asset Sale Agreement and all amendments to any of the foregoing;

Troy Resources means Troy Resources Limited ACN 006 243 750; and

WST means Australian Western Standard Time.

ACN: 142 361 608

REGISTERED OFFICE:
 UNIT 1
 2 RICHARDSON STREET
 WEST PERTH WA 6005

SHARE REGISTRY:
 Security Transfer Registrars Pty Ltd
All Correspondence to:
 PO BOX 535, APPLECROSS WA 6953
 AUSTRALIA
 770 Canning Highway, APPLECROSS WA 6153
 AUSTRALIA
 T: +61 8 9315 2333 F: +61 8 9315 2233
 E: registrar@securitytransfer.com.au
 W: www.securitytransfer.com.au

«EFT_REFERENCE_NUMBER»

«Holder_name»
 «Address_line_1»
 «Address_line_2»
 «Address_line_3»
 «Address_line_4»
 «Address_line_5»

«Company_code» «Sequence_number»

Code:

Holder Number:

PROXY FORM

THIS DOCUMENT IS IMPORTANT. IF YOU ARE IN DOUBT AS TO HOW TO DEAL WITH IT, PLEASE CONTACT YOUR STOCK BROKER OR LICENSED PROFESSIONAL ADVISOR.

VOTE ONLINE

Lodge your proxy vote securely at www.securitytransfer.com.au

1. Log into the Investor Centre using your holding details.
2. Click on "Proxy Voting" and provide your Online Proxy ID to access the voting area.

«ONLINE»

SECTION A: Appointment of Proxy

I/We, the above named, being registered holders of the Company and entitled to attend and vote hereby appoint:

The meeting chairperson **OR**

or failing the person named, or if no person is named, the Chairperson of the meeting, as my/our Proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the Proxy sees fit) at the General Meeting of the Company to be held at 11:30am WST on Friday 24 June 2016 at The Celtic Club, 48 Ord Street, WEST PERTH WA 6005 and at any adjournment of that meeting.

SECTION B: Voting Directions

Please mark "X" in the box to indicate your voting directions to your Proxy. The Chairperson of the Meeting intends to vote undirected proxies in FAVOUR of all the resolutions. In exceptional circumstances, the Chairperson of the Meeting may change his/her voting intention on any resolution, in which case an ASX announcement will be made.

| RESOLUTION | For | Against | Abstain* |
|---|--------------------------|--------------------------|--------------------------|
| 1. Change to scale of activities | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Issue of Advisor Shares | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Ratification of issue of Placement Shares | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Ratification of issue of 2015 Placement Shares | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. Approval for issue of Conditional Placement Shares | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

If no directions are given my proxy may vote as the proxy thinks fit or may abstain. * If you mark the Abstain box for a particular item, you are directing your Proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

SECTION C: Signature of Security Holder(s)

This section must be signed in accordance with the instructions overleaf to enable your directions to be implemented.

| | | |
|--|-------------------|----------------------------|
| Individual or Security Holder | Security Holder 2 | Security Holder 3 |
| | | |
| Sole Director & Sole Company Secretary | Director | Director/Company Secretary |

Proxies must be received by Security Transfer Registrars Pty Ltd no later than 11:30am WST on Wednesday 22 June 2016.



My/Our contact details in case of enquiries are:

Name:

| | | | | | | | | | | | | | | | | | | | |
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1. NAME AND ADDRESS

This is the name and address on the Share Register of the Company. If this information is incorrect, please make corrections on this form. Shareholders sponsored by a broker should advise their broker of any changes. Please note that you cannot change ownership of your shares using this form.

2. APPOINTMENT OF A PROXY

If the person you wish to appoint as your Proxy is someone other than the Chairperson of the Meeting please write the name of that person in Section A. If you leave this section blank, or your named Proxy does not attend the meeting, the Chairperson of the Meeting will be your Proxy. A Proxy need not be a shareholder of the Company.

3. DIRECTING YOUR PROXY HOW TO VOTE

To direct the Proxy how to vote place an "X" in the appropriate box against each item in Section B. Where more than one Proxy is to be appointed and the proxies are to vote differently, then two separate forms must be used to indicate voting intentions.

4. APPOINTMENT OF A SECOND PROXY

You are entitled to appoint up to two (2) persons as proxies to attend the meeting and vote on a poll. If you wish to appoint a second Proxy, an additional Proxy form may be obtained by contacting the Company's share registry or you may photocopy this form.

To appoint a second Proxy you must:

- a) On each of the Proxy forms, state the percentage of your voting rights or number of securities applicable to that form. If the appointments do not specify the percentage or number of votes that each Proxy may exercise, each Proxy may exercise half of your votes; and
- b) Return both forms in the same envelope.

5. SIGNING INSTRUCTIONS

Individual: where the holding is in one name, the Shareholder must sign.

Joint Holding: where the holding is in more than one name, all of the Shareholders must sign.

Power of Attorney: to sign under Power of Attorney you must have already lodged this document with the Company's share registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: where the Company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the Company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director may sign alone. Otherwise this form must be signed by a Director jointly with either another Director or Company Secretary. Please indicate the office held in the appropriate place.

If a representative of the corporation is to attend the meeting the appropriate "Certificate of Appointment of Corporate Representative" should be lodged with the Company before the meeting or at the registration desk on the day of the meeting. A form of the certificate may be obtained from the Company's share registry.

6. LODGEMENT OF PROXY

Proxy forms (and any Power of Attorney under which it is signed) must be received by Security Transfer Registrars Pty Ltd no later than the date and time stated on the form overleaf. Any Proxy form received after that time will not be valid for the scheduled meeting.

The proxy form does not need to be returned to the share registry if the votes have been lodged online.

Security Transfer Registrars Pty Ltd

| | |
|-----------------------|--|
| Online | www.securitytransfer.com.au |
| Postal Address | PO BOX 535 Applecross WA 6953 AUSTRALIA |
| Street Address | Alexandrea House Suite 1, 770 Canning Highway Applecross WA 6153 AUSTRALIA |
| Telephone | +61 8 9315 2333 |
| Facsimile | +61 8 9315 2233 |
| Email | registrar@securitytransfer.com.au |

PRIVACY STATEMENT

Personal information is collected on this form by Security Transfer Registrars Pty Ltd as the registrar for securities issuers for the purpose of maintaining registers of security holders, facilitating distribution payments and other corporate actions and communications. Your personal details may be disclosed to related bodies corporate, to external service providers such as mail and print providers, or as otherwise required or permitted by law. If you would like details of your personal information held by Security Transfer Registrars Pty Ltd or you would like to correct information that is inaccurate please contact them on the address on this form.

