

Middle Island Resources Ltd

ACN 142 361 608

ASX code: MDI

www.middleisland.com.au

Capital Structure:

1.046 billion ordinary shares

30,000,000 unlisted options

Cash

\$1.49m (as at 31 January 2019)

Directors & Management:

Peter Thomas

Non-Executive Chairman

Rick Yeates

Managing Director

Beau Nicholls

Non-Executive Director

Dennis Wilkins

Company Secretary

Contact:

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ASX Release – 1 March 2019

Middle Island Announces a Takeover Offer for Alto Metals Limited

Highlights

- All scrip off-market takeover offer of 5 Middle Island ordinary shares for every 1 Alto ordinary share (Offer).
- Middle Island's offer values Alto at approximately \$9.4 million representing a 61% premium over Alto's last closing price.
- Middle Island's offer reduces significant financial and operational risks for Alto Shareholders.
- The combined Middle Island-Alto gold assets offer a substantial growth opportunity for current and future shareholders of the Combined Group via low capital intensity and near-term gold production, utilising Middle Island's existing processing plant, along with significant resource upside and exploration potential.
- Alto Shareholders accepting the offer will become shareholders in an emerging gold developer.

Middle Island Resources Limited (ASX:MDI) (**Middle Island**) is pleased to announce an all scrip off-market take-over offer for all of the issued ordinary shares of Alto Metals Ltd (ASX:AME) (**Alto**).

The Directors of Middle Island have formed the view that the combination of the assets of the two companies (the **Combined Group**) creates, among other material benefits to the shareholders of the Combined Group, a company with near-term cash flow potential and considerable production and exploration upside.

Access to Middle Island's processing plant, currently on care and maintenance, will provide Alto shareholders with an immediate, proximal and cost-effective processing solution for Alto's gold resources that is not otherwise available to Alto.

The Alto deposits are anticipated to provide initial mill feed and critical mass to support an early recommissioning of the Sandstone gold processing plant, and Middle Island's Two Mile Hill deposits offer considerable scale and project longevity.

Middle Island has received indicative broker support with respect to the Combined Group for an equity capital raising of approximately \$5 million in additional funds to advance the feasibility and recommissioning of the Sandstone gold processing plant.

The combination of Middle Island and Alto will consolidate the entire Sandstone greenstone belt and dataset under a single entity.

Middle Island's Offer

Middle Island is offering 5 Middle Island ordinary shares for every 1 Alto Share.

The Offer values Alto at approximately \$9.4 million, based on the closing price for Middle Island shares on 28 February 2019 of A\$0.009, which represents a premium of:

- 61 % to Alto's last closing price of A\$0.028 on 28 February 2019
- 61 % to Alto's 5-Day VWAP of A\$0.028, up to and including 28 February 2019
- 34 % to Alto's 10-Day VWAP of A\$0.0335, up to and including 28 February 2019

Rick Yeates, Middle Island's Managing Director, commenting on the Offer, said:

"Middle Island's Offer is compelling for Alto shareholders, who will receive a significant premium based on the last closing price for their shares and will benefit in the future growth potential of the proposed Combined Group.

Middle Island will integrate Alto's assets with Middle Island's Sandstone gold project, and immediately embark on an updated feasibility study, incorporating Alto's Mineral Resources, to determine the economics of recommissioning the Sandstone gold processing plant.

The collective Middle Island-Alto gold assets offer a substantial growth opportunity for current and future shareholders of the Combined Group, via low capital intensity and a near-term production profile. The further potential is to significantly extend this production profile via Middle Island's Two Mile Hill underground deposits, consolidate further proximal deposits within a 100km radius, and amalgamate an entire greenstone belt offering significant resource and exploration upside.

In the view of the Middle Island directors, the premium offered, the funding support, Middle Island's technical and management expertise, and participation in the combined Middle Island-Alto upside, makes the bid a compelling proposal."

About the Offer

Middle Island owns the Sandstone Project, which includes a 600ktpa processing facility and considers the acquisition of Alto will complement Middle Island's existing portfolio and enable Alto shareholders to realise the potential value of Alto assets. The Offer provides shareholder participation in the future growth of Middle Island through exposure to a consolidated portfolio of assets including the processing plant, a number of quantified open pit and underground gold deposits, a substantial Exploration Target¹ and the significant exploration potential offered by an entire, highly mineralised, greenstone belt.

The Offer is subject to a 90% minimum acceptance condition and to the other conditions set out in the attachment to this announcement, including:-

- (i) No regulatory action,
- (ii) Minimum gold price,
- (iii) No persons exercising rights under certain agreements,
- (iv) No change of control rights,
- (v) No material adverse change,
- (vi) No material acquisitions, disposals, cancellations or new commitments,

¹ Please refer to the Middle Island announcement to the market dated 29 November 2017

- (vii) No prescribed occurrences,
- (viii) No change in conduct of business,
- (ix) No misleading statements to or omissions from disclosure via the ASX,
- (x) No litigation,
- (xi) No actions with regards Mining Tenements , and
- (xii) No other persons acquiring a Relevant Interest in Alto.

Further details about the Offer will be contained in Middle Islands' Bidder's Statement, which is anticipated to be lodged with the Australian Securities & Investments Commission and sent to Alto shareholders by 29 April 2019. The Bidder's Statement sets out important information, including how to accept the Offer, information about Middle Island and the key reasons as to why Alto Shareholders should accept the Offer.

Timeline

EVENT	INDICATIVE DATE
Initial ASX Announcement of takeover offer	1 March 2019
Lodgment of Bidders Statement with ASIC	On or before 15 April 2019
Date of Offer/Dispatch of Bidders statement to Alto shareholders	On or before 29 April 2019
Alto Target statement lodged and dispatched	On or before 14 May 2019
Offer Period ends (unless extended)	29 May 2019

Advisers

Price Sierakowski Corporate is acting as legal adviser to Middle Island.

Bell Potter Securities Ltd is acting as the financial adviser to Middle Island.

About Middle Island

Middle Island has made substantial progress in advancing its multi-faceted strategy at the Company's wholly-owned Sandstone project in WA, being to extend and enhance the proposed gold production profile in order to recommission its on-site processing plant.

In terms of extending the proposed production profile, the focus has been on the Two Mile Hill tonalite deeps and BIF deposits. The former now comprises a substantial Exploration Target², the economic significance of which has been progressively advanced via resource definition diamond drilling, ore sorting trials and geotechnical studies.

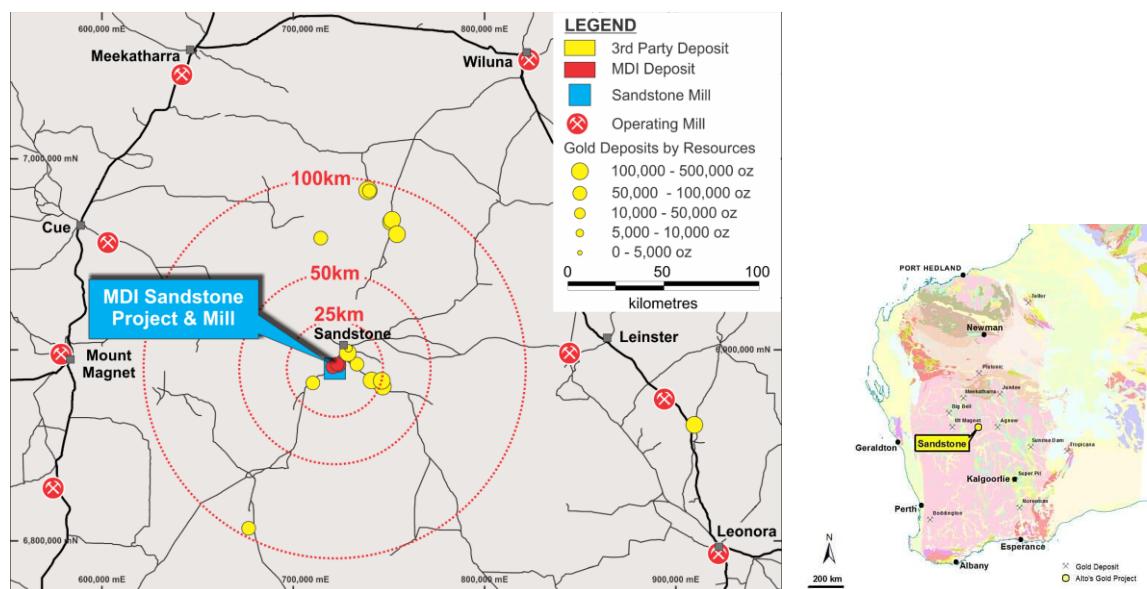
In terms of enhancing the production profile, infill resource definition drilling, resource estimation and pit optimisation studies resulted in a doubling of contained gold at the Wirraminna deposit. This was supplemented by the discovery of four coincident gold-arsenic anomalies beneath transported cover at the Davis prospect, all located within 1km of the processing plant. Aircore drilling on 11 "weights of evidence" targets is currently in progress.

² Please refer to the Middle Island announcement to the market dated 29 November 2017.



About Alto

Alto is an Australian mining, exploration and development company listed on the ASX under the code “AME”. Alto’s principal asset is the Sandstone Gold project, covering ~80% (800km²) of the Archaean Sandstone greenstone belt that surrounds and lies immediately adjacent to Middle Island’s tenure. The project is located 600km northeast of Perth and 400km northwest of Kalgoorlie in the East Murchison Mineral Field of Western Australia and is centered on the small township of Sandstone (**Sandstone Gold Project**).



On 25 September 2018, Alto announced a maiden JORC (2012) Inferred Mineral Resource Estimate as 2.58Mt @ 1.49g/t Au for 124,000 ounces for the Indomitable and Vanguard deposits. Together with existing deposits at Lord Nelson and Lord Henry, Alto’s JORC (2012) Mineral Resources comprise 1.2Mt @ 1.9g/t Au for 65,000oz (Indicated) and 3.67Mt @ 1.66g/t Au for 196,000oz (Inferred)³.

For further information:

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Forward Looking Statements

Statements contained in this release, particularly those regarding possible or assumed future performance, costs, dividends, production levels or rates, prices, resources, reserves or potential growth of Middle Island, industry growth or other trend projections are, or may be, forward looking statements. Such statements relate to future events and expectations and, as such, involve known and unknown risks and uncertainties. Actual results and developments may differ materially from those expressed or implied by these forward looking statements depending on a variety of factors.

³ Please refer to the Alto announcement to the market dated 25 September 2018

Competent Persons' Statement

Information in this report with respect to Middle Island Resources Limited relates to exploration results based on information compiled by Mr Rick Yeates. Mr Yeates is a Member of the Australasian Institute of Mining and Metallurgy and a fulltime employee of Middle Island Resources Limited. Mr Yeates has sufficient experience, which is relevant to the nature of work and style of mineralisation under consideration, to qualify as a Competent Person as defined in the 2012 edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Yeates consents to the inclusion in the release of the statements, based on his information, in the form and context in which they appear.

MIDDLE ISLAND RESOURCES LTD BID CONDITIONS

The Offer by Middle Island Resources Limited (**Middle Island**) for all of the issued ordinary shares in Alto Metals Limited (Alto) on the basis of 5 Middle Island Shares for every 1 Alto Shares is subject to the following defeating conditions:

a) No regulatory action

Between the Announcement Date and the end of the Offer Period (each inclusive):

- i. there is in effect any preliminary or final decision, order or decree issued by any Government Agency;
- ii. an action or investigation is announced, commenced or threatened by any Government Agency; and
- iii. an application is made to any Government Agency (other than by Middle Island or any Associate of Middle Island),

in consequence of or in connection with the Offer (other than an application to, or a decision or order of, ASIC or the Takeovers Panel in exercise of the powers and discretions conferred by the Corporations Act) which restrains, prohibits or impedes, or threatens to restrain, prohibit or impede, or materially impact upon, the making of the Offers and the completion of any transaction contemplated by the Bidder's Statement or which requires the divestiture by Middle Island of any Alto Shares or any material assets of Middle Island or any of its Subsidiaries.

b) 90% minimum acceptance threshold

Less than 90% of Alto's shareholders accept the Offer.

c) Gold price

The spot price for gold as quoted on Bloomberg falls below A\$1,600 per ounce at any time during a day for three consecutive days between the Announcement Date and the end of the Offer Period (each inclusive).

d) No persons exercising rights under certain agreements or instruments

Between the Announcement Date and the end of the Offer Period, a person exercises any rights under any provision of any agreement or other instrument to which a member of the Alto Group is a party, or by or to which a member of the Alto Group may be bound or be subject to, which:

- i. requires monies borrowed by, or other financial accommodation provided to, a member of the Alto Group to be paid or repaid immediately or earlier than the repayment or maturity date stated in such agreement or other instrument;
- ii. terminates or modifies any such agreement or instrument or requires that any action be taken thereunder (including the acceleration of the performance of any obligation thereunder);
- iii. terminates or modifies the interest of a member of the Alto Group in any farm-in,

farm-out, partnership, joint venture, trust, corporation or other entity (or any arrangements relating to such interest); or

- iv. requires that any Assets, shares or business of a member of the Alto Group be sold, transferred or offered for sale or transfer, including under any pre-emptive rights or similar provisions, as a result of the acquisition of Alto Group Shares by Middle Island.

e) No change of control rights

Between the Announcement Date and the end of the Offer Period, a person has or will have any right as a result of Middle Island making the Offer or announcing its intention to make the Offer, or acquiring Alto Shares under the Offer, to:

- i. acquire, or require the disposal of, or require any entity within the Alto Group to offer to dispose of, any Assets, shares or business of any entity within the Alto Group;
- ii. terminate, or vary the terms of performance of, any agreement with any entity within the Alto Group; or
- iii. terminate, or vary the terms of any material approvals, licenses or permits issued by any Government Agency to any entity within the Alto Group.

f) Material adverse change

- i. Between the Announcement Date and the end of the Offer Period (each inclusive) any of the following occurs (whether or not becoming public):

- A. an Event (including a decision of a Government Agency or a change in law) occurs or will or is reasonably likely to occur;
- B. information is disclosed or announced by Alto concerning any Event; or
- C. information concerning any Event becomes known to Middle Island (whether or not becoming public),

(each of (A), (B) and (C) a **Specified Event**) which, whether individually or when aggregated with all such Events (including a decision of a Government Agency or a change in law) of a like kind that have occurred or are reasonably likely to occur, has had or would be considered reasonably likely to have:

- D. a material adverse effect on the business, Assets, liabilities, financial or trading position, profitability or prospects of the Alto Group taken as a whole; or
- E. without limiting the generality of the previous clause:
 - 1) the effect of a diminution in the value of the consolidated net assets of the Alto Group, taken as a whole, by at least A\$250,000 against what it would reasonably have been expected to have been but for such Specified Event; or
 - 2) the effect of impairing, terminating or otherwise adversely affecting or changing any Mining Tenement or any Authorisation in connection

with any Mining Tenement.

- ii. A Specified Event shall not include an Event:
 - A. fully and fairly disclosed by Alto on the ASX within 6 months prior to the Announcement Date;
 - B. relating to the state of securities markets in general; or
 - C. resulting from any changes generally affecting the gold mining industry which impact Alto and its competitors in a similar matter.
- iii. In this condition, “Event” means any event, change, condition, matter, occurrence, development or thing.

g) No material acquisitions, disposals, cancellations or new commitments

Except for any proposed transaction or item fully and fairly disclosed by Alto on the ASX within 6 months prior to the Announcement Date, any of the following events occur between the Announcement Date and the end of the Offer Period:

- i. Alto or another member of the Alto Group acquires, offers to acquire or agrees to acquire one or more companies, businesses or Assets (or any interest in one or more companies, businesses or Assets including by way of joint venture or partnership) for an amount or consideration in excess of A\$250,000 for any individual item or in excess of A\$250,000 in aggregate;
- ii. Alto or another member of the Alto Group disposes of, offers to dispose of or agrees to dispose of one or more companies, businesses or Assets (or any interest in one or more companies, businesses or Assets) either:
 - A. for an amount or consideration in excess of A\$250,000 for any individual item or in excess of A\$250,000 in aggregate; or
 - B. relating in any way to the Sandstone Gold Project.
- iii. a member of the Alto Group enters into or agrees to enter into any farm-in, farm-out, joint venture or partnership or other agreement that requires or is reasonably likely to involve payments, expenditure or the foregoing of revenue, by a member of the Alto Group in excess of A\$250,000 in aggregate other than in the ordinary course of business;
- iv. a member of the Alto Group enters into or agrees to enter into any form of agreement, whether binding or otherwise, with respect to the financing, engineering, procurement, construction or development of the Sandstone Gold Project or announces an intention to do so; or
- v. a Mining Tenement granted to or held by any member of the Alto Group is revoked, surrendered, relinquished or terminated or a member of the Alto Group agrees to the same without there being a reasonable likelihood of such tenement, permit or licence being allowed to continue, renewed or extended on terms which are no less favourable to the member of the Alto Group.

h) Prescribed occurrences

Between the Announcement Date and the end of the Offer Period (each inclusive), any of the following prescribed occurrences (being the occurrences listed in section 652C of the Corporations Act) happen:

- i. Alto converting all or any of the Alto Shares into a larger or smaller number of shares under section 254H of the Corporations Act;
- ii. Alto or any of its Subsidiaries resolving to reduce its share capital in any way;
- iii. Alto or any of its Subsidiaries entering into a buyback agreement or resolving to approve the terms of a buyback agreement under section 257C(1) or 257D(1) of the Corporations Act;
- iv. Alto or any of its Subsidiaries:
 - A. issuing shares (other than Alto Shares issued as a result of the exercise of Alto Options or the Alto Performance Rights);
 - B. granting an option over its shares; or
 - C. agreeing to make such an issue or grant such an option;
- v. Alto or any of its Subsidiaries issuing, or agreeing to issue, convertible notes;
- vi. Alto or any of its Subsidiaries disposing or agreeing to dispose, of the whole, or a substantial part, of its business or property;
- vii. Alto or any of its Subsidiaries granting, or agreeing to grant, a Security Interest in the whole, or a substantial part, of its business or property;
- viii. Alto or any of its Subsidiaries resolving that it be wound up;
- ix. the appointment of a liquidator or provisional liquidator of Alto or any of its Subsidiaries;
- x. the making of an order by a court for the winding up of Alto or any of its Subsidiaries;
- xi. an administrator of Alto or any of its Subsidiaries being appointed under section 436A, 436B or 436C of the Corporations Act;
- xii. Alto or any of its Subsidiaries executing a deed of company arrangement; or
- xiii. the appointment of a receiver, receiver and manager, other controller (as defined in the Corporations Act) or similar official in relation to the whole, or a substantial part, of the property of Alto or any of its Subsidiaries.

i) Statements to the ASX

Between the Announcement Date and the end of the Offer Period (each inclusive), there having occurred or been announced or become known to Middle Island or Alto that information announced by Alto to ASX prior to the Announcement Date and the end of the Offer Period (each inclusive) is, or is likely to be, incomplete, incorrect, untrue or

misleading in a material respect (including by omission) such that Middle Island might reasonably be expected to have not proceeded with the Offer at all or would have proceeded with the Offer on materially different terms.

j) Conduct of business

Between the Announcement Date and the end of the Offer Period (each inclusive) neither Alto nor any of its Subsidiaries:

- i. announces, declares, or distributes any dividend, bonus or other share of its profits or assets;
- ii. makes any changes to its constitution or passes any special resolution or amends the terms of issue of any shares, options, performance rights or other convertible securities;
- iii. borrows or agrees to borrow any money, other than in the ordinary course of business and in any event for an amount exceeding A\$250,000 in aggregate;
- iv. provides a guarantee or indemnity or both to a third party for an amount that exceeds A\$250,000;
- v. creates any Security Interest over the whole or a substantial part of its business or Assets (other than a lien which arises by operation of law securing an obligation not yet due and consistent with past practice);
- vi. enters into any contract(s) or commitment(s) involving revenue or expenditure of more than A\$250,000 (either alone or in aggregate) over the term of the contract(s) or commitment(s);
- vii. terminates, amends, waives or otherwise foregoes rights under any contract material to the conduct of the Alto Group's business or Assets or which involves revenue or expenditure of more than A\$250,000 over the term of the contract or commitment;
- viii. acquires, offers to acquire, agrees to acquire or acquires any one or more businesses, Mining Tenements assets, entities or undertakings valued at, or involving a financial commitment of more than A\$250,000 (individually or when aggregated with all other such matters arising after the Announcement Date), or makes an announcement or enters into an agreement in relation to such an acquisition, undertaking or financial commitment; or
- ix. conducts its business otherwise than in the ordinary course.

k) No litigation on foot or pending

Between the Announcement Date and the end of the Offer Period (each inclusive) no litigation, claim, action or proceeding is pending or in progress, is commenced, is threatened to be commenced, is announced, or is made known to Middle Island (whether or not becoming public) or Alto, against any member of the Alto Group, which may result in a judgement of A\$250,000 or more, other than that which is in the public domain as at the Announcement Date.

I) Mining Tenements

Between the Announcement Date and the end of the Offer Period (each inclusive), otherwise than in the ordinary course of business, either Alto or any of its Subsidiaries:

- i. enters into, agrees to enter into or announces any agreement to enter into any contract, commitment or arrangement (including without limitation any ore sale, ore processing, joint venture, partnership, farm-in, royalty, marketing or off-take agreement) in relation to any Mining Tenement;
- ii. relinquishes, sells or disposes of any interest or creates any Security Interest over any of its Mining Tenements;
- iii. takes any action or omits to take any action that results in or may reasonably be expected to result in a disposal of, or a breach of the terms of any of the Authorisations in connection with its Mining Tenements; or
- iv. takes any action or omits to take any action that results in or may reasonably be expected to result in the surrender of any of its Mining Tenements or any Authorisation relating to any of its Mining Tenements,

including announcing an intention to do any of the above matters.

m) Other persons acquiring a Relevant interest

Prior to the end of the Offer Period, a person or persons (other than Middle Island and its Associates) acquire a Relevant Interest in 20% or more of the Alto Shares on issue.

Defined Terms

Alto means Alto Metals Limited ABN 62 159 819 173

Alto Group means the Alto and each of its Subsidiaries.

Alto Options means an option issued by Alto to acquire an Alto Share.

Alto Performance Rights means a performance right issued by Alto to acquire an Alto Share.

Alto Share means a fully paid ordinary share in Alto.

Announcement Date means the date of the announcement of the Offer by Middle Island on the ASX, being 1 March 2019.

Asset means the assets of the Alto Group including the Sandstone Gold Project and any and all Mining Tenements.

Associate has the meaning set out in section 12 of the Corporations Act as if subsection 12(1) of the Corporations Act included a reference to this document and Alto was the designated body.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited and where the context requires, the Australian Securities Exchange.

Authorisation means any approval, licence, consent, authority or permit.

Bidder's Statement means the statement of Middle Island under Part 6.5 Division 2 of the Corporations Act relating to the Offer.

Corporations Act means Corporations Act 2001 (Cth).

Government Agency means any foreign or Australian government or governmental, semi-governmental, administrative, fiscal or judicial body, department, commission, authority, tribunal, agency or entity or any minister of the Crown in right of the Commonwealth of Australia or any State, and any other federal, state, provincial, or local government, whether foreign or Australian.

Offer means the offer for Alto Shares under the terms and conditions set out above and to be contained in the Bidder's Statement.

Offer Period means the period during which the Offer is open for acceptance in accordance with the Bidder's Statement.

Mining Tenement means any interest (including as holder, owner, operator or joint venturer) in a mining tenement, lease, licence, permit or similar and includes any extension, renewal, modification, replacement or substitution of the whole or any part thereof.

Middle Island means Middle Island Resources Limited ACN 142 361 608.

Relevant Interest has the meaning given in section 608 and 609 of the Corporations Act.

Security Interest means an interest or power:

- (a) reserved in or over an interest in any asset; or
- (b) created or otherwise arising in or over any interest in any asset under a security agreement, a bill of sale, mortgage, charge, lien, pledge, trust or power,

by way of, or having similar commercial effect to, security for the payment of a debt, any other monetary obligation or the performance of any other obligation, and includes, but is not limited to:

- (c) any agreement to grant or create any of the above; and
- (d) a security interest within the meaning of section 12(1) of the *Personal Property Securities Act 2009* (Cth).

Subsidiary has the meaning given in Division 6 of Part 1.2 of the Corporations Act.

Takeovers Panel means the Takeovers Panel referred to in Division 2, Part 6.10 of the Corporations Act.

Sandstone Gold Project means Alto's gold project located at Sandstone, Western Australia.