

MIDDLE ISLAND RESOURCES LIMITED
ABN 70 142 361 608

NOTICE OF GENERAL MEETING

AND

EXPLANATORY STATEMENT

AND

PROXY FORM

Date of Meeting

Friday 11 February 2022

Time of Meeting

10:00am AWST

Place of Meeting

Unit 1, 2 Richardson Street
WEST PERTH WA 6005

The business of the Meeting affects your shareholding and your vote is important.

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.

The Directors have determined pursuant to Regulation 7.11.37 of the Corporations Regulations 2001 (Cth) that the persons eligible to vote at the Meeting are those who are registered Shareholders at 5pm on 9 February 2022.

Shareholders should carefully consider the Independent Expert's Report prepared by the Independent Expert. The Independent Expert's Report comments on the fairness and reasonableness of the transaction the subject of Resolution 1. The Independent Expert has determined the transaction the subject of Resolution 1 is both fair and reasonable.

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

Notice is hereby given that a general meeting of Middle Island Resources Limited (**Company**) will be held at the Company's offices at Unit 1, 2 Richardson Street, West Perth, Western Australia on 11 February 2022 at 10:00am AWST (**Meeting**) for the purpose of transacting the following business, in each case, as more particularly described in the Explanatory Statement accompanying this Notice.

Capitalised terms and abbreviations used in this Notice and Explanatory Statement are defined in the Glossary.

The Meeting will be held as a hybrid meeting, and Shareholders will be able to participate in a live audio webcast of the meeting online where Shareholders will be able to participate, ask questions and cast direct votes at the appropriate times whilst the Meeting is in progress.

Shareholders who wish to participate in the Meeting online must login to the Company's share registry website and follow the instructions below to attend and participate in a virtual Meeting through an online meeting platform powered by the Company's Share Registry Automic.

To access the virtual meeting:

1. Open your internet browser and go to investor.automic.com.au
2. Login with your username and password or click "**register**" if you haven't already created an account.
Shareholders are encouraged to create an account prior to the start of the meeting to ensure there is no delay in attending the virtual meeting
3. After logging in, a banner will be displayed at the top once the meeting is open for registration, click on "**View**" when this appears
4. Click on "**Register**" and follow the steps
5. Click on the URL to join the webcast where you can view and listen to the virtual meeting
6. Once the Chair of the Meeting has declared the poll open for voting click on "**Refresh**" to be taken to the voting screen
7. Select your voting direction and click "confirm" to submit your vote.

Note that you cannot amend your vote after it has been submitted.

All Resolutions will be conducted by poll. More information on how to join the Meeting and vote on the Resolutions through the online meeting platform are set out in the Online Meeting Guide which can be found on the Company's website at <http://www.middleisland.com.au/shareholders-announcements/>. We recommend logging in to the online platform at least 15 minutes prior to the scheduled start time of the Meeting.

As a result of the uncertainty and potential health risks created by the corona virus (COVID-19) pandemic, it may become necessary or appropriate to make alternative arrangements for the holding or conducting the Meeting (for example in the case of a lockdown, where the meeting format could be changed to being wholly-virtual) and if so required, the Company will make further information available through the ASX website at asx.com.au (code: MDI) and on its website at www.middleisland.com.au.

AGENDA

RESOLUTION 1 - APPROVAL OF SALE OF ALL OF THE ISSUED SHARES IN SANDSTONE OPERATIONS PTY LTD

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

"That, for the purposes of Listing Rule 11.2 and all other purposes, approval is given for the sale of the Sandstone Gold Project, being the main undertaking of the Company, by way of the sale of the Company's interests in issued shares of its subsidiary Sandstone Operations Pty Ltd, on the terms and conditions set out in the Explanatory Statement".

Voting exclusion: In accordance with the Corporations Act, the Company will disregard any votes cast in favour of this Resolution by or on behalf of any person (including their Associates) including the acquirer of the main undertaking who will obtain a material benefit as a result of the sale of the Company's interests in the issued shares of Sandstone Operations Pty Ltd (except a benefit solely by reason of being a holder in ordinary securities in the entity) or any Associates of those persons, unless it is cast:

- (a) by a person as proxy or attorney for a person who is entitled to vote (in accordance with the directions on the Proxy Form); or
- (b) by the Chair as proxy or attorney for a person who is entitled to vote (in accordance with a direction on the Proxy Form to vote as the Chair decides); or
- (c) a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided: the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an Associate of a person excluded from voting, on the Resolution; and the holder votes in accordance with the directions on the Proxy Form.

RESOLUTION 2 – APPROVAL TO GRANT OF OPTIONS TO MR PETER THOMAS

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

"That, for the purpose of ASX Listing Rule 10.11 and for all other purposes, members hereby approve the issue to Mr Peter Thomas, or his nominee/s, of 2,000,000 Options to acquire fully paid Shares, exercisable at \$0.1279 per Option, expiring on a date which is 60 months from their date of issue and otherwise on the terms and conditions outlined in the Explanatory Statement (including Schedule 3) and further resolve that this constitutes reasonable remuneration for the purposes of Chapter 2E of the Corporations Act."

Voting exclusion: For the purposes of Listing Rule 7.3, the Company will disregard any votes cast in favour of this Resolution by or on behalf of Mr Peter Thomas and any other person who will obtain a material benefit as a result of the proposed issue (except a benefit solely by reason of being a holder of ordinary securities in the entity), or any Associates of those persons, unless it is cast:

- (a) by a person as proxy or attorney for a person who is entitled to vote (in accordance with the directions on the Proxy Form); or
- (b) by the Chair as proxy or attorney for a person who is entitled to vote (in accordance with a direction on the Proxy Form to vote as the Chair decides); or
- (c) a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided: the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an Associate of a person excluded from voting, on the Resolution; and the holder votes in accordance with the directions on the Proxy Form.

RESOLUTION 3 – APPROVAL TO GRANT OF OPTIONS TO MR BRAD MARWOOD

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

“That, for the purpose of Listing Rule 10.11 of the Listing Rules, and for all other purposes, members hereby approve the issue to Mr Brad Marwood, or his nominee/s of 2,000,000 Options to acquire fully paid Shares, exercisable at \$0.1279 per Option, expiring on the date which is 60 months from their date of issue and otherwise on the terms and conditions outlined in the Explanatory Statement (including Schedule 3) and further resolve that this constitutes reasonable remuneration for the purposes of Chapter 2E of the Corporations Act.”

Voting exclusion: For the purposes of Listing Rule 7.3, the Company will disregard any votes cast in favour of this Resolution by or on behalf of Mr Brad Marwood and any other person who will obtain a material benefit as a result of the proposed issue (except a benefit solely by reason of being a holder of ordinary securities in the entity), or any Associates of those persons, unless it is cast:

- (a) by a person as proxy or attorney for a person who is entitled to vote (in accordance with the directions on the Proxy Form); or
- (b) by the Chair as proxy or attorney for a person who is entitled to vote (in accordance with a direction on the Proxy Form to vote as the Chair decides); or
- (c) a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided: the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an Associate of a person excluded from voting, on the Resolution; and the holder votes in accordance with the directions on the Proxy Form.

RESOLUTION 4 – APPROVAL TO GRANT OF OPTIONS TO MR BRUCE STEWART

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

“That, for the purpose of Listing Rule 10.11 of the Listing Rules, and for all other purposes, members hereby approve the issue to Mr Bruce Stewart, or his nominee/s of 2,000,000 Options to acquire fully paid Shares, exercisable at \$0.1279 per Option, expiring on a date which is 60 months from their date of issue and otherwise on the terms and conditions outlined in the Explanatory Statement (including Schedule 3) and further resolve that this constitutes reasonable remuneration for the purposes of Chapter 2E of the Corporations Act.”

Voting exclusion: For the purposes of Listing Rule 7.3, the Company will disregard any votes cast in favour of this Resolution by or on behalf of Mr Bruce Stewart and any other person who will obtain a material benefit as a result of the proposed issue (except a benefit solely by reason of being a holder of ordinary securities in the entity), or any Associates of those persons, unless it is cast:

- (a) by a person as proxy or attorney for a person who is entitled to vote (in accordance with the directions on the Proxy Form); or
- (b) by the Chair as proxy or attorney for a person who is entitled to vote (in accordance with a direction on the Proxy Form to vote as the Chair decides); or
- (c) a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided: the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an Associate of a person excluded from voting, on the Resolution; and the holder votes in accordance with the directions on the Proxy Form.

PROXIES

A Proxy Form is attached to the Notice. This is to be used by Shareholders if they wish to appoint a proxy to vote on their behalf. 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 one or two proxies and if appointing two 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 10:00am AWST on 9 February 2022 by:

1. post to GPO Box 5193, Sydney NSW 2001;
2. email at meetings@automicgroup.com.au; or
3. online at <https://investor.automic.com.au/#/loginsah>.

If you are a beneficial Shareholder and receive these materials through your broker or through another intermediary, please complete and return the Proxy Form 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 5:00pm AWST on 9 February 2022 will be entitled to attend and vote at the Meeting.

VOTING IN PERSON

To vote in person, attend the Meeting at the time, date and place set out on the front page of this notice.

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, and are encouraged to, 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

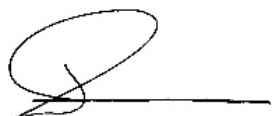
A Shareholder executing and delivering a proxy has the power to revoke it in accordance with the provisions of the Corporations Act, which provides that every proxy may be revoked by an instrument in writing executed by the Shareholder or by his or her attorney authorised in writing and delivered either 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 Chair 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 voting instructions are given, proxy holders must cast votes as instructed. If no voting instructions are given, 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).

By Order of the Board.



Rudolf Tieleman
Company Secretary
Date: 12 January 2022

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 Company's offices at Unit 1, 2 Richardson Street, West Perth WA 6005, on 11 February 2022 commencing at 10:00am AWST and at any adjournment thereof.

The purpose of this Explanatory Statement is to provide Shareholders with all information known to the Company that is material to a decision on how to vote on the Resolutions in the accompanying Notice.

This Explanatory Statement should be read in conjunction with the Notice. Capitalised terms in this Explanatory Statement are defined in the Glossary.

An Independent Expert Report dated 20 December 2021 prepared by the Independent Expert in respect of Resolution 1 is set out in Schedule 2 to this Explanatory Memorandum. Shareholders should read this Explanatory Memorandum (including the Independent Expert Report) carefully before deciding how to vote in respect of Resolution 1. The Independent Expert has determined that the Transaction is fair and reasonable to Shareholders, and that the position of Shareholders if the Transaction is approved is more advantageous than the position if the Transaction is not approved. That does not mean you should agree to vote in favour of Resolution 1 but it is provided as expressing the views of an independent party recognised as having relevant skill to opine upon such matters but within the constraints of regulatory practice and policy.

The Meeting will be held as a hybrid meeting, meaning Shareholders will be able to participate in a live audio webcast of the meeting online and ask questions and cast direct votes at the appropriate times whilst the Meeting is in progress.

Shareholders who wish to participate in the Meeting online must login to the Company's share registry website and follow the instructions below to attend and participate in a virtual Meeting through an online meeting platform powered by the Company's Share Registry Automic.

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1 BACKGROUND

As advised in the Company's ASX announcement dated 16 December 2021, the Company executed a Share Purchase Agreement dated 7 December 2021 ("**SPA**") relating to selling its 100% interest in the Sandstone Gold Project near Sandstone, Western Australia to a 100% subsidiary of Aurumin Limited (ASX: AUN, "**Aurumin**") via the SPA.

The proposed transaction is structured as a sale by the Company of its wholly owned subsidiary Sandstone Operations Pty Ltd ("**SOPL**"). SOPL holds the Sandstone Gold Project mining tenements, processing plant, freehold tenure and all

information related to the Sandstone Gold Project. The tenements are mining leases M57/128 and M57/129, exploration licence 57/1102 and prospecting licences P57/1384, P57/1395 and P57/1442.

A 100% owned subsidiary of ASX listed Aurumin, Aurumin Australia Pty Ltd (the **Buyer**), is the named buyer of the shares in SOPL.

The proposed sale to the Buyer of all of the issued shares in SOPL held by the Company is referred to in this Explanatory Memorandum as the "**Transaction**". Details of the Transaction are set out in this Explanatory Statement.

ASX has advised the Company that the Transaction involves the disposal of the main undertaking of the Company and requires the approval of the Company's shareholders under Listing Rule 11.2 for the Transaction to proceed.

2 APPROVAL OF SALE OF ALL OF THE ISSUED SHARES IN SANDSTONE OPERATIONS PTY LTD

2.1 General

Listing Rule 11.2 provides that where a company proposes to make a significant change in the nature or scale of its activities which involves the disposal of its main undertaking, it must first obtain the prior approval of its shareholders.

Resolution 1 seeks Shareholder approval for the potential disposal of the Company's main undertaking, given that the Transaction involves disposing of all of the Company's interests in issued shares of SOPL, being the 100% subsidiary of the Company that holds the Sandstone Gold Project.

If shareholders approve the Transaction and other conditions precedent are satisfied, the Company will sell 100% of the issued shares in SOPL to the Buyer, thereby transferring the Sandstone Gold Project to the Buyer.

The information required by Section 7.2 of ASX Guidance Note 12 "Significant Changes to Activities" to be provided to Shareholders in relation to Resolution 1, is contained within this Explanatory Statement and the Notice of General Meeting.

Shareholders should note that even if Shareholder approval of the Transaction is obtained, completion under the SPA is subject to other conditions precedent being satisfied or waived. Further details are set out later in this Explanatory Statement.

Shareholders should also be aware that following the proposed disposal of the Company's main undertaking, ASX may require the Company to seek Shareholder approval pursuant to Listing Rule 11.1.2 and/or re-comply with Chapters 1 and 2 of the Listing Rules pursuant to Listing Rule 11.1.3 with respect to any future transaction the Company may enter into. The Company is not aware of any such requirement and ASX has not notified the Company of such a requirement in relation to the Transaction. At the date of this Notice there is no such future contemplated transaction.

A disposal by a listed entity of its main undertaking can also raise issues under Listing Rule 12.1 and 12.2, which oblige a listed entity to satisfy ASX on an ongoing basis that the level of its operations is sufficient, and its financial condition adequate, to warrant its continued quotation of its securities. The Company considers this risk to be very low given the Company's 100% ownership of the very significant and exciting Barkly copper gold super project in the Northern Territory, which will become the Company's sole focus upon the Transaction completing.

ASX have advised that the Company will be afforded a period of 6 months from the date of the announcement of the disposal of the Sandstone Gold Project (being 16 December 2021) to demonstrate to the ASX that it is compliant with Listing Rule 12.1. The ASX also advises that if the Company does not demonstrate compliance with this Rule to ASX's satisfaction by the 6-month anniversary, ASX will suspend trading in the Company's securities. The consequences of a disposal of the main undertaking are that any transaction the Company proposes to enter into may, if required by ASX, attract the application of Listing Rule 11.1.3 and as a result the Company may, if required by ASX, be required to re-comply with Chapters 1 and 2 of the Listing Rules. Please refer to ASX Guidance Note 12: Significant Change to Activities which provides further information on significant changes to activities and how the Listing Rules apply to those changes.

Resolution 1 is an ordinary resolution, requiring it to be passed by a simple majority of votes cast by the Shareholders entitled to vote on it. However, all Resolutions will be conducted by poll.

2.2 Background to the Sandstone Gold Project

The core of the Sandstone Gold Project are the following assets of SOPL, which is a 100% subsidiary of the Company:

- (a) mining leases M57/128, M57/129, exploration licence 57/1102 and prospecting licences P57/1384, P57/1395 and P57/1442;

- (b) mining and other information related to those tenements (and other tenements in the region), including exploration results, a feasibility and other studies and various approvals and permits related to exploration and potential mining on those tenements;
- (c) the Sandstone Gold Processing Plant, including all plant, equipment and chattels at the Sandstone site;
- (d) accommodation facilities and freehold property in the township of Sandstone, being Lots 149, 150, 151, 152, 157, 158, 159 and 160 on Deposited Plan 223094; Lots 507, 537 and 538 on Deposited Plan 223093; and Lot 300 on Diagram 92979; and
- (e) corporate records of the Company or SOPL related to the above.

2.3 Material Terms and Conditions of the SPA

(a) Consideration

The \$12 million of consideration payable to the Company on completion of the Transaction is comprised as follows:

Cash: Aud\$6 million;

and

Consideration Shares: \$6 million of unencumbered fully paid ordinary shares in Aurumin. 30,000,000 shares will be issued at \$0.20 per share.

The Consideration Shares are expected to represent ~19.47% of Aurumin's shares then on issue after closing of the Transaction, including after issuing the Consideration Shares and after issuing additional shares pursuant to a capital raising that Aurumin proposes to undertake as a condition precedent to the Transaction completing (as referred to in Section 2.3(c)(i) below). That percentage is estimated as at the date of this Explanatory Memorandum. It assumes full uptake of the proposed entitlement issue and placement by Aurumin, with 37,310,106 shares in Aurumin being issued, but no conversion of the convertible notes into Aurumin shares. The calculation also does not take into account 25.3 million options on issue by Aurumin (various dates). Shareholders should note that the forecast percentage held by the Company has marginally increased from 18.5% (as advised in the Company's ASX announcement dated 16 December 2021) to 19.47% due to the terms of Aurumin's capital raising being finalised after the Company's announcement was released.

The SPA provides that the issue price of the Consideration Shares will be equal to the price per share at which shares in Aurumin are issued pursuant to the placement forming part of the Aurumin Capital Raising (as referred to in Section 2.3(c)(i) below) or, if the Aurumin Capital Raising is not completed, then at a price which is equal to the volume-weighted average sale price of Aurumin shares on ASX over the 10 trading days prior to the date of execution of the SPA. As mentioned below in Section 2.3(c)(i) below, Aurumin has announced that the placement will proceed at an issue price of \$0.20.

The aggregate of the Cash and the Consideration Shares is the "**Total Consideration**".

GST is not expected to be paid on the Total Consideration, but if GST is payable then the Buyer will pay it.

(b) Escrow

The Consideration Shares will be subject to a voluntary escrow period of 12 months. The escrow arrangement was not mandated by ASX. All Consideration Shares will be released from escrow earlier in the event of a takeover bid or scheme of arrangement involving Aurumin or as permitted by the ASX Listing Rules, subject always to compliance with the ASX Listing Rules. The escrow is a restriction on sale of the Consideration Shares but is not an encumbrance giving rights in the Consideration Shares to any person.

(c) Conditions Precedent

The Transaction is subject to satisfaction or waiver of the following conditions precedent, which are together the "**Conditions Precedent**":

- (i) Aurumin having announced via the ASX market announcements platform prior to or on 15 December 2021 (the **Commitment Date**) that it has raised at least \$8 million (which raising may be subject to completion of the Transaction occurring), of which at least \$4 million must be committed via a placement (the **Placement**) and no more than \$5 million may be raised via a convertible note on terms not materially different to terms presented to the Company by Aurumin prior to signing the SPA (the **Convertible Note**) (together the **Aurumin Capital Raising**).

In this regard, in an announcement to the ASX dated 15 December 2021 Aurumin advised that it has

entered into a convertible note for \$5 million (with the issue of the convertible note being subject to shareholder approval), that it has firm commitments for a placement of \$2.5 million to institutional and sophisticated investors, and that it intends to undertake an entitlement offer to raise up to \$5 million, of which \$2 million has been underwritten. The issue price for both the placement and entitlement offer is \$0.20 per Aurumin share. As at least \$9.5 million has been committed, Middle Island and Aurumin have agreed that the Condition Precedent relating to the Aurumin Capital Raising has been satisfied.

- (ii) the obtaining by Aurumin of all approvals required by the ASX Listing Rules before or on 4 February 2022 (the **Cut-off Date**), including, as applicable, approval by a simple majority of shareholders of Aurumin:
- A. to issue the Consideration Shares to the Company and to issue shares in Aurumin pursuant to the Convertible Note (if and to the extent required), for the purpose of ASX Listing Rule 7.1;
 - B. of the Transaction for the purposes of Listing Rule 11.1.2 in relation to the proposed change in either or both of the nature and scale of the activities of Aurumin; and
 - C. of the acquisition by the Company (or its nominees) of voting power in Aurumin of more than 20% (if that be the result of the issue of the Consideration Shares) pursuant to item 7 of section 611 of the Corporations Act.

In this regard, Aurumin will issue a separate Notice of Meeting to its shareholders dealing with the matters required to be addressed by the ASX Listing Rules in relation to paragraphs A, B and C above. At the date of the accompanying Notice the directors of Aurumin intend to recommend the Transaction to Aurumin's shareholders and to vote shares they control in Aurumin in favour of the Transaction.

- (iii) the obtaining by the Company of all approvals required by the ASX Listing Rules before or on the Cut-off Date. In this regard, ASX has advised the Company that the Transaction involves the disposal of the main undertaking of the Company and requires the approval of the Company's shareholders under Listing Rule 11.2 for the Transaction to proceed. That approval is the subject of Resolution 1. At the date of the accompanying Notice the directors of the Company consider that the Transaction is in the best interests of the Company and intend to recommend the Transaction to the Company's Shareholders and to vote shares they control in the Company in favour of the Transaction.
- (iv) other regulatory approvals being obtained by the Company, as necessary, before or on the Cut-off Date; At the date of the accompanying Notice the Company is not aware of any regulatory approvals that will be required to be obtained by the Company in relation to completing the Transaction.
- (v) other regulatory approvals being obtained by Aurumin, as necessary, before or on the Cut-off Date. This includes Aurumin having received confirmation from ASX that the Transaction will not require Aurumin to re-comply with Chapters 1 and 2 of the ASX Listing Rules, which confirmation is either unconditional or is subject only to conditions acceptable to Aurumin and the Company.

At the date of the accompanying Notice the Company is not aware of any other regulatory approvals that will be required to be obtained by Aurumin in relation to completing the Transaction. Aurumin will issue separate communications in relation to whether it will be required to re-comply with Chapters 1 and 2 of the ASX Listing Rules.

- (vi) the Company securing, before or on the Cut-off Date, a binding option to terminate all of the documents relating to a deferred contingent liability of \$500,000 that was agreed to be paid by SOPL when it acquired the Sandstone Gold Project, and in respect of which the Company granted a security over all of its assets.

Subject to completion of the Transaction, Aurumin will exercise that option as the nominee of the Company at Aurumin's cost. Upon exercise of the option the contingent liability and all securities granted by the Company over its assets to secure payment of that liability will be extinguished.

- (vii) the Company and/or SOPL having obtained all necessary third-party consents in respect of the Transaction before or on the Cut-off Date.

At the date of the accompanying Notice the Company is not aware of any such consents that will be required provided the option in paragraph (vi) above is exercised.

- (viii) the income tax return for SOPL for the financial year ending on 30 June 2021 having been lodged with the Australian Tax Office before or on the Cut-off Date.

The Company confirms that the tax return referred to will be lodged as required.

(d) Extension

The Commitment Date and Cut-Off Date may be extended by mutual agreement of the Company and Aurumin.

(e) Break fees

If Aurumin is unable to complete the Transaction due to a failure to complete the Aurumin Capital Raising or to obtain the approval of its shareholders as described above in Sections 2.3(c)(i) and (ii), it must pay the Company a \$100,000 break fee. If the Company is unable to complete the Transaction due to a failure to obtain the approval of its Shareholders as described above in Section 2.3(c)(iii) it must pay a \$100,000 break fee to Aurumin.

(f) Termination

If the Conditions Precedent are not able to be satisfied such that the Transaction cannot be completed either the Buyer or the Company can terminate the SPA.

(g) Obligations of the Company prior to completion under the SPA

The Company is responsible for maintaining the Sandstone Gold Project tenements in good standing until completion under the SPA. The Company is not responsible for completing any rehabilitation or remediation work on the Sandstone Gold Project tenements, or incurring any required expenditure on the tenements to satisfy minimum statutory expenditure conditions applying to the tenements. SOPL must not incur any liabilities outside of the ordinary course of business prior to completion of the Transaction without Aurumin's consent.

(h) Status of material agreements entered into by the Company

Continuing minor royalties payable to former holders of some of the Sandstone Gold Project tenements will remain with SOPL. A condition precedent to the Transaction closing is Aurumin exercising an option (to be secured by the Company) to terminate all of the documents relating to a deferred production payment contingent liability of \$500,000 that was agreed to be paid by SOPL when it acquired the Sandstone Gold Project. The Company gave security over its assets to secure payment of that contingent liability, and that security will be extinguished upon exercise of that option by Aurumin (as the Company's nominee).

(i) Other

Aurumin guarantees the obligations of the Buyer under the SPA.

Otherwise, the SPA contains warranties, indemnities and other rights and obligations that are typical for transactions of this nature. The Company makes no warranties about the prospectivity of the Sandstone Gold Project tenements or the condition or operating status of the Sandstone Gold Processing Plant, and in that respect those assets are sold and delivered to the Buyer on an "as is, where is" basis.

2.4 Listing Rule 11.2

ASX Listing Rule 11.2 requires a listed company to obtain the approval of its shareholders to a disposal of its main undertaking. The Transaction is being treated as a disposal of the Company's main undertaking for these purposes.

Accordingly, Shareholder approval to the Transaction is sought under and for the purposes of Listing Rule 11.2.

If approval is forthcoming, the Company will be able to (subject to satisfaction or waiver of the remaining Conditions Precedent) proceed with the Transaction, receive the Total Consideration and pursue other resources projects, including the Company's Barkly copper gold super project in the Northern Territory, with a view to maximising Shareholder value.

If approval is not forthcoming, the Company will not be able to proceed with the Transaction and it will not receive the Total Consideration in accordance with the SPA. The Company may then seek suitable other disposal and/or investment opportunities to deliver value to Shareholders.

2.5 Effect of the Disposal of Interests in SOPL shares held by the Company

On completion of the Transaction, the impact on the consolidated assets and liabilities of the Company (assuming it continues operating on its current basis) will, in its books, be as follows:

- (a) an increase in total consolidated assets from \$7,328,730 to \$15,616,958;
- (b) a reduction of total liabilities from \$1,799,637 to \$414,737;
- (c) an increase in total equity interests, from \$5,529,093 to \$15,202,221;
- (d) no change to annual revenue;

- (e) a reduction in annual expenditure of \$1.2 million (estimated); and
- (f) no change to annual profit before tax.

The pro-forma statement of the financial position of the Company as at 30 June 2021 (being the date of the most recent audited financial report) but showing the financial effect of the disposal of the shares it holds in SOPL on the Company is annexed as Schedule 1.

The disposal of the shares in SOPL will:

- (g) not impact the capital structure of the Company;
- (h) not have a dilutive effect on Shareholders; and
- (i) not result in any changes to the Board or the Company's name.

Shareholders will not be impacted by the Transaction, other than to the extent of the Company's divestment of the Company's interest in the shares held in SOPL, the receipt of the Total Consideration as set out in Section 2.3(a) and the changes as referred to in paragraphs (a) through (f) above. As discussed above in Section 2.1, there is also the risk that if the Company does not demonstrate compliance with Listing Rule 12.1 to ASX's satisfaction by the 6-month anniversary of announcement of the Transaction ASX will suspend trading in the Company's securities. The Company cannot pre-empt the position the ASX might adopt but does not expect an adverse result based on its continuing interest in and aggressive exploration of its Barkly copper gold super project

The Company does not expect to pay tax on the disposal of the shares in SOPL.

2.6 Intention following Disposal of the SOPL shares held by the Company

The Company will continue to review project opportunities in the mineral exploration and project development space with a view to maximising Shareholder value. The core focus of the Company, in the short term at least, will be upon its Barkly copper gold super project in the Northern Territory. The Company intends to use the cash component of the Total Consideration to fund a significant exploration program over key parts of underexplored Barkly ground held by the Company.

ASX have advised that the Company will be afforded a period of 6 months from the date of the announcement of the disposal of the Sandstone Gold Project (being 16 December 2021) to demonstrate to the ASX that it is compliant with Listing Rule 12.1. The ASX also advises that if the Company does not demonstrate compliance with this Rule to ASX's satisfaction by the 6-month anniversary, ASX will suspend trading in the Company's securities. The consequences of a disposal of the main undertaking are that any transaction the Company proposes to enter into may, if required by ASX, attract the application of Listing Rule 11.1.3 and as a result the Company may, if required by ASX, be required to re-comply with Chapters 1 and 2 of the Listing Rules. Please refer to ASX Guidance Note 12: Significant Change to Activities which provides further information on significant changes to activities and how the Listing Rules apply to those changes. Whilst no assurance can be given in this regard, your Board does not expect ASX to impose such a requirement.

2.7 Independent Expert Report

The Board engaged BDO Corporate Finance (WA) Pty Ltd, the **Independent Expert**, to prepare the Independent Expert Report.

The Independent Expert Report prepared by the Independent Expert in respect of Resolution 1 is set out in Schedule 2 to this Explanatory Statement.

The Independent Expert has determined that the Transaction is fair and reasonable to Shareholders, and that the position of Shareholders if the Transaction is approved is more advantageous than the position if the Transaction is not approved.

The Independent Expert Report also contains an assessment of the advantages and disadvantages of the Transaction, which is designed to assist Shareholders in making an informed decision in relation to Resolution 1.

The Independent Expert consents to being named as the Independent Expert in the Notice and to the inclusion of its Independent Expert Report, which forms part of the Notice and to the distribution of the Notice. That consent is given on the following basis:

1. the Independent Expert has given and has not withdrawn its consent to be named in the Notice;
2. the Independent Expert has not authorised or caused the issue of the Notice;
3. the Independent Expert takes no responsibility for any statements in or omissions from any part of the Notice, except in respect of its Independent Expert Report; and

4. the Independent Expert makes no representation regarding, and to the extent permitted by law, excludes any responsibility for, any statements in or omissions from any part of the Notice.

2.8 Advantages of the Disposal of the SOPL shares held by the Company

Since the Company acquired the Sandstone Gold Project for \$2.5 million in 2016 it has been pursuing a strategy of developing its Sandstone gold tenements in order to be in a position to justify re-commissioning of the Sandstone Gold Processing Plant on a stand-alone basis. The focus has been on conducting further exploration and optimisation work on the Company's own tenements, and also seeking to acquire quality gold assets within trucking distance of the Sandstone Gold Processing Plant and amalgamating those assets into the Sandstone Gold Project.

This two pronged strategy has been partly successful, in that key tenements in the Sandstone region were purchased from third parties, new tenements were pegged by the Company, and successful exploration and development was conducted across the Company's Sandstone tenement portfolio. As a result Indicated and Inferred Resources at the Sandstone Gold Project increased from c. 480,000oz gold (JORC 2004)¹ to c.785,000oz gold JORC (2012)² since the Company purchased the Project.

However, the Company has not been able to fully realise a regional consolidation of gold assets to deliver sufficient grade mill feed ore to justify re-commissioning of the Sandstone Gold Processing Plant on a stand-alone basis. This was primarily due to lack of funds and the fact that acquisition terms could not be agreed with the owners of other gold projects in the Sandstone region. The Feasibility Study conducted by the Company in 2021 concluded that the Sandstone Gold Project was not sufficiently robust to secure funding as a stand-alone project given prevailing gold prices at the time.

The proposed Transaction with Aurumin seeks to address that outcome, and is a continuation of the regional consolidation strategy adopted by the Company since 2016. Aurumin holds important gold projects in relative proximity to the Sandstone Gold Processing Plant that may deliver supplemental mill feed or cornerstone a larger project with time. In this regard Aurumin has announced that it sees potential to process its Johnson Range Mineral Resources at the Sandstone Gold Processing Plant (64,700oz @ 2.5g/t Au JORC-2021 Mineral Resources).³ The prospect of near term cashflow with the potential for significant upside is one of the reasons this deal is considered fair and reasonable to shareholders, and that the position of Shareholders if the Transaction is approved is more advantageous than the position if the Transaction is not approved.

The Transaction also brings new personnel, fresh ideas and a new investor base to drive the Sandstone Gold Project. The Board continues to support and has faith in the broader vision for the Sandstone Gold Project, but feedback from Shareholders is that there is a preference for the Company to focus its efforts on the Company's Barkly copper gold super project in the Northern Territory. Accordingly, your Board commends the Transaction to Shareholders as representing a genuine win win transaction for the Company and Aurumin. On closing the Transaction the Company will have secured near term funding needed for a significant exploration program over key parts of underexplored Barkly ground held by the Company. Shareholders will continue to have direct exposure to the Sandstone Gold Project upside via the Company's significant shareholding in Aurumin if the Transaction is approved. The Board considers that this is a very positive outcome for the Company.

Given the above, your Directors believe that the following non-exhaustive list of advantages may be relevant to a Shareholder's decision on how to vote, namely Approval will:

- (a) allow the Company to focus its efforts on its Barkly copper gold super project in the Northern Territory;
- (b) significantly improve the Company's cash position, thus removing the imperative to raise funds in the short term as a precursor to ramping up exploration at the Barkly project;
- (c) allow Aurumin, a new team with fresh eyes and a reenergised shareholder base, to advance the Sandstone Gold Project, and further implement pursue the regional consolidation strategy;
- (d) expose the Company to Aurumin's existing projects, allowing Shareholders to benefit therefrom;
- (e) release the company from future liability and commitments for the Sandstone Gold Project (including environmental rehabilitation of the tenements within it) to Aurumin, thereby reducing the financial burden on the Company;

¹ See the Company's *Sandstone Gold Project Acquisition* presentation dated 11 May 2016, p.11.

² See the Company's *Annual General Meeting November 2021* presentation dated 19 November 2021, p.14.

³ See Aurumin's ASX announcement *Highly Accretive Acquisition of 784koz Sandstone Gold Project* dated 15 December 2021.

- (f) allow the Company to maintain a significant interest in and exposure to the Sandstone Gold Project through a significant shareholding in Aurumin; and
- (g) not result in any dilution of existing Shareholder's interests.

Ultimately, the Transaction reduces the Company's direct interest in the Sandstone Gold Project but will continue to give Shareholders the opportunity to participate in the growth of the Sandstone Gold Project through a separate entity that has additional resources, skills and tenements in the region to further develop those assets.

2.9 Disadvantages of the Disposal of the SOPL shares held by the Company

The Directors believe that the following non-exhaustive list of disadvantages may be relevant to a Shareholder's decision on how to vote on Resolution 1:

- (a) the Company will not be able to directly participate in or derive any future potential benefit from the development of the Sandstone Gold Project, other than via the shares to be held by the Company in Aurumin;
- (b) the disposal involves the Company selling a major asset, which may not be consistent with the investment objectives of all Shareholders; and
- (c) if the Transaction proceeds the Company will only have direct exposure to a single exploration asset portfolio, namely the Barkly copper gold super project in the Northern Territory.

2.10 Indicative Timetable

The below timetable is a summary of the dates relevant to the Transaction and future dates are indicative only and subject to change:

Event	Date
Enter SPA and ASX Announcement	16 December 2021
Company Shareholder Approval - General Meeting (under the accompanying Notice)	11 February 2022
Aurumin Shareholder Approval - General Meeting	11 February 2022
Completion	Q1 2022

2.11 Implications if the Disposal of Disposal of the SOPL shares held by the Company does not proceed

In the event that Resolution 1 is not passed and/ or for any other reason the Company does not dispose of the shares it holds in SOPL, it will, amongst other things:

- (a) continue to maintain its interest in the shares in SOPL and therefore in the Sandstone Gold Project and continue to investigate opportunities to obtain value from those assets either by developing and exploring the tenements within the Sandstone Gold Project, disposing of all or part of the Sandstone Gold Project assets or entering into joint ventures or transactions with third parties in respect of the development of the Sandstone Gold Project assets;
- (b) continue to maintain the Sandstone Gold Project assets and ensure compliance with all licence and regulatory requirements, whilst undertaking appropriate development activities on the Sandstone Gold Project assets and simultaneously managing expenditure;
- (c) explore opportunities to raise equity capital (likely to be dilutive of current shareholdings) to enable the Company to fund ongoing Sandstone Gold Project activities and activities in respect of the Company's Barkly copper gold super project; and
- (d) the Company may be exposed to paying a break fee.

2.12 Other Material Information

Completion of the SPA will result in an estimated accounting profit for the Company of \$9,673,128. This result reflects that the Company will sell its 100% shareholding in SOPL with a book value of \$2,326,872 (including plant and equipment of \$2,052,535) as at 30 June 2021 for \$12 million. That book value is after an impairment of non-current related party loans made by the Company to SOPL over the period 2016 to 30 June 2021.⁴ As part of the Transaction the previously impaired related party loans will be reinstated and then converted to shares in SOPL at face value at \$1 per 1 share in SOPL. The total number of shares in SOPL then on issue (estimated to be 14,325,437, including the 1,000 SOPL shares on issue at

⁴ See Note 21 in *Notes to the Consolidated Financial Statements* in the Company's 2021 Annual Report.

the date of the SPA) will be sold for \$12 million to the Buyer. The exact number of SOPL shares to be sold will change over the period from the date of the accompanying Notice to the date of completion of the Transaction because the Company will continue to loan funds to SOPL as needed until completion. The change in the number of shares will not be material given that the Sandstone Gold Project is on care and maintenance at the date of the accompanying Notice.

The ASX takes no responsibility for the accompanying Notice or this Explanatory Statement.

2.13 Forward Looking Statements

The forward looking statements in this Explanatory Statement are based on the Company's current expectations about future events. They are, however, subject to known and unknown risks, uncertainties and assumptions, many of which are outside the control of the Company and the Directors, which could cause actual results, performance or achievements to differ materially from future results, performance or achievements expressed or implied by the forward looking statements in this Explanatory Statement. Forward looking statements include those containing words such as 'anticipate', 'estimates', 'should', 'will', 'expects', 'plans' or similar expressions.

2.14 Board and Senior Management Changes

There will be no changes to the Company's Board or senior management as a result of or in connection with completion of the Transaction, save that the Company will appoint a full-time general manager of the Barkly copper gold super project

2.15 Material Disclosure

Comprehensive disclosure regarding the Transaction and disposal of the shares in SOPL held by the Company is set out above, including the following:

- (a) the parties and material terms of the Transaction are set out in Sections 2.2 and 2.3;
- (b) the financial effect of the Transaction on the Company and on the interests of security holders in the Company is set out in Sections 2.5 to 2.12;
- (c) the changes the Company will be making to its business model in light of the Transaction are set out in Section 2.6;
- (d) details of what the Company intends to do following the disposal is set out in Section 2.6;
- (e) changes to the Board and senior management of the Company are set out in Section 2.14; and
- (f) a voting exclusion statement is included in the accompanying Notice.

2.16 Board Recommendation

The Directors do not have any material interest in the outcome of Resolution 1 other than benefits held solely by reason of being holders of Equity Securities issued by the Company and fees paid to Directors for services provided to the Company.

The Board unanimously approved the proposal to put Resolution 1 to Shareholders.

Based on the information available, all of the Directors consider that the Transaction is in the best interests of the Company and that the position of Shareholders if the Transaction is approved is more advantageous than the position if the Transaction is not approved. Accordingly, all of the Directors recommend that Shareholders vote in favour of Resolution 1.

Each Director has indicated that he intends to vote the Shares he owns or controls in favour of Resolution 1.

To the fullest extent the law permits, the Chair intends to exercise all available proxies in favour of Resolution 1. The Chair intends to vote all undirected proxies in favour of Resolution 1.

Please refer to the voting prohibition for Resolution 1 set out in the Notice for the persons who are not entitled to vote.

3 RESOLUTIONS 2, 3 AND 4 – RATIFICATION OF AGREEMENT TO GRANT OPTIONS TO DIRECTORS

3.1 General

The Company has entered into a Deed Poll with each director whereby, subject to Shareholder approval and otherwise upon the terms set out in Schedule 3 to this Explanatory Statement, the Company has agreed to issue to each of the directors of the Company (or their nominee/s) 2,000,000 options to acquire Shares (**Options**), exercisable at \$0.1279 each on or before the date which is 60 months from their date of issue. The exercise price is a premium of 33.33% to the 5-day volume weighted average of the Shares at the date of the Deed Poll. Upon payment of the exercise price, the resultant Shares shall each rank equally with the Shares currently quoted as ASX:MDI.

In the event that the issue of the Options to a Director is not approved by Shareholders, the Company is obliged by the Deed Poll to pay the affected Director the sum of \$2,000.

Whilst the Directors are entitled, under the Constitution, to be paid for special exertion, in practice only very rarely has a claim for special exertion been paid. The Directors consider that the grant of the Options will be a cost effective and efficient means for the Company to provide an incentive and motivate the contribution of special exertion without routine claims to be paid in cash for the same.

\$767,400 will be raised by the Company upon and in the event that all the Options are exercised.

Resolutions 2, 3 and 4 are ordinary resolutions, requiring them to be passed by a simple majority of votes cast by the Shareholders present and eligible to vote (in person, by proxy, by attorney or, in the case of a corporate Shareholder, by a corporate representative).

3.2 Chapter 2E of the Corporations Act – related party transactions

Chapter 2E of the Corporations Act prohibits a public company from giving a financial benefit to a related party of the public company unless either:

- (a) the giving of the financial benefit falls within one of the nominated exceptions to the provision; or
- (b) prior Shareholder approval is obtained to the giving of the financial benefit and the benefit is given within 15 months after obtaining such approval.

Each of Resolutions 2, 3 and 4 provides for the grant of Options to related parties which is a financial benefit requiring Shareholder approval unless an exemption from the requirement for such approval applies. For the purpose of Chapter 2E of the Corporations Act the following information is provided.

The related party to whom the proposed Resolutions would permit the financial benefit to be given

Subject to Shareholder approval, the Options the subject of Resolutions 2, 3 and 4 will be granted to Messrs Thomas, Marwood and Stewart (or their nominee/s), within one month of the passing of the Resolutions. Messrs Thomas, Marwood, and Stewart are Directors of the Company and are therefore classified as related parties.

The nature of, reasons for, and basis for the financial benefit

The proposed financial benefits are the grant of 2,000,000 Options to Mr Thomas, 2,000,000 Options to Mr Marwood, and 2,000,000 Options to Mr Stewart or their nominee/s, for no issue price. Each Option will allow Messrs Thomas, Marwood, and Stewart to subscribe for one Share in the Company. The Options will have an exercise price of \$0.1279 per Share and will expire on the date which is 60 months from their date of issue.

The Options will form part of Messrs Thomas', Marwood's, and Stewart's remuneration for service as directors of the Company and, in the view of the Board, will constitute reasonable remuneration for the purposes of Chapter 2E of the Corporations Act.

Options are considered to be an appropriate incentive given the Company's current size and stage of development, being an exploration company with limited cash reserves. If Messrs Thomas, Marwood, and Stewart are to derive any intrinsic value from the exercise of the Options, the market price of MDI Shares must be in excess of \$0.1279 per share, being a total of the amount payable upon exercise. The Options represent an incentive to Messrs Thomas, Marwood, and Stewart to get the ASX:MDI share price up, not just to the level of the exercise prices but well above that price in order that the Options will be deep in the money so that they can realise a significant gain from the disposal of their interests in the Options, thus aligning their personal interests with those of other Shareholders.

Directors' recommendation

All Directors, except Mr Thomas, recommend Shareholders vote in favour of Resolution 2. Mr Thomas does not make a recommendation about Resolution 2 as he will receive a financial benefit from the passing of the Resolution in relation to the grant of Options and does not consider himself sufficiently independent to make a recommendation.

All Directors, except Mr Marwood, recommend Shareholders vote in favour of Resolution 3. Mr Marwood does not make a recommendation about Resolution 3 as he will receive a financial benefit from the passing of the Resolution in relation to the grant of Options and does not consider himself sufficiently independent to make a recommendation.

All directors, except Mr Stewart, recommend Shareholders vote in favour of Resolution 4. Mr Stewart does not make a recommendation about Resolution 4 as he will receive a financial benefit from the passing of the Resolution in relation to the grant of Options and does not consider himself sufficiently independent to make a recommendation.

Any other information that is reasonably required by members to make a decision and that is known to the Company or any of its officers

- (a) Resolutions 2, 3 and 4, if passed, will have the effect of giving power to the Directors to grant 2,000,000 Options respectively to each of Messrs Thomas, Marwood and Stewart, or their respective nominee/s and the Option issue

will be excluded in calculating MDI's 15% limit in Listing Rule 7.1, effectively increasing the number of equity securities it can issue without shareholder approval over the 12-month period following the Option issue Date.

- (b) If any of Resolutions 2, 3 and 4 is not passed, the Company is obliged by the Deed Poll to pay the affected Director the sum of \$2,000.
- (c) The exercise of the Options is subject to the terms and conditions as set out in Schedule 3 to this Explanatory Statement and as otherwise mentioned above.
- (d) The Directors have obtained an independent valuation of the Options from Provisio Corporate, a firm which specialises in corporate risk management and share security valuation services.
- (e) The total (indicative) value of the Options is outlined in Table 1. If Options granted to Messrs Thomas, Marwood and Stewart, or their nominees, are exercised, the effect would be to dilute the Shareholdings of the other Shareholders.

Table 1 - Details of Director Options

Name Relationship	Number of options	Exercise price per option	Expiry date	Vesting	Value as determined by Provisio Corporate See Note (i) below
Peter Thomas Director	2,000,000	\$0.1279	60 months from date of issue	At date of issue	\$70,000
Brad Marwood Director	2,000,000	\$0.1279		At date of issue	\$70,000
Bruce Stewart Director	2,000,000	\$0.1279		At date of issue	\$70,000

Note (i) - Option Valuation Inputs

Details	Input
Share price for underlying fully paid ordinary Shares - 5-day VWAP on 23 December 2021	\$0.0959
Exercise price	\$0.1279
Risk free rate *	0.48%
Volatility *	70%
Start date	23 December 2021
Expiry date	60 months from date of issue
Value per Option	\$0.035

* These inputs were extracted from an independent valuation report provided by Provisio Corporate dated 29 December 2021 which contained the following details:

“VALUATION METHODOLOGY

Modelling Option Valuation based on Market Conditions:

Monte Carlo simulation models: The simplest way to assess the probabilities associated with complex interrelationships is to construct appropriately structured Monte Carlo simulation model. We used a model to generate 1000 random price paths over the course of a year and used each of the 1000 randomised price paths to determine a theoretical value at the time of expiry which can be used as an input to the valuation model.

The call option on the Shares means the valuation models should be based upon a binomial lattice as it provides the necessary flexibility to accommodate various possible outcomes conditions such as the likelihood of share price volatilities varying over the term of the life of the Option, which is five years in duration. The likelihood of the holder not exercising the option is low given the time to expiry.

Notwithstanding the foregoing, it is worth noting that all other things are the same (i.e. single fixed values for volatility and the risk-free rate, and excluding more complex conditions, etc.), then the results produced by the Monte Carlo model will

tend to converge to give a similar value as would a binomial model as each time interval used in the binomial lattice gets smaller and smaller (i.e. as one creates a greater and greater number of nodes to value within a given option's life). As such we used the end price (price at the end of 1250 iterations of the 1000 random price paths as the input to a Binomial model to determine a valuation and then used the average of the 1000 iterations to calculate a fair and reasonable valuation. We further confirmed the valuation using a series of different option models.

Volatility

The volatility used in the modelling is critical to the value assigned as volatility, even of whole markets, is a measure which can fluctuate considerably over time – though it is also generally acknowledged to have the property of tending to regress towards the mean (i.e. move towards its long-term average value). This characteristic is perceived to hold true for not only individual securities but for whole markets. When assessing the measures of volatility we used a GARCH analysis model – which provides a forecast which is essentially an exponentially weighted average value with the added refinement of incorporating regression, over time, towards the mean of the historical trend line. The GARCH model analysis provided the implied volatility rate. The implied volatility rate used was 70% which is lower than the historical volatility but is adjusted for the fact that the options are unlikely to be listed and are not tradable.

Share price: We used the underlying ASX:MDI share price in the valuation including the last trading closing share price at the Valuation Date which was the date the Deed Poll was entered into, namely 23 December 2021.

Time to expiry: Five years (60 months from date of issue)

Risk free rate: Though with interest rates trading near historical lows, it is arguable that the government bond rate is the correct rate to use, it is nonetheless the required input. Given that rates may move from the current historical low over the life of the life of the Contributing Share a 'risk free' rate assumption of 0.48% was used.

Dividend yield: We have assumed that it is highly unlikely that the company will pay a dividend during the life of the Contributing Shares.

Valuation

Based on the above methodology, we place a fair and reasonable valuation for accounting purposes of **\$0.035** per Option issued."

This valuation may not be the final value for accounting purposes but is based on assumptions detailed above and subject to audit by the Company's auditors.

Applying the valuation methodology prescribed by the employee share scheme provisions of the Income Tax Assessment Act, the Options have minimal value. The Company believes that the employee share scheme provisions of Subdivision 83A-C of the Income Tax Assessment Act 1997 (Cth) will be applicable to the Options.

(f) As at the date of this Notice, the issued capital of the Company comprised 122,418,222 fully paid Shares. If all Options granted as proposed above are exercised, and assuming no other equity issues, the effect will be to dilute the Shareholding of existing Shareholders as per the table below:

Current Shares on issue	122,418,222
Proposed issue of Shares upon exercising of Options to be granted to Directors	6,000,000
Expanded Shares	128,418,222
Dilutionary effect	4.672%

The current relevant interest of each Director in securities of the Company is:

Director	Shares
Mr Thomas	1,290,327
Mr Marwood	789,477
Mr Stewart	200,000

(g) Whilst the fully paid ordinary Shares of the Company are traded on ASX, there is no agreement to list the Options on ASX.

(h) The Options to acquire Shares can be exercised by the payment of 12.79 cents (\$0.1279) each. The market price of the Company's Shares during the term of the Options will normally determine whether or not the Option holder exercises the Options. It is probable that the Options will only be exercised if the price at which Shares are trading exceeds 12.79 cents.

MIDDLE ISLAND RESOURCES LIMITED

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- (i) Mr Thomas currently receives annual director fees of \$60,000, plus statutory superannuation entitlements. Mr Marwood currently receives annual director fees of \$171,600 with no statutory superannuation entitlements. Mr Stewart receives annual director fees of \$40,000 with no statutory superannuation entitlements.
- (j) The Options will be issued as part remuneration for the provision of the Directors' services as Directors.
- (k) Under the Australian equivalent of IFRS, the Company is required to expense the value of the Options in its profit or loss for the current financial year. Other than as disclosed in this Explanatory Statement, the Directors do not consider, from an economic and commercial point of view, there are any costs or detriments, including taxation consequences for the Company or benefits foregone by the Company, in granting the Options to Messrs Thomas, Marwood and Stewart or their nominees pursuant to Resolutions 2, 3 and 4 EXCEPT FOR the cost of foregoing the opportunity to issue the Options for cash and the downstream potential to dilute the capital structure of the Company.
- (l) Save as set out herein, neither the Company nor any of the Directors is aware of any other information that would be reasonably required by Shareholders for them to make a decision in relation to the financial benefits contemplated by this Resolutions 2, 3 and 4.

3.3 ASXLR 10.11 and 10.13

Unless an exception detailed in ASXLR 10.12 applies, the Company must not issue or agree to issue equity securities to any persons as detailed in ASXLR 10.11.1 to 10.11.5 inclusive without the approval of the holders of its ordinary securities. No such exception applies and MDI has agreed to issue Options to its directors (being related parties, and to associates, as defined) subject to receiving Shareholder approval.

Listing Rule 10.13 requires that information be provided to Shareholders for the purposes of obtaining Shareholder approval pursuant to Listing Rule 10.11 and is detailed hereunder:

- (a) the Options will be issued to Messrs Thomas, Marwood and Stewart (or their nominee/s) being directors of the Company and therefore fall within ASXLR 10.11.1;
- (b) the issues will be made to a related party or an associate of that person;
- (c) the maximum number of Options to be issued is 6,000,000 (2,000,000 Options to Mr Thomas, 2,000,000 Options to Mr Marwood and 2,000,000 Options to Mr Stewart);
- (d) the Options are to acquire Shares with \$0.1279 each being payable upon exercise and they expire on a date which is 60 months from their date of issue and otherwise on the terms and conditions outlined in Schedule 3;
- (e) the Options will be issued no later than one month after the date of the Meeting (or such longer period of time as ASX may in its discretion allow);
- (f) the Options will be issued for no consideration;
- (g) the purpose of the issue to Directors is a cost effective and efficient means for the Company to provide an incentive and motivate the contribution of special exertion without routine claims to be paid in cash for the same;
- (h) the persons to be issued with the Options are directors and therefore classified as related parties under ASXLR 10.13.8 and/or associates of that person as defined in ASXLR 10.11.4 or 10.14.5;
- (i) the Options will be issued pursuant to a Deed Poll agreement entered into as detailed in 3.1 above; and
- (j) a voting exclusion statement is included in the Notice.

OTHER BUSINESS

The Company is not aware of any other business to come before the Meeting other than as set forth in the accompanying Notice.

GLOSSARY

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

\$ means Australian dollars.

Associate has the meaning given in the Corporations Act.

ASIC means the Australian Securities & Investments Commission;

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

Aurumin means Aurumin Limited (ASX: AUN);

Aurumin Capital Raising has the meaning given in Section 2.3(c);

AWST means Australian Western Standard Time;

Board means the board of Directors;

Business Day has the meaning as defined in the Listing Rules;

Buyer means Aurumin Australia Pty Ltd, a 100% subsidiary of Aurumin;

Chair means the person appointed to chair the Meeting, or any part of the Meeting;

Commitment Date has the meaning given in Section 2.3(c);

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

Consideration Shares has the meaning given in Section 2.3(a);

Conditions Precedent has the meaning given in Section 2.3(c);

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

Convertible Note has the meaning given in Section 2.3(c);

Corporations Act means *Corporations Act 2001 (Cth)*;

Cut-Off Date means 4 February 2022;

Director means a director of the Company;

Equity Securities has the same meaning as in the Listing Rules;

Explanatory Statement means the explanatory statement accompanying the Notice;

Independent Expert means BDO Corporate Finance (WA) Pty Ltd;

Independent Expert Report means the report contained in Schedule 2;

Listing Rules means the listing rules of the ASX;

Meeting has the meaning in the introductory paragraph of the Notice;

Notice means the accompanying notice of general meeting;

Option means an option to acquire a Share in the Company at a specified exercise price and expiring on a specific date;

Proxy Form means the proxy form attached to the accompanying Notice;

Resolution means a resolution contained in the accompanying Notice;

Sandstone Gold Project or the **Project** has the meaning given in Section 2.2;

Sandstone Gold Processing Plant means the ore processing plant and related assets at the Sandstone Gold Project;

Section means a section of the Explanatory Statement;

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

Shareholder means the holder of a Share;

SOPL means Sandstone Operations Pty Ltd, a 100% subsidiary of the Company;

SPA has the meaning given in Section 1;

Total Consideration has the meaning given in Section 2.3(c);

Trading Day means a day determined by ASX to be a trading day in accordance with the Listing Rules; and

Transaction has the meaning given in Section 1.

SCHEDULE 1 – PRO-FORMA FINANCIAL STATEMENT

Consolidated Effect of Sale Transaction	Audited Consolidated Balance Sheet as at 30 June 2021	Effect of Sale Transaction	Proforma Consolidated Balance Sheet Post Sale
CURRENT ASSETS			
Cash and cash equivalents	3,247,637	6,000,000 ³	9,247,637
Trade and other receivables	36,517		36,517
Financial assets	315,048	6,000,000 ⁴	6,315,048
TOTAL CURRENT ASSETS	3,599,202 ²	12,000,000	15,599,202
NON-CURRENT ASSETS			
Plant and equipment	2,053,539	(2,052,535) ⁵	1,004
Tenement acquisition costs	1,675,989	(1,659,237) ⁶	16,752
TOTAL NON-CURRENT ASSETS	3,729,528	(3,711,772)	17,756
TOTAL ASSETS	7,328,730	8,288,228	15,616,958
CURRENT LIABILITIES			
Trade and other payables	(245,602)		(245,602)
Borrowings	(69,842)		(69,842)
Employee benefit obligations	(99,192)		(99,192)
TOTAL CURRENT LIABILITIES	(414,636)	-	(414,636)
NON-CURRENT LIABILITIES			
Employee benefit obligations	(101)		(101)
Provisions	(1,384,900)	1,384,900 ⁷	-
TOTAL NON-CURRENT LIABILITIES	(1,385,001)	1,384,900	(101)
TOTAL LIABILITIES	(1,799,637)	1,384,900	(414,737)
NET ASSETS	5,529,093	9,673,128	15,202,221
EQUITY			
Contributed equity	(48,611,091)		(48,611,091)
Reserves	(523,800)		(523,800)
Accumulated losses	43,605,798	(9,673,128)	33,932,670
TOTAL EQUITY	(5,529,093)	(9,673,128)	(15,202,221)

Notes:

1. This table does not take into account any costs of the Sale transaction and is intended to give an overall proforma after the significant transactions have been accounted for;
2. After impairment of non-current related party loans between the Company and SOPL – see Sections 2.5 and 2.12;
3. Receipt of cash consideration (see Section 2.3);
4. Issue of Consideration Shares (see Section 2.3);
5. Accounting adjustment for disposal of depreciated assets;
6. Accounting adjustment for disposal of tenement carrying values;
7. Accounting adjustment for write-back of provision for rehabilitation costs.

SCHEDULE 2 – INDEPENDENT EXPERT REPORT

SCHEDULE 3 – DIRECTORS' OPTIONS TERMS AND CONDITIONS

The Options are issued by Middle Island Resources Limited (**MDI** or **the Company**) on the following terms:

1. Each Option may be exercised by giving notice in that regard together with payment of an amount which is calculated as being a premium of 33.33% (calculated as being 12.79 cents) above the 5-day volume weighted average price (**5-day VWAP**) of ASX:MDI quoted shares, up to and including the 23 December 2021 which is the date on which a Deed Poll was executed between MDI and the directors or, if required, such later date as shall be required to comply with ASX Listing Rules and/or corporate legislation and/or taxation legislation (**Exercise Price**).
2. Each Option entitles the holder to subscribe for one fully paid ordinary share (**Share**) in Middle Island Resources Limited ACN 142 361 608 (**Company**) upon the payment of the Exercise Price per Share subscribed for.
3. The Options will lapse at 5:00pm on the date which is 60 months from their date of issue (**Expiry Date**).
4. The Options are transferable at any time in accordance with the Corporations Act 2001 and any applicable rules of ASX.
5. There are no participating rights or entitlements inherent in the Options and holders of the Options will not be entitled (as a consequence of holding Option) to participate in new issues of capital that may be offered to shareholders during the currency of the Options.
6. The Option holder has the right to exercise Options prior to the date for determining entitlements to any capital issues to the then existing shareholders of the Company made during the currency of the Options, and will be granted a period of at least 3 business days before the relevant record date to exercise the Options.
7. Subject to any requirements of the Corporations Act and ASX Listing Rules, the Options do not confer the right to a change in exercise price or the number of securities over which the Option can be exercised.
8. In the event of any re-organisation (including reconstruction, consolidation, subdivision, reduction or return of capital) of the issued capital of the Company, the Options will be re-organised as required by the Listing Rules, but in all other respects the terms of exercise will remain unchanged.
9. Unless approved otherwise by the Company on a case-by-case basis (with no obligation on the Company to do so), Options can only be exercised in parcels of not less than 500,000, except where the total number of Options held by the holder is less than 500,000 (in which case, all Options held by the holder must be exercised and the costs of filing with ASX in connection with the exercise to be borne up front by the Optionholder). Subject to ASX listing rules, the Company shall not be obliged to issue Shares in response to an exercise of Options more frequently than once per calendar quarter. The Company may, in its discretion, waive this clause or any part of it and such a waiver may be subject to conditions or further limitations.
10. Subject to clause 9, the Options shall be exercisable at any time during the period (**Exercise Period**) ending on the Expiry Date by: (a) the delivery to the registered office of the Company of a notice in writing (**Notice**) stating the intention of the Option holder to exercise all or a specified number of Options held by them accompanied by cleared funds for the subscription monies for the Shares; or (b) such other form and method as may be approved by the Company from time to time. The Notice and cleared funds must be received by the Company during the Exercise Period. An exercise of only some Options shall not affect the rights of the Option holder to the balance of the Options held by it PROVIDED THAT if the remaining number be less than 500,000 those Options shall ipso facto lapse unless the Board advises otherwise either before or after such lapse.
11. If the Company has entered into an agreement to underwrite the exercise of the Options and any Options remain unexercised at the Expiry Date, then the holder of those unexercised Options immediately, unconditionally and irrevocably appoints the Company as the Optionholder's agent to transfer (for no consideration to that holder) the unexercised Options to the relevant underwriter and, despite clause 10, that underwriter is entitled to exercise the unexercised Options within 14 calendar days (or such fewer days as the Company may determine in its absolute discretion) of the Expiry Date.
12. Subject to clause 9, the Company shall endeavour to allot the resultant Shares and deliver a statement of shareholdings with a holders' identification number within 5 business days of exercise of the Options.
13. The Company does not undertake to apply for quotation of the Options on ASX.