

2020

Annual Report



Exploring Golden Frontiers



Middle Island
RESOURCES LIMITED

Corporate Directory

ABN 70 142 361 608

DIRECTORS

Peter Thomas
(Non-Executive Chairman)

Richard Yeates
(Managing Director)

Beau Nicholls
(Non-Executive Director)

Brad Marwood
(Non-Executive Director)

Dennis Wilkins
(Alternate for Beau Nicholls)

COMPANY SECRETARY

Dennis Wilkins

REGISTERED OFFICE

Suite 2
11 Ventnor Avenue
West Perth WA 6005

PRINCIPAL PLACE OF BUSINESS

Suite 1
2 Richardson Street
West Perth WA 6005

POSTAL ADDRESS

PO Box 1017
West Perth WA 6872

SOLICITORS

Williams and Hughes

28 Richardson Street
West Perth WA 6005

SHARE REGISTER

Automic Pty Ltd

Level 2
267 St Georges Terrace
Perth WA 6000
Telephone: 1300 288 664
www.automicgroup.com.au

AUDITORS

Elderton Audit Pty Ltd

Level 2
267 St Georges Terrace
Perth WA 6000

EMAIL

info@middleisland.com.au

INTERNET ADDRESS

www.middleisland.com.au

STOCK EXCHANGE LISTING

Middle Island Resources Limited
shares are listed on the Australian
Securities Exchange (ASX code: MDI).

2020

| | |
|---|----|
| Managing Director's Overview | 3 |
| Operations Overview | 5 |
| Directors' Report | 15 |
| Corporate Governance Statement | 23 |
| Auditors Independence Declaration | 24 |
| Consolidated Statement Of Profit Or Loss And Other Comprehensive Income | 25 |
| Consolidated Statement Of Financial Position | 26 |
| Consolidated Statement Of Changes In Equity | 27 |
| Consolidated Statement Of Cash Flows | 28 |
| Notes To The Consolidated Financial Statements | 29 |
| Directors' Declaration | 58 |
| Independent Auditors' Report | 59 |
| ASX Additional Information | 63 |

Contents



Dear fellow shareholders,

What a difference a year (or in this case, four months) makes! Winston Churchill once said *"never let a good crisis go to waste"*. The COVID-19 pandemic is one such crisis that, with the assistance of sound Federal Government, WA State Government and mining industry leadership, along with a measure of good fortune, I believe your Company has utilised to maximum advantage in 2019/20 and continues to do so in 2020/21.

Credit for much of this must go to the Copulos Group which was prepared to share and substantially back Middle Island's vision to systematically assess a multitude of priority gold exploration targets in order to increase the open pit resource inventory to inform a recommissioning decision at our wholly-owned Sandstone gold project in central WA. This funding commitment was initiated at a time when junior equity markets were at a low ebb and few were prepared to provide any essential, let alone meaningful, exploration funding. As a long-term shareholder, I fully appreciate the dilution this represented, even though the Company did ensure that existing shareholders had an opportunity to participate on the same basis and, I believe, have been financially well rewarded since with the share price gain.

Credit for the success we have experienced must also go to the Middle Island Board for its courage and commitment to continue an aggressive exploration campaign at Sandstone so early in the COVID-19 pandemic, when equity markets were in freefall and most of our peers elected to hibernate and sit on their cash. As it transpired, the already strong fundamentals underpinning the gold market were accentuated by the pandemic, along with the associated economic fallout and remedial stimuli, seeing the gold price (in absolute terms) escalate to, or near, record levels in both US\$ and A\$ terms. These positive circumstances continued into the current financial year and most commentators predict the gold market still has a long way to run – factors further favouring the planned Sandstone restart.

During the course of CY20 (predominantly between February and June 2020), your Company's cash balance increased 835%, our market capitalisation increased 864%, the number of shareholders increased by 235%, trading liquidity increased 508% and Sandstone's Mineral Resources increased 425% (with the five new satellite deposits still to be quantified). This is an extremely pleasing outcome for all shareholders and there is still plenty more in store.

An exploration and resource definition drilling campaign of ~17,000m commenced at Sandstone in January 2020 to extend existing deposits and assess 14 new targets. The original program and budget was predicated on one new discovery as the targeted outcome. In the event, five new discoveries were made. To date, some 50,000m of drilling has been completed to bring these new satellite deposits into an Indicated Resource category for consideration as Ore Reserves in the Sandstone feasibility study (FS). This record drilling meterage required additional capital to be raised via a placement in May 2020. Further, the additional drilling, driven by the success of the ongoing drilling, served to delay the anticipated completion of the FS. It just made plain common sense, and good practice dictated, we should bring some of the additional Resource base being generated under the umbrella of the FS. Although victims of our own success in this respect, key outcomes favour the pathway to a decision to recommission Sandstone.

In line with its strategy, your Company has continued to simultaneously, but selectively, pursue consolidation opportunities during the year. Despite what seems to Middle Island to represent overwhelming commercial logic, Middle Island was unable to consummate the takeover offer for (or any other form of merger or alliance with) Alto Metals Limited (ASX:AME, Alto) and the offer lapsed in November 2019. However, as Middle Island sees it, the commercial logic and synergies remain just as compelling, if not more so, for both sets of shareholders.

Even with the planned completion date for the Sandstone FS having slipped, depending on market sentiment, it is expected to be both positive and to support project financing with it being intended that the project will be developed and producing gold in the 2021 financial year.

While the onset of the COVID-19 pandemic created considerable uncertainty in March 2020, working closely with our host communities and industry bodies, the Company rapidly implemented appropriate policies and procedures to ensure stakeholder health and safety remained the number one priority, and to minimise the pandemic's impact on the Company's Sandstone and corporate operations. While the threat of a further outbreak is ever-present, and we must guard against any complacency, the approach to date has proved extremely successful.

Following divestment early in the financial year of the Reo gold project in Burkina Faso in West Africa, and in-line with our stated objectives, the Company was very pleased to announce the successful application for 10 Exploration Licences comprising the 100%-owned Barkly copper-gold project in the Northern Territory (NT) during the year. This project, based on an 'incubator' model with considerable optionality, is highly prospective for Tier 1 iron oxide/copper/gold (IOCG) deposits in basement rocks beneath extensive sedimentary cover.

I extend the Board's heartfelt thanks to all our shareholders, both new and enduring, for your on-going support during a very positive year. I look forward to sharing many more exciting Sandstone drilling results, resource enhancements, the FS outcome and, hopefully, project re-development progress, with you during 2020/21.

Yours faithfully,



Rick Yeates
Managing Director



Operations Overview

CORPORATE

Finance

Middle Island had a cash balance of A\$5.19m as at 30 June 2020. This comprises A\$4.71m in cash and A\$0.48m in Tajiri Resource Corp. (TSX-V:TAJ) fully paid ordinary shares.

In November 2019, Middle Island announced a two-tranche placement (refer ASX Release dated 19 November 2019) of up to 260 million new fully paid ordinary shares (**Shares**) at A\$0.004 per share to raise up to \$1.04m (before costs) (**Placement**), with each participant in the Placement to be issued options (**Options**) expiring in January 2022 and exercisable at A\$0.0077, on the basis of one (1) Option for every one (1) Share issued.

Tranche 1 of the Placement comprised the issue of 130.0m shares at A\$0.004 per Share to raise A\$520,000 under the Company's existing ASX Listing Rule 7.1 capacity, together with a 1 for 1 Option, with 27.0 million Options issued without the requirement for shareholder approval under the Company's remaining ASX Listing Rule 7.1 capacity and the balance subject to shareholder approval. The Placement was made to new unrelated sophisticated and professional investors, corner-stoned by prominent mining investor, Mr Stephen Copulos (and related entities), who committed to investing at least 50% in Tranche 1 and had an option to participate to that extent in Tranche 2.

Subsequent to completion of the Tranche 1 Placement, Tranche 2 was cancelled by mutual agreement between the Company and new substantial shareholders (refer ASX Release dated 20 December 2019). Instead, Middle Island announced a fully underwritten, pro-rata, non-renounceable entitlement issue on the basis of one (1) new share for every two (2) ordinary shares held on the record date, at an issue price of A\$0.004 per new share to raise gross proceeds of approximately A\$2.35 million, before costs (Entitlement Issue).

Each participant in the Entitlement Issue was issued one (1) Option for every one (1) Share issued (expiring January 2022, with an A\$0.0077 exercise price).

The Entitlement Issue was fully underwritten and lead-managed by Pinnacle Corporate Finance Pty Ltd (now Lazarus Corporate Finance Pty Ltd).

On 20 May 2020, Middle Island completed a fully subscribed placement of approximately 363.6 million ordinary shares at an issue price of \$0.011 per Share to raise a further A\$4.0m before costs in order to fund the expanded resource definition and exploration drilling campaign.

During the June quarter and subsequent to year end, some 596m options were exercised, realising proceeds of approximately A\$4.6m. A further 496m in-the-money options remain to be exercised, representing potential proceeds of a further A\$3.9m that may become available to the Company prior to the option exercise date of 31 January 2022.

Shareholder Meetings

The Company's Annual General Meeting was held in Perth on 28 November 2019. All resolutions were passed, with in excess of 99% affirmative votes recorded in each case (refer ASX Release dated 28 November 2019).

A General Meeting of the Company was held on 31 March, 2020, to variously ratify the issue of placement shares and options, approve the issue of the Placement and Underwriter options, and elect Mr Brad Marwood as a Non-Executive Director. All resolutions were unanimously passed by way of a poll called to determine the outcome of each resolution put before the meeting.

Director Appointment

Mr Brad Marwood was appointed as a Non-Executive Director of the Company in December 2019 (refer ASX Release dated 2 December 2019), which appointment was ratified at the General Meeting on 31 March 2020.

Mr Marwood, a Mining Engineer, brings 30 years of development, operational, management and corporate experience to Middle Island, having participated in the construction and/or commissioning of some 26 projects worldwide, including Australia. His appointment comes at a key point in Middle Island's history as it looks to the planned transition from WA gold explorer to gold developer/producer.

Strategy

Middle Island's activities during FY 2020, continued to focus on the Company's unambiguous primary strategy, being to recommission its 100%-owned Sandstone gold processing plant at the earliest opportunity. The Company continues to pursue a dual approach as follows:-

- » The discovery and definition of higher grade, low strip ratio, satellite open pit deposits within MDI's permitted Sandstone tenure in order to enhance the front end of the proposed production re-start schedule, with a planned transition to more sustained underground production.
- » Progressing one or more of several possible consolidations of proximal third-party gold deposits within the broader Sandstone district in the central goldfields of WA.

The Company's more recent focus on, and considerable success with, the drill bit will likely serve to underpin a positive stand-alone mill recommissioning decision in the near future with a current fiscal year production start-up target.

COVID-19

Middle Island temporarily closed its Perth Office and Sandstone Contractor's Camp between 16 March and 18 May, 2020 as a precautionary measure to minimise exposure of the Company's staff, contractors and host community to COVID-19. During this period, office personnel worked from self-isolation at home, which generally proved very effective.

The health and well-being of the Company's employees, contractors, regional host communities and the broader public, remain paramount.

To the end of June, 2020, and working in collaboration with the Sandstone Shire, the Company's activities and operations around its flagship Sandstone gold project in central WA, continued to be relatively unaffected by the pandemic.

While the approach to date has proved extremely successful, the threat of a further outbreak is ever present and we must guard against any complacency.

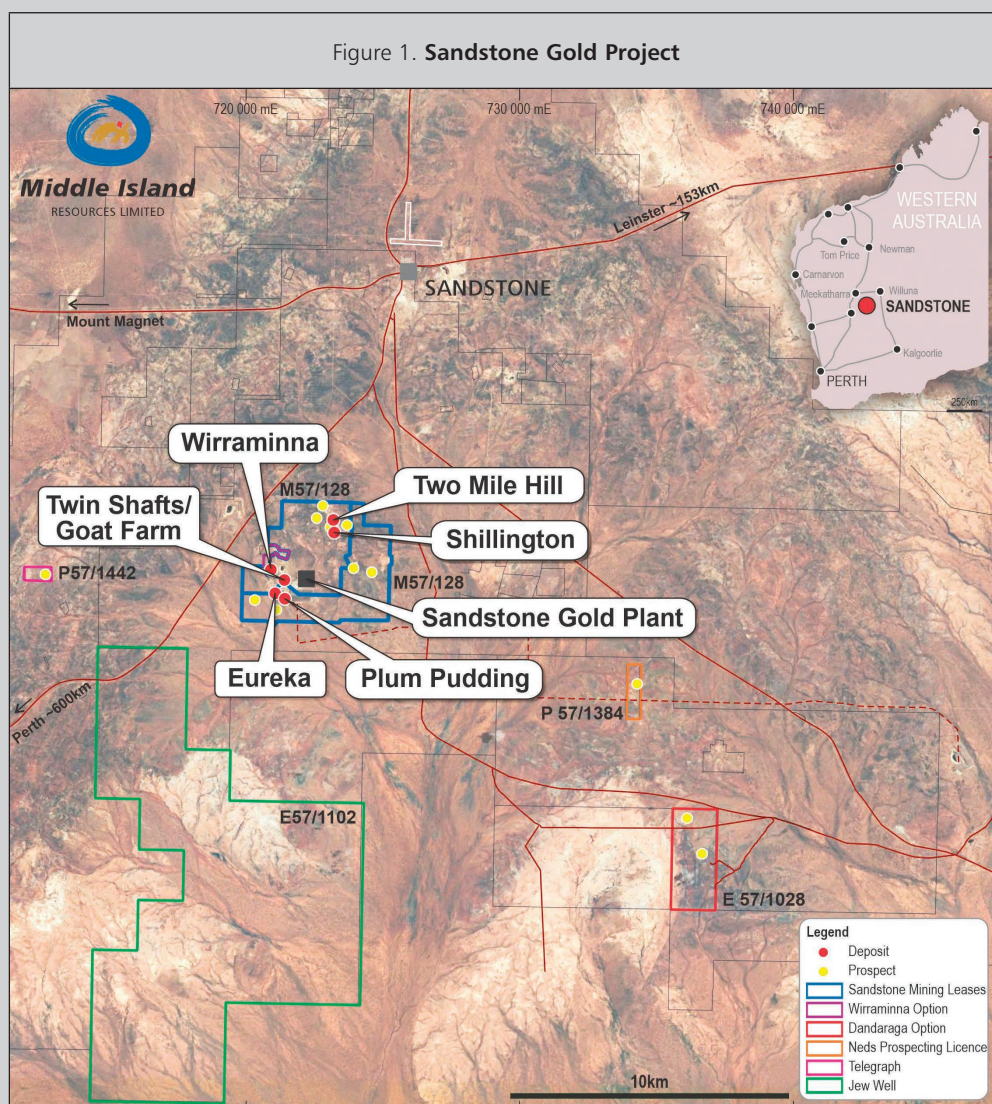
Takeover Offer for Alto Metals

Middle Island's Takeover Offer for fellow Sandstone regional gold play, Alto Metals Limited (ASX:AME, Alto), proved unsuccessful and the Offer was allowed to lapse on 29 November 2019 (refer ASX Releases dated 22 November 2019 and 5 December 2019).

Despite the Offer lapsing, Middle Island Directors remain firmly of the belief that combining the Middle Island and Alto gold assets offers both groups of shareholders a substantial growth opportunity for a more robust gold operation, processing the two companies' Mineral Resources through Middle Island's proximal gold plant, and consolidating the exploration potential of the entire Sandstone greenstone belt under a single entity.

SANDSTONE GOLD PROJECT (100%) – WESTERN AUSTRALIA

The Sandstone gold project is shown in Figure 1.



Open Pit Re-optimisation and PFS Update

Given sustained, significantly higher Australian dollar gold prices, a re-optimisation of open pit deposits at Sandstone was undertaken early in the December quarter 2019 (refer ASX Release dated 25 October 2019).

The Two Mile Hill, Shillington and Wirraminna open pit deposits were included in the re-optimisation. However, the JORC 2004 Mineral Resources comprising the Plum Pudding, Eureka and Goat Farm deposits were not assessed.

The re-optimisation study utilised a range of contemporary gold prices from A\$2,000/oz to A\$2,500/oz, considerably higher than the base-case gold price of A\$1,600/oz utilised in the original PFS. Geotechnical parameters were adjusted to emulate the existing pit slope angles, which are still standing more than 10 years since mining ceased. All other applied parameters were consistent with the 2017 PFS.

The re-optimisation study demonstrated that the Sandstone gold processing plant could be profitably refurbished utilising feed from MDI's existing Mineral Resources. Materially, the positive optimisation study captures approximately 90% Indicated and only 10% Inferred Mineral Resources.

On the basis of the positive re-optimisation outcome, an updated PFS (and subsequently FS) was commissioned with a view to updating all parameters in advance of a recommissioning decision. While a meaningful start was made to the PFS update, a detailed technical review was simultaneously undertaken of the open pit exploration opportunities within Middle Island's permitted tenure. This review identified 17 priority targets and deposits within 5km of Middle Island's 100%-owned gold processing plant and that offer significant potential to enhance open pit Mineral Resources. Aspects of the feasibility update had to be deferred as the major drilling campaign proved far more successful than we had dared hope, let alone forecast, meaning it became necessary to quantify additional Mineral Resources prior to completing the FS.

2020 Drilling Campaign

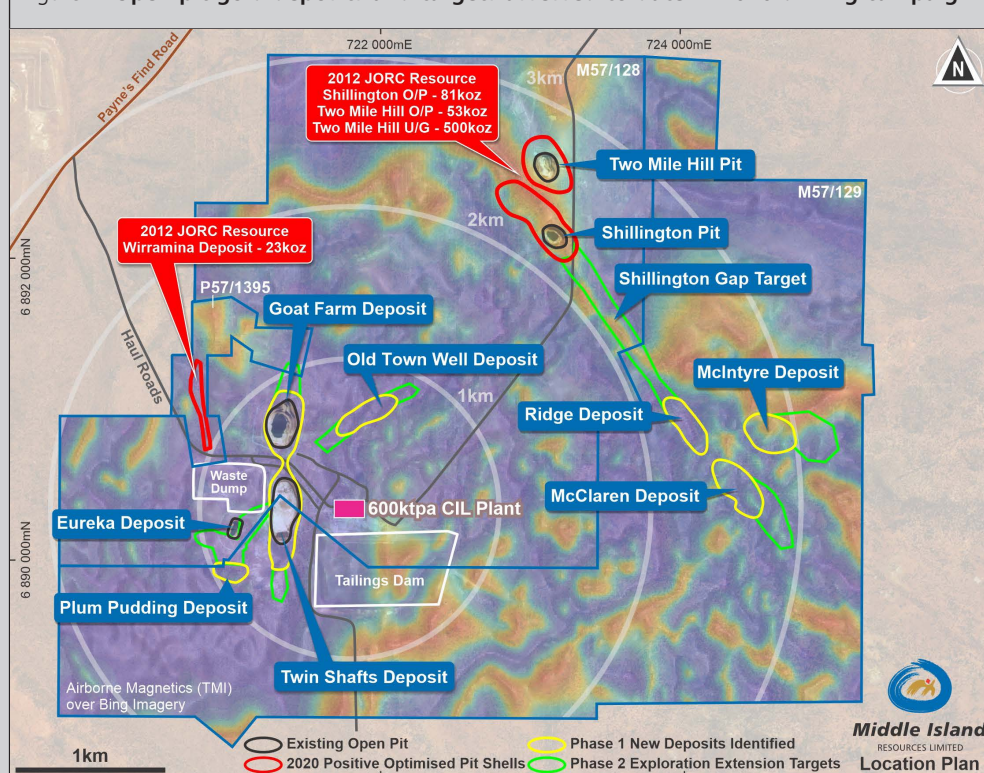
The Company completed Phase 1 and commenced Phase 2 of the substantial 2020 drilling campaign during H1CY20, collectively comprising some 30,000m of exploration and resource definition drilling to 30 June at the Company's 100%-owned Sandstone gold project in Western Australia. At the time of reporting, the Phase 2 RC and diamond drilling had just been completed, collectively amounting to some 50,000m of drilling to date in 2020.

The Phase 1 aircore and RC drilling campaign proved extremely successful, identifying five new satellite gold deposits, being McClaren, McIntyre, Ridge, Old Town Well and Plum Pudding. The new satellite deposits, all located on permitted Mining Leases within 2.5km of the processing plant, are anticipated to considerably enhance the planned open pit mining inventory to underpin the FS prior to a planned recommissioning of the Sandstone gold project.

Diamond drilling comprised ~1,000m of HQ3 oxide coring from surface (notionally two holes per satellite deposit) to generate material for bulk density determination, and metallurgical and geotechnical testwork, permitting the new deposits to be considered as Ore Reserves in the FS.

An exploratory RC drilling component was undertaken at the end of the Phase 2 resource definition campaign to assess a significant 1.1km long, undrilled target corridor, referred to as the Shillington Gap, identified between the Shillington and Ridge deposits (Figure 2).

Figure 2. Open pit gold deposits and targets assessed to date in 2020 drilling campaign.



Assay results received from the 2020 drilling campaign to date are highlighted by several bonanza grade intercepts returned from the new Ridge and McClaren satellite open pit gold deposits (refer ASX Releases dated 14 April, 26 June and 2 July 2020), comprising:-

- » Ridge - 4m at 99.5g/t (from 13m in MSRC530), including 1m at 390g/t Au (repeat assay 502g/t).
- » Ridge - 4m at 50.5g/t (from 3m in MSRC544), including 1m at 198g/t Au.
- » McClaren - 4m at 90.6g/t Au (from 60m in MSRC341).

Subsequent to the reporting period, further exceptional drilling results have also been reported from the McIntyre, Old Town Well and Plum Pudding deposits. Final assay results for the McClaren and Ridge extension deposits, along with those derived from reconnaissance drill traverses across the Shillington Gap exploration target, remained outstanding at the time of reporting.

Geological Mapping

Detailed geological mapping in the vicinity of the McClaren-McIntyre-Ridge satellite gold deposits was completed during FY2020, which, together with high resolution airborne magnetic data and on-going RC and diamond drilling, will assist in resolving the complex stratigraphic and structural architecture in this highly prospective area. Given the close proximity of these satellite deposits, it is possible that further work will ultimately demonstrate continuity between two or more of these deposits.

Mapping identified several banded iron formation (BIF) units, which dip very shallowly to the northeast, within mafic volcanic rocks. The BIF units comprise the southeast extension of the Shillington BIF package, which hosts the more substantial Shillington and Shillington North deposits, ~1.5km to the northwest. At McClaren-McIntyre-Ridge, the BIF units form prominent ridges that strike northwest and are disrupted by north to northeast-trending structural breaks.

Airborne Surveys

A high resolution airborne magnetic and radiometric survey was completed over the core project tenements during the year. The survey was undertaken on a 25m line spacing and 25m survey height, with the flight line orientation optimised to provide maximum architectural definition of the Shillington banded iron formation (BIF) package, which, in addition to the Shillington deposit, hosts the new McClaren, McIntyre and Ridge satellite gold deposits.

The airborne magnetic interpretation, in conjunction with recent detailed geological mapping and on-going drilling, is not only assisting to resolve the relative disposition of mineralisation, but is identifying new targets within this highly prospective terrain.

Land Surveys Pty Ltd completed a high resolution (+/-50mm) digital terrain model, utilising a UAV, over the two granted Mining Leases and Wirraminna Prospecting Licence, in advance of the feasibility study update.

Feasibility Study

On completion of Phase 1 drilling, preliminary resource estimates and pit optimisations were completed on the new McClaren, McIntyre, Ridge, Old Town Well and Plum Pudding satellite deposits to assist in refining planned Phase 2 resource definition RC and diamond drilling.

On completion of Phase 2 drilling, updated and maiden resource estimates will be progressively completed for the existing Two Mile Hill, Shillington, Wirraminna, Goat Farm and Twin Shafts deposits, where infill and extension resource definition drilling has been completed, prior to final pit optimisation studies and pit designs for the FS. Subsequent to the reporting period, updated Mineral Resources have been announced for the Shillington, Two Mile Hill and Wirraminna open pit deposits, with the first two deposits resulting in increases of 52% and 13% respectively (refer ASX Releases dated 24 July 2020 and 14 August 2020).

Final resource estimates, pit optimisations and mine designs will then be progressively undertaken on the new satellite deposits as the Phase 2 drilling results are received and compiled, prior to inclusion in the feasibility study.

Given the low capital intensity of the project recommissioning and the growing level of confidence in the probability that the study will demonstrate recommissioning to be a viable proposition, what was originally planned as a pre-feasibility study (PFS) update, has been upgraded to a full feasibility study (FS) to provide a greater level of confidence and facilitate project financing for an immediate start.

Given the significant additional drilling requirement to quantify the five new satellite deposits to an Indicated Resource status and the more extensive work required to complete the FS (as opposed to a PFS), the estimated FS completion date has been necessarily postponed until December 2020. However, given a backlog of some 10,000 Phase 2 resource definition drilling assays at the laboratory, the December FS completion timeframe may be further deferred.

Two Mile Hill Deeps Resource Update

An Inferred Mineral Resource of 500,000oz gold has been estimated by independent consultants Mining Plus Pty Ltd for the Two Mile Hill deeps deposit at Sandstone.

The new Inferred Mineral Resource comprises 480,000oz associated with the tonalite-hosted portion of the deposit and 20,000oz within the banded iron formation (BIF)-hosted element.

Addition of the Two Mile Hill deeps underground deposits increased the aggregate Sandstone project JORC Code 2012 Mineral Resources to 624,000oz gold, representing a near five-fold increase (refer Table 2). Progressive open pit resource upgrades have further increased this total to 657,600oz subsequent to financial year end (refer Table 1), with the five new satellite deposits still yet to be quantified.

The new tonalite deeps Inferred Mineral Resource is derived from a partial reclassification of the previous Exploration Target, extending from 140m below surface (representing the base of quantified open pit Mineral Resources) to ~500m depth.

The new BIF deeps Mineral Resource is derived via the upgrade of a former JORC Code 2004 resource estimate to a formal JORC Code 2012 Inferred Mineral Resource.

The remainder of the original tonalite deeps Exploration Target, extending from 500m to 700m depth, will require re-quantification as an Exploration Target, primarily underpinned by a diamond drill intercept of 508.3m at 1.38g/t Au (refer ASX Release dated 14 November 2017), including an interval of 160m at 2.13g/t Au from 432m depth. Alternatively, this may also be upgraded to a formal Mineral Resource with further diamond drilling.

Although relatively insensitive to gold price, the Two Mile Hill tonalite deeps Mineral Resource estimate does not comprise part of the planned recommissioning inventory at Sandstone, with the present intention being to only review development of the tonalite deeps and BIF deeps deposits later in the planned production schedule, once open pit mining and processing is well advanced.

The significant increase in aggregate Mineral Resources comprising the Sandstone gold project provides far greater valuation transparency of both the Sandstone project and the Company.

Tenure

Due to lack of exploration success at Dandaraga, Middle Island elected to withdraw from the Option Agreement over that property (E57/1028), located approximately 16km southeast of the Sandstone processing plant, during FY2020.

Tribute Gold Production

No tribute gold production was derived from the Sandstone project during FY2020.

Mineral Resources (as at 14 August 2020)

Mineral Resources applicable to the Sandstone gold project as at 14 August 2020, including further upgrades to Mineral Resource estimates reported after 30 June 2020 (being increases to the Two Mile Hill Open Pit and Shillington Mineral Resource estimates – refer to ASX releases dated 24 July 2020 and 14 August 2020) are provided in Table 1.

| Table 1. Sandstone Gold Project Mineral Resource Statement (14 August 2020) | | | | | | |
|---|--------------|-------------------|----------------|----------------------|------------------------|-------------|
| Deposit | COG (g/t Au) | Tonnes | Grade (g/t Au) | Contained Gold (oz.) | JORC Classification | JORC Code |
| + Two Mile Hill – Open Pit | 0.7 | 1,155,000 | 1.39 | 52,000 | Indicated | 2012 |
| + Two Mile Hill – Open Pit | 0.7 | 99,000 | 1.00 | 3,000 | Inferred | 2012 |
| ^ Two Mile Hill – Tonalite Deeps | NA* | 14,000,000 | 1.10 | 480,000 | Inferred | 2012 |
| ^ Two Mile Hill – BIF Deeps | NA* | 200,000 | 3.10 | 20,000 | Inferred | 2012 |
| #Shillington – Open Pit | 0.5 | 1,230,000 | 1.30 | 50,200 | Indicated | 2012 |
| #Shillington – Open Pit | 0.5 | 840,000 | 1.10 | 30,600 | Inferred | 2012 |
| #Wirraminna – Open Pit | 0.5 | 300,000 | 1.30 | 12,100 | Indicated | 2012 |
| #Wirraminna – Open Pit | 0.5 | 280,000 | 1.10 | 9,700 | Inferred | 2012 |
| Total Indicated | | 2,685,000 | 1.32 | 114,300 | Indicated | 2012 |
| Total Inferred | | 15,419,000 | 1.10 | 543,300 | Inferred | 2012 |
| Total Resource | | 18,104,000 | 1.13 | 657,600 | Ind. & Inf. | 2012 |

* The Two Mile Hill Tonalite Deeps and BIF Deeps have been reported within optimised wireframes. All wireframes include waste and have an aggregate grade at or above the cut-off of 0.64g/t Au.

Previously Reported Information

Table 1 includes information that relates to Mineral Resources which was prepared and first reported under JORC Code 2012. The information is extracted from the Company's previous ASX announcements, which are available to view on the Company's website, as follows:

- + ASX Release dated 14 August 2020.
- ^ ASX Release dated 14 April 2020.
- # ASX Release dated 24 July 2020.

Notwithstanding the significant increase in gold price since some of these Mineral Resource estimates were prepared, and recognising that the substantial 2020 drilling campaign is anticipated to result in increases and/or upgrades to project Mineral Resources, *the Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcements and that all material assumptions and technical parameters underpinning the estimates in the relevant market announcements continue to apply and have not materially changed. The Company confirms that the form and context in which any Competent Person's findings are presented have not been materially modified from the original market announcements.*

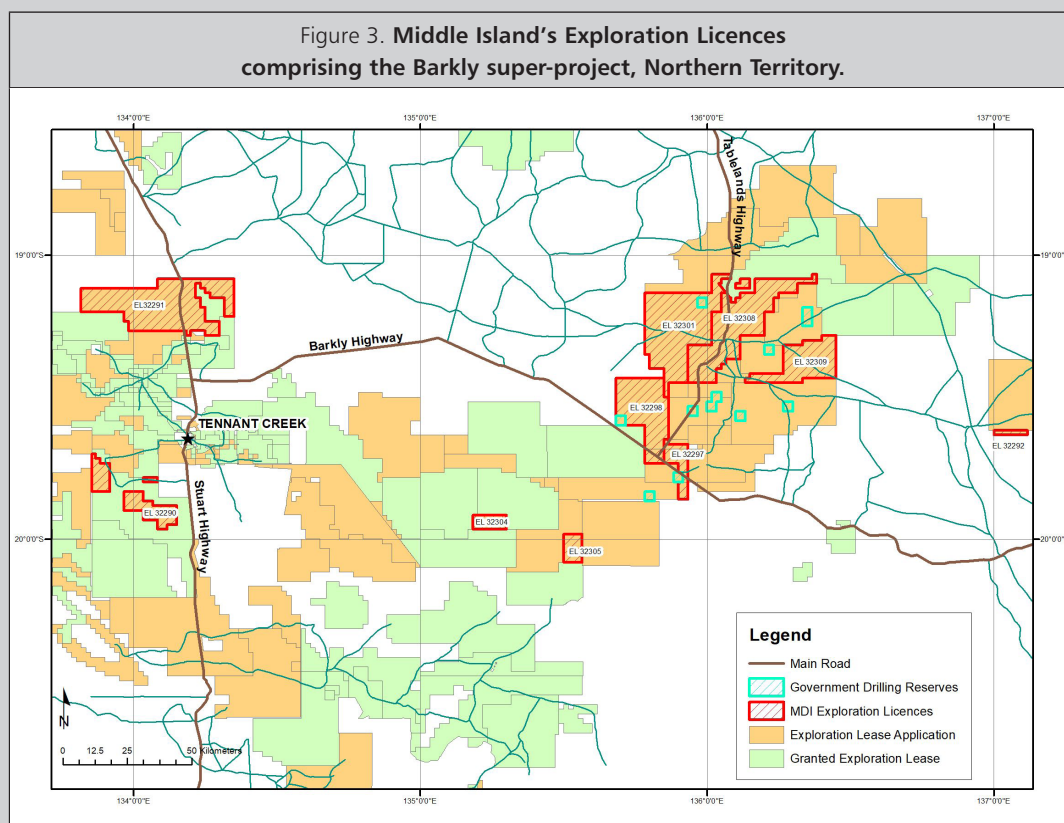
The information in this annual report that relates to previously reported Sandstone gold project Exploration Results is extracted from the Company's ASX releases noted in the text of the report and are available to view on the Company's website. The Company confirms it is not aware of any new information or data that materially affects the information included in the original market announcements and that the form and context in which any Competent Person's findings are presented have not been materially modified from the original market announcement.

BARKLY COPPER-GOLD PROJECT (100%) – NORTHERN TERRITORY

All 10 of Middle Island's exploration licence applications comprising the Barkly copper-gold super project in the Northern Territory have been listed for grant. The NT Department of Primary Industry and Resources (DPIR) has offered to withhold formal granting of the licences until the COVID-19 travel restrictions are lifted or at the Company's earlier election. Middle Island has elected not to trigger formal grant at this stage.

Collectively, Middle Island's Barkly super-project comprises 10 exploration licences covering 3,253km², extending semi-continuously for >350km along the axis of the East Tennant Proterozoic basement ridge from Tennant Creek east to the Queensland border (Figure 3). This tenure is held 100% by Barkly Operations Pty Ltd, a wholly-owned subsidiary of Middle Island Resources Limited.

Five of Middle Island's exploration licences in the Barkly area surround or adjoin Newcrest Mining applications along the axis of the East Tennant Ridge, while those in the Tennant Creek area immediately adjoin new Rio Tinto tenements.



The Barkly project tenure includes, or lies immediately peripheral to, priority targets and corridors identified from pre-competitive research data generated under the collaborative Federal and Territory/State Governments' Exploring for the Future (EFTF) initiative. Importantly, several of the Company's exploration licences include or immediately adjoin several areas reserved for highly anticipated EFTF basement stratigraphic drilling and additional deep seismic traverses, originally planned to be undertaken during 2020, which may now be deferred due to COVID-19 limitations.

The Barkly super-project positions the Company as a first-mover and one of the largest tenement holders within the newly identified East Tennant province, extending beneath Georgina Basin cover across the Barkly Tableland, which is considered highly prospective for Tier 1 IOCG targets.

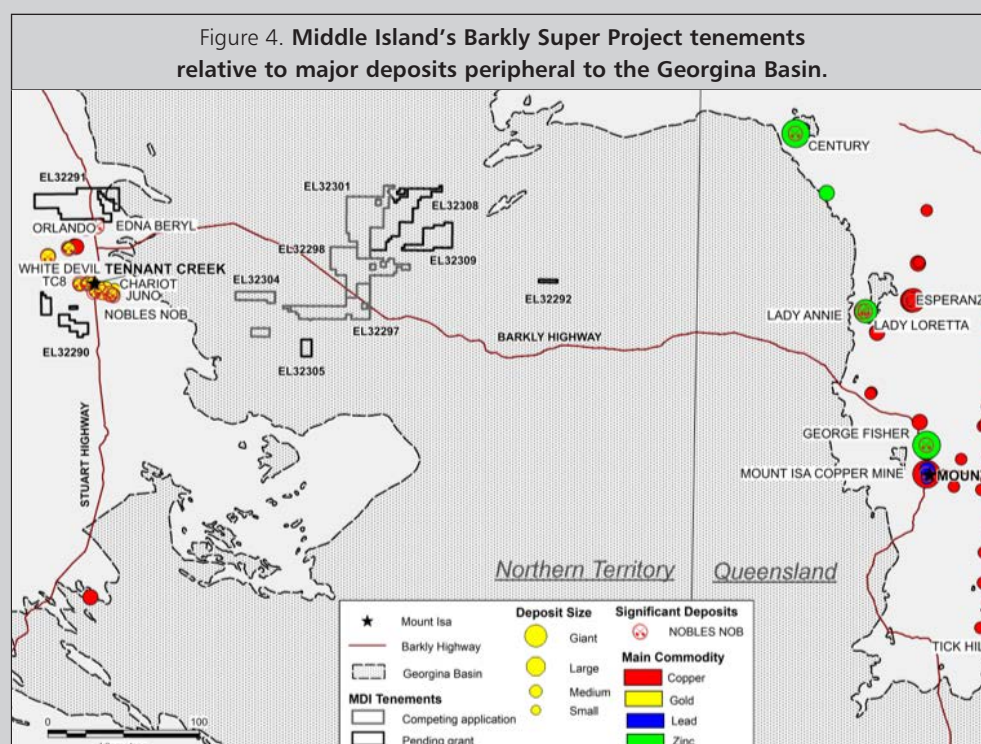
The Barkly project exploration model is consistent with major recent mineral discoveries in basement rocks reported from 'blind' targets veneered by younger sedimentary cover in WA's Paterson Province (Winu and Haverton) and extensions of the prolific Victorian gold belts under Murray Basin sedimentary cover (Four Eagles and Tandarra). These regional examples were, at least in part, similarly generated as a result of extensive, pre-competitive, government research projects.

Significant examples of 'blind' Tier 1, iron oxide-copper-gold (IOCG) deposits discovered beneath substantial sedimentary cover include BHP's Olympic Dam and Oak Dam deposits in South Australia's Gawler Craton, which are respectively overlain by approximately 400m and 900m of post-mineral sedimentary cover.

The Tier 1 IOCG potential of the Barkly Project area is interpreted to lie beneath the Georgina Basin, which extends east from Tennant Creek across the Queensland border to Mount Isa. The Georgina Basin is subdivided into smaller sub-basins by several basement highs, the principal one being the East Tennant Ridge, which extends in a sinuous northeast orientation under the Barkly Project area. The interpreted depth of cover ranges from 100m to 250m along the ridge axis, near the intersection of the Barkly and Tablelands highways, increasing to ~800m along the flanks of the ridge.

The East Tennant Ridge is of particular significance in that, aside from phosphate exploration within the overlying Georgina Basin, previous exploration activity within the Proterozoic basement rocks is extremely limited or non-existent. Despite this, significant deposits of IOCG and sedimentary exhalative (Sedex) affinity occur within Proterozoic basement rocks marginal to the Georgina Basin (Figure 4), including Tennant Creek, Mt Isa and Century.

Once COVID-19 travel restrictions are lifted and the licences formally granted, initial Middle Island work will focus on stakeholder engagement, the capture of any outstanding open file and pre-competitive data, more detailed modelling of identified exploration targets and the planning of high-resolution geophysical surveys to refine modelled targets in preparation for drill testing.



SAFETY, ENVIRONMENTAL & SOCIAL

Health & Safety

No injuries or incidents were recorded at the Company's projects and premises during FY2020.

Additional road signage was emplaced and intersection clearing undertaken on internal access roads at the Sandstone project to accommodate increased heavy vehicle movements associated with the multi-rig 2020 drilling campaign.

Upgraded hygiene and social distancing protocols were implemented at the Company's Perth headquarters and project sites in response to the COVID-19 pandemic, particularly when the office and camps were re-opened and project activities were ramped up in May 2020. No COVID-19 infections have been recorded amongst staff or contractors and the Company has managed to continue its aggressive exploration and resource development campaign relatively seamlessly.

Environment

No environmental incidents were recorded at the Company's projects during FY2020.

A flora survey was undertaken within portions of M57/129 during the June quarter, primarily to comply with the requirement to expand the program of work (POW) to accommodate additional infill and extension drilling required to quantify the new McClaren, McIntyre, Ridge and Plum Pudding satellite deposits, and to assess the Shillington Gap target.

Rehabilitation of disturbed areas at the Sandstone gold project, primarily drill sites and temporary access tracks, is being progressively undertaken in accordance with POW and other environmental requirements. Rehabilitation of drill pads utilised in the Phase 2020 drilling campaign will commence once further sampling of RC drill cuttings has been completed for metallurgical leach testing and waste classification purposes.

Sampling of tailings monitoring bores is being undertaken on a six-monthly basis in accordance with permit requirements, with all readings remaining well below statutory thresholds.

Social

The Company continues to engage with the Shire of Sandstone, pastoralists, prospectors and the local community. This process includes the procurement of labour, materials and services locally, wherever practically possible, and sponsorship of various community events and heritage activities.

Most recently, Middle Island has engaged with the Sandstone Shire to collaborate on the Company's COVID-19 strategy and protocols to minimise any impact on the relatively isolated Sandstone community, which is characterised by an older, more vulnerable demographic.

In consultation with the Shire of Sandstone, the Company has recently agreed to sponsor the charitable Outback Grave Markers group to assist in researching, identifying and marking grave sites in outback Western Australia, more generally, and the Shire of Sandstone in particular, including the historic Nunngarra (original Sandstone) town site reserve that lies within the Company's tenure.

A similar philosophical approach to community engagement is planned in the NT, once formal grant of the Barkly project tenements is triggered.

Sandstone Gold Project - Resources and Reserves Statement (30 June 2020)

Mineral Resources applicable to the Sandstone gold project as at 30 June 2020 are provided in Table 2.

In addition to the updated Mineral Resources reported above, the residual portion of the Two Mile Hill tonalite deeps Exploration Target, lying between 500m and 700m below surface, is not included and remains to be re-quantified as an Exploration Target or, with further drilling, a Mineral Resource.

The Company's Mineral Resources at Sandstone show changes from the Mineral Resources as at 30 June 2019 (Table 3). The material changes arise from the estimation of new JORC Code 2012 Mineral Resource for the Two Mile Hill deeps gold deposit (refer to the Company's ASX release dated 14 April 2020).

Subsequent to 30 June 2020, resource updates were announced for the Shillington and Two Mile Hill Deep deposits - refer to Table 1 for the latest statement of Mineral Resources. At the time of reporting, Mineral Resource updates were imminent for the Goat Farm and Twin Shafts open pit deposits, along with maiden Mineral Resource estimates for the new McClaren, McIntyre, Ridge, Old Town Well and Plum Pudding open pit deposits.

There are no Ore Reserves currently reported in relation to the Sandstone gold project.

Middle Island Resources Limited has a firm policy to only utilise the services of external independent consultants to estimate Mineral Resources. The Company also has established practices and procedures to monitor the quality of data applied in Mineral Resource estimation, and to commission and oversee the work undertaken by external independent consultants.

Table 2. Sandstone Gold Project Mineral Resource Statement (30 June 2020)

| Deposit | COG (g/t Au) | Tonnes | Grade (g/t Au) | Contained Gold (oz.) | JORC Classification | JORC Code |
|-----------------------------------|--------------|-------------------|----------------|----------------------|------------------------|-------------|
| + Two Mile Hill – Open Pit | 0.7 | 1,012,000 | 1.36 | 44,000 | Indicated | 2012 |
| + Two Mile Hill – Open Pit | 0.7 | 114,000 | 1.10 | 4,000 | Inferred | 2012 |
| ^ Two Mile Hill – Tonalite Deepes | NA* | 14,000,000 | 1.10 | 480,000 | Inferred | 2012 |
| ^ Two Mile Hill – BIF Deepes | NA* | 200,000 | 3.10 | 20,000 | Inferred | 2012 |
| + Shillington – Open Pit | 0.7 | 1,015,000 | 1.33 | 43,000 | Indicated | 2012 |
| + Shillington – Open Pit | 0.7 | 272,000 | 1.17 | 10,000 | Inferred | 2012 |
| # Wirraminna – Open Pit | 0.5 | 307,000 | 1.50 | 14,600 | Indicated | 2012 |
| # Wirraminna – Open Pit | 0.5 | 243,000 | 1.10 | 8,400 | Inferred | 2012 |
| Total Indicated | | 2,334,000 | 1.37 | 101,600 | Indicated | 2012 |
| Total Inferred | | 14,829,000 | 1.09 | 522,000 | Inferred | 2012 |
| Total Resource | | 17,163,000 | 1.13 | 623,600 | Ind. & Inf. | 2012 |

* The Two Mile Hill Tonalite Deepes and BIF Deepes have been reported within optimised wireframes. All wireframes include waste and have an aggregate grade at or above the cut-off of 0.64g/t Au.

Table 2 includes information extracted from the Company's previous ASX announcements, which are available to view on the Company's website, as follows:

+ ASX Release dated 14 December 2016.

^ ASX Release dated 14 April 2020.

ASX Release dated 8 December 2017.

Table 3. Comparative Sandstone Gold Project Mineral Resource Statement

| Deposit | Tonnes | Grade (g/t Au) | Contained Gold (oz.) | JORC Classification | JORC Code |
|---------------------------|-------------------|----------------|----------------------|------------------------|-------------|
| As at 30 June 2019 | | | | | |
| Total Indicated estimate | 2,334,000 | 1.37 | 102,500 | Indicated | 2012 |
| Total Inferred estimate | 629,000 | 1.13 | 22,900 | Inferred | 2012 |
| Total Resource | 2,963,000 | 1.32 | 125,300 | Ind. & Inf. | 2012 |
| As at 30 June 2020 | | | | | |
| Total Indicated estimate | 2,334,000 | 1.37 | 101,600 | Indicated | 2012 |
| Total Inferred estimate | 14,829,000 | 1.09 | 522,000 | Inferred | 2012 |
| Total Resource | 17,163,000 | 1.13 | 623,600 | Ind. & Inf. | 2012 |

In all cases, Mineral Resources are estimated and reported in accordance with the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves' (the JORC Code). Information in this release relating to Mineral Resources is based on, and fairly represents, information and supporting documentation variously prepared by Mr Brett Gossage of EGRM Consulting Pty Ltd, Mr Shaun Searle of Ashmore Advisory Pty Ltd and Ms Lisa Bascombe of Mining Plus Pty Ltd on behalf of Middle Island Resources Limited. The Competent Persons' are Members of the Australasian Institute of Mining and Metallurgy (AusIMM) and/or the Australian Institute of Geoscientists (AIG) and qualify as Competent Persons' as defined in the JORC Code.

The Mineral Resources and Ore Reserves Statement as a whole has been approved by Mr Rick Yeates who is an executive director of Middle Island Resources Limited. Mr Yeates is a Member of the Australasian Institute of Mining and Metallurgy and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking 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 has given his prior written consent to the inclusion in this report of the Mineral Resources and Ore Reserves statement in the form and context in which it appears. Mr Yeates is a shareholder in the Company and entities associated with Mr Yeates hold unlisted options in the capital of the Company as disclosed in Appendix 3Y notices released to ASX.

Mining Tenements

Middle Island Resources Limited advises the following information required under ASX Listing Rule 5.3.3 as at 30 June 2020.

| Tenements | Mining tenements acquired during the year | Mining tenements disposed during the year | Mining tenements held at the end of the year | Tenement location |
|-----------|---|---|--|--------------------|
| M57/128 | - | - | 100% | Western Australia |
| M57/129 | - | - | 100% | Western Australia |
| P57/1384 | - | - | 100% | Western Australia |
| P57/1395 | - | - | Option to acquire 100% | Western Australia |
| P57/1442 | - | - | 100% | Western Australia |
| E57/1102 | - | - | 100% | Western Australia |
| E57/1028 | - | Option to acquire 100% | | Western Australia |
| EL 32291 | - | - | Listed for Grant – 100% | Northern Territory |
| EL 32290 | - | - | Listed for Grant – 100% | Northern Territory |
| EL 32305 | - | - | Listed for Grant – 100% | Northern Territory |
| EL 32308 | - | - | Listed for Grant – 100% | Northern Territory |
| EL 32309 | - | - | Listed for Grant – 100% | Northern Territory |
| EL 32292 | - | - | Listed for Grant – 100% | Northern Territory |
| EL 32297 | - | - | Listed for Grant – 100% | Northern Territory |
| EL 32298 | - | - | Listed for Grant – 100% | Northern Territory |
| EL 32301 | - | - | Listed for Grant – 100% | Northern Territory |
| EL 32304 | - | - | Listed for Grant – 100% | Northern Territory |

Forward Looking Statements

Certain statements made during or in connection with this communication, including, without limitation, those concerning the economic outlook for the mining industry, expectations regarding gold prices, exploration costs and other operating results, growth prospects and the outlook of Middle Island's operations contain or comprise certain forward looking statements regarding Middle Island's exploration operations, economic performance and financial condition. Although Middle Island believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to be correct.

Accordingly, results could differ materially from those set out in the forward-looking statements as a result of, among other factors, changes in economic and market conditions, success of business and operating initiatives, changes that could result from future acquisitions of new exploration properties, the risks and hazards inherent in the mining business (including industrial accidents, environmental hazards or geologically related conditions), changes in the regulatory environment and other government actions, risks inherent in the ownership, exploration and operation of or investment in mining properties in foreign countries, fluctuations in gold prices and exchange rates and business and operations risks management, as well as generally those additional factors set forth in our periodic filings with ASX. Middle Island undertakes no obligation to update publicly or release any revisions to these forward-looking statements to reflect events or circumstances after today's date or to reflect the occurrence of unanticipated events.

Directors' Report

Your directors submit their report on the consolidated entity (referred to hereafter as the Group) which consists of Middle Island Resources Limited and the entities it controlled at the end of, or during, the year ended 30 June 2020.

DIRECTORS

The names and details of the Company's directors in office during the year and until the date of this report follow. Each Director was in the office for this entire period unless otherwise stated.

Names, qualifications, experience and special responsibilities

Peter Thomas, (Non-Executive Chairman)

Mr Thomas was a practising solicitor from 1980 until June 2012 specialising in the provision of a wide range of corporate and commercial advice to explorers and miners. His exposure (variously as legal practitioner, corporate advisor and director – both oil & gas and hard rock) has extended to operations in the USA, UAE, NZ, Africa and South America. Since the mid-1980s, he has served on the boards of various listed companies. He was the founding chairman of both copper producer Sandfire Resources NL and mineral sands producer Image Resources NL. He is also non-executive director of ASX-listed Image Resources NL and Emu NL.

Richard Yeates, (Managing Director)

Mr Yeates is a geologist whose professional career has spanned more than 30 years, initially working for major companies such as BHP, Newmont and Amax, prior to co-founding the consulting firm of Resource Service Group (subsequently RSG Global) in 1987, which was ultimately sold to ASX listed consulting firm, Coffey International, in 2006 to become Coffey Mining.

Mr Yeates has considerable international experience, having worked in some 30 countries, particularly within Africa and South America, variously undertaking project management assignments, feasibility studies and independent reviews for company listings, project finance audits and technical valuations. Mr Yeates was also responsible for developing and overseeing all marketing and promotional activities undertaken by RSG, RSG Global and Coffey Mining over a 23-year period.

Mr Yeates is a Member of the Australasian Institute of Mining and Metallurgy (AusIMM), a Member of the Australian Institute of Geoscientists (AIG) and is a Graduate Member of the Australian Institute of Company Directors (AICD). He currently serves as a non-executive director of ASX 200 nickel producer Western Areas Limited.

Beau Nicholls, (Non-Executive Director)

Mr Nicholls has 25 years in mining and exploration geology, ranging from grass roots exploration management through to mine production environments. He is a Member of the Australian Institute of Geoscientists (AIG) with a proven track record on four continents (Australia, Eastern Europe, Africa and the Americas) and in over 20 countries, Mr Nicholls has been instrumental in the discovery and/or development of a number of world class deposits. Mr Nicholls also has over 10 year's international consulting experience with RSG, RSG Global and Coffey Mining, including 3 years as the resident Regional Manager in West Africa. Mr Nicholls is currently principal Consultant with Sahara Natural Resources. He is also non-executive director of ASX-listed Big River Gold Limited.

Brad Marwood, (Non-Executive Director, appointed 2 December 2019)

Mr Marwood is a mining engineer and a highly experienced resources executive with more than 30 years of experience. He was instrumental in bringing into production the copper mines at Kipoi (DRC) and Rapu Rapu (Philippines); completing development of the Svartliden gold mine (Sweden) and has managed numerous Feasibility Studies and advanced stage resource projects in Australia, Africa, North America and Asia.

He has worked in senior roles for groups such as Normandy, Dragon Mining, Lafayette, Moto Goldmines and Perseus Mining before his most recent as Managing Director of Tiger Resources Limited. Mr Marwood's involvement has seen growth in several companies with a significant increase in their market capitalisation and by protecting investments through restarting suspended mine projects. He is currently the managing director of ASX-listed Consolidated Zinc Limited.

Directors' Report

Dennis Wilkins, B.Bus, AICD, ACIS (Alternate Director for Beau Nicholls)

Mr Wilkins is the founder and principal of DWCorporate Pty Ltd, a private corporate advisory firm servicing the natural resources industry.

Since 1994, he has been a director of, and involved in the executive management of, several publicly listed resource companies with operations variously in Australia, PNG, Scandinavia and Africa. From 1995 to 2001, he was the Finance Director of Lynas Corporation Ltd during the period when the Mt Weld Rare Earths project was acquired by the group. He was also an advisor to Atlas Iron Limited at the time of Atlas' initial public offering in 2006.

Since July 2001, Mr Wilkins has been running DWCorporate Pty Ltd, where he advises on the formation of, and capital raising for, emerging companies in the Australian resources sector.

Mr Wilkins is currently a director of ASX-listed Key Petroleum Limited.

COMPANY SECRETARY

Dennis Wilkins

Interests in the shares and options of the Company and related bodies corporate

As at the date of this report, the relevant interests of the directors in the shares and options of Middle Island Resources Limited were:

| | Ordinary Shares | Options over Ordinary Shares |
|----------------|-----------------|------------------------------|
| Peter Thomas | 29,677,500 | 26,487,500 |
| Richard Yeates | 95,196,243 | 56,232,081 |
| Beau Nicholls | 21,075,000 | 17,025,000 |
| Brad Marwood | 10,657,954 | - |
| Dennis Wilkins | 1,166,667 | - |

PRINCIPAL ACTIVITIES

During the year, the Group carried out exploration on its tenements and applied for or acquired additional tenements with the primary objective of identifying deposits of gold to support the recommissioning of the Company's 100% owned processing plant at Sandstone. Whilst not the objective of the Group to explore for or seek to acquire mineral deposits other than of gold, the Group reserves the right to follow up leads (thrown up by its gold exploration/investigative activities) for other commodities and globally where the Board considers that doing so may add value.

DIVIDENDS

No dividends were paid or declared during the year. No recommendation for payment of dividends has been made.

FINANCIAL REVIEW

Finance Review

During the year, the Company raised \$7,000,627, before costs, from the issue of 1,092,957,216 fully paid ordinary shares. Revenue from tribute production and gold sales of \$14,756 (2019: \$37,488) was received, and other income was generated from the sale of mining interests, reimbursement of expenditure on mining interests, sale of property, plant and equipment and rental of accommodation of \$98,416 (2019: \$370,049). The Group also received government COVID-19 cashflow boost grants of \$67,811 (2019: n/a) during the year.

During the year, total exploration expenditure incurred by the Group amounted to \$2,352,412 (2019: \$1,308,546). In line with the Group's accounting policies, all exploration expenditure, other than acquisition costs, were written off as they were incurred. Other expenditure incurred, net of administration related revenue, amounted to \$1,003,308 (2019: \$1,753,384). This resulted in an operating loss after income tax for the year ended 30 June 2020 of \$3,174,737 (2019: \$2,654,033).

At 30 June 2020, cash assets available totalled \$4,712,409.

Directors' Report

Operating Results for the Year

Summarised operating results are as follows:

| | 2020 | |
|--|----------|-------------|
| | Revenues | Loss |
| | \$ | \$ |
| Revenue and loss for the year from ordinary activities before income tax expense | 183,265 | (3,174,737) |

Shareholder Returns

| | 2020 | 2019 |
|------------------------------|-------|-------|
| Basic loss per share (cents) | (0.2) | (0.3) |

Risk Management

The board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that activities are aligned with the risks and opportunities identified by the board.

The Group believes that it is crucial for all board members to be a part of this process, and as such, the board has not established a separate risk management committee. Where appropriate the board enlists the support of other suitably qualified professionals to join board committees.

The board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the board. These include the following:

- Board approval of a strategic plan, which encompasses strategy statements designed to meet stakeholders' needs and manage business risk.
- Implementation of board approved operating plans and budgets and board monitoring of progress against these budgets.
- A risk matrix designed to identify and quantify the various risk factors and implement mitigating strategies accordingly.
- Regular review of management's activities and the Company's circumstances.
- Continuing review of capital and resources market sentiment.
- Continuing review of economic trends and circumstances

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Other than as disclosed in this Annual Report, no significant changes in the state of affairs of the Group occurred during the financial year.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

During the period from the reporting date to the date of this report, a total of 584,656,072 fully paid ordinary shares have been issued upon the exercise of unlisted options, raising a total of \$4,545,245.

During August 2020, all 10 exploration licence applications, comprising the Group's 100% owned Barkly super-project in the Northern Territory, have been approved by the Northern Territory Government for granting. The formal grant is dependent on the lifting of COVID-19 travel restrictions or at the Group's earlier election.

The positive results of the exploration effort over the 2020 financial year together with those derived during the period subsequent to the reporting date are likely to see the Company make a decision to mine with first production of gold from the Sandstone Gold Project (following the recommissioning of the plant and pre-strip) expected, as at the date of this report, before the end of the 2021 financial year.

No matters or circumstances, aside from those disclosed above, have arisen since the end of the year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial periods.

Directors' Report

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Group's primary focus for the coming financial year is to extend and enhance the proposed gold production profile for the Sandstone Project in order to recommission its processing plant at the earliest opportunity. The exciting Barkly Project will be progressed at a cautious rate but the fact that priority accorded to it ranks behind the Sandstone Project is in no way to be taken to suggest that the Barkly Project is not considered to be a very valuable opportunity. The Company will continue to review projects globally with a view to identifying potential value add mineral asset acquisitions.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group is subject to significant environmental regulation in respect to its activities.

The Group aims to ensure the appropriate standard of environmental care is achieved, and in doing so, that it is aware of and is in compliance with all environmental legislation. The directors of the Company are not aware of any breach of environmental legislation for the year under review.

REMUNERATION REPORT

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

Principles used to determine the nature and amount of remuneration

Remuneration Policy

The remuneration policy of Middle Island Resources Limited was designed to align key management personnel objectives with shareholder and business objectives by providing a fixed remuneration component and offering, variously, short term and long term securities incentives. The board designed the remuneration policy with a view to attracting and retaining suitable key management personnel to run and manage the Group.

The remuneration policy, setting the terms and conditions for the executive directors and other senior executives (if any), was developed by the board and evolves as circumstances require. All executives receive a base salary (based on factors such as experience), superannuation and, possibly, a package of equity incentives in the Company. The board reviews each executive package as and when it considers it appropriate to do so in accordance with its remuneration policy and by reference to the Group's fiscal wherewithal, performance, the executive's performance and comparable information from industry sectors and other listed companies in similar circumstances.

The board may exercise discretion in relation to approving incentives, bonuses and options. The policy is to design remunerative packages that reward executives for performance which results in long term growth in shareholder wealth.

The executive directors and executives receive the superannuation guarantee contribution required by the government of Australia, which was 9.5% for the 2020 financial year but are not entitled to receive any other retirement benefits.

All remuneration paid to directors and executives is "valued" at the cost to the Group and expensed. Options are ascribed a "fair value" in accordance with Australian Accounting Standards using a methodology such as Black Scholes. The board does not accept that the "fair value" represents market or realisable value. Rather, the board use a commonly accepted methodology purely for the purposes of complying with the Australian Accounting Standards.

The board's policy is to remunerate non executive directors at market rates for comparable companies, for time, commitment and responsibilities, albeit all non-executive directors are currently remunerated below or at the lower end of the market rate range (most certainly that is the case insofar as cash remuneration is concerned). The board determines payments to the non executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought as and when required. The maximum aggregate amount of fees that can be paid to non executive directors is, subject to change with the approval of shareholders in general meeting, currently \$300,000. Fees for non executive directors are not linked to the performance of the Group. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company and, subject to shareholder approval in general meeting may be offered participation in employee share and option arrangements.

Performance based remuneration

The Group policy allows the use of performance-based remuneration, to attract and motivate employees, in the form of options. Where utilised, options may be issued but not vest until certain hurdles have been met where the hurdles are directed at advancing the Company towards its objectives potentially within prescribed periods.

Directors' Report

Company performance, shareholder wealth and key management personnel remuneration

No direct relationship exists between key management personnel remuneration and Group performance (including shareholder wealth).

Use of remuneration consultants

The Group did not employ the services of any remuneration consultants during the financial year ended 30 June 2020.

Voting and comments made at the Company's 2019 Annual General Meeting

The Company received approximately 99.5% of "yes" votes on its remuneration report for the 2019 financial year.

Details of remuneration

Details of the remuneration of the directors and the key management personnel of the Group are set out in the following table.

Key management personnel of the Group

| | Short-Term | | Post-Employment | | Share-based Payments ⁽¹⁾ | Total |
|--|---------------|--------------|-----------------|---------------------|-------------------------------------|---------|
| | Salary & Fees | Non-Monetary | Superannuation | Retirement Benefits | | |
| Directors | \$ | \$ | \$ | \$ | \$ | \$ |
| Peter Thomas ⁽²⁾ | | | | | | |
| 2020 | 40,487 | - | 3,846 | - | - | 44,333 |
| 2019 | 36,530 | - | 3,470 | - | 30,000 | 70,000 |
| Richard Yeates | | | | | | |
| 2020 | 216,667 | - | 20,583 | - | - | 237,250 |
| 2019 | 210,000 | - | 19,950 | - | 30,000 | 259,950 |
| Beau Nicholls ⁽³⁾ | | | | | | |
| 2020 | 28,919 | - | 2,747 | - | - | 31,666 |
| 2019 | 30,000 | - | - | - | 30,000 | 60,000 |
| Brad Marwood (appointed 2 December 2019) | | | | | | |
| 2020 | 17,504 | - | 1,663 | - | - | 19,167 |
| Dennis Wilkins ⁽⁴⁾ | | | | | | |
| 2020 | - | - | - | - | - | - |
| 2019 | - | - | - | - | - | - |
| Total key management personnel compensation | | | | | | |
| 2020 | 303,577 | - | 28,839 | - | - | 332,416 |
| 2019 | 276,530 | - | 23,420 | - | 90,000 | 389,950 |

(1) Share-based payments represents share options granted during the 2019 financial year. These options were valued in accordance with Australian Accounting Standards which specifies that an option-pricing model be applied to employees' or directors' stock options to estimate their fair value as at their grant date. The expression "fair value" – and derivatives thereof – wherever used in this report bears the meaning ascribed to that expression by the Australian Accounting Standards Board. "Fair value" commonly does not reflect realisable value and the Board does not represent or accept that stated fair values reflected market values at the relevant date. This observation is over-riding and shall prevail over any inconsistent possible interpretation.

(2) In addition to his director fees disclosed in the table above, Mr Thomas was paid \$3,000 (2019: nil) for the provision of services provided to the Group during the year. The amounts paid were at usual commercial rates.

(3) In addition to his director fees disclosed in the table above, a total of \$41,440 (2019: nil) was paid to E2M Ltd, a business of which Mr Nicholls is a director and substantial shareholder. E2M Ltd provided geological consulting services to the Group during the year. The amounts paid were at usual commercial rates with fees charged on an hourly basis.

(4) Mr Wilkins is not remunerated for his role as alternate director, however, a total of \$194,716 (2019: \$215,499) was paid to DWCorporate Pty Ltd, a business of which Mr Wilkins is principal. DWCorporate Pty Ltd provided company secretarial, corporate advisory and accounting services to the Group during the year. The amounts paid were at usual commercial rates with fees charged on an hourly basis.

Directors' Report

Service agreements

Richard Yeates, Managing Director:

- Term of agreement – commenced 2 March 2010 and continues until terminated.
- Annual salary was initially (2010) \$300,000 excluding superannuation; reduced to \$200,000 from 1 February 2014, and further reduced to \$180,000 on 1 July 2014; increased to \$210,000 on 1 July 2018, and further increased to \$250,000 from 1 May 2020.
- The agreement may be terminated by the Company giving 12 months' written notice or by Mr Yeates giving 3 month's written notice (shorter notice periods apply in the event breach of contract by either party). No benefits are payable on termination other than entitlements accrued to the date of termination.

Dennis Wilkins, Alternate Director and Company Secretary:

- Term of agreement – Commencing 17 March 2010 until terminated in writing by either party.
- Mr Wilkins' firm, DWCorporate Pty Ltd, is engaged to provide company secretarial, corporate advisory and accounting services. Fees are charged on an hourly basis, and all amounts are disclosed in the remuneration table above.

None of the other directors have service agreements in place.

Share-based compensation

Options may be issued to key management personnel as part of their remuneration. The Group has a formal policy in relation to the key management personnel limiting their exposure to risk in relation to the securities which actively discourages key management personnel from granting mortgages over securities held in the Group.

No options were granted to and none vested in any key management personnel during the year.

No ordinary shares in the Company were issued as a result of the exercise of remuneration options during the year.

Equity instruments held by key management personnel

Direct and indirect interests in options over ordinary shares

| | Balance at start of the year | Granted as compensation | Exercised | Other changes ⁽²⁾ | Balance at end of the year | Vested and exercisable | Unvested |
|---|------------------------------|-------------------------|-----------|------------------------------|----------------------------|------------------------|----------|
| Directors of Middle Island Resources Limited | | | | | | | |
| Peter Thomas | 16,595,000 | - | - | 9,892,500 | 26,487,500 | 26,487,500 | - |
| Richard Yeates | 34,482,069 | - | - | 21,750,012 | 56,232,081 | 56,232,081 | - |
| Beau Nicholls | 17,025,000 | - | - | - | 17,025,000 | 17,025,000 | - |
| Brad Marwood | ⁽¹⁾ - | - | - | 8,078,977 | 8,078,977 | 8,078,977 | - |
| Dennis Wilkins | - | - | - | - | - | - | - |

(1) Balance held at date of appointment, 2 December 2019.

(2) Other changes comprise free attaching options acquired through participation in the Company's Entitlements Issue completed in February 2020.

Direct and indirect interests in ordinary shares

| | Balance at start of the period | Received during the period on the exercise of options | Other changes during the period ⁽²⁾ | Balance at end of the period |
|---|--------------------------------|---|--|------------------------------|
| Directors of Middle Island Resources Limited | | | | |
| Ordinary shares | | | | |
| Peter Thomas | 19,785,000 | - | 9,892,500 | 29,677,500 |
| Richard Yeates | 73,446,231 | - | 21,750,012 | 95,196,243 |
| Beau Nicholls | 21,075,000 | - | - | 21,075,000 |
| Brad Marwood | ⁽¹⁾ - | - | 8,078,977 | 8,078,977 |
| Dennis Wilkins | 1,166,667 | - | - | 1,166,667 |

(1) Balance held at date of appointment, 2 December 2019.

(2) Other changes comprise shares acquired through participation in the Company's Entitlements Issue completed in February 2020.

Directors' Report

Loans to key management personnel

There were no loans to key management personnel during the year.

Other transactions with key management personnel

DWCorporate Pty Ltd, a business of which Mr Wilkins is principal, provided company secretarial and corporate advisory services to the Middle Island Group during the year. The amounts paid were on arms' length commercial terms and are disclosed in the remuneration report in conjunction with Mr Wilkins' compensation. At 30 June 2020 there was nil (2019: \$6,765) owing to DWCorporate Pty Ltd.

Quenda Investments Pty Ltd ("Quenda"), a company of which Mr Yeates is a director and shareholder, lent securities held in Middle Island Resources Limited to the provider of a controlled placement facility during the current reporting period for which Quenda was paid a stock borrow fee of \$6,000 for the year ended 30 June 2020 (2019: \$6,000). The amounts paid were on arms' length commercial terms. At 30 June 2020 there was \$500 (2019: \$500) owing to Quenda Investments Pty Ltd.

In addition to his director fees, Mr Thomas was paid \$3,000 (2019: nil) for the provision of special exertion services provided to the Group during the year. The amounts paid were on arms' length commercial terms and are disclosed in the remuneration report in conjunction with Mr Thomas' compensation. At 30 June 2020 there was nil (2019: nil) owing to Mr Thomas for the provision of special exertion services.

In addition to his director fees, a total of \$41,440 (2019: nil) was paid to E2M Ltd, a business of which Mr Nicholls is a director and substantial shareholder. E2M Ltd provided geological consulting services to the Group during the year. The amounts paid were on arms' length commercial terms and are disclosed in the remuneration report in conjunction with Mr Nicholls' compensation. At 30 June 2020 there was \$6,560 (2019: nil) owing to E2M Ltd for the provision of geological consulting services.

End of audited section

DIRECTORS' MEETINGS

During the year, the Company held six meetings of directors. The attendance of directors at meetings of the board and committees were:

| | Directors Meetings | | Committee Meetings | | Committee Meetings | |
|--|--------------------|---|--------------------|---|--------------------|---|
| | | | Audit | | Remuneration | |
| | A | B | A | B | A | B |
| Peter Thomas | 6 | 6 | - | - | 1 | 1 |
| Richard Yeates | 6 | 6 | * | * | 1 | 1 |
| Beau Nicholls | 6 | 6 | - | - | 1 | 1 |
| Brad Marwood (appointed 2 December 2019) | 5 | 5 | * | * | * | * |
| Dennis Wilkins (alternate for Beau Nicholls) | 5 | 6 | - | - | * | * |

A – Number of meetings attended.

B – Number of meetings held during the time the director held office during the period.

* – Not a member of the relevant committee.

SHARES UNDER OPTION

Unissued ordinary shares of Middle Island Resources Limited under option at the date of this report are as follows:

| Date Options Issued | Expiry Date | Exercise Price (cents) | Number of Options |
|--|-----------------|------------------------|-------------------|
| 18 November 2018 | 8 November 2021 | 2.9900 | 30,000,000 |
| 18 January 2019, 26 November 2019 & 14 April 2020 | 31 January 2022 | 0.0079 | 260,633,419 |
| 19 February 2020, 21 February 2020 & 14 April 2020 | 31 January 2022 | 0.0077 | 236,192,532 |
| Total number of options outstanding at the date of this report | | | 526,825,951 |

Directors' Report

No person entitled to exercise any option referred to above has or had, by virtue of the option, a right to participate in any share issue of any other body corporate.

INSURANCE OF DIRECTORS AND OFFICERS

During or since the financial year, in accordance with each director's Deed of Indemnity, Insurance and Access with Middle Island Resources Limited, the Group has paid premiums insuring all the directors of Middle Island Resources Limited against all liabilities incurred by the director acting directly or indirectly as a director of the Company to the extent permitted by law, including legal costs incurred by the director in defending proceedings, provided that the liabilities for which the director is to be insured do not arise out of conduct involving a wilful breach of the director's duty to the Company or a contravention of sections 182 or 183 of the *Corporations Act 2001*.

The total amount of insurance contract premiums paid is \$9,993.

NON AUDIT SERVICES

The following details any non audit services provided by the entity's auditor, Elderton Audit Pty Ltd or associated entities. The directors are satisfied that the provision of non audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor;
- None of the services undermine the general standard of independence for auditors.

Elderton Audit Pty Ltd received or are due to receive the following amounts for the provision of non audit services:

| | 2020 \$ | 2019 \$ |
|------------------------------|------------|------------|
| Taxation compliance services | 2,900 | 5,200 |

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 24.

Signed in accordance with a resolution of the directors.



Richard Yeates
Managing Director
Perth, 30 September 2020

Corporate Governance Statement

The Board of Middle Island Resources Limited (“Board”) is committed to ensuring that the Company’s obligations and responsibilities to its various stakeholders are fulfilled through its corporate governance practices. The directors of the Company (“Directors”, being either “Non-Executive Directors” or Executive Directors”) undertake to perform their duties with honesty, integrity, care and due diligence, to act in good faith in the best interests of the Company in a manner that reflects the highest standards of corporate governance.

The Company’s Board is committed to a high standard of corporate governance practices, ensuring that the Company complies with the Corporations Act 2001 (Cth), ASX Listing Rules, Company Constitution and other applicable laws and regulations.

CORPORATE GOVERNANCE COMPLIANCE

For the year ended 30 June 2020 the Company has followed the 3rd edition of the ASX Corporate Governance Council’s Principles and Recommendations (“Principles and Recommendations”) where the Board has considered the recommendations to be an appropriate benchmark for its corporate governance practices.

Where, after due consideration, the Company’s corporate governance practices depart from a recommendation, the Board has offered full disclosure and reason for adoption of its own practice, in compliance with the “if not, why not” regime.

During the 2020 financial year the Company performed a review of existing corporate governance practices and, where considered appropriate, updated policies and procedures for changes made by the ASX Corporate Governance Council in the 4th edition of the Principles and Recommendations. The 4th edition of the Principles and Recommendations is effective for the Company commencing 1 July 2020.

The 2020 Corporate Governance Statement was approved by the Board on 22 October 2020 and can be viewed at middleisland.com.au.

Auditors Independence Declaration

ELDERTON

AUDIT PTY LTD

Auditor's Independence Declaration

To those charged with governance of Middle Island Resources Limited

As auditor for the audit of Middle Island Resources Limited for the year ended 30 June 2020, I declare that, to the best of my knowledge and belief, there have been:

- no contraventions of the independence requirements of the *Corporations Act 2001* in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

Elderton Audit Pty Ltd

Elderton Audit Pty Ltd



Rafay Nabeel
Audit Director

Perth

30 September 2020

T +61 8 6324 2900
F +61 8 6555 9555

E info@eldertongroup.com
W www.eldertongroup.com

A Level 2, 267 St Georges Terrace, Perth WA 6000
P PO Box 983 West Perth WA 6872

Consolidated Statement Of Profit Or Loss And Other Comprehensive Income

| FOR THE YEAR ENDED 30 JUNE 2020 | Notes | 2020 | 2019 |
|--|-------|--------------------|--------------------|
| | | \$ | \$ |
| REVENUE | | | |
| Sale of commodities | 4(a) | 14,756 | 37,488 |
| Other income | 4(b) | 168,509 | 378,055 |
| EXPENDITURE | | | |
| Administrative expenses | | (603,934) | (763,081) |
| Depreciation expense | 5 | (47,311) | (9,750) |
| Exploration expenses | | (2,352,412) | (1,308,546) |
| Fair value gains/(losses) on financial assets | | 99,995 | (467,772) |
| Finance costs | | (7,796) | (1,971) |
| Salaries and employee benefits expense | | (446,544) | (428,456) |
| Share-based payments expense | 26(b) | - | (90,000) |
| LOSS BEFORE INCOME TAX | | (3,174,737) | (2,654,033) |
| INCOME TAX BENEFIT / (EXPENSE) | 6 | - | - |
| LOSS FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF MIDDLE ISLAND RESOURCES LIMITED | | (3,174,737) | (2,654,033) |
| OTHER COMPREHENSIVE INCOME | | | |
| <i>Items that may be reclassified to profit or loss</i> | | | |
| Exchange differences on translation of foreign operations | | 10,135 | 5,663 |
| Other comprehensive income for the period, net of tax | | 10,135 | 5,663 |
| TOTAL COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF MIDDLE ISLAND RESOURCES LIMITED | | (3,164,602) | (2,648,370) |
| Basic and diluted loss per share for loss attributable to the ordinary equity holders of the Company (cents per share) | 25 | (0.2) | (0.3) |

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the Notes to the Consolidated Financial Statements.

Consolidated Statement Of Financial Position

| AS AT 30 JUNE 2020 | Notes | 2020 | 2019 |
|--------------------------------------|-------|------------------|------------------|
| | | \$ | \$ |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 7 | 4,712,409 | 564,618 |
| Trade and other receivables | 8 | 62,593 | 56,268 |
| Financial assets | 9 | 479,745 | 379,750 |
| Non-current asset held for sale | 28 | - | 213,386 |
| TOTAL CURRENT ASSETS | | 5,254,747 | 1,214,022 |
| NON-CURRENT ASSETS | | | |
| Plant and equipment | 10 | 2,056,347 | 2,065,632 |
| Right-of-use assets | 11 | 28,545 | - |
| Tenement acquisition costs | 12 | 1,525,989 | 1,327,754 |
| TOTAL NON-CURRENT ASSETS | | 3,610,881 | 3,393,386 |
| TOTAL ASSETS | | 8,865,628 | 4,607,408 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 13 | 717,665 | 104,426 |
| Lease liabilities | | 26,517 | - |
| Borrowings | | 70,464 | 32,104 |
| Employee benefit obligations | | 79,964 | 55,905 |
| TOTAL CURRENT LIABILITIES | | 894,610 | 192,435 |
| NON-CURRENT LIABILITIES | | | |
| Provisions | 14 | 1,384,900 | 1,203,417 |
| TOTAL NON-CURRENT LIABILITIES | | 1,384,900 | 1,203,417 |
| TOTAL LIABILITIES | | 2,279,510 | 1,395,852 |
| NET ASSETS | | 6,586,118 | 3,211,556 |
| EQUITY | | | |
| Contributed equity | 15 | 42,737,460 | 36,305,796 |
| Reserves | 16 | 633,286 | 515,651 |
| Accumulated losses | | (36,784,628) | (33,609,891) |
| TOTAL EQUITY | | 6,586,118 | 3,211,556 |

The above Consolidated Statement of Financial Position should be read in conjunction with the Notes to the Consolidated Financial Statements.

Consolidated Statement Of Changes In Equity

FOR YEAR ENDED 30 JUNE 2020

| | Notes | Contributed Equity | Share- based Payments Reserve | Foreign Currency Translation Reserve | Accumulated Losses | Total |
|---|--------|-----------------------|--|---|-----------------------|-------------|
| | | \$ | \$ | \$ | \$ | \$ |
| BALANCE AT 1 JULY 2018 | | 34,954,474 | 729,000 | 419,988 | (31,684,858) | 4,418,604 |
| Loss for the year | | - | - | - | (2,654,033) | (2,654,033) |
| OTHER COMPREHENSIVE INCOME | | | | | | |
| Exchange differences on translation of foreign operations | | - | - | 5,663 | - | 5,663 |
| TOTAL COMPREHENSIVE INCOME | | - | - | 5,663 | (2,654,033) | (2,648,370) |
| TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS | | | | | | |
| Shares issued during the year | 15 | 1,395,803 | - | - | - | 1,395,803 |
| Share issue transaction costs | 15 | (44,481) | - | - | - | (44,481) |
| Employee options expired during the year | 26 | - | (729,000) | - | 729,000 | - |
| Options issued to employees during the year | 26 | - | 90,000 | - | - | 90,000 |
| BALANCE AT 30 JUNE 2019 | | 36,305,796 | 90,000 | 425,651 | (33,609,891) | 3,211,556 |
| Loss for the year | | - | - | - | (3,174,737) | (3,174,737) |
| OTHER COMPREHENSIVE INCOME | | | | | | |
| Exchange differences on translation of foreign operations | | - | - | 10,135 | - | 10,135 |
| TOTAL COMPREHENSIVE INCOME | | - | - | 10,135 | (3,174,737) | (3,164,602) |
| TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS | | | | | | |
| Shares issued during the year | 15 | 7,000,627 | - | - | - | 7,000,627 |
| Share issue transaction costs | 15, 26 | (568,963) | 107,500 | - | - | (461,463) |
| BALANCE AT 30 JUNE 2020 | | 42,737,460 | 197,500 | 435,786 | (36,784,628) | 6,586,118 |

The above Consolidated Statement of Changes in Equity should be read in conjunction with the Notes to the Consolidated Financial Statements.

Consolidated Statement Of Cash Flows

| FOR YEAR ENDED 30 JUNE 2020 | Notes | 2020 | 2019 |
|--|-------|--------------------|--------------------|
| | | \$ | \$ |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers | | 14,756 | 37,488 |
| Government COVID-19 cashflow boost grant received | | 67,811 | - |
| Payments to suppliers and employees | | (991,229) | (1,154,849) |
| Expenditure on mining interests | | (1,784,340) | (1,600,297) |
| Reimbursements of expenditure on mining interests | | 93,987 | 353,346 |
| Interest received | | 2,494 | 3,983 |
| Interest paid | | (7,796) | (1,971) |
| Other income received | | - | 16,722 |
| NET CASH OUTFLOW FROM OPERATING ACTIVITIES | 24(a) | (2,604,317) | (2,345,578) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Proceeds on sale of mining properties | | 221,490 | - |
| Payments for tenement acquisition costs | | (16,752) | - |
| Payments for property, plant and equipment | | - | (26,034) |
| NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES | | 204,738 | (26,034) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issue of ordinary shares | | 7,000,627 | 1,395,803 |
| Payments for share issue transaction costs | | (461,463) | (44,481) |
| Principal element of lease payments | | (36,614) | - |
| Proceeds from borrowings | | 88,140 | 40,190 |
| Repayments of borrowings | | (49,780) | (8,086) |
| NET CASH INFLOW FROM FINANCING ACTIVITIES | | 6,540,910 | 1,383,426 |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | 4,141,331 | (988,186) |
| Cash and cash equivalents at the beginning of the financial year | | 564,618 | 1,552,529 |
| Effects of exchange rate changes on cash and cash equivalents | | 6,460 | 275 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | 7 | 4,712,409 | 564,618 |

The above Consolidated Statement of Cash Flows should be read in conjunction with the Notes to the Consolidated Financial Statements.

Notes To The Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. The financial statements are for the consolidated entity consisting of Middle Island Resources Limited and its subsidiaries. The financial statements are presented in Australian currency. Middle Island Resources Limited is a company limited by shares, domiciled and incorporated in Australia. The financial statements were authorised for issue by the directors on 30 September 2020. The directors have the power to amend and reissue the financial statements.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Middle Island Resources Limited is a for-profit entity for the purpose of preparing the financial statements.

(i) Compliance with IFRS

The consolidated financial statements of the Middle Island Resources Limited Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(ii) New and amended standards adopted by the Group

The Group has adopted all the new, revised or amending Accounting Standards and Interpretations issued by the AASB that are relevant to their operations and effective for the current annual reporting period.

New and revised Standards and amendments thereof and Interpretations effective for the current year that are relevant to the Group include:

- AASB 16 Leases; and
- Interpretation 23 *Uncertainty Over Income Tax Treatments*.

AASB 16 Leases

Change in accounting policy

The Group has adopted AASB 16 Leases from 1 July 2019 which has resulted in changes in the classification, measurement and recognition of leases. The new standard requires recognition of a right-of-use asset (the leased item) and a financial liability (lease payments) and removes the former distinction between 'operating' and 'finance' leases. The exceptions are short-term leases and leases of low value assets.

The Group has adopted AASB 16 using the modified retrospective approach under which the reclassifications and adjustments arising from the new leasing rules are recognised in the opening statement of financial position on 1 July 2019. There is no initial impact on accumulated losses under this approach and comparatives have not been restated.

From 1 July 2019, where the Group is lessee, the Group recognises a right-of-use asset and a corresponding liability at the date at which the lease asset is available for use by the Group. Each lease payment is allocated between the liability and the finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Notes To The Consolidated Financial Statements

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

The Group's current lease agreement does not contain any extension options.

Right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before commencement date less any lease incentives received, and any initial direct costs.

Where the terms of a lease require the Group to restore the underlying asset, or the Group has an obligation to dismantle and remove a leased asset, a provision is recognised and measured in accordance with AASB 137. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset.

Where leases have a term of less than 12 months or relate to low value assets the Group may apply exemptions in AASB 16 to not capitalise any such leases and instead recognise the lease payments on a straight-line basis as an expense in profit or loss.

Impact on adoption of AASB 16

The Group leases office premises with a two year term. Prior to 1 July 2019 the lease was classified as an operating lease with payments charged to profit or loss on a straight-line basis over the period of the lease. Upon adoption of AASB 16 the Group recognised a lease liability for this lease, measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of 1 July 2019, being 10%.

On initial application the associated right-of-use asset was measured at the amount equal to the lease liability, adjusted for prepaid lease payments recognised in the statement of financial position as at 30 June 2019.

In the statement of cash flows the Group has recognised cash payments for the principal portion of the lease liability within financing activities and cash payments for the interest portion of the lease liability as interest paid within operating activities.

The adoption of AASB 16 resulted in the recognition of a right-of-use asset of \$66,571 and lease liability of \$63,131 in respect of the office lease. There was no impact on accumulated losses at 1 July 2019.

Practical expedients applied

In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the Group has elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered before the transition date the Group relied on its assessment made applying AASB 117 *Leases* and *Interpretation 4 Determining whether an Arrangement contains a Lease*; and
- reliance on previous assessments on whether leases are onerous.

Reconciliation of operating lease commitments to lease liability

Below is a reconciliation of total operating lease commitments as at 30 June 2019, as disclosed in the annual financial statements for the year ended 30 June 2019, and the lease liability recognised on 1 July 2019:

| | 30 Jun 2020 |
|--|-------------|
| | \$ |
| Operating lease commitments disclosed as at 30 June 2019 | 72,240 |
| Adjustment for prepayment at 30 June 2019 | (3,440) |
| | 68,800 |
| Discounted using the lessee's incremental borrowing rate at the date of initial application and lease liability recognised as at 1 July 2019 | 63,131 |

Notes To The Consolidated Financial Statements

(iii) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2020 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is that they are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

(iv) Historical cost convention

These financial statements have been prepared under the historical cost convention, except for certain financial assets and liabilities measured at fair value.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Middle Island Resources Limited ("Company" or "parent entity") as at 30 June 2020 and the results of all subsidiaries for the year then ended. Middle Island Resources Limited and its subsidiaries together are referred to in these financial statements as the Group or the consolidated entity.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. A list of controlled entities is disclosed in note 22 to the financial statements.

The acquisition method of accounting is used to account for business combinations by the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of financial position respectively.

(ii) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of Middle Island Resources Limited.

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a jointly controlled entity or associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Notes To The Consolidated Financial Statements

(c) Segment reporting

An operating segment is defined as a component of an entity that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the full Board of Directors.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Middle Island Resources Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss. They are deferred in equity if they are attributable to part of the net investment in a foreign operation.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of profit or loss and other comprehensive income are translated at average exchange rates (unless that is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

(e) Revenue recognition

Sale of commodities

Revenue from gold concentrate sales is recognised when the Group satisfies its performance obligations under its contract by transferring such goods to the customer's control. Control is generally determined to be when the customer has the ability to direct the use of and obtain substantially all of the remaining benefits from that good.

Interest

Interest revenue is recognised on a time proportionate basis that considers the effective yield on the financial assets.

Other income

All other income is recognised when the right to receive other income is established.

All revenue is stated net of the amount of goods and services tax.

Notes To The Consolidated Financial Statements

(f) Government grants

Grants from the government, including exploration incentives and the COVID-19 cashflow boost, are recognised at their fair value where there is a reasonable assurance that the grant will be received, and the Group will comply with all attached conditions. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs it is compensating. Grants relating to assets are credited to deferred income at fair value and are credited to income over the expected useful life of the asset on a straight line basis.

(g) Income tax

The income tax expense or revenue for the year is the tax payable on the current year's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated based on the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associated operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate based on amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively. No deferred tax is recognised for the carried forward losses as the Group considers there will be no taxable profit available to offset such brought forward tax losses in the future.

(h) Leases

As explained in note 1(a)(ii) above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy and the impact of the change are described in note 1(a)(ii).

Until 30 June 2019, leases where a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

(i) Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting period.

Notes To The Consolidated Financial Statements

(j) Cash and cash equivalents

For statement of cash flows presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

(k) Investments and other financial assets

(i) Classification

The Group classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value (either through OCI or through profit or loss); and
- Those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI). All of the Group's financial assets are classified at fair value through profit or loss.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other income or expenses. Impairment losses are presented as a separate line item in the statement of profit or loss.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other income or expenses. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other income or expenses and impairment losses are presented as a separate line item in the statement of profit or loss.

Notes To The Consolidated Financial Statements

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other income or expenses in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payment is established.

Changes in the fair value of financial assets at FVPL are recognised in other income or expenses in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(iv) Impairment

From 1 July 2019, the Group assesses, on a forward looking basis, the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology depends on whether there has been a significant increase in credit risk.

(l) Plant and equipment

All plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the reporting period in which they are incurred.

Depreciation of plant and equipment is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term. The rates vary between 25% and 40% per annum.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(ii)). Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of profit or loss and other comprehensive income.

(m) Exploration and evaluation costs

It is the Group's policy to capitalise the cost of acquiring rights to explore areas of interest. All other exploration expenditure is expensed to the statement of profit or loss and other comprehensive income.

The costs of acquisition are carried forward as an asset provided one of the following conditions is met:

- Such costs are expected to be recouped through the successful development and exploitation of the area of interest, or alternatively, by its sale; or
- Exploration activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing. When the technical feasibility and commercial viability of extracting a mineral resource have been demonstrated then any capitalised exploration and evaluation expenditure is reclassified as capitalised mine development. Prior to reclassification, capitalised exploration and evaluation expenditure is assessed for impairment.

Notes To The Consolidated Financial Statements

Impairment

The carrying value of capitalised exploration and evaluation expenditure is assessed for impairment at the cash generating unit level whenever facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount.

An impairment exists when the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. Any impairment losses are recognised in the statement of profit or loss and other comprehensive income.

(n) Non-current asset held for sale

Non-current assets classified as held for sale are generally measured at the lower of carrying amount and fair value less costs to sell, where the carrying amount will be recovered principally through sale as opposed to continued use. No depreciation or amortisation is charged against assets classified as held for sale. Classification as "held for sale" occurs when: management has committed to a plan; sale is expected to occur within one year from the date of classification; and active marketing has commenced. Such assets are classified as current assets.

Any impairment losses are recognised for any initial or subsequent write down of an asset classified as held for sale to fair value less cost to sell. Any reversal of impairment recognised on classification as held for sale or prior to such classification is recognised as a gain in profit or loss in the period in which it occurs.

(o) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to and unpaid at the end of the financial year. The amounts are unsecured, non-interest bearing and are paid on normal commercial terms.

(p) Employee benefits

Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefit obligations

The group also has liabilities for long service leave that are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. These obligations are therefore measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of high-quality corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting period, regardless of when the actual settlement is expected to occur.

(q) Share-based payments

The Group may provide benefits to employees (including directors) of the Group, and to vendors and suppliers, in the form of share-based payment transactions, whereby employees or service providers render services, or where vendors sell assets to the Group, in exchange for shares or rights over shares ('equity-settled transactions'), refer to note 26.

The cost of these equity-settled transactions in the case of employees is measured by reference to the "fair value" (not market value) at the date at which they are granted. The "fair value" is determined in accordance with Australian Accounting Standards by an internal valuation using a Black-Scholes (or other industry accepted) option pricing model for options and by reference to market price for ordinary shares.

Notes To The Consolidated Financial Statements

The Directors do not consider the resultant value as determined by the Black-Scholes European Option Pricing Model (or any other model) is necessarily representative of the market value of the share options issued, however, in the absence of a reliable measure of the goods or services received, AASB 2 Share Based Payments prescribes the measurement of the fair value of the equity instruments granted. The Black-Scholes European Option Pricing Model is an industry accepted method of valuing equity instruments.

The cost of remuneration equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which any performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of options that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for options that do not ultimately vest, except for options where vesting is conditional upon a market condition.

Where an option is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the option is recognised immediately. However, if a new option is substituted for the cancelled option and designated as a replacement option on the date that it is granted, the cancelled and new option are treated as a modification of the original option.

(r) Provision for rehabilitation

The Group records the estimated cost to rehabilitate operating locations in the period in which the obligation arises on an undiscounted basis. The nature of rehabilitation activities includes the dismantling and removing of structures, rehabilitating mines, dismantling operating facilities, closure of plant and waste sites and restoration, reclamation and revegetation of affected areas.

Typically, the obligation arises when the asset is installed, or the ground/environment is disturbed at the production location. When the liability is initially recorded, the value of the estimated cost of eventual rehabilitation is capitalised by increasing the carrying amount of the related mining assets. Additional disturbances or changes in rehabilitation costs will be recognised as additions or changes to the corresponding asset and rehabilitation liability when incurred.

Costs incurred that relate to an existing condition caused by past operations, and do not have future economic benefit, are expensed as incurred.

(s) Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

(t) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Notes To The Consolidated Financial Statements

(u) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(v) Comparative figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(w) Critical accounting judgements, estimates and assumptions

The preparation of these financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are:

Exploration and evaluation costs

The costs of acquiring rights to explore areas of interest are capitalised, all other exploration and evaluation costs are expensed as incurred.

These costs of acquisition are carried forward only if they relate to an area of interest for which rights of tenure are current and in respect of which: (i) such costs are expected to be recouped through successful development and exploitation or from sale of area; or (ii) exploration and evaluation activities in the area have not yet reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active operations in, or relating to, the area are continuing.

When an area of interest is abandoned or the directors decide that it is not commercial, any capitalised acquisition costs in respect of that area are written off in the financial year the decision is made.

Taxation

Balances disclosed in the financial statements and the notes thereto related to taxation are based on the best estimates of the directors. These estimates consider both the financial performance and position of the Group as they pertain to current income taxation legislation, and the directors understanding thereof. No adjustment has been made for pending or future taxation legislation. The current income tax position represents that directors' best estimate, pending an assessment by the Australian Taxation Office.

Share-based payments

Share-based payment transactions, in the form of options to acquire ordinary shares, are valued using the Black-Scholes option pricing model. This model uses assumptions and estimates as inputs.

The Directors do not consider the resultant value as determined by the Black-Scholes European Option Pricing Model is necessarily representative of the market value of the share options issued, however, in the absence of a reliable measure of the goods or services received, AASB 2 *Share Based Payments* prescribes the measurement of the fair value of the equity instruments granted. The Black-Scholes European Option Pricing Model is an industry accepted method of valuing equity instruments, at the date of grant.

Impairments

The Group assesses impairment at the end of each reporting period by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using the directors' best estimate of the asset's fair value, which can incorporate various key assumptions.

Any amounts in excess of the fair value are impaired, in line with accounting policy disclosures in notes 1(i), 1(k) and 1(m).

Provision for rehabilitation

The Group assesses its mine rehabilitation provision half-yearly in accordance with accounting policy note 1(r). Significant judgement is required in determining the provision primarily relating to the estimation of costs in the Mine Closure Plan that is lodged with the Department of Mines, Industry Regulation and Safety.

Notes To The Consolidated Financial Statements

2. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk.

Risk management is carried out by the full Board of Directors as the Group believes that it is crucial for all board members to be involved in this process.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the A\$, the US dollar and the West African CFA franc.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency and net investments in foreign operations. The Group has not formalised a foreign currency risk management policy however, it monitors its foreign currency expenditure in light of exchange rate movements.

The functional currency of the Group's West African based subsidiary company is the West African CFA franc. Given the current scale of the operations in West Africa, the foreign exchange exposure is not considered to be material to the Group.

(ii) Price risk

The Group is exposed to equity securities price risk. This arises from investments held by the Group and classified in the statement of financial position as financial assets at fair value through profit or loss. Given the current level of operations, the Group's financial statements for the year ended 30 June 2020 are not exposed to commodity price risk.

To minimise the risk, the Group's investments are of high quality and are publicly traded on reputable international stock exchanges. The investments are managed on a day to day basis so as to pick up any significant adjustments to market prices.

Sensitivity analysis

At 30 June 2020, if the value of the equity instruments had increased by 15% with all other variables held constant, post-tax loss for the Group would have been \$71,962 lower, with no changes to other equity balances, as a result of gains on equity securities classified as financial assets at fair value through profit or loss (2019: \$56,962 lower).

At 30 June 2020, if the value of the equity instruments had decreased by 15% with all other variables held constant, post-tax loss for the Group would have been \$71,962 higher, with no changes to other equity balances, as a result of losses on equity securities classified as financial assets at fair value through profit or loss (2019: \$56,962 higher).

(iii) Interest rate risk

The Group is exposed to movements in market interest rates on cash and cash equivalents. The Group policy is to monitor the interest rate yield curve out to six months to ensure a balance is maintained between the liquidity of cash assets and the interest rate return. The entire balance of cash and cash equivalents for the Group \$4,712,409 (2019: \$564,618) is subject to interest rate risk. The weighted average interest rate received on cash and cash equivalents by the Group was 0.22% (2019: 0.48%).

Sensitivity analysis

At 30 June 2020, if interest rates had changed by - 10 basis points from the weighted average rate for the year with all other variables held constant, post-tax loss for the Group would have been \$1,035 lower (2019: - 50 basis points \$4,117 lower) as a result of lower or higher interest income from cash and cash equivalents.

At 30 June 2020, if interest rates had changed by + 50 basis points from the weighted average rate for the year with all other variables held constant, post-tax loss for the Group would have been \$1,035 higher (2019: + 50 basis points \$4,117 higher) as a result of lower or higher interest income from cash and cash equivalents.

Notes To The Consolidated Financial Statements

(b) Credit risk

The Group has no significant concentrations of credit risk. The maximum exposure to credit risk at balance date is the carrying amount (net of provision for impairment) of those assets as disclosed in the statement of financial position and notes to the financial statements.

All surplus cash holdings within the Group are currently invested with AA- rated financial institutions.

(c) Liquidity risk

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and ensuring sufficient cash and marketable securities are available to meet the current and future commitments of the Group. Due to the nature of the Group's activities, being mineral exploration, the Group does not have ready access to credit facilities, with the primary source of funding being equity raisings. The Board of Directors constantly monitor the state of equity markets in conjunction with the Group's current and future funding requirements, with a view to initiating appropriate capital raisings.

The financial liabilities of the Group are confined to trade and other payables as disclosed in the statement of financial position. All trade and other payables are non-interest bearing and due within 12 months of the reporting date.

(d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The equity investments held by the Group are classified at fair value through profit or loss. The market value of all equity investments represents the fair value based on quoted prices on active markets (TSX) as at the reporting date without any deduction for transaction costs. These investments are classified as level 1 financial instruments.

The carrying amounts and estimated fair values of financial assets and financial liabilities are as follows:

| | Consolidated | Consolidated |
|------------------------------|--------------|--------------|
| | 2020 | 2019 |
| | \$ | \$ |
| Financial Assets | | |
| Cash and cash equivalents | 4,712,409 | 564,618 |
| Trade and other receivables | 62,593 | 56,268 |
| Financial assets | 479,745 | 379,750 |
| Total Financial Assets | 5,254,747 | 1,000,636 |
| Financial Liabilities | | |
| Trade and other payables | 717,665 | 104,426 |
| Lease liabilities | 26,517 | - |
| Borrowings | 70,464 | 32,104 |
| Total Financial Liabilities | 814,646 | 136,530 |

Notes To The Consolidated Financial Statements

The methods and assumptions used to estimate the fair value of financial instruments are outlined below:

Cash

The carrying amount is fair value due to the liquid nature of these assets.

Receivables/Payables/Borrowings

Due to the short-term nature of these financial rights and obligations, their carrying amounts are estimated to represent their fair values.

Fair value measurements of financial assets

The carrying values of financial assets and liabilities of the Group approximate their fair values. Fair values of financial assets and liabilities have been determined for measurement and / or disclosure purposes.

Fair value hierarchy

The Group classifies assets and liabilities carried at fair value using a fair value hierarchy that reflects the significance of the inputs used in determining that value. The following table analyses financial instruments carried at fair value by the valuation method. The different levels in the hierarchy have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| | Level 1 | Level 2 | Level 3 | Total |
|---------------------------------|----------------|----------|----------|----------------|
| | \$ | \$ | \$ | \$ |
| 30 June 2020 | | | | |
| Financial assets | 479,745 | - | - | 479,745 |
| Total as at 30 June 2020 | 479,745 | - | - | 479,745 |
| 30 June 2019 | | | | |
| Financial assets | 379,750 | - | - | 379,750 |
| Total as at 30 June 2019 | 379,750 | - | - | 379,750 |

Notes To The Consolidated Financial Statements

3. SEGMENT INFORMATION

For management purposes, the Group has identified two reportable segments, being exploration activities undertaken in Australia and West Africa. These segments include activities associated with the determination and assessment of the existence of commercial economic reserves from the Group's mineral assets in these geographic locations.

Segment performance is evaluated based on the operating profit and loss and cash flows and is measured in accordance with the Group's accounting policies.

| | Consolidated | Consolidated |
|---|--------------------|--------------|
| | 2020 | 2019 |
| | \$ | \$ |
| Segment revenue – Australia | 14,756 | 37,488 |
| Segment revenue – West Africa | 93,987 | 353,346 |
| Segment revenue – Total | 108,743 | 390,834 |
| Reconciliation of segment revenue to total revenue and other income: | | |
| Interest revenue | 2,282 | 3,983 |
| Other income | 72,240 | 20,726 |
| TOTAL REVENUE AND OTHER INCOME | 183,265 | 415,543 |
| Segment result – Australia | (2,234,682) | (917,049) |
| Segment result – West Africa | (8,988) | (663) |
| Segment result – Total | (2,243,670) | (917,712) |
| Reconciliation of segment result to net loss before tax: | | |
| - Other income | 74,522 | 24,709 |
| Fair value gains/(losses) | 99,995 | (467,772) |
| Other corporate and administration | (1,105,584) | (1,293,258) |
| NET LOSS BEFORE TAX | (3,174,737) | (2,654,033) |
| Segment operating assets – Australia | 3,581,665 | 3,386,491 |
| Segment operating assets – West Africa | - | 213,386 |
| Segment operating assets – Total | 3,581,665 | 3,599,877 |
| Reconciliation of segment operating assets to total assets: | | |
| Other corporate and administration assets | 5,283,963 | 1,007,531 |
| TOTAL ASSETS | 8,865,628 | 4,607,408 |
| Segment operating liabilities – Australia | 2,012,332 | 1,229,822 |
| Segment operating liabilities – West Africa | 80 | 80 |
| Segment operating liabilities – Total | 2,012,412 | 1,229,902 |
| Reconciliation of segment operating liabilities to total liabilities: | | |
| Other corporate and administration liabilities | 267,098 | 165,950 |
| TOTAL LIABILITIES | 2,279,510 | 1,395,852 |

Notes To The Consolidated Financial Statements

4. REVENUE AND OTHER INCOME

| | Consolidated | Consolidated |
|---|--------------|--------------|
| | 2020 | 2019 |
| | \$ | \$ |
| (a) Revenue from continuing operations | | |
| <i>Sale of commodities</i> | | |
| Tribute production | 14,756 | 37,488 |
| (b) Other income | | |
| Interest revenue | 2,282 | 3,983 |
| Net gain on sales of mining interests | - | 15,883 |
| Reimbursements of expenditure on mining interests | 93,987 | 353,346 |
| Net gain on disposal of property, plant and equipment | 67,811 | - |
| Accommodation rental | - | 1,180 |
| Net foreign exchange gains | 4,429 | 3,663 |
| | 168,509 | 378,055 |

5. EXPENSES

| | | |
|---|--------|--------|
| Loss before income tax includes the following specific expenses: | | |
| Defined contribution superannuation expense | 46,224 | 30,567 |
| Minimum lease payments relating to operating leases | 39,964 | 40,420 |
| Depreciation expenses: | | |
| Plant and equipment | 9,285 | 9,750 |
| Right-of-use assets | 38,026 | - |
| | 47,311 | 9,750 |

Notes To The Consolidated Financial Statements

6. INCOME TAX

| | Consolidated | Consolidated |
|---|-------------------|------------------|
| | 2020 | 2019 |
| | \$ | \$ |
| (a) Income tax expense | | |
| Current tax | - | - |
| Deferred tax | - | - |
| (b) Numerical reconciliation of income tax expense to prima facie tax payable | | |
| Loss from continuing operations before income tax expense | (3,174,737) | (2,654,033) |
| Prima facie tax benefit at the Australian tax rate of 27.5% (2019: 27.5%) | (873,053) | (729,859) |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | |
| Foreign losses – West Africa excluded | (2,472) | 4,185 |
| Share-based payments | - | 24,750 |
| Other | (734) | (813) |
| | (876,259) | (701,737) |
| Movements in unrecognised temporary differences | (83,002) | 46,362 |
| Tax effect of current year tax losses for which no deferred tax asset has been recognised | 959,261 | 655,375 |
| Income tax expense | - | - |
| (c) Unrecognised temporary differences | | |
| Deferred Tax Assets (at 27.5% (2019: 27.5%)) | | |
| Capital raising costs | 170,668 | 55,514 |
| Financial assets | 105,467 | 132,965 |
| Other temporary differences | 29,307 | 24,985 |
| Carry forward foreign losses | 7,218,679 | 7,216,207 |
| Carry forward tax losses | 4,881,038 | 4,011,816 |
| Deferred Tax Liabilities (at 27.5% (2019: 27.5%)) | | |
| Tenement acquisition costs | 369,739 | (365,132) |
| Net deferred tax assets | 12,035,420 | 11,076,355 |

Net deferred tax assets have not been brought to account as it is not probable within the immediate future that tax profits will be available against which deductible temporary differences and tax losses can be utilised. The Group's ability to use losses in the future is subject to the Group satisfying the relevant tax authority's criteria for using these losses.

In April 2017, the Australian Government enacted legislation which reduces the corporate rate for small and medium business (base rate) entities from 30% to 25% over the next decade. For the 2017 financial year the corporate tax rate reduced to 27.5% for small business entities with turnover less than \$10 million. This turnover threshold progressively increased until it reached \$50 million in the 2020 financial year. For the 2021 financial year, the tax rate will decrease to 26% and then 25% for the 2022 and later financial years. Middle Island Resources Limited satisfies the criteria to be a base rate entity.

Notes To The Consolidated Financial Statements

7. CURRENT ASSETS - CASH AND CASH EQUIVALENTS

| | Consolidated | Consolidated |
|---|--------------|--------------|
| | 2020 | 2019 |
| | \$ | \$ |
| Cash at bank and in hand | 4,671,649 | 523,858 |
| Short-term deposits | 40,760 | 40,760 |
| Cash and cash equivalents as shown in the statement of financial position and the statement of cash flows | 4,712,409 | 564,618 |

Cash and cash equivalents at 30 June 2020 comprise A\$4,707,819 (2019: A\$563,911), with the balance held in US dollars and West African CFA francs.

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposit rates.

The Group has provided a bank guarantee of \$20,760 for a property lease.

8. CURRENT ASSETS - TRADE AND OTHER RECEIVABLES

| | Consolidated | Consolidated |
|------------------------------|--------------|--------------|
| | 2020 | 2019 |
| | \$ | \$ |
| Trade Debtors ⁽¹⁾ | 58,628 | 12,903 |
| Other | 3,965 | 43,365 |
| | 62,593 | 56,268 |

(1) The Group assesses, on a forward looking basis, the expected credit losses associated with trade debtors. All amounts recorded at balance date are considered recoverable in full.

9. CURRENT ASSETS – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | | |
|-----------------------------------|---------|---------|
| Canadian listed equity securities | 479,745 | 379,750 |
|-----------------------------------|---------|---------|

Changes in fair values of financial assets are shown at 'fair value gains/(losses) on financial assets' in the statement of profit or loss and other comprehensive income. Refer to note 2 for details of the fair value measurement.

Notes To The Consolidated Financial Statements

10. NON-CURRENT ASSETS - PLANT AND EQUIPMENT

| | Freehold Land | Plant and Equipment | Total |
|--------------------------------|------------------|------------------------|-----------|
| | \$ | \$ | \$ |
| At 1 July 2018 | | | |
| Cost | 126,929 | 2,244,405 | 2,371,334 |
| Accumulated depreciation | - | (321,986) | (321,986) |
| Net book amount | 126,929 | 1,922,419 | 2,049,348 |
| Year ended 30 June 2019 | | | |
| Opening net book amount | 126,929 | 1,922,419 | 2,049,348 |
| Additions | - | 26,034 | 26,034 |
| Depreciation charge | - | (9,750) | (9,750) |
| Closing net book amount | 126,929 | 1,938,703 | 2,065,632 |
| At 30 June 2019 | | | |
| Cost | 126,929 | 2,277,399 | 2,404,328 |
| Accumulated depreciation | - | (338,696) | (338,696) |
| Net book amount | 126,929 | 1,938,703 | 2,065,632 |
| Year ended 30 June 2020 | | | |
| Opening net book amount | 126,929 | 1,938,703 | 2,065,632 |
| Depreciation charge | - | (9,285) | (9,285) |
| Closing net book amount | 126,929 | 1,929,418 | 2,056,347 |
| At 30 June 2020 | | | |
| Cost | 126,929 | 2,234,706 | 2,361,635 |
| Accumulated depreciation | - | (305,288) | (305,288) |
| Net book amount | 126,929 | 1,929,418 | 2,056,347 |

Plant and equipment associated with the Sandstone gold project with a net book value at 30 June 2020 of \$1,912,170 (2019: \$1,912,170) is on care and maintenance.

Notes To The Consolidated Financial Statements

11. LEASES

| | Notes | Consolidated | Consolidated |
|---|-------|--------------|---------------|
| | | 2020 | 1 July 2019 * |
| | | \$ | \$ |
| (a) Amounts recognised in the statement of financial position | | | |
| The statement of financial position shows the following amounts relating to leases: | | | |
| Right-of-use assets | | | |
| Buildings | | 28,545 | 68,800 |
| Lease liabilities | | | |
| Current | | 26,517 | 63,131 |

* In the previous year the Group did not recognise any lease assets or lease liabilities as the Group did not have any 'finance leases' under AASB 117 Leases. For adjustments recognised on adoption of AASB 16 on 1 July 2019, please refer to note 1(a)(ii).

There were no additions to right-of-use assets during the 2020 financial year.

| | | | |
|--|---|--------|---|
| (b) Amounts recognised in the statement of profit or loss and other comprehensive income | | | |
| The statement of profit or loss and other comprehensive income shows the following amounts relating to leases: | | | |
| Depreciation charge of right-of-use assets | | | |
| Buildings | | 38,026 | - |
| Interest expense (included in finance cost) | 5 | 4,666 | - |

The total cash outflow for leases in 2020 was \$41,280.

(c) The Group's leasing activities

The Group leases office premises with a two year term. For further information and adjustments recognised on adoption of AASB 16 on 1 July 2019, please refer to note 1(a)(ii).

Notes To The Consolidated Financial Statements

12. NON-CURRENT ASSETS – TENEMENT ACQUISITION COSTS

| | Consolidated | Consolidated |
|---|--------------|--------------|
| | 2020 | 2019 |
| | \$ | \$ |
| Tenement acquisition costs carried forward in respect of mining areas of interest | | |
| Opening net book amount | 1,327,754 | 1,327,754 |
| Additions | 16,752 | - |
| Increase in rehabilitation provision | 181,483 | - |
| Closing net book amount | 1,525,989 | 1,327,754 |

13. CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

| | | |
|-------------------------------|---------|---------|
| Trade payables ⁽¹⁾ | 543,410 | 55,559 |
| Other payables and accruals | 174,255 | 48,867 |
| | 717,665 | 104,426 |

(1) The increase to the balance of trade payables at 30 June 2020 compared with the 2019 financial year is a reflection of the increased exploration activity being undertaken on the Group's Sandstone gold project following the successful capital raisings completed during the 2020 financial year.

14. NON-CURRENT LIABILITIES - PROVISIONS

| | | |
|--|-----------|-----------|
| Rehabilitation | | |
| Carrying amount at start of year | 1,203,417 | 1,203,417 |
| Additional provision charged to tenement acquisition costs | 181,483 | - |
| Carrying amount at end of year | 1,384,900 | 1,203,417 |

The Group records the undiscounted estimated cost to rehabilitate operating locations in the period in which the obligation arises. The nature of rehabilitation activities includes the dismantling and removing of structures, rehabilitating mines, dismantling operating facilities, closure of plant and waste sites and restoration, reclamation and revegetation of affected areas. The provision includes rehabilitation costs associated with the Sandstone Gold Project based on the latest estimated future costs contained in the Mine Closure Plan (MCP) lodged with the Government of Western Australia Department of Mines, Industry Regulation and Safety (DMIRS). An updated MCP was lodged with DMIRS during November 2019 containing an updated estimate of the closure costs, resulting in an increase to the provision during the reporting period. The updated MCP is still being finalised with DMIRS, with an extension granted until February 2021 for completion.

Notes To The Consolidated Financial Statements

15. ISSUED CAPITAL

(a) Share capital

| | Notes | 2020 | | 2019 | |
|----------------------------|--------------|------------------|------------|------------------|------------|
| | | Number of Shares | \$ | Number of Shares | \$ |
| Ordinary shares fully paid | 15(b), 15(d) | 2,139,809,372 | 42,737,460 | 1,046,852,156 | 36,305,796 |
| Total issued capital | | 2,139,809,372 | 42,737,460 | 1,046,852,156 | 36,305,796 |

(b) Movements in ordinary share capital

| | | | | |
|---|---------------|------------|---------------|------------|
| Beginning of the financial year | 1,046,852,156 | 36,305,796 | 697,901,437 | 34,954,474 |
| Issued for cash at 0.4 cents per share | 718,426,078 | 2,873,704 | 348,950,719 | 1,395,803 |
| Issued for cash at 0.77 cents per share upon exercise of options ⁽¹⁾ | 9,543,133 | 84,258 | - | - |
| Issued for cash at 0.79 cents per share upon exercise of options ⁽¹⁾ | 1,351,641 | 42,665 | - | - |
| Issued for cash at 1.1 cents per share | 363,636,364 | 4,000,000 | - | - |
| Share issue transaction costs | - | (568,963) | - | (44,481) |
| End of the financial year | 2,139,809,372 | 42,737,460 | 1,046,852,156 | 36,305,796 |

(1) A total of \$42,763 had been received prior to 30 June 2020 for option exercises for which the shares were not issued until July 2020.

(c) Movements in options on issue

| | Number of Options | |
|---|-------------------|--------------|
| | 2020 | 2019 |
| Beginning of the financial year | 378,950,719 | 30,000,000 |
| Issued, exercisable at 0.79 cents, on or before 31 January 2022 | 130,000,000 | 348,950,719 |
| Issued, exercisable at 0.77 cents, on or before 31 January 2022 | 613,426,078 | - |
| Issued, exercisable at 2.99 cents, on or before 8 November 2021 | - | 30,000,000 |
| Expired on 18 November 2018, exercisable at 10 cents | - | (30,000,000) |
| Exercised at 0.79 cents, expiring on 31 January 2022 | (1,351,641) | - |
| Exercised at 0.77 cents, expiring on 31 January 2022 | (9,543,133) | - |
| End of the financial year | 1,111,482,023 | 378,950,719 |

Notes To The Consolidated Financial Statements

(d) Ordinary shares

Ordinary fully paid shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of the shares held.

On a show of hands every holder of ordinary fully paid shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll is entitled to one vote for each share held.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

(e) Capital risk management

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it may strive to provide returns for shareholders and benefits for other stakeholders.

Due to the nature of the Group's activities, being mineral exploration, the Group does not have ready access to credit facilities, with the primary source of funding being equity raisings. Therefore, the focus of the Group's capital risk management is the current working capital position against the requirements of the Group to meet exploration programmes and corporate overheads. The Group's strategy is to ensure appropriate liquidity is maintained to meet anticipated operating requirements, with a view to initiating appropriate capital raisings as required. The working capital position of the Group at 30 June 2020 and 30 June 2019 are as follows:

| | Consolidated | Consolidated |
|-------------------------------|--------------|--------------|
| | 2020 | 2019 |
| | \$ | \$ |
| Cash and cash equivalents | 4,712,409 | 564,618 |
| Trade and other receivables | 62,593 | 56,268 |
| Financial assets | 479,745 | 379,750 |
| Trade and other payables | (717,665) | (104,426) |
| Lease liabilities | (26,517) | - |
| Borrowings | (70,464) | (32,104) |
| Employee benefits obligations | (79,964) | (55,905) |
| Working capital position | 4,360,137 | 808,201 |

16. RESERVES AND ACCUMULATED LOSSES

| (a) Reserves | | |
|--|---------|---------|
| Foreign currency translation reserve | 435,786 | 425,651 |
| Share-based payments reserve (see note 26) | 197,500 | 90,000 |
| | 633,286 | 515,651 |

(b) Nature and purpose of reserves

(i) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income as described in note 1(d) and accumulated within a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed.

(ii) Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of options issued.

Notes To The Consolidated Financial Statements

17. DIVIDENDS

No dividends were paid during the financial year. No recommendation for payment of dividends has been made.

18. REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for services provided by the auditor of the Company, its related practices and non-related audit firms:

| | Consolidated | Consolidated |
|--|--------------|--------------|
| | 2020 | 2019 |
| | \$ | \$ |
| (a) Audit services | | |
| Elderton Audit Pty Ltd – audit and review of financial reports | 31,700 | 32,272 |
| Total remuneration for audit services | 31,700 | 32,272 |
| (b) Non-audit services | | |
| Elderton Audit Pty Ltd – taxation compliance services | 2,900 | 5,200 |
| Total remuneration for other services | 2,900 | 5,200 |

19. CONTINGENCIES

The purchase price for the Sandstone Gold Project included a deferred payment of \$500,000 payable within 28 days of the receipt of proceeds from the first sale of gold produced from the Sandstone Assets. This payment is contingent on the production and sale of gold from the Sandstone Assets.

The Sandstone tenements were acquired subject to legacy royalties, including a royalty equal to 2% of the net smelter return on all minerals produced from M57/128 and M57/129 and a royalty of A\$1 per tonne of ore mined and treated from M57/129.

There may be a further legacy royalty payable in relation to the tenements acquired by the Company. Pursuant to an Agreement (Deed of Sale – Sandstone) dated 27 September 2004 (Sale Deed) a royalty may be payable in relation to a portion of any gold produced from the Sandstone tenements. Royalties payable under the Sale Deed are to be calculated using a complex formula driven by the specific tenements from which gold is produced, the “deemed entitlement to gold” of persons having a 33.3% participating interest in “the Sandstone Joint Venture”, and a royalty rate of \$12.50 per ounce of gold. Eighty six tenements are covered by the Sale Deed, only two of which were acquired by the Company. The Company’s understanding is that the Sandstone Joint Venture no longer exists. The royalty only commences when 50,000 ounces of gold have been produced across the eighty six tenements and it ceases when \$4 million has been paid in total across the eighty six tenements under the Sale Deed. Accordingly, depending on how much gold has been produced from the other eighty four tenements and the status of the Sandstone Joint Venture, it is possible that a \$12.50 royalty per ounce of gold produced is payable on 1/3 of the gold produced from certain portions of the tenements acquired by the Company. The Company will inform the market if and as soon as the status of that potential further royalty has been resolved.

Notes To The Consolidated Financial Statements

20. COMMITMENTS

(a) Exploration commitments

The Group has certain (contingent) commitments to meet minimum expenditure requirements on the mining exploration assets it has an interest in. Outstanding exploration commitments, which the Group has the right to vary by such methods as applying for exemptions, surrendering tenements, relinquishing portions of tenements or entering farm-out arrangements, are as follows:

| | Consolidated | Consolidated |
|--|--------------|--------------|
| | 2020 | 2019 |
| | \$ | \$ |
| within one year | 233,360 | 233,360 |
| later than one year but not later than five years | 895,160 | 915,160 |
| later than five years | 1,280,700 | 1,477,900 |
| | 2,409,220 | 2,626,420 |
| (b) Lease commitments: Group as lessee | | |
| <i>Operating leases (non cancellable):</i> | | |
| Minimum lease payments | | |
| within one year | - | 41,280 |
| later than one year but not later than five years | - | 30,960 |
| Aggregate lease expenditure contracted for at reporting date but not recognised as liabilities | - | 72,240 |

The property lease is a non-cancellable lease with a two-year term, with rent payable monthly in advance. The lease does not contain any provisional rent increase clauses. The lease allows for subletting of all lease areas subject to the approval of the lessor, who cannot unreasonably withhold such approval.

From 1 July 2019, upon adoption AASB 16, the Group has recognised a right-of-use asset for this lease, refer to note 1(a)(ii).

21. RELATED PARTY TRANSACTIONS

(a) Parent entity

The ultimate parent entity within the Group is Middle Island Resources Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in note 22.

(c) Key management personnel compensation

| | | |
|--------------------------|---------|---------|
| Short-term benefits | 303,577 | 276,530 |
| Post-employment benefits | 28,839 | 23,420 |
| Other long-term benefits | - | - |
| Termination benefits | - | - |
| Share-based payments | - | 90,000 |
| | 332,416 | 389,950 |

Detailed remuneration disclosures are provided in the remuneration report on pages 18 to 21.

Notes To The Consolidated Financial Statements

(d) Transactions and balances with other related parties

DWCorporate Pty Ltd, a business of which Mr Wilkins is principal, provided company secretarial and corporate advisory services to the Middle Island Group during the year. The amounts paid were on arms' length commercial terms and are disclosed in the remuneration report in conjunction with Mr Wilkins' compensation. At 30 June 2020 there was nil (2019: \$6,765) owing to DWCorporate Pty Ltd.

Quenda Investments Pty Ltd ("Quenda"), a company of which Mr Yeates is a director and shareholder, lent securities held in Middle Island Resources Limited to the provider of a controlled placement facility during the current reporting period for which Quenda was paid a stock borrow fee of \$6,000 for the year ended 30 June 2020 (2019: \$6,000). The amounts paid were on arms' length commercial terms. At 30 June 2020 there was \$500 (2019: \$500) owing to Quenda Investments Pty Ltd.

In addition to his director fees, Mr Thomas was paid \$3,000 (2019: nil) for the provision of special exertion services provided to the Group during the year. The amounts paid were on arms' length commercial terms and are disclosed in the remuneration report in conjunction with Mr Thomas' compensation. At 30 June 2020 there was nil (2019: nil) owing to Mr Thomas for the provision of special exertion services.

In addition to his director fees, a total of \$41,440 (2019: nil) was paid to E2M Ltd, a business of which Mr Nicholls is a director and substantial shareholder. E2M Ltd provided geological consulting services to the Group during the year. The amounts paid were on arms' length commercial terms and are disclosed in the remuneration report in conjunction with Mr Nicholls' compensation. At 30 June 2020 there was \$6,560 (2019: nil) owing to E2M Ltd for the provision of geological consulting services.

(e) Loans to related parties

Middle Island Resources Limited has provided unsecured, interest free loans to each of its wholly owned subsidiaries totalling \$23,070,723 at 30 June 2020 (2019: \$21,613,362). An impairment assessment is undertaken each financial year by examining the financial position of the subsidiary and the market in which the subsidiary operates to determine whether there is objective evidence that the subsidiary is impaired. When such objective evidence exists, the Company recognises an allowance for the impairment loss.

22. SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

| Name | Country of Incorporation | Class of Shares | Equity Holding ⁽¹⁾ | |
|--|--------------------------|-----------------|-------------------------------|------|
| | | | 2020 | 2019 |
| | | | % | % |
| Middle Island Resources Limited – Burkina Faso SARL | Burkina Faso | Ordinary | 100 | 100 |
| Middle Island Resources Limited – Sandstone Operations Pty Ltd | Australia | Ordinary | 100 | 100 |
| Middle Island Resources Limited – Barkly Operations Pty Ltd ⁽²⁾ | Australia | Ordinary | 100 | - |

(1) The proportion of ownership interest is equal to the proportion of voting power held.

(2) This entity was incorporated on 18 June 2020 with Middle Island Resources Limited the sole shareholder and was dormant from incorporation until the reporting date.

Notes To The Consolidated Financial Statements

23. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

During the period from the reporting date to the date of this report, a total of 584,656,072 fully paid ordinary shares have been issued upon the exercise of unlisted options, raising a total of \$4,545,245.

During August 2020, all 10 exploration licence applications, comprising the Group's 100% owned Barkly super-project in the Northern Territory, have been approved by the Northern Territory Government for granting. The formal grant is dependent on the lifting of COVID-19 travel restrictions or at the Group's earlier election.

The positive results of the exploration effort over the 2020 financial year together with those derived during the period subsequent to the reporting date are likely to see the Company make a decision to mine with first production of gold from the Sandstone Gold Project (following the recommissioning of the plant and pre-strip) expected, as at the date of this report, before the end of the 2021 financial year.

No other matters or circumstances have arisen since the end of the year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial periods.

24. STATEMENT OF CASH FLOWS

| | Consolidated | Consolidated |
|--|--------------|--------------|
| | 2020 | 2019 |
| | \$ | \$ |
| (a) Reconciliation of net loss after income tax to net cash outflow from operating activities | | |
| Net loss for the year | (3,174,737) | (2,654,033) |
| Non cash items | | |
| Depreciation of non current assets | 47,311 | 9,750 |
| Share-based payments | - | 90,000 |
| Net exchange differences | (4,429) | (5,681) |
| Change in operating assets and liabilities | | |
| (Increase) in trade and other receivables | (9,765) | (13,431) |
| (Increase)/decrease in financial assets at fair value through profit or loss | (99,995) | 467,772 |
| Increase/(decrease) in trade and other payables | 613,239 | (283,572) |
| Increase in employee benefit obligations | 24,059 | 43,617 |
| Net cash outflow from operating activities | (2,604,317) | (2,345,578) |

(b) Non-cash investing and financing activities

Non-cash investing and financing activities disclosed in other notes are:

- Acquisition of right-of-use assets – note 1(a)(ii); and
- Options issued to employees, contractors and suppliers for no cash consideration – note 26.

Notes To The Consolidated Financial Statements

25. LOSS PER SHARE

| | Consolidated | Consolidated |
|---|--------------|--------------|
| | 2020 | 2019 |
| | \$ | \$ |
| (a) Reconciliation of earnings used in calculating loss per share | | |
| Loss attributable to the owners of the Company used in calculating basic and diluted loss per share | (3,174,737) | (2,654,033) |

| | Number of shares | |
|--|------------------|-------------|
| | 2020 | 2019 |
| (b) Weighted average number of shares used as the denominator | | |
| Weighted average number of ordinary shares used as the denominator in calculating basic and diluted loss per share | 1,376,032,243 | 853,734,224 |

(c) Information on the classification of options

As the Group has made a loss for the year ended 30 June 2020, all options on issue are considered antidilutive and have not been included in the calculation of diluted earnings per share. These options could potentially dilute basic earnings per share.

26. SHARE-BASED PAYMENTS

(a) Options issued to employees, contractors and suppliers

The Group may provide benefits to employees (including directors), contractors and suppliers of the Group in the form of share-based payment transactions, whereby options to acquire ordinary shares are issued as an incentive to improve employee and shareholder goal congruence. The exercise prices of the options granted and on issue as at 30 June 2020 range from 0.77 cents to 2.99 cents per option, with expiry dates ranging from 8 November 2021 to 31 January 2022.

Options granted carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share of the Company with full dividend and voting rights.

Set out below are summaries of the options granted (as 30 June in the stated years):

| | Consolidated | Consolidated | Consolidated | Consolidated |
|--|-------------------|---------------------------------------|-------------------|---------------------------------------|
| | 2020 | 2020 | 2019 | 2019 |
| | Number of options | Weighted average exercise price cents | Number of options | Weighted average exercise price cents |
| Outstanding at the beginning of the financial year | 30,000,000 | 3.0 | 30,000,000 | 10.0 |
| Granted | 25,000,000 | 0.8 | 30,000,000 | 3.0 |
| Forfeited/cancelled | - | - | - | - |
| Exercised | - | - | - | - |
| Expired/lapsed | - | - | (30,000,000) | 10.0 |
| Outstanding at year-end | 55,000,000 | 2.0 | 30,000,000 | 3.0 |
| Exercisable at year-end | 55,000,000 | 2.0 | 30,000,000 | 3.0 |

Notes To The Consolidated Financial Statements

The options granted during 2020 were to the underwriter of the Company's Entitlements Issue completed in February 2020.

The weighted average remaining contractual life of share options outstanding at the end of the financial year was 1.5 years (2019: 2.4 years), and the exercise prices range from 0.77 cents to 2.99 cents per option.

Fair value of options granted

The weighted average "fair value" (not market value) of the options granted during the year was 0.4 cents per option (2019: 0.3 cents). The price was calculated by using the Black-Scholes European Option Pricing Model applying the following inputs. The Directors do not consider the resultant value as determined by the Black-Scholes European Option Pricing Model is necessarily representative of the market value of the share options issued.

| | 2020 | 2019 |
|---|--------|--------|
| | \$ | \$ |
| Weighted average exercise price (cents) | 0.8 | 3.0 |
| Weighted average life of the options (years) | 1.8 | 3.0 |
| Weighted average underlying share price (cents) | 0.6 | 0.7 |
| Expected share price volatility | 170.0% | 114.2% |
| Risk free interest rate | 0.2% | 2.1% |

Historical volatility has been used as the basis for determining expected share price volatility as it assumed that this is indicative of future trends, which may not eventuate. The life of the options is based on historical exercise patterns, which may not eventuate in the future.

(b) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the year were as follows:

| | Consolidated | Consolidated |
|---|--------------|--------------|
| | 2020 | 2019 |
| | \$ | \$ |
| Options granted to/vesting with employees (including directors) and contractors as part of share-based payments expense | - | 90,000 |
| Options granted to/vesting with suppliers as part of share issue transaction costs | 107,500 | - |
| Total share-based payments | 107,500 | 90,000 |

Notes To The Consolidated Financial Statements

27. PARENT ENTITY INFORMATION

The following information relates to the parent entity, Middle Island Resources Limited, at 30 June 2020. The information presented here has been prepared using accounting policies consistent with those presented in Note 1.

| | 2020 | 2019 |
|--|--------------------|--------------------|
| | \$ | \$ |
| Current assets | 5,152,820 | 985,725 |
| Non-current assets | 1,702,271 | 2,178,852 |
| Total assets | 6,855,091 | 3,164,577 |
| Current liabilities | 272,400 | 165,693 |
| Total liabilities | 272,400 | 165,693 |
| Contributed equity | (2,955,357) | (2,805,400) |
| Share-based payments reserve | (2,955,357) | (2,805,400) |
| Accumulated losses | (33,396,912) | (31,320,512) |
| Total equity | 2,998,884 | 4,362,962 |
| Loss for the year | (2,955,357) | (2,805,400) |
| Total comprehensive loss for the year | (2,955,357) | (2,805,400) |

28. NON-CURRENT ASSETS HELD FOR SALE

| | Consolidated | Consolidated |
|---|--------------|--------------|
| | 2020 | 2019 |
| | \$ | \$ |
| Reo Gold Project tenement acquisition costs | - | 213,386 |

Divestment of the Reo gold project in Burkina Faso, West Africa, to Tajiri Resources Corp (TSXV: TAJ, Tajiri) was completed during August 2019, with Tajiri paying the final option extension and exercise fees, aggregating US\$150,000.

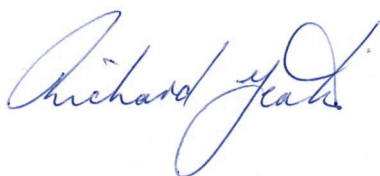
Directors' Declaration

In the directors' opinion:

1. the financial statements and notes set out on pages 25 to 57 are in accordance with the *Corporations Act 2001*, including:
 - (a) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (b) giving a true and fair view of the consolidated entity's financial position as at 30 June 2020 and of its performance for the financial year ended on that date;
2. there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable; and
3. a statement that the attached financial statements are in compliance with International Financial Reporting Standards has been included in the notes to the financial statements.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors.



Richard Yeates
Managing Director
Perth, 30 September 2020

Independent Auditors' Report

ELDERTON

AUDIT PTY LTD

Independent Auditors' Report

To the members of Middle Island Resources Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Middle Island Resources Limited (the "Company") and its subsidiaries (the "Group"), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described as in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be key audit matters to be communicated in our report.

T 08 6555 9500
F 08 6555 9555

E info@eldertongroup.com
W www.eldertongroup.com

A Level 2, 267 St Georges Terrace, Perth WA 6000
P PO Box 983 West Perth WA 6872

Independent Auditors' Report

Capitalised Exploration Expenditure

Refer to Note 12, Capitalised Exploration Expenditure (\$1,525,989) and accounting policy Notes 1(m).

Key Audit Matter

Middle Island Resources Limited and its controlled entities have a significant amount of capitalised exploration expenditure. As the carrying value of exploration expenditure represents a significant asset of the Group, we considered it necessary to assess whether facts and circumstances existed to suggest the carrying amount of this asset may exceed its recoverable amount.

How our audit addressed the matter

Our audit work included, but was not restricted to, the following:

- We obtained evidence that the Group has valid rights to explore in the areas represented by the capitalised exploration by obtaining independent searches of a sample of the Group's tenement holdings.
- We enquired with management and reviewed budgets to ensure that substantive expenditure on further exploration for and evaluation of the mineral resources in the Group's areas of interest were planned.
- We enquired with management, reviewed announcements made and reviewed minutes of directors' meetings to ensure that the Group had not decided to discontinue activities in any of its areas of interest.
- We enquired with management to ensure that the Group had not decided to proceed with development of a specific area of interest, yet the carrying amount of the exploration and evaluation asset was unlikely to be recovered in full from successful development or sale.

Property, plant and equipment

Refer to Note 10, Plant and equipment (\$2,056,347) and accounting policy Notes 1(l).

Key Audit Matter

Property, plant and equipment represents a significant balance recorded in the consolidated statement of financial position. Plant and equipment associated with the *Sandstone* gold project with a net book value at 30 June 2020 of \$1,912,170 is on care and maintenance.

The evaluation of the recoverable amount of these assets requires significant judgement in assessing impairment.

How our audit addressed the matter

Our audit work included, but was not restricted to, the following:

- We obtained an understanding and challenged managements assumptions and analysis of their impairment indicators assessment in relation to the property, plant and equipment.
- We obtained results of physical inspection conducted by a third party regarding condition of plant and equipment on care and maintenance.
- We reviewed the management's plan for future activities and corroborated with current exploration activities, next year budget and announcements made till date.
- We compared key values used in the assessment with information from independent sources.

Other Information

The directors are responsible for the other information. The other information comprises the Review of Operations and Directors Report and other information included in the Group's annual report for the year ended 30 June 2020 but does not include the financial report and our auditor's report thereon.

The other information obtained at the date of this auditor's report is included in the annual report, (but does not include the financial report and our auditor's report thereon).

Independent Auditors' Report

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used in the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

Independent Auditors' Report

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included on pages 18 to 21 of the directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Middle Island Resources Limited, for the year ended 30 June 2020, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Elderton Audit Pty Ltd

Elderton Audit Pty Ltd



Rafay Nabeel
Audit Director

Perth
30 September 2020

ASX Additional Information

Additional information required by Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 30 September 2020.

(a) Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

| | Ordinary Shares | |
|---|-------------------|------------------|
| | Number of Holders | Number of Shares |
| 1 - 1,000 | 42 | 9,552 |
| 1,001 - 5,000 | 27 | 81,963 |
| 5,001 - 10,000 | 38 | 296,057 |
| 10,001 - 100,000 | 1,072 | 57,456,114 |
| 100,001 and above | 1,281 | 2,666,621,758 |
| | 2,460 | 2,724,465,444 |
| The number of shareholders holding less than a marketable parcel of shares are: | 395 | 7,022,219 |

(b) Twenty largest shareholders

The names of the twenty largest holders of quoted ordinary shares are:

| | | Listed Ordinary shares | |
|----|--|------------------------|----------------------|
| | | Number of Shares | % of Ordinary Shares |
| 1 | TWYNAM INVESTMENTS PTY LTD | 191,400,000 | 7.03 |
| 2 | CS THIRD NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 13 A/C> | 159,509,065 | 5.85 |
| 3 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 144,465,676 | 5.30 |
| 4 | MCCUSKER HOLDINGS PTY LTD | 115,000,000 | 4.22 |
| 5 | HARMANIS HOLDINGS PTY LTD <HARMAN FAMILY A/C> | 100,361,336 | 3.68 |
| 6 | LOMACOTT PTY LTD <THE KEOGH SUPER FUND A/C> | 100,000,000 | 3.67 |
| 7 | EQUITY TRUSTEES LIMITED <LOWELL RESOURCES FUND A/C> | 54,759,534 | 2.01 |
| 8 | ZW 2 PTY LTD | 49,080,909 | 1.80 |
| 9 | JETOSEA PTY LTD | 41,837,216 | 1.54 |
| 10 | BPM CAPITAL LIMITED | 40,000,000 | 1.47 |
| 11 | CITYWEST CORP PTY LTD <COPULOS SUNSHINE UNIT A/C> | 39,000,000 | 1.43 |
| 12 | EYEON INVESTMENTS PTY LTD <EYEON INVESTMENTS FAMILY A/C> | 36,000,000 | 1.32 |
| 13 | COPULOS SUPERANNUATION PTY LTD <COPULOS PROVIDENT FUND A/C> | 35,800,819 | 1.31 |
| 14 | ARC RESOURCES PTY LTD <AK GROWTH A/C> | 33,000,000 | 1.21 |
| 15 | CS FOURTH NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 11 A/C> | 32,070,045 | 1.18 |
| 16 | ZERO NOMINEES PTY LTD | 32,000,000 | 1.17 |
| 17 | CITICORP NOMINEES PTY LIMITED | 28,228,646 | 1.04 |
| 18 | ACUITY CAPITAL INVESTMENT MANAGEMENT PTY LTD <ACUITY CAPITAL HOLDINGS A/C> | 27,793,180 | 1.02 |
| 19 | NORTHERN GRIFFIN PTY LTD | 25,650,000 | 0.94 |
| 20 | OCEANVIEW ROAD PTY LTD | 25,000,000 | 0.92 |
| | | 1,310,956,426 | 48.12 |

ASX Additional Information

(c) Substantial shareholders

The names of substantial shareholders who have notified the Company in accordance with section 671B of the *Corporations Act 2001* are:

| Number of Shares Disclosed in the Substantial Holding Notice | |
|--|-------------|
| Regal Funds Management Pty Ltd | 166,359,536 |
| Twynam Investments Pty Ltd | 161,400,000 |
| Lomacott Pty Ltd <The Keogh Super Fund A/C> | 145,000,000 |
| Jetosea Pty Ltd | 31,168,322 |

(d) Voting rights

All ordinary shares carry one vote per share without restriction.

(e) Schedule of interests in mining tenements

| Location | Tenement | Percentage held / earning |
|--------------------|----------|---------------------------|
| Western Australia | M57/128 | 100% |
| Western Australia | M57/129 | 100% |
| Western Australia | P57/1384 | 100% |
| Western Australia | P57/1395 | Option to acquire 100% |
| Western Australia | P57/1442 | 100% |
| Western Australia | E57/1102 | 100% |
| Northern Territory | EL 32291 | Pending Grant – 100% |
| Northern Territory | EL 32290 | Pending Grant – 100% |
| Northern Territory | EL 32305 | Pending Grant – 100% |
| Northern Territory | EL 32308 | Pending Grant – 100% |
| Northern Territory | EL 32309 | Pending Grant – 100% |
| Northern Territory | EL 32292 | Pending Grant – 100% |
| Northern Territory | EL 32297 | Pending Grant – 100% |
| Northern Territory | EL 32298 | Pending Grant – 100% |
| Northern Territory | EL 32301 | Pending Grant – 100% |
| Northern Territory | EL 32304 | Pending Grant – 100% |

(f) Unquoted Securities

| Class | Number of Securities | Number of Holders | Holders of 20% or more of the class | |
|--|----------------------|-------------------|--|----------------------|
| | | | Holder Name | Number of Securities |
| Unlisted 2.99 cents Options, expiry 8 November 2021 | 30,000,000 | 3 | Quenda Investments Pty Ltd <Quenda Super Fund A/C> | 10,000,000 |
| | | | Northern Griffen Pty Ltd | 10,000,000 |
| | | | Beau Nicholls | 10,000,000 |
| Unlisted 0.79 cent Options, expiry 31 January 2022 | 260,633,419 | 136 | N/A | N/A |
| Unlisted 0.77 cent Options, expiring 31 January 2022 | 236,192,532 | 128 | N/A | N/A |



Middle Island
RESOURCES LIMITED

Suite 1, 2 Richardson Street

WEST PERTH WA 6005

Website: www.middleisland.com.au

Email: info@middleisland.com.au

Tel: +61 8 9322 1430

Fax: +61 8 9322 1474