



Middle Island

RESOURCES LIMITED

Middle Island Resources Limited
ACN 142 361 608

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QUARTERLY REPORT

For the period ended 31 December 2016

HIGHLIGHTS

Middle Island Resources Ltd
ACN 142 361 608

ASX Code: MDI

Office:

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WEST PERTH WA 6005
Western Australia

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Capital Structure:

469 million shares
38,300,000 options

Board Members:

Peter Thomas

Chairman

Rick Yeates

Managing Director

Beau Nicholls

Non-Executive Director

Dennis Wilkins

Company Secretary

- Cash at 31 December 2016 of A\$1.36 million.
- Sandstone gold project (WA): Aggregate Indicated and Inferred Mineral Resources for the Shillington and Two Mile Hill gold deposits in isolation comprise 2.4Mt at 1.31g/t Au for ~100,000oz, with some 86% of the total resource now classified in the higher confidence Indicated category.
- The mineral inventory within optimised pit-shells is presently insufficient to justify the immediate re-commissioning of the Sandstone mill and associated infrastructure.
- Prefeasibility Study (PFS) work has been suspended, with the priority redirected to expanding and enhancing the production profile prior to recommissioning the processing plant.
- MDI's updated strategy focussed on high value brownfields and greenfields exploration, consolidation of adjacent tenure and toll milling or production sharing opportunities.
- Extensions to and repetitions of the high grade Two Mile Hill BIF-hosted mineralisation identified in diamond drilling, with better intercepts of **0.3m at 18.3g/t Au** and **3m at 9.10g/t Au**, including **0.3m at 97.0g/t Au**.
- Sterilisation drilling in the Two Mile Hill area returned a best composite intercept of **4m at 17.6g/t Au** which, although unexpected, serves to demonstrate the rich gold endowment of Middle Island's Sandstone Mining Leases.
- Company successfully applied for a \$150,000 grant under Round 14 of the WA Government's Exploration Incentive Scheme (EIS) to help deep exploration diamond drilling of the strongly mineralised tonalite intrusive and adjacent BIF units at the Two Mile Hill deposit.

Operating Activities

Corporate

Finance

Middle Island Resources Limited (ASX:MDI, Middle Island or the Company) had a cash balance of A\$1.36 million as at 31 December 2016.

Annual General Meeting

The Annual General Meeting of Middle Island was held in Perth on 24 November 2016. All resolutions were overwhelmingly supported by shareholders, with in excess of 99% affirmative votes recorded in each case.

Strategy

In light of the mid-December 2016 deferral of the mill re-commissioning schedule at the Sandstone Gold Project, MDI's priority is the identification of suitable, additional mill feed. This multi-faceted strategy variously includes the following:-

- Continued brownfields exploration and conceptual mining studies on the deeper, high grade, Two Mile Hill BIF targets.
- Greenfields exploration within the Company's Sandstone leases, especially targets with the potential to provide near-term, higher grade, open pit mill feed.
- Commissioning of a 'weights of evidence' targeting study over the entire tenure, to commence early in the March quarter of 2017.
- A review of third-party deposits and exploration opportunities within the wider Sandstone area with a view to negotiating farm-ins, acquisitions and toll-milling or production sharing agreements.

At the Reo gold project in Burkina Faso, West Africa the focus will be on securing permit renewals and extensions, following which the Company will continue to evaluate appropriate divestment opportunities or recommence exploration in its own right.

Sandstone Gold Project (100%) – Western Australia

FEASIBILITY STUDY

Updated Mineral Resource Estimates

Updated Mineral Resource estimates, consistent with the 2012 JORC Code guidelines, were completed for the Shillington, Shillington North and Two Mile Hill open pit deposits (refer ASX release 14 December 2016), as summarised in Table 1 below.

At a geologically sensible lower cut-off grade of 0.7g/t gold, the aggregate initial Mineral Resource comprises some 2.4Mt at 1.31g/t Au for ~100,000oz, with some 86% of the total resource now classified in the higher confidence, Indicated category.

Prefeasibility Study

Based on MDI's assessment of pit optimisations completed on the new Mineral Resources (refer ASX release 16 December 2016), the mineral inventory within currently economic pit-shells is insufficient to justify the immediate re-commissioning of the Sandstone mill. Re-commissioning has therefore been deferred, and focus redirected to extending and enhancing the project's mine life and production profile.

All non-essential PFS work has therefore been suspended.

Sterilisation RC Drilling

RC sterilisation drilling programme for the proposed Shillington/Two Mile Hill waste dump extension and Twin Shafts/Eureka tailings embankment extension at Sandstone has been completed (refer ASX release 15 December 2016).

Most areas appear to have been successfully sterilised, with the notable exception being a single composite of **4m at 17.6g/t Au** (field duplicate **4m at 21.6g/t Au**), located northwest of the Two Mile Hill deposit. This discovery, named the Turley Prospect, appears to be associated with a chert horizon within the basalt sequence and serves to demonstrate the rich gold endowment of Middle Island's granted Mining Leases.

Broader intervals of lower grade gold mineralisation from surface in the Twin Shafts area appear to represent extensions of laterite mineralisation associated with the nearby Eureka deposit.

Single metre resampling of all anomalous composite intervals has been completed, with results pending.

EXPLORATION

Diamond Drilling (Two Mile Hill)

Assay results were returned for deeper exploration diamond drilling adjacent to the Two Mile Hill deposit (refer ASX release 15 December 2016). The programme, comprising five holes for 1,211m, extended mineralisation associated with the upper BIF, confirmed the presence of gold mineralisation within the recently discovered middle BIF, and significantly advanced understanding of the 3D architecture of the Shillington/Two Mile Hill area. The outcome will assist in identifying and resolving deeper, brownfields exploration targets.

More significant gold intercepts include **0.3m at 18.3g/t Au** and **3m at 9.10g/t Au**, including **0.3m at 97.0g/t Au**, within the upper BIF, along with other more sporadic results within both the upper and middle BIF units.

Other potentially mineralised intervals of diamond core have been cut and sampled for analysis, with results pending.

Three dimensional geological modelling of the Shillington/Two Mile Hill was completed in January.

WA Exploration Incentive Scheme (EIS) Grant

Middle Island's application for Round 14 drilling co-funding under the WA Government's 2017 Exploration Incentive Scheme (EIS) was successful. The \$150,000 grant will cover up to 50% of direct drilling costs to test strongly mineralised tonalite intrusive and adjacent BIF units at the Two Mile Hill deposit via deeper exploration diamond drilling. It is anticipated this diamond drilling programme will commence in the March quarter of 2017, dependent on access to adequate funding.

Reo Gold Project (100%) – Burkina Faso

Exploration

No exploration was undertaken at the Company's 100%-owned Reo gold project in Burkina Faso during the December quarter, pending the outcome of various permit extension and renewal applications.

Once tenure has been confirmed, the continuing focus will be on identifying an appropriate partner to help fund the project through to feasibility. However, should a suitable transaction not be forthcoming, the Company plans to recommence exploration at Reo in its own right.

Tenure

Progress on the five outstanding permit renewal and extension applications continues to be closely monitored.

Safety, Environmental & Social

Health, Safety & Environment

No injuries, safety or environmental incidents were recorded at the Company's projects and premises during the December quarter.

Safety bunds around the Shillington and Two Mile Hill pits have been cordoned off and appropriate safety signage installed following the completion of various drilling programmes during the last two quarters, and additional safety signage has been erected in and around the mill site.

Drill sites in and around the Shillington and Two Mile area are being progressively rehabilitated.

Social

The Company continues to engage with the Shire of Sandstone, providing regular updates for Council meetings and presentations as required.

Contact with our host communities at the Reo Project in Burkina Faso is being maintained to ensure they are informed of Middle Island's status.

Comment

The primary objective of the updated Sandstone gold project strategy is to enhance the production profile, operational life and project economics to expeditiously recommission the 600,000tpa gold processing plant on the Company's granted Mining Leases. The strategy is a multi-faceted approach and, while not all elements will ultimately prove successful, we are confident that a combination of these activities will generate the desired outcome.

COMPANY CONTACTS:

Rick Yeates – Managing Director +61 (0)401 694 313

MEDIA CONTACT:

Kevin Skinner Field Public Relations +61 (0)8 8234 9555 / +61 (0)414 822 631

WEBSITE: www.middleisland.com.au

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 have been 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.

Competent Persons' Statement

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



Middle Island Resources Limited (**Company**) advises the following information required under ASX Listing Rule 5.3.3:

Mining Tenements

Tenements	Mining tenements acquired during the quarter	Mining tenements disposed during the quarter	Mining tenements held at the end of the quarter	Tenements location
Pouni	-	-	100% - extension lodged	Burkina Faso
Dassa	-	-	100% - extension pending	Burkina Faso
Didyr	-	-	100% - extension pending	Burkina Faso
Dassa Sud	-	-	100%	Burkina Faso
Nebya	-	-	100% - extension pending	Burkina Faso
Bissou	-	-	100% - extension pending	Burkina Faso
Gossina	-	-	100% - extension pending	Burkina Faso
Nassilé	-	-	100%	Niger
Kakou	-	-	100%	Niger
M57/128	-	-	100%	Western Australia
M57/129	-	-	100%	Western Australia

Farm-in or Farm-out Arrangements

Tenements	Interests in farm-in or farm-out acquired during the quarter	Interests in farm-in or farm-out disposed during the quarter	Interests in farm-in or farm-out held at the end of the quarter	Tenements location
Dogona	-	Renewal pending	Earning 90%	Niger
Boukagou	-	Renewal pending	Earning 90%	Niger

Visit www.middleisland.com.au for further information and announcements.

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/13, 01/09/16

Name of entity

Middle Island Resources Limited

ABN

70 142 361 608

Quarter ended ("current quarter")

31 December 2016

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) exploration & evaluation	(982)	(1,485)
(b) development	-	-
(c) production	-	-
(d) staff costs	(103)	(187)
(e) administration and corporate costs	(89)	(631)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	4	9
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Research and development refunds	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(1,170)	(2,294)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	-
(b) tenements (see item 10)	-	(1,415)
(c) investments	-	-
(d) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
	Proceeds from the disposal of:		
	(a) property, plant and equipment	-	-
	(b) tenements (see item 10)	-	-
	(c) investments	-	-
	(d) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	-	(1,415)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	-	1,455
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	-	1,455

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	2,528	3,613
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,170)	(2,294)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	(1,415)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	1,454
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	1,358	2,528

5. Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1 Bank balances	1,338	3,593
5.2 Call deposits	20	20
5.3 Bank overdrafts	-	-
5.4 Other (provide details)	-	-
5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)	1,358	3,613

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

**Current quarter
\$A'000**

67

-

Item 6.1 includes aggregate amounts paid to directors including salary, directors' fees, consulting fees and superannuation.

7. Payments to related entities of the entity and their associates

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

**Current quarter
\$A'000**

-

-

Mining exploration entity and oil and gas exploration entity quarterly report

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	Nil	Nil
8.2 Credit standby arrangements	Nil	Nil
8.3 Other (please specify)	500	500
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

Other – Vendor Finance under the Deferred Payment Agreement (Sandstone Acquisition). The vendors have agreed for a part of the acquisition consideration (\$500,000) to be deferred for 18 months from completion or 11 January 2018.

9. Estimated cash outflows for next quarter	\$A'000
9.1 Exploration and evaluation	575
9.2 Development	-
9.3 Production	-
9.4 Staff costs	100
9.5 Administration and corporate costs	140
9.6 Other (provide details if material)	-
9.7 Total estimated cash outflows	815

10. Changes in tenements (items 2.1(b) and 2.2(b) above)	Tenement reference and location	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
10.1 Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced	-	-	-	-
10.2 Interests in mining tenements and petroleum tenements acquired or increased	-	-	-	-

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here: *Stephen Jones*
Chief Financial Officer

Date: 16 January 2017

Print name:

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 107: Statement of Cash Flows apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.