



Middle Island

RESOURCES LIMITED

Middle Island Resources Limited
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QUARTERLY REPORT

For the period ended 31 March 2019

HIGHLIGHTS

- Cash/liquid investments as at 31 December 2018 aggregated A\$1.42 million.
- Takeover Offer launched by Middle Island for adjoining Sandstone gold play, Alto Metals Limited (Alto)
- Comprises an all scrip, off-market offer of 5 Middle Island ordinary shares for every 1 Alto ordinary share.
- Alto's gold Mineral Resources are all located within 30km of Middle Island's Sandstone gold processing plant and are situated on, or proximal to, former haul roads.
- The Middle Island Directors believe the combined Middle Island-Alto gold assets offer shareholders of both groups significant growth potential, via modest capital cost, near-term gold production, utilising Middle Island's existing processing plant, to unleash the significant exploration and production synergies and potential offered by an almost entire, highly mineralised, underexplored greenstone belt.
- Geochemical aircore drilling program completed over Sandstone's southern Weights of Evidence (WoE) targets, with results pending at quarters' end.

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ASX Code: MDI

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Capital Structure:

796 million shares
38,300,000 options

Board Members:

Peter Thomas

Chairman

Rick Yeates

Managing Director

Beau Nicholls

Non-Executive Director

Dennis Wilkins

Company Secretary

Operating Activities

Corporate

Finances

Aspiring gold project developer, Middle Island Resources Limited (**ASX:MDI, Middle Island or the Company**), held cash and liquid investments of A\$1.42 million as at 31 March 2019, comprising A\$1.16 million in cash and A\$264,000 in Tajiri Resources Corporation (TSXV:TAJ) ordinary shares.

During the March quarter Middle Island raised A\$1.39 million via a successful and, including shortfall applications, well over-subscribed non-renounceable Rights Issue (refer ASX Release of 18 January 2019).

Alto Metals Takeover Offer

During the March quarter Middle Island announced a Takeover Offer for fellow Sandstone regional gold play, Alto Metals Limited (**ASX:AME, Alto**). The offer is an all scrip off-market takeover offer of 5 Middle Island ordinary shares for every 1 Alto ordinary share (refer ASX Release of 1 March & Bidder's Statement of 10 April).

Alto's Mineral Resources are all located within 30km of Middle Island's Sandstone gold processing plant and are situated on, or proximal to, former haul roads that can be easily upgraded and re-permitted. This should allow the Alto deposits to be mined, hauled to and processed at the Sandstone gold plant.

The Middle Island Directors believe the combined Middle Island-Alto gold assets offer shareholders of both groups significant growth potential, via modest capital cost, near-term gold production, utilising Middle Island's existing processing plant, to unleash the significant exploration and production synergies and potential offered by an almost entire, highly mineralised, underexplored greenstone belt.

Middle Island believes that consolidating AME's and MDI's resources under a combined entity is plain common, commercial sense as it anticipates that this will:-

- Provide the critical mass of gold resources to justify the refurbishment and recommissioning of the Sandstone gold plant.
- Unlock and deliver value from the collective resources to deliver a new, self-sustaining WA gold mining company.
- Facilitate rational, production-funded exploration for the residual gold endowment of the Sandstone greenstone belt.
- Result in a synergistic increase in market profile, market capitalisation and liquidity all leading to improved access to capital markets to fund growth opportunities.

Strategy

The Company's activities during the March quarter 2019 continued to focus on the primary strategy, being to recommission its 100%-owned Sandstone gold processing plant at the earliest opportunity. This has involved a dual approach as follows:

- Progressing and consummating one or more of several possible consolidations of proximal third-party gold deposits within the broader Sandstone district in central WA.
- Exploring already permitted, close proximity, greenfields targets at Sandstone in order to identify higher grade, low strip ratio, open pit deposits to enhance the front end of the proposed production schedule.

Success with either of these approaches would serve to underpin a recommissioning decision. The former consolidation route is preferred, as it circumvents the time and cost required for exploration and resource definition, which activities in the current market are better funded from the proceeds of gold production. To this end, numerous approaches to Alto since late 2016 failed to elicit any meaningful engagement. As such, Middle Island saw fit to put the opportunity directly to Alto shareholders via this quarter's takeover offer.

The above primary strategic objective represents the first element in a broader Middle Island vision that was developed late in 2016, comprising three key elements as follows:-

- Recommission the Sandstone gold processing plant at the earliest opportunity, via exploration of its own tenure and/or consolidation of proximal third party deposits.
- Seek to consolidate additional gold deposits and substantial exploration tenure within the broader Sandstone district around the Sandstone Gold Plant as a central processing hub.
- Demonstrate sufficient production, resource and exploration potential to attract competitive exposure to investment by major and/or mid-tier gold producers.

The first element involves extending and enhancing the existing production profile via a combination of exploration and resource definition to ensure a robust and sustainable operation, in the first instance, and consolidating proximal, third-party deposits in the second instance. These two aspects have been vigorously and simultaneously pursued since 2016, subject to changing market sentiment and financial circumstances.

Owning the only processing plant within a 150km radius, the second element of MDI's vision is to consolidate deposits within the entire region and establish the Sandstone gold plant as a central processing hub. Beyond the Alto deposits, MDI has identified a further 11 gold deposits within a 100km radius of our Sandstone processing plant and is actively pursuing additional consolidation opportunities.

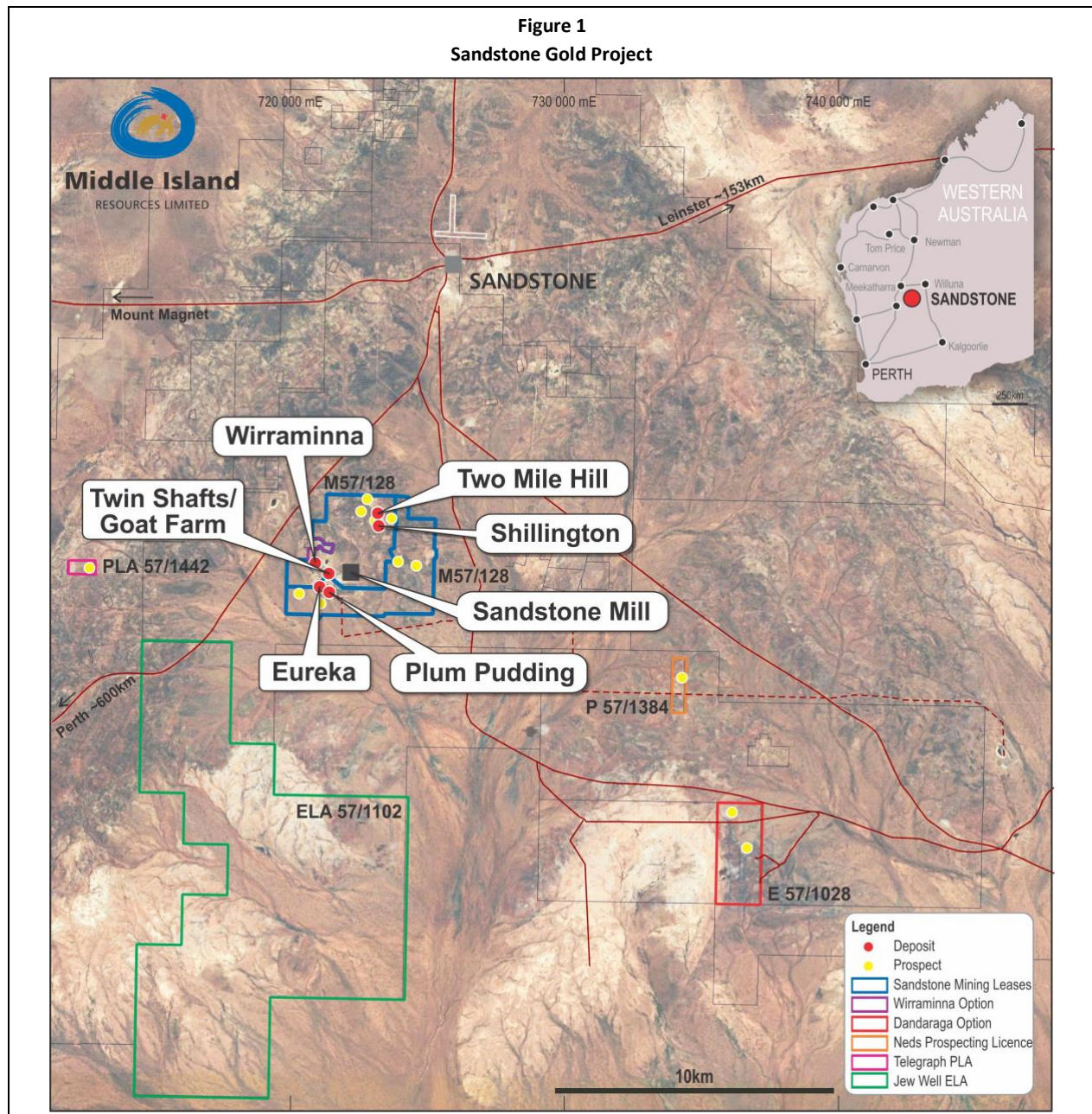
Further consolidations have the potential to offer considerable scale in terms of both operational longevity and prospective exploration tenure. This may trigger the third (and possibly final) element of the vision, by attracting investment interest from major and/or mid-tier gold producers.

The offer to Alto shareholders is entirely consistent with this strategy and vision and affords Alto shareholders an unambiguous opportunity to join in a realistic, pragmatic and commercially sensible journey, at a time of ongoing sustained gold price strength, with the potential to realise a considerable additional premium.



Sandstone Gold Project (100%) – Western Australia

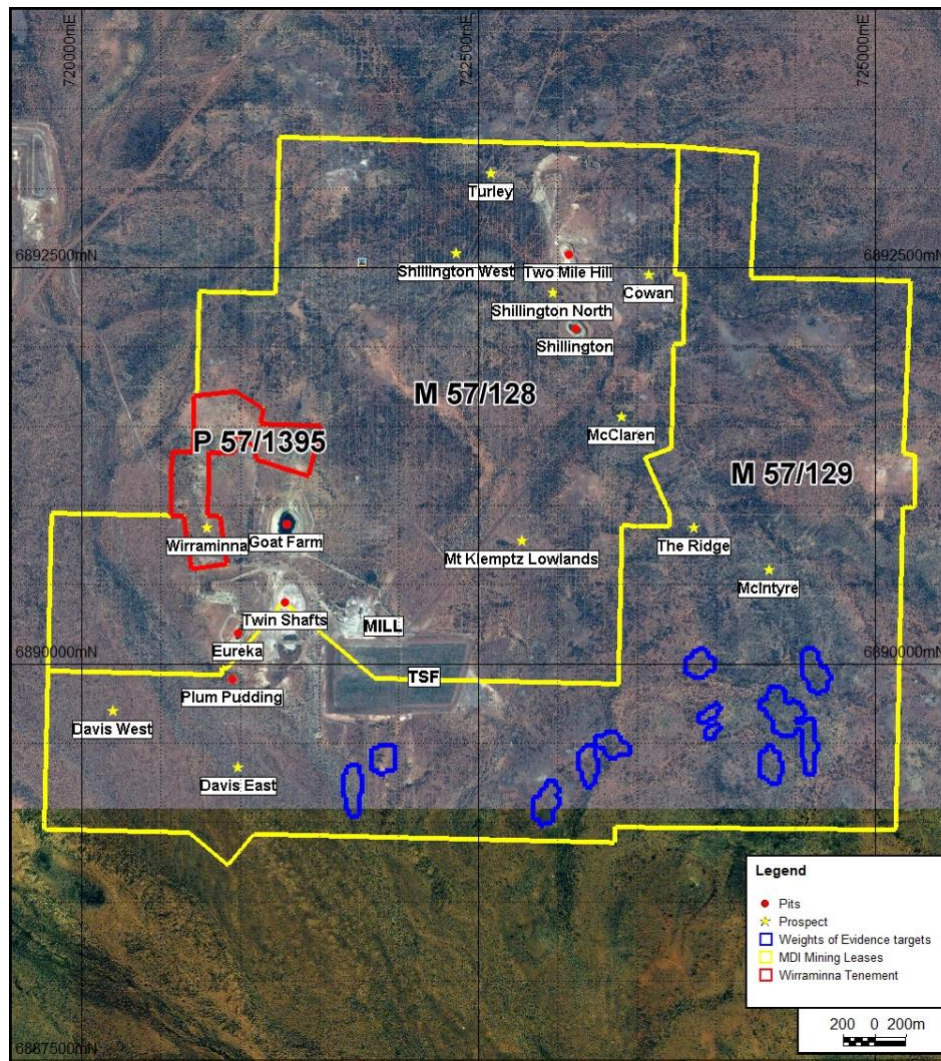
The Sandstone gold project is shown in Figure 1 below.



Weights of Evidence (WoE) Aircore Geochemical Drilling

During the March quarter Middle Island undertook a geochemical aircore drilling program at Sandstone to investigate several Weights of Evidence targets in the project's southern area, generated from a targeting study completed by structural geologist, Dr Brett Davis of Orefind Pty Ltd, in the March quarter of 2017. These targets are situated in close proximity to five known gold deposits (Goat Farm, Twin Shafts, Eureka, Plum Pudding and Wirraminna) as shown in Figure 2 and, like the successful testing of the nearby Davis WoE targets, lie beneath a significant blanket (5-15m) of transported sheetwash cover that has discouraged previous exploration.

Figure 2
Location of the tested Weights of Evidence (WoE) targets



Phase 1 of an aircore geochemical sampling programme was completed over the southern WoE targets in order to penetrate the sheetwash cover to sample the interface between the transported and residual profiles – in effect, a soil sampling survey of the palaeo-surface. Drilling was completed on a 40m x 80m grid pattern in order to ensure adequate coverage over what can be small but, especially significant for MDI, very high grade gold targets in this vicinity.

Assay results for this work were pending at quarter's end. These were subsequently received, compiled and reported early in the June quarter (refer ASX Release dated 18 April 2019).

Tribute Gold Production

There was no tribute gold nugget production derived from M57/128 and M57/129 during the March quarter under review.

A total of 21oz of tribute gold, representing smaller pieces inappropriate for sale direct to gold buyers, was sold to the Perth Mint during the quarter. After refining charges, the net proceeds of this sale were A\$32,249.

Planned 2019 June Quarter Activities

Activities planned at the Sandstone Project during the June quarter 2019 variously comprise:-

- Further aircore drilling to extend and close off defined WoE anomalies (POW approved).
- Reconnaissance RC drilling at the new WoE anomalies (POW required).
- Reconnaissance RC drilling at the Davis prospect (POW approved).
- Reconnaissance RC drilling at the Central, Agnes & Corktree prospects, Dandaraga (POW approved).
- Progressing the Alto takeover offer.
- On-going evaluations and discussions on other consolidation opportunities.

Safety, Environmental & Social

Health, Safety & Environment

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

Rehabilitation of disturbed areas at the Sandstone gold project, primarily drill sites, is being progressively undertaken in accordance with POW and environmental audit requirements.

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.

Comments by Managing Director, Mr Rick Yeates:

"While disappointed not to have been able to engage with the Alto Board and management on a friendly basis, I am pleased Middle Island is pressing the compelling consolidation opportunity for both Middle Island and Alto shareholders via a takeover offer. While a successful outcome is far from assured, your Directors are doing everything reasonably possible to advance and complete this opportunity.

"I'm equally pleased that our small, but effective team, has simultaneously been able to progress our exploration objectives via initial drilling on the southern WoE targets during the quarter. Planned reconnaissance RC drilling of up to six, mostly new targets during the June quarter will advance this cause in an even more meaningful way.

"Progressing these dual strategies of exploration and consolidation in order to advance a recommissioning decision is entirely consistent with your Company's overall objectives, and I look forward to reporting further positive news on these fronts during the remainder of 2019."

COMPANY CONTACTS:

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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.

Mining Tenements

Middle Island Resources Limited advises the following information required under ASX Listing Rule 5.3.3 as at 31 March 2019.

| Tenements | Mining tenements acquired during the quarter | Mining tenements disposed during the quarter | Mining tenements held at the end of the quarter | Tenement location |
|-----------|--|--|---|-------------------|
| Pouni II | - | Under option to divest 100% | 100% | Burkina Faso |
| Dassa | - | Under option to divest 100% | 100% | Burkina Faso |
| Didyr | - | Under option to divest 100% | 100% - under reapplication | Burkina Faso |
| Dassa Sud | - | Under option to divest 100% | 100% - extension pending | Burkina Faso |
| Nebya | - | Under option to divest 100% | 100% - awaiting transfer | Burkina Faso |
| Gossina | - | Under option to divest 100% | 100% - extension pending | Burkina Faso |
| M57/128 | - | - | 100% | Western Australia |
| M57/129 | - | - | 100% | Western Australia |
| P57/1384 | - | - | 100% | Western Australia |
| P57/1395 | - | - | Option to acquire 100% | Western Australia |
| E57/1028 | - | - | Option to acquire 100% | Western Australia |
| P57/1442 | - | - | 100% - application pending | Western Australia |
| E57/1102 | - | - | 100% - application pending | Western Australia |

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