



Middle Island
RESOURCES LIMITED

Middle Island Resources Limited
ACN 142 361 608

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QUARTERLY REPORT

For the period ended 31 December 2019

HIGHLIGHTS

- Aggregated cash and liquid investments as at 31 December 2019 of A\$764,000.
- In November 2019, Middle Island Placed 130.0m Shares at A\$0.004 per Share to raise A\$520,000, before costs, together with 1 for 1 Options expiring January 2022 with an exercise price of A\$0.0077.
- In December 2019, Middle Island announced a fully underwritten, pro-rata, non-renounceable Entitlement issue on the basis of one New Share for every two Shares held, at an issue price of A\$0.004 per Share to raise gross proceeds of approximately A\$2.35 million before costs, together with 1 for 1 Options expiring January 2022 with a A\$0.0077 exercise price.
- The combination of cash at bank and committed capital therefore sees the Company commence 2020 with ~A\$2.8 million.
- Middle Island's Takeover Offer for fellow Sandstone (WA) neighbour, Alto Metals Limited, lapsed on 29 November, 2019.
- Mining Engineer, Mr Brad Marwood, appointed as a Non-Executive Director of Middle Island in December 2019.
- A re-optimisation of open pit gold deposits at Sandstone was undertaken on the basis of sustained higher Australian dollar gold prices. The study demonstrated that the Sandstone gold processing plant could be profitably recommissioned utilising feed from MDI's existing Mineral Resources.
- Middle Island simultaneously completed a comprehensive technical review directed at identifying and prioritising all Sandstone's open pit targets and deposit extensions with a view to increasing Mineral Resources prior to updating the pre-feasibility study (PFS).
- The review prioritised 17 targets for assessment via a staged drilling campaign comprising some 17,400m to be undertaken during the March quarter 2020.
- Middle Island applied for 10 exploration licences within the Northern Territory (Barkly Super Project), extending semi-continuously for over 350km along the axis of the IOCG prospective, East Tennant Ridge from Tennant Creek towards the Queensland border.

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ASX Code: MDI

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Capital Structure:

1,177 million ordinary shares
405,950,719 unlisted options

Board Members:

Peter Thomas

Chairman

Rick Yeates

Managing Director

Beau Nicholls

Non-Executive Director

Brad Marwood

Non-Executive Director

Dennis Wilkins

Company Secretary



Operating Activities

Corporate

Finances

Aspiring WA gold project developer, Middle Island Resources Limited (**ASX:MDI, Middle Island or the Company**), held aggregated cash and liquid investments of A\$764,000 as at 31 December 2019, comprising A\$462,000 in cash and A\$302,000 in Tajiri Resources Corporation (TSXV:TJ) 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**). Each participant in the Placement will be issued options (**Options**) on the basis of one (1) Option for every one (1) Share issued. The Options will be on the same terms as those existing unlisted options on issue, which expire in January 2022 exercisable at A\$0.0077.

Tranche 1 of the unconditional 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 the 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 will be issued one (1) Option for every one (1) share subscribed. The Options will be on the same terms as the existing series of unlisted options on issue (expiring January 2022, with an A\$0.0077 exercise price).

The Entitlement Issue is fully underwritten and lead-managed by Pinnacle Corporate Finance Pty Ltd.

The combination of cash at bank and committed capital therefore sees the Company commence 2020 with some A\$2.8 million.

2019 Annual General Meeting

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).

Takeover Offer by MDI 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, the Middle Island Directors remain firmly of the belief that combining the Middle Island-Alto gold assets offers a substantial growth opportunity for near-term gold production, processing the two companies' Mineral Resources through Middle Island's proximal gold plant, and consolidating the entire Sandstone greenstone belt under a single entity.



Director Appointment

Mr Brad Marwood was appointed as a Non-Executive Director of the Company (refer ASX Release dated 2 December 2019).

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. Middle Island welcomes Mr Marwood to the Board and looks forward to his overview of, and contribution to, the Company's planned transition from WA gold explorer to gold developer/producer.

At the request of Mr Marwood, the Company has agreed, subject to shareholder approval, to remunerate him for 12 month services as a director by agreeing to issue him redeemable convertible shares (**RCS**). The number of RCS's to be issued to Mr Marwood is 7,500,000, being \$30,000 at the notional price of \$0.004 per share, representing the price at which the Company's fully paid ordinary shares (**Shares**) (ASX: MDI) were trading when Mr Marwood joined the Board. The RCS's will convert into ordinary fully paid shares (ranking pari passu with all other Shares then on issue) at the end of 12 months service by Mr Marwood as a director of the Company. In the event shareholders do not approve the issue of the RCS's to Mr Marwood, the Company will pay him the sum of \$2,500 per month served. In the event shareholders approve the issue of the RCS's, but Mr Marwood leaves the board before serving 12 months, a proportion of the RCS's equal to the number of months of service relative to 12 months will be issued and the remainder redeemed. Mr Marwood will not be entitled to further remuneration for his service as a director, save where he is called upon to provide extraordinary services (not in the ordinary course) on remunerative terms then approved by the Board.

Tenure

Following disappointing 2019 reverse circulation (RC) drilling results at Dandaraga, albeit a program of limited scope, the Company elected to withdraw from the Dandaraga Option Agreement, part of the broader Sandstone Project.

Following the successful divestment during the September quarter 2019 of the Reo gold project in Burkina Faso, West Africa, Middle Island applied for 10 Exploration Licences, aggregating 3,912km², to secure first-mover advantage in the recently identified and highly prospective East Tennant iron oxide-copper-gold (IOCG) province, located east of Tennant Creek in the Northern Territory (NT) of Australia (refer ASX Release dated 15 November 2019).

Strategy

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

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

Success with either or both of these approaches would likely serve to underpin a recommissioning decision.



Given higher and more sustained Australian dollar gold prices, the Company early in the December quarter 2019 completed a high level, internal, review of the economics of a standalone recommissioning of its mill to augment the above strategy (refer ASX Release dated 25 October 2019). Following the positive outcome of this work, an update of the 2017 Sandstone pre-feasibility study (PFS) was commenced.

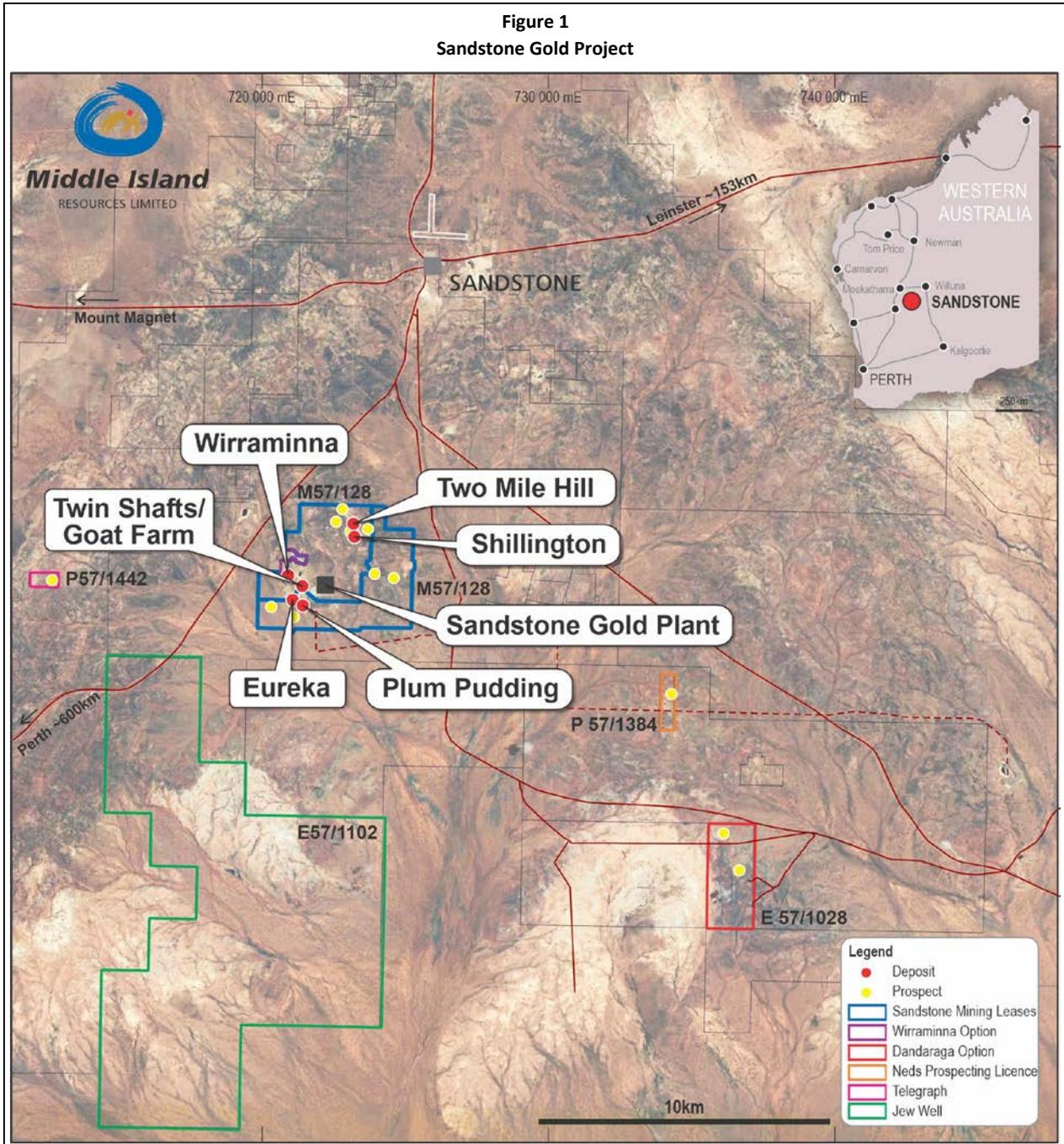
However, the opportunity to access significant additional exploration funding via the fully underwritten Entitlement Issue, resulted in the PFS update being deferred in favour of a major exploration and resource definition drilling campaign, focussed exclusively on open pit deposits and targets, to be undertaken during the March quarter 2020. The PFS update will be recommenced in the June quarter 2020, on completion of the drilling campaign.

Despite the outcome of MDI's Takeover Offer for Alto, Middle Island is continuing discussions with three other parties with gold deposits within a 100km radius of the Company's Sandstone processing plant, variously on the basis of toll milling, production sharing, and asset and corporate level consolidations.



Sandstone Gold Project (100%) – Western Australia

The Sandstone gold project is shown in Figure 1 below.



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).

MDI engaged external consultants to undertake a series of Whittle Optimisations based on two input parameters being updated from those applied in the 2017 PFS. 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.



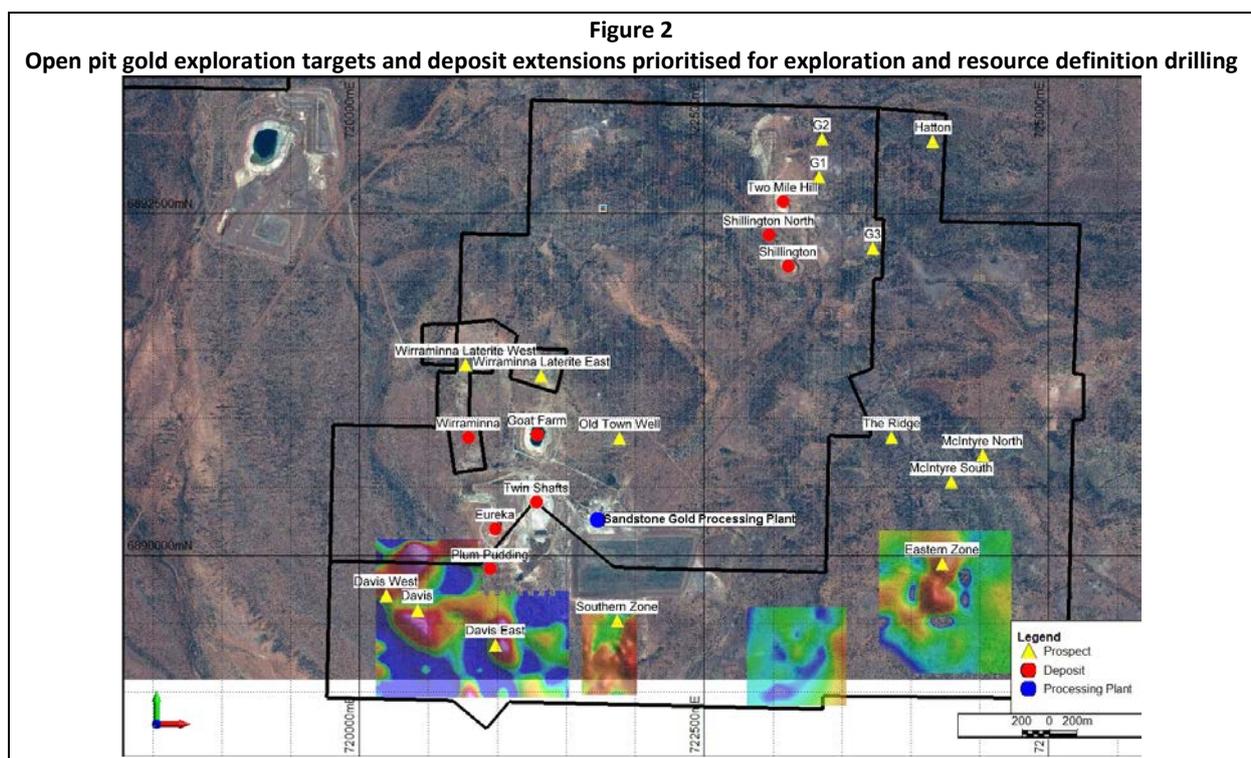
The re-optimisation study utilised a range of contemporary gold prices from A\$2,000/oz to A\$2,500/oz, considerably higher than the base-case gold price of A\$1,600/oz utilised in the original PFS. Geotechnical parameters were adjusted to emulate the existing pit slope angles, which pits are still standing more than 15 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 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 tenure. This review identified 17 priority targets and deposits within 5km of Middle Island’s 100%-owned gold processing plant that offer significant potential to enhance open pit Mineral Resources. As such, the PFS update was deferred, the proposed Tranche 2 capital raising substituted for the more substantial, fully-underwritten Entitlements Issue, and a major drilling campaign planned to quantify additional Mineral Resources prior to completing the updated PFS in the 2020 June quarter.

Comprehensive Open Pit Exploration Review

Middle Island completed a comprehensive technical review of all exploration data during the December quarter, directed at identifying and prioritising all open pit targets and deposit extensions. The review prioritised 17 targets for assessment via a staged drilling campaign comprising some 17,400m to be undertaken during the March quarter 2020, and which was announced subsequent to the December quarter (refer ASX Release 15 January 2020). **Fourteen of the 17 targets and deposit extensions are situated on fully permitted Mining Leases and all lie within 5km of the Company’s 100%-owned gold processing plant** (Figure 2).





The campaign will comprise an initial aircore program (~2,300m) to primarily refine existing targets, followed by two phases of RC drilling (~11,300m & ~3,000m respectively) for resource definition purposes, and a limited program of oxide diamond coring (~800m) to provide material for additional bulk density determinations, and confirm metallurgical, geotechnical and waste characterisation parameters in advance of the PFS update. The drilling campaign is directed at defining additional gold Mineral Resources to enhance the prospect of the project's pending PFS review delivering a positive outcome, underpinning a mill recommissioning.

Tribute Gold Production

No tribute gold nugget production is reported for the December quarter.

Planned 2020 March Quarter Activities

Activities planned at the Sandstone Project during the March quarter 2020 comprise:-

- ~2,300m aircore drilling program on three targets (commenced).
- ~11,300m Phase 1 RC drilling program to assess 17 targets.
- ~3,000m Phase 2 RC drilling program to upgrade Inferred Mineral Resources to an Indicated status.
- ~800m HQ3 diamond drilling program to derive additional oxide bulk densities and confirm metallurgical, geotechnical and waste characterisation parameters.
- Resource estimation and open pit optimisation studies on additional deposits and extensions.

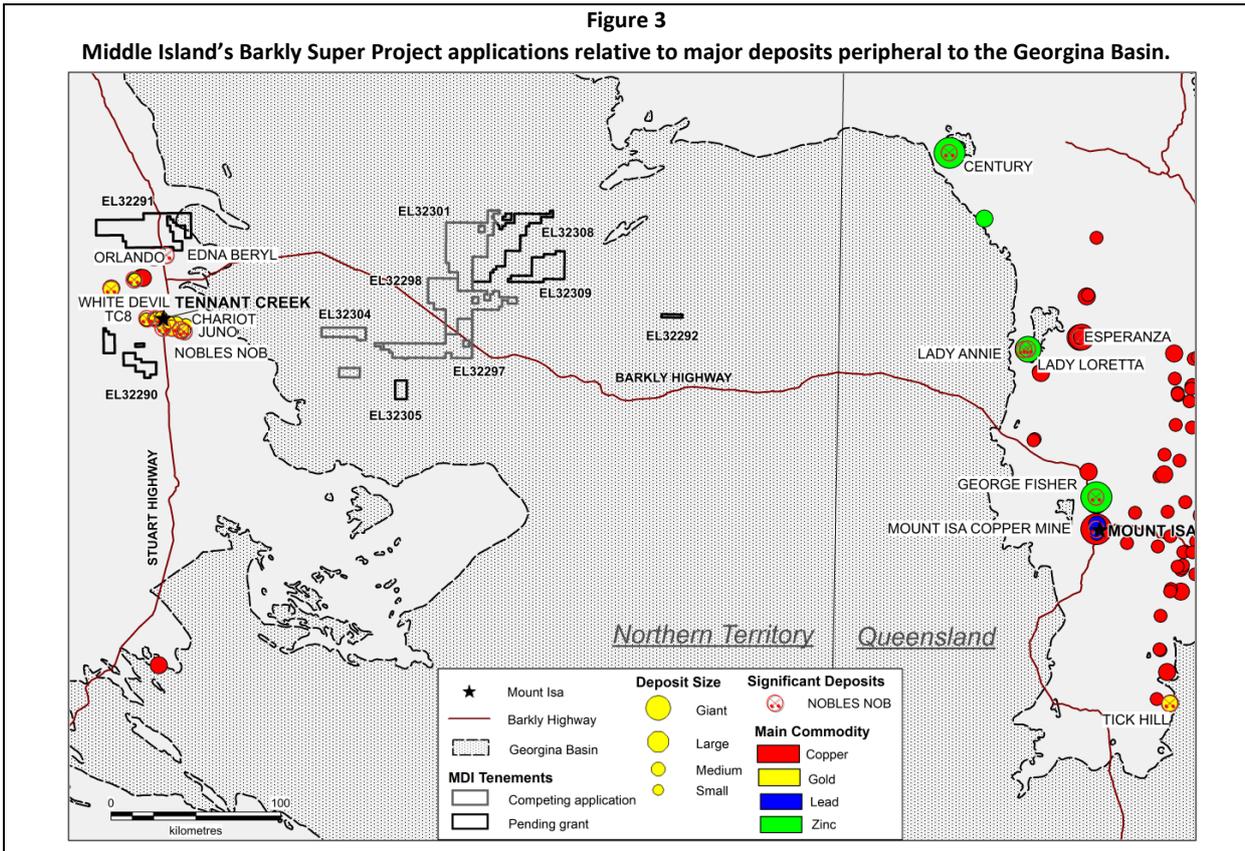
Barkly Copper-Gold Super Project (100%) – Northern Territory

Exploration Licence Applications

During the December quarter, Middle Island applied for 10 exploration licences covering an aggregate area of 3,912 square kilometres within the East Tennant region of the Northern Territory (NT). The applications semi-continuously extend for more than 350km along the axis of the East Tennant Ridge from Tennant Creek, east across the Barkly Tableland, towards the Queensland border (refer ASX Release dated 15 November 2019).

Six of these applications, covering some 1,890 square kilometres, have been accepted. An additional four applications, representing a further 2,022 square kilometres, were lodged by Middle Island as part of a competitive process following the lifting of an Exploration Licence application moratorium over the East Tennant (Barkly) area. These applications are currently the subject of partially or wholly competing applications made by several companies, the outcome of which will be judged in the March quarter 2020 on the technical merit of proposed exploration programs.

The 10 tenement applications represent Middle Island's maiden entry into one of the NT's historically strongly mineralised copper-gold provinces, and position the Company as a first-mover within the newly identified, iron oxide-copper-gold (IOCG)-prospective East Tennant terrane (Figure 3), which extends across the Barkly Tableland.



Middle Island identified the Barkly Tableland region east of Tennant Creek as an extensive area of unexplored basement potential. Assessment of Exploring for the Future (EFTF) data sets, integrated with historic open file data, led to the identification of several priority targets of interpreted IOCG affinity, extending beneath sedimentary cover along a sinuous corridor from Tennant Creek to Mount Isa.

Middle Island's early focus on the East Tennant area afforded the Company the opportunity to confirm priority targets prior to the public release of Geoscience Australia and NT Geological Survey pre-competitive research data, and to be well-positioned when the Exploration Licence application moratorium was lifted on 7 October 2019.

In addition to competition from Rio Tinto Exploration in the more immediate Tennant Creek area, several Middle Island tenement applications in the Barkly (East Tennant) area partially coincide with competing applications by Newcrest Mining and others, further justifying the strategy and selection rationale.

With respect to uncontested applications, it is anticipated that regulatory protocols will not see these tenements granted prior to March 2020. Competing tenement applications are anticipated to be assessed and allocated in January 2020, with other regulatory protocols taking at least a further four months to May 2020, prior to grant. As such, it is anticipated that field work might reasonably commence during the 2020 dry season.



Safety, Environmental & Social

Health, Safety & Environment

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

One incident was recorded at Sandstone when a localised tornado removed the roof over part of the exploration camp. Fortunately, the camp was unoccupied at the time and no injuries were recorded. The roof will be replaced with an equivalent structure, but all future constructions of this type will be engineered to withstand cyclonic conditions to mitigate any future potential damage or injury.

The updated Mine Closure Plan for the Sandstone gold project was prepared and submitted to the WA Department of Mines, Industry Regulation and Safety (DMIRS) in November 2019.

Rehabilitation of disturbed areas at the Sandstone gold project, primarily drill sites, is being progressively undertaken in accordance with POW and environmental audit requirements. Similarly, tailings water bore sampling is being undertaken on a six-monthly basis in accordance with permit conditions, with all readings 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.

A similar philosophical approach is planned in the NT, once the Barkly super project tenements are allocated and granted.

Comments by Managing Director, Mr Rick Yeates:

"The December quarter of 2019 saw Middle Island re-optimize existing deposits at Sandstone on the basis of contemporary gold prices, instigate an update of the Sandstone PFS, secure substantial additional funding, complete a detailed technical review of all open pit targets and deposit extensions at Sandstone and make application in the NT for 10 Exploration Licences comprising the new Barkly Super Project.

"Commencing 2020 with ~A\$2.8 million in cash, either at bank or committed via underwriting, provides a rare opportunity to realise a long-held ambition to deploy significant drilling metres across a multitude of open pit targets at Sandstone that have remained untested (or poorly tested) due to funding constraints.

"The planned ~17,400m multi-phase drilling campaign has the potential to add significant open pit Mineral Resources to the Sandstone gold project. With the Australian dollar gold price near record levels, any additional Mineral Resources identified during the drilling campaign should significantly enhance the outcome of the updated PFS, which is planned to recommence in the June quarter of 2020, hopefully leading to a positive recommissioning decision once completed.

"Middle Island Directors acknowledge Mr Stephen Copulos and his associates for their vision in identifying, not only the more immediate gold production scenario, but endorsing the broader vision to create a significant regional gold processing hub centred on Middle Island's Sandstone mill, via cornerstone investments in the recent and current capital raisings.

"I look forward to keeping you updated on progress with this extensive Sandstone drilling campaign as results are forthcoming during the March quarter."



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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 Person’s 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 December 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
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	-	Withdrawn from Option	Nil	Western Australia
P57/1442	-	-	100%	Western Australia
E57/1102	-	-	100%	Western Australia
EL 32291	Application		Pending Grant	Northern Territory
EL 32290	Application		Pending Grant	Northern Territory
EL 32305	Application		Pending Grant	Northern Territory
EL 32308	Application		Pending Grant	Northern Territory
EL 32309	Application		Pending Grant	Northern Territory
EL 32292	Application		Pending Grant	Northern Territory
EL 32297	Application		Awaiting Ballot Outcome	Northern Territory
EL 32298	Application		Awaiting Ballot Outcome	Northern Territory
EL 32301	Application		Awaiting Ballot Outcome	Northern Territory
EL 32304	Application		Awaiting Ballot Outcome	Northern Territory

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