

Annual Report

2019



Exploring Golden Frontiers



**Middle Island**  
RESOURCES LIMITED

# Corporate Directory

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**ABN 70 142 361 608**

## **DIRECTORS**

Peter Thomas  
(Non-Executive Chairman)

Richard Yeates  
(Managing Director)

Beau Nicholls  
(Non-Executive Director)

Dennis Wilkins  
(Alternate for Beau Nicholls)

## **COMPANY SECRETARY**

Dennis Wilkins

## **REGISTERED OFFICE**

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West Perth WA 6005

## **PRINCIPAL PLACE OF BUSINESS**

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West Perth WA 6005

## **POSTAL ADDRESS**

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West Perth WA 6872

## **SOLICITORS**

### **Williams and Hughes**

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West Perth WA 6005

## **SHARE REGISTER**

### **Security Transfer Registrars Pty Ltd**

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Applecross WA 6153

## **AUDITORS**

### **Greenwich & Co**

Level 2  
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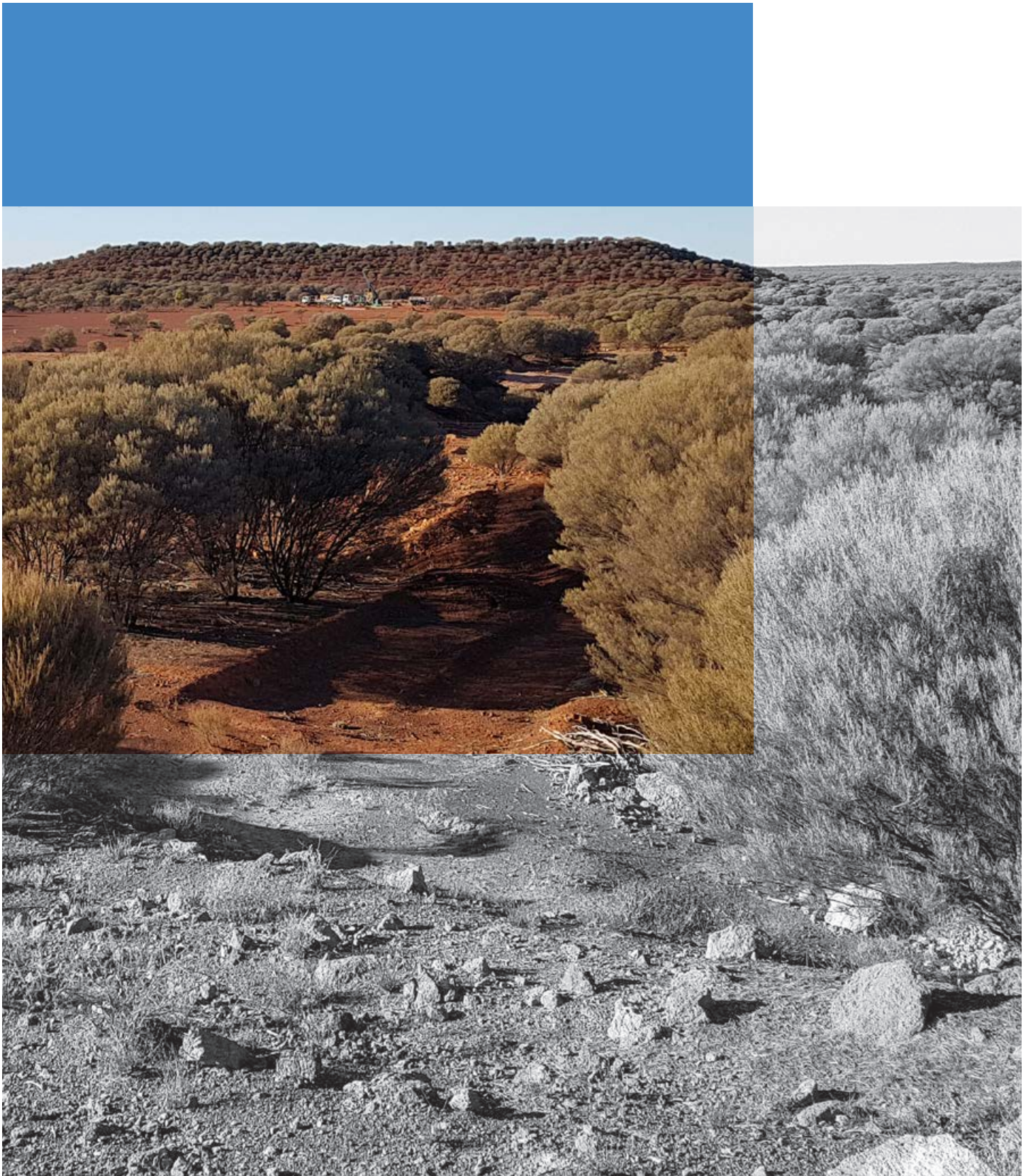
## **STOCK EXCHANGE LISTING**

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

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## Managing Director's Overview



Dear fellow Middle Island shareholders,

I acknowledge the extraordinary shareholder support Middle Island received for the Rights Issue that closed in January 2019. This issue was, quite deliberately, heavily discounted and included an Option component, out of respect for shareholders. Despite the challenging equities market at the time, including shortfall applications, the issue was ~20% oversubscribed, extending an unbroken record of fully or over-subscribed issues for your Company since the inception of Middle Island in 2010. I sincerely thank you again for your enduring trust, loyalty and support.

The 2019 Financial Year proved to be challenging for Australia's junior mineral explorers and near-term resource project developers. Subsequent to financial year end (30 June 2019), however, there has been some very selective re-rating of junior gold stocks on the basis of exploration success and an escalating gold price, providing cause for cautious optimism.

Junior equities markets are still challenging Middle Island's capacity to adequately fund sustained, systematic gold exploration. To illustrate my point, at June 2019, Middle Island had an enterprise value per resource ounce of gold (EV/oz) of A\$6.00, versus a peer average EV/oz of A\$38.00. This EV/oz valuation takes no account of the Company's 600,000tpa Sandstone processing plant in central WA and associated infrastructure (notional new for old replacement value of approximately A\$60 million) or the balance of the 900,000-1.5Moz Two Mile tonalite deeps Exploration Target within our broader Sandstone holding. Your management and Board continue to press the substantial valuation gap expressed in Middle Island's market capitalisation.

Your Company has simultaneously, but selectively, pursued a strategy of consolidation over exploration in order to more expediently build the critical mass of open pit material to recommission the Sandstone processing plant and fund further feedstock-focused exploration from cashflow. In addition to Middle Island's current takeover offer to shareholders in our Sandstone gold neighbour, Alto Metals Limited (ASX:AME, Alto), an offer presenting strong geographic and geologic synergies, the Company has also been in active discussions and negotiations with a further three entities which have quantified Mineral Resources (or are in the process of quantifying Mineral Resources) within an economic haulage distance of our Sandstone processing plant. Some of these opportunities present better economic synergies than Alto and, as such, negotiations will continue

in FY20, with the ultimate objective of consolidating the greater Sandstone district around Middle Island's central processing hub.

While consolidation of proximal gold deposits has been the recent focus, the market is once again beginning to reward exploration success. As such, adequate funds permitting, your Company intends to simultaneously re-prioritise towards exploration, revisiting the plethora of targets held in our own right. These targets have been short-listed and prioritised to higher grade, lower strip ratio opportunities, situated on already permitted tenure, in line with our primary recommissioning strategy.

One higher risk target, which does not wholly match the above definition, but justifiably offers considerable shareholder anticipation, is drill testing of the three gravity targets to discover what we anticipate could represent another gold-mineralised Two Mile Hill tonalite plug. Such a discovery could well prove a longer-term game-changer for the Sandstone project and your Company.

The Company's Reo gold project in Burkina Faso in West Africa was successfully fully divested subsequent to financial year end. This divestment not only allows us to fully focus on the Sandstone project, but also affords the opportunity to identify a new project for Middle Island. To this latter end, the Company has deployed its technical resources in researching new greenfields gold and/or copper-gold exploration opportunities in less-traditional, yet highly prospective, terrains elsewhere within Australia. I look forward to sharing the outcome of this work with you as applications are lodged and confirmed.

Against a backdrop of global economic and geo-political uncertainty, the international gold price and domestic exchange rate are collaborating to deliver what I believe represents a sustained run of record A\$ gold prices that will assist not only in underpinning the probability of an early Sandstone recommissioning, but the overall fortunes of your Company.

I look forward to keeping you abreast of these developments as 2019-2020 unfolds.

Yours faithfully,

**Rick Yeates**  
**Managing Director**



# Operations Overview

## CORPORATE

### Finance

Middle Island had a cash balance of A\$564,618 as at 30 June, 2019.

Revenue from tribute production and gold sales of A\$37,488 was received. Other income of \$370,409 was generated from the sale of mining interests, reimbursement of expenditure on mining interests, sale of property, plant and equipment and rental of accommodation. Middle Island also received a grant of \$121,629 from the WA Government's Exploration Incentive Scheme during the 2018 financial year.

Middle Island completed a non-renounceable rights offer to Eligible Shareholders on the basis of one (1) New Share for every two (2) Shares held on the Record Date at an issue price of A\$0.004 per New Share (together with one free attaching New Option for every 1 New Share subscribed for and issued) to raise up to approximately A\$1.396 million (before costs).

### Strategy

During FY2019, Middle Island continued to focus on its primary strategy to recommission its 100%-owned Sandstone gold processing plant at the earliest opportunity. This continued to involve 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 within MDI's existing Sandstone tenure in order to identify higher grade, low strip ratio, open pit deposits to enhance a mill re-start schedule.

Success with either of these approaches would likely serve to underpin a recommissioning decision. The consolidation route was preferred, as it circumvents the time and cost required for exploration and resource definition. Until recently, given the challenging equity market, it was axiomatic that exploration was best funded from the proceeds of gold production.

The takeover offer to Alto shareholders (currently closing on 29 November 2019) affords Alto shareholders an unambiguous opportunity to join in a realistic, pragmatic and commercially logical journey, at a time of ongoing sustained gold price strength, delivering the potential for them to realise a considerable additional premium over and above that inherent in the share ratio the subject of the offer.

[The Company remains confident that continuing this strategic approach will ultimately lead to plant recommissioning and gold production at Sandstone.](#)

At the Reo gold project in Burkina Faso, West Africa, the Company's objective was realised, with consummation of a satisfactory project divestment to Canada's Tajiri Resources Corp. The transaction structure provides on-going exposure to the Reo asset for MDI shareholders via ownership of Tajiri shares and a royalty, whilst also permitting the Company to focus its resources on the Sandstone gold project in WA and new acquisitions in Australia.

To this end, the Company is researching new greenfields gold and/or copper-gold exploration opportunities in less-traditional, yet highly prospective, terrains within Australia. This work has involved the close monitoring of collaborative research projects being undertaken by State and Federal Geological Surveys active in identifying and modelling new exploration opportunities beneath relatively shallow basin cover, playing to one of Middle Island's key exploration strengths.

# Operations Overview

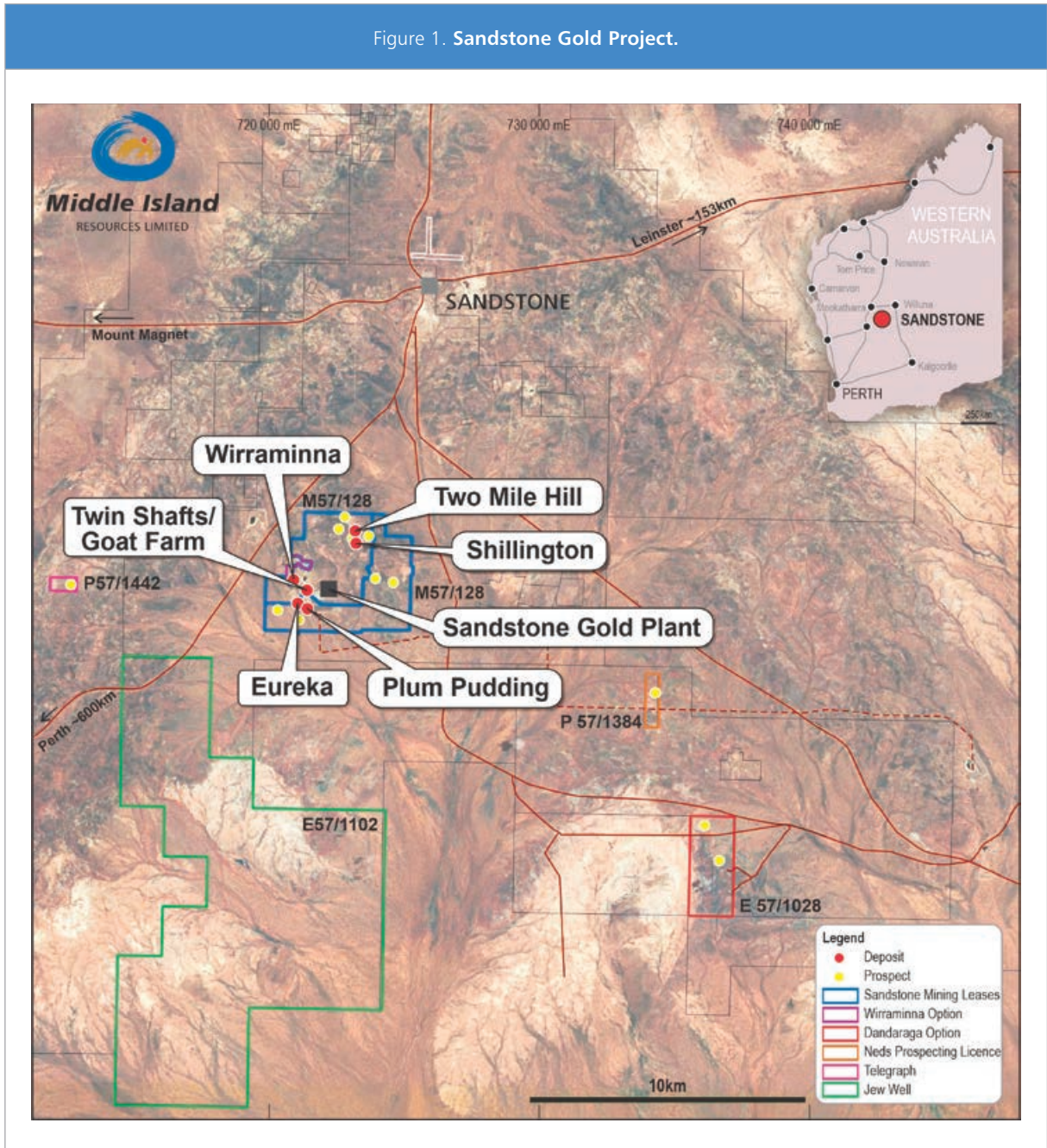
## Shareholder Meetings

The 2018 Annual General Meeting of Middle Island was held in Perth on 8 November, 2018. All resolutions were overwhelmingly supported by shareholders, with in excess of 97% affirmative votes recorded for the majority of resolutions.

## SANDSTONE GOLD PROJECT (100%) – WESTERN AUSTRALIA

The Sandstone gold project is shown in Figure 1 below.

Figure 1. Sandstone Gold Project.



# Operations Overview

## New Tenement Applications

A successful application was made for P57/1442 (Telegraph), located 9km west of the Sandstone processing plant and covering an area of 0.52km<sup>2</sup>. The tenement incorporates a zone of stockwork quartz veining within dolerites and gabbros that has been heavily prospected, but remains undrilled.

A successful application was also made for E57/1102 (Jew Well), located 10km southwest of the Sandstone processing plant and covering an area of 158.4km<sup>2</sup>. The tenement incorporates the southwestern extremity of the Sandstone greenstone belt (largely veneered by transported cover), lying to the east of and straddling the Youanmi Fault.

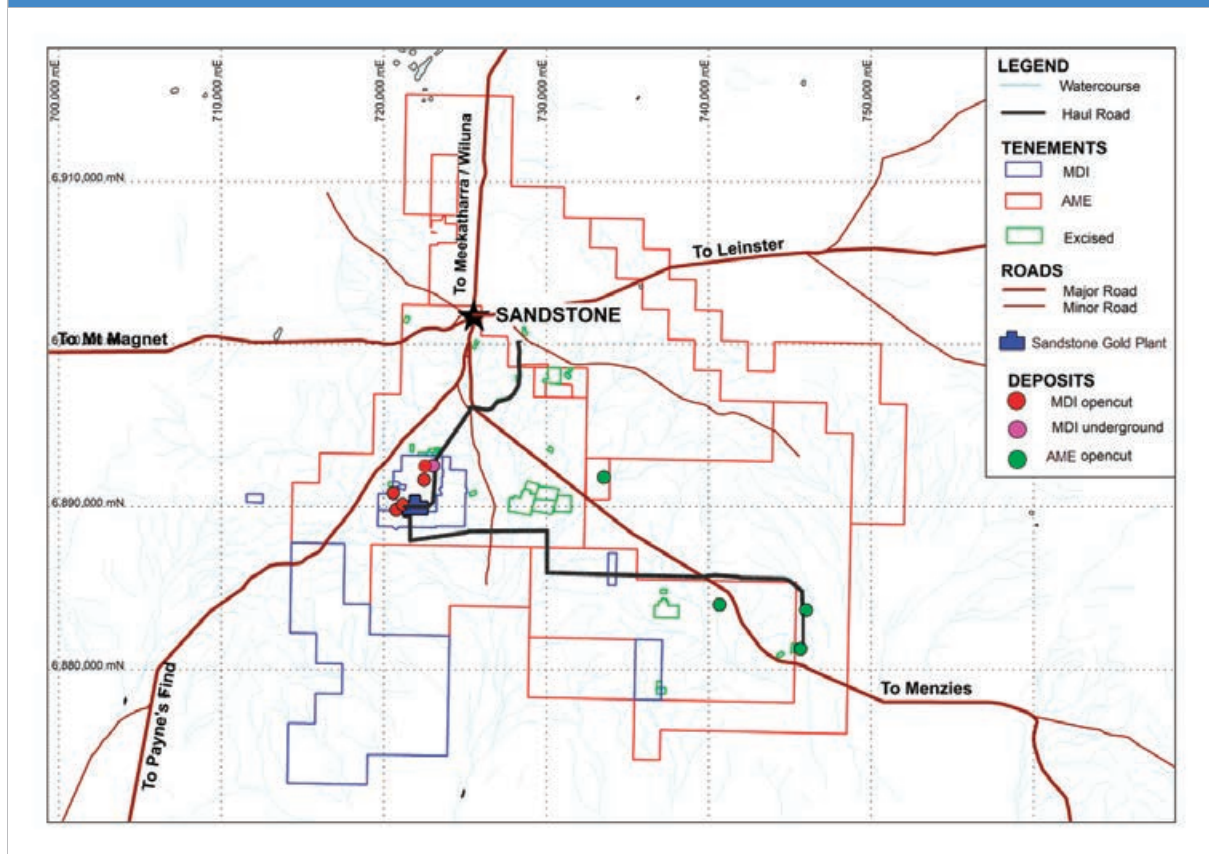
During the June quarter 2019, both the Telegraph Prospecting Licence application (P57/1442) and Jew Well Exploration Licence application (E57/1102) were formally granted (see ASX Release 31 July 2019).

## Alto Metals Takeover Offer

During the June quarter, Middle Island extended its Takeover Offer for Alto Metals to 30 September 2019 (refer Fifth Supplementary Bidder's Statement of 26 July 2019). The all scrip off-market takeover offer was also increased from, initially, 5 Middle Island ordinary shares for every 1 Alto ordinary share (refer ASX Release of 1 March & Bidder's Statement of 10 April) to 6 Middle Island ordinary shares for every Alto ordinary share (refer Fourth Supplementary Bidder's Statement of 27 June 2019). A further extension sees the offer due to close on November 29 and includes application of the offer to shortfall shares arising from an Alto capital raising early in calendar 2019.

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 readily re-permitted (see Figure 2). This offers the potential to economically mine, haul to and process the Alto gold deposits at the Sandstone gold plant.

Figure 2. Location of AME tenements, MDI Sandstone Gold Project and the Sandstone Gold Plant.





# Operations Overview

Middle Island Directors strongly believe the combined Middle Island-Alto gold assets offer a substantial growth opportunity for current and future shareholders of the Combined Group via low start-up costs and near-term gold production, utilising Middle Island's existing processing plant, along with the consolidation of significant gold resource upside and exploration potential within the combined entity's existing tenement footprint.

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

- » Provide a critical mass of gold resources to further underpin refurbishing and recommissioning the Sandstone gold plant.
- » Establish a new, self-sustaining, WA gold mining and production company.
- » Facilitate rational, production-funded exploration.
- » Result in an increase in market profile, market capitalisation and liquidity, all leading to improved access to capital markets to fund further growth opportunities.

## Two Mile Hill Diamond Drilling

In the 2018 September quarter, all assays were received, compiled and reported for Stage 1 RC pre-collared, resource definition diamond drilling on the Two Mile Hill tonalite deeps deposit. This program was focussed exclusively on the upper half of the deeps deposit (from 140m to ~420m below surface) and comprised 7 holes for a total of 2,109.2m, including 994m of RC pre-collar drilling and 1,115.2m of NQ diamond core tails (refer ASX Release of 27 August 2018).

In addition to quantifying the upper half of the current Exploration Target (24 to 34Mt at 1.1 to 1.4g/t; 900,000 to 1.5 million ounces of gold) with a view to defining a Mineral Resource of at least an Inferred Resource status, the holes were designed to optimise the number of intercepts of the upper two banded iron formation (BIF) units, proximal to the tonalite contacts, which are known to host high grade gold mineralisation associated with massive to semi-massive pyrite replacement of magnetite horizons.

*The potential quantity and grade of an Exploration Target is conceptual in nature, as insufficient exploration has been undertaken to estimate a Mineral Resource and it is uncertain if further exploration will result in the estimation of a Mineral Resource.*

The tonalite results are generally consistent with previous diamond drilling. Better bulk mineralised intervals of tonalite, without reference to cut-off grade or included waste, comprise **150m at 1.03g/t Au** (from 84m depth), including **34m at 1.85g/t Au** (from 96m depth), in MSDD265. The bulk tonalite intercept in MSDD267 comprised **165m at 1.11g/t Au** (from 85m depth), including **7m at 4.73g/t**, **5m at 6.00g/t** and **10m at 3.34g/t Au** (from 123m, 142m and 202m depth, respectively), while MSDD263 included **1m at 28.8g/t Au** from 170m depth.

Several intervals of mineralised BIF were also encountered in the drilling, with the most significant being in MSDD262, which intersected a true width interval of **5m at 21.9g/t Au** (from 339m depth), including **2m at 54.0g/t Au** (from 340m depth) within the brecciated Middle BIF.

Better mineralised basalt intervals were derived from MSDD268, which generated an intercept, unconstrained by cut-off grade or included waste, of **93.00m at 2.57g/t Au** from surface to the western tonalite contact at 93m depth, including an interval of **35m at 6.27g/t Au** from 58m depth. Other basalt-hosted intercepts include **9m at 5.23g/t Au** from 85m depth in MSDD265 and **1m at 11.7g/t Au from 252m** depth in MSDD267. Based on these and other shallow results within the basalt, the Two Mile Hill open pit Mineral Resource may well justify re-estimation.

Full details of the Two Mile Hill diamond drilling results and associated JORC Tables are provided in an ASX Release dated 17 August 2018.

While infill drilling provided further confidence in the tonalite volume and tonnage, assessment by external resource consultants indicates that the coarse, nuggetty nature of the gold, while positive for metallurgical recoveries, makes reclassification of the Exploration Target to an Inferred Mineral Resource problematic without further drilling and/or a change to the gold assaying technique.

## Two Mile Hill Ore Sorting Trial

Initial ore sorting trials demonstrated that the Two Mile Hill tonalite deeps deposit is amenable to pre-concentration, with a high selectivity of gold mineralisation using Optical (Colour) and X-ray (XRT) sensors. The initial testwork indicated that sorting could deliver a 185%-257% increase in grade, with gold recoveries in excess of 93%, and up to 64% of the sorter feed material being rejected (refer ASX Release of 15 January 2018).

# Operations Overview

In order to confirm this outcome, a series of four primary (fresh) composites were selected from HQ and PQ diamond core derived from MSDD261, drilled in the March quarter 2018 (refer ASX Release of 26 March 2018).

A further scoping trial was undertaken at the TOMRA facility in Sydney (Figure 3), prior to selection of the optimum processing route and unit to undertake the main ore sorting trial, with an Optical (Colour) sensor appearing to provide the optimum outcome. Based on the results of the scoping trials, TOMRA was selected to undertake the bulk composite trials at the end of the June quarter.

The fraction assay results, received and reported in the 2018 September quarter, indicate that:

- Sorting of the Primary Composites resulted in grade increases to the sorted concentrate in the range of 155% to 213%.
- A combination of Colour and X-ray sensors delivered the sorting outcomes, with the majority of the gold selected by way of colour (optical) differentiation.
- Gold sorting recoveries for Primary Composites ranged from 67-93%.
- Further work is required to establish what factors give rise to the variance in recoveries between composites.
- Primary composite sorting yields (percentage of feed reporting to product) ranged from 39% to 51%; a range of yields is to be expected and can be controlled in a commercial operation via sensor settings on the sorting unit.
- The quantity of gold reporting to fines is variable and likely skewed by nuggetty mineralisation. However, it is anticipated that the fines will generally be upgraded, and therefore included in the accepted feed.
- The sorting outcome on the basis of crush size remains equivocal due to the single composite comparison, presence of coarse gold and iron-staining in Primary Composite A, requiring further optimisation.
- The oxide material was tested using an XRT sensor only, with little to no evident benefit.

Figure 3. Commercial-scale ore sorting of Two Mile Hill composites at the TOMRA facility in Sydney, with the Colour accepts (predominantly mineralised quartz vein material) belt on the left and rejects (predominantly unmineralised tonalite) on the right.



# Operations Overview

Based on the limited, bench-scale laser testing undertaken, a further grade improvement factor of approximately 5-10% is considered likely.

During the sorting trials, it was noted that fragments of un-veined tonalite (therefore notionally unmineralised) were reporting to the accepted Colour fraction in each case. Closer examination of this material indicated that peripheral 'bruising' (and development of a white rock flour) during the crushing process was responsible for this material reporting to (and diluting) the Colour accepts fractions. Bench-scale testwork indicates that this material would be readily discriminated and rejected via sorting using a laser sensor.

A further PQ diamond core hole will be required to provide material for further bulk ore sorting trials, as funding and priorities permit. Stage III ore sorting testwork is planned to focus on aspects of recovery variability and anticipated enhancements utilising TOMRA's recently commissioned, commercial-scale laser sorting unit.

Full details of the bulk ore sorting trials and applicable JORC Tables are provided in an ASX Release dated 30 July 2018.

## Two Mile Hill Structural Study

Orefind Pty Ltd was commissioned to undertake a detailed structural study of the Two Mile Hill environs, including the tonalite deeps deposit, the results of which were provided in the June quarter. On the basis of structure, this study was designed to:-

- Assist in better understanding the structural architecture and paragenesis of the highly gold-mineralised Two Mile Hill area.
- Identify possible structural resource modelling constraints to apply in estimation of the Two Mile Hill tonalite deeps deposit.
- Generate and prioritise additional exploration targets within the vicinity of Two Mile Hill.

The results suggest that the Two Mile Hill (TMH) tonalite plug was emplaced during D2 phase of structural development, parallel with the axial plane of the earlier formed NNW-trending F2 folds. Gold mineralisation occurred during the later D3 structural phase, with bedding-parallel mineralisation in BIF and basalt also occurring at this stage. However, this does not rule out BIF-hosted gold mineralisation occurring pre-tonalite, as pyrite emplacement during D2. The shallow dipping orientation of veins within the Two Mile Hill tonalite suggests their formation is the result of vertical extension of the tonalite plug after its consolidation.

Although a hint that better mineralised quartz veins may be preferentially developed through the tonalite adjacent to assimilated banded iron formation (BIF) units, the evidence is not conclusive. As such, the study failed to identify any clear structural constraint on the disposition of gold mineralisation within the tonalite deeps deposit.

In terms of additional exploration targets within the Two Mile Hill area, while the study was useful in enhancing an understanding of the paragenesis of gold mineralisation, it did not specifically identify any opportunities of which the Company is not already aware and, subject to available funding, is progressively testing.

In a broader project context, the study did, however, confirm that the Two Mile Hill environs (specifically the NNW-trending D2 fold axis corridor) and the north-south trending Goat Farm (Goat Farm, Twin Shafts, Eureka, Wirraminna) area are priorities, consistent with the 2017 Orefind study.

## Two Mile Hill Hyperspectral Study

During the June quarter, Spectral Geoscience conducted a review of the hyperspectral data collected from diamond drill hole MSDD156 by the Hylogger system at WA's State core library. The aim of the hyperspectral review was to supplement the structural study by identifying targeting vectors for mineralisation, assist in resolving a para-genetic model for the Two Mile Hill tonalite deeps gold deposit and potentially determining resource modelling constraints, based on alteration mineral assemblages (white mica and carbonate chemistry) not otherwise visible to the naked eye.

The results of this study were still pending at year's end.

# Operations Overview

## Two Mile Hill 3D Tomography Study

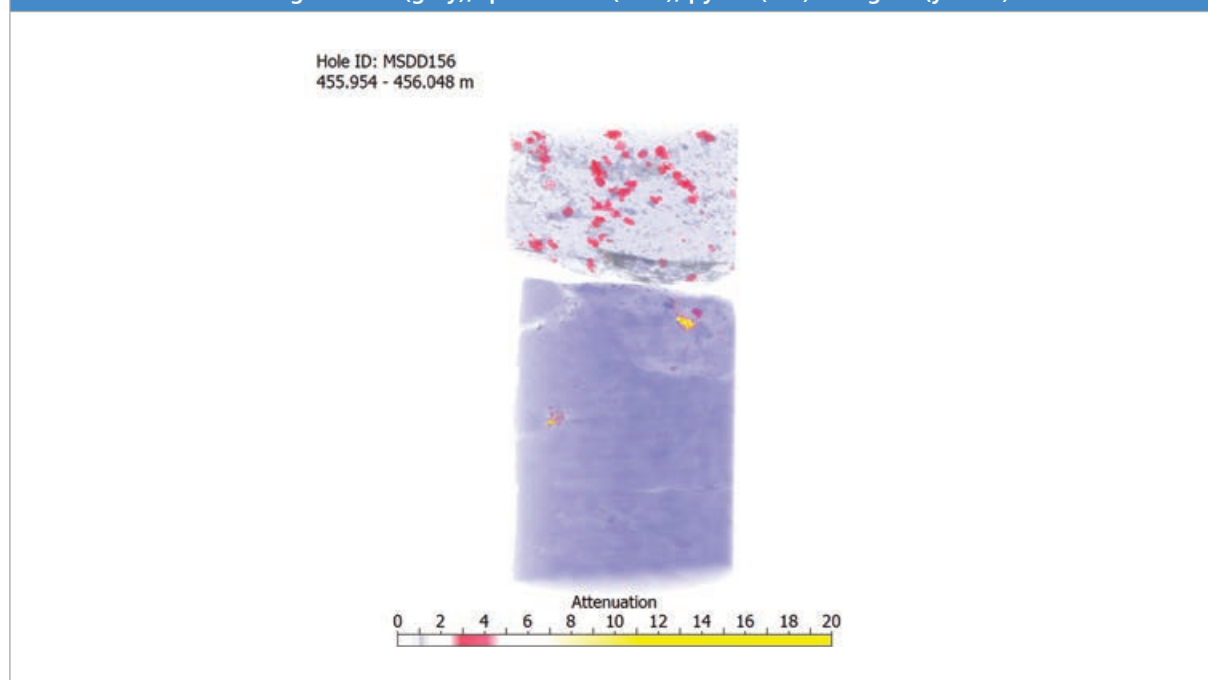
Consultancy Orexplore carried out a trial investigation of a representative interval of half NQ diamond core from the Two Mile Hill tonalite deeps gold deposit in the 2019 June Quarter. The selected material included intervals of weakly, moderately, and strongly gold mineralised and quartz veined tonalite core derived from diamond hole MSSD156.

The core was assessed using the proprietary Orexplore 3D tomographic scanning system, which provided a three-dimensional examination of the distribution and morphology of various mineral species within the volume of the core (Figure 4), affording the identification and measurement of structures, fabrics and mineral associations that are not otherwise evident on the core surface.

The data and viewing software have been received, but had not yet been fully queried at quarter's end. It is clear, however, that the benefits of this system with regard to structural fabric, mineral distribution and morphological properties of mineralisation, will be enhanced by longer intervals of whole core from the Two Mile Hill tonalite, along with intervals of the adjacent basalt and BIF that the tonalite intrudes, derived from future drilling programs.

Collectively, a review of the tomographic, hyperspectral and structural studies may prove to be of considerable benefit in better understanding the paragenesis of the Two Mile Hill tonalite deeps deposit.

Figure 4. Orexplore 3D tomographic image of half NQ diamond core from MSSD156, showing tonalite (grey), quartz vein (blue), pyrite (red) and gold (yellow).



## Wirraminna RC Drilling

The Wirraminna deposit comprises a Mineral Resource estimate of 550,000t at 1.3g/t Au for 23,000oz gold (at a 0.5g/t Au lower cut-off grade), some 55% of which is classified as an Indicated Mineral Resource, whilst the balance is Inferred (refer ASX Release dated 8 December 2017).

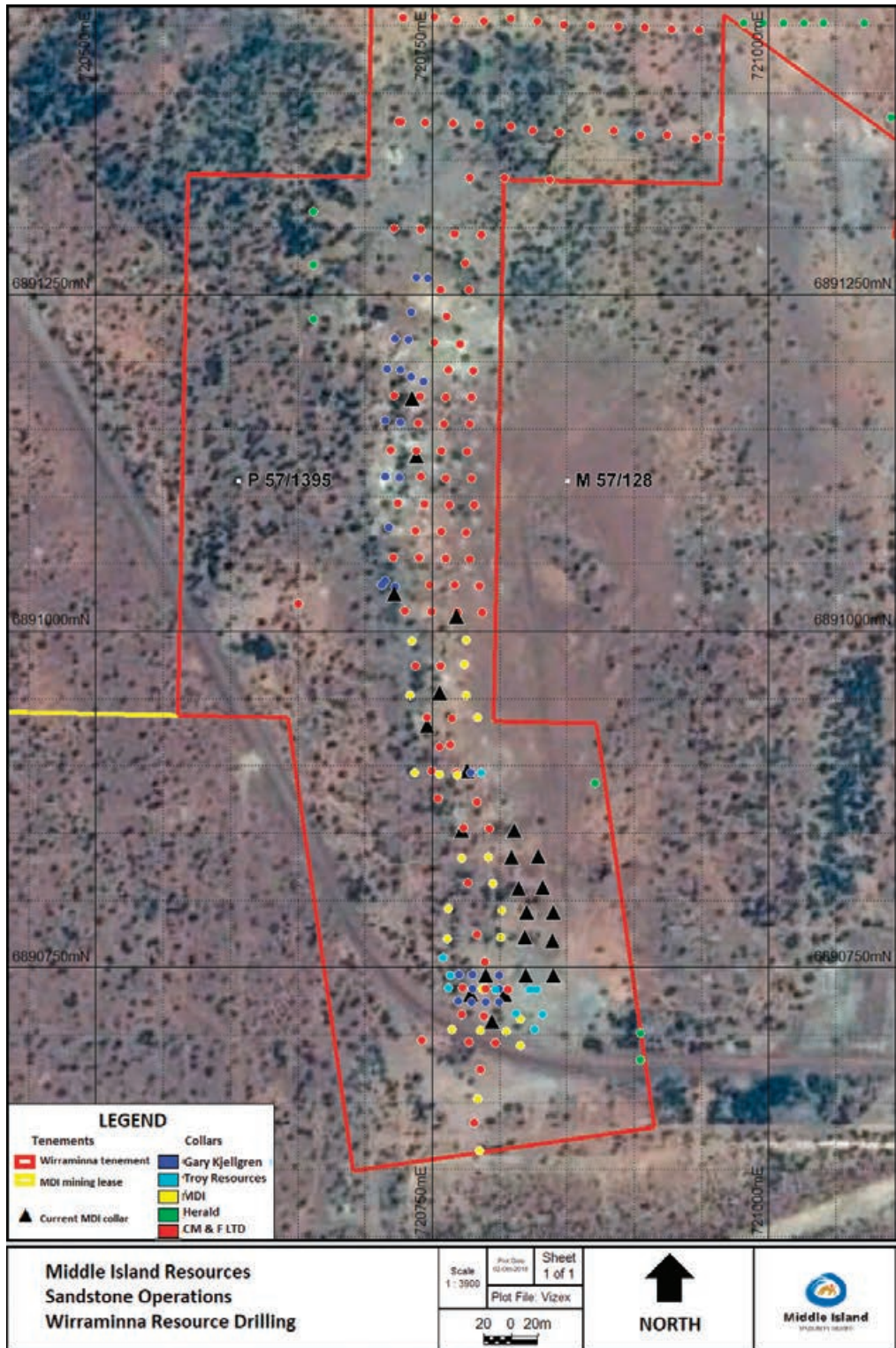
Wirraminna is located 1km west of the Sandstone gold processing plant. Mineralisation is associated with a steeply east dipping and north trending, ferruginous quartz lode that remains open at depth and to a lesser extent along strike.

Twenty-three RC drill holes (MSRC269 - MSRC291), comprising a total of 1,944m (Figure 5), were completed at the Wirraminna deposit during August 2018 and the results reported in October 2018 (refer ASX Release dated 8 October 2018). The program was variously designed to verify, infill and extend the existing Wirraminna gold deposit.

The Wirraminna Mineral Resource estimate was updated by independent consulting group, Ashmore Advisory Services Pty Ltd during the 2018 December quarter to incorporate the results from infill RC drilling. The updated estimate resulted in no material change to that previously reported

# Operations Overview

Figure 5. Plan of Wirraminna deposit showing the distribution of historic and recent RC drilling.

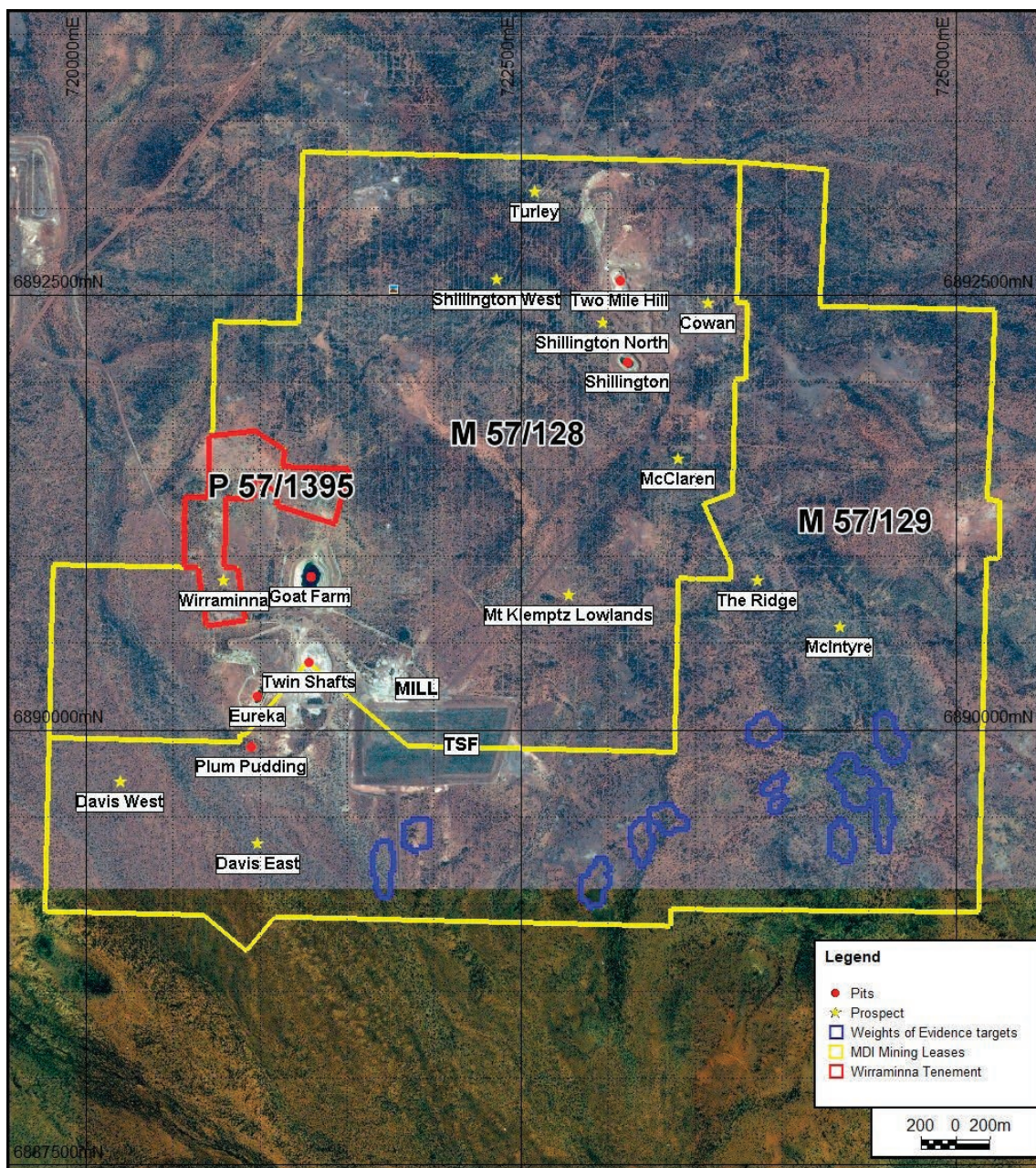


# Operations Overview

## Weights of Evidence (WoE) Aircore Geochemical Drilling

During the June quarter, Middle Island completed a geochemical aircore drilling program at Sandstone to investigate 11 Weights of Evidence (WoE) targets in the project's southern area, generated from a targeting study completed by structural geologist, Dr Brett Davis of Orefind Pty Ltd, in 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 6 and, like the successful testing of the nearby Davis WoE targets, lie beneath a blanket (5-15m thick) of transported sheetwash cover that has discouraged previous exploration.

Figure 6. Location of the tested Weights of Evidence (WoE) targets.



# Operations Overview

Phase 1 of an aircore geochemical sampling program 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.

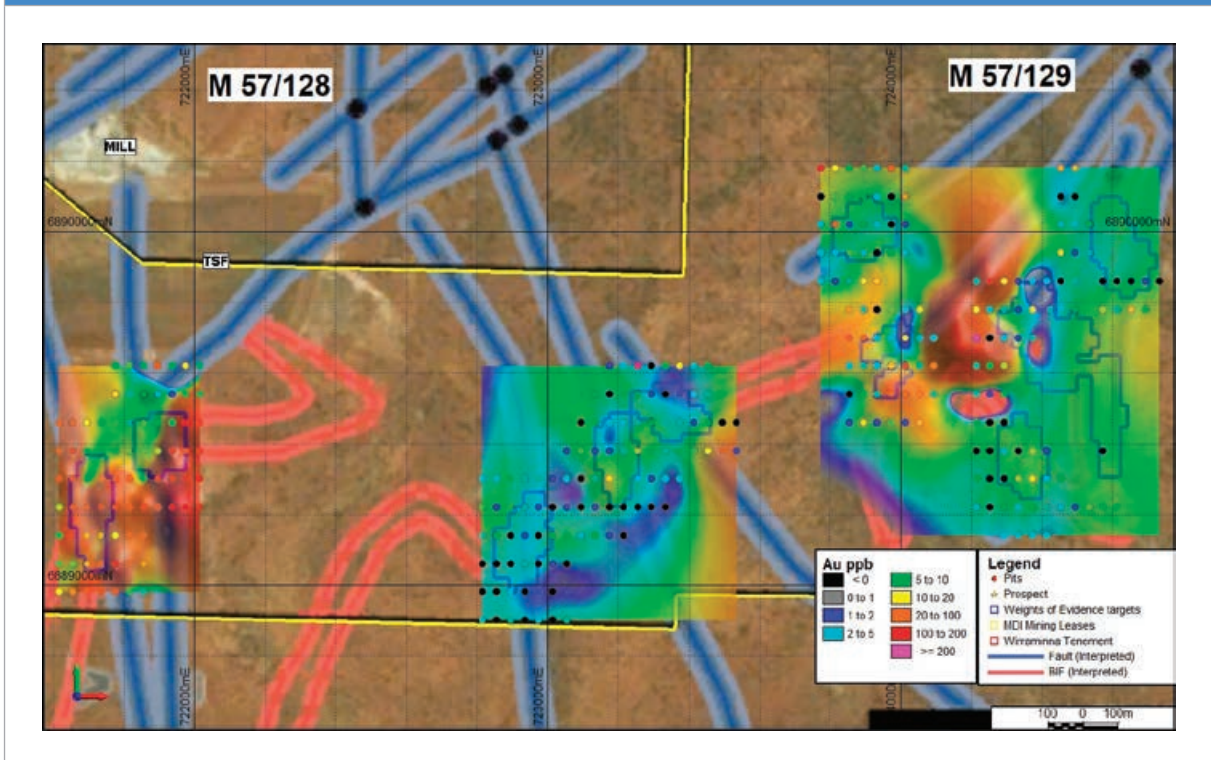
Assay results for this work were received, compiled and reported early in the June quarter (refer ASX Release dated 18 April 2019).

The imaged gold geochemistry (Figure 7) demonstrates three significant new anomalies, two to the south of the rehabilitated tailings storage cells (TSF) and a third in the eastern sampled area to the south of the Macintyre prospect. Each gold anomaly has a peak value exceeding 100ppb Au (0.1g/t Au), with maximum individual results up to 337ppb Au (0.34g/t Au). Individually, the anomalies have a minimum strike length of ~160m, but some remain open beyond the sampled areas.

The position and orientation of the anomalies closely coincide with interpreted banded iron formation (BIF) units dislocated by faulting, and which are considered significant controls on the distribution of gold mineralisation within the project area.

Further aircore drilling will be required to better define the anomalies, and, as funds permit, an RC drilling program is planned to test the nature and tenor of the saprolitic source of gold mineralisation.

Figure 7. WoE targets with imaged aircore gold values showing interpreted structural and lithological influences on mineralisation (Orefind, 2017).



## Dandaraga Mapping and Soil Sampling

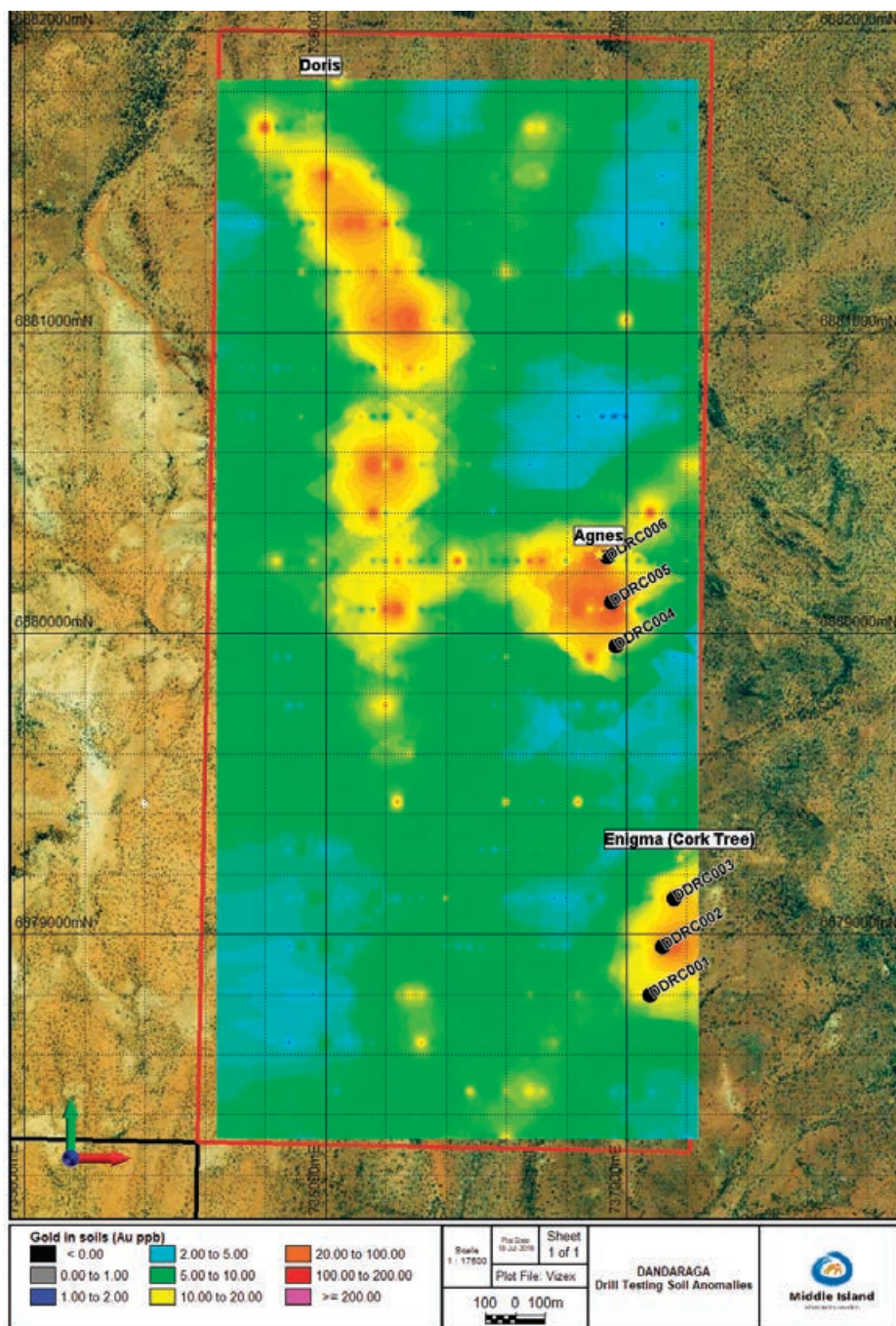
The Dandaraga property comprises E57/1028, located 16km southeast of the Sandstone processing plant. Middle Island has an Option Agreement to acquire a 100% interest in E57/1028 from SLS Exploration Pty Ltd. A campaign of detailed geological mapping, chip sampling and soil sampling was completed at Dandaraga during the June and September quarters of 2019 (refer September 2018 Quarterly Report).

# Operations Overview

## Reconnaissance RC Drilling - Dandaraga

A program of reconnaissance Reverse Circulation (RC) drilling was completed over the Agnes and Corktree targets at the Dandaraga property, during the 2019 June quarter. The program comprised 3 holes (126m) at the Agnes target and 3 holes (111m) at the Corktree target (Figure 8).

Figure 8. Dandaraga property showing reconnaissance RC drilling superimposed on imaged gold soil geochemistry.





# Operations Overview

The Agnes and Corktree targets represent two of three cohesive gold anomalies defined by soil geochemical surveys at Dandaraga in 2018.

Assays relating to the reconnaissance RC drilling program were still pending at financial year end.

## Ned's Soil Sampling

The Ned's property, located 12km east of the Sandstone gold processing plant, comprises a 100% interest in P57/1384, which Middle Island acquired in 2018.

A program of detailed soil sampling was completed early in the 2018 September quarter (refer September 2018 Quarterly Report).

## Cowan RC Drilling

The Cowan prospect is a recently discovered, northwest-trending quartz vein, located approximately 500m east of the Two Mile Hill deposit. The vein was exposed over a 100m length by the Company's tribute prospector, who recovered fresh, primary gold nuggets from this location (Figure 8), identifying the vein as the likely source of the gold.

Five reconnaissance RC drill holes (MSRC292-MSRC296) comprising 300m, were drilled on three sections at the Cowan prospect during September 2018 (Figure 9). The holes were designed to determine the position, orientation and mineral potential of the quartz vein.

All five holes intersected a 2-3m thick vein of translucent, white quartz, which appears to strike NNW and dips at ~45° to the ENE. Assays were announced in October 2018 (refer ASX Release dated 8 October 2018). The RC drilling completed at the Cowan prospect is considered to provide a reasonably comprehensive assessment and no further work is planned.

## Tribute Gold Production

As at 30 June 2019, aggregate tribute gold production amounted to 142.6oz, of which Middle Island's share was 21.25oz.

## Successful Round 18 EIS Grant Application

Middle Island made a successful application for a grant of up to A\$150,000 under Round 18 of the WA Government's 2019 Exploration Incentive Scheme (EIS) to assess the Two Mile Hill gravity targets.

The grant comprises an estimated 50% of direct diamond drilling costs required to test up to three discrete modelled gravity targets (gravity lows) that are interpreted to represent analogues of the proximal, pervasively gold-mineralised, Two Mile Hill tonalite plug.

Middle Island acknowledges the WA State Government and Department of Mines, Industry Regulation and Safety (DMIRS) for their foresight in establishing and maintaining the EIS program, which makes a significant direct and indirect contribution to the State and regional economies. The Company also acknowledges the expert independent panel of EIS application judges for endorsing the technical merits of these high value targets at Two Mile Hill.

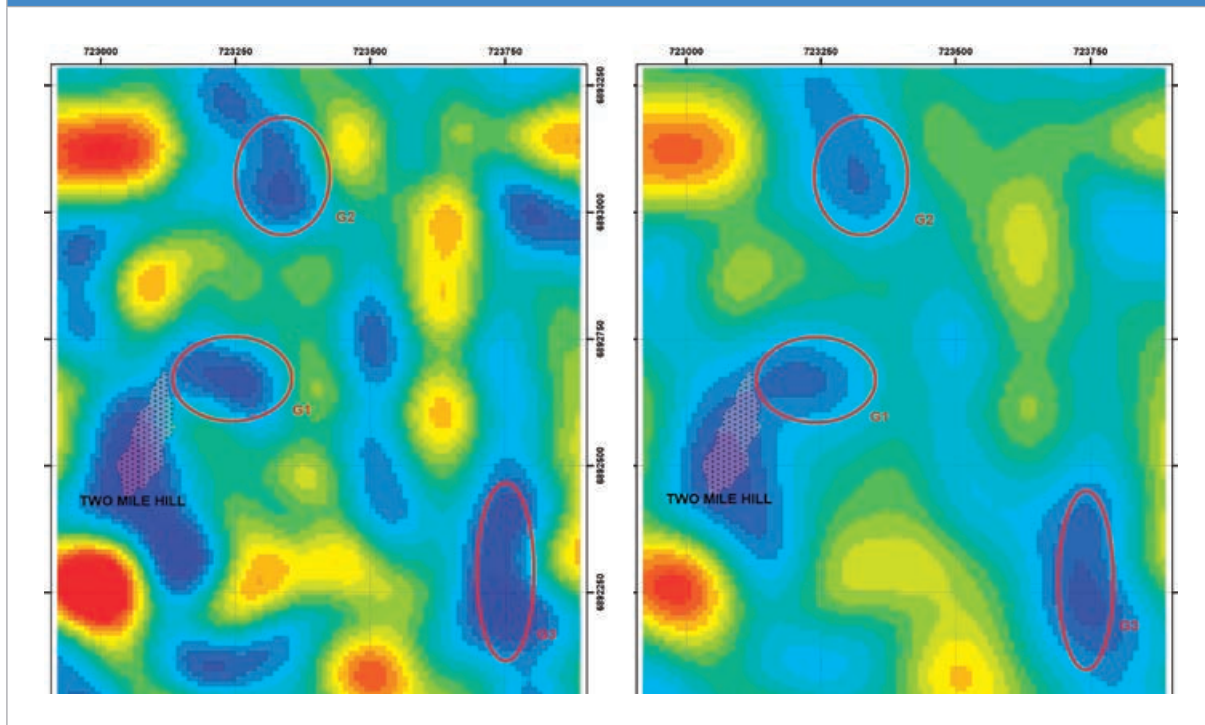
Three high priority gravity targets, derived from the modelling of ground gravity data, are to be tested under the EIS grant. The targets were identified by modelling a detailed (25m x 50m) ground gravity survey shown as depth slices of modelled density in Figure 9.

While these targets may well prove to represent other plugs of tonalite (or similar) composition, it does not automatically translate that they may be gold mineralised. The style of gold mineralisation at Two Mile Hill is clearly epigenetic in origin, meaning that the rock was fractured and mineralised after emplacement of the tonalite intrusive. Nevertheless, given the prolific structural preparation and gold distribution within all rock types in the vicinity of Two Mile Hill, it is reasonable to assume that the targets may well be mineralised.

Depending on available Company funding to match the EIS grant, it is intended to complete a single diamond drill hole into each of the three gravity targets. The primary objectives of this drilling are to, firstly, confirm the presence of a felsic intrusive body and, secondly, to determine the presence of gold mineralisation in each case.

# Operations Overview

Figure 9. Gravity 3D model slices at 130m and 190m depth (left and right respectively) showing targets G1 to G3 and the superimposed surface expression of the gold-mineralised Two Mile Hill tonalite deposit.



## REO GOLD PROJECT (SALE PROCESS COMPLETED) – BURKINA FASO (WEST AFRICA)

### Option to Purchase Agreement

Middle Island executed a Heads of Agreement (HOA) to divest its 100% interest in the Reo gold project to Tajiri Resources Corp. (TSX-V: TAJ, Tajiri) via an Option to Purchase Agreement (refer ASX Release of 13 February 2018).

On 18 June 2019, Tajiri provided written notice to Middle Island of its intention to exercise the option with Middle Island to complete its acquisition of the Reo Gold Project in Burkina Faso, West Africa.

On 3 September 2019, subsequent to the financial year end, the Company announced that Tajiri had exercised its option to fully acquire the Reo Gold Project in Burkina Faso, West Africa. Completion of the transaction followed Tajiri's payment of the final US\$150,000 option extension and exercise fee, with Middle Island retaining a 2% net smelter return (NSR) royalty that Tajiri may acquire at any time for US\$5 million.

## SAFETY, ENVIRONMENTAL & SOCIAL

### Health, Safety & Environment

No injuries, safety or environmental incidents were recorded at the Company's projects and premises during the financial year under review.

Rehabilitation of disturbed areas at the Sandstone gold project, primarily drill sites, is being progressively undertaken in accordance with POW and environmental audit requirements. Safety signage, crest bunds and restricted access areas associated with shafts, open pits and the processing plant are being regularly monitored and maintained.

### Social

The Company continues to engage with the Shire of Sandstone, pastoralists and the local Sandstone community. This process includes the procurement of labour, materials and services locally, wherever practically possible and, most recently, sponsorship of the Sandstone Open Golf Tournament.

Middle Island has taken steps to inform communities within its Reo Project of the transaction with Tajiri Resources Corp. and will do everything possible to ensure a smooth transition.

# Operations Overview

## Sandstone Gold Project - Resources and Reserves Statement

Mineral Resources applicable to the Sandstone Gold Project as at 30 June 2019 are provided in Table 1 below.

Table 1. Sandstone Gold Project Mineral Resource Statement.						
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
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
<b>Total Indicated</b>		<b>2,334,000</b>	<b>1.37</b>	<b>102,500</b>	<b>Indicated</b>	<b>2012</b>
<b>Total Inferred</b>		<b>629,000</b>	<b>1.13</b>	<b>22,900</b>	<b>Inferred</b>	<b>2012</b>
<b>Total Resource</b>		<b>2,963,000</b>	<b>1.32</b>	<b>125,300</b>	<b>Indicated &amp; Inferred</b>	<b>2012</b>

There are no changes to the Sandstone Gold Project Mineral Resource Statement as at 30 June 2018. However, Table 1 has been updated to exclude reference to resources reported by previous owners of the project under the 2004 Edition of the JORC Code.

In addition to the Mineral Resources reported above, an Exploration Target of 24Mt to 34Mt at 1.1g/t to 1.4g/t Au, comprising between 0.9Moz and 1.5Moz of gold has been estimated between 140m vertical depth (base of quantified open pit Mineral Resources) and 700m vertical depth for the Two Mile Hill tonalite deeps deposit, reported in the Company's ASX Release dated 29 November 2017.

*The potential quantity and grade of an Exploration Target is conceptual in nature, there has been insufficient exploration to estimate a Mineral Resource and it is uncertain if further exploration will result in the estimation of a Mineral Resource.*

Full details and a JORC 2012 table was included in the 29 November 2017 release and the Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement. 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 announcement.

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.

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 report relating to Mineral Resources is based on, and fairly reflects, information and supporting documentation variously prepared by Mr Brett Gossage of EGRM Consulting Pty Ltd and Mr Shaun Searle of Ashmore Advisory Pty Ltd on behalf of Middle Island Resources Limited.

The Competent Persons' are Members of the Australasian Institute of Mining and Metallurgy (AusIMM) and qualify as Competent Persons' as defined in the JORC Code.

Visit [www.middleisland.com.au](http://www.middleisland.com.au) for further information and announcements.

# Operations Overview

## 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.

## Competent Persons' Statements

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 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.

## Previously Reported Information

This report includes information that relates to Mineral Resources and Exploration Targets which were prepared and first disclosed under JORC Code 2012. The information was extracted from the Company's previous ASX announcements as follows:

- Mineral Resources: ASX releases 14 December 2016 and 8 December 2017;
- Exploration Target: ASX release 29 November 2017, and are available to view on the Company's website.

The information in this report that relates to previously reported Exploration Results is extracted from the Company's ASX announcements 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, in the case of reporting of Ore Reserves and Mineral Resources, 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 announcement.

## 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 2019.

### 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 corporate and commercial advice to explorers and miners. Since the mid-1980s, he has served on the boards of various listed companies. He was the founding chairman of Sandfire 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 20 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 Chief Executive Officer of Sahara Mining Services.

##### **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.

# Directors' Report

## 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	19,785,000	16,595,000
Richard Yeates	73,446,231	34,482,069
Beau Nicholls	21,075,000	17,025,000
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

During the year the Company raised \$1,395,803, before costs, from the issue of 348,950,719 fully paid ordinary shares. Revenue from tribute production and gold sales of \$37,488 (2018: \$215,573) 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 \$370,409 (2018: \$771,223). The Group also received a grant of \$121,629 from the Exploration Incentive Scheme during the 2018 financial year.

During the year, total exploration expenditure incurred by the Group amounted to \$1,308,546 (2018: \$1,637,496). 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 \$1,753,384 (2018: \$837,112). This resulted in an operating loss after income tax for the year ended 30 June 2019 of \$2,654,033 (2018: \$1,539,803).

At 30 June 2019, cash assets available totalled \$564,618.

# Directors' Report

## Operating Results for the Year

Summarised operating results are as follows:

	2019	
	Revenues	Loss
	\$	\$
Revenue and loss for the year from ordinary activities before income tax expense	415,543	(2,654,033)

## Shareholder Returns

	2019	2018
Basic loss per share (cents)	(0.3)	(0.2)

## 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

On 3 September 2019 the Company announced that Tajiri Resources Corporation (TSXV: TAJ, Tajiri) had exercised its option to fully acquire the Group's Reo Gold Project in Burkina Faso, West Africa. Completion of the transaction followed Tajiri's payment to the Group of the final US\$150,000 option extension and exercise fee.

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.

## 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.

# Directors' Report

## 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 believes the remuneration policy to be appropriate and effective in its ability to attract and retain 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 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 designed to reward executives for performance that 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 2019 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 non-executive directors are currently remunerated below or at the lower end of the market rate range. 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.

#### Company performance, shareholder wealth and key management personnel remuneration

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



## Directors' Report

### Use of remuneration consultants

The Group did not employ the services of any remuneration consultants during the financial year ended 30 June 2019.

### Voting and comments made at the Company's 2018 Annual General Meeting

The Company received approximately 99.9% of "yes" votes on its remuneration report for the 2018 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 <sup>(1)</sup>	Total
	Salary & Fees	Non-Monetary	Superannuation	Retirement Benefits		
	\$	\$	\$	\$	\$	\$
<b>Directors</b>						
Peter Thomas						
2019	36,530	-	3,470	-	30,000	70,000
2018	36,530	-	3,470	-	-	40,000
Richard Yeates						
2019	210,000	-	19,950	-	30,000	259,950
2018	180,000	-	17,100	-	-	197,100
Beau Nicholls						
2019	30,000	-	-	-	30,000	60,000
2018	30,000	-	-	-	-	30,000
Dennis Wilkins <sup>(2)</sup>						
2019	-	-	-	-	-	-
2018	-	-	-	-	-	-
<b>Total key management personnel compensation</b>						
2019	276,530	-	23,420	-	90,000	389,950
2018	246,530	-	20,570	-	-	267,100

(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 (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 reflect market values. This observation is over-riding and shall prevail over any inconsistent possible interpretation) as at their grant date.

(2) Mr Wilkins is not remunerated for his role as alternate director, however, a total of \$215,499 (2018: \$69,382) 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

Peter Thomas, Non-Executive Chairman:

- Term of agreement – Commenced on 2 March 2010, no notice period for termination is required and no monies are payable consequent on termination.

Richard Yeates, Managing Director:

- Term of agreement – commenced 2 March 2010 and continues until terminated.
- Annual salary was initially \$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 from 1 July 2018.
- 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.

Beau Nicholls, Non-Executive Director:

- Term of agreement – Mr Nicholls was an executive director but became a non-executive director on 1 February 2014 from which date he was remunerated at the rate of \$38,100 per annum until 1 July 2014 when his remuneration was reduced to \$30,000 per annum.
- The agreement requires no notice period for termination, and no monies are payable consequent on termination.

Dennis Wilkins, Alternate Director and Company Secretary:

- Term of agreement – Commencing 17 March 2010 until terminated in writing by either party, no notice period of termination is required, and no monies are payable consequent on termination.
- 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.

### 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.

The following options were granted to key management personnel during the year:

	Grant date	Granted number	Vested number	Date vesting and exercisable	Expiry date	Exercise price (cents)	Value per option at grant date (cents) <sup>(1)</sup>	Exercised number	% of Remuneration
<b>Directors of Middle Island Resources Limited</b>									
Peter Thomas	19/11/2018	10,000,000	10,000,000	19/11/2018	8/11/2021	3.0	0.3	Nil	42.9
Richard Yeates	19/11/2018	10,000,000	10,000,000	19/11/2018	8/11/2021	3.0	0.3	Nil	11.5
Beau Nicholls	19/11/2018	10,000,000	10,000,000	19/11/2018	8/11/2021	3.0	0.3	Nil	50.0

(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 (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 reflect market values. This observation is over-riding and shall prevail over any inconsistent possible interpretation) as at their grant date.

The above options granted to the Directors are not dependant on the satisfaction of performance conditions. The options serve to provide compensation for significant previous reductions in the Directors' fees, as well as prior pro bono contributions, and form part of the Directors' incentive for continuing and future efforts.

There were no ordinary shares in the Company provided as a result of the exercise of remuneration options during the year.

## Directors' Report

### 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	Balance at end of the year	Vested and exercisable	Unvested
Directors of Middle Island Resources Limited							
Peter Thomas	10,000,000	10,000,000	-	6,595,000	16,595,000	16,595,000	-
Richard Yeates	10,000,000	10,000,000	-	14,485,069	34,482,069	34,482,069	-
Beau Nicholls	10,000,000	10,000,000	-	7,025,000	17,025,000	17,025,000	-
Dennis Wilkins	-	-	-	-	-	-	-

#### 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	Balance at end of the period
Directors of Middle Island Resources Limited				
Ordinary shares				
Peter Thomas	13,190,000	-	6,595,000	19,785,000
Richard Yeates	48,964,138	-	24,482,093	73,446,231
Beau Nicholls	14,050,000	-	7,025,000	21,075,000
Dennis Wilkins	1,166,667	-	-	1,166,667

### 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 2019 there was \$6,765 (2018: \$1,155) 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 2019 (2018: \$4,500). The amounts paid were on arms' length commercial terms. At 30 June 2019 there was \$500 (2018: \$500) owing to Quenda Investments Pty Ltd.

Mr Nicholls is a director and 35% shareholder of PowerXplor Ltd, which owns Sahara Mining Services SARL. During the 2018 financial year the Group sold motor vehicles to Sahara Mining Services SARL for gross proceeds of US\$23,300.

### End of audited section

# Directors' Report

## DIRECTORS' MEETINGS

During the year, the Company held four 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	4	4	1	1	-	-
Richard Yeates	4	4	*	*	-	-
Beau Nicholls	4	4	1	1	-	-
Dennis Wilkins (alternate for Beau Nicholls)	4	4	1	1	*	*

Notes: 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
19 November 2018	8 November 2021	3.0	30,000,000
18 January 2019	31 January 2022	0.8	348,950,719
Total number of options outstanding at the date of this report			378,950,719

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 *Corporations Act 2001*.

The total amount of insurance contract premiums paid is \$12,354.

## NON-AUDIT SERVICES

The following details any non-audit services provided by the entity's auditor, Greenwich & Co 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.

Greenwich & Co received or are due to receive the following amounts for the provision of non-audit services:

	2019 \$	2018 \$
Taxation compliance services	5,200	4,200

## Directors' Report

### PROCEEDINGS ON BEHALF OF THE COMPANY

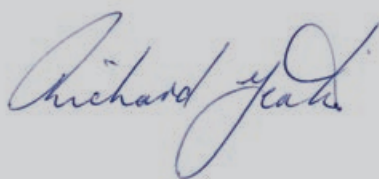
No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or any part of those 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 28.

Signed in accordance with a resolution of the directors.

A handwritten signature in blue ink that reads "Richard Yeates". The signature is written in a cursive, flowing style.

**Richard Yeates**  
**Managing Director**

Perth, 26 September 2019

## Auditors Independence Declaration



Greenwich & Co

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Level 2, 35 Outram Street, West Perth WA 6005  
PO Box 963, West Perth WA 6872  
T 08 6555 9500 | F 08 6555 9555  
www.greenwichco.com

### 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 2019, 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.

Greenwich & Co Audit Pty Ltd

Greenwich & Co Audit Pty Ltd

**Rafay Nabeel**  
Audit Director

Perth

26 September 2019

An independent member of Morison KSI | Liability limited by a scheme approved under Professional Standards Legislation

## 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

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.

The 2019 Corporate Governance Statement was approved by the Board on 23 October 2019 and can be viewed at [middleisland.com.au](http://middleisland.com.au)

## Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2019	Notes	Consolidated 2019	Consolidated 2018
		\$	\$
<b>REVENUE</b>			
Sale of commodities	4(a)	37,488	215,573
Other income	4(b)	378,055	903,879
<b>EXPENDITURE</b>			
Administrative expenses		(763,081)	(465,521)
Depreciation expense		(9,750)	(3,867)
Exploration expenses		(1,308,546)	(1,811,116)
Fair value losses on financial assets		(467,772)	(15,738)
Finance costs		(1,971)	-
Salaries and employee benefits expense		(428,456)	(363,013)
Share-based payments expense	25(b)	(90,000)	-
<b>LOSS BEFORE INCOME TAX</b>		<b>(2,654,033)</b>	<b>(1,539,803)</b>
INCOME TAX BENEFIT / (EXPENSE)	6	-	-
<b>LOSS FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF MIDDLE ISLAND RESOURCES LIMITED</b>		<b>(2,654,033)</b>	<b>(1,539,803)</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations		5,663	31,036
Other comprehensive income for the period, net of tax		5,663	31,036
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF MIDDLE ISLAND RESOURCES LIMITED</b>		<b>(2,648,370)</b>	<b>(1,508,767)</b>
Basic and diluted loss per share for loss attributable to the ordinary equity holders of the Company (cents per share)	24	(0.3)	(0.2)

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 2019	Notes	Consolidated 2019	Consolidated 2018
		\$	\$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	7	564,618	1,552,529
Trade and other receivables	8	56,268	42,837
Financial assets	9	379,750	847,522
Non-current asset held for sale	27	213,386	202,317
<b>TOTAL CURRENT ASSETS</b>		<b>1,214,022</b>	<b>2,645,205</b>
<b>NON-CURRENT ASSETS</b>			
Plant and equipment	10	2,065,632	2,049,348
Tenement acquisition costs	11	1,327,754	1,327,754
<b>TOTAL NON-CURRENT ASSETS</b>		<b>3,393,386</b>	<b>3,377,102</b>
<b>TOTAL ASSETS</b>		<b>4,607,408</b>	<b>6,022,307</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	12	104,426	387,998
Borrowings		32,104	-
Employee benefit obligations		55,905	12,288
<b>TOTAL CURRENT LIABILITIES</b>		<b>192,435</b>	<b>400,286</b>
<b>NON-CURRENT LIABILITIES</b>			
Provisions	13	1,203,417	1,203,417
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>1,203,417</b>	<b>1,203,417</b>
<b>TOTAL LIABILITIES</b>		<b>1,395,852</b>	<b>1,603,703</b>
<b>NET ASSETS</b>		<b>3,211,556</b>	<b>4,418,604</b>
<b>EQUITY</b>			
Contributed equity	14	36,305,796	34,954,474
Reserves	15	515,651	1,148,988
Accumulated losses		(33,609,891)	(31,684,858)
<b>TOTAL EQUITY</b>		<b>3,211,556</b>	<b>4,418,604</b>

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 2019						
	Notes	Contributed Equity	Share- based Payments Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total
		\$	\$	\$	\$	\$
<b>BALANCE AT 1 JULY 2017</b>		33,170,824	735,430	388,952	(30,151,485)	4,143,721
Loss for the year		-	-	-	(1,539,803)	(1,539,803)
<b>OTHER COMPREHENSIVE INCOME</b>						
Exchange differences on translation of foreign operations		-	-	31,036	-	31,036
<b>TOTAL COMPREHENSIVE INCOME</b>		-	-	31,036	(1,539,803)	(1,508,767)
<b>TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS</b>						
Shares issued during the year	14	1,897,500	-	-	-	1,897,500
Share issue transaction costs	14	(113,850)	-	-	-	(113,850)
Employee options expired/cancelled during the year	25	-	(6,430)	-	6,430	-
<b>BALANCE AT 30 JUNE 2018</b>		34,954,474	729,000	419,988	(31,684,858)	4,418,604
Loss for the year		-	-	-	(2,654,033)	(2,654,033)
<b>OTHER COMPREHENSIVE INCOME</b>						
Exchange differences on translation of foreign operations		-	-	5,663	-	5,663
<b>TOTAL COMPREHENSIVE INCOME</b>		-	-	5,663	(2,654,033)	(2,648,370)
<b>TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS</b>						
Shares issued during the year	14	1,395,803	-	-	-	1,395,803
Share issue transaction costs	14	(44,481)	-	-	-	(44,481)
Employee options expired during the year	25	-	(729,000)	-	729,000	-
Options issued to employees during the year	25	-	90,000	-	-	90,000
<b>BALANCE AT 30 JUNE 2019</b>		36,305,796	90,000	425,651	(33,609,891)	3,211,556

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 2019	Notes	Consolidated 2019	Consolidated 2018
		\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		37,488	223,113
Exploration Incentive Scheme grant received		-	121,629
Payments to suppliers and employees		(1,154,849)	(827,674)
Expenditure on mining interests		(1,600,297)	(1,542,049)
Reimbursements of expenditure on mining interests		353,346	173,620
Interest received		3,983	8,104
Interest paid		(1,971)	-
Other income received		16,722	-
<b>NET CASH OUTFLOW FROM OPERATING ACTIVITIES</b>	23(a)	<b>(2,345,578)</b>	<b>(1,843,257)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds on sale of mining properties		-	248,481
Payments for property, plant and equipment		(26,034)	(509,120)
Proceeds on sale of property, plant and equipment		-	30,544
<b>NET CASH OUTFLOW FROM INVESTING ACTIVITIES</b>		<b>(26,034)</b>	<b>(230,095)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of ordinary shares		1,395,803	1,897,500
Payments for share issue transaction costs		(44,481)	(113,850)
Proceeds from borrowings		40,190	-
Repayments of borrowings		(8,086)	-
<b>NET CASH INFLOW FROM FINANCING ACTIVITIES</b>		<b>1,383,426</b>	<b>1,783,650</b>
<b>NET (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>(988,186)</b>	<b>(289,702)</b>
Cash and cash equivalents at the beginning of the financial year		1,552,529	1,841,875
Effects of exchange rate changes on cash and cash equivalents		275	356
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	7	<b>564,618</b>	<b>1,552,529</b>

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 26 September 2019. 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 9 Financial Instruments and related amending Standards;
- AASB 15 Revenue from Contracts with Customers and related amending Standards; and
- AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions.

#### AASB 9 Financial Instruments and related amending Standards

In the current year, the Group has applied AASB 9 Financial Instruments (as amended) and the related consequential amendments to other Accounting Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of AASB 9 allow an entity not to restate comparatives however there was no material impact on adoption of the standard.

Additionally, the Group adopted consequential amendments to AASB 7 Financial Instruments: Disclosures.

In summary AASB 9 introduced new requirements for:

- The classification and measurement of financial assets and financial liabilities;
- Impairment of financial assets; and
- General hedge accounting.

#### AASB 15 Revenue from Contracts with Customers and related amending Standards

In the current year, the Group has applied AASB 15 Revenue from Contracts with Customers (as amended) which is effective for an annual period that begins on or after 1 January 2018. AASB 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in AASB 15 to deal with specific scenarios.

#### (iii) Early adoption of standards

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2019. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change necessary to Group accounting policies.

## Notes to the Consolidated Financial Statements

### *(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.

### *(v) Going concern*

For the year ended 30 June 2019 the Group incurred a net loss of \$2,654,033 (2018: \$1,539,803), incurred net cash outflows from operating activities of \$2,345,578 (2018: \$1,843,257) and had net working capital of \$1,021,587 (2018: \$2,244,919) at reporting date.

The ability of the entity to continue as a going concern is dependent on securing additional funding through capital raisings and/or sale of interests in projects to continue to fund its operational and development activities.

These conditions indicate a material uncertainty that may cast a significant doubt about the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Management believe there are sufficient funds to meet the entity's working capital requirements as at the date of this report. The financial statements have been prepared on the basis that the entity is a going concern, which contemplates the continuity of normal business activity, realisation of assets and settlement of liabilities in the normal course of business as the Directors are confident that they will be able to raise additional equity as and when required.

Should the entity not be able to continue as a going concern, it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or liabilities that might be necessary should the entity not continue as a going concern.

## **(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 2019 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 21 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.

### **(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;

## Notes to the Consolidated Financial Statements

- 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.

### **(f) 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.

## Notes to the Consolidated Financial Statements

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.

### **(g) Leases**

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 (note 19(b)). 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.

### **(h) 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.

### **(i) 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.

### **(j) Investments and other financial assets**

#### *(i) Classification*

From 1 July 2018 the Company 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 Company 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 Company 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 Company has transferred substantially all the risks and rewards of ownership.



## Notes to the Consolidated Financial Statements

### *(iii) Measurement*

At initial recognition, the Company 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 Company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Company 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.
- **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 Company subsequently measures all equity investments at fair value. Where the Company'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 Company'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 2018 the Company 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.

## Notes to the Consolidated Financial Statements

### *(v) Accounting policies applied until 30 June 2018*

The Company has applied AASB 9 retrospectively but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Company's previous accounting policy.

#### *Classification*

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, and loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

#### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are recognised initially at fair value and subsequently at amortised cost less impairment. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the statement of financial position.

Collectability of loans and receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables or in an otherwise timely manner. The amount of the impairment allowance is the difference between the asset's carrying amount and the estimated future cash flows. None of the Group's loans and receivables has an applicable interest rate hence the cash flows are not discounted.

The amount of the impairment loss is recognised in profit or loss within impairment expenses. When a loan or receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

#### *Recognition and derecognition*

Regular way purchases and sales of financial assets (being a purchase or sale of a financial asset under a contract the terms of which require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned) are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at "fair value" (as used in this report, "fair value" bears the meaning ascribed by the AASB which can produce a result that does not reflect market or realisable value) plus transaction costs for all financial assets not carried at "fair value" through profit or loss. Financial assets carried at "fair value" through profit or loss are initially recognised at "fair value" and transaction costs are expensed to the statement of profit or loss and other comprehensive income. 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.

#### *Measurement*

Loans and receivables are carried at amortised cost using the effective interest method.

Financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the statement of comprehensive income within revenue from continuing operations or administrative expenses in the

## Notes to the Consolidated Financial Statements

period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss as part of revenue from continuing operations when the Group's right to receive payments is established.

Details on how the fair value of financial investments is determined are disclosed in note 2.

### *Impairment*

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. If there is evidence of impairment for any of the Group's financial assets carried at amortised cost, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognised in the statement of profit or loss and other comprehensive income.

### **(k) 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(h)). 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.

### **(l) 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.

### *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.

### **(m) 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.

### **(n) 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.

### **(o) 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.

### **(p) 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 25.

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. 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.

## Notes to the Consolidated Financial Statements

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.

### **(q) Provision for rehabilitation**

The Company 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.

### **(r) 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.

### **(s) 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

### (t) 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.

### (u) Government grants

Exploration incentives ("Grant") are recognised at fair value where there is reasonable assurance that the grant will be received, and all grant conditions are met. 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.

### (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) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2019 reporting period and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below. New standards and interpretations not mentioned are considered unlikely to impact on the financial reporting of the Group.

#### **AASB 16 Leases (applicable for annual reporting periods commencing on or after 1 January 2019).**

AASB 16 was issued in February 2016. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The Group plans to adopt the new standard on the required effective date. The Group continues to assess the potential impact of AASB 16 on its consolidated financial statements.

### (x) 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.

## Notes to the Consolidated Financial Statements

### *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(h), 1(j) and 1(l).

### *Provision for rehabilitation*

The Group assesses its mine rehabilitation provision half-yearly in accordance with accounting policy note 1(q). 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.

## 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 2019 are not exposed to commodity price risk.

## Notes to the Consolidated Financial Statements

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 2019, 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 \$4,117 lower (2018: \$7,969 lower) as a result of lower or higher interest income from cash and cash equivalents.

At 30 June 2019, 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 \$4,117 higher (2018: \$7,969 higher) as a result of lower or higher interest income from cash and cash equivalents.

### *(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 \$564,618 (2018: \$1,552,529) is subject to interest rate risk. The weighted average interest rate received on cash and cash equivalents by the Group was 0.48% (2018: 0.51%).

### *Sensitivity analysis*

At 30 June 2019, 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 \$4,117 lower (2018: \$7,969 lower) as a result of lower or higher interest income from cash and cash equivalents.

At 30 June 2019, 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 \$4,117 higher (2018: \$7,969 higher) as a result of lower or higher interest income from cash and cash equivalents.

### **(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.



## Notes to the Consolidated Financial Statements

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

	Consolidated	Consolidated
	2019	2018
	\$	\$
<b>Financial Assets</b>		
Cash and cash equivalents	564,618	1,552,529
Trade and other receivables	56,268	42,837
Financial assets	379,750	847,522
<b>Total Financial Assets</b>	<b>1,000,636</b>	<b>2,442,888</b>
<b>Financial Liabilities</b>		
Trade and other payables	104,426	387,998
Borrowings	32,104	-
<b>Total Financial Liabilities</b>	<b>136,530</b>	<b>387,998</b>

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
	\$	\$	\$	\$
<b>30 June 2019</b>				
Financial assets	379,750	-	-	379,750
<b>Total as at 30 June 2019</b>	<b>379,750</b>	<b>-</b>	<b>-</b>	<b>379,750</b>
<b>30 June 2018</b>				
Financial assets	847,522	-	-	847,522
<b>Total as at 30 June 2018</b>	<b>847,522</b>	<b>-</b>	<b>-</b>	<b>847,522</b>

## 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
	2019	2018
	\$	\$
Segment revenue – Australia	37,488	215,573
Segment revenue – West Africa	-	-
Segment revenue – Total	37,488	215,573
<b>TOTAL REVENUE</b>	<b>37,488</b>	<b>215,573</b>
Segment result – Australia	(917,049)	(1,363,497)
Segment result – West Africa	(663)	(58,522)
Segment result – Total	(917,712)	(1,422,019)
Reconciliation of segment result to net loss before tax:		
- Other income	24,709	730,259
- Other corporate and administration	(1,761,030)	(848,043)
<b>NET LOSS BEFORE TAX</b>	<b>(2,654,033)</b>	<b>(1,539,803)</b>
Segment operating assets – Australia	3,386,491	3,366,853
Segment operating assets – West Africa	213,386	202,317
Segment operating assets – Total	3,599,877	3,569,170
Reconciliation of segment operating assets to total assets:		
- Other corporate and administration assets	1,007,531	2,453,137
<b>TOTAL ASSETS</b>	<b>4,607,408</b>	<b>6,022,307</b>
Segment operating liabilities – Australia	1,229,822	1,501,669
Segment operating liabilities – West Africa	80	78
Segment operating liabilities – Total	1,229,902	1,501,747
Reconciliation of segment operating liabilities to total liabilities:		
- Other corporate and administration liabilities	165,950	101,956
<b>TOTAL LIABILITIES</b>	<b>1,395,852</b>	<b>1,603,703</b>

## Notes to the Consolidated Financial Statements

### 4. REVENUE AND OTHER INCOME

	Consolidated	Consolidated
	2019	2018
	\$	\$
<b>(a) Revenue from continuing operations</b>		
<i>Sale of commodities</i>		
Tribute production	37,488	29,250
Gold sales	-	186,323
	<b>37,488</b>	<b>215,573</b>
<b>(b) Other income</b>		
Interest revenue	3,983	8,104
Net gain on sales of mining interests	15,883	551,489
Reimbursements of expenditure on mining interests	353,346	173,620
Exploration Incentive Scheme grant	-	121,629
Net gain on disposal of property, plant and equipment	-	30,544
Accommodation rental	1,180	15,570
Net foreign exchange gains	3,663	2,923
	<b>378,055</b>	<b>903,879</b>

### 5. EXPENSES

<b>Loss before income tax includes the following specific expenses:</b>		
Defined contribution superannuation expense	46,224	30,567
Minimum lease payments relating to operating leases	39,964	40,420

### 6. INCOME TAX

<b>(a) Income tax expense</b>		
Current tax	-	-
Deferred tax	-	-

## Notes to the Consolidated Financial Statements

	Consolidated	Consolidated
	2019	2018
	\$	\$
<b>(b) Numerical reconciliation of income tax expense to prima facie tax payable</b>		
Loss from continuing operations before income tax expense	(2,654,033)	(4,256,055)
Prima facie tax benefit at the Australian tax rate of 27.5% (2018: 30%)	(729,859)	(1,276,816)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Foreign gains (sale of mining interests)	-	68,328
Foreign losses – West Africa excluded	4,185	-
Share-based payments	24,750	218,700
Other	(813)	
Movements in unrecognised temporary differences	(701,737)	(617,082)
Tax effect of current year tax losses for which no deferred tax asset has been recognised	46,362	(27,674)
Income tax expense	655,375	644,756
<b>(c) Unrecognised temporary differences</b>		
<b>Deferred Tax Assets (at 27.5% (2018: 30%))</b>		
Capital raising costs	55,514	65,078
Financial assets	132,965	-
Other temporary differences	24,985	8,302
Carry forward foreign losses	7,216,207	7,220,392
Carry forward tax losses	4,011,816	3,420,842
<b>Deferred Tax Liabilities (at 27.5% (2018: 30%))</b>		
Tenement acquisition costs	(398,326)	(398,326)
<b>Net deferred tax assets</b>	<b>11,253,136</b>	<b>10,590,481</b>

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.

### 7. CURRENT ASSETS - CASH AND CASH EQUIVALENTS

Cash at bank and in hand	523,858	1,511,769
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	564,618	1,552,529

Cash and cash equivalents at 30 June 2019 comprise A\$563,911 (2018: A\$1,431,138), with the balance held in US dollars and West African CFA francs.

## Notes to the Consolidated Financial Statements

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
	2019	2018
	\$	\$
Trade Debtors	12,903	1,511,769
Other	43,365	40,760
	56,268	1,552,529

### 9. CURRENT ASSETS - FINANCIAL ASSETS

	379,750	847,522
Canadian listed equity securities		

### 10. NON-CURRENT ASSETS - PLANT AND EQUIPMENT

	Freehold Land	Plant and Equipment	Total
	\$	\$	\$
<b>At 1 July 2017</b>			
Cost	126,929	2,384,245	2,511,174
Accumulated depreciation	-	(467,082)	(467,082)
Net book amount	126,929	1,917,163	2,044,092
<b>Year ended 30 June 2018</b>			
Opening net book amount	126,929	1,917,163	2,044,092
Exchange differences	-	3	3
Additions	-	9,120	9,120
Depreciation charge	-	(3,867)	(3,867)
Closing net book amount	126,929	1,922,419	2,049,348
<b>At 30 June 2018</b>			
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

## Notes to the Consolidated Financial Statements

	Freehold Land	Plant and Equipment	Total
	\$	\$	\$
<b>Year ended 30 June 2019</b>			
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
<b>At 30 June 2019</b>			
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

### 11. NON CURRENT ASSETS - TENEMENT ACQUISITION COSTS

	Consolidated	Consolidated
	2019	2018
	\$	\$
Tenement acquisition costs carried forward in respect of mining areas of interest		
Opening net book amount	1,327,754	2,057,754
Exchange variances	-	30,403
Disposals	-	(558,086)
Reclassification to non-current asset held for sale	-	(202,317)
Closing net book amount	1,327,754	1,327,754

### 12. CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

Trade payables	55,559	59,506
Other payables and accruals	48,867	328,492
	104,426	387,998

### 13. NON-CURRENT LIABILITIES - PROVISIONS

Rehabilitation		
Carrying amount at start of year	1,203,417	1,203,417
Carrying amount at end of year	1,203,417	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 lodged with the Government of Western Australia Department of Mines, Industry Regulation and Safety.

## Notes to the Consolidated Financial Statements

### 14. ISSUED CAPITAL

#### (a) Share capital

	Notes	2019		2018	
		Number of Shares	\$	Number of Shares	\$
Ordinary shares fully paid	14(b), 14(d)	1,046,852,156	36,305,796	697,901,437	34,954,474
Total issued capital		1,046,852,156	36,305,796	697,901,437	34,954,474

#### (b) Movements in ordinary share capital

Beginning of the financial year	697,901,437	34,954,474	586,283,790	33,170,824
Issued for cash at 0.4 cents per share	348,950,719	1,395,803	-	-
Issued for cash at 1.7 cents per share	-	-	111,617,647	1,897,500
Share issue transaction costs	-	(44,481)	-	(113,850)
End of the financial year	1,046,852,156	36,305,796	697,901,437	34,954,474

#### (c) Movements in options on issue

	Number of Options	
	2019	2018
Beginning of the financial year	30,000,000	38,300,000
Issued, exercisable at 0.8 cents, on or before 31 January 2022	348,950,719	-
Issued, exercisable at 3 cents, on or before 8 November 2021	30,000,000	-
Expired on 18 November 2018, exercisable at 10 cents	(30,000,000)	-
Cancelled, exercisable at 7 cents, on or before 18 November 2018	-	(7,500,000)
Expired on 7 July 2017, exercisable at 10 cents	-	(600,000)
Expired on 7 July 2017, exercisable at 15 cents	-	(100,000)
Expired on 7 July 2017, exercisable at 20 cents	-	(100,000)
End of the financial year	378,950,719	30,000,000

#### (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.

## Notes to the Consolidated Financial Statements

### (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 2019 and 30 June 2018 are as follows:

	Consolidated	Consolidated
	2019	2018
	\$	\$
Cash and cash equivalents	564,618	1,552,529
Trade and other receivables	56,268	42,837
Financial assets	379,750	847,522
Trade and other payables	(104,426)	(387,998)
Borrowings	(32,104)	-
Employee benefits obligations	(55,905)	(12,288)
Working capital position	808,201	2,042,602

### 15. RESERVES AND ACCUMULATED LOSSES

(a) Reserves		
Foreign currency translation reserve	425,651	419,988
Share-based payments reserve (see note 25)	90,000	729,000
	515,651	1,148,988

#### (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.

### 16. DIVIDENDS

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



## Notes to the Consolidated Financial Statements

### 17. 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
	2019	2018
	\$	\$
<b>(a) Audit services</b>		
Greenwich & Co – audit and review of financial reports	32,272	29,000
Total remuneration for audit services	32,272	29,000
<b>(b) Non-audit services</b>		
Greenwich & Co – taxation compliance services	5,200	4,200
Total remuneration for other services	5,200	4,200

### 18. 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

### 19. 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 are as follows:

	Consolidated	Consolidated
	2019	2018
	\$	\$
within one year	233,360	314,241
later than one year but not later than five years	915,160	788,800
later than five years	1,477,900	1,675,100
	<b>2,626,420</b>	<b>2,778,141</b>
<b>(b) Lease commitments: Group as lessee</b>		
<i>Operating leases (non cancellable):</i>		
Minimum lease payments		
within one year	41,280	29,644
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	<b>72,240</b>	<b>29,644</b>

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.

### 20. 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 21.

#### (c) Key management personnel compensation

Short-term benefits	276,530	246,530
Post-employment benefits	23,420	20,570
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payments	90,000	-
	<b>389,950</b>	<b>267,100</b>

Detailed remuneration disclosures are provided in the remuneration report on pages 22 to 25.

## 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 2019 there was \$6,765 (2018: \$1,155) owing to DWCorporate Pty Ltd.

Quenda Investments Pty Ltd ("Quenda"), a company of which Mr Yeates is a director and shareholder, leant 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 2019 (2018: \$4,500). The amounts paid were on arms' length commercial terms. At 30 June 2019 there was \$500 (2018: \$500) owing to Quenda Investments Pty Ltd.

Mr Nicholls is a director and 35% shareholder of PowerXplor Ltd, which owns Sahara Mining Services SARL. During the 2018 financial year the Group sold motor vehicles to Sahara Mining Services SARL for gross proceeds of US\$23,300.

### (e) Loans to related parties

Middle Island Resources Limited has provided unsecured, interest free loans to each of its wholly owned subsidiaries totalling \$21,613,362 at 30 June 2019 (2018: \$20,575,570). 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.

## 21. 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 <sup>(1)</sup>	
			2019	2018
			%	%
Middle Island Resources Limited – Burkina Faso SARL	Burkina Faso	Ordinary	100	100
Middle Island Resources Limited – Sandstone Operations Pty Ltd	Australia	Ordinary	100	100

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

## 22. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

On 3 September 2019 the Company announced that Tajiri Resources Corporation (TSXV: TAJ, Tajiri) had exercised its option to fully acquire the Group's Reo Gold Project in Burkina Faso, West Africa. Completion of the transaction followed Tajiri's payment to the Group of the final US\$150,000 option extension and exercise fee.

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.

## Notes to the Consolidated Financial Statements

### 23. STATEMENT OF CASH FLOWS

	Consolidated	Consolidated
	2019	2018
	\$	\$
<b>(a) Reconciliation of net loss after income tax to net cash outflow from operating activities</b>		
Net loss for the year	(1,539,803)	(4,256,055)
<b>Non-cash items</b>		
Depreciation of non-current assets	3,867	13,161
Share-based payments	-	729,000
Impairment of capitalised tenement acquisition costs	-	227,760
Net gain on disposal of property, plant and equipment	(30,544)	-
Net gain on sales of mining properties	(551,489)	-
Net exchange differences	(1,892)	-
<b>Change in operating assets and liabilities</b>		
(Increase) in trade and other receivables	(32,639)	(5,385)
Decrease in financial assets at fair value through profit or loss	15,738	-
(Decrease)/increase in trade and other payables	293,505	(286,565)
Net cash outflow from operating activities	(1,843,257)	(3,478,084)

#### (b) Non-cash investing and financing activities

As part consideration on the sale of mining properties during the 2018 financial year the Group received equity securities in the purchaser valued at \$863,260 which have been classified as financial assets at fair value through profit or loss.

### 24. LOSS PER SHARE

<b>(a) Reconciliation of earnings used in calculating loss per share</b>		
Loss attributable to the owners of the Company used in calculating basic and diluted loss per share	(2,654,033)	(1,539,803)
	<b>Number of shares</b>	<b>Number of shares</b>
	2019	2018
<b>(b) Weighted average number of shares used as the denominator</b>		
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted loss per share	853,734,224	644,997,730

#### (c) Information on the classification of options

As the Group has made a loss for the year ended 30 June 2019, 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.

## Notes to the Consolidated Financial Statements

### 25. SHARE-BASED PAYMENTS

#### (a) Options issued to employees and contractors

The Group may provide benefits to employees (including directors) and contractors 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 price of the options granted and on issue as at 30 June 2019 is 3 cents per option, with an expiry date of 8 November 2021.

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 2019	Consolidated 2019	Consolidated 2018	Consolidated 2018
	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	10.0	38,300,000	9.5
Granted	30,000,000	3.0	-	-
Forfeited/cancelled	-	-	(7,500,000)	7.0
Exercised	-	-	-	-
Expired/lapsed	(30,000,000)	10.0	(800,000)	11.9
Outstanding at year-end	30,000,000	3.0	30,000,000	10.0
Exercisable at year-end	30,000,000	3.0	30,000,000	10.0

The weighted average remaining contractual life of share options outstanding at the end of the financial year was 2.4 years (2018: 0.4 years), and the exercise price was 3 cents per option.

#### Fair value of options granted

The weighted average "fair value" (not market value) of the options granted during the 2019 financial year was 0.3 cents. There were no options granted during the 2018 financial year. 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.

	2019	2018
	\$	\$
Weighted average exercise price (cents)	3.0	-
Weighted average life of the options (years)	3.0	-
Weighted average underlying share price (cents)	0.7	-
Expected share price volatility	114.2%	-
Risk free interest rate	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.

## Notes to the Consolidated Financial Statements

### (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
	2019	2018
	\$	\$
Options granted to/vesting with employees (including directors) and contractors as part of share-based payments	90,000	-

### 26. PARENT ENTITY INFORMATION

The following information relates to the parent entity, Middle Island Resources Limited, at 30 June 2019. The information presented here has been prepared using accounting policies consistent with those presented in Note 1.

	2019	2018
	\$	\$
Current assets	985,725	2,268,749
Non-current assets	2,178,852	2,200,043
<b>Total assets</b>	<b>3,164,577</b>	<b>4,468,792</b>
Current liabilities	165,693	105,830
<b>Total liabilities</b>	<b>165,693</b>	<b>105,830</b>
Contributed equity	36,305,796	34,954,474
Share-based payments reserve	90,000	729,000
Accumulated losses	(33,396,912)	(31,320,512)
<b>Total equity</b>	<b>2,998,884</b>	<b>4,362,962</b>
Loss for the year	(2,805,400)	(3,157,229)
<b>Total comprehensive loss for the year</b>	<b>(2,805,400)</b>	<b>(3,157,229)</b>

### 27. NON-CURRENT ASSETS HELD FOR SALE

	Consolidated	Consolidated
	2019	2018
	\$	\$
Reo Gold Project tenement acquisition costs	213,386	202,317

The non-current assets held for sale represent tenement acquisition costs for the Reo Gold Project in Burkina Faso, West Africa. The amounts disclosed are the balance of funds due from Tajiri Resources Corporation (TSXV: TAJ, Tajiri) in accordance with the Option to Purchase Agreement executed in February 2018. Subsequent to the end of the reporting period the sale transaction was completed, refer to note 22.

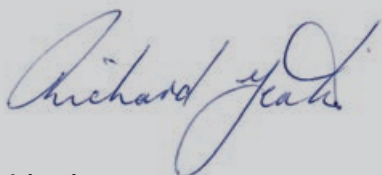
## Directors' Declaration

In the directors' opinion:

1. the financial statements and notes set out on pages 30 to 60 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 2019 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, 26 September 2019



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## 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 and its subsidiaries ("the Group"), which comprises the consolidated statement of financial position as at 30 June 2019, 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 2019 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.

##### Emphasis of Matter – Inherent uncertainty regarding continuation as a going concern

Without modifying our opinion, we draw attention to Note 1, which outlines that the going concern basis is dependent upon the ability of Middle Island Resources Limited to secure additional funding through either the issue of further shares or options.

As a result, there is material uncertainty related to events or conditions that may cast significant doubt on Middle Island Resources Limited ability to continue as a going concern, and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

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# Independent Auditor's Report

## 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. In addition to the matter described in the Emphasis of matter – Inherent uncertainty regarding continuation as a going concern section we have determined the matter described below to be a key audit matter to be communicated in our report.

### Capitalised Exploration Expenditure

Refer to Note 11, Capitalised Exploration Expenditure (\$1,327,754) and accounting policy Notes 1(l).

Key Audit Matter	How our audit addressed the 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.	<p>Our audit work included, but was not restricted to, the following:</p> <ul style="list-style-type: none"><li>• 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.</li><li>• 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.</li><li>• 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.</li><li>• 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.</li></ul>

### Property, plant and equipment

Refer to Note 10, Plant and equipment (\$2,065,632) and accounting policy Notes 1(k).

Key Audit Matter	How our audit addressed the matter
Property, plant and equipment represents a significant balance recorded in the consolidated statement of financial position.  The evaluation of the recoverable amount of these assets requires significant judgement in assessing impairment.	<p>Our audit work included, but was not restricted to, the following:</p> <ul style="list-style-type: none"><li>• We obtained an understanding and challenged managements assumptions and analysis of their impairment assessment in relation to the property, plant and equipment.</li><li>• We assessed the accuracy of the impairment model and methodology applied by the management for consistency with the requirements of accounting standards.</li><li>• We compared key values used in the assessment with information from independent sources.</li></ul>

## Independent Auditor's Report

### 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 2019 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).

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.

## Independent Auditor's Report

- 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.

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 3 to 7 of the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Middle Island Resources Limited, for the year ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.

### Report on the Remuneration Report (continued)

#### *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.

Greenwich & Co Audit Pty Ltd

**Greenwich & Co Audit Pty Ltd**



**Rafay Nabeel**  
Audit Director

Perth  
26 September 2016

## 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 3 October 2019.

### (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	39	7,280
1,001 - 5,000	33	101,887
5,001 - 10,000	46	371,383
10,001 - 100,000	288	12,112,745
100,001 and above	221	685,308,142
	627	697,308,1424
The number of shareholders holding less than a marketable parcel of shares are:	269	3,769,091

### (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	HARMANIS HLDGS PL <HARMAN FAM A/C>	112,861,336	10.78
2	TWYNAM INV PL	100,000,000	9.55
3	LOMACOTT PL <KEOGH S/F A/C>	75,000,000	7.16
4	JETOSEA PL	68,802,585	6.57
5	BPM CAP LTD	51,900,000	4.96
6	ACUITY CAP INV MGNT PL <ACUITY CAP HLDGS>	43,500,000	4.16
7	SFN HLDGS PL	35,000,000	3.34
8	GANDRIA CAP PL <TEDBLAHNKI FAM A/C>	30,000,000	2.87
9	J P MORGAN NOM AUST PL	24,815,398	2.37
10	EQUITY TTEES LTD <LOWELL RES FUND A/C>	23,779,083	2.27
11	NICHOLLS BEAU	21,075,000	2.01
12	BNP PARIBAS NOM PL HUB24	20,000,000	1.91
13	EMS ARCADIA PL <CB FILMS S/F NO2 A/C>	19,083,335	1.82
14	NORTHERN GRIFFIN PL	17,100,000	1.63
15	BT PORTFOLIO SVCS LTD <WARRELL HLDGS S/F>	17,004,989	1.62
16	TAZGA TWO PL <TAZGA TWO A/C>	16,000,000	1.53
17	DARLEY PL <DJW INV A/C>	15,000,000	1.43
18	KEEVERS NATHAN DAVID	14,697,158	1.40
19	GURRAVEMBI INV PL <S/F A/C>	14,500,000	1.39
20	DIAMANTINA RES PL <YEATES FAM A/C>	14,000,001	1.34
		734,118,885	70.11

## 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	
Twynam Investments Pty Ltd	97,500,000
Mr Richard Yeates	73,446,213
Lomacott Pty Ltd <The Keogh Super Fund A/C>	73,334,476
Harmanis Holdings Pty Ltd <Harman Family A/C>	70,251,102
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	% 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	E57/1028	Option to acquire 100%
Western Australia	P57/1442	100%
Western Australia	E57/1102	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 3 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 0.8 cent Options, expiry 31 January 2022	348,950,719	162	N/A	N/A





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