MIDDLE ISLAND RESOURCES LIMITED

ABN 70 142 361 608

INTERIM FINANCIAL REPORT

FOR THE HALF-YEAR ENDED
31 DECEMBER 2012

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2012 and any public announcements made by Middle Island Resources Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

DIRECTORS' REPORT

Your directors are pleased to present their report on the consolidated entity consisting of Middle Island Resources Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2012.

DIRECTORS

The names of the directors who held office during or since the end of the half-year, to the date of this report, are:

Peter Thomas

Richard Yeates

Beau Nicholls

Linton Kirk

Dennis Wilkins (alternate for Beau Nicholls)

REVIEW AND RESULTS OF OPERATIONS

A summary of consolidated revenues and results for the half-year is set out below:

	2012	
	Revenues	**Results**
	$	**$**
Consolidated entity revenues and loss	248,051	(3,782,586)

During the period the Group completed or commenced further gold exploration on properties to which it has mineral rights in West Africa. The work was entirely consistent with the 2012-13 corporate and strategic exploration objectives, focussed exclusively on prospects with the potential to deliver a resource exceeding 1Moz, including:

- At the Reo gold project in Burkina Faso, five diamond core holes (723.5m) at the priority K4/K5 Prospect to resolve aspects of the geology, alteration, structure and provide material for preliminary metallurgical (cyanidation) testwork.
- 156 infill RAB drill holes (4,916m) at the K4/K5 Prospect to refine mineralised zones to assist planning of pattern RC drilling in 2013.
- At the Sirba gold project in Niger, executed an agreement with AMI Resources Inc. to earn a 70% interest in three new permits immediately adjoining MDI's existing permits, consolidating a significant tenement holding straddling SEMAFO Inc's Samira Hill gold mine.
- Detailed mapping and compilation of historic exploration data at the high priority Tialkam South Prospect, located within the recently acquired AMI permits, prior to planned RC and diamond core drilling in 2013.
- Infill auger drilling (396 holes; 2,451m) at the Kimba Prospect, on an 800m line spacing, to provide greater definition of this significant (10km long), high tenor gold target.
- At the Nuon River gold project in Liberia, infill BLEG stream sediment sampling of more significant existing stream sediment anomalies.
- Reconnaissance line cutting and gold soil sampling of the Mambo BLEG stream sediment anomaly.

DIRECTORS' REPORT

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 5.

This report is made in accordance with a resolution of directors.

Richard Yeates
Managing Director
Perth, 12 March 2013

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Business Consultants
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AUDITOR'S INDEPENDENCE DECLARATION

To those charged with governance of Middle Island Resources Limited

As auditor for the review of Middle Island Resources Limited for the period ended 31 December 2012, I declare that, to the best of my knowledge and belief, there have been:

a) No contraventions of the independence requirements of the *Corporations Act 2001* in relation to the review; and
b) No contraventions of any applicable code of professional conduct in relation to the review.

Somes Cooke

Kevin Somes
Perth
12 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

	Note	Half-year Ended 31 Dec 2012 $	31 Dec 2011 $
REVENUE		**248,051**	269,233
EXPENDITURE			
Administration expenses		**(551,799)**	(453,437)
Depreciation expense		**(114,586)**	(67,167)
Exploration expenses		**(2,966,476)**	(1,853,034)
Salaries and employee benefits expense		**(323,336)**	(271,268)
Share-based payments expense	3	**(74,440)**	(60,696)
LOSS BEFORE INCOME TAX		**(3,782,586)**	(2,436,369)
Income tax		**-**	-
LOSS FOR THE PERIOD		**(3,782,586)**	(2,436,369)
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		**45,652**	(138,845)
Other comprehensive income for the period, net of tax		**45,652**	(138,845)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO MEMBERS OF MIDDLE ISLAND RESOURCES LIMITED		**(3,736,934)**	(2,575,214)
Basic and diluted loss per share (cents)		**(3.0)**	(2.4)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

	Note	31 December 2012 $	30 June 2012 $
CURRENT ASSETS			
Cash and cash equivalents		**8,934,559**	12,959,058
Trade and other receivables		**197,709**	98,494
TOTAL CURRENT ASSETS		**9,132,268**	13,057,552
NON-CURRENT ASSETS			
Plant and equipment		**632,706**	576,948
Mining properties		**2,726,804**	2,674,089
TOTAL NON-CURRENT ASSSETS		**3,359,510**	3,251,037
TOTAL ASSETS		**12,491,778**	16,308,589
CURRENT LIABILITIES			
Trade and other payables		**748,493**	902,810
TOTAL CURRENT LIABILITIES		**748,493**	902,810
TOTAL LIABILITIES		**748,493**	902,810
NET ASSETS		**11,743,285**	15,405,779
EQUITY			
Contributed equity	3	**25,733,440**	25,733,440
Reserves		**234,306**	114,214
Accumulated losses		**(14,224,461)**	(10,441,875)
TOTAL EQUITY		**11,743,285**	15,405,779

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

	Contributed Equity	Share-based Payments Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total
	$	$	$	$	$
BALANCE AT 1 JULY 2011	16,204,331	117,550	126,943	(3,248,644)	13,200,180
Loss for the period	-	-	-	(2,436,369)	(2,436,369)
OTHER COMPREHENSIVE INCOME					
Exchange differences on translation of foreign operations	-	-	(138,845)	-	(138,845)
TOTAL COMPREHENSIVE INCOME	-	-	(138,845)	(2,436,369)	(2,575,214)
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS					
Director and employee options	-	60,696	-	-	60,696
BALANCE AT 31 DECEMBER 2011	16,204,331	178,246	(11,902)	(5,685,013)	10,685,662
BALANCE AT 1 JULY 2012	**25,733,440**	**216,568**	**(102,354)**	**(10,441,875)**	**15,405,779**
Loss for the period	**-**	**-**	**-**	**(3,782,586)**	**(3,782,586)**
OTHER COMPREHENSIVE INCOME					
Exchange differences on translation of foreign operations	**-**	**-**	**45,652**	**-**	**45,652**
TOTAL COMPREHENSIVE INCOME	**-**	**-**	**45,652**	**(3,782,586)**	**(3,736,934)**
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS					
Director and employee options	**-**	**74,440**	**-**	**-**	**74,440**
BALANCE AT 31 DECEMBER 2012	**25,733,440**	**291,008**	**(56,702)**	**(14,224,461)**	**11,743,285**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

	Half-year Ended	
	31 Dec 2012	31 Dec 2011
	$	$
CASH FLOWS FROM OPERATING ACTIVITIES		
Expenditure on mining interests	**(3,206,855)**	(1,938,032)
Payments to suppliers and employees	**(835,326)**	(842,001)
Interest received	**194,784**	482,726
Other income received	**390**	289
Net cash outflow from operating activities	**(3,847,007)**	(2,297,018)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for mining properties	**-**	(38,278)
Payments for plant and equipment	**(162,459)**	(58,061)
Net cash outflow from investing activities	**(162,459)**	(96,339)
Net decrease in cash and cash equivalents	**(4,009,466)**	(2,393,357)
Cash and cash equivalents at the beginning of the period	**12,959,058**	9,982,666
Effects of exchange rate changes on cash and cash equivalents	**(15,033)**	(14,752)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**8,934,559**	7,574,557

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

This consolidated interim financial report for the half-year reporting period ended 31 December 2012 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2012 and any public announcements made by Middle Island Resources Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

This consolidated interim financial report has been prepared on an accruals and historical cost basis.

This consolidated interim financial report has been prepared on the going concern basis that contemplates normal business activities and the realisation of assets and extinguishment of liabilities in the ordinary course of business.

This consolidated interim financial report was approved by the Board of Directors on 12 March 2013.

Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

In the half-year ended 31 December 2012, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2012. It has been determined by the Group that there is no impact, material or otherwise, of these new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the half-year ended 31 December 2012. As a result of this review the Directors have determined that there is no impact, material or otherwise, of these new and revised Standards and Interpretations on its business and, therefore, no change necessary to Group accounting policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2: SEGMENT INFORMATION

For management purposes, the Group has identified only one reportable segment, being exploration activities undertaken in West Africa. This segment includes activities associated with the determination and assessment of the existence of commercial economic reserves, from the Group's mineral assets in this geographic location.

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.

	Half-year Ended	
	31 Dec 2012	**31 Dec 2011**
Exploration Segment	**$**	**$**
Segment revenue	**-**	20
Reconciliation of segment revenue to total revenue before tax:		
Interest revenue	**247,661**	268,924
Other income	**390**	289
Total revenue	**248,051**	269,233
Segment results	**(2,966,476)**	(2,101,054)
Reconciliation of segment result to net loss before tax:		
Other corporate and administration	**(816,110)**	(335,315)
Net loss before tax	**(3,782,586)**	(2,436,369)

	31 December 2012	**30 June 2012**
	$	**$**
Segment operating assets	**3,581,419**	3,364,082
Reconciliation of segment operating assets to total assets:		
Other corporate and administration assets	**8,910,359**	12,944,507
Total assets	**12,491,778**	16,308,589
Segment operating liabilities	**643,595**	822,894
Reconciliation of segment operating liabilities to total liabilities:		
Other corporate and administration liabilities	**104,898**	79,916
Total liabilities	**748,493**	902,810

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 3: EQUITY SECURITIES ISSUED

Issues of ordinary shares during the period

	Half-year Ended			
	31 Dec 2012		31 Dec 2011	
	Shares	$	Shares	$
Opening balance	**124,987,349**	**25,733,440**	99,987,349	16,204,331
Closing balance	**124,987,349**	**25,733,440**	99,987,349	16,204,331

Movements of options during the period

	Number of options Half-year Ended	
	31 Dec 2012	31 Dec 2011
Opening Balance	**18,475,000**	16,200,000
Issued, exercisable at 51 cents, expiring 1 November 2014	**-**	275,000
Issued, exercisable at 53 cents, expiring 1 November 2014	**-**	200,000
Issued, exercisable at 56 cents, expiring 15 December 2014	**-**	300,000
Closing Balance	**18,475,000**	16,975,000

During the half-year to 31 December 2012, the share-based payments expense in relation to options vesting during the half-year was $74,440 (2012: $60,696).

NOTE 4: CONTINGENCIES

There are no material contingent liabilities or contingent assets of the Group at balance date.

NOTE 5: TENEMENT EXPENDITURE COMMITMENTS

The minimum statutory expenditure requirements on granted tenements for the next 12 months amounts to $6,829,261.

NOTE 6: SUBSEQUENT EVENTS

No matter or circumstance has arisen since 31 December 2012, which has significantly affected, or may significantly affect the operations of the Group, the result of those operations, or the state of affairs of the Group in subsequent financial years.

DIRECTORS' DECLARATION

In the directors' opinion:

1. the financial statements and notes set out on pages 6 to 12 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 company's financial position as at 31 December 2012 and of its performance for the half-year ended on that date; and
2. there are reasonable grounds to believe that Middle Island Resources Limited will be able to pay its debts as and when they become due and payable.

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

Richard Yeates

Richard Yeates
Managing Director
Perth, 12 March 2013

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Chartered Accountants (Aus)
Business Consultants
Financial Advisors

Independent Auditor's Review Report

To the members of Middle Island Resources Limited

Report on the Half-year Financial Report

We have reviewed the accompanying half-year financial report of Middle Island Resources Limited, which comprises the consolidated statement of financial position as at 31 December 2012, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Half-year Financial Report

The directors of Middle Island Resources Limited are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of Middle Island Resources Limited's financial position as at 31 December 2012 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Middle Island Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Middle Island Resources Limited is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the Middle Island Resources Limited's financial position as at 31 December 2012 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Somes Cooke

Kevin Somes

12 March 2013

Perth
Western Australia