Middle Island

RESOURCES LIMITED

INTERIM FINANCIAL REPORT

For the Half-Year ended 31 December 2015

ABN 70 142 361 608

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 2015 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*.

Middle Island Resources Limited
ACN 142 361 608

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 2015.

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:

	2015	
	Revenues $	**Results** $
Consolidated entity revenues and loss	26,015	(2,542,455)

Corporate

Middle Island held cash of approximately $529,000 and no loan debt as at 31 December 2015.

Middle Island closed an oversubscribed rights issue in July 2015, raising an additional $503,000 before costs. The equity capital raising comprised a non-renounceable 1 for 1 issue to all existing shareholders, fully underwritten by MDI's Directors and sub-underwritten by several major shareholders.

The share issue was structured to provide every possible opportunity for our loyal and patient shareholders to be well-positioned to take maximum advantage of the then contemplated transaction or any alternative opportunity the Company may elect to pursue. This was the first occasion since the IPO in 2010 that Middle Island has sought financial support from shareholders. The response was overwhelming, for which the Directors are sincerely appreciative.

Aside from expenditure related to due diligence activities and legal documentation on project acquisition opportunities, your Company has continued to implement and consolidate incremental cost savings during the December half in order to conserve the Company's cash.

On expiry of the West Perth office lease in November 2015, the Company's headquarters were relocated from Suite 2 to Suite 1 at the same West Perth address via a sublease arrangement, thereby halving office rental costs and providing the opportunity to further share administrative functions.

Strategy

Middle Island's strategic focus remains two-fold; to identify an appropriate partner to invest in resource definition drilling and feasibility studies at the Reo gold project in Burkina Faso, and to identify a new gold or copper-gold transaction that will generate significant additional shareholder and investor interest.

An indicative farm-in offer has been tabled for the Reo Project in Burkina Faso, and negotiations are proceeding with the interested party.

Since October 2014, Middle Island has identified and investigated more than 300 new project or corporate opportunities, primarily within Australia and Africa, and is actively pursuing a transaction on at least one of three priority projects.

Although unable to successfully conclude a transaction during the December half year, technical due diligence reviews have been completed on three projects, and legal documentation is well advanced on two of these. It is hoped that one or more transactions can be successfully concluded prior to the end of FY2016.

Exploration

No exploration was undertaken within the Company's 100%-owned Reo gold project in Burkina Faso during the December half.

The continuing focus at Reo has been on identifying an appropriate partner to help fund the project through to feasibility. An indicative offer was received during the December quarter and negotiations with the interested party are progressing.

The Reo gold project remains highly prospective, with significant unfinished resource definition and exploration activities to be completed. All Reo Project permits remain in good standing.

Similarly, no exploration was undertaken within the Sirba gold project permits during the December half.

The status of the Deba and Tialkam permits remains unchanged. No advice was received during the quarter on the outcome of either the Company's request to have these permits reinstated or the permit re-applications. It is now considered highly unlikely that the permits will be reinstated and, as such, releases have been sought from our previous project partners.

Similarly, renewal applications for the Dogona and Boulkagou permits, lodged on behalf of joint venture partner, Cassidy Gold Limited in August 2014, are still pending.

Opportunities to dispose of (or realise some value from) the Company's Niger permit interests continue to be pursued.

Health, Safety & Environment

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

Social

Given the hiatus in exploration activity, the Company's community development initiatives at the Reo Project have been curtailed. However, contact with our host communities at the Reo Project is being maintained to ensure they are informed of Middle Island's situation.

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 4.

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

Richard Yeates

Richard Yeates
Managing Director
Perth, 15 March 2016

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Auditor's Independence Declaration

To those charged with the governance of Middle Island Resources Limited

As auditor for the review of Middle Island Resources Limited for the half-year ended 31 December 2015, I declare that, to the best of my knowledge and belief, there have been:

i) no contraventions of the independence requirements of the *Corporations Act 2001* in relation to the review; and

ii) no contraventions of any applicable code of professional conduct in relation to the review.

Somes Cooke

Somes Cooke

Nicholas Hollens

Nicholas Hollens
Partner

Perth

15 March 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the Half-Year Ended 31 December 2015

		Half-year Ended	
		31 Dec 2015	31 Dec 2014
	Note	$	$
REVENUE			
Profit on sale of assets		**-**	38,301
Other revenue		**26,015**	21,497
EXPENDITURE			
Exploration expenses		**(62,660)**	(441,980)
Administration expenses		**(244,195)**	(163,240)
Salaries and employee benefits expense		**(179,914)**	(144,981)
Depreciation expense		**(7,514)**	(49,015)
Share-based payments expense	3	**(136)**	1,097
Impairment of capitilised tenement acquisition cost	4	**(1,946,139)**	(13,675)
Impairment of receivable		**(127,912)**	(39,245)
LOSS BEFORE INCOME TAX		**(2,542,455)**	(791,241)
Income tax		**-**	-
LOSS FOR THE PERIOD		**(2,542,455)**	(791,241)
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		**115,105**	59,027
Other comprehensive income for the period, net of tax		**115,105**	59,027
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO MEMBERS OF MIDDLE ISLAND RESOURCES LIMITED		**(2,427,350)**	(732,214)
Basic and diluted loss per share (cents)		**(1.0)**	(0.6)

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 2015

	Note	31 December 2015 $	30 June 2015 $
CURRENT ASSETS			
Cash and cash equivalents		**529,157**	564,733
Trade and other receivables		**14,128**	167,192
TOTAL CURRENT ASSETS		**543,285**	731,925
NON-CURRENT ASSETS			
Plant and equipment		**13,867**	20,769
Mining properties	4	**970,000**	2,801,086
TOTAL NON-CURRENT ASSSETS		**983,867**	2,821,855
TOTAL ASSETS		**1,527,152**	3,553,780
CURRENT LIABILITIES			
Trade and other payables		**137,125**	227,967
TOTAL CURRENT LIABILITIES		**137,125**	227,967
TOTAL LIABILITIES		**137,125**	227,967
NET ASSETS		**1,390,027**	3,325,813
EQUITY			
Contributed equity	3	**26,224,868**	25,733,440
Reserves		**432,492**	317,251
Accumulated losses		**(25,267,333)**	(22,724,878)
TOTAL EQUITY		**1,390,027**	3,325,813

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 2015

	Note	Contributed Equity	Share-based Payments Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total
		$	$	$	$	$
BALANCE AT 1 JULY 2014		25,733,440	249,845	300,465	(21,671,912)	4,611,838
Loss for the period		-	-	-	(791,241)	(791,241)
OTHER COMPREHENSIVE INCOME						
Exchange differences on translation of foreign operations		-	-	59,027	-	59,027
TOTAL COMPREHENSIVE INCOME		-	-	59,027	(791,241)	(732,214)
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS						
Director and employee options	3	-	(243,837)	-	242,740	(1,097)
BALANCE AT 31 DECEMBER 2014		25,733,440	6,008	359,492	(22,220,413)	3,878,527
BALANCE AT 1 JULY 2015		**25,733,440**	**6,250**	**311,001**	**(22,724,878)**	**3,325,813**
Loss for the period		**-**	**-**	**-**	**(2,542,455)**	**(2,542,455)**
OTHER COMPREHENSIVE INCOME						
Exchange differences on translation of foreign operations		**-**	**-**	**115,105**	**-**	**115,105**
TOTAL COMPREHENSIVE INCOME		**-**	**-**	**115,105**	**(2,542,455)**	**(2,427,350)**
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS						
Issue of shares	3	**503,428**	**-**	**-**	**-**	**503,428**
Transaction costs	3	**(12,000)**	**-**	**-**	**-**	**(12,000)**
Director and employee options	3	**-**	**136**	**-**	**-**	**136**
BALANCE AT 31 DECEMBER 2015		**26,224,868**	**6,386**	**426,106**	**(25,267,333)**	**1,390,027**

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 2015

	Half-year Ended	
	31 Dec 2015	**31 Dec 2014**
	$	**$**
CASH FLOWS FROM OPERATING ACTIVITIES		
Expenditure on mining interests	**(68,168)**	(361,851)
Payments to suppliers and employees	**(485,351)**	(465,642)
Interest received	**5,804**	22,386
Other income received	**21,272**	-
Net cash outflow from operating activities	**(526,443)**	(805,107)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for plant and equipment	**-**	-
Proceeds from sale of plant and equipment	**-**	207,633
Net cash inflow from investing activities	**-**	207,633
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issues of ordinary shares	**503,428**	-
Payment of share issue cost	**(12,000)**	-
Net cash inflow from financing activities	**491,428**	-
Net decrease in cash and cash equivalents	**(35,015)**	(597,474)
Cash and cash equivalents at the beginning of the period	**564,732**	1,588,439
Effects of exchange rate changes on cash and cash equivalents	**(560)**	8,645
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**529,157**	999,610

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 2015 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 2015 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 15 March 2016.

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 2015, 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 2015. 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 2015. 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.

Going concern

The interim financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity, the realisation of assets and the settlement of liabilities in the normal course of business.

The consolidated entity had net assets of $1,390,027 at 31 December 2015 (30 June 2015: $3,325,813), incurred a net loss after tax for the six months ended 31 December 2015 of $2,542,455 (six months to 31 December 2014: loss $791,241) and experienced net cash outflows of $35,575 (six months to 31 December 2014: $597,474).

Whilst the directors have instituted measures to preserve cash and secure additional finance, they recognise that the Group's ability to continue as a going concern is dependent on its ability to raise additional capital to fund its business plans.

The Company expects to be able to raise additional capital from the capital market, and on that basis, the directors believe that the going concern basis of the presentation is appropriate.

Nonetheless, the group's working capital position and other year-end financial indicators show a significant uncertainty whether the Group will be able to continue as a going concern.

Should the Company be unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different from those stated in the financial report.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 deposits 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 2015	**31 Dec 2014**
Exploration Segment	**$**	**$**
Segment revenue	**-**	-
Reconciliation of segment revenue to total revenue before tax:		
Profit on sale of assets	**-**	38,301
Interest revenue	**4,743**	21,497
Other income	**21,272**	-
Total revenue	**26,015**	59,798
Segment results	**(1,996,028)**	(476,841)
Reconciliation of segment result to net loss before tax:		
Other corporate and administration	**(546,427)**	(314,400)
Net loss before tax	**(2,542,455)**	(791,241)

	31 Dec 2015	**30 Jun 2015**
	$	**$**
Segment operating assets	**1,121,669**	2,962,066
Reconciliation of segment operating assets to total assets:		
Other corporate and administration assets	**405,483**	591,714
Total assets	**1,527,152**	3,553,780
Segment operating liabilities	**73**	318
Reconciliation of segment operating liabilities to total liabilities:		
Other corporate and administration liabilities	**137,052**	227,649
Total liabilities	**137,125**	227,967

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3: EQUITY SECURITIES ISSUED

Issues of ordinary shares during the period

	Half-year Ended			
	31 Dec 2015		30 June 2015	
	Shares	$	Shares	$
Opening balance	124,987,349	25,733,440	124,987,349	25,733,440
Entitlement issue	125,856,904	503,428	-	-
Cost of capital raise	-	(12,000)	-	-
Closing balance	**250,844,253**	**26,224,868**	124,987,349	25,733,440

Movements of options during the period

	Half-year Ended 31 December 2015	
	Number of Options	Value of Options
Opening Balance	800,000	6,250
Vesting of options	-	136
Closing Balance	**800,000**	**6,386**

The share-based payments expense of $136 recognised during the half-year to 31 December 2015 is due to options issued which have vested during the half-year.

During the half-year to 31 December 2014, the share-based payments income of $1,097 is due to a net write-back of expense of $1,571 for options that will not satisfy non-market related performance vesting conditions, and a share-based payment expense of $474 for options vesting during the half-year. The transfer of $242,740 from the option reserve into accumulated losses is in relation to expired options.

NOTE 4: DEFERRED EXPLORATION AND EVALUATION EXPENDITURE

In light of the current poor market conditions, the directors determined that it was prudent to undertake an impairment assessment, at the half-year end date, of its main exploration asset: the Reo Project in Burkina Faso. Based on the best available market data and the knowledge held by the directors at 31 December 2015, the asset held was impaired to a value of $970,000.

This resulted in an impairment charge to the profit or loss of $1,946,139.

As this is an estimate, the actual recoverable amount may be significantly different to this value. Future exploration and evaluation results and changes in commodity prices may change the estimated recoverable amount in the future, which may result in the reversal of some or all of the impairment charge recognised.

NOTE 5: CONTINGENCIES

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

NOTE 6: TENEMENT EXPENDITURE COMMITMENTS

The minimum statutory expenditure requirements on granted tenements for the next 12 months amount to $250,000.

NOTE 7: SUBSEQUENT EVENTS

No matter or circumstance has arisen since 31 December 2015 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 5 to 13 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 2015 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, 15 March 2016

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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 2015, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and the 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 the company are responsible for the preparation of the half-year 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 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 the company's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Act 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 company's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and

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

Emphasis of matter - Inherent uncertainty regarding continuation as a going concern

Without modifying our conclusion, we draw attention to Note 1 to the financial report, which describes that the ability of the company to continue as a going concern is dependent on future capital raisings.

As a result there is material uncertainty related to events or conditions that may cast significant doubt on the company's 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.

Somes Cooke

Somes Cooke

Nicholas Hollens

Nicholas Hollens

15 March 2016

Perth
Western Australia