Midway

Appendix 4E
2017

ABN 44 005 616 044

Contents

RESULTS FOR ANNOUNCEMENT TO THE MARKET

for the financial year ended 30 June 2017

Financial year ended: 30 June 2017
Previous corresponding period: 30 June 2016

Result Summary

		%		$'000
Consolidated Revenue from Operations	up	0.3	to	209,214
Net profit after tax from ordinary activities attributable to shareholders	down	38.2	to	17,013
Net profit after tax attributable to shareholders	down	43.2	to	14,854

The full year 2017 financial results were in line with the Group's prospectus forecast, achieving sales revenue of $209.2M and pro forma earnings before interest, tax, depreciation and amortisation (EBITDA) of $28.4M.

Midway achieved a net profit after tax (NPAT) of $14.9M and $17.0M NPAT from ordinary activities which is was down on the previous corresponding period.

The anticipated fall in profit against FY16 was mainly due to no log sales and higher stumpage costs following the sale of tree crop to Strategy Timber in February 2016, which was reflected in the pro forma forecast.

For a further explanation of the results above, refer to the Company's ASX/Media Announcement for the year ended 30 June 2017 and the accompanying Directors' Report.

Dividends / distributions

	Amount per security	Franked amount per security at 30%
2016 interim dividend (declared and paid)	20.12 cents	Fully franked
2016 final dividend (declared and paid)	6.0 cents	Fully franked
2017 interim dividend (declared and paid)	9.0 cents	Fully franked
2017 final dividend (declared but not yet paid)	9.0 cents	Fully franked

Record date for determining entitlements to the final dividend:	12 September 2017
Date final dividend payable	9 October 2017

	Current period	Previous corresponding period
Net tangible asset backing per ordinary security	119.1 cents	118.3 cents

Other information required by Listing Rule 4.3A

Other information requiring disclosure to comply with Listing Rule 4.3A is contained in the accompanying Financial Report for the year ended 30 June 2017.

Directors' Report

The Directors present their report together with the consolidated financial statements of the Group comprising of Midway Limited (the Company) and its subsidiaries for the financial year ended 30 June 2017 and the auditor's report thereon.

Directors

The names and details of the Company's directors in office during the financial year and until the date of this report are as follows:

Name	Position Held	Employment status
Directors		
Gregory McCormack	Non-Executive Chairman	
Nils Gunnersen	Non-Executive Director	
Thorold Gunnersen AM	Non-Executive Director	(resigned as a Director 09/11/2016; reappointed 10/02/2017)
Gordon Davis	Independent Non-Executive Director	
Thomas Keene	Independent Non-Executive Director	
Anthony Bennett	Independent Non-Executive Director	
Anthony Price	Managing Director and CEO	

All of the directors have been in office for the entire period unless otherwise stated.

Directors Information

Gregory McCormack

Non-Executive Chairman

Mr McCormack was the founding Director of Midway in 1980. Mr McCormack holds a Bachelor of Business and has a long-term commitment to the Australian forest products industry, holding senior positions with both the National and the Victorian Association of Forest industries (having served as President of both associations). Mr McCormack is the current President of the Australian Forest Products Association and is currently a Director of Millennium Services Group Limited. Mr McCormack is a member of the Audit and Risk Management Committee.

Anthony Price

Managing Director and CEO

Mr Price holds a Bachelor of Science (Forestry) and a Post Graduate Diploma in Business Management, has attended the International Executive Programme at INSEAD in France and is a graduate member of the Australian Institute of Company Directors. Before joining Midway, he has held a number of senior management positions in the hardwood plantation sector and has also run his own consultancy business. Mr Price has over 30 years' experience in the forestry sector. He is also currently a Director of Forestworks Ltd, an organisation which provides training packages to the forest industry.

Anthony Bennett

Independent Non-Executive Director

Mr Bennett holds a Diploma in Civil Engineering and a Graduate Diploma in Industrial Management. He has extensive background in production management, particularly in the manufacture of high volume/ low margin products for use in civil engineering construction.

Directors' Report

Gordon Davis

Independent Non-Executive Director

Mr Davis holds a Master of Business Administration, a Master of Agricultural Science, and a Bachelor of Forest Science. Mr Davis is currently a non-executive Director of Nufarm Limited, where he chairs the Health, Safety and Environment Committee and serves on the Audit and Risk, and Human Resources Committees. He is also a non-executive Director of Primary Health Care Limited, where he is a member of the Risk Committee. Mr Davis was Managing Director and CEO of AWB Limited from 2006 to 2011. He was also Chair of VicForests from 2011 to 2016. He is currently the Chair of Greening Australia, and a Trustee of The Nature Conservancy. Mr Davis is the Chairman of the Remuneration and Nomination Committee, and a member of the Audit and Risk Management and Occupational Health & Safety and Management Systems Committees.

Nils Gunnersen

Non-Executive Director

Mr Nils Gunnersen holds a Bachelor of Business (Agricultural Commerce) and is a graduate of the Australian Rural Leadership Programme. He is Executive Director of Gunnersen Pty Ltd and a Trustee of the JW Gottstein Trust with over 25 years' management experience in forest industries businesses across: resources, operations, finance, IT, compliance, sales and marketing within Australia and overseas. He was appointed a Director on the Board of Midway Limited in 2012, he is Chairman of the Occupational Health & Safety and Management Systems Committee. Mr Nils Gunnersen is currently a director of Chebmont Pty Ltd.

Thorold Gunnersen AM

Non-Executive Director

Mr Thorold Gunnersen AM holds Bachelor of Commerce and Master of Science (Social Science) degrees. He is Chairman of the Gunnersen family investment companies and Gunnersen Companies Pty Ltd. He was Managing Director of Gunnersen Companies Pty Ltd (formerly Marbut-Gunnersen Pty Ltd) between 1970 and 2008. He was awarded a Gottstein Fellowship in 1977 and invited to join the Weyerhaeuser Leadership Institute in 1986. He was Chairman of the Co-operative Research Centre in Wood Innovations and has served as Australia's Director on the Board of the World Forestry Center in Portland, Oregon (Chairman 1997-2000), receiving the "Harry M. Merlo" award for "Extraordinary Commitment to Forest Stewardship" in 2007. He was President of NAFI (1996-2000) and Chairman of the Forest and Wood Products Research and Development corporation (2000-2006). He is a member of the Remuneration and Nomination Committee. Mr Gunnersen is currently a Director of Chebmont Pty Ltd.

Thomas Keene

Independent Non-Executive Director

Mr Keene holds a Bachelor of Economics and is a Fellow of the Australian Institute of Company Directors. He has a strong commercial and agribusiness background, having held the position of Managing Director of GrainCorp Ltd between 1993 and 2008. In 2007, Mr Keene was awarded the NAB Agribusiness Leader of the Year. He was appointed a Director of Midway Limited in 2008. He is the former Chairman of Allied Mills Ltd and Grain Trade Australia and also a former Director of Cotton Seed Distributors Ltd. He is currently a Director of AACo Ltd. Mr Keene is Chairman of the Audit and Risk Management Committee and is a member of the Remuneration and Nomination and Occupational Health & Safety and Management Systems Committees.

Committee Membership

As at the date of this report, the Company has an Audit & Risk Management Committee (ARMC), a Remuneration & Nomination Committee (RNC) and an Occupational Health & Safety & Management Systems Committee (OHS) of the Board of Directors.

Name	ARMC	OHS	RNC	Comments
Directors				
Gregory McCormack	✔			
Anthony Bennett				
Gordon Davis	✔	✔	✔	Chair RNC
Nils Gunnersen		✔		Chair OHS
Thorold Gunnersen AM			✔	
Thomas Keene	✔	✔	✔	Chair ARMC
Anthony Price				CEO

Directors' Report

Company Secretary

Sophie Karzis (B. Juris, LLB)

Meetings of Directors

The number of meetings of the Company's Board of Directors and of each Board committee held during the year and the number of meetings attended by each Director were as follows:

	Board		ARMC		RNC		OHS	
Directors	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Gregory McCormack	10	10	4	4	-	-	-	-
Anthony Bennett	10	8	-	-	-	-	-	-
Gordon Davis	10	10	4	4	3	3	3	3
Nils Gunnersen	10	10	-	-	-	-	3	3
Thorold Gunnersen AM*	8	2	-	-	3	1	-	-
Thomas Keene	10	10	4	4	3	3	3	3
Anthony Price	10	10	-	-	-	-	-	-

Principal Activities

The principal activities of the Group during the 2017 financial year were the production and export of wood fibre to producers of pulp, paper and associated products in Japan and China. The Group derives income from producing hardwood and softwood woodchips mostly from logs acquired from private plantation owners in Victoria, South Australia, New South Wales and Queensland.

The Group owns a processing and export facility in Geelong and has majority shareholdings in processing and export facilities in Portland and Brisbane.

Operating and Finance Review

Financial Results (Pro Forma)

Full year results in line with prospectus forecasts

- The full year 2017 financial results were in line with the Groups' prospectus forecasts, achieving revenue of $209.2M ($2.7M above forecast) and EBITDA of $28.4M ($0.4M above forecast)
- Net profit before tax was $23.4M and NPAT was $17.3M, both slightly ahead of the prospectus forecast
- Shareholders will receive a fully franked final dividend of $0.09 cents per share in line with prospectus forecast. This means a total dividend for the year of $0.18 cents per share

Segment performance

- Operations in Geelong performed well throughout the year (despite exceptionally wet conditions early in the financial year), with a slight decrease in sales volume being offset by higher dry fibre content, better US dollar sales and a favorable exchange rate position (gains resulting from hedging)
- South West Fibre (SWF) performed strongly and better than the prospectus forecast
- Geelong and SWF performance offset lower sales volumes by Queensland Commodity Exports (QCE) which was adversely affected by lower softwood export volumes and adverse weather conditions in northern NSW, due to Cyclone Debbie, which affected hardwood harvesting

Good progress against strategic objectives

- The company has continued to maximise long term supply by replanting seedlings where commercially viable
- Midway continues to assess opportunities to acquire value accretive businesses in key forestry areas in Australia and overseas
- The Group maintains a disciplined approach to capital management to ensure shareholder wealth maximisation

Midway

Directors’ Report

Operating and Finance Review (continued)

A reconciliation of the pro forma result against the pro forma forecast has been provided below to allow shareholders to make a meaningful analysis of the Groups results:

	Pro forma FY 2017			Pro forma FY 2016	
$'000	Actual	Prospectus Forecast	Change	Actual	Change
Revenue and other income					
Sales revenue	209,214	206,493	2,721	200,275	8,939
Other income	4,155	3,533	622	3,624	531
	213,369	210,026	3,343	203,899	9,470
Less: expenses					
Changes in inventories of finished goods and work in progress	(4,029)	(5,636)	1,607	1,274	(5,303)
Raw Materials, consumables and other procurement expenses	(126,488)	(127,302)	814	(116,816)	(9,672)
Employee benefits expense	(8,829)	(9,121)	292	(8,662)	(167)
Plantation management expenses	(841)	(1,539)	698	(1,143)	302
Freight and shipment costs	(37,235)	(29,071)	(8,164)	(38,384)	1,149
Repairs and maintenance costs	(4,097)	(4,220)	123	(4,008)	(89)
Other operating expenses	(6,291)	(5,834)	(457)	(6,216)	(75)
Share of profit/(loss) of equity accounted investments	2,808	786	2,022	5,663	(2,855)
EBITDA before significant items	28,367	28,089	278	35,607	(7,240)
Significant items	-	-	-	-	-
EBITDA	28,367	28,089	278	35,607	(7,240)
Depreciation & Amortisation	(3,387)	(3,521)	134	(3,466)	79
EBIT	24,980	24,568	412	32,141	(7,161)
Net finance expense	(1,588)	(1,375)	(213)	(1,202)	(386)
Net profit before tax	23,392	23,193	199	30,939	(7,547)
Income tax expense	(6,055)	(6,722)	667	(7,541)	1,486
Net profit after tax	17,337	16,471	866	23,398	(6,061)

Reconciliation to statutory net profit after tax

	2017 $'000	2016 $'000
Pro forma NPAT	17,337	23,398
less		
IPO Costs	(2,161)	(1,375)
Legal Fees – Speechley matter	(255)	-
Add		
Sale of Treecrop adjustments (sale to Strategy)	-	3,833
Compliance costs	-	560
Statutory NPAT	14,921	26,416

Directors' Report

Operating and Finance Review (continued)

Segment performance against pro forma forecast

Midway (Geelong)

MIDWAY	2017 Pro forma actual	Δ
Revenue	182,637	+ 6%
EBITDA	24,112	+11%
NPAT	13,856	+ 8%

Metric	Δ
Dry Fibre	+1%
FX	+ 1%
Volume	- 1%
Sales prices	+ 1%

The Geelong operation has performed strongly throughout the year. Sales volume was impacted by more wet weather than anticipated in the Otway region (predominately first half impact), however favourable dry fibre content % and USD sales negated this impact.

In addition the Geelong operation implemented tighter fiscal controls on supply costs and also ended with a favourable FX position for the year.

Geelong has maintained strong relationships with its key customer base in China and Japan, with strong demand for product expected to continue into FY18.

Queensland Commodity Exports Pty Ltd (QCE)

QCE	2017 Pro forma actual	Δ
Revenue	26,577	- 23%
EBITDA	1,205	-78%
NPAT	673	- 81%

Metric	Δ
Dry Fibre	+1%
FX	-
Volume	-18%
Sales prices	-10%

QCE Brisbane had an unfavourable result, mainly due to poor softwood market conditions and some unanticipated challenges with the ramp up of plantation hardwood exports, which was affected by production constraints due to difficult harvest conditions (mainly weather and in particular Cyclone Debbie) contributing to a lower volume (18%) than expected.

Partially offsetting the fall in profit was an uplift in the dry fibre content %.

South West Fibre Pty Ltd (SWF)

SWF	2017 Pro forma actual	Δ
Revenue	77,603	- 3%
EBITDA	5,446	+ 101%
NPAT	2,808	+ 257%

Metric	Δ
Dry Fibre	+1%
FX	-
Volume	-6%
Sales prices	-4%

SWF continues to perform better than management expectations.

Directors' Report

Operating and Finance Review (continued)

Financial Position

	2017 $'000	2016 $'000
Current Assets	35,713	39,016
Non-current Assets	119,095	117,295
Total assets	154,808	156,311
Current Liabilities	19,873	20,872
Non-current liabilities	43,890	44,893
Total liabilities	63,763	65,765
Net assets	91,045	90,546

Highlights

- Strong cashflow for the year (operating +$16.2M)
- Strong working capital position leading into FY 2018
- Low credit risk on receivables

Net Debt	2017 $'000	2016 $'000
Borrowings - Current	714	465
Borrowings – Non-current	30,949	30,436
	31,663	30,901
less cash		
Cash and cash equivalents	(15,025)	(11,180)
Net Debt	16,638	19,721

Highlights

- Compliant with all financial undertakings throughout the period
- Refinancing and extension of debt maturity to 31 March 2019

Non-IFRS measures

Throughout this report the Group has used certain non-IFRS measures, predominately EBIT and EBITDA. The non-IFRS measures have been deemed useful for recipients in measuring the underlying performance of the Group. The non-IFRS measures have not been audited.

Non-IFRS measure	Description
EBIT	Earnings, before interest and tax
EBITDA	Earnings, before interest, tax, depreciation and amortisation
Pro forma NPAT	Statutory net profit after tax adjusted to remove impact of one off or non-recurring items
Pro forma EBITDA	Earnings, before interest, tax, depreciation and amortisation adjusted to remove impact of one off or non-recurring items

Directors' Report

Outlook

The Group's corporate strategy includes a number of initiatives aimed at long term sustainability and growth including:

- Secure existing supply stocks through active engagement with major plantation managers;
- Continue investment in replanting, where appropriate, on existing and newly acquired land portfolio to maximise supply in the long term; and
- Seek out new opportunities to acquire businesses in key forestry areas in Australia and overseas.

Market

The long term outlook for export demand is forecast to remain strong, especially in China, contributing to positive pricing trends.

In 2017 Chinese hardwood woodfibre imports are up 12.5% year on year (yoy). Overall Asian demand is up 5.4% or approximately 2.5 million gmt.

Further expansion of pulp processing capacity in China, for both paper and textile end uses is currently under construction and is expected to commence production in 2018-19. This is expected to drive further demand in woodfibre consumption.

Midway has continued to cement key trading relationships with our export customers in China and Japan.

Key Risks and Business Challenges

The principal risks and business challenges for the Group are:

- Security of supply – There is a risk that Midway may not be able to secure sufficient timber supply necessary to meet growing customer demand.
- Customer demand – As most sales are achieved on a short-term contractual basis, there can be no guarantee that these relationships will continue.
- Exposure to foreign exchange rates – As sales are denominated in USD whilst costs are in AUD, any adverse exchange rate fluctuations would have an adverse effect on its future financial performance and position.
- Banking facilities – There is a risk that Midway may not be able to refinance its existing or future bank facilities as and then they fall due, or that the terms available to Midway on refinancing may not be as favourable as the terms of its existing or future bank facilities. In addition, Midway has a debt facility which is subject to various covenants. Factors such as a decline in Midway's operations and financial performance (including any decline arising from any adverse exchange rate fluctuations) could lead to a breach of its banking covenants. If a breach occurs, Midway's financier may seek to exercise enforcement rights under the debt facility, including requiring immediate repayment, which may have a materially adverse effect on Midway's future financial performance and position.
- Excess system capacity – Midway is subject to a number of contracts which contain minimum annual volume commitments. Financial costs are imposed if these volume commitments are not met.
- Contamination of product – woodfibre export contracts all contain similar contamination requirements. There is a risk of financial recourse in the event of a breach of contract.
- Costs – Midway's profitability could be materially and adversely affected by increases in costs which are in many respects beyond its reasonable control.
- Sale of freehold plantation land – In the event freehold plantation land is sold after harvest of the current rotation of trees, there is a risk Midway may not be able to achieve sales for some or all of the estate within its optimal timeframe at or in excess of book value.
- Vessel chartering – An increasing proportion of Midway's export sales is executed on a cost, insurance and freight (CIF) basis, there is a risk that Midway may not be able to finalise an export sale contract rendering the vessel idle.
- Employee recruitment risk and retention – There is a risk that Midway may not be able to attract and retain key staff.
- Port of Brisbane tenure – There is a risk that QCE will be unable to renew the lease expiring in 2022 and, therefore, would need to seek access to an alternative export facility.

Directors' Report

Key Risks and Business Challenges (continued)

- Risk of fire affecting timber supply – Loss of plantation resource and therefore supply due to fire is an ever-present industry risk.
- Other risks facing the company include: Failure to comply with laws, regulations and industry standards generally (and environmental matters and industry accreditations specifically), risk of litigation, claims and disputes, bribery and corruption in foreign jurisdictions.

In order to manage these challenges, the Company hedges a significant proportion of its forward sales through foreign exchange hedging contracts and continues to maintain and strengthen its business relationships including entering into a strategic alliances with key suppliers. Additionally, imposing a strong control environment focusing on preventative controls, acts to further manage these business challenges.

Dividends

Dividends declared and paid in respect of the financial year 2017:

Declared and paid in respect of during the year 2017	Cents per share	Total amount ($)	Date of payment
Interim Dividend (fully franked)	9.0	6,733,794	21/04/2017
Final Dividend (fully franked)	9.0	6,733,794	09/10/2017

Corporate Governance

The Group has adopted a range of charters and policies aimed at ensuring that the Group's business is conducted in an ethical manner and in accordance with the highest standards of corporate governance.

Significant Changes in the State of Affairs

On 8 December 2016, the Company successfully completed its Initial Public Offering (IPO) of securities and was admitted to the Australian Securities Exchange (ASX). The IPO comprised the sell-down by pre-existing shareholders of 14,967,691 shares at $2.50 per share. The majority of pre-existing shareholders have entered into escrow arrangements that restrict dealing in relation to pre-IPO issued shares until the lodgement of this report with the ASX, and the two major shareholders are escrowed until the Company lodges its Appendix 4E for FY2018.

There has been no change in the amount of ordinary shares issued by the Company since the previous corresponding period.

Significant Events Subsequent to the end of the Financial Year

The Directors are not aware of any other matter or circumstance which has arisen since 30 June 2017 that has significantly affected or may significantly affect the operations of the Group in subsequent financial years, the results of those operations, or the state of affairs of the Group in future financial years.

Directors' Report

Likely Developments and Expected Results of Operations

The Directors expect that, in the short term, demand from key customers in Japan and China is likely to exceed our supply arrangements. As additional supply opportunities are secured, we will seek to satisfy this excess demand as well as broaden our customer base in Japan and China.

Midway will continue to pursue further growth opportunities through:

- securing additional supply to meet expected unfulfilled demand from existing and potential customers, including through strategic supply arrangements with large plantation managers and collaboration with other interested parties;
- proactively seeking new opportunities to utilise spare capacity at the three processing and export facilities utilised by Midway;
- continuing to evaluate the potential acquisition of existing Australian woodfibre production and exporting businesses; and
- exploring complementary business opportunities which utilise our marketing, plantation management, processing and supply chain management skills.

Environmental Regulation

The Chief Executive Officer reports to the Board on any environmental and regulatory issues at each Directors meeting, if required. During the year, Midway worked closely with the Environmental Protection Agency Victoria (EPA) to mitigate wastewater overflow after storm water contamination incidents caused by unseasonably heavy rain at the Geelong facility. On 14th September 2016 and 10th January 2017 the EPA issued Midway with Penalty Infringement Notices in relation to the incidents and associated penalties totalling $15,168. Remedial action has been taken to minimise the risk of future overflows.

Greenhouse Gas and Energy Data Reporting Requirements

The Company is not subject to the reporting requirements of either the Energy Efficiency Opportunities Act 2006 or the National Greenhouse and Energy Reporting Act 2007.

Share Option Plan

The Company has adopted a Long Term Incentive Plan (LTIP) under which it has issued 229,000 performance rights to Key Management Personnel (KMP) and other senior managers. No rights have vested in the year ending 30 June 2017. Refer to the Remuneration Report for details on the rights issued to KMP.

Indemnification and Insurance of Directors and Officers

Indemnification

The Company has indemnified the Directors and officeholders of the Company for costs incurred, in their capacity as a Director or officeholder, for which they may be held personally liable, except where there is a lack of good faith.

Insurance of Directors and Officers

During the year the Company paid a premium for a Directors and Officers Liability Insurance Policy. This policy covers Directors and Officers of the Company and the Company. In accordance with normal commercial practices under the terms of the insurance contracts, the nature of the liabilities insured against and the amount of the premiums are confidential.

Insurance of Auditor

No payment has been made to indemnify the Company's Auditor during or since the financial year.

Proceedings on behalf of the Company

Legal proceedings on the previously reported Speechley case at the Victorian Civil and Administrative Tribunal (VCAT) are now in the process of being resolved. The hearing was conducted in June 2017 and all claims have been dismissed. There are no other legal proceedings currently outstanding.

Directors' Report

Non-Audit Services

The Company may decide to employ the Auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company are important.
The Board of Directors has considered the position and, in accordance with the advice received from the Audit & Risk Management Committee is satisfied that the provision of the 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 & Risk Management Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Group, acting as an advocate for the Group or jointly sharing risks and rewards.

	2017	2016
KPMG Australia	$	$
Audit and assurance services		
- Statutory audit fees	160,000	65,000
- Assurance services – IPO related services	236,752	650,000
Other services		
- Non- assurance services – other advisory services	10,000	18,300
Pitcher Partners Melbourne[1]		
Audit and assurance services		
- Statutory audit fees	-	54,715
Other services		
- Non- assurance services – taxation services	-	14,300
- Non- assurance services – other advisory services	-	129,724
- Non- assurance services – IPO related services	-	167,898

[1] Pitcher Partners Melbourne resigned as auditors of the company on 8 June 2016.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 in relation to the audit for the financial year is set out on page 14 and forms part of this report.

Rounding off

The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191b and in accordance with that Instrument, amounts in the consolidated financial statements and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the Directors.

Greg McCormack
Chairman

Melbourne,

28 August 2017

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Midway Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Midway Limited for the year ended 30 June 2017 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

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

KPMG

KPMG

Paul J McDonald

Partner

Melbourne

28 August 2017

Remuneration Report (Audited)

Introduction

The Directors are pleased to present the FY2017 Remuneration Report, which forms part of the Midway Limited (Company) Directors' Report. It outlines the Board's remuneration philosophy and remuneration information for the Company's Non-Executive Directors, Executive Directors and other key management personnel (**KMP**) in accordance with the requirements of the *Corporations Act 2001* and its regulations.

For the purposes of this report, KMP is defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company, directly or indirectly, including any Director (whether executive or otherwise) of the Company.

Executive Remuneration represents remuneration for the Executive KMP's and other members of senior management. This report discloses remuneration as it relates to Executive KMP's, however the framework is applied more broadly to other members of senior management.

The information provided in this Remuneration Report, which forms part of the Directors' Report, has been audited as required by section 308(3C) of the *Corporations Act 2001*.

Key Management Personnel disclosed in this Report

Name	Position Held	Employment status
Directors		
Gregory McCormack	Non-Executive Chairman	
Anthony Bennett	Independent Non-Executive Director	
Nils Gunnersen	Non-Executive Director	
Thorold Gunnersen AM	Non-Executive Director	(resigned as a Director 08/11/2016; reappointed 10/02/2017)
Gordon Davis	Independent Non-Executive Director	
Thomas Keene	Independent Non-Executive Director	
Executives		
Anthony Price	Chief Executive Officer[1]	
Ashley Merrett	Chief Financial Officer	

1 The CEO is also the Managing Director

Principles Used to Determine Nature and Amount of Remuneration

The performance of the Group depends upon the quality and performance of its Directors and executives. To this end, the Company embodies the following principles in its remuneration framework:

- Provide competitive rewards to attract high performing executives;
- Link executive rewards to shareholder value;
- Have a portion of executive remuneration variable, dependent upon meeting performance benchmarks; and
- Establish appropriate and demanding performance benchmarks in relation to variable executive remuneration.

This section of the Remuneration Report outlines the Company's remuneration framework and philosophy which is designed to attract, motivate and retain highly skilled Directors and executives.

Remuneration Report (Audited)

Remuneration and Nomination Committee

The Board has established a Remuneration and Nomination Committee to assist the Board in reviewing and making recommendations to the Board in relation to the Company's remuneration policy, and remuneration arrangements for the Directors and executives.
The Remuneration and Nomination Committee assesses the appropriateness of the nature and amount of remuneration of executives on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of high quality, high performing Directors and executives.

The Remuneration and Nomination Committee is comprised of Non-Executive Directors, the majority of whom are independent in accordance with the Remuneration and Nomination Committee Charter. The Board considers that having a separate remuneration committee serves as an efficient and effective mechanism to bring the transparency, focus and independent judgement needed on remuneration decisions.

The Board has also adopted a number of key policies to support the Company's remuneration framework. The Company's policies and the Remuneration and Nomination Committee Charter, which sets out the functions and responsibilities of that committee, are available at www.midwaylimited.com.au.

Remuneration Framework

In accordance with best practice corporate governance standards, the Company's remuneration policies and practices regarding the remuneration of Non-Executive Directors are separate and distinct from the remuneration of Executive Directors and other senior executives.

These policies and practices appropriately reflect the different roles and responsibilities of Non-Executive Directors compared with Executive Directors and other senior executives of the Company.

Use of Remuneration Consultants

The Remuneration and Nomination Committee may, from time to time engage external remuneration consultants to provide it with advice, information on current market practices, and other matters to assist the Committee in the performance of its duties.

The Remuneration and Nomination Committee did not seek the services of any external Remuneration Consultants in FY 2017.

In FY2016, KPMG was engaged to provide remuneration advice in the event the Company successfully listed on the ASX. The fees paid for this engagement was $14,500.

Remuneration Report (Audited)

Non-Executive Director Remuneration

Objective

Fees and payments to Non-Executive Directors reflect the demands which are made on, and the responsibilities of, the Directors.

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Framework

Under the Company's Constitution, the Non-Executive Directors as a whole may be paid or remunerated for their services a total amount or value not exceeding $1M per annum or such other maximum amount fixed by the Company in general meeting. An amount not exceeding the amount determined is then divided between the Non-Executive Directors as approved by the Board upon recommendation from the Remuneration and Nomination Committee.

The remuneration may be by way of salary or commission or participation in profits or by all or any of these modes, but may not be by commission on, or a percentage of, operating revenue.

Non-Executive Directors' fees and payments are reviewed periodically by the Remuneration and Nomination Committee.

Directors may also be reimbursed for expenses properly incurred by the Directors in connection with the affairs of the Company including travel and other expenses in attending to the Company's affairs.

Current structure

The current structure of fees paid to Non-Executive Directors includes:

	Board Base Fee $	Additional Fee $
Non-Executive Director	110,000	
Chairman	200,000	
Chairman - Audit and Risk Management Committee		10,000
Chairman - Remuneration and Nomination Committee		10,000

The aggregate remuneration of Non-Executive Directors for the year ended 30 June 2017 was $742,615.

Remuneration Report (Audited)

Executive Remuneration

In determining the level and make-up of executive remuneration, the Remuneration and Nomination Committee uses a combination of business experience, comparisons with executive remuneration of comparable companies and comparative remuneration in the market and makes its recommendations to the Board.

The executive remuneration and reward framework includes both fixed and 'at risk" reward components. 'At risk' reward includes short and long-term incentives which are based on performance outcomes. The structure has four components:

- base pay and non-monetary benefits;
- short-term performance incentives;
- long term share-based performance incentives; and
- other remuneration such as superannuation and long service leave.

From time to time the Remuneration and Nomination Committee may consider "one-off" payments to executives, as part of their remuneration, in relation to specific events.

The combination of these comprises each executive's total remuneration.

Fixed remuneration

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the Remuneration and Nomination Committee, based on individual and business unit performance, the overall performance of the Company, relevant comparative remuneration externally and internally and, where appropriate, external advice on policies and practices.

The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market.

Variable remuneration

Objective

The objective of the variable remuneration component of executive remuneration, comprising short term performance incentives and share based performance incentives, is to link the achievement of the Company's targets with the remuneration received by the executives charged with meeting those targets, and to reward executives in a manner which is consistent with the interests of shareholders.

The total potential variable component is set at a level so as to provide sufficient incentive to the executive to achieve the targets and such that the cost to the Company is reasonable in the circumstances.

Structure

Actual variable incentives granted to each executive depend on the extent to which specific targets set at the beginning of the financial year are met. The targets consist of a number of key performance indicators (KPIs) covering both financial and non-financial measures of performance. Typically included are measures such as contribution to operational profit, occupational health and safety and risk management, leadership and team contribution. The Company has predetermined benchmarks which must be met in order to trigger payments.

The type of variable incentives and performance against KPIs of the Company and the individual performance of each executive are taken into account when determining the amount, if any, of the variable incentive that is to be awarded to each executive. Any variable incentives to be awarded to executives across the Company are subject to the approval of the Remuneration and Nomination Committee.

Remuneration Report (Audited)

2017 Executive Remuneration

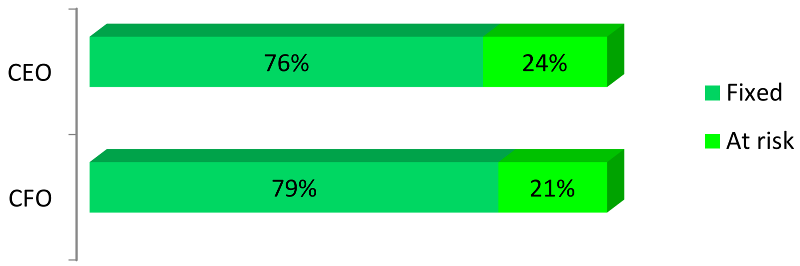
Total remuneration for the CEO and CFO includes a combination of fixed remuneration, short term incentives and long-term incentives in the form of issued performance rights. The long-term incentives did not vest in this financial year.
In assessing whether the KPIs for each variable component have been met, the Company measures audited results against internal targets.

A summary of contractual arrangements is provided below:

	Base salary[1] $	Maximum STI $	Eligibility LTIP	Termination Notice	Restraint of trade Provisions
Chief Executive Officer	487,500	162,500	✔	3 months	✔
Chief Financial Officer	325,000	100,000	✔	3 months	✔

1. Includes superannuation and car allowances

The remuneration mix is outlined below:



Short Term Incentive Plan

The Company's KMP and other members of senior management are eligible to participate in the Company's short term incentive plan (**STI Plan**).

Participants in the STI Plan have a maximum cash payment which is set as a percentage of their total fixed remuneration (**TFR**). Actual short-term incentive payments in any given year are dependent on the achievement of financial and non-financial criteria as set by the Remuneration and Nomination Committee. No incentive payment is payable if the threshold performance target is not met.

Remuneration Report (Audited)

2017 Executive Remuneration (continued)

FY2017 Short Term Incentives

In FY2017, an offer to participate in the STI Plan was made to the Company's executives including Executive KMP and other senior managers. Under the offer, employees will receive a short term incentive (STI) payment calculated as a percentage of their TFR conditional on achieving performance measures including:

- Board approved Earnings Before Interest, Tax, Depreciation and Amortisation [EBITDA] Actual vs Budget measured annually;
- Lost Time Injury Frequency Rate (LTIFR) Actual vs Previous Year measured annually; and
- Agreed and documented objectives specific to each executive's position measured annually.

EBTIDA represents how the Company monitors its performance against budget, including achieving its strategic goals. Achieving the targeted EBITDA has a linkage to shareholder returns and therefore is an appropriate measure to incentivise executive performance.

LTIFR is an appropriate operational performance target as it is critical to the Company on two fronts: (1) It ensures the occupational health and safety measures implemented by the Company are first class to ensure employees are appropriately protected from any hazards in the workplace and; (2) By having limited downtime due to workplace injuries ensures maximum operational time of the Company's equipment.

A summary of the key terms of the Company's FY2017 STI Plan is set out as follows:

Term	Description		
Objective	To reward participants for achieving targets linked to the Company's business strategy		
Participants	All Executive key management personnel and selected senior management members		
Performance period	Financial year ended 30 June 2017		
Performance measures	STI is assessed against both financial and non-financial measures with the following weighting:		
	Measure	Weighting [CEO]	Weighting [CFO]
	EBITDA[1]	40%	40%
	LTIFR[2]	20%	40%
	Individual performance measures	40%	20%
Payment	Upon final endorsement by Board		

A sliding scale exists for each KPI target in relation to % of STI paid as set out below:

	% of target KPI [Maximum STI]	% of target KPI [Minimum STI]
EBITDA CEO	120% [max. $65,000]	90%[1]
EBITDA CFO	125% [max. $40,000]	75%[1]
LTIFR CEO	200% [max. $48,750]	100%[1]
LTIFR CFO	200% [max. $40,000]	0%[1]

1 No incentive will be paid if the minimum % of the KPI target is not met

FY2017 Short Term Incentive outcomes

The following is a breakdown of the short term incentive outcomes achieved by key management personnel at the end of the 2017 financial year:

KMP	Maximum STI	% of Maximum STI Achieved
CEO	162,500	56.1%
CFO	100,000	54.5%

Midway

Remuneration Report (Audited)

2017 Executive Remuneration (continued)

Long Term Incentive Plan

Objective

The Company has established and adopted a Long Term Incentive Plan (LTIP), which is intended to assist in the motivation, retention and reward of certain executives. The LTIP is designed to align the interests of executives more closely with the interests of shareholders by providing an opportunity for senior executives to receive an equity interest in Midway through the granting of awards including shares, options and performance rights, subject to satisfaction of certain conditions.

In FY2017, only the performance rights issued to the Chief Executive Officer have performance based conditions. The Bonus Rights issued to Executive KMP and other senior managers are not at risk, as the Rights issue was only enacted on the basis the Company listed on the ASX, which was seen by the Remuneration and Nomination Committee as a significant milestone worthy of recognition. It is anticipated that all future LTIP arrangements will include elements of performance based metrics.

Structure

The key terms of the LTIP are summarised below.

Term	Description
Administration	The Board has the discretion to determine which Directors and employees of Midway or any related Company are eligible to participate in the LTIP (Eligible Employees).
Eligibility	The awards (Awards) that may be issued under the LTIP currently include: - shares; - options; and - performance rights.
Awards	The Board may determine that the Awards will be subject to performance, service or other conditions (Vesting Conditions) and, if so, will specify those Vesting Conditions in the offer. Vesting Conditions may include conditions relating to continuous employment, performance of the participant or the occurrence of particular events.
Vesting conditions	Subject to the satisfaction of any applicable Vesting Conditions, Awards held by a participant will vest on the date specified in the terms of the offer for those Awards, which are to be determined by the Board at the time of offer and advised to the participant in individual offer documents.
Vesting date	Shares allocated on vesting of an Award carry the same rights and entitlements as other issued Shares, including dividend and voting rights.
Shares as an Award, or on vesting of an Award	Depending on the terms issued, the Shares may be subject to disposal and/or forfeiture restrictions, which means that they may not be disposed of or dealt with for a period of time and/or may be forfeited if certain further conditions are not satisfied.
Dividend and voting entitlements	Awards, other than Shares, are not entitled to dividend or voting rights.
Change of control	Upon the occurrence of a change of control of Midway, the Board may at its discretion and subject to such terms and conditions as it determines, resolve that the Vesting Conditions applicable to any unvested Awards be waived.
Restrictions	Without the prior approval of the Board or as expressly provided in the LTIP: - options and performance rights may not be disposed of, transferred or encumbered; and - unvested Shares may not be disposed of, dealt with or encumbered or transferred in any way whatsoever until the first to occur of the following: (i) the satisfaction of the applicable Vesting Conditions; and (ii) the time when the Participant is no longer employed by the Company or a related Company.
Loans	At the direction of the Board, the Company or a related Company may offer a participant a loan for the purpose of acquiring any Shares offered to the participant under the LTIP.
Amendments	To the extent permitted by the Listing Rules, Midway may amend all or any of the provisions of the LTIP rules.
Other terms	The LTIP also contains customary and usual terms having regard to Australian law for dealing with the administration, variation, suspension and termination of the LTIP.

Remuneration Report (Audited)

2017 Executive Remuneration (continued)

2017 Long Term Incentives

In FY2017 an offer to participate in the LTIP was made to Midway's Executive KMP and other senior executives, as summarised below:

(a) IPO Bonus Rights

On 8 December 2016, following successful completion of Midway's IPO and ASX listing, a number of IPO Bonus Rights were issued to the Chief Executive Officer and other senior executives under the LTIP, as summarised in the table below. The IPO Bonus Rights were issued to the executives in order to:

- reward them for the significant additional work exerted in enabling the Company to achieve the milestone of listing on the ASX;
- align their interests with shareholder interests through the provision of equity; and
- act as a retention mechanism in the period following Midway's ASX listing.

Term	Description
Eligibility	Chief Executive Officer, Chief Financial Officer and other senior management personnel
Consideration for grant	Nil
Instrument	Performance rights issued on 9th February 2017
Number of rights granted	164,000 CEO (80,000); CFO (48,000); Other (36,000)
Service conditions	Remain in employment over designated period (see vesting conditions)
Performance conditions	Nil
Fair value at grant date	2.59[1]
Vesting of Performance Rights	The Performance Rights will vest as follows: 50% of the performance rights issued to the participant will vest on the date that is 12 months after Completion of the IPO provided the participant remains in continuous employment with the Company until the vesting date; and 50% of the performance rights issued to the participant will vest on the date that is 24 months after Completion of the IPO provided the participant remains in continuous employment with the Company until the vesting date. If the Participant, ceases to be an employee or Director of the Company or any of its subsidiaries by reason of: (a) the termination of the Participant's employment because of a breach by the Participant of the terms of the Participant's employment; or (b) resignation of the participant as employee or director for a reason other than death, illness or injury, those Options or Rights held by the Participant which could not have been exercised on or before the date the Participant ceased to be an employee or director shall thereupon lapse and terminate unless the Board determines otherwise.
Board discretion	Vesting Conditions may be reduced or waived in whole or in part at any time by the Board.
Entitlement	Each Performance Right entitles the participant, on vesting of the Performance Right, to receive (at the discretion of the Board, other than as provided in the Plan Rules) by issue or transfer, one fully paid ordinary share in the capital of the Company (Share).

1 Fair value represents the share price at grant date [9 February 2017]

Remuneration Report (Audited)

2017 Executive Remuneration (continued)

(b) Performance Rights

In December 2016, following the successful completion of the IPO the Board offered to grant the Chief Executive Officer 65,000 performance rights, subject to vesting conditions (see below). Following satisfaction of the vesting conditions the rights will automatically vest and the underlying shares will be issued. The performance period is until 30 June 2019. The offer was accepted on 9 February 2017 (grant date).

Term	Description
Eligibility	Chief Executive Officer
Consideration for grant	Nil
Instrument	Performance rights issued on 9th February 2017
Number of rights granted	65,000
Service conditions	Participant must maintain continuous employment over the performance period
Performance period	From the date of listing until 30 June 2019
Performance measure	The percentage of performance rights that will vest will depend on the Midway's total shareholder return (TSR) over the performance period, relative to the comparator Company (companies in the S&P/ASX 300 Index excluding mining and energy companies). Performance rights will only vest on the following conditions: - less than median of the comparator Company, no performance rights will vest; - between median and the 75th percentile of the comparator Company, a straight-line pro rata vesting between 50% and 100% of the performance rights will occur; - at median of the comparator Company, 50% of the performance rights will vest; and - greater than 75th percentile of the comparator Company, 100% of the performance rights will vest.
Entitlement	Each Performance Right entitles the participant, on vesting of the Performance Right, to receive (at the discretion of the Board, other than as provided in the Plan Rules) by issue or transfer, one fully paid ordinary share in the capital of the Company (Share).
Restrictions	Performance rights are subject to the restrictions set out in the Plan Rules. In particular the participants must not: - Dispose of any Performance Rights without the prior consent of the Board or otherwise in connections with the Plan Rules; or - Enter into any arrangement for the purpose of hedging, or otherwise affecting the participants economic exposure to the Performance Rights.
Fair value at grant date	1.49[1]

1 Represents the fair value as calculated using a Monte Carlo Simulation model which incorporates the TSR performance conditions

Relationships between Company Remuneration Policy and Company Performance

Since the Company was not a disclosing entity during or prior to financial year 30 June 2016, the relationship between remuneration policy and Company performance is only assessed for the current financial year and the prior comparative period.

Key performance indicator $000	FY2017 Actual $'000	FY2017 Pro forma[1] $'000	FY 2016 Actual $'000	FY 2016 Pro forma[1] $'000
Revenue	213,369	213,369	213,144	203,899
EBITDA	24,916	28,367	40,758	35,607
Dividend paid [cents]	18	18	96	96

1 Pro forma figures have not been audited

Dividends paid in FY2016 include special dividends of $0.65 per share. Dividends paid out in FY2017 are consistent with the Company's Divided policy of a target payout of between 70% and 90% of NPAT depending on whether the Company achieves its targets.

Remuneration Report (Audited)

Key Management Personnel Remuneration

The statutory remuneration disclosures for the year ended 30 June 2017 are detailed below and are prepared in accordance with Australian Accounting Standards (AASBs).

		Short term benefits			Post employment	Long Term Benefits	Share based payments	Total
		Salary and Fees	STI[1]	Non-monetary[2]	Superannuation	Other[3]		
Directors								
Gregory McCormack	2017	182,428	-	-	17,572	-	-	200,000
	2016	182,789	-	-	17,211	-	-	200,000
Anthony Bennett	2017	100,383	-	-	9,617	-	-	110,000
	2016	100,486	-	-	9,514	-	-	110,000
Gordon Davis[4]	2017	109,703	-	-	10,297	-	-	120,000
	2016	26,065	-	-	2,476	-	-	28,541
Nils Gunnersen	2017	100,408	-	-	9,592	-	-	110,000
	2016	100,461	-	-	9,539	-	-	110,000
Thorold Gunnersen AM[6]	2017	75,447	-	-	7,168	-	-	82,615
	2016	109,669	-	-	10,331	-	-	120,000
Thomas Keene	2017	97,438	-	-	22,562	-	-	120,000
	2016	98,424	-	-	21,576	-	-	120,000
Executives								
Anthony Price[5]	2017	400,150	91,189	52,704	34,646	12,350	108,007	699,046
	2016	273,455	72,000	39,564	26,534	11,981	-	423,534
Ashley Merrett	2017	276,985	54,512	23,000	25,015	28,305	52,112	459,929
	2016	234,245	65,235	23,000	22,253	9,450	-	354,183

1 Relates to the 2017 performance STI accrued but not paid until FY2018
2 Relates to vehicle allowance paid by the Group
3 Includes the movement in annual leave and long service leave provisions
4 Commenced as a Director 06/04/2016
5 Commenced as Chief Executive Officer 01/10/2015
6 Resigned as a Director 08/11/2016; reappointed 10/02/2017

Equity Instruments

KMP	Held at 1 July 2016	Shares acquired	Shares Sold	Other changes	Held at 30 June 2017
Gregory McCormack	12,978,379	60,000	-	-	13,038,379
Anthony Bennett	5,075,356	20,000	2,400,000	-	2,695,356
Gordon Davis	-	30,000	-	-	30,000
Nils Gunnersen	-	6,200	-	-	6,200
Thorold Gunnersen AM	28,525,892	-	-	-	28,525,892
Thomas Keene	224,378	-	-	-	224,378
Anthony Price	-	16,000	-	-	16,000
Ashley Merrett	55,000	-	55,000	-	-

Other Transactions with KMP

There are no other transactions between any of the KMP with any of the companies which are related to or provider services to Company unless disclosed in this Remuneration Report.

Financial Report

Introduction

This is the Financial Report of Midway Limited (the Company) and its subsidiaries (the Group). The Company is a for-profit entity for the purposes of preparing a Financial Report.

Accounting policies and critical accounting judgements applied to the preparation of the Financial Report have been moved to where the related accounting balance or financial statement matter is discussed and we have refined wording of the policies to allow them to be easily understood by the users of this Report.

References to pro forma numbers relate to statutory numbers adjusted to remove the impact of IPO costs and legal fees incurred relating to the Speechley matter.

Contents

Consolidated Statement of Comprehensive Income

For the year ended 30 June

	Notes	2017 $'000	2016 $'000
Revenue and other income			
Sales revenue	1.1	209,214	208,504
Other income	4.8	4,155	4,640
		213,369	213,144
Less: expenses			
Changes in inventories of finished goods and work in progress		(4,029)	1,274
Materials, consumables and other procurement expenses		(126,488)	(126,753)
Depreciation and amortisation expense	2.1	(3,387)	(3,460)
Employee benefits expense		(8,829)	(8,112)
Finance expense	3.1	(1,588)	(2,048)
Biological assets net fair value increment		-	2,770
Plantation management expenses		(841)	(631)
Freight and shipping expense		(37,235)	(34,177)
Repairs and maintenance expense		(4,097)	(4,008)
Other expenses		(9,742)	(8,412)
		(196,236)	(183,557)
Share of net profits from equity accounted investments	4.2	2,808	5,663
Profit before income tax expense		19,941	35,250
Income tax expense	1.3	(5,020)	(8,834)
Profit for the period		14,921	26,416
Items that will not be reclassified to profit and loss			
Revaluation of land fair value adjustment, net of tax	2.1	(3,369)	(5,296)
Items that may be reclassified subsequently to profit and loss			
Cash flow hedges - effective portion of changes in fair value, net of tax		(163)	256
Equity accounted investees - share of OCI		134	-
Other comprehensive income for the period		(3,398)	(5,040)
Total comprehensive income for the period		11,523	21,376
Profit is attributable to:			
- Owners of Midway Limited		14,854	26,181
- Non-controlling interests		67	235
		14,921	26,416
Total comprehensive income is attributable to:			
- Owners of Midway Limited		11,456	21,141
- Non-controlling interests		67	235
		11,523	21,376
Earnings per share for profit attributable to equity holders:			
Basic earnings per share		$0.20	$0.35
Diluted earnings per share		$0.20	$0.35

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

As at 30 June

	Notes	2017 $'000	2016 $'000
Current assets			
Cash and cash equivalents	3.1	15,025	11,180
Receivables	2.4	7,781	9,915
Inventories	2.4	7,682	11,711
Derivative financial assets	3.2	135	366
Biological assets	2.2	-	2,146
Other assets		3,827	3,698
Current tax receivable	1.3	1,263	-
Total current assets		35,713	39,016
Non-current assets			
Biological assets	2.2	5,416	809
Investments accounted for using the equity method	4.2	13,390	12,998
Intangible assets		1,971	1,971
Property, plant and equipment	2.1	98,318	101,517
Total non-current assets		119,095	117,295
Total assets		154,808	156,311
Current liabilities			
Trade and other payables	2.4	17,458	17,954
Borrowings	3.1	714	465
Provisions		1,701	1,490
Current tax liabilities		-	963
Total current liabilities		19,873	20,872
Non-current liabilities			
Borrowings	3.1	30,949	30,436
Provisions		59	88
Deferred tax liabilities	1.3	12,882	14,369
Total non-current liabilities		43,890	44,893
Total liabilities		63,763	65,765
Net assets		91,045	90,546
Contributed equity			
Share capital	3.3	28,833	28,833
Reserves	3.3	59,049	58,617
Retained earnings		1,614	1,614
Equity attributable to owners of Midway Limited		89,496	89,064
Equity attributable to non-controlling interests		1,549	1,482
Total equity		91,045	90,546

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

$'000	Share capital	Reserves	Retained earnings	Non-controlling interests	Total equity
Balance as at 1 July 2015	28,833	48,823	62,132	1,286	141,074
Profit for the year	-	-	26,181	235	26,416
Revaluation of land, net of tax	-	(5,296)	-	-	(5,296)
Cash flow hedges - effective portion of changes in fair value, net of tax	-	256	-	-	256
Total comprehensive income for the year	-	(5,040)	26,181	235	21,376
Other Transactions:					
Reclassification to retained earnings on sale of biological assets	-	1,723	(1,723)	-	
Transfer to retained earnings	-	(181)	181	-	-
Transfers to profits reserve	-	26,181	(26,181)	-	-
Transfer to retained earnings for dividend	-	(12,889)	12,889	-	-
Transactions with owners in their capacity as owners:					
Dividends	-	-	(71,865)	(39)	(71,904)
Total transactions	-	14,834	(86,699)	(39)	(71,904)
Balance as at 30 June 2016	28,833	58,617	1,614	1,482	90,546
Balance as at 1 July 2016	28,833	58,617	1,614	1,482	90,546
Profit for the year	-	-	14,854	67	14,921
Revaluation of land, net of tax	-	(3,369)	-	-	(3,369)
Cash flow hedges - effective portion of changes in fair value, net of tax	-	(29)	-	-	(29)
Total comprehensive income for the year	-	(3,398)	14,854	67	11,523
Other Transactions:					
Share based payments expense	-	199		-	199
Transfers to profits reserve	-	14,854	(14,854)	-	-
Transactions with owners in their capacity as owners:					
Dividends	-	(11,223)	-	-	(11,223)
Total other transactions	-	3,830	(14,854)	-	(11,024)
Balance as at 30 June 2017	28,833	59,049	1,614	1,549	91,045

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Midway

Consolidated Statement of Cashflows

For the Year Ended 30 June

	Notes	2017 $'000	2016 $'000
Cash flow from operating activities			
Receipts from customers		216,857	213,174
Payments to suppliers and employees		(192,478)	(182,230)
Interest received		239	777
Interest paid		(1,183)	(1,244)
Income tax paid		(7,197)	(27,463)
Net cash provided by operating activities	3.1	16,238	3,014
Cash flow from investing activities			
Proceeds from sale of property, plant and equipment		253	372
Payment for property, plant and equipment		(3,201)	(6,649)
Net proceeds from tree crop sale		-	55,271
Repayment of loan from associates		-	2,662
Dividends received from associates		2,550	-
Net cash (used) / provided by investing activities		(398)	51,656
Cash flow from financing activities			
Net finance lease payments		(772)	(768)
Dividends paid		(11,223)	(71,904)
Proceeds from bank borrowings		-	29,400
Repayment of bank borrowings		-	(29,400)
Net cash used in financing activities		(11,995)	(72,672)
Reconciliation of cash			
Cash at beginning of the financial period		11,180	29,182
Net increase/(decrease) in cash held		3,845	(18,002)
Cash at end of financial period (net of overdrafts)	3.1	15,025	11,180

The above Consolidated Statement of Cashflows should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

Section 1: Our Performance

This section provides an insight into the performance of Midway and its subsidiaries including highlights of:

- **Net profit after tax (NPAT) of $14.9M, meeting the pro forma forecast on both NPAT and revenue measures**
- **Statutory EPS of $0.20 per share**
- **Fully franked dividend of $0.18 in line with the current dividend policy.**

1.1 Segment Reporting

(a) Description of segments

The Group reports segment information based on the internal reporting used by management for making decisions and assessing performance. The operating segments are reported in a manner consistent with 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, is the Chief Executive Officer.

The Group manages its business primarily on a geographic basis. Accordingly, the Group determined its reportable operating segments, which are generally based on the location of its operations, to be Midway, Queensland Commodity Exports (QCE) and South West Fibre (SWF) (51%). Each operating segment provides similar products.

The Group evaluates the performance of its operating segments based on net sales (net of insurance and freight costs). Net sales for Geographic segments are generally based on the location of customers earnings before interest, tax, depreciation and amortisation (EBITDA) for each segment includes net sales to third parties, related cost of sales and operating expenses directly attributable to the segment. EBITDA for each segment excludes other income and expense and certain expenses managed outside the operating segments. The Group does not include inter-company transfers between segments for management reporting purposes.

Segment assets include cash, receivables, biological assets, inventories and property, plant and equipment.
Midway sells hardwood chips to export markets and provides plantation management services to third party tree owners. QCE sells hardwood and softwood chips to export markets and SWF sells hardwood chips to export markets.

Key adjustment items relate to the gross up of revenue and operating & other expenses to reflect cost, insurance and freight (CIF) sales and principal sales. Management accounts are prepared on a segment basis with 51% share of SWF joint venture included. For statutory accounts SWF is equity accounted with revenue & expenses of SWF eliminated.

Notes to the Consolidated Financial Statements

Section 1: Our Performance

1.1 Segment Reporting (continued)

(b) Segment information provided to senior management

The following table shows information by segment:

2017 ($'000)	100% Midway	100% QCE	51% SWF	Adjustments	Total
Sales revenue	154,587	26,577	77,603	(49,553)	209,214
Other income	3,114	8	733	300	4,155
Total income	157,701	26,585	78,336	(49,253)	213,369
Operating and other expenses	(133,955)	(25,380)	(72,890)	44,048	(188,177)
Share of profit/(loss) of equity accounted investments	-	-	-	2,808	2,808
EBITDA before significant items	23,746	1,205	5,446	(2,397)	28,000
Significant items	(3,084)			-	(3,084)
EBITDA	20,662	1,205	5,446	(2,397)	24,916
Depreciation and amortisation	(3,092)	(295)	(1,460)	1,460	(3,387)
EBIT	17,570	910	3,986	(937)	21,529
Net finance expense	(1,354)	7	25	(266)	(1,588)
Net profit before tax	16,216	917	4,011	(1,203)	19,941
Income tax expense	(5,790)	(275)	(1,203)	2,248	(5,020)
Net profit after tax	10,426	642	2,808	1,045	14,921
Other material Non-cash items:	-	-	-	-	-
Fair value gain on biological assets	-	-	-	-	-
Segment assets	168,398	11,093	8,618	(33,300)	154,809
Equity accounted investees	13,390	-	-	-	13,390
Capital expenditure	(4,161)	(988)	(1,110)	1,110	(5,149)
Segment liabilities	(64,025)	(2,013)	(8,360)	10,634	(63,764)

2016 ($'000)	100% Midway	100% QCE	51% SWF	Adjustments	Total
Sales revenue	162,270	16,337	85,484	(55,587)	208,504
Other income	4,202	(97)	99	436	4,640
Total income	166,472	16,240	85,583	(55,151)	213,144
Operating and other expenses	(133,267)	(12,294)	(76,224)	45,700	(176,085)
Share of profit/(loss) of equity accounted investments	-	-	-	5,663	5,663
EBITDA before significant items	33,205	3,946	9,359	(3,788)	42,722
Significant items	(1,964)	-	-	-	(1,964)
EBITDA	31,241	3,946	9,359	(3,788)	40,758
Depreciation and amortisation	(2,881)	(580)	(1,312)	1,313	(3,460)
EBIT	28,360	3,366	8,047	(2,475)	37,298
Net finance expense	(1,018)	9	50	(1,089)	(2,048)
Net profit before tax	27,342	3,375	8,097	(3,564)	35,250
Income tax expense	(7,813)	(1,022)	(2,434)	2,435	(8,834)
Net profit after tax	19,529	2,353	5,663	(1,129)	26,416
Other material Non-cash items:	-	-	-	-	-
Fair value gain on biological assets	2,770	-	-	-	2,770
Segment assets	135,558	12,017	23,347	(14,611)	156,311
Equity accounted investees	12,998	-	-	-	12,998
Capital expenditure	(7,503)	(585)	(828)	828	(8,088)
Segment liabilities	(61,216)	(3,594)	(10,349)	9,394	(65,765)

Notes to the Consolidated Financial Statements

Section 1: Our Performance

1.1 Segment Reporting (continued)

Policy

Revenue

Sales revenue is recognised on transfer of the significant risks and rewards to the customer. Export woodfibre sales are generally on Cost, Insurance, Freight (CIF) or Free on Board (FOB) shipping terms, with revenue recognised when last goods are loaded on board. All other sales are generally recognised as revenue at the time of delivery of the goods to the customer.

Revenue from the rendering of services is recognised upon the rendering of the service to the customers.

1.2 Individually material items

	2017 $'000	2016 $'000
Initial Public Offering transaction costs	3,084	1,964

On 8 December 2016, the Company successfully completed its Initial Public Offering (IPO) of securities and was admitted to the Australian Securities Exchange (ASX). The IPO comprised the sell-down by pre-existing shareholders of 14,967,691 shares at $2.50 per share. The majority of pre-existing shareholders have entered into escrow arrangements that restrict dealing in relation to pre-IPO issued shares until the Company lodgement of this document with the ASX, and the two major shareholders are escrowed until the Company lodges its Appendix 4E for FY2018.

There has been no change in the amount of ordinary shares issued by the Company since 30 June 2016.

Notes to the Consolidated Financial Statements

Section 1: Our Performance

1.3 Income Tax

(a) Current tax reconciliation	2017 $'000	2016 $'000
Current tax	5,177	24,665
Deferred tax	27	(15,778)
Over provision in prior years	(184)	(53)
	5,020	8,834

(b) Prima facie tax payable		
The prima facie tax payable on profit before income tax is reconciled to the income tax expense as follows:		
Prima facie income tax payable on profit before income tax at 30.0% (2016: 30.0%)	5,982	10,575
Add tax effect of:		
- Other non-allowable items	64	11
	6,046	10,586
Less tax effect of:		
- Over provision for income tax in prior years	184	53
- Share of SWF profits accounted for using the equity method	842	1,699
	1,026	1,752
Income tax expense attributable to profit	5,020	8,834

(c) Deferred tax		
Deferred tax assets		
Payables	636	782
Blackhole expenditure	1,042	685
Other	260	-
	1,938	1,467
Deferred tax liabilities		
Biological assets	731	243
Property, plant and equipment	14,049	15,330
Other	40	263
	14,820	15,836
Net deferred tax liabilities	12,882	14,369

(e) Deferred income tax (revenue)/expense included in income tax expense comprises		
Decrease / (increase) in deferred tax assets	(471)	(184)
(Decrease) / increase in deferred tax liabilities[1]	498	(15,594)
	27	(15,778)

[1]Deferred tax liabilities relating to biological assets were derecognised in line with the sale as outlined in section 2.2.

(f) Deferred income tax related to items charged or credited directly to equity		
Decrease in deferred tax liabilities	1,514	(2,160)

Notes to the Consolidated Financial Statements

Section 1: Our Performance

1.3 Income Tax (continued)

Policy

Current income tax expense or revenue is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements.

A balance sheet approach is adopted under which deferred tax assets and liabilities are recognised for temporary differences at the applicable tax rates when the assets are recovered or liabilities are settled. No deferred tax asset or liability is recognised in relation to temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

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.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Tax Consolidation

The parent entity Midway Limited and its subsidiaries have implemented the tax consolidation legislation and have formed a tax-consolidated group from 1 July 2002. The parent entity and subsidiaries in the tax consolidated group have entered into a tax funding agreement such that each entity in the tax-consolidated group recognises the assets, liabilities, expenses and revenues in relation to its own transactions, events and balances only.

Notes to the Consolidated Financial Statements

Section 1: Our Performance

1.4 Earnings Per Share

(a) Earnings per share

	2017 cents	2016 cents
Earnings per Share	$0.20	$0.35
Diluted earnings per Share*	$0.20	$0.35

	2017 number	2016 number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	74,819,933	74,819,933
Adjustments for calculation of diluted earnings per share:		
Performance rights	88,463	-
	74,908,396	74,819,933

Basic earnings per share is calculated on the profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding.

*Diluted earnings per share is Basic earnings per share adjusted for the effects of all dilutive potential ordinary shares.

1.5 Dividends

	2017 $'000	2016 $'000
Fully franked at 30% (2016: 30%)	11,223	71,904

On 28 August 2017, a final dividend was declared for 9.0 cents per share (fully franked).

The balance of the franking account at 30 June 2017 is 3,388,252 (2016: 2,139,013).

Notes to the Consolidated Financial Statements

Section 2: Our asset base

This section provides an insight into the asset base the Group requires to operate a woodfibre export business.

- **The Group sources wood supply from owned and third party plantation land, which is used to grow hardwood trees**
- **The Group's plantation land portfolio decreased in value by $4.8M in current year, based on an independent valuation (see section 2.1a)**
- **The Group holds biological assets for harvest. $1.6M plantation hardwood (seedlings) was planted in the current year and $3.0M held on the balance sheet is plantation hardwood which has been purchased under the Strategy agreement (see section 2.2)**
- **The Group has very low credit risk due to the nature and size of customers and use of letters of credit**
- **The Group optimises its working capital position regularly and excess cash is used to grow the business or returned to shareholders**

2.1 Property, plant and equipment

Each class of property, plant and equipment is set out below:

	Plantation land $'000	Freehold Land $'000	Buildings $'000	Plant and Equipment $'000	Roading $'000	Total $'000
Depreciation rate			2.5–27%	3-25%	5-15%	
Year ended 30 June 2016						
Opening carrying amount	70,856	12,670	2,058	13,678	5,688	104,950
Additions	5,222	-	-	2,790	75	8,087
Disposals	(216)	-	-	(278)	-	(494)
Depreciation	-	-	(77)	(2,888)	(495)	(3,460)
Revaluation	(7,566)	-	-	-	-	(7,566)
Closing carrying amount	68,296	12,670	1,981	13,302	5,268	101,517
Year ended 30 June 2017						
Opening carrying amount	68,296	12,670	1,981	13,302	5,268	101,517
Additions	565	-	-	3,853	731	5,149
Disposals	-	-	-	(148)	-	(148)
Depreciation	-	-	(73)	(2,806)	(508)	(3,387)
Revaluation	(4,813)	-	-	-	-	(4,813)
Closing carrying amount	64,048	12,670	1,908	14,201	5,491	98,318

Midway

Notes to the Consolidated Financial Statements

Section 2: Our asset base

2.1 Property, plant and equipment (continued)

(a) Key estimates and judgements – fair value

	2017 Fair Value $'000	Valuation Technique	Description of valuation technique
Freehold land	12,670	Market approach[1]	The Company's freehold land is stated at the revalued amount, being the assets fair value for its highest and best use at the date of revaluation. The fair value measurements of the Company's land as at 30 June 2017 were performed by independent valuers. The valuation was performed using a direct market comparison approach. A change to inputs to the market approach assessment would result in differing valuation results.
Plantation land	64,048	Market Approach/ Net present value approach[1]	The Company's plantation land is stated at revalued amounts, being the assets fair value for its highest and best use at the date of revaluation. The highest and best use is subjective and judgemental given potential alternate uses. It requires careful analysis and detailed knowledge of the local market conditions and recent sales trends. As a result, the Group engaged an independent valuer to provide an independent valuation on an unencumbered basis as at 30 June 2017. The independent valuation is adjusted by the Directors using a DCF methodology to estimate the fair value on an encumbered basis. Assumptions about clear fall period and reversion costs have been included where/as appropriate. In some instances, the valuation highest and best use is Lifestyle differing from actual use, Forestry. A change to inputs to the valuer's and/or the Directors assessment would result in differing valuation results.

1: The same valuation technique was used in 2016

Freehold and forest plantation land have been classified as level three on the fair value hierarchy. Level three represents inputs that are not based on observable market data. No transfers in and out of level three occurred during the period.

2017 plantation land measurement

The unencumbered value of the plantation land is $78.3M (2016: $94.8M). The Directors have subsequently valued the land on an encumbered basis (i.e. in recognition of the existing tree crops being grown on the land which are largely owned by third parties), taking into account reversionary costs and utilising a discounted cash flow analysis from the best use determined by the professional valuation expert.

The decrease in value compared to 2016 is attributable to a change in assumptions regarding the highest and best use of many blocks within the portfolio. In the current year valuation, there were more blocks assessed as having forestry as its highest and best use which has a lower $ per hectare rate compared with prior year where other uses such as agriculture were considered highest and best use.

The $3.4M net decrement on an encumbered, after tax basis was recorded in the asset revaluation reserve offsetting previous increments.

The key assumptions used in determining the encumbered land valuation are:

Assumption	Variable
Discount Rate	7.25%
Growth Rate	2% to 3%
Reversionary Costs	$0-$1,550 per hectare

Notes to the Consolidated Financial Statements

Section 2: Our asset base

2.1 Property, plant and equipment (continued)

(b) Sensitivity analysis

As at the balance date, the impact of a change of assumptions on the assets of Midway Limited (all other things being equal) would have resulted in the following impacts on Other Comprehensive Income (OCI):

	2017		2016	
	Increase	Decrease	Increase	Decrease
Plantation land at fair value	$'000	$'000	$'000	$'000
Discount rate +/- 1%	(2,991)	3,214	(3,772)	4,074
Growth rate +/- 1%	3,384	(3,204)	4,462	(4,197)
Reversionary costs +/- 10%	(162)	148	(541)	492

A change in assumptions regarding the highest and best use of each block within the portfolio may have a significant impact on the value of the portfolio dependant on the assumptions utilised, as there is significant judgement involved.

Freehold Land

A 1% change in assumptions to the $ rate per ha applied will increase the value by $0.1M (2016: $0.1M), or decrease by $0.1M (2016: $0.1M). Based on current and prior valuations of the land a 1% rate change is reasonable.

(c) Policy

Freehold and plantation land

Freehold and plantation land is measured at fair value. At each balance date the carrying amount of each asset is reviewed to ensure that it does not differ materially from the asset's fair value at reporting date.

Increases in the carrying amounts arising on revaluation of land is recognised in other comprehensive income and accumulated in equity in the asset revaluation reserve. To the extent that the increase reverses a decrease of the same asset previously recognised in profit or loss, the increase is recognised in profit or loss. Decreases that offset previous increases of the same asset are recognised in other comprehensive income with a corresponding decrease to the asset revaluation reserve; all other decreases are charged to the statement of profit or loss.

Other items of property, plant and equipment

Other items of property, plant and equipment are measured on the cost basis and are a separate asset class to land assets.

Where roading is capitalised on third party or leased blocks, it is classified as an other asset if it is expected to be utilised within 12 months or an item of property, plant and equipment (leasehold improvement) if it will be used for a period greater than 12 months.

Depreciation

The depreciable amount of all property, plant and equipment is depreciated over their estimated useful lives commencing from the time the asset is held ready for use. Land and the land component of any class of property, plant and equipment is not depreciated.

Roading which has been built on land owned by Midway is amortised on a straight-line basis over the period of one harvest. Roading which is built on third party properties is amortised using the unit production method at the earliest of the lease agreement with the supplier or the wood supply running out for a particular operation to which the roading relates.

Notes to the Consolidated Financial Statements

Section 2: Our asset base

2.2 Biological assets

	2017 $'000	2016 $'000
Current		
Plantation hardwood at fair value (trees ready for harvest)	-	2,146
Non Current		
Plantation hardwood at fair value (trees ready for harvest)	2,979	-
Plantation hardwood at fair value (new plantings)	2,437	809
	5,416	2,955

Policy

Biological assets at cost comprise new plantings and trees purchased from third parties.

The fair value net increase or decrease to the carrying value of the standing timber revaluation is recognised in the statement of profit or loss and other comprehensive income.

Biological assets are classified as level three on the fair value hierarchy. There were no transfers between level 1, 2 or 3 on the fair value hierarchy.

New plantings

Fair value is unable to be reliably measured until year three, however cost approximates fair value. Once the trees are three years old they are measured at fair value and remeasured each year after via an independent valuation if the carrying amount is significant.

Site preparation costs are capitalised into the cost of the asset. Where there are no plantings, these costs are expensed.

Trees ready for harvest

Trees ready for harvest are carried at fair value.

Notes to the Consolidated Financial Statements

Section 2: Our asset base

2.2 Biological assets (continued)

Strategy Agreement

In February 2016, the majority of the standing trees were sold to Strategy Timber Pty Ltd as trustee for the Strategy Timber Trust (Strategy), an investment trust managed by GMO Renewable Resources, LLC (Renewable Resources), a Timber Investment Management Organisation (TIMO).

The sale resulted in a gain of $615,713 being recognised in profit and loss in the previous period.

Set out below is a summary of the key features of the agreements between Midway and Strategy:

- Midway Plantations Pty Ltd (Midway Plantations) and Strategy entered into a Sale Agreement on 5 February 2016 pursuant to which Midway Plantations sold substantially all of the Pinus radiata plantation trees (Softwood Trees) and Eucalyptus plantation trees (Eucalypt Trees) standing on Midway Plantations' freehold and leasehold land in Victoria (Strategy Trees). The sale of those trees was completed on 29 February 2016.
- Midway and Strategy entered into a forest Management Agreement on 29 February 2016 pursuant to which Midway is contractually engaged to manage the Strategy Trees on behalf of Strategy on commercial terms.
- Midway Plantations and Strategy entered into a Stumpage Sale Agreement on 29 February 2016 pursuant to which Midway Plantations agrees to acquire back from Strategy the Eucalypt Trees. The agreement requires Midway Plantations to acquire the Eucalypt Trees by the end of specified five-year harvest windows in respect of those trees for a price that is determined in accordance with the agreement. The amount payable by Midway Plantations for each compartment of Eucalypt Trees repurchased under the agreement is based on a fixed quantity of timber which will be deemed to be derived from the compartment, regardless of the actual yield from or quantity of timber standing within the compartment when repurchased. The price per GMT of such fixed quantity payable by Midway Plantations is a price initially specified in the agreement as varied in accordance with a review mechanism which takes into account changes in the prevailing market FOB export pricing for E. globulus from the Port of Geelong and movements in the consumer price index.
- Midway Plantations and Strategy entered into a Softwood Harvest and Marketing Agreement on 29 February 2016 pursuant to which Midway Plantations is contractually engaged to provide various services on commercial terms to Strategy in relation to the harvesting, marketing and ultimate sale of the Softwood Trees.
- To facilitate the arrangements set out above, Midway Plantations granted to Strategy forestry rights registrable on title under the Climate Change Act (Vic) 2010 (in respect of the freehold land owned by Midway Plantations on which the Strategy Trees stand) and a forestry licence agreement (in respect of the leasehold land on which the Strategy Trees stand). The documents, amongst other things, grant Strategy the right to access, maintain, manage, protect and harvest the Strategy Trees on the land.
- To secure the repurchase obligations of Midway Plantations under the Stumpage Sale Agreement, Midway Plantations has granted to Strategy a mortgage over its freehold land on which the Strategy Trees stand.

See section 4.10 for the impact of new accounting standard AASB 15 has on the accounting for this transaction in the period beginning 1 July 2018.

Risk management strategy in relation to biological assets

Midway manages its own plantation estate and estates of third parties using well equipped, trained forestry staff to achieve production wood-flow consistent with the business plan and to mitigate against the risk of damage (including holding insurance against catastrophic events such as fire).

Notes to the Consolidated Financial Statements

Section 2: Our asset base

2.3 Commitments

	2017 $'000	2016 $'000
Operating lease commitments		
Non-cancellable operating leases contracted for but not capitalised in the financial statements:		
Payable		
- not later than one year	1,445	1,583
- later than one year and not later than five years	4,936	5,678
- later than five years	264	951
	6,645	8,212
Other Commitments		
Payable		
- not later than one year	25,079	23,966
- later than one year and not later than five years	104,774	91,565
- later than five years	184,617	148,737
	314,470	264,268

Other commitments relate to the minimum charges under the Port of Geelong bulk loader agreement and various supply agreements for the supply of timber to be used in production for which the Group is required to purchase minimum quantities. In addition, the Group has also secured a significant proportion of its long term supply of woodfibre through a number of executory contracts which allow for the Group to purchase woodfibre at market prices.

Policy

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as an expense on a straight-line basis over the term of the lease.

Lease incentives received under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

Midway

Notes to the Consolidated Financial Statements

Section 2: Our asset base

2.4 Working Capital

Working capital	Section	2017 $'000	2016 $'000
Cash and cash equivalents		15,025	11,180
Inventory	a	7,682	11,711
Trade and other receivables	b	7,781	9,915
Trade and other payables	c	(17,458)	(17,954)
Employee provisions		(1,701)	(1,490)
Employee provisions - non-current		(59)	(88)
		11,270	13,274

(a) Inventories

	2017 $'000	2016 $'000
At cost		
Finished goods	7,172	11,711
Work in progress	510	-
	7,682	11,711

Policy

Inventories are measured at the lower of cost and net realisable value. The cost of woodfibre includes direct material, direct labour and a proportion of manufacturing overheads based on normal operating capacity.

There were no write-down of inventories to net realisable value during the period.

Key estimates and judgements

Woodfibre is purchased in Green Metric Tonnes (GMT's), (fibre inclusive of moisture) and is sold in Bone Dry Metric Tonnes (BDMT's), (fibre exclusive of moisture). Cost is determined on an actual cost basis. Moisture content and Production losses are applied to the GMT values. Factors vary depending on the timber species type and seasonal factors.
Volumetric chip stack surveys are used in determining inventory volumes at year end. Conversion from M3 to GMT ranges from 2.2 to 2.4 – the range depends upon factors such as timber species type and seasonal factors.

(b) Trade receivables

	2017 $'000	2016 $'000
Trade debtors	6,374	8,343
GST receivable	1,407	1,572
	7,781	9,915

Policy

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

With the exception of receivables for sale of woodfibre, loans and receivables are subsequently measured at amortised cost using the effective interest rate method.

Receivables relating to revenue recognised on the sale of woodfibre to overseas customers and are recognised at fair value through profit and loss. Cost approximates fair value.

Notes to the Consolidated Financial Statements

Section 2: Our asset base

2.4 Working capital (continued)

(c) Trade and other payables

	2017 $'000	2016 $'000
Unsecured liabilities		
Trade creditors	15,837	14,317
Sundry creditors and accruals	1,621	3,637
	17,458	17,954

Policy

Financial liabilities include trade payables, other creditors and loans from third parties including inter-company balances and loans from or other amounts due to director-related entities.

Non-derivative financial liabilities are subsequently measured at amortised cost, comprising original debt less principal payments and amortisation.

Financial liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

Midway

Notes to the Consolidated Financial Statements

Section 3: Funding structures

The Company has a disciplined approach applying key principles in capital management and maximising shareholder returns. This includes:

- **Returning the maximum amount of capital to shareholders where possible (78% of pro forma NPAT in FY2017)**
- **Complying with all debt covenants with the financier**
- **Forward cover taken out against the USD in accordance with the Groups hedging policy to safeguard against volatility and maximise profits (see section 3.2)**

3.1 Net Debt

	2017 $'000	2016 $'000
Bank loans - non current	29,400	29,400
Other finance arrangements[1]	2,263	1,681
Cash and cash equivalents	(15,025)	(11,180)
	16,638	19,901

1: Consists of current and non- current balances for finance lease liabilities and accrued interest.

i. Assets pledged as security

The Midway facilities are secured by the following:

- A fixed and floating charge granted by Midway Limited and Midway Plantations Pty Ltd.

A property mortgage over:

- the property situated at 150-190 Corio Quay Road, North Shore VIC, granted by Midway Limited;
- the property situated at 10 The Esplanade, North Shore, VIC, granted by Midway Properties Pty Ltd; and the property situated at 1A The Esplanade, North Shore VIC, granted by Midway Limited

ii. Refinancing

During the period, the Group renegotiated the terms of its facilities as below:

Type	Utilised $'000	Total $'000	Maturity
Term debt	29,400	29,400	31-Mar-19
Working capital, asset finance	2,263	13,950	31-Mar-18
Acquisition debt facility	-	15,000	31-Mar-19

The Group has the ability to enter into purchase arrangements under the asset finance facility until it expires on 31 March 2018. Each outstanding finance arrangement will then be repaid within a five year period.

The Company has complied with all financial undertakings of the facility agreement.

Policy

Borrowings are initially recognised at fair value, net of transactions costs incurred. Borrowings are subsequently measured at amortised cost using the effective interest method.

Borrowings a classified as current unless the Group has an unconditional right to defer settlement of the liability for at least 12 months following the reporting period.

Notes to the Consolidated Financial Statements

Section 3: Funding structures

3.1 Net Debt (continued)

(a) Cash and cash equivalents

Cash at the end of the financial year as shown in the consolidated statement of cash flows is reconciled to the related items in the consolidated balance sheet is as follows:

	2017 $'000	2016 $'000
Cash on hand	1	1
Cash at bank	15,024	7,679
At call deposits with financial institutions	-	3,500
	15,025	11,180

Reconciliation of cash flow from operations with profit after income tax		
Profit from ordinary activities after income tax	14,921	26,416
Adjustments and non-cash items		
Depreciation & amortisation	3,387	3,460
Sundry movements	170	(915)
Share of equity accounted SWF net profit	(2,808)	(5,663)
Changes in operating assets and liabilities		
(Increase) / decrease in receivables	1,969	1,970
(Increase) in other assets	(457)	(824)
(Increase) / decrease in inventories	4,029	(1,274)
(Increase) in biological assets (net of revaluation increment/decrement)	(2,461)	(2,955)
Increase / (decrease) in payables	(496)	1,564
(Increase) / decrease in deferred taxes	27	(15,778)
Increase / (decrease) in tax provision	(2,226)	(136)
Increase / (decrease) in provisions	183	(2,851)
Cash flows provided from operating activities	16,238	3,014

Policy

Cash and cash equivalents include cash on hand and at banks, short-term deposits with an original maturity of three months or less held at call with financial institutions, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the consolidated balance sheet.

(b) Finance Costs

	2017 $'000	2016 $'000
Interest expenses	1,399	1,822
Bank charges	104	187
Finance lease charges	85	39
	1,588	2,048

Notes to the Consolidated Financial Statements

Section 3: Funding structures

3.2 Financial Risk Management

Capital risk management

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern and to maintain an optimal capital structure to reduce the cost of capital, so that it can provide returns to the shareholders and benefits for other stakeholders. This is achieved through the monitoring of historical and forecast performance and cash flows.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors has established the Audit & Risk Management Committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the board of directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board of Directors have overall responsibility for identifying and managing operational and financial risks.

The Group is exposed to a variety of financial risks comprising:

(a) Market risk

(b) Credit risk

(c) Liquidity risk

The Group holds the following financial instruments:

	2017 $'000	2016 $'000
Financial assets		
Cash and cash equivalents	15,025	11,180
Receivables	6,374	8,343
Other receivables	1,407	1,572
Derivatives	135	366
	22,941	21,461
Financial liabilities		
Bank and other loans	29,400	29,400
Creditors	15,837	14,317
Finance lease liability	2,263	1,501
Other payables	1,621	3,637
	49,121	48,855

(a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices such as foreign exchange rates, interest rates and equity prices. The Group's financial instruments consist mainly of deposits with banks, accounts receivable and payable, bills, leases and derivatives. The objective of market risk management is to maintain and control market risk exposures within acceptable parameters, while optimising the return.

Notes to the Consolidated Financial Statements

Section 3: Funding structures

3.2 Financial Risk Management (continued)

i. Currency risk

The Group has an Australian Dollar (AUD) presentation currency, which is also the functional currency of its Australian entities. The Group is exposed to currency risk as below:

What is the risk?	How does Midway manage the risk?	Impact at 30 June 2017
If transactions are denominated in currencies other than AUD. There is a risk of an unfavourable financial impact if there is an adverse movement in foreign currency. Export Sales are denominated in U.S Dollars (USD), with one of the Group's bank accounts being in USD.	The Group mitigates currency risk by entering into forward exchange and swap contracts to sell specified amounts of USD usually within 12 months at stipulated exchange rates in accordance with the Groups hedging policy. The objective in entering the forward exchange and swap contracts is to protect the Group against unfavourable exchange rate movements for contracted and anticipated future sales undertaken in USD.	At balance date the notional amount of outstanding forward exchange contracts was $2,996,867 (2016: $32,717,768). In FY17 the Group hedged the majority of its foreign currency sales. Sensitivity analysis has been performed below.

Policy

Certain derivatives are designated as hedging instruments and are further classified as either fair value hedges or cash flow hedges.

At the inception of each hedging transaction, the Group documents the relationship between the hedging instruments and hedged items, its risk management objective and its strategy for undertaking the hedge transaction. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair value or cash flows of hedged items.

The effective portion of changes in the fair value of the derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in the cash flow hedge reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. The Group does not speculate in the trading of derivative instruments.

All exchange differences arising on settlement or revaluation are recognised as revenues and expenses for the financial year.

	2017 USD $'000	2016 USD $'000
Cash	1,195	3,316
Trade Receivables	4,105	7,428

The forward exchange and swap contracts in place are to hedge cash flows associated with the above mentioned trade receivables and expected future sales.

Sensitivity

If foreign exchange rates were to change by 10% from $USD rates used to determine fair values as at the reporting date, assuming all other variables that might impact on fair value remain constant, including effective hedging, then the impact on profit for the year and equity is as follows:

	2017		2016	
	Increase	Decrease	Increase	Decrease
USD movement impact [+/- 10%]	$'000	$'000	$'000	$'000
Impact on profit after tax	(265)	274	(301)	332
Impact on equity	276	(106)	2,316	(2,008)

A 10% change is deemed reasonable given recent historical trends in the AUD/USD.

Notes to the Consolidated Financial Statements

Section 3: Funding structures

3.2 Financial Risk Management (continued)

ii. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates.

What is the risk?	How does Midway manage the risk?	Impact at 30 June 2017
The Group has variable interest rate debt, and therefore if interest rates increase, the amount of interest the Group is required to pay will also increase.	Monitoring of announcements from the central banking authority and other sources which may impact movements in the variable rate. No swaps are currently taken out.	If interest rates were to increase/decrease by 100 basis points from rates applicable at the reporting date, assuming all other variables that might impact on fair value remain constant, the impact on profit for the year and equity is not significant.

The Group's exposure to interest rate risk in relation to future cashflows and the effective weighted average interest rates on classes of financial assets and financial liabilities is as follows:

2017	Interest bearing $'000	Non-interest bearing $'000	Total carrying amount $'000	Weighted average effective interest rate	
Financial assets					
Cash	15,024	1	15,025	1.00%	Floating
Trade receivables	-	6,374	6,374		
Other receivables	-	1,407	1,407		
Derivatives	-	135	135		
	15,024	7,917	22,941		
Financial liabilities					
Bank and other loans	29,400	-	29,400	3.45%	Floating
Trade creditors	-	15,837	15,837		
Finance lease liability	2,263	-	2,263	4.46%	Fixed
Sundry creditors and accruals	-	1,621	1,621		
	31,663	17,458	49,121		
2016					
Financial assets					
Cash	7,679	1	7,680	1.75%	Floating
Trade receivables	-	8,343	8,343		
Other receivables	-	1,572	1,572		
Derivatives	-	366	366		
Term deposit	3,500	-	3,500	2.84%	Fixed
	11,179	10,282	21,461		
Financial liabilities					
Bank and other loans	29,400	-	29,400	3.66%	Floating
Trade creditors	-	14,317	14,317		
Finance lease liability	1,501	-	1,501	4.51%	Fixed
Sundry creditors and accruals	-	3,637	3,637		
	30,901	17,954	48,855		

No other financial assets or financial liabilities are expected to be exposed to interest rate risk.

Midway

Notes to the Consolidated Financial Statements

Section 3: Funding structures

3.2 Financial Risk Management (continued)

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date of recognised financial assets is the carrying amount of those assets, net of any provisions for impairment of those assets, as disclosed in statement of financial position and notes to financial statements.

Credit risk for derivative financial instruments arises from the potential failure by counterparties to the contract to meet their obligations. The credit risk exposure of forward exchange and swap contracts is the net fair value of these contracts.

What is the risk?	How does Midway manage the risk?	Impact at 30 June 2017
The Group has significant exposure to export customers in China, as they represent a significant portion of the Group's annual sales.	Letters of credit with reputable financial institutions are used to mitigate credit risk with all Chinese customers which comprises the majority of the Group's annual sales. The balance of sales are made to long standing Japanese customers with the short trading terms applicable to these customers, being payment within 7 business days of invoicing,	As at 30 June 2017 there is only a receivable for one vessel outstanding, of which the cash was collected within 10 days as expected. Based on Management's assessment of its exposure, the Group has low credit risk.

Refer to section 2.4 for receivable balances.

(c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained.

Maturity analysis

The table below represents the undiscounted contractual settlement terms for financial assets and liabilities and managements expectation for settlement of undiscounted maturities.

	< 6 months	6-12 months	1-5 years	Total contractual cash flows	Carrying amount
2017	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	15,025	-	-	15,025	15,025
Receivables	7,781	-	-	7,781	7,781
Derivatives	135	-	-	135	135
Payables	(17,458)	-	-	(17,458)	(17,458)
Borrowings	(361)	(684)	(30,618)	(31,663)	(31,663)
Net maturities	5,122	(684)	(30,618)	(26,180)	(26,180)
2016					
Cash and cash equivalents	7,680	3,500	-	11,180	11,180
Receivables	9,915	-	-	9,915	9,915
Derivatives	366	-	-	366	366
Payables	(17,954)	-	-	(17,954)	(17,954)
Borrowings	(29,632)	(232)	(1,036)	(30,900)	(30,900)
Net maturities	(29,625)	3,268	(1,036)	(27,393)	(27,393)

Midway

Notes to the Consolidated Financial Statements

Section 3: Funding structures

3.3 Contributed Equity

(a) Ordinary share capital

		2017 $'000	2016 $'000
Issued and paid-up capital			
- 74,819,933 (2016: 74,819,933) ordinary shares	(a)	28,833	28,833

The Company does not have authorised capital or par value in respect of its issued shares.

(b) Reserves

Reserves	2017 $'000	2016 $'000
Movements:		
Cash flow hedge[1]		
Opening balance	256	-
Cash flow hedges - effective portion	(99)	366
Deferred tax	70	(110)
Balance 30 June	227	256
Share based payments[2]		
Opening balance	-	-
Performance rights granted	199	-
Deferred tax	-	-
Balance 30 June	199	-
Asset Revaluation Reserve[3]		
Opening balance	32,180	37,657
Revaluation of land	(4,813)	(7,566)
Transfer to retained earnings	-	(181)
Deferred tax	1,444	2,270
Balance 30 June	28,811	32,180
Profit Reserve[4]		
Opening balance	26,181	12,889
Transfers of current year profits	14,854	26,181
Transfers to retained earnings	-	(12,889)
Dividends Paid	(11,223)	-
Balance 30 June	29,812	26,181

1. Cash flow hedge
   The hedging reserve is used to record the effective portion of gains and losses on cash flow hedges that are recognised in other comprehensive income as described in section 3.2. Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss
2. Share based payment
   The shared based payment reserve is used to recognise the expense over the vesting period
3. Asset Revaluation Reserve
   The asset revaluation reserve is used to record increments and decrements on the revaluation of land and reclassified to retained earnings on disposal. Movements in the year relate to revaluation and sale of plantation land
4. Profit Reserve
   The profits reserve is used to record transfers of profits that would otherwise be offset against accumulated losses. The balance of the profits reserve is available for distribution as a dividend in future periods. Movements in the current year relate to transfers to retained earnings for dividend payments and transfers in of current year profits

Notes to the Consolidated Financial Statements

Section 4: Other disclosures

This section includes additional financial information that is required by the accounting standards and the Corporations Act 2001.

4.1 Subsidiaries

2017	Ownership interest held by the Company 2017 %	2016 %	Ownership interest held by NCI[3] 2017 %	2016 %
Subsidiaries of Midway Limited:				
Queensland Commodity Exports Pty Ltd	90	90	10	10
Midway Plantations Pty Ltd	100	100	-	-
Midway Properties Pty Ltd	100	100	-	-
Midway Tree Farms Pty Ltd[1]	-	100	-	-
Midway Tasmania Pty Ltd[2]	100	-	-	-

1. Midway Tree Farms ty Ltd was deregistered 12 June 2016
2. Midway Tasmania Pty Ltd was incorporated on 5th September 2016
3. Non-controlling interests

Policy

The consolidated financial statements are those of the Company, comprising the financial statements of the parent entity and all of the entities the parent controls. The Company controls an entity where it has the power, for which the parent has exposure or rights to variable returns from its involvement with the entity, and for which the parent has the ability to use its power over the entities to affect the amount of its returns.

4.2 Interest in South West Fibre Pty Ltd (joint venture)

(a) Carrying amount

	Nature of relationship	Ownership interest 2017 %	2016 %	Carrying amount 2017 $'000	2016 $'000
South West Fibre Pty Ltd	Ordinary shares	51	51	13,390	12,998

Policy

Joint arrangements represent the contractual sharing of control between parties in a business venture where unanimous decisions about the relevant activities are required. Joint arrangements are classified as either joint operations or joint ventures based on the rights and obligations of the parties to the arrangement.

The Company's interest in joint ventures are bought to account using the equity method after initially being recognised at cost. Under the equity method, the profits or losses of the joint venture are recognised in the Company's profit or loss and the Company's share of the joint venture's other comprehensive income is recognised in the Company's other comprehensive income.

Key estimates and judgements

South West Fibre Pty Ltd (SWF) is a joint venture in which the Company has a 51% ownership interest. Voting rights are proportionately in line with share ownership. The Company has joint but not ultimate control over the venture as the shareholder agreement requires a special resolution when making key decisions.

SWF is structured as a separate vehicle and the Company has a residual interest in the net assets of SWF. Accordingly, the Company has classified the interest in SWF as a joint venture as the Company does not have clear control over the entity.

Notes to the Consolidated Financial Statements

Section 4: Other disclosures

4.2 Interest in South West Fibre Pty Ltd joint venture (continued)

(b) South West Fibre Pty Ltd Financial Information

	2017 $'000	2016 $'000
Cash and cash equivalents	11,184	9,291
Other current assets	14,404	18,623
Total current assets	25,588	27,914
Property, plant and equipment	17,172	17,864
Total non-current assets	17,172	17,864
Total current liabilities	(16,162)	(20,137)
Total non-current liabilities	(343)	(154)
Net assets	26,255	25,487
Revenue	152,162	167,668
Interest Income	86	107
Depreciation & Amortisation	(2,862)	(2,573)
Income tax expense	(2,360)	(4,773)
Total Comprehensive Income	5,768	11,104

Reconciliation to carrying amount of interest in Joint Venture:		
Opening net assets	25,487	14,383
Add: Current year profit	5,768	11,104
Less: Dividends paid	5,000	-
Closing net assets	26,255	25,487
Company's 51% share of net assets	13,390	12,998
Carrying amount of investment	13,390	12,998

4.3 Midway Limited – Parent Entity

Summarised balance sheet	2017 $'000	2016 $'000
Assets		
Current assets	31,951	27,351
Non-current assets	68,936	70,088
Total assets	100,887	97,439
Liabilities		
Current liabilities	16,534	18,527
Non-current liabilities	30,072	29,648
Total liabilities	46,606	48,175
Net assets	54,281	49,264
Equity		
Share capital	28,833	28,833
Retained earnings	21,159	16,313
Reserves	4,289	4,118
Total equity	54,281	49,264

Summarised statement of profit or loss and other comprehensive income		
Profit for the year after income tax	16,069	75,589
Total comprehensive income	16,041	75,845

Notes to the Consolidated Financial Statements

Notes to the Consolidated Financial Statements

Section 4: Other disclosures

4.4 Share Based Payments

The Board has established a Long-Term Incentive Plan (LTIP) under which Directors and employees of Midway may be invited by the Board to participate. The awards which may be issued under the LTIP include:

- Shares;
- Options; and
- Performance rights

Currently the following share based payment arrangements are in effect under the LTIP:

(a) Initial Public Offering (IPO) Bonus Rights Issue (equity settled)

On 8 December 2016, upon successfully completing the IPO, the Board established an IPO Bonus Rights Issue for the Managing Director and other senior management personnel in order to:

- reward individuals for the significant additional work exerted in order for the Company to achieve the milestone of listing on the ASX;
- align the individual with Shareholders through the provision of equity; and
- act as a retention mechanism for these individuals in the period following listing on the ASX.

Under this program performance rights have been issued with the following vesting conditions:

Grant date / employees entitled	Number of instruments	Vesting Conditions
Performance rights granted to key management personnel[1]	128,000	50% of the performance rights issued to the participant will vest on the date that is 12 months after Completion of the IPO provided the participant remains in continuous employment with the Company until the vesting date; and
Performance rights granted to other senior management personnel[1]	36,000	50% of the performance rights issued to the participant will vest on the date that is 24 months after Completion of the IPO provided the participant remains in continuous employment with the Company until the vesting date.

1. The fair value at grant date is $2.59 derived from the market value of shares on 9th February 2017.

(b) Long Term Incentive Rights (equity settled)

In December 2016, following the successful completion of the IPO the Board offered to grant the Managing Director 65,000 performance rights, subject to vesting conditions (see below). Following successful completion of the vesting conditions the rights will automatically vest and the underlying shares will be issued. The performance period is until 30 June 2019. The offer was accepted on 9 February 2017 (grant date).

The fair value at grant date is $1.49, which is derived using a Monte Carlo Simulation model which incorporates the TSR performance conditions. Inputs utilised in the assessment include:

Assumption	
Share price	$2.59
Risk free rate	1.8%
Dividend yield	7.0%
Volatility	32.0%
Initial TSR	10.7%

Vesting conditions

- Participant must maintain continuous employment over the performance period
- The percentage of performance rights that will vest at the end of the performance period will depend on Midway's total shareholder return (TSR) over the performance period, relative to a comparator group of companies in the S&P/ASX 300 Index.

-

The Group recorded a share based payments expense of $0.2M in 2017 (2016: 0).

Notes to the Consolidated Financial Statements

Section 4: Other disclosures

4.5 Related parties

(a) Key Management Personnel

	2017 $'000	2016 $'000
short term employee benefits	1,565	1,517
post-employment benefits	136	85
share based payments	160	-
other long term incentives	41	21
	1,902	1,623

Transactions between related parties are on normal commercial terms no more favourable than those available to other parties unless otherwise stated. An accrual for Directors fees was recorded for eight days to year end to 30 June 2017.

The aggregate shareholdings of KMP at 30 June 2017 are 44,536,205 (2016: 47,558,161)

(b) Transactions with South West Fibre Pty Ltd

Nature	2017 $'000	2016 $'000
Operator fee income	2,282	2,514
Reimbursement of costs	269	313
Loan repayments (net)	-	2,662
Dividends received	2,550	-
Sale of wood products (at cost)	6,964	9,778
Purchase of wood products (at cost)	(371)	(4,206)
Sale of fixed assets	-	2
	11,694	11,063

The outstanding receivable balance from South West Fibre Pty Ltd at 30 June 2017 is $0.6M (2016: $1.2M).

4.6 Contingent Liabilities

(a) Outstanding matters

As at the date of this report there are no claims or contingent liabilities that are expected to materially impact, either individually or in aggregate, the Company's financial position or results from operations.

(b) Bank guarantees

	2017 $'000	2016 $'000
Consolidated group		
Limit	5,200	5,200
Amount Utilised	3,109	2,461
Parent entity		
Limit	4,250	4,250
Amount Utilised	2,684	2,236

Notes to the Consolidated Financial Statements

Section 4: Other disclosures

4.7 Remuneration of Auditors

KPMG Australia	2017 $	2016 $
Audit and assurance services		
- Statutory audit fees	160,000	65,000
- Assurance services – IPO related services	236,752	650,000
Other services		
- Non- assurance services – other advisory services	10,000	18,300
Pitcher Partners Melbourne[1]		
Audit and assurance services		
- Statutory audit fees	-	54,715
Other services		
- Non- assurance services – taxation services	-	14,300
- Non- assurance services – other advisory services	-	129,724
- Non- assurance services – IPO related services	-	167,898

[1] Pitcher Partners Melbourne resigned as auditors of the company on 8 June 2016 and therefore no amounts have been disclosed in 2017.

4.8 Other income

	2017 $'000	2016 $'000
Interest income	152	846
Plantation management fees	1,012	636
SWF operating fee	2,282	2,510
Other	709	648
	4,155	4,640

Policy

Dividend income

Dividend revenue is recognised when the right to receive a dividend has been established. Dividends received from joint venture entities are accounted for in accordance with the equity method of accounting.

Other revenue

Interest revenue is recognised when it becomes receivable on a proportional basis taking in to account the interest rates applicable to the financial assets.

Rental revenue is recognised on a straight-line basis over the rental term.

If the group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commissions made by the group.

Royalty revenue is recognised on an accruals basis in accordance with the substance of the relevant agreement when it is probable that the royalty will be received, which is normally when the event has occurred.

All revenue is measured net of the amount of goods and services tax (GST).

Notes to the Consolidated Financial Statements

Section 4: Other disclosures

4.9 Subsequent Events

(a) Dividend

A final dividend of $6.7M was declared on 28 August 2017 for 9.0 cents per share.

Other than the above, there have been no other matters or circumstances, which have arisen since 30 June 2017 that has significantly affected or may significantly affect:

(a) The operations, in financial years subsequent to 30 June 2017, of the Group, or
(b) The results of those operations, or
(c) The state of affairs, in financial years subsequent to 30 June 2017 of the Group.

Notes to the Consolidated Financial Statements

Section 4: Other disclosures

4.10 Basis of Preparation

This financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Interpretations and other applicable authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial report was approved by the directors as at the date of the directors' report.

The financial report is for Midway Limited and its consolidated entities. Midway Limited is a company limited by shares, incorporated and domiciled in Australia. Midway Limited is a for-profit entity for the purpose of preparing financial statements.

Unless explicitly highlighted in the financial report, cost approximates fair value for the carrying amounts of assets and liabilities held on the balance sheet.

Compliance with IFRS

The consolidated financial statements of the Company also comply with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Historical Cost Convention

The financial report has been prepared under the historical cost convention, as modified by revaluations to fair value for certain classes of assets and liabilities as described in the accounting policies.

Significant accounting estimates and judgements

The preparation of the financial report requires the use of certain estimates and judgements in applying the Company's accounting policies. Those estimates and judgements significant to the financial report are disclosed throughout the financial report.

Comparatives

Where necessary, comparative information has been reclassified and repositioned for consistency with current year disclosures.

Accounting policies for subsidiaries are consistently applied. Adjustments are made to bring into line any dissimilar accounting policies which may exist.

All inter-company balances and transactions, including any unrealised profits or losses have been eliminated on consolidation. Subsidiaries are consolidated from the date on which control is transferred to the Company and are de-recognised from the date that control ceases.

Equity interests in a subsidiary not attributable, directly or indirectly, to the Company are presented as non-controlling interests. Non-controlling interests in the result of subsidiaries are shown separately in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of financial position respectively.

Functional and presentation currency

The financial statements of each entity within the Group are measured using the currency of the primary economic environment in which that entity operates (the functional currency). The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transactions and Balances

Transactions in foreign currencies of entities within the Group are translated into functional currency at the rate of exchange ruling at the date of the transaction.

Notes to the Consolidated Financial Statements

Section 4: Other disclosures

4.10 Basis of Preparation (continued)

Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the end of the financial year.

A monetary item arising under a foreign currency contract outstanding at the reporting date where the exchange rate for the monetary item is fixed in the contract is translated at the exchange rate fixed in the contract.

Except for certain foreign currency hedges, all resulting exchange differences arising on settlement or restatement are recognised as revenues and expenses for the financial year.

Impairment of non-financial assets

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired.

For impairment assessment purposes, assets are generally grouped at the lowest levels for which there are largely independent cash flows ('cash generating units'). Accordingly, most assets are tested for impairment at the cash-generating unit level. Because it does not generate cash flows independently of other assets or groups of assets, goodwill is allocated to the cash generating unit or units that are expected to benefit from the synergies arising from the business combination that gave rise to the goodwill.

Assets other than goodwill are assessed for impairment whenever events or circumstances arise that indicate the asset may be impaired.

An impairment loss is recognised when the carrying amount of an asset or cash generating unit exceeds the asset's or cash generating unit's recoverable amount. The recoverable amount of an asset or cash generating unit is defined as the higher of its fair value less costs to sell and value in use.

Impairment losses in respect of individual assets are recognised immediately in profit or loss unless the asset is carried at a revalued amount such as property, in which case the impairment loss is treated as a revaluation decrease in accordance with the applicable Standard. Impairment losses in respect of cash generating units are allocated first against the carrying amount of any goodwill attributed to the cash generating unit with any remaining impairment loss allocated on a pro rata basis to the other assets comprising the relevant cash generating unit.

New standards not yet effective

The Australian Accounting Standards Board (AASB) has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Group. The Group has decided not to early adopt any of these new and amended pronouncements. The Group's assessment of the new and amended pronouncements that are relevant to the Group but applicable in future reporting periods is set out below.

AASB 9: Financial instruments

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The Group does not believe that the new classification requirements, if applied at 30 June 2017, would have had a material impact on its accounting for trade receivables or other assets that are managed on a fair value basis, as they are short term in nature and the Group makes use of letters of credit resulting in minimal credit risk with export customers.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting. The Group's current hedging relationships would qualify as continuing hedges upon the adoption of AASB 9. Accordingly, the Group does not expect a significant impact on the accounting for its hedging relationships.

Notes to the Consolidated Financial Statements

Section 4: Other disclosures

4.10 Basis of Preparation (continued)

AASB 9: Financial instruments (continued)

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under AASB 139. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under AASB 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. If the standard was applied at 30 June 2017, no material provision for ECL would be recognised on the basis the receivables are short term in nature and the Group has historically had minimal to no write downs on receivables from export customers.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

AASB 9 is effective for annual periods beginning on or after 1 July 2018, with early adoption permitted. Management currently plans to apply AASB 9 initially on 1 July 2018.

AASB 15: Revenue from contracts with customers

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 18 Revenue, AASB 11 Construction Contracts and IFRIC Customer Loyalty Programmes.

AASB 15 is effective for annual period beginning on or after 1 July 2018, with early adoption permitted.

The Group has performed an initial assessment of the potential impact of the adoption of AASB 15 on its consolidated financial statements.

Strategy Arrangement

In relation to the sale of hardwood trees to Strategy, recognised as a sale by Midway in February 2016, it is expected that the transaction would not meet the requirements for recognition of a sale under AASB 15.
Accordingly, from 1 July 2018 it is expected that the biological assets would again be recognised on the balance sheet as non-current assets of the Group at fair value, with subsequent changes in fair value recognized in the statement of profit or loss and other comprehensive income. The Strategy arrangement would be treated as a financing arrangement, which would result in the recognition of a financial liability, initially recognised at fair value and subsequently carried at amortised cost using the effective interest rate method.

It is expected that Midway will adopt AASB 15 from 1 July 2018. In applying the new standard for the first time, AASB 15 provides a number of transition options, which may involve an adjustment to opening retained earnings at 1 July 2018 or the restatement of comparatives. The full impacts of the transition provisions have not yet been assessed by the Group.

The Group anticipates a valuation on the fair value of the trees will be performed and recognised at the effective date of implementation and will provide an estimate of the financial impacts at that date, as the value of the trees is dependent on a number of factors which does not allow the Group to make a current reliable estimate.

Sale of goods

A portion of the Group's export sales are sold on CIF (cost, insurance and freight) terms. Currently revenue is recognised when the significant risk and rewards of the goods are transferred to the customer. Under CIF terms this is with when the last chip is loaded on the Ship at the port of origin.

Under AASB 15, the Group must identify the performance obligations in each contract by identifying distinct goods or services. As the Group arranges the insurance and freight for CIF vessels, this may be deemed a separate performance obligation.

The Group has assessed the performance obligation is satisfied at the same point the risks and rewards of ownership of the underlying goods are transferred to the buyer. The Group also performs the administrative function of arranging freight and insurance, however the benefits arising from any claim against insurance will be provided to the buyer. The buyer has access to substantially all the benefits from the insurance cover and the freight at the point the last woodchips are loaded on the vessel.

As a consequence the Group may act in a capacity as an agent for this separate performance obligation.

Notes to the Consolidated Financial Statements

Section 4: Other disclosures

4.10 Basis of Preparation (continued)

AASB 16: Leases

AASB 16 Leases introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. The new accounting standard is effective for annual periods starting on or after 1 January 2019. Management does not expect to early adopt this standard.

The Group has made an initial assessment of the potential impact on its consolidated financial statements. So far, the most significant impact identified is that the Group will recognise new assets and liabilities for its operating leases of plantation land.

As a lessee, the Group can either apply the standard using a:

- Retrospective approach; or
- Modified retrospective approach with optional practical expedients.

The Group will apply the election consistently to all of its leases. The Group has not yet determined which transition approach to apply. As a lessor, the Group is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.

As at the reporting date, the Group has non-cancellable operating lease commitments of $5.5M, see section 2.3. However, the group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the group's profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under AASB 16.

The Group expects that adoption of AASB 16 will not impact its ability to comply with any banking covenants.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Directors Declaration

The directors of the Company declare that:

1. The consolidated financial statements and notes, as set out on pages 30 to 60 are in accordance with the Corporations Act 2001 including;

   (a) comply with Accounting Standards in Australia and the Corporations Regulations 2001; and

   (b) as stated in Section 4.10, the consolidated financial statements also comply with International Financial Reporting Standards; and

2. give a true and fair view of the financial position of the Company as at 30 June 2017 and its performance for the year ended on that date.

3. In the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer as required by S 295A of the Corporations Act 2001.

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

Chairman: ______________________________

G H McCormack

28th August 2017

Independent Auditor's Report

To the shareholders of Midway Limited

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of Midway Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- *Consolidated balance sheet* as at 30 June 2017
- *Consolidated statement of comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows* for the year then ended
- Notes including a summary of significant accounting policies
- *Directors' Declaration.*

The ***Group*** consists of the Company and the entities it controlled at the year end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described 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 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 fulfilled our other ethical responsibilities in accordance with the Code.

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.

This matter was 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 this matter.

Valuation of Land (AUD $76.8m)

Refer to Note 2.1 Property, Plant and Equipment

The key audit matter	How the matter was addressed in our audit
The Group's land assets are predominantly forestry plantation land which is measured at fair value. The valuation of land assets was a key audit matter for us given the size of the balance (being 49.6% of total assets) and due to the complexity and judgement involved in determining fair value. Management engaged an independent expert to perform a valuation of the unencumbered market value of the Group's land assets. Where appropriate, management adjust this valuation using a discounted cashflow model to determine the encumbered land valuation as at balance date. Determining the fair value of land asset's therefore involves significant estimation and judgement, including assessments of: • general market conditions and expected future market volatility and fluctuation; • the highest and best use of the land; • comparability of the Group's land to available market evidence, including sales of forestry and non-forestry land; • the physical condition of the land and the amount of any reversionary costs to be incurred post-harvest in order to revert the land to its assessed highest and best use; and • appropriate growth and discount rates. We spent considerable time and effort during the audit assessing the independent expert's work and management's discounted cashflow model. We involved KPMG property valuation specialists to supplement our senior audit team members in assessing this key audit matter.	Working with our property valuation specialists, our procedures included: • reading the independent expert's report and making inquiries of the independent expert in order to asses our ability to rely on the unencumbered land valuation, including an assessment of their independence, objectivity, competence and scope of work; • performing a sensitivity analysis on the key assumptions in management's discounted cashflow model including growth and discount rates and reversionary costs to focus our work on the more sensitive assumptions; • checking the consistency of key assumptions such as highest and best use, growth and discount rates, and reversionary costs used in management's discounted cashflow model to those in the independent expert's report; • using our industry knowledge and experience, to assess the reasonableness of data and assumptions in management's discounted cashflow model. This included comparing a sample of data to underlying management actual and forecast information; • assessing the integrity of management's discounted cashflow model, including the accuracy of the underlying calculation formulas; • recalculating the reduction in fair value of the land and agreeing it to the amount recorded in the asset revaluation reserve; and • assessing the land fair value disclosures in the financial report against accounting standard requirements.

Other Information

Other Information is financial and non-financial information in Midway Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the *Director's Report including the Operating and Financial Review and the Remuneration Report.* The *Letter from the Chairman, Managing Director's Review, Midway Operational Review, Sustainability Report, Shareholder Information* and *Corporate Directory* are expected to be made available to us after the date of the Auditor's Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not and will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we 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.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and Company's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- 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. They 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 this Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_files/ar2.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Midway Limited for the year ended 30 June 2017, complies with *Section 300A of the Corporations Act 2001*.

Directors' 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 responsibilities

We have audited the Remuneration Report included in *pages 15 to 24* of the Directors' report for the year ended 30 June 2017.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

KPMG

Paul J McDonald

Partner

Melbourne

28 August 2017